

## UNSOLD HOUSES IN MALAYSIA: THE KEDAH EXPERIENCE

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**Abstract:** As Government planning and policy greatly influence the state of Malaysian housing industry, a proactive Government should always be mindful of its citizens' needs for house ownership. However, meeting the Government's housing targets requires full support from the private sector, because no Government in the world can provide housing to all of its citizens on its own. Therefore, collaboration between the Government and private sector is crucial, where both parties need to work together in order to maintain the housing industry on the right track. It is unfortunate that the issue of unsold residential properties has plagued Malaysia's housing industry for a long time - a problem that has not seen any sign of decline from year to year. The unsold properties' problem is complicated by the issue of Bumiputera (Indigenous) lots - lots that can only be sold or leased to Bumiputeras, namely Malays, the Indigenous people, Sabahans and Sarawakians. The State of Kedah, located in the northern part of Malaysia, is not spared from facing this issue, where the number of unsold houses are high. This study analyses the issue of unsold residential properties on Bumiputera lots in the state of Kedah, with the aim of finding the best solution to the problem. In order to achieve the objective, this study employs institutional economics analysis that is based on formal institutions or formal written rules. In other words, the study is based on institutional perspectives whereby the underpinning approaches can be analysed from formal and informal rules. The Elite Group Interview technique was used for data collection in three districts namely Kuala Muda, Baling and Kulim. These districts were selected due to the high volume of unsold residential properties. Eight respondents who had more than 25 years of experience in the property industry participated in this study. The data collected was analysed based on four (4) themes, comprising laws, rent-to-own, reducing house prices, and taxes on vacant houses. Finally, since the data collected were qualitative data, the finding was explained descriptively. The finding showed that institutional perspectives can be applied in property research for identifying alternatives to overcome unsold residential properties in Kedah. It also reveals that the rent-to-own method was the agreed best solution for this issue. By adopting this method, the government can prevent the release of Bumiputera lots and maintain the quota for land ownership among indigenous people.

**Keywords:** Institutional Perspectives, Institutional Economics Analysis, Unsold Houses, Rent to Own, Indigenous Lots and Indigenous Quota.

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### 1. INTRODUCTION

The Government of Malaysia makes great efforts in making sure all citizens, especially the lower-income group, have a fair chance for home ownership. Such efforts and intentions are reflected in the Malaysia Plans - the five-year national development plans. According to Othman (1993), the government set explicit targets and implemented various housing schemes in order to materialize a home-owning society in Malaysia. The government has focused solely on producing housing for the lower income group and allowed the private sector to take the lead in developing housing for the middle and upper household income group. In this sense, the Malaysian housing provision was in line with the principal of the Rio de Janeiro Summit 1992, whereby sustainable development must be taken into account (Ismail, 2002). If one looked at the role played by the private sector in housing provision, no doubt, their contribution was commendable and great. According to Khalid (2010), the private sector was actively involved in housing supply during the Seventh Malaysia Plan (1996-2000). About 800,000 units of houses were built, which was above the target set in that plan that aimed to construct 570,000 houses. The effort continues until today, where the private sector remains the dominant housing player in Malaysia.

Nevertheless, the existence of unsold houses developed by the private sector is a long overdue problem faced by the national housing industry, along with other issues such as abandoned housing and shortage of affordable housing. The Valuation and Property Service Department at the Ministry of Finance Malaysia (JPPH) defines unsold houses as houses that are completed but failed to sell within nine months after the date of completion. According to the Valuation and Property Service Department (Jabatan Penilaian Perkhidmatan Harta, 2019), the volume of unsold properties increased from 30,664 to 31,661 units (2018 to 2019). If this issue prolonged, it would hamper the Government's efforts towards ensuring that the lower and middle household income group can possess their own houses. Therefore, the study is carried out to identify the best solutions to reduce the issue of unsold houses, specifically the unsold properties designated as indigenous lots in the State of Kedah.

### 2. BACKGROUND OF STUDY

Despite tremendous progress and great contributions by the private sector in housing supply, the existence of overhang properties i.e. housing schemes that are completed by the private sector but cannot be sold or have no takers, was worrying. The numbers continued to increase, as reported in the Property Market Report published by the JPPH in 2020. The report showed that 31,661 units were unsold, which was worth about RM20.03 billion compared to 2019, when the number of unsold properties was 30,664 and worth about RM18.82 billion. This issue impacted several states in Malaysia such as Kedah, Penang, Perak, Federal Territories of Kuala Lumpur, Selangor and Johor. The President of Real Estate and Housing Developers' Association (REHDA) asserted that most of the unsold properties were indigenous lots that are reserved for Bumiputras. It contributed to about 40%-50% of the total volumes of unsold housing units (The Malaysian Reserve Online, October 1, 2020). He added that most of the states were reluctant to release the Bumiputra lot quota, which prevented the unsold units from being sold in the open market. He was also reported to say that if the situation prolonged, it would affect the developers' plans for new development, which would have knock-on effects on the whole housing industry. Zooming into the issue in the State of Kedah, the three districts that were facing this problem the most were the districts of Kuala Muda, Baling and Kulim. About 1,000 units of houses failed to be sold within those districts mentioned (Berita Harian Online, Ogos 23, 2018). The State Government also lost revenue from property taxes, because no property transaction takes place

even though the housing units were completed. New housing schemes development were also affected. Potential buyers may hold bad perception towards the housing developers involved, which would affect other new project that may be launched by the said developers.

In order to achieve the objective of this study, the institutional perspective framework was employed, which refers to the institutional economics analysis covering elements of formal institutions or written rules, and informal institutions. Nevertheless, in the context of this current study, employing formal written rules element is more appropriate to achieve the intended research objective.

### 3. RESEARCH METHODOLOGY

To achieve the intended research objective, the research methodology must be well designed, particularly as this study was conducted during the Covid-19 outbreak worldwide, including in Malaysia. The researcher's movements were constrained when the Government announced a Movement Control Order (MCO) in March 2020. The research methodology had to be revised, especially with regard to data collection. It must be in line with the nature of the study and the focal theory applied in the study (Creswell, 1994, and Nachmias and Nachmias, 1996). Since the study employed a qualitative approach that is based on institutional economics analysis and included the element of formal written rules, it was found that the most appropriate data collection method was Elite Group Interview. The interview question design were based on themes that are related to institutional economics analysis, that include elements of formal institution or written rules. In this context, the analytical framework are based on four (4) themes namely laws, rent-to-own, reducing house prices and vacant tax on unsold residential properties.

This approach required in-depth information, therefore the best way to glean into detailed information was via the Elite Group Interview. It was conducted via WhatsApp's application. All the respondents involved were chosen based on their experience, and all of them have more than 25 years of experience in property development. Furthermore, all the respondents held high positions in their respective organizations. This study involved eight respondents, of which four (4) of them were from developer companies, one (1) from financial institution and the remaining three (3) were from valuation and property management companies.

### 4. DATA ANALYSIS AND DISCUSSION

Data analysis was done based on the themes s mentioned above, in order to achieve the objective of the study. Respondents 1 and 2 (R1 and R2) came from developer companies, Respondent 3 (R3) from a financial institution, and Respondents 4, 5 and 6 (R4, R5 and R6) were from valuation and property management companies. The final two respondents, Respondents 7 and 8 (R7 and R8) were also from developer companies. There were two (2) sections in the designed interview questions. Section 1 was related to the demographic data of the respondents. Section 2 focused on the four main themes to achieve the research objective. The questions established were related to rules and regulations, rent-to-own approach, reducing house prices and vacant tax on unsold residential properties.

#### 4.1 Analysis of Demographic Data of Respondents

The data was collected using the WhatsApp application due to the MCO that was imposed by the Government between March and October 2020. However, the researcher was able to conduct a site visit to selected research areas after the MCO. The demographic results of the Elite Group Interview is summarized in Table 1.1.

Table 1.1: Demographic Data of Respondents

No.	Company	Position	Working Experience	Professional Expertise
1.	Developer	Management	➤ 25 Years	Valuation and Property Management
2.	Developer	Management	➤ 25 Years	Valuation and Property Management
3.	Financial	Management	➤ 25 Years	Economics
4.	Valuation	Management	➤ 25	Valuation and Property

			Years	Management
5.	Valuation	Management	➤ 25 Years	Valuation and Property Management
6	Valuation	Management	➤ 25 Years	Valuation and Property Management
7	Developer	Management	➤ 25 Years	Town Planning
8.	Developer	Management	➤ 25 Years	Town Planning

Source: Researcher, 2020

Meanwhile, the results of Section 2 which covered the four main themes of the research is summarized in Table 1.2.

#### 4.2 Data Analysis for Resolving Unsold Residential Properties Issue


##### i. Rules and Regulations

The empirical data collected in Section 2 of the interview was summarized and presented in Table 1.2. Based on the results, one can see that all respondents agreed that the best option to solve the unsold properties in Kedah is through written rules and regulations or laws. This is because the housing industry is governed by various laws starting from the planning stage to implementation until completion of construction works (North, 1996 and Omar, 1999). The marketing and sales of constructed houses must also adhere to prevailing rules and regulations. In this context, the institutional economics analysis approach believes that formal institutions such as written rules and regulation can be used to overcome the issue of unsold residential properties, and that reliance solely on market supply and demand forces cannot solve the problem. All respondents also agreed that the state government must come out with appropriate policy measures that are implemented as legal provisions to ensure that all developers comply.

From a legal perspective, various actions can be taken by the government to establish new acts, policies and regulations, as well as to undertake enforcements and provide instructions. In turn, developers need to be prepared with any new regulative imposed by the government because the existence of the unsold residential properties was in part due to their weakness in marketing and selling the properties. In addition, all respondents agreed that government intervention via regulatory measures is significant, because the government has the power to enforce relevant rules and regulations. This is in view of countries such as Britain, Hong Kong and India, where regulative action were imposed by these governments in order to overcome the issue of unsold residential properties (Ilmunisasi.com, 19 September, 2019).

Table 1.2: Summary of Finding

No.	Themes	R1	R2	R3	R4	R5	R6	R7	R8
1.	Rules and Regulations	✓	✓	✓	✓	✓	✓	✓	✓
2.	Rent-to-Own (RTO)	✓	✓	✓	✓	✓	✓	✓	✓
3.	Reducing House Prices	RTO better	✓	✓	✓	✓	✓	It depends on the size of the company	It depends on the size of the company
4.	Vacant Tax	Effect to housing supply	✓	Effect to housing supply in the	Effect to housing supply	✓	✓	Effect to housing supply in the	Effect to housing supply in the



		in the future		future	in the future			future	future
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Source: Researcher, 2020

## ii. *Rent-to-Own*

The second theme that was asked during data collection was pertaining to the rent-to-own (RTO) approach as a possible approach to resolve unsold residential properties in Kedah. This is because among the pertinent issues in Kedah are very high house prices and inappropriate locations of residential developments. These are top factors influencing prospective housing purchasers when deciding whether to buy a house. Potential buyers also need to have sufficient funds to pay 10% of the house price as deposit and to bear related expenses for that transaction such as stamp duty and lawyers' fees.

As presented in Table 1.2, one can see that all respondents agreed that RTO schemes can be offered in order to solve the issue. The RTO approach is not new in Malaysian housing industry, as well as internationally. In Malaysia's 2020 annual budget, the government proposed to increase the number of housing to be owned by B40 group via RTO schemes. This is because the government realized that most of the B40 group were facing financial constraints to own their personal house. This method was seen as a useful measure to help to materialize the people's aims and dreams of home ownership.

Under the RTO approach, the developer or housing producer binds the buyer with a lease agreement. The agreement specifies several important clauses such as the monthly lease amount, the lease period and payment terms. It also provides for recourse in the event that buyers fail to pay the monthly payment. However, the terms of reference (TOR) for this scheme must be carefully regulated by the government to ensure a fair lease agreement between the buyer and the developer, especially to avoid buyers' disqualification to own the rented houses after the lease period is over. According to R7, *"the RTO concept can be applied to overcome this issue but the agreement between the house purchasers and the developers must lead to a fair and win-win situation."*

R3 also urged that *"in order to materialize the idea of RTO, the State Government can also allocate special funds and purchase all unsold residential properties in bulk from the developers at a special price. The State Government can then provide the RTO scheme to potential buyers. In doing so, the unsold residential properties can be owned by the prospective buyers at a lower price compared to RTO schemes provided by developers."* In summary, one can see that majority of respondents believe that RTO is the best approach to overcome the unsold residential properties problem in Kedah. R3, R4 and R5 further argued that *"By adopting the RTO concept, the release of Bumiputera lots can be avoided and at the same time the quota for land ownership of indigenous people can be maintained"*. They also contended that *"the effort to control property ownership among Bumiputera can only be done with the implementation of government policy"*. Theoretically, from the institutional perspective, the implementation of RTO is an example of a formal written rule. This written rule can influence individual behavior in decision making, in this case, in property investment (Eggertsson, 1990; Samuel, 1995 and North 1996). Institutional economics provides an expanded viewpoint in property research beyond market forces. In doing so, the researcher can explore appropriate solutions for overcoming the issue of unsold residential properties in Kedah.

## iii. *Reducing House Prices*

As mentioned above, the existence of the unsold residential properties is partly caused by the high prices set by developer, as reported by Kosmo Online (2018). In particular, the high house prices is not in line with household income. According to the National Bank of Malaysia (BNM), average house buyers in Malaysia can only afford houses that are priced RM250,000 and below, which is lower than the average price of the unsold residential properties at RM300,000 and above. Most of the housing developments are also not strategically located, such as in the city center. Recognizing this, the Minister of Housing and Local Government announced that affordable housing in Malaysia is defined as those priced at RM300,000 and below. Expectedly, the housing developers did not react positively to that announcement because house prices are influenced by various factors and costs. Nonetheless, house buyers will not have the purchasing power if house prices continue to rise.



For the purpose of this study, reducing house prices was the next theme offered as a possible solution. The government can pressure developers to reduce the price of unsold residential properties. One can see from Table 1.2 that most respondents (R2, R3, R4, R5 and R6) strongly agreed that reducing house prices by developers is the best solution. According to R2, *"It is proven that one of the reasons why completed houses cannot be sold was due to the high price offered by developers. I do believe that most developers are trying to enjoy a high profit margin from the investment. But in the end, the completed project has no takers."* He further explained that *"if the developer can consider reducing a bit the targeted profit margin of the particular project, it might attract potential buyers."* In line with this discussion, the R3 proposed that *"the developers can increase the discount rate offered to purchasers. The developers can also absorb other transaction costs such as stamp duty and lawyers' fees. This might reduce pressure to potential buyers, and it might be more attractive to them."* Nevertheless, respondents R7 and R8 argued that *"reducing house prices is not simple, and it depends on the company size. How big that company is, and the financial stability of the company must be taken into account too"*. They also claimed that *"the policy of reducing price is definitely not the best solution. This is because optimizing profit margin is important to the developer."* Specifically, their thoughts are in line with the institutional perspective of maximization, where institutions aim to achieve the maximization target via specific rules (Adams *et al.*, 2005). At this stage, it is fair to say that if the developers are willing to reduce the prices of unsold residential properties, it can be a feasible solution.

#### iv. *Imposing Taxes on Unsold and Vacant Properties*

Another theme asked in this study was to impose taxes on unsold and vacant properties as one of the mechanisms to overcome the issue of unsold residential properties. This idea was previously presented at the Malaysian Parliament, and the Ministry of Housing and Local Government (MHLG) was reportedly conducting further studies before it can be implemented. During the interview, most of the respondents (R1, R3, R4, R7 and R8) disagreed with imposing taxes on unsold properties. R3 said that *"If the government makes it compulsory for developers to pay taxes on vacant properties, I am worried that the developers might slow down housing provision, and it might affect housing supply."* This is in line with the institutional perspective that institutional decisions related to rules and regulation will influence individual behavior towards the property market (Ball, 1998; Adams *et al.*, 2005). In other words, if housing supply slows down, supply and demand forces will further increase house prices due to high demand and low supply. It will worsen purchasing power and affordability in a limited market. India and Hong Kong previously implemented such taxes, which led to negative reactions from the developers who slowed down housing provision, and in the end affected the growth of the housing industry (iPropertyguru, September 4, 2020). It is then fair to say that the disagreement of the majority of the respondents towards the tax imposition on unsold residential properties was justified. Efforts to overcome the unsold property issue should not lead to adverse growth of the housing industry.

However, R2, R5 and R6 argued that the imposition of taxes on unsold properties might be one of the best short term mechanisms to overcome the issue. At this stage, formal institutions such as imposing taxes on unsold properties is appropriate to this study. Developers may respond negatively to the taxation system and as a result, it might affect the housing industry in future.

## 5. CONCLUSION

Based on the Elite Group Interview (EGI), the study to identify the framework for overcoming the issue of unsold residential properties in Kedah can be conducted using institutional perspective. This is because most respondents perceived that formal written rules have significant influence on property development. One can see how formal written rules such as government policies, rules and regulations can influence developer behaviour. For example, some solutions such as releasing indigenous quota requires government intervention. In this context, these government intervention must be in the form of formal written rules.

Based on the findings, all respondents agreed that failure of the developer to understand and react positively to market signals contributed to the existence of this issue. In particular, the unsold residential properties were built at inappropriate locations, and house prices are set very high. These



findings are in line with the study by Khalid (2010, p.218) where, he argued that “*Most developers did not behave as predicted by the neo-classical economic theory: they did not respond appropriately to market signals leading to the inability to sell the units constructed.*” Another conclusion that can be drawn from this study is that the best solution agreed by the respondents in overcoming the issue of unsold residential properties in Kedah is the implementation of rent-to-own (RTO) schemes. It avoids the release of the indigenous quota, however developers must provide win-win RTO schemes that also benefits house buyers.

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