White knights galloping in

The problem of abandoned housing projects has not abated but generous incentives offered for their revival have drawn an increasing number of contractors willing to do the job

BY V SANJUGTHA

EVERY year, increasingly generous incentives for the revival of abandoned housing projects are announced to lure white knights. And every year, cases of abandoned housing projects keep landing on the desks of the housing authorities.

Over the past four years, the government spent RM156 mil to revive 126 abandoned housing projects, completing 29,799 homes. This is an average of RM5,238 spent for the revival of a house in an abandoned project. Hefty or not, it is a social obligation to alleviate the plight of the rakyat. Of the units revived, 19,175 home owners who were servicing loans for an uninhabited piece of property now have a home.

Since 2009, 178 housing projects have been unceremoniously abandoned. This translates to more than 50,000 low- to middle-income households' dreams to own their own homes shattered. This year another nine projects have been added to the dreaded list. While in terms of statistics this accounts for barely 2% of homes built each year, the repercussions are colossal for those involved.

In a bid to take the proverbial bull by its horns, the Ministry of Housing and Local Government (MHLG) set up the Abandoned Project Rehabilitation Division (APRD) under the purview of the National Housing Department led by its director-general Datuk Dr Mohd Padzil Hashim. This division has successfully revived 126 projects with the rehabilitation of another 46 in the pipeline. Unresolved cases now stand at six, a commendable feat.

The government has allocated an additional RM66 mil to alleviate this problem over the next two years. While the rakyat may view this as a misuse of taxpayers' money, it is a community service that has brought hope to many low- to middle-income earners who have been servicing loans for homes they would have otherwise never owned. Often, years pass before the matter is brought up through proper channels to the relevant authorities, by which time errant developers would have moved on with their lives, and unsuspecting purchasers' money.

There appears to be a lack of responsibility on the part of developers to conduct thorough market research and ensure they are financially strong to undertake the development project.

Sometimes, checks by the division alarmingly reveal that the developers have cashed in beyond the development stage of the project, raising questions as to whether the financiers are making site visits to verify the various stages of completion prior to disbursement.

Successful revival model

Since its inception in 2009, APRD has been very proactive in negotiating revival packages between white knights and financial institutions to minimise the amount the government needs to top up to enable the smooth revival of an abandoned project.

This division was set up via a high-powered steering committee chaired by Tan Sri Sidek Hassan, the then chief secretary to the government. Its membership consists of secretaries-general of the MHLG and Ministry of Domestic Trade, Co-operatives and Consumerism, deputy secretary-general of the Ministry of Finance, deputy governor of Bank Negara, directors-general from the National Housing Department, Public Works Department, Local Governments Department and Malaysian Department of Insolvency, legal advisers from the Attorney-General's Chambers and MHLG, and permanent secretary of the Ministry of Housing from Sabah and Sarawak. This committee, a wing of Pemudah, was tasked to outline the policies in rehabilitating abandoned housing projects scattered throughout the nation, which would then be implemented by the APRD.

Padzil explains that when faced with an abandoned housing project, the division deploys two teams to analyse and comprehend the situation at hand. A finance team would assess the existing cash flow and assets of the project under the Housing Development Account (HDA) as there would be buyers still financing their loans to avoid being categorised as "bankrupts." Another technical team would assess the cost of reviving the project, which includes looking at the commercial viability of unused land and unsold lots.

"Many of these projects have been abandoned for years and the value of the property would have escalated tremendously. This works out well for us in negotiating packages with financial institutions and also means a better deal for the purchasers," Padzil explains.

"The government does not always top up abandoned projects. Sometimes the purchasers top up and income from unsold units and unused land is enough to rehabilitate the project."

Based on the model, APRD's team takes the initiative to ensure all stakeholders work together to resolve the issue. The team accomplishes this by ensuring the following steps are made:

- Helping white knights negotiate the best deals with banks for bridging loans;
- Ironing out all legal issues pertaining to the revival of the abandoned projects;
- Coordinating requirements of technical agencies such Indah Water Konsortium, Tenaga Nasional Bhd and Syabas; and
- Helping purchasers to sort out their financing issues, which include lowering interest rates, restructuring loans and facilitating EPF withdrawals from Account 2.

White knights on the rise

The model also works out to the benefit of white knights as many of these contractors are coming back for more projects and the numbers listed as white knights are increasing. Padzil says a Johor-based contractor once profited enough to list the company after working on abandoned housing projects.

However, he was quick to caution that APRD also has stringent pre-qualification measures to ensure the contractors do not default. Padzil says the division evaluated the contractors on a point system with points awarded for paid-up capital (minimum RM1 mil), net profits, liabilities, track record and experience, among others. Only companies with a score of 70 points and above are considered for the job.

In the past, there was a lack of attractive incentives for white knights, but Padzil says Budget 2013 has adequately addressed this issue. He says prior to this, the risk management was too heavy. The only bank willing to give out loans to white knights was SME Bank, but at a heavy price of an 8.9% interest rate, and a lock-in period of two years.

However, the incentives given under Budget 2013 have made it more viable for commercial banks to provide bridging loans to take care of the financing needs of the projects.

KH Sim, chairman and CEO of Allstones Group Asia, a property developer with expertise in the special situation property market, says the biggest hurdle he faces in reviving projects would be to strike a workable

Abandoned housing projects in Peninsular Malaysia *(January 2009 to March 2013)*

	NUMBER OF PROJECTS			DEVELOPMENT STATUS		
Year	**Current**	**New**	**Total**	**Planned**	**Under construction**	**Completed**
2009	144	4	148	87 (58.8%)	46 (31.1%)	15 (10.1%)
2010	133	13	146	50 (34.2%)	60 (41.1%)	36 (24.7%)
2011	110	6	116	22 (19%)	62 (53.4%)	32 (27.6%)
2012	84	11	95	9 (9.47%)	51 (53.68%)	35 (36.84%)
2013	60	9	69	6 (8.7%)	46 (66.66%)	8 (11.6%)
Total	**144**	**43**	**187**	**6 (3.2%)**	**46 (24.6%)**	**126 (67.38%)**

IN 2013, APRD's records showed 69 abandoned housing projects, comprising 60 brought forward from 2012 that were not completed. Nine new projects have been reported as of end-March 2013. Eight projects have been completed and 46 are currently under construction.

To date, 187 housing projects have been registered under APRD as abandoned, an addition of 43 to the initial 144 projects registered with the department at its inception in 2009. A total of 67.38% of the abandoned housing projects have been completed with another 24.6% currently under construction. A further six projects have been planned for this year.

Govt expenditure to revive abandoned projects

Year	(RM mil)	No of Projects
2011	14.5	5
2012	51.4	7
2013	62.1 (committed)	10
	37.9 (budgeted)	4
2014	28.1 (budgeted)	1
Total	194	27

Source: Abandoned Project Rehabilitation Division, National Housing Department

Scheme to insure against abandoned projects

INSURING against the risk of abandonment of housing projects is an unfamiliar concept in Malaysia but it's a norm in countries such as Australia, the UK, US and South Korea. It protects house buyers who are the consumers in a housing delivery system from bearing the development risks which should rightfully be shouldered by the banks and developers who are the profit makers.

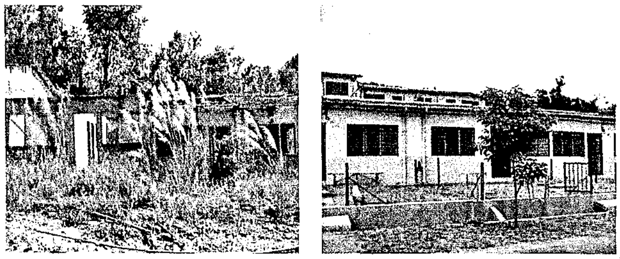
The Real Estate Housing Developers Association (Rehda) has been reported to be mulling the idea of introducing an insurance scheme to protect purchasers against defaulting developers since 2010, in response to its disapproval of an increased deposit requirement for developers in the Housing Development Account (HDA).

An industry source tells ***FocusM*** that Rehda is currently in talks with a Korean insurance company to roll out a scheme similar to the well-established Korean Housing Guarantee (KHG). Under this scheme, house buyers are protected in the event of project failure such as the bankruptcy of the building contractors before completing the housing project.

If this scheme is adopted locally, the source says developers would be required to contribute to it as a pre-requisite to obtaining the licence for a housing development project. If the premiums are high, which is most likely, given the high risks involved, the developers would undoubtedly transfer this additional cost to home buyers via an inflated purchase price.

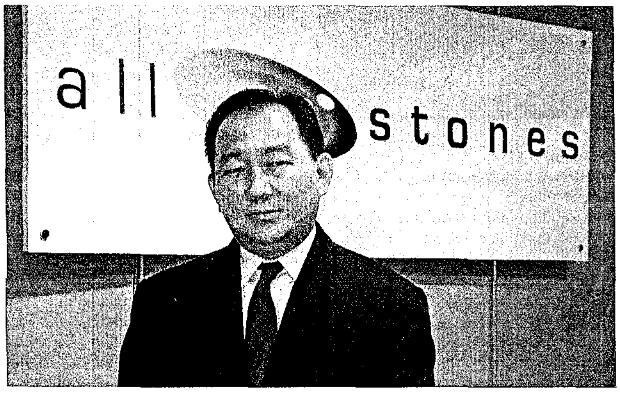
It is unclear if there would be a cash-out at the end of the insured period once the housing project is completed and certificate of fitness for occupancy awarded or if this would be sunk costs, similar to the mortgage reducing term assurance or MRTA.

In South Korea, the KHG is offered via Korea Housing Guarantee Co



An abandoned housing scheme in Taman Bukit Riah, Grik is shown before (left) and after completion (right)

A housing project in Taman Pelangi Sikamat, Seremban before and after revival



Sim says the biggest hurdle in reviving projects is to strike a workable deal with the chargee bank, with issues such as land rights and high interest rates surfacing

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Sim says the government departments together with MHLG are more amenable to proposals offered by potential white knights. There is more room for negotiations and they work towards the goal of revival rather than profiteering.

"The buyers basically want resolution to their problems but are always at the mercy of other factors beyond their control. Over the years of working on special situation projects, we have seen several challenges which include stalled negotiations due to lack of agreement or compromise between parties as it is difficult to satisfy the needs of all parties involved," he tells ***FocusM***.

Allstones has revived three projects now under the banner of Taragon YKS, Taragon Puteri Cheras and Taragon Puteri Bintang involving 333 homes which have been fully sold.

A challenging task

Padzil says reviving a project involves many challenges such as dealing with land owners. In the event that it is not viable to complete the project, APRD would suggest selling off the land and reimbursing purchasers with the proceeds. However, there are cases where the land owners flatly refuse to do so. He cites a case in Melaka with no amicable solution in sight as the land owner has declined to explore the option of selling the land and paying the purchasers.

"The Housing Act needs to be amended so that land owners can also be held accountable. Currently, there is no *locus standi* in taking them to court because they are merely the owners (of the land), they did a joint venture with the developers so it's just a business arrangement. It is only the developers who we can hold liable," explains Padzil.

Another challenge APRD faces is dealing with the purchasers whose first course of action is to seek aggrieved damages via Liquidated and Ascertained Damages (LAD). This often scares off the white knights.

Dealing with the technical agencies also requires much effort. Often the passage of time and advances in technology would have rendered water piping, electrical cables, sewage piping and many other technical add-ons obsolete. Thus, when a housing project is to be revived, the relevant agencies would assess the situation and advise a complete overhaul of these items, which add to the costs.

Although the revival aspect of abandoned housing projects seems under control, there is a dire need to eliminate it. There appears to be a careless attitude on the part of both purchasers and developers with respect to investments in housing projects, probably due to the mindset that whatever happens, the government will bail them out.

Padzil says purchasers are not conducting sufficient research before investing such a huge sum, while developers are underestimating the muscle required in undertaking a housing development project.

He believes the only solution would be the implementation of the build-then-sell scheme with a variant of 10/90, currently scheduled to be mandatory in 2015.

It has been implemented as an option to developers but most still use the sell-then-build system. With housing projects still being abandoned, evidently this system is flawed.

Another solution put forward by Rehda is an insurance scheme, the Home Completion Guarantee Scheme, to provide a safety net for home buyers against errant developers defaulting on housing projects.

This gives hope that there may come a day when the country gets past this social bane, otherwise taxpayers' money will continue to be channelled towards bailing out unscrupulous developers and impulsive house buyers. FocusM

Ltd, which is largely owned by the government, financial institutions and developers.

According to the source, time is running out on Rehda to finalise the insurance scheme called Home Completion Guarantee Scheme (HCGS). With several rounds of postponement in the past, the ministry is said to have given a final deadline of end-July this year for a firm structure of the insurance scheme to be presented, failing which, it will be shelved.

Honorary secretary-general of National House Buyers Association (HBA) Chang Kim Loong is doubtful of the insurance scheme kicking off. He tells ***FocusM*** that the study has been ongoing for the past three years with several MoUs signed with potential partners, yet nothing concrete has been presented to the ministry.

He says the main obstacle would be getting an insurance company to insure against business risk. Chang also warns that if implemented, the insurance must be made compulsory across the board and not only to Rehda members as only about 20% of the developers blacklisted by the ministry are Rehda members.

Chang insists that the BTS 10/90 is unquestionably a better alternative to eliminate the abandoned housing project problem in Malaysia. Its mechanism weeds out contractors with insufficient cash flow or experience to undertake a housing scheme and overcomes the problem of shoddy workmanship, he says.

What about abandoned commercial projects?

ABANDONED housing projects have the government's attention as it involves the plight of the rakyat but the landscape is also marred by unsightly commercial projects with little hope of seeing completion.

KH Sim, the chairman and CEO of Allstones Group Asia, says there is a need for a "Danaharta" style of government agency to take control of all types of abandoned projects in the country and invite potential white knights to participate in their revival.

According to National Housing Department director-general Datuk Dr Mohd Padzil Hashim, there is currently an absence of a governing body to monitor the incidence of abandoned commercial projects, which he says is on the rise.

Acknowledging the safety hazards and negative perception it poses, he says the market determines its revival. Should a white knight be interested, the onus is on him to investigate further and take the necessary steps to revive the project.

He agrees the time is ripe for the setting up of a body to control and facilitate the revival of these projects. However, he cautions that the mechanisms are far more complex than a housing development project.

In the absence of a proper governing body, Sim says all types of development should fall under the Housing Ministry and thus, under the ambit of the Housing Developers' Act (HDA).

This would lend a structure to the monitoring of abandoned commercial projects and hasten their revival.

"Whilst we note that the government has proposed incentives and made progress in reviving many projects, we believe that the allocations are not attractive enough and only extended to housing projects. White knights are finding difficulty in obtaining project financing from banks," Padzil says.

Additionally, Sim says the definition 'abandoned housing' is not encompassing enough to cover all types of property. At present, there are several other types of abandoned projects not registered with the relevant ministries, and as such the potential of reviving these projects is somewhat limited.

Allstones has been proactive in taking on residential, commercial, hotel and retail developments since its inception in 2000. The group recently revived an abandoned commercial development in Kelana Jaya – Plaza Taragon Kelana.

Sim stresses that to reduce, if not eliminate, abandoned projects, there must be strict scrutiny of existing and new developers seeking licences and renewal of developers' licences. For example, the experience of directors and shareholders in property development should be mandatory and there should be an increase in the deposit required to obtain a developer's licence. Another deterrent would be making the build-then-sell (BTS) concept mandatory.