

**DETERMINANT FACTORS OF IMPLEMENTING BUILD THEN SELL IN
MALAYSIA: HOUSING DEVELOPERS POINT OF VIEW**

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by

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FAKTOR PENENTU PELAKSANAAN BINA KEMUDIAN JUAL DI MALAYSIA: PANDANGAN PEMAJU PERUMAHAN

ABSTRAK

Tujuan penyelidikan ini adalah untuk mengkaji faktor penentu pelaksanaan konsep 'bina kemudian jual'. Kaedah pengumpulan data adalah secara kuantitatif dan kualitatif. Responden dipilih daripada Direktori REHDA dengan menggunakan kaedah persampelan rawak. Disebabkan kadar balasan yang rendah, kaedah kualitatif dilaksanakan bagi meningkatkan kesahihan penyelidikan dan menyokong kaedah kuantitatif. Temubual kualitatif digunakan agar kajian secara mendalam dapat dilaksanakan ke atas responden yang mengamalkan konsep ini pada tahap yang berlainan. Oleh kerana pelaksana konsep enggan ditemubual, hanya seorang perancang pelaksana konsep dan dua responden yang tidak merancang untuk pelaksanaan ditemubual dalam kajian kualitatif. Ketiga-tiga responden yang ditemubual adalah terpilih daripada responden dalam kajian kuantitatif. Data kuantitatif dianalisis dengan menggunakan ujian *chi-square* dan ujian t manakala data kualitatif dianalisis dengan menggunakan kaedah suntingan. Penemuan kajian pertama yang mencapai objektif pertama ialah didapati faktor ciri-ciri syarikat seperti saiz syarikat, bayaran modal dan liabiliti syarikat pemaaju mempengaruhi pelaksanaan konsep ini. Penemuan kajian kedua yang mencapai objektif kedua ialah didapati pinjaman titian, pinjaman akhiran dan kewangan dalaman syarikat berpengaruh ke atas pelaksanaan konsep ini. Pinjaman titian mempunyai hubungan positif dengan status pelaksanaan konsep manakala pinjaman akhiran dan kewangan dalaman mempunyai hubungan negatif dengan status pelaksanaan konsep 'bina kemudian jual'. Penemuan kajian ketiga yang mencapai objektif ketiga ialah didapati faktor lain seperti faedah konsep terhadap pembeli dan pemaaju, budaya organisasi pemaaju dan kebimbangan pemaaju juga mempengaruhi pelaksanaan konsep ini. Penemuan ini dipercayai akan membawa beberapa implikasi terhadap praktis pembiayaan dan parti-parti yang terlibat dalam industri pembangunan perumahan di Malaysia.

DETERMINANT FACTORS OF IMPLEMENTING BUILD THEN SELL IN MALAYSIA: HOUSING DEVELOPERS POINT OF VIEW

ABSTRACT

The aim of the research is to explore the determinant factors of implementing Build-Then-Sell (BTS) in Malaysia. Quantitative survey method is used to collect the data and respondents are chosen from the REHDA Directory using simple random sampling method. Due to the low response rate and the small sample size, qualitative study is then carried out to increase the validity of the research and to support the quantitative study. Qualitative interviewing technique is used to have in-depth study on different levels of BTS adoption. Since the only BTS adopter respondent is reluctant to be interviewed, only one BTS planner and two non-adopters are interviewed in the qualitative study. The three interviewees of different BTS adoption status are chosen from the respondents in the quantitative study. The quantitative data obtained is analyzed using chi-square test and independent t test while the qualitative data is analyzed using editing method. First findings that achieve the first objective indicate that firm characteristics such as firm size, paid-up capital and liabilities will also lead to BTS adoption. Second findings that achieved the second objective indicate that bridging finance, end finance and internal finance have significant influences on BTS adoption. It is found that bridging finance has positive relationship with the BTS adoption level whereas end finance and internal finance have negative relationship with the BTS adoption level. Third findings that achieved the third objective indicate that there are other factors that will influence the BTS adoption as well. They are factors such as perceived benefits to developers and buyers, organizational culture and the developers concerns. The findings carry a few implications for the financing practices and parties involved in the property development industry in Malaysia.

CHAPTER 1

INTRODUCTION

1.0 Introduction

Under current Sell Then Build (STB) housing delivery system in which has been implemented for four (4) decades in Malaysia, house is bought according to the specification in attractive brochure with floor plan. The house is not ready built when buyers enter Sales and Purchase Agreement.

It is an abnormal situation for the property industry worldwide as it has been very unfair to the house buyers. The quality of the finish product may not be at satisfactory level. It will be probably affected by bad defects such as walls and floors cracking, roof leaking, foundation sinking, retaining walls collapsing, sewerage pipes blocking and septic tank not working et cetera (Property Times, 2005). Late delivery of houses is another problem. The completion of the house is delayed or late completion beyond the specified date in the Sales and Purchase Agreement.

Over the years, there is insufficient supply of housing units besides other numerous problems such as difficulty in getting Certificate Fitness for Occupation (CFO) and land titles approval, late delivery, defect problems and abandoned projects which have affected most house buyers. In year 2004, 227 housing projects, worth RM7.3 billion and involving 50,813 buyers, were abandoned (NST, 5/9/2005). In year 2004, the government had identified 121 projects as having potential to be revived. Syarikat Perumahan Negara had been successfully revived 86 projects (37.89%) out of the total 227 projects. Table 1.1 shows the number of abandoned projects by states in year 2004.

Table 1.1: Number of Abandoned Housing Projects by States
as At December 2004

No.	State	No. of Projects	No. of Houses	No. of Buyers	Estimated Cost (RM Million)
1	Perlis	3	181	132	5,475
2	Kedah	17	2,673	1,470	242.49
3	Penang	24	11,684	9,173	1,043.77
4	Perak	19	2,974	1,785	150.22
5	Selangor	55	27,106	17,512	2,367.54
6	W. Persekutuan	18	10,618	6,992	2,021.63
7	N. Sembilan	22	3,803	3,029	162.95
8	Melaka	12	1,320	793	190.5
9	Johor	19	6,798	4,655	370.9
10	Kelantan	9	1,006	688	32.16
11	Terengganu	8	636	501	30.09
12	Pahang	21	6,557	4,083	415.35
	Total	227	75,356	50,813	7,033.08

Source: Research and Development Division of National Housing Department, 2005

In midyear 2004, our Prime Minister Datuk Seri Abdullah Ahmad Badawi spoke up for the sake of house buyers to encourage housing developers in adopting Build Then Sell (BTS) concept. In year 2006, the government had announced that the BTS will be executed alongside the current STB for a transition period of two years and then the effectiveness of the concept will be evaluated.

Generally, BTS simply means that developers sell only houses that are completed. BTS is implemented in developed countries such as the United Kingdom, United States, Australia, Singapore and Taiwan where housing demand and supply is adequate. On the contrary, STB is normally implemented in developing countries (Rehda, 2004). In Malaysia, BTS is still at an emerging stage. As our country faces the challenges of globalization and a comeback from the economic crisis partly contributed by an inflated property market, there is a renewed call to change the STB to BTS system.

The purpose of this chapter is to give an introduction to the problems under STB with reference to the impact on house buyers. The new BTS concept will be discussed in the context of the possible problems of its implementation. The other sections of the chapter will outline the objectives and organization of this study.

1.1 Problem Statement

For the past two decades, the BTS concept had been debated and studied. Many had discussed and said that the BTS is an alternative to overcome the current housing problems such as the abandoned projects and quality issues (Zulkifli and Abdul Ghani, 2004), but yet, none had come out on how it could be implemented. To date, it has still remained a voluntary concept. Reviews on what other researchers had done are stopped at comparing both of the systems, the pros and cons of each other and the implications of BTS implementation on consumers and developers (Sothi, 1992; Tong, 1992).

BTS may be viewed as an option to address the problems faced by house purchasers who suffer at the hands of irresponsible developers. As the concept is proven works well in some countries, which housing industry is mature and there are fewer problems. In most developed countries such as Australia, United States of America and United Kingdom, the BTS has been implemented successfully (National House Buyers Association, 2004). There is also a handful of success story of this scheme by some developers in Malaysia. However, the full implementation of the concept requires careful consideration.

Under the new BTS system, the financing for construction is the responsibility of the developer and the buyer is only to seek his financial requirement to buy the completed house when it is ready for occupation. The buyer has nothing to do with the financing requirement during the construction phase. Hence he does not carry the financial burden and shoulder the financing cost for the developer. But what is more crucial is that he does not carry the risks of the project not being successful.

This scenario is vastly different from our current STB situation where buyers are dragged in to finance the project during the construction phase. Current housing system in Malaysia practices the Sell Then Build (STB) housing delivery concept, or so called Buying-Off-The-Plan system by the Housing Buyers Association, is the system of selling or buying house that are off the plans or uncompleted. A house is bought on nothing more than an artist's impression where the location of the site is still a bare land (National Housing Buyers Association Malaysia, 2004). The un-built house is sold by showing the potential buyers a model house, which workmanship and design may be different from the actual unit built in the future and there are risks of project being abandoned.

Thus when the project is abandoned, house buyers' money is stuck and they are dragged into a very muddled legal situation (Kasi, 1992). Such failures of housing projects can come in many ways (Fellows, 1983). First, the developer may run short of funds when it cannot achieve the required amount of sales. Next, the developer's building contractor goes belly-up and the developer is stuck in a legal tussle. There are also instances where developers have sold almost all the houses, yet abandon their projects (National Housing Buyers Association Malaysia, 2006).

Under the BTS scenario, very few developers will have the financial capital or capacity to carry out project development on their own without other sources of financing from house buyers or end financiers (Rehda, 2004). On the other hand, it is argued that some financial institutions may be reluctant to provide the loans for such BTS schemes (Salleh Buang, 2006). They prefer granting end finance to the purchasers rather than giving bridging finance to the developers at higher risk (Wong, 2006). These are the major factors that deter BTS concept from being implemented in our country.

There are some arguments that house prices will increase if developers have to seek their own financing for their projects. Developers will pass their financial risks to the buyers in that way. In any business, the business proprietors themselves shoulder the financial risks and the financiers also bear some of the risks. However in the housing industry it is the house buyers who are carrying the finance risks (National Housing Buyers Association Malaysia, 2006).

Financiers in Malaysia want to make money but they see end-buyers as safer customers rather than developers simply because house buyers usually have budgeted their payment schedules. Project Management Institute of Malaysia (1995) reported that financial institutions should finance developers (as the business proprietors) to build houses. When the houses have been completed, then they finance the buyers to buy the completed houses.

In addition, majority of developers use both internal and external finance to fund their projects (Baharudin et. al. 2005). Therefore both of the internal and external finance play a major role in development activities. However, some firms claim that they use only internal finance, as they do not secure bridging loan. They do not realize that they do

rely on end finance, which is another type of the external finance as well. Therefore, it can be highlighted that all developers depend on internal and external finance.

Are the resources and size of developer has significant relationship with BTS adoption or will influence the adoption level of BTS? According to Wong (2003), bigger firms will have a better resource of technology, financial management to compete in the more challenging overseas market. Firms with better resources and strong financial background are normally more capable and have competitive advantages. Hence, it can be said that large developers are definitely have advantage of adopting BTS.

At the same time, our government promotes BTS because of the existing housing problems. However, developers are reluctant to this idea (Rehda, 2004). One of the many arguments is that if they are not able to depend on end finance to conduct project, they cannot secure bridging finance. It is because one of the banks' requirements in granting the bridging loan is 60% of the property sold. It means that developers have to find end financiers (house buyers) for the bank before they can obtain the bridging loans (Goh 1997). But is it true that every developer rely on end finance? Are there any cases where the developers who have strong capital and do not rely on end finance to build houses?

Hamilton & Fox (1998) revealed that different developers had different financial needs. Not only internal finance will influence the BTS adoption because there are also internal financially strong firms who do not adopt the BTS. There must be other reasons that will affect the BTS adoption. Thus we may deduce that there are different levels of BTS adoption among housing developers. According to Grover (1993), Lai and Guynes (1997), and Henriksen (2006), there are 3 categories of firm level of adoption, namely

adopters, planners and non-adopters. Since there is lack of research on BTS, thus there is no research done on categorization of BTS adoption.

In terms of past research related to housing, most research focused on the demand side of housing finance but very few on the supply side (Association of Banks *et. al.*, 1992; Mohd Zain, 1992). Another research by Tan (2005) examined the funding of housing development project under the current STB system but not the new BTS system. Nazihah (2005) studied the perception and the expectation of BTS from both developers and financiers.

There is resource-based study on business performance of the firms in other industry (Saffu & Manu, 2003). However there is lack of similar research in construction industry. Wong (2003) has used Resource-Based Theory (RBT) to assess the export capabilities of Malaysia housing developers. Ho and Abdul Rashid (2006) have used the RBT to examine the adequacy of Malaysian housing developers' resources for internationalization Malaysian Housing. Nonetheless, there is no resource-based study on firms to assess their capabilities to implement BTS system. In short, there is a gap study for researchers to assess their capabilities to conduct development projects under BTS concept.

In order to assess firm capabilities, Barney (1991), Grant (1991), Colis (1991), Lee *et. al.* (2001), Makhija (2003) and Wernerfelt (1984) suggested the resource-based view of the firm using resource-based theory. All of them used the theory in assessing company capabilities of competitive advantage and technology-based venture. However, there is no research done in order to assess the developers' capabilities and the determinant factors of adopting BTS.

In a nutshell, there are three (3) questions derived from the above discussions. First, “Is the firm characteristic significant to BTS adoption?” It is suspected that some firm characteristics such as firm size, paid-up capital, turnover, assets and liabilities, and the ratio of external to internal fund will affect the BTS adoption. It is believed that large firms are more capable to adopt BTS and are more receptive to the new concept as they are financially strong enough to be pioneers. Though, more evidences are needed to prove the truth of this statement. Second, “Is the reliance on end finance significant to BTS?” Developers argue that they cannot adopt BTS because they cannot find other finance resources to replace the end finance in order to fund BTS project. In order to obtain bridging finance from the bank, developers have to find end financiers (house buyers) to the bank. This scenario is so called ‘joint event’. If the developers are able to sell 60% of the project, bank will release bridging loan to the developers. In other words, developers have to make sure the property sold for them to secure bridging loan in funding construction works. Thus, it is assumed that the reliance on end finance will influence adoption level of BTS. If developers rely more on end finance, they are unlikely to adopt BTS and if developers rely less on end finance, they are more likely to adopt BTS. If developers rely heavily on bridging finance, they might borrow more to adopt BTS. The last question “Is there any other factors may be affecting BTS?” There will be other factors that determine the BTS adoption. It is suspected that the organizational culture, developer advantages, developers concerns, and buyers’ benefits will affect the adoption of BTS concept. Nevertheless, more exploratory study has to be done to find out other factors that may influence the BTS adoption.

1.2 Research Objectives

First of all, this research will study the influences of firms' characteristics such as firm size, paid-up capital, assets, liabilities, and the ratio of external to internal fund on implementing the BTS concept. Secondly, financial resources factors that will affect the BTS adoption, such as internal finance, external finance, term loan, bridging finance and replacement of end finance are also explored. Whether the reliance on end finance has significant relationship with the BTS adoption is studied. Thirdly, since BTS is an emerging field, not every developer will perceive the benefits of BTS in the same way and there may be certain factors that can influence the perceptions of the benefits that BTS can bring. Therefore, developers' perception on the issues toward BTS is investigated. From their perceptions, other factors apart from firms' characteristics and financial resources factors that will influence developers' decision on implementing the BTS concept can be determined. As the first step toward investigating their perceptions on the BTS issues, the developers on different stages of BTS adoption will be studied. With this, the aim of this research is to examine the determinant factors of implementing the BTS concept, from the viewpoints of developers with different levels of BTS adoption. In short, there is one aim and three objectives in this study. They are listed below.

The aim: to examine the determinant factors of implementing the BTS concept.

Objective 1: to study the influences of firms' characteristics on BTS adoption.

Objective 2: to study the influences of reliance on end finance on BTS adoption.

Objective 3: to study the other factors that would influence the BTS adoption.

1.3 Research Organization

Chapter one (1) presents an introduction for the research. Statement of problem, research questions and research objectives are described. A brief overview of the following chapters of the dissertation is discussed.

Chapter two examines the financing aspects of housing development project under the different housing delivery variants such as STB, 100% BTS and 10:90 formula. The literature is centered on financing a housing development project in different stages of development process. There are significant differences in the financing practices for each housing delivery variants. The impact of the BTS practices on the current STB financing practices, the impact on developers and bankers and the arguments regarding the BTS are also discussed.

Chapter three highlights the use of resource-based theory to study the firms' resources that will influence the adoption of BTS. There is a description of firm characteristics and type of financial resources for developers. Both of the firm resources are viewed as the factors attribute to the BTS implementation. Nevertheless, it is believed that there are other possible factors that will lead to the adoption of BTS. With this, an BTS adoption models with several factors that will lead to different levels of BTS adoption is developed.

Chapter four presents all considerations related to method and methodology. The combination of quantitative and qualitative research methods is used to carry out this study. All practicalities related to the accomplishment of the survey and qualitative interview is explained. The sampling methods, the construction of questionnaire and interview guide, the data collection methods and the analysis methods will be described.

Chapter five is a presentation of the statistical analyses performed on data obtained from the surveys done on the developers. The firm characteristics variables and the financial resources variables are tested using the chi-square test and independent-T test respectively. Analysis of the quantitative assessment is based on the results from the two statistical tests. The editing technique is used in analyzing the qualitative data.

Chapter six focuses on presenting and analyzing the interview responses. The transcription texts of the tape-recorded qualitative interviews answers from different respondents are compared. The qualitative data are presented in tables form so as to make better presentations. The data are then interpreted. Analysis of the qualitative assessment is based on the interpretation of the data.

Chapter seven describes the discussion of the findings. It gives an overview of the study along with the Implications of the study, suggestions, limitations, recommendations for future study and conclusion.

CHAPTER 2

FINANCING HOUSING DEVELOPMENT FROM STB CONCEPT TO BTS CONCEPT

2.0 Introduction

Chapter two (2) describes the current Sell-Then-Build (STB) and the proposed Build-Then-Sell (BTS) financing practices from the supply and demand side of housing perspective. It highlights the important of finance to development projects and the impacts of BTS concept on the financing practices and developers and bankers. It also explains the arguments on developers' capabilities in implementing the BTS concept.

2.1 The Importance of Finance to Development

Different types of financial resources may have played significant roles in different phase of housing development so as to cover the development costs (Rosli Said, 2004). Table 2.1 discusses the development costs incurred in property development projects and the types of internal or external funding needed to make the project a success. At pre-development phase, developers may use their firms' retained profits or secure term loan to pay the land costs, which include land price, stamp duty, agent's acquisition fees, and legal fees on acquisitions (Project Management Institute of Malaysia, 1995). During construction phase, developers may use both internal fund (retained profits, deferred payments, depreciation provisions, partnership fund, and shareholders fund) and external fund (bridging loan, overdraft, revolving credit, factoring and end finance) to cover the building costs, Infrastructure costs, professional fees, management & administration fees, legal fees, finance cost and other costs (Mohd Nasir, 2004). When

the project completes, end finance will pay for the sales & advertising costs (Project Management Institute of Malaysia, 1995).

Table 2.1: Development Costs and Funding in Each Development Phase

Development Phase	Development Costs	Internal Funding	External Funding
Pre-development stage	<ul style="list-style-type: none"> Land cost (land price, stamp duty, agent's acquisition fees, legal fees on acquisition) 	<ul style="list-style-type: none"> Own land bank Retained profits 	<ul style="list-style-type: none"> Term Loan
Construction stage	<ul style="list-style-type: none"> Building costs Infrastructure Professional fees Management & Administration Site supervision Marketing Legal fees Finance cost (interest on borrowings) Other costs 	<ul style="list-style-type: none"> Retained profits Deferred payments Depreciation provisions Partnership fund Shareholders fund 	<ul style="list-style-type: none"> Bridging Loan Overdraft Revolving Credit Factoring End Finance
Project completion stage	<ul style="list-style-type: none"> Sales & advertising 		<ul style="list-style-type: none"> End Finance

Adapted from: Cadman & Topping (1997), Project Management Institute of Malaysia (1995), Rosli Said (2004) and Mohd Nasir (2004)

There have been lots of researchers and experts from various disciplines describe how important the finance contributes to the success of projects. Ikejiofor (2005:91) explained

the three key stages in housing delivery were access to land, provision of finance and housing construction. National Housing Department (2001), however, discussed the four development stages in the housing delivery, which were design, approval, implementation, finance and disposal. The success of any housing project depended on two financial facilitators as observed by President of International Association for Housing Science Miami Florida, Professor Oktay Ural (2001). First, the resources were required to realize the project. The second was to have a financial loan system to allow the potential customers to purchase and own the units. A research conducted by Baharudin et. al (2005) came out with findings that a successful housing project was depending on an adequate source of funding. Approximate 25% to 30% of total project cost was required as minimum capital to start a housing project before funding from a financial institution could be obtained. Hence, it can be said that there will be no development if there is no adequate finance to fund the projects.

2.2 Financial Resources for Housing Developers

There are four (4) types of development finance available in our current STB housing development industry for private developers to cover the development costs (Rosli Said, 2004). They are term loan, bridging loan, revolving loan/ credit, progress factoring loan and end finance facilities. Financial options available for the Malaysian property market are multi-option facility, real estate investment trust (REITs), joint ventures/ strategic alliance, turnkey, collateral mortgage obligation (CMO), abandoned housing scheme rehabilitation fund, real estate syndications, equity participation loan (EPL) and so on (ibid, 2004).

Under the current Sell Then Build (STB) concept, the developers can raise fund through their own capital (internal funding), financing from banks, credits from suppliers (contractors or material suppliers) and progress payments from house buyers and end financiers (Zulkifli & Abdul Ghani, 2004). Apart from banks, financial institutions or building societies such as Malaysian Building Societies Berhad (MBSB) and Borneo Housing Mortgage Finance Berhad (SHMFB) also provide bridging finance for developers (Albakri, 1973).

Traditionally, property development firms and contractors have been able to finance their projects through firm's retained profits, mortgage finance (bridging loans, term loans etc.), overdrafts, issuance of preference and ordinary shares and issuance of debentures. Quek (1987) further elaborated that among the more recent developments in financing for the construction industry were sales and leaseback (this arrangement was not yet common as it involved a loss of ownership), issuance of convertible unsecured loan stock (CULS) (this had been done by a public listed firm who were the turnkey operators for a major highway project) and venture capital (this offered loans in exchanging for a shareholding and a certain degree of management control). Above all, bridging finance and end finance play the most important role in funding the development activities under our current STB housing delivery system.

2.3 Financing Practices under STB and BTS

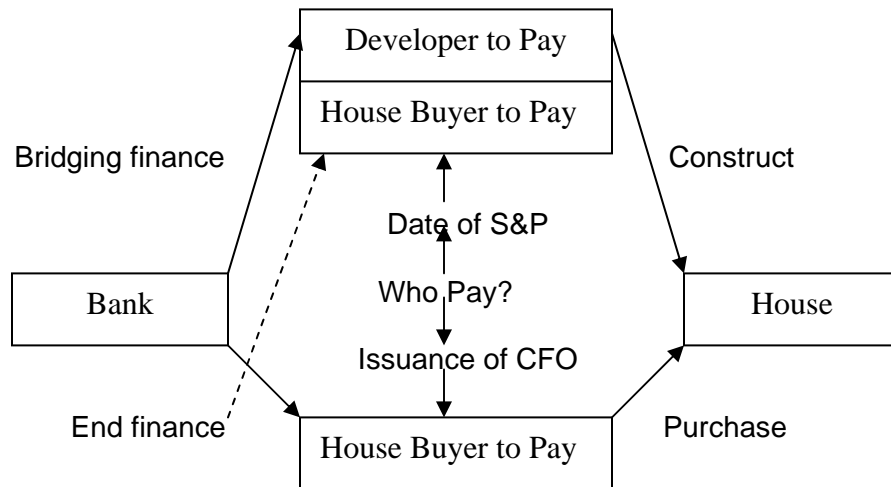
Under the Sell Then Build system, the private sector has been able to successfully deliver on these targets and fulfill over 70% of the housing needs of the country. Nevertheless, housing buyers face numerous problems such as difficulties in getting CFO and land titles approval, late delivery and abandoned projects (Sen, 1985). When

the number of abandoned projects increases substantially, the issue of “Build Then Sell” (BTS) is brought out. The call for the implementation of the BTS concept is believed that will solve the current housing problems, which seem to be unfair for the buyers (National House Buyers Association Malaysia, 2006). On the other hand, it is also believed that the new concept will leave some impacts on the current financing practices involving the type of financial resources like end finance and bridging finance, and the parties involved in development activities like developers and bankers. Shifting from the STB to the new BTS, where there is only the bridging finance to fund the construction activities during development stage will definitely leave a great impact on the developers and the whole property industry. There are significant differences between the financing practices of STB (illustrated in section 2.3.1, page 16) and the BTS variants such as 10:90 formula (illustrated in section 2.3.2.1, page 22) or 100% BTS (illustrated in section 2.3.2.2, page 24).

2.3.1 Sell Then Build (STB) Financing Practice

STB is currently practiced in Malaysia’s construction industry. National House Buyers Association (2004) defined STB as the house was sold before it was build. Under this concept, a developer will begin to launch their units after obtaining the approval of building plans and development order from relevant town council. In these circumstances, the developers hope to sell as many houses as possible so as to collect as much progress payments made by the house buyers as possible. The developer will then initiate construction works including those unsold units. This may help to ease developers from necessary financial burden.

Figure 2.1: Relationship between Bank-Developer-House Buyers in Financing STB



Bridging finance and payments from house buyers/ end financiers is the funding for housing development under STB.

Adapted from: Neveu, R.P. (1981)

From Figure 2.1, it can be seen that house buyers have to make progressive payment to the developers during or even before the construction work starts under the STB system. The purchase of yet-to-be completed houses from housing developers is through the regulated contracts known as Schedule G (for landed property) and Schedule H (for subdivided building) of the Housing Development (Control & Licensing) Act 1966 [Act 118]. Developers collect progressive payments from purchasers or end finance banks when construction work has been completed up to the stages as specified in Schedule G or Schedule H. All construction costs will be covered by 1) developers' own capital, 2) bridging loans from financial institutions or 3) end finance bank or purchasers.

Table 2.2 illustrates, in the current system, the first 10 per cent of the purchase price is paid when the contract, the SPA [Sale and Purchase Agreement: a contract between a developer and a purchaser, controlled by the statutory Schedules G and H], is signed, while the remaining 90 per cent is payable in stages, in accordance with the progress of construction. As the purchaser usually needs a loan to fund the purchase, it is the bank that releases this remaining amount.

Table 2.2: Progress Payments Schedule

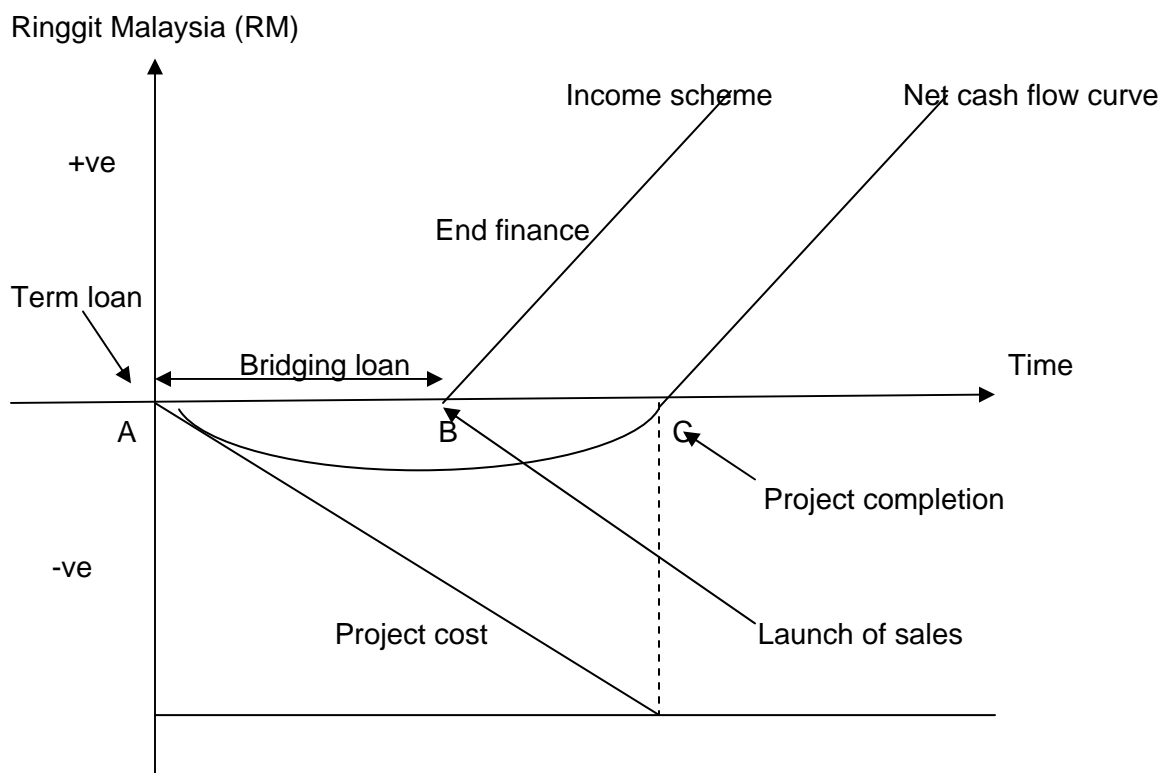
	Installments Payable	(%)
1	Immediately upon the signing of the Sales and Purchase Agreement (Money is remitted to the developer's Housing Development Account)	10
2	Within 14 days after receipt by the purchaser of the vendor's written notice of the completion of: a) the foundation and footing works of the Building b) the reinforced concrete framework of the Building c) the walls of the said Building with door and window frames placed in position d) the roofing, electrical wiring and plumbing (without fitting) of the Building e) the internal and external plastering of the Building f) the roads, drains and sewerage works serving the Building	10 15 10 10 10 15
3	On handing over the vacant possession on connection of water and electricity supply to the Building	15
4	To be held by Vendor's Solicitor as stakeholder for payment to the Vendor's as follows: a) 2.5% at the expiry of six months after handing over of vacant possession b) 2.5% at the expiry of eighteen months after handing over of vacant possession	2.5 2.5
	Total	100

Source: 3rd Schedule, Clause 4(1) Sales and Purchase Agreement (Land and Building),

Act 118

Zulkifli & Abdul Ghani (2004) defined end financing as the funding provided (or payment made) by the house buyers and their bankers to the developer. Upon signing the S&P, the house buyer would pay a sum of 10% of the purchase price as down payment. The balance of the purchase price was financed by the loans secured from financial institutions. The loan amount and the balance of purchase price would be paid progressively to the developer in accordance with various stages of construction work. Hence, at the moment the sale was secured, the construction of the house was self-financing. The end financiers were placed with the burden to disburse the approved loan progressively. They were duty-bound to ensure the loans disburse were for work performed by the developer and they were usually supported in the form of Architect's Certification. The financial status of developers at different stages of development under STB is shown in Figure 2.2.

Figure 2.2: Financial Status at Different Stages of Development under STB



Actual Total Cost

Source: Rosli Said (2004) Page 39

Point A involves the purchase of land. Normally, developers use term loan or internal fund to finance the purchase of the land. As for term loan, developers need to get payment from the relevant bank to pay the land cost.

From point A (purchase of land) to point B (launch of sales), developer needs the additional capital for paying premium for converting the land use from agricultural land to residential land. Term loan of the development project will be converted to bridging finance. Normally, bridging finance is provided with a fixed repayment period. It is provided when the construction is in progress or during the initial stage of development that is having deficit to finance the project.

At point B, developers start launching the sales of houses units. This is a stage that involves the signing of sales and purchase agreement where purchasers have to pay 10% of selling price as deposit. The end financiers or the banks start releasing end finance progressively to the developers. The Income scheme of the housing development project starts to increase in line with the housing purchase activities.

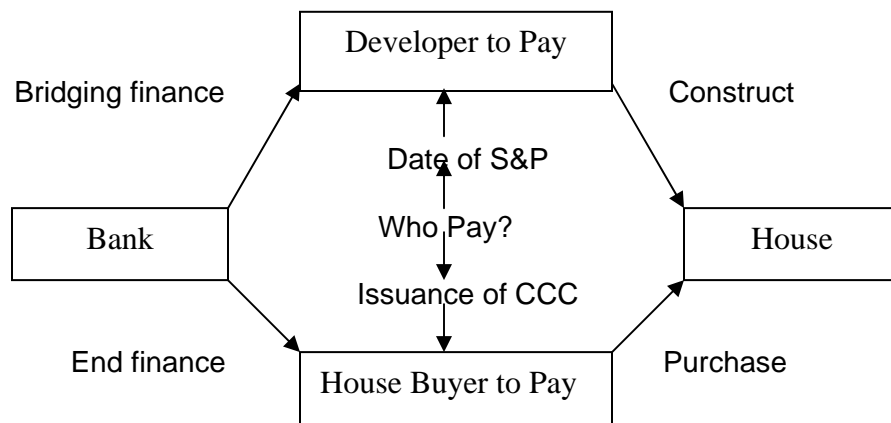
From point B to point C, there is a crucial need for the peak-borrowing requirement as the construction work is in progress. End finance becomes part of the cash inflow for developer to assist them in covering the shortage or deficit shown in cash flow. Bridging finance is repaid through the collection from purchasers' down payments and the monthly installments towards the reduction and settlement of bridging finance. Indirectly it reduces the principal amount of bridging finance secured after the repayment.

At point C, break-even point meets the actual total cost. It is needed in a development project during the completion stage of construction work. Net inflows start to move into the profit account in line with the housing purchase activities.

2.3.2 Build Then Sell (BTS) Financing Practice

BTS is defined as build the houses first and sell them later. BTS is a total reversal of the current housing delivery practice (STB).

Figure 2.3: Relationship between Bank-Developer-House Buyers in Financing BTS



Bridging finance is the funding for the housing development.

End finance is the bank loan for house buyers to purchase house.

Adapted from: Neveu, R.P. 1981

Refer Figure 2.3, under BTS system, there is no progressive payment made by the house buyers to developers during or before the construction stage. Developers have to cover all the construction costs themselves. The sources of fund to cover the costs can

be either from their own capital or loans from financial institutions or both. House buyers do not exist at the interim of the construction period. Progressive payment is made upon the completion of the house or with the issuance of Certificate of Completion and Compliances (CCC). In fact, CCC has replaced the Certificate of Fitness (CFO) in April 2007, where Vacant Possession (VP) is issued together with the CCC. This can overcome problems and implications that are associated with the CFO where house buyers receive the house keys but cannot move in because the CFO has not been issued.

There are two (2) definitions of BTS namely the 100% Build then Sell with CCC and the 10:90 formula.

2.3.2.1 100% Build then Sell with CCC

The true BTS is building the houses first and then selling them after the 100% completion of the construction work with the issuance of the Certificate of Compliance and Completion (CCC) (National House Buyers Association, 2004). A developer cannot sell his product until it is completed with the Certificate of Practical Completion or CCC issued. In other words, housing developers can only sell the units of their development project after the total completion of construction works together with the issuance of CCC. Developers will collect the 10% purchase prices upon the signing of SPA and the remaining 90% is collected after 3 months with 1-month extension (3+1) (ibid, 2004). The Progress Payments Schedule is shown in table 2.3.

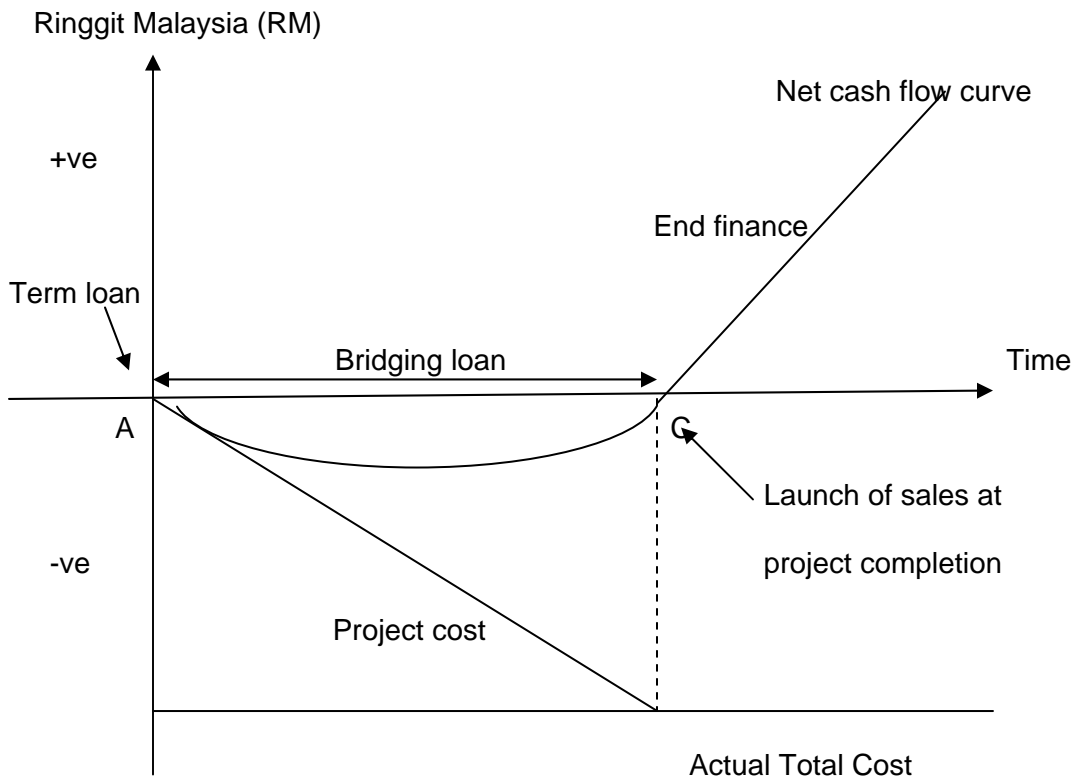
Table 2.3: Progress Payments Schedule of the 100% Build Then Sell with CCC

	Installments Payable	(%)
1	Upon 100% completion and Certificate of Compliance and Completion (CCC) is issued and immediately upon the signing of the Sales and Purchase Agreement.	10%
2	After 3 months from the date of signing SPA with 1-month extension (3+1)	90%
	Total	100

Source: National House Buyers Association, 2004

The financial status of developers at different stages of development under the 100% Build then Sell with CCC is shown in Figure 2.4.

Figure 2.4: Financial Status at Different Stages of Development Under 100% BTS



Adapted from: Rosli Said (2004) Page 39

As can be observed from figure 2.4, sales are launched at the project completion stage. It means that purchasers cannot buy houses during the construction stage, as the incomplete houses are not open for sale. During the construction stage (from point A to point C), developers will not receive any payment from the buyers to fund the construction costs or repay the bridging loans secured by the developers. With this, developers will need to secure more bridging loans to fund the project. At point C, the houses are now ready with CCC. Purchasers will have to pay 10% of selling price upon signing the sales and purchase agreement. The break-even point will not meet the actual total cost at this point yet. Net inflows may need longer time to move into the profit account. As compared to the financial status of developers in the previous STB model, developers in this 100% BTS model will definitely encounter serious financial problem throughout the whole development process. Due to no cash flow before the completion of project (end finance is only available after completion), developers have to secure more borrowings (longer term of bridging loan) to fund the project where cost of funding will increase.

2.3.2.2 10:90 Formula

Under the 10:90 formula, developers can sell the units before or during the construction but house buyers are only required to pay 10% of the house purchase price to the stakeholder as proposed by Housing Buyers Association (HBA). They need not make any more payment until the CCC for the house unit has been issued. The balance (90%) of the selling price will be paid after the completion of construction works with the issuance of CCC. This is the so-called 10:90 formula adopted in countries like Singapore and Australia. Progress Payments Schedule of the Australian 10:90 formula is shown in table 2.4.