

## ABANDONED HOUSING PROJECTS IN MALAYSIA: Pressing Issues during the Rehabilitation Process

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### Abstract

Abandoned of housing projects during construction is a prevailing problem that the housing sector in Malaysia has been experiencing since 1980s. This paper aims to highlight the causes and impacts of abandoned housing projects, and various initiatives to rehabilitate these projects. Factors pertaining to projects abandonment can be categorized into: economic, financial, legal, managerial, system-related, and unforeseen risks. The study reveals three main impacts of abandoned housing projects: social, economic, and environmental impacts. The main steps taken to solve this problem include the rehabilitation of abandoned projects and other initiatives to reserve the right of purchasers through appropriate legal resolutions endorsement. Additional initiatives and formulation of upgraded solutions would further strengthen and enhance the ongoing policy of preempting and resuscitating abandoned housing projects. The study suggests further research to be conducted to identify various risks involved in the rehabilitation process. Such research can be aided through the seeking of stakeholders' opinions on the risks to carry out projects rehabilitation.

**Keywords:** Peninsular Malaysia; construction housing; rehabilitation.

### INTRODUCTION

A housing project in Malaysia is regarded as abandoned if construction project is not completed or the housing units are not ready for occupation. Abandoned housing projects in the UK or the US refers to buildings that are unoccupied and show visible signs of physical distress (i.e., boarded up, burned, exposed to the elements, or have deteriorated) (Jacobson, 2007). The Ministry of Housing and Local Government (MHLG) of Malaysia has set four conditions, if one or more are met, then the project will be declared abandoned: (1) no construction activities on site for six months or more, (2) the developer winds up, (3) the developer declares an inability to complete the project, and (4) the MHLG declares the project abandoned pursuant to the Housing Development Act (118).

From January 2003 to 30 June 2012, there are 177 abandoned housing projects in Peninsular Malaysia (MHLG, 2012). The figure represents 2.7% only of the total housing projects completed. This figure seems small; however, its impact is not so. The main impact lies mainly on house buyers, as well as on the government, which is responsible for providing shelter to every citizen.

The abandonment of housing projects during construction appeared during mid-1980s, during the first economic recession that hit Malaysia. By the end of 1986, 126 housing projects were reported to have been not completed as scheduled and left completely abandoned. The number of housing units abandoned at that time was 14,568, affecting 6,834 buyers (Khalid, 2010). In 1990, Bank Negara had set up the Abandoned Housing Project Fund (AHPF) to provide special assistance to abandoned housing projects. The total fund approved at the end of 1993 was RM 382 million, which targeted to revive 23,287 housing units (Hussin, 1994). Another government initiative in 1992 was assigning Syarikat Perumahan Negara Berhad (SPNB) the

responsibility of rehabilitating abandoned projects till 2010. The efforts to address this housing issue will continue in the coming years, in the Tenth Malaysian Plan (Tenth Malaysian Plan, 2010).

The pressing issue of abandoned housing projects has been a burning topic in media and has become a great concern to stakeholders involved in housing projects, primarily house buyers and the government. Apparently, abandoned housing projects have an adverse impact on these stakeholders. However, a review of studies about the current situation of abandoned housing projects in Malaysia is still lacking. Therefore, this paper aims to fill up this gap by highlighting the causes, impacts, and solutions for abandoned housing projects from the review of literature and documents on abandoned housing projects. This paper is organized as follows: second section discusses the root causes of housing projects abandonment. Third section highlights the impact of this issue. Fourth section discusses solutions and initiatives taken to address the problem. Fifth section presents the current situation of abandoned housing projects in Peninsular Malaysia based on recent data from MHLG. Last section concludes with suggestions for future research based on the highlighted gaps including risk management during the rehabilitation of the abandoned projects.

### ROOT CAUSES OF PROJECT ABANDONMENT

The influence of the economy on the construction industry and abandoned housing projects are intertwined. The economic recession that struck Asian countries in the mid-1980s is believed to be one of the main reasons for the abandonment of numerous housing projects (Ho, 1994; Hussin, 1994). The recession had a direct negative impact on the property sector, on prices of building materials, and on the labor market. In addition, the second wave of the 1997 recession significantly deepened the wound of the Malaysian economy, causing an overhung and oversupply in the properties market (Rameli et al., 2006). During this recession, the total property sector credit accounted for 40% of bank credit (Athukorala, 2010). This high exposure of the property sector further weakened the financial position of banks, as lending led to a glut in the property market.

Kamal and Ab. Wahab (2004) reported that the government provided financial support of RM 0.2 billion in 2009 to deal with the downturn and revive abandoned housing projects. The authors also emphasized that the oversupply of properties, uncompetitive selling prices of houses, and insolvency of developers are factors that worsened the problem of housing projects abandonment. However, recessions are not the only reasons for housing projects abandonment as Khalid (2010) confirmed. He cited the following reasons: project agent behavior strives to maximize profits; poor management and fraud in managing housing projects; weak response to market signals on the status of the Malaysian economy; lack of enforcement and monitoring of housing projects of authorities; and the restriction of rules and regulations on housing development of the housing ministry. These findings indicate that the housing developer might be the key contributor to housing projects abandonment.

Dahlan and Aljunid (2011) identified other reasons for housing projects abandonment, as follows: financial problems of developers; problems related to site clearing; conflicts, feuds, and squabbles among project stakeholders; and insufficient coordination between the land administration authority, planning authority, building authority, housing authority, and other technical departments with respect to the approval of land alienation, land use, subdivision of lands, planning permission, building or infrastructure plan approval, licenses of housing developers, and issuance of Certificate of Fitness (COF) for homebuyers occupation and Certificate of Completion and Compliance (CCC). Dahlan (2011a) affirmed that insufficient legal provisions to protect the interests of purchasers can be one of the main reasons for abandoned housing projects.

In the discussion of abandoned housing projects, Dahlan (2011b) had compared the current housing selling system and the "full-build-then-sell" system; the latter would be a better system. Dahlan (2011b) further cited two reasons that lead to housing projects abandonment: the

absence of mandatory insurance imposed on developers during the application from the MHLG, and the specific legal provisions governing rehabilitation schemes that resulted in perpetuating abuses and misuse of power and authority of rehabilitating parties, which are detrimental to the well-being of purchasers. The Consumers Association of Penang highlighted the following similar reasons involving housing projects: project approval takes a long time, leading to an escalation in housing prices; developers misusing deposits of purchasers; and construction of houses that do not follow the specifications and the same price of low-cost houses although constructed in different locations and involving high-interest lending rates (Consumers Association of Penang, 2012).

The causes of housing project abandonment in other developing countries seem to be different. For example, in Nigeria, the following are the causes of abandonment of projects: incorrect estimation; lack of available skilled personnel; inadequate planning; poor risk management; misunderstanding work requirements; poor quality control by regulatory agencies; corruption; and communication gap among personnel (Olalusi & Otunola, 2012).

One classic reason for housing projects abandonment is predominantly the unforeseen factors resulting from the initial estimation of developers of the housing project development cost during the planning stage. The discrepancies between the estimated and actual construction costs make the housing project unfeasible during the implementation stage, such that the developer has to abandon the housing project (A. Tan, 2004). This scenario has created a negative perception and a lack of confidence on the part of the public regarding the capability of big developers to deliver completed projects, as some of these developers become insolvent due to projects that were abandoned (Carrero et al., 2009). In lieu of the discussions on finding the causes of housing projects abandonment, a limited number of studies exist about unforeseen factors, especially factors pertaining to risks that lead to abandoned housing projects. Such specific studies on sudden developer or contractor insolvency and economic downturn are still limited.

### **Causes related to the Current Selling System**

In the Current Selling System (CSS) or deferred payment sale or selling-off-the-plan, buyers have to bear 10% of the deposit for the unit cost of a house even before construction started, as well as construction-stage payments (Yusof et al., 2010), as stipulated in the standard Sales and Purchase Agreement (SPA). Setbacks in CSS include development performance, project failure, delay, and higher financial risk on the buyers (Isa, 2008). The other drawback of CSS is that it provides room for irresponsible developers to easily abandon their projects at any stage of the project or when a potential loss is expected. This situation results in the exposure of house buyers to unnecessary financial and legal risks.

The government has proposed an alternative system called Build Then Sell (BTS) to address the predicament of house buyers regarding an abandoned project. BTS is expected to reduce the potential of project failure and abandonment, and increase the quality of projects (Yusof, et al., 2010). BTS is in place and in 2007, its policy was included as one of the amendments to the Housing Development Act (HBA, 2009). In this system, buyers have to pay 10% upon signing the SPA, and then the 90% balance upon house handover. The major issue of BTS or the 10-90 system is that it was not made mandatory (Khalid, 2010). The government move to complete the implementation of BTS in the housing industry was faced with severe resistance from developers (Yusof et al., 2012; Yusof & Shafiei, 2011).

To summarize, the causes of abandoned housing projects can be categorized into the following: economic, financial, legal, managerial, selling system-related factors, developer-related factors, and unforeseen risk factors. The subsequent section highlights the impacts of abandoned housing projects on the different housing industry stakeholders.

## IMPACTS OF HOUSING PROJECTS ABANDONMENT

The influence of abandonment of urbanization projects classified into two main categories: environmental impacts and socio-economic impacts (Carrero, et al., 2009). Both have short- and long-term impacts including unemployment increase, conflict between stakeholders, landscape modification, visual impact, lose of economic value of the area, marginalization of population, transfer of cost between private and public sectors, erosion, decrease of biodiversity, and pollution.

Implications of abandoned housing projects in Malaysia include legal implications on project stakeholders; financial implications on the original developers (difficulties in infusing funds or selling the remaining unsold units); implications on the reputation of the housing sector; and the perception of local and foreign house buyers and property investors (MHLG, 2012).

Majority of studies indicate the negative impact of abandoned housing projects on house buyers. Dahlan (2011b) called this phenomenon of abandoned housing projects as “grievances and troubles” of purchasers. The implication of abandoned housing projects on purchasers can be categorized into pecuniary and non-pecuniary losses. Both losses include the following: bearing the monthly installments of housing loans, otherwise the bank will blacklist the purchasers; inability to revoke the sale and purchase agreements, and claim for the return of all payments paid to the developers; purchasers may need to use their own funds to rehabilitate the abandoned housing projects; no compensation for damage or defaults that previous developers caused; and inability to take legal actions against the defaulting developer (Dahlan, 2011b; Dahlan & Aljunid, 2011).

Developers have traded off for standards and quality, knowing the eagerness of purchasers to take over the premises, and the latter would prefer not to waste time seeking compensation if the project is delayed (Khalid, 2010). Aside from being committed to housing loans, the house buyers have to pay quit rent and council tax until the project is rehabilitated (Kamal & Ab. Wahab, 2004). Dahlan and Aljunid (2011) pointed out that purchasers of abandoned housing, which are houses pending completion, based on deferred payment transactions, called Bay' Bithaman al-Ajil (BBA), are facing possibilities of gharar al-fahish (exorbitant cruelty, fraud, and injustice in business and transactions). The authors elaborated that BBA may be invalid on the grounds of the elements of gharar al-fahish in the case of abandoned housing projects, although loans come from an Islamic bank.

Abandoned housing projects also affect other related industries, including suppliers of construction materials, transportation companies, contractors, and consultants. Tan (2010) indicated that abandoned housing projects are one of the causes of the reduction in the relationship between housing price and residential subsector housing activities in Malaysia.

The impacts of abandoned housing projects can be categorized into the following: implications on the housing buyers and other stakeholders involved; implications on the construction industry and the national economy; and implications on the environment.

## INITIATIVES TO OVERCOME THE PROBLEM

Some strategies are forwarded to mitigate and overcome the problem of abandoned housing projects. One strategy is to adopt another housing selling system instead of the CSS. If this system remains, then some of the conditions shall be enforced to balance the interests of creditors and purchasers or borrowers, and prevent exorbitant cruelty transactions (Dahlan & Aljunid, 2011). Promoting public-private partnership (PPP) might useful to mitigate delay and project abandonment (Abdul-Aziz & Kassim, 2011). Another preventive strategy could be the resolutions of developers, the government, financial institutions, and contractors to reduce project failure in the CSS. For projects that are already abandoned, Tan (2010) recommended an effective and efficient selling system while reviving the projects. Efficient Reviving Process (ERP) implies establishing an agent for the MHLG, and maintaining that the account of abandoned projects to be left untouched.

The government plays an important role in rehabilitating abandoned housing projects and addressing the different consequences of such projects. The MHLG has monitored the existence of housing projects abandonment in Malaysia since 1986, and reported that the cumulative figure of the total projects involved (until 31 December 2001) was 526. At the time, 114,568 housing units, involving 72,543 house buyers, exist in Malaysia (Khalid, 2010). In 2008, a new division was established under the MHLG called the Division of Rehabilitation of Abandoned Projects. Handling this particular division is the Jabatan Perumahan Negara (JPN), a division of the Department of Housing and Local Government (DHLG) under the MHLG. From January 2009 to June 2012, the Division of Rehabilitation of Abandoned Projects has been responsible for and has completed the revival of 104 out of 177 abandoned housing projects in Malaysia (MHLG, 2012).

The initiatives and proposed solutions to address the problem of abandoned housing projects can be categorized into strategies to prevent the occurrence of the problem and remedies to address the problem after it has occurred. Figure 1 summarizes the causes (contributing factors) that lead to abandoned housing projects, the impacts of abandoned housing projects, and initiatives to resolve the problem.

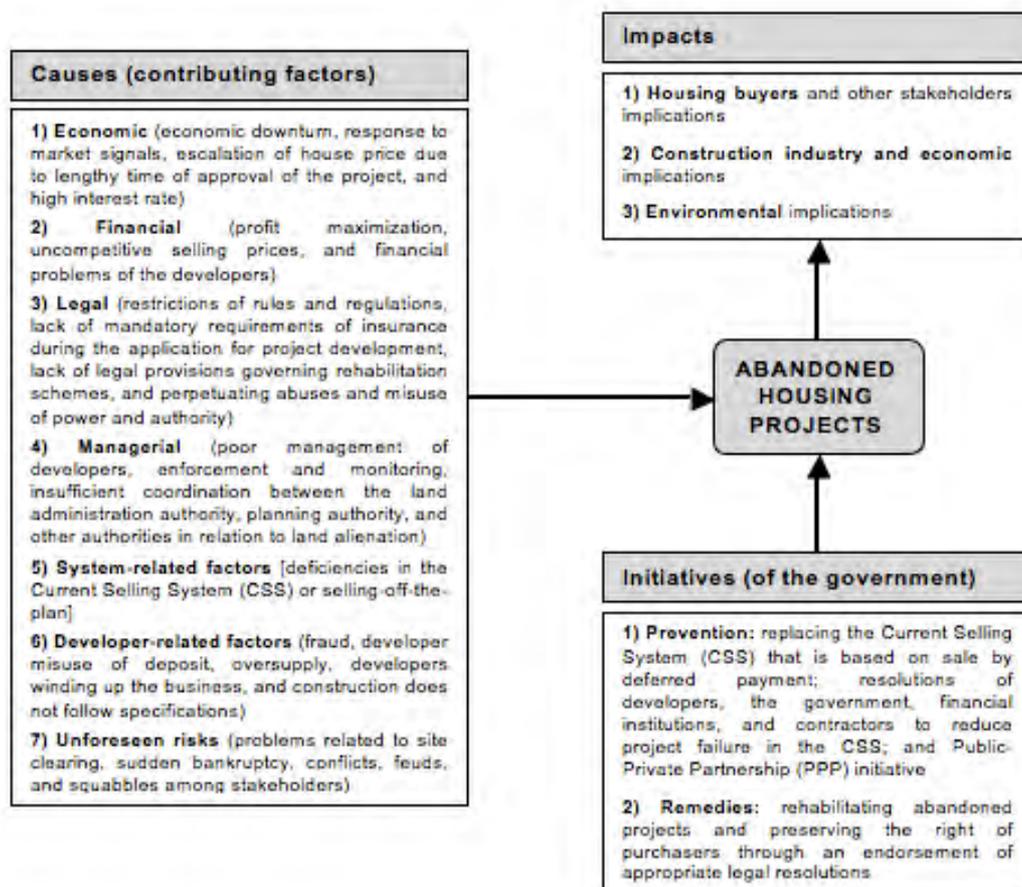


Figure 1: Causes, impacts, and initiatives on abandonment of housing projects in Malaysia (Source: Authors).

Other initiatives of the Malaysian government to resolve the issue of abandoned housing projects are focused on reducing the negative impacts of the latter. In general, the government's role can be categorized into the following: (1) facilitating and monitoring the rehabilitation process; (2) funding some special abandoned project to facilitate the rehabilitation; (3) actions taken to

reserve the right of purchasers and other legal resolutions; and (4) proposing an alternative housing selling system. The government launched the Special Task Force or a Special Purpose Vehicle (SPV) under the Ministry of Finance (MOF) to address the issue. In addition, Syarikat Perumahan Negara (SPNB), which is the MOF incorporated and funded in 2001, assigned with the major role of rehabilitating abandoned projects. Until 2010, the SPNB has successfully completed 77 projects involving 24,326 housing units, with 11 other projects under construction (SPNB, 2010). Further government initiatives include the enactment of new laws to handle the legality of abandoned housing projects and initiatives for full implementation of BTS approach by 2015 (HBA, 2010; PEMUDAH, 2011).

The recent amendments made to the Housing Development (Control and Licensing) Act 1966 (Act 118), effected through the recent Housing Development (Control and Licensing) (Amendment) Act A1415, are believed to help mitigate the abandonment of housing projects and successfully complete the revival process. The amendments apply to all developers who refuse to continue the project or have postponed, suspended, or stopped the project for a period of six months or more, or past the original scheduled completion date as stated in the SPA (Dahlan, 2011b). Upon conviction, such developer is liable to pay a fine of not less than RM 250,000 but not more than RM 500,000, or be imprisoned up to three years, or both. Other amendments in the Act to reserve the right of purchasers include the following: (1) deposit increase from RM 200,000 to 3% of the total estimated physical development cost, which also includes professional fees for the Housing Development Account (HDA); (2) house buyers having the option to cancel the SPA in the event that the project does not take place within six months of the agreement being signed; (3) extending the House Buyers' Claims Tribunal (TTPR) scope to enable house buyers to claim damages from unlicensed housing projects; (4) imposing a maximum penalty of RM 50,000, from RM 20,000, for any offense of developers on any provisions under Act 118; (5) prosecuting developers responsible for abandoned housing projects; and (6) expanding the definition of "housing developer" to include liquidators, in which their role is to revive abandoned housing projects should the developer companies go for liquidation (PEMUDAH, 2011).

### **CURRENT SCENARIO OF THE REHABILITATION PROCESS**

Table 1 presents the overall situation of abandoned housing projects in Malaysia (as of 31 May 2012). The MHLG list did not take into account abandoned housing projects in East Malaysia (Sabah and Sarawak), which do not fall under the jurisdiction of the MHLG and Act 118, or abandoned housing projects in the 1970s, 1980s, and 1990s (Dahlan, 2011a). A number of abandoned projects are closed files as their rehabilitation was deemed to be no longer feasible. Table 1 further presents that out of the 16 projects in the initial planning stage, the companies that undertook the eight projects (with 1,154 housing units) have been wound up or have become liquidators, and the government has entirely taken over one private project (inclusive of the land).

An indication of return of deposits to purchasers was not present during the initial planning phase. The implication is that the distress that abandoned housing projects caused on house buyers still prevails. The 58 projects under rehabilitation indicated a vulnerable situation to get abandoned housing projects revived, considering the risks or unforeseen threats associated with the rehabilitation of such projects. In the case of completed housing projects, the proportion between the number of projects and the number of purchasers is the same, except for projects with changed development proposals. This scenario indicated a lack of trust on the part of house buyers on abandoned housing projects. This, in turn, has decreased the market value and the reputation of the abandoned property.

**Table 1.** Summary of the status of overall abandoned housing projects in Peninsular Malaysia (as of 31 May 2012) (Source: MHLG, 2012).

NO.	PROJECT STATUS	NO. OF PROJECTS	NO. OF HOUSING UNITS	NO. OF BUYERS
<b>1.</b>	<b>Initial Planning</b>			
(i)	Under Rehabilitation Plan	7	3,905	1,798
(ii)	Wound up	8	1,154	871
(iii)	Monitored by the Government (Land Confiscation)	1	924	652
	<b>Sub Total</b>	<b>16</b>	<b>5,983</b>	<b>3,321</b>
<b>2.</b>	<b>Under Rehabilitation (being restored)</b>			
(i)	Original Developer/ Rehabilitation Developer	49	24,942	17,227
(ii)	SPNB	5	4,125	3,948
(iii)	Completed without CFO	4	935	551
	<b>Sub Total</b>	<b>58</b>	<b>30,002</b>	<b>21,726</b>
<b>3.</b>	<b>Completed/Finished</b>			
(i)	Completed with CFO	12	1,724	1,472
(ii)	Variation of Development Proposal	6	81	81
(iii)	Return of Deposit	2	2,754	1,175
	<b>Sub Total</b>	<b>20</b>	<b>4,559</b>	<b>2,728</b>
<b>TOTAL</b>		<b>94</b>	<b>40,554</b>	<b>27,775</b>

## CONCLUSIONS AND FUTURE STUDIES

This paper attempted to offer an overview of housing projects abandonment in Peninsular Malaysia by identifying the root causes, implications, and current initiatives to address the problem. Based on the literature synthesis, factors pertaining to housing projects abandonment can be categorized as follows: economic, financial, legal, managerial, system-related factors, unforeseen risks, and other factors such as fraud, developer misuse of deposits, oversupply, developers winding up the business, conflicts, feuds, and squabbles among stakeholders, and nonconformance with construction specifications. The two major economic recessions in the past 20 to 30 years further contributed to an increase in abandoned housing projects. Legal issues such as obtaining project approvals and licenses, and shortcomings in the current sale and purchase system of property have been recognized as other major contributors to abandoned housing projects. A limited number of studies have highlighted the unforeseen factors that lead to abandoned housing projects, including various risks faced in the construction of housing projects. Investigations are likewise lacking to verify the efficiency of different proposed initiatives to mitigate the problem.

The review and analysis of literature and documents also reveal the impacts of abandoned housing projects that can be categorized as implications on housing buyers and other stakeholders. The highlighted factors have socio-economic and environmental implications. House buyers remain as the ones who suffer the most regarding the issue of abandoned housing projects. In general, compensation is not provided for damage or default that previous developers have caused, and legal actions cannot be taken against defaulting developers as most of them are already out of business. Another impact of abandoned housing projects is the tarnished reputation and perception of local developers and the housing sector among local and foreign house buyers and investors.

Further findings from the analysis of literature and documents are government initiatives that include strategies and remedies to prevent the problem of housing project abandonment. These strategies are the following: legal actions and amendments; replacement of the current selling system; public-private partnership; and remedies after the problem has occurred such as the rehabilitation of abandoned projects, actions taken to reserve the rights of purchasers, and the creation of a Special Task Force and a Special Purpose Vehicle. The problem of abandoned

housing projects still persists despite numerous government actions. Figures from the MHLG website indicate that 16 abandoned projects have been added to the list as of May 2012.

Unforeseen factors or risks encountered during the rehabilitation process have not been considered. Therefore, the examination of such risks can be included in further studies. For example, the SPNB has faced a number of unforeseen difficulties, including the following: lack of collaboration among developers, consultants, and government authorities; inability of developers to activate or transfer their bridging loans to the salvage developer; problems related to land ownership; unsettled legal actions among the stakeholders of abandoned housing projects; lack of necessary information about the projects; and issues arising during the resubmission of project approval documents. In a number of cases, projects have been abandoned for such a long time that an attempt to retrieve project information can be painstaking and futile. Further studies to investigate the efficiency and reliability of proposed solutions, initiatives to prevent housing projects abandonment, and management and mitigation of risks of abandoned housing projects are very relevant.

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