

BUILD THEN SELL MODELS FOR HOUSING INDUSTRY: A REVIEW

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Abstract

Build Then Sell concept had been extensively discussed and debated by various parties in the Malaysian property development scene. The idea was originally mooted in the 1980s and since then various attempts to implement the system had met with dead ends. Nevertheless, owing to the persistence of the proponents of the concept, the system had recently gained ground by the '10-90' formula proposed by the Government. All the stakeholders in the property development industry are now actively working to chart the next course of actions to make the system a reality.

This paper investigates the Build then Sell models implemented in other countries, and the ones proposed by the respective parties in Malaysia. The rationale of studying the other countries' models is to learn from their time-tested Build Then Sell experience in their respective property development industries. Although some parties in this country claimed that Build Then Sell could lead to price increase, which in turn, could trigger unsustainable business climate in the industry, evidences from the other countries suggested otherwise. The opponents of the Build Then Sell could however, point out that the system in the other countries was applied on a different economic platform, with varying underlying economic fundamentals. Hence, it is important for all the relevant parties to study the Build Then Sell concept from a holistic point of view so that the nation could witness an improvement in the industry in the long run.

Keywords: Housing delivery system, build then sell.

INTRODUCTION

Many developed countries such as Australia, the United Kingdom, United States and Netherlands have adopted Build Then Sell (BTS) approach in their housing delivery systems. Thailand had also followed suit since last decade and have been practicing BTS without problems (Leng, 2005). There are also evidences of countries such as Australia, Singapore, China and Hong Kong adopting a hybrid of BTS and Sell Then Build (STB) in their housing procurement system.

In the past two decades, there had been many aborted attempts to implement BTS in Malaysia. The Malaysian government was, and still interested to introduce BTS in the property development industry. It had received

unflinching supports from the likes of FOMCA and National House Buyers Association, making the case of the BTS implementation stronger than ever. A large number of property developers however, did not welcome the BTS implementation. They argued that BTS cannot exist in the Malaysia economic scenario. Nevertheless, amidst the resistances, the Government had approved the implementation of 10:90 BTS model and STB on June 2006. These systems will co-exist to the residential property development industry.

This article will discuss the concepts of BTS. First, the BTS models proposed in Malaysia will be described, followed by their perceived benefits and then argument against them by the developers. Case studies of BTS

implemented by some Malaysian developers will also be included. Then, the paper will explore BTS models implemented in other countries. The characteristics, strengths and weaknesses of each BTS model will then be identified.

DEFINITION

BTS is the selling of completed property with Certificate of Fitness for Occupation (CFO) (Zulkifli, 2000). It is a system where developers can only sell completed houses to house buyers. It virtually means developers can only sell their houses after they have been completed (Gan, 2005). House Buyers Association (HBA) (2005), basically views the concept of BTS as a system where developers are required to build and complete their housing project first, before selling the completed houses to the house buyers. Chen (2006) pointed out that BTS system essentially means the developer completes the houses before they can start selling them. The financing of the project would be entirely borne by the developer and its banker. The risk is now shared between them. In this instance, the house buyers do not share the risk of project failures.

There are two well-known variants of BTS-the '10:90' and the pure BTS (referred to as 100% BTS here in after). According to HBA (2005), 10:90 is a midway between the present progressive payment (STB) and the completed BTS. Akbal (2006) pointed out that 10:90 model is a scenario whereby 'the purchasers must pay a deposit of 10% when signing the Sale and Purchase Agreement (S&P) with the remaining 90 per cent of the purchase price payable upon completion of their houses together with the issuance of Certificates of Fitness for Occupation. Lee and Tan (2006) added that, 10:90 concept allows house buyers to pay 10% of the sales price upfront to the developer and the remaining balance of 90% would be held back by a lawyer until the handover of the property is done. This indicates that the financing and equity sharing formula for the 10:90 model is very similar to that of BTS where the housing finance are separated from the house buyers (Chen, 2006 and Zainal, 2006).

As a generic definition, BTS is a housing delivery system that requires developers to only sell the

completed houses with CFO issued. It can exist in two forms- the pure BTS and the 10:90 variant.

BUILD THEN SELL: THE MALAYSIAN MODEL

Malaysia has adopted STB as a housing delivery system for over 40 years and it was a norm practiced until today. However, to protect house buyers from the unscrupulous developer under this model, government has amended the Housing Development (Control and Licensing) 1986 to encourage developers to adopt 100% BTS model.

The announcement made by the Deputy Prime Minister on the Government's decision to adopt the 10:90 model for housing delivery alongside the existing Sell Than Build is a new step for housing industry in Malaysia. Some developers especially in Selangor, had practiced the 100% model and 10:90 model of BTS concept. This section will discuss the models of BTS namely the 100% BTS model and 10:90 variant.

100% BTS Model

The BTS system essentially means that the housing developer must complete the housing projects including construction of the houses before they starts selling the unit until the certificate of fitness are issued. In other words, the selling activity would only begin as soon as after the housing units are completed with the strata title and certificate of fitness (CFO) issued. This will give those interested purchasers the chance to look first at what they are paying for before committing themselves to buy the house.

In 100% BTS model, the interested houses purchasers would pay 10% deposit of purchased price on signing of the Sale & Purchase Agreement (SPA). Later, they must complete the balance of the payments after three months from SPA date, with an extension of 1 month to settle it (Tan, 2000). In this case, purchaser can pay the deposit up to 10% if they want, based on their ability to pay, because the balance of the payments will have to be done within one month after signing SPA. Here, most of them will seek the loan from the financial institution to buy the house. Under this model, there is no waiting period for the

completion of the construction. They can move into the house once they have settled the payment for it. To have a better understanding of the characteristics for this model, the whole processes are summarised in Table 1.

In this model, the developer will have to source for their own financing rather than relying on the bridging loan which was offered under the present STB model. In Malaysia, most of the big developers financed their projects by using their own funds and financing facilities from banks such as term loans and bridging loans. In this system, architects and engineers are not required to certify the progressive payments because developers do not use purchasers' funds to finance their project (HBA, 2005).

Therefore, the risk is shared between the banker and developer because financing of the project would be entirely borne by both of them. The amount of financing that would be given to such a development would depend on the criteria set by the individual bank and the bank's risk. There are no clearly spelt-out

guidelines in deciding the level of financing a project gets. Unless banks can come out with a transparent set of guidelines, it is purely guesswork how much financing a project is going to get under the BTS model (Chen, 2006).

The level of bank financing for the project will determine how much equity the developer has to fork out. It could range from a 70:30 to a 30:70 risk sharing formula between the banker and the developer, respectively, depending on the viability of the housing project. For the bank, there is no spread in the risk. Once the financing formula is agreed upon, and if the developer has the balance of equity, the project can be completed with the financing from the bank (ibid).

Syarikat Perumahan Negara Berhad (SPNB) has pioneered this concept in Klebang, Melaka. SPNB claimed that, this model is better than 10:90 because the house buyers do not have to pay 10% deposit before the completion of housing projects. They only charged RM500 for deposit (Kosmo, 2004).

Table 1: Characteristics of 100% BTS Model

		Completed Properties (BTS 100%)
(1)	Developers' Financing	Own funds and/or financing from banks such as term loans
(2)	Purchasers' Financing	Housing loan
(3)	Deposit / Down Payment by purchasers	Pay 10% of Purchase Price on the signing of the Sale & Purchase Agreement (SPA)
(4)	Waiting period for Completion of Construction & Notice of Delivery of Vacant	None
(5)	Purchasers to complete payment/s	Must complete the balance 3 months from SPA Date (in normal situations) with one month extension. (3+1)
(6)	Waiting period for actual occupation with Certificate of Fitness for Occupation (CFO)	None
(7)	Waiting period for transfer of individual/strata titles	Varies on whether titles have been issued at the time of signing of SPA

Sources: HBA Proposal, (2002)

Figure 1 is a graphical representation of the 100% Build then Sell practiced in Malaysia.

The relationship between bridging and end finance loans under 100% BTS Model

One of the main features of BTS system is that the developers are not able to sell the house from their housing projects before they were built. Therefore, they can not use the progress payment by the house buyers to finance their projects just like what they have been using under the present STB system.

Under this 100% BTS concept, the developer has to build the house first before they can start to sell it. In other words, the developers have to seek for other source of financing because the progress payments (end-finance loan) from the house buyers are not available in this concept.

By referring to Figure 2, here, the end finance loan (or better known as housing loan in this concept) from the house buyers will be added to the net cash flow curve as the profit for the developer because it is injected to the developer's account after the project cost has

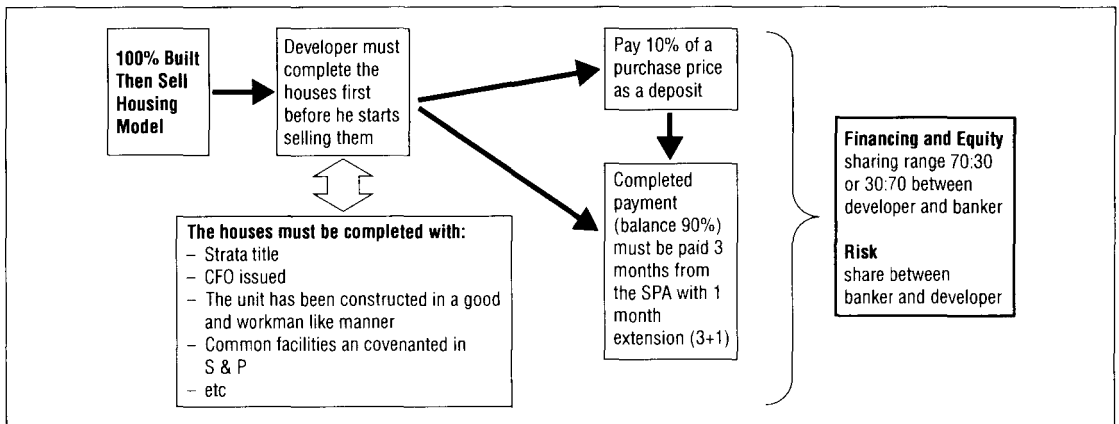


Figure 1: Graphical representation of the 100% Build Then Sell Housing Concept in Malaysia

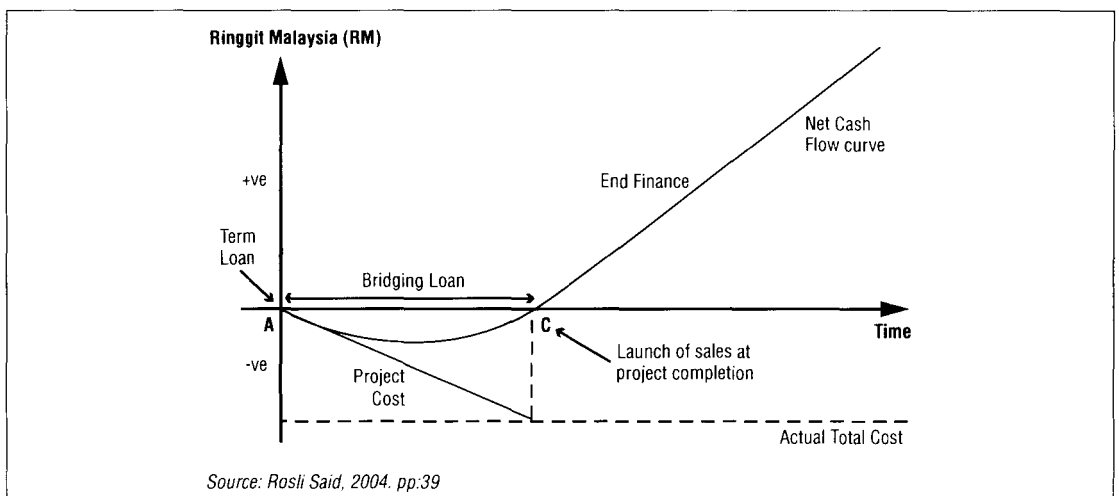


Figure 2: Bridging and End Finance Loans at Different Stages of Development under 100% BTS

stopped. Basically, the interested house buyers will start to make the payment once the completion of the housing project has been issued with Certificate of Fitness for Occupancy (CFO) and/or Certificate of Completion and Compliance (CCC) (which had been announced in April 2007). The difference between this 100% BTS concept and the present STB is, a bigger/larger amount of bridging loan is needed to cover the whole construction cost for the housing project.

Figure 3 illustrates the relationship between the end finance loan and bridging loan in the 100% BTS concept. To make this system works, the financial institutions (especially the banks) will have to re-look into these two loans to help the developers who have insufficient capital when the 100% BTS is implemented.

Ten Ninety Variant (10:90 Variant)

Ten Ninety Variant model is a midway between STB and BTS. It essentially means that the 10% deposit to be deposited into a stakeholder to be released to developer when developers deliver the completed

houses with the certification of fitness issued to the purchasers. In other words, purchaser pay the 10% deposit into a stakeholder and the balance will be paid when the houses are completed with CFO.

In this concept, to lock in the purchasers, they have to pay a down payment or deposit of 10% of the contract price upon signing the Sale and Purchase Agreement. This deposit is then placed in an escrow trust account or fidelity fund. The developer has no access to this money until the plan of subdivision is registered and proper proof is provided that the vendor can give a clear freehold title for the property (Chen, 2006). The money is further protected by way of the Fidelity Fund pursuant to the Legal Practice Act. The remaining amount is only payable within ninety days upon delivery of vacant possession with CFO and Individual Title to the subject property (HBA, 2005). Ideally, the purchaser should not have to complete the payment of the purchase until the property title is issued.

The financing for the cost of construction is the responsibility of the developer and the house buyers will only seek for their financial requirement to buy the completed house when it is ready for occupation.

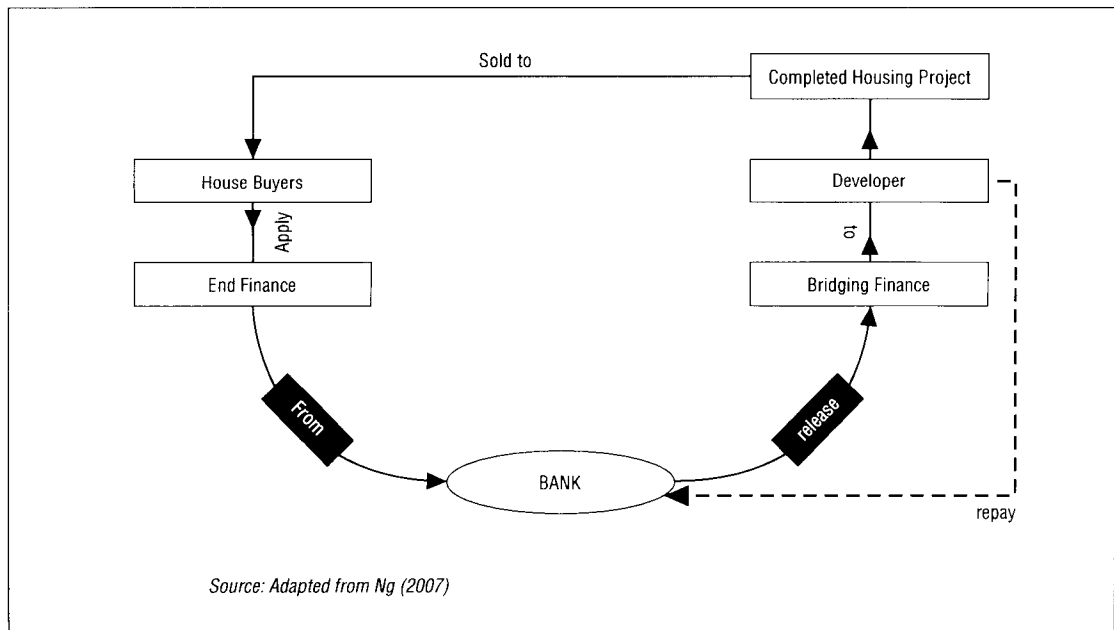


Figure 3: Relationship between end finance loan and bridging loan in 100% BTS concept

The financing and equity sharing formula for the 10:90 model is very similar to that of 100% BTS model. The potential danger of this model is buyers reneging on their agreements during market downturns, thereby creating a domino effect of projects failing in midstream (Chen, 2006). In the event that the developer does not complete the project in accordance with the time frame permitted, the buyer has the right to rescind the contract and have the deposit returned together with any interest that may have accrued. Housing projects that are build and marketed using the complete BTS system need not comply with the statutory standard Sale and Purchase Agreements. It is not difficult to see the vast difference though (Lee and Tan, 2006).

The developer is assured of the committed sale and can concentrate on completing the project on time and with quality assurance. The financial institution will progressively release the bridging finance funds to developer. In this way, they are in a better position to ensure that the developers are paid what they deserve and every ringgit' disbursed will go towards the completion of the project (Lee and Tan, 2006). There will be no room for siphoning or diversion of payments from buyers since there are no progress payments. Therefore, as bridging and end finance loans will be affected, the relationship between these two loans under 10:90 BTS Model will be discussed in greater details at section 7.7.2.1. Table 2 shows

the characteristics of the 10:90 Variant Malaysia BTS model.

HBA recommends that a pre-delivery inspection be included in the contract (HBA, 2005). The developer will notify the buyers of the pre-delivery joint inspection (developer and buyer) of the houses, during which time all observable defects are noted. That list may be long or it maybe short, but what it includes are things that are clear to the eye on inspection, and therefore the list will underline the obvious. The developer is to rectify the list before the actual handover and the exchange of the rest of payment is done. Vacant possession should only be given after defects are rectified (ibid). This will go a long way in promoting for a mutual respectable society vis-à-vis the developer and their customers.

Defects liability period remains at 18 months warranty as a safeguard for buyers. Any other defects in workmanship and materials which are identified by the purchaser over the course of a certain number of years say five (5) years of occupancy may be raised directly with the developer. Figure 4 is a graphical representation of the 10:90 Variant Housing Concept in Malaysia.

To prevent such an eventuality, some changes need to be made to existing legislation. This should include a 'lock in' clause in the SPA where buyers cannot renege

Table 2: Characteristics of 10:90 Variant BTS Model

		BTS 10:90 Variant System
(1)	Developers Finance	Own funds and/or financing from banks
(2)	Purchasers Finance	Pay 10% of Purchase Price (as down payment)
(3)	Deposit / Down Payment by purchasers	Within 24 or 36 months or more upon Architect's Certification of Completion
(4)	Waiting period for Completion of Construction & Notice of Delivery of Vacant	90% of Purchase Price at 24 or 36 months from SPA Date depending on the regulated contract of sale
(5)	Purchasers to complete payment/s	Proposed Vacant Possession with CFO
(6)	Waiting period for actual occupation with Certificate of Fitness for Occupation (CFO)	Proposed Vacant Possession with issuance of titles
(7)	Waiting period for transfer of individual / strata titles	Varies on whether titles have been issued at the time of signing of SPA

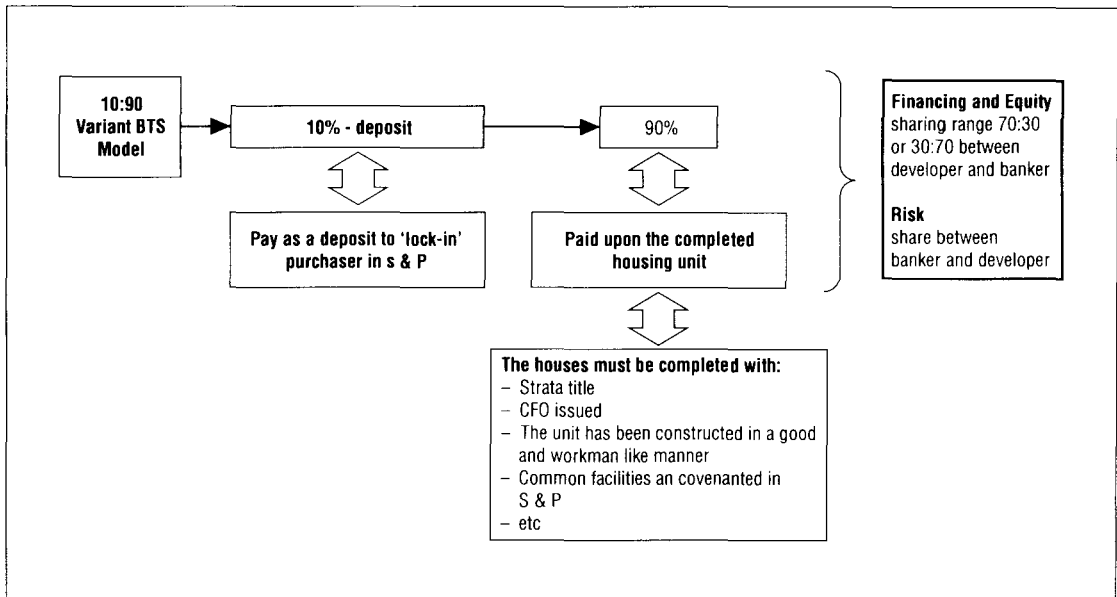


Figure 4: Graphical representation of the 10:90 Variant Housing Concept in Malaysia

on the agreement, and are as equally bound to specific performance clauses as the developer. Sanctity of contract cannot be assumed, as experience has shown that house buyers will find loopholes and the flimsiest of excuses to get out of a down market, even in more mature markets like Australia where a group of buyers successfully reneged on their contracts, citing unacceptable colour tone (Chen, 2006).

The relationship between bridging and end finance loans under 10:90 Variant BTS Model.

Just like the 100% BTS Model, the developers will not either get the progress payment or the deposits from the house buyers to finance the cost for the construction of the housing project. Moreover, they can not depend to the joint venture package between bridging and end finance loans to finance the cost for the construction. Therefore, Figure 5 shows the financial injection of bridging and end finance loans at different stages of development under 10:90 BTS Model.

Under this concept, the developer can sell the housing units before or during the construction but the house buyers are required to pay only 10% of the selling price

for the house that they are interested in. According to HBA (2003), that 10% of the payment will be held by the developer's lawyer who is also a stakeholder. The developer has no access to this money until the plan of subdivision is registered and proper proof is provided that the vendor can give a clear freehold title for the property. The money is further protected by the way of the Fidelity Fund pursuant to the Legal Practice Act (ibid). The house buyers don't have to make any further payment for the remaining 90% because they only have to do so after the completion of construction for the housing project and until the CFO and/or CCC (which was announced in April 2007) have been issued.

The different between this 10:90 concept and the present STB is (just like the 100% BTS concept) a larger amount of bridging loan is needed because the progress payment of end finance is not allowed and the 10% deposit from the house buyers are not accessible by the developers until the completion of the housing projects. Moreover, due to no cash flow before the completion of project (refers to end finance loan), developers have to secure more borrowings including larger and longer term of bridging loan to increase the fund.

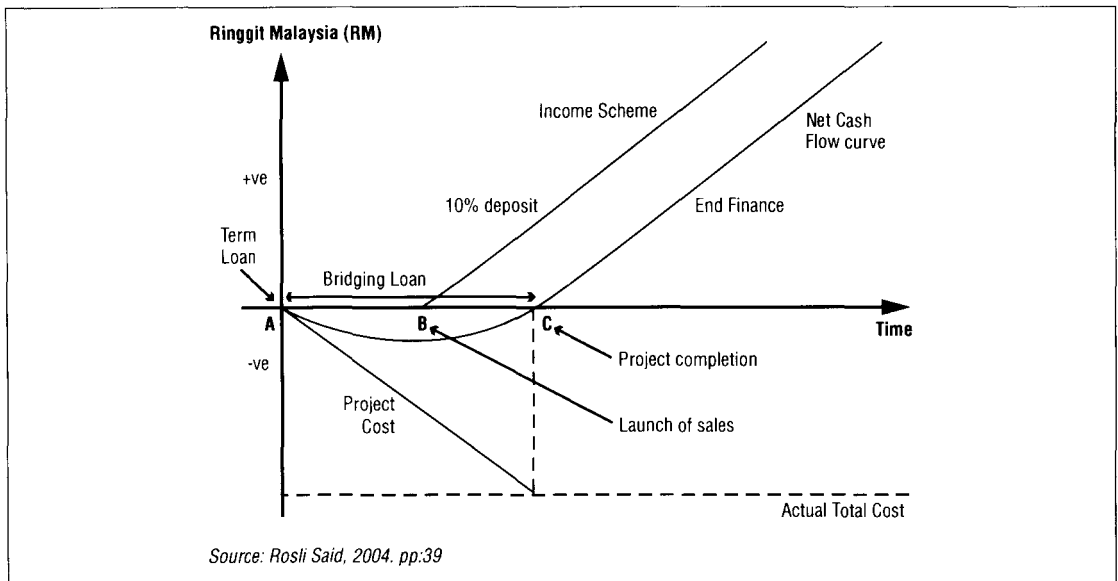


Figure 5: Bridging and End Finance Loans at Different Stages of Development under 10:90 BTS

The summary of the flow for the relations between end finance and bridging loans in 10:90 BTS Model is illustrated in Figure 6.

THE PRACTICE OF BTS IN MALAYSIA

In recent years, a number of Malaysian developers had experimented with the BTS system. Bandar Tasik

Semenyih Group (BTSG) undertook a 16-acre project comprising bungalows, semi-detached units and superlink houses in an enclave called Seri Damai in the burgeoning Kajang township in Selangor (Fadzil, 2004). Undertaken by BTSG subsidiary, Hasrat Angkasa Sdn.Bhd, Seri Damai features 136 residential properties situated on elevated ground with a view of Kajang town a kilometre away. Encouraged by the

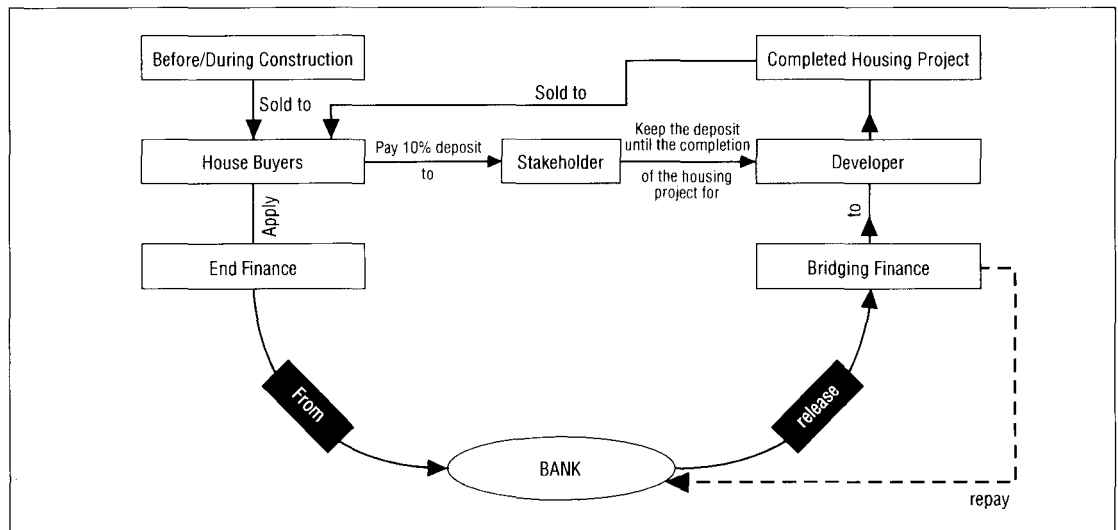


Figure 6: Relationship between End Finance Loan and Bridging Loan in 10:90 BTS concept

success of the first phase, BTSG recently opened phase two, comprising 19 units of double-storey bungalows and another 58 units of double-storey semi-detached. The seven-bedroom bungalows with plot sizes ranging from 3,786sq ft to 7,266sq ft are pegged from RM478,888 to RM642,888. Built-up areas start from 3,230sq ft with standard units having plot dimensions of 50ft by 96 ft.

Worldwide Holdings Berhad partially applied the BTS concept in their housing development in Subang Bestari. One out of every five units in its RM850 million Subang Bestari township were sold under the BTS concept (Business Times, 2004). Syarikat Sentosa Jaya Sdn. Bhd (SJSB), Kelantan's largest bumiputera housing developer, had adopted the concept of build and sell several years back to convince house buyers to buy their properties from them. Annually, the company develops around 600 units of various categories of houses in Kelantan, Selangor, Terengganu, Pahang and Negeri Sembilan (Bernama, 2004).

Mah Sing Group Berhad offered homes complete with CFO in their development in Taman Sri Pulai Perdana, Johor. Guthrie Properties had launched their first BTS development in 2005. With a gross development value (GDV) of RM96 million, the development comprised of 160 units of superlink houses in two design sizes 24' x 90' plot with prices ranging from RM620,000 per unit and 22'x75' sized pegged from RM420,000 per unit.

BTS MODELS IN OTHER COUNTRIES

The literature review conducted reveals seven models which at present are in use in other countries. It can be further classified into three broad groups based on the characteristics of each model. Hundred percent (100%) BTS model will be categorized under group A, Variant BTS model is under group B and Build And Sell (BAS) model will be categorized under Group C.

The Model of 100% Build Then Sell (GROUP A)

One hundred percent BTS model (100%) is categorized under this group. In this concept, developers only sell their products (houses) when it is completed. In

other word, it relates to the properties that are fully finished and issued with certificate of fitness issued before they are put up for sale. It essentially means that the developer must complete the houses with the CFO and title issued before they are offered for sell to the public.

The model categorized under this group characterized as firstly the purchasers buy the house only when the house is completed. Therefore, before completion of the construction of the project, there will be no collection of payment from purchasers. Secondly, developers may seek financing from the financial institutions and/or use their own fund to finance their housing project. Thirdly, the development process involves an element of risk. Many countries use this model, especially in the United Kingdom and Thailand.

The case of UK

In United Kingdom, 'Build then Sell' is the normal practice in the private for sale in market, particularly in the volume housebuilding sector (Courts, 1992). The house building market falls broadly into two main categories; private sector and social housing. The development process involves an element of risk as well as reward.

The traditional approach to development by the private sector in UK is to look for investment opportunities which have a high probability of financial success: success which can be better guaranteed by reducing financial exposure and therefore risk and increasing certainty (Carmona et al., 2003). For this reason, anything that increases costs (and therefore risk) is generally opposed by developers, for example delay in granting permissions, contributions to infrastructure, or bespoke design solutions. Conversely, anything which increases certainty or drives up reward is generally supported, including development that meets clear market preferences, or which is supported in planning policy (ibid). The risk attached to any development opportunity reflects the complexity of the procurement process and the number of uncertainties inherent in that process.

Initially the developer is required to scour the existing environment for development opportunities, a process which requires some prediction of what the property market will be in the future. On identifying an opportunity, a feasibility study is required and some early projection of development costs and cash flows in terms of expenses and incomes over time. Next, short term and long term financing must be obtained (including any grants), plans finalized and all the relevant permissions obtained from the statutory authorities. After contracting arrangements and costs are sorted out, the project then moves onto site and the execution of the development on site has to be managed (op-cit).

Having acquired a piece of land for development and gained the necessary planning approvals to build, the developer will undertake normal site clearance and preparation before the construction of individual houses can take place. This process will include ground engineering works, the provision of infrastructure (roads, sewer, water mains and other services) and the completion of dwelling foundations to "slab" or ground floor level (Courts, 1992). On all but smallest sites, at any one time initial engineering work will normally take place only on sub-divisions or phases of the whole project, involving say 50-100

homes. Engineering work on further phases will be undertaken once a satisfactory level of sales has been achieved on initial phases (ibid).

Finally, the completed scheme is marketed and either sold or let and the ongoing process of adaptation and maintenance begins. At any stage the project is vulnerable to a whole series of external and internal risks, not least the whims and fluctuations of the market and the need to ensure cash flow is secure (Carmona et al, 2003). The way cash flows through the house-building cycle is illustrated in Figure 7.

The figure includes 31 movements of cash in and out of a hypothetical company focused on six key stages of the development process. The stages (represented as ovals) and flows (as arrows) are purely indicative and have to precise relationship with the formal accounting process.

Schematically, development proceeds in a clockwise movement starting with finance at the base (six o'clock). At here, financing for the developer (at Finance stage) comprises four main sources: loans, shares, retained profit and grants. Key financial outgoings are dividends to shareholders, bank interest payments and maintaining the land bank. In practice,

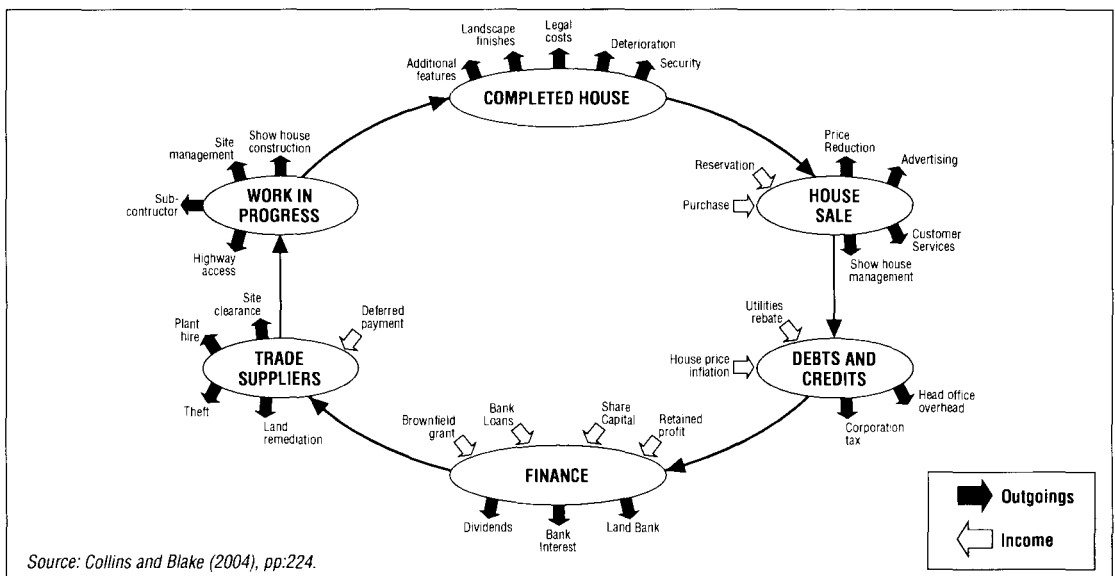


Figure 7: The Developer's Loop – A Schematic Cash Flow for the Housing Development Process

finance raising and repayments occur throughout the cycle. In the early stages of construction the emphasis is strongly on outgoings as sites are prepared, the only income being infrastructure accumulation for which deferred payments are normal. Work in progress (WIP) is entirely an outgoing, although it counts as an asset in the balance sheet because it would be cashed in if the company were taken over (Collins and Blake, 2004).

Once houses are completed, there are still at least five costs relating to enhancement and protection prior to their sale (top of the loop). As sales begin there is a positive cash flow from reservations and purchases which, in a successful scheme, should outweigh the combined costs of land, production, security and publicity. In a sluggish market, price reductions may represent a late outgoing while incentives such as carpets and finishes are offered to retain a competitive edge. In an appreciating market, house price inflation may represent income but this will be partly offset by head office administrative costs and tax responsibilities. When all creditors have been paid and debtors have rendered what they owe, a successful company will retain sufficient profits to feed into further purchases of land, equipment and materials. Certain other types of business operate on a similar 'tread-mill' basis, but house builders are particularly vulnerable to short-term cash flow problems and that compounds the industry's generally brittle image (*ibid*).

The case of Thailand

One of the housing delivery system that have been practiced in **Thailand** is 100% BTS but they changed it over to "build-sell" concept (forced by the exigencies of the 1997 financial crisis) without any problem (Leng, 2005). Some developers have used BTS concept to sell houses and condominium at discount price. Land & Houses (L&H), a major property developer in Thailand, claimed that they become a discount store for houses, by speeding up construction for maximum production (Katharangsiporn, 2004). The discount home retail concept was inspired by L&H subsidiary Home Pro, a superstore for construction materials, tools and home decoration accessories, which was launched in September 1995.

Here, the concept of a discount store is developing a massive volume for sale at the lowest price where they bought materials in bulk to achieve cost savings which boosts their competitiveness. As a result, if there are more houses being build, the developer will have a lower construction material for the costs. When they build more housing projects than their rivals, they will have a cheaper per-unit overhead cost.

Working hand-in-glove with the build then sell strategy, a developer can estimate construction material needs for a whole year and then lock in specifications on huge orders and shop around for the lowest prices. The concept, however, would not work with pre-sold projects, which almost always see some alterations from the original blueprints made by the customers during construction. L&H also revealed that the most important element of the company's strategy was managing supply and controlling inventory.

When their margins of profit start falling, they will clear out stock of unsold units in order to generate a quick return. Other than that, when sales become sluggish, they will not develop any more properties of the same type. Immediately, they will halt construction and sell out all of their leftover stock. This strategy and the management way can be followed by other developers who are interested to practice this concept. Using this concept, the house buyers can purchase a house at a lower price. This will not be the advantages for the house buyers only but, the developers and the government will also gained from it. Figure 8 is a BTS model practiced by Thailand.

Summary of the Group A Model

Generally, the biggest strength in this model aims is to protect house buyers from the unscrupulous developer. For house purchasers, this model gives many advantages to them. For example, there are many choices of housing for purchasers to view before making a purchase in especially in UK and US because this model are the norm practiced in their country (Courts, 1992).

Beside that, purchasers would get to see the actual unit in the actual surroundings, landscaping, the level

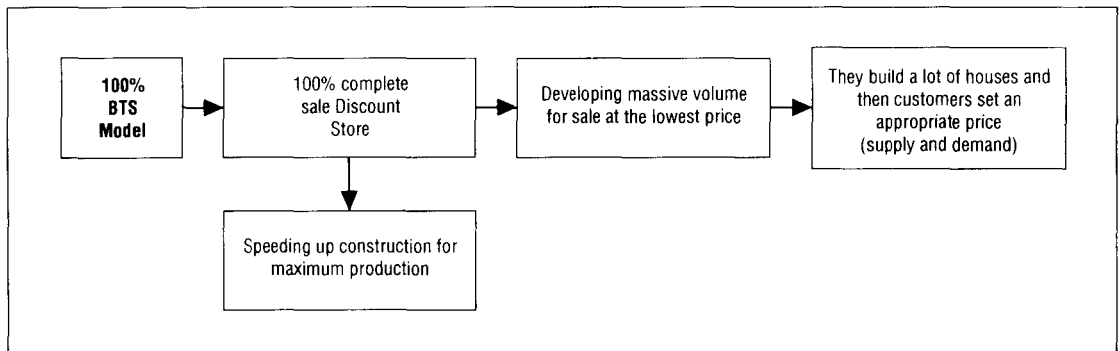


Figure 8: BTS Model practiced by property giant Land & Houses in Thailand

differences between neighbouring lots, the safety conditions for children, the accessibility to facilities, etc, before making decision to purchase. Therefore, purchasers are able to view the physical condition of houses in term of quality. For the sale and purchase of housing unit, purchasers would only pay current market prices at the time of delivery and this model will provide the house buyers a brand new house (Eric, 2006). There is no waiting time to get the actual unit and it will be more secure for purchaser's fund.

In the case of developer in UK, they will conduct feasibility study to ensure buyers' potential in buying the house in order to minimize the risk (Courts, 1992). In terms of construction stages, the process will take a shorter time. Because of that, this model has more flexibility to implement and the administration of the projects should be easier. The successful developer will minimise risk by gaining a thorough understanding of the housing market in which he operates, by researching individual house building opportunities or projects and carefully planning the programme of construction and sales in accordance with anticipated market demand. In addition, the quality control of the project could be better. In Thailand, developers buy material in bulk using the discount store concept to achieve cost saving which boosts their competitiveness. That's mean the construction cost should be lower and the house buyers will get a fair price for the houses they are buying.

As developers in Thailand sell their product (housing unit) with lower prices (because they build the units

at the lower construction material cost), this will affect the housing demand. The increase in the housing demand will then pull along the housing supply into positive growth. Indirectly, this activity of housing supply and demand will contribute to the economic development in Thailand. Moreover, the implementation of this model will reduce the risk of project abandonment and lessen the number of complaints from disappointed purchasers. In addition, it could help the government from bearing the cost of rehabilitating abandoned housing projects.

The weaknesses of this model firstly, for developer under this concept, the margin per unit for the houses that they built may be lower. Financial risks are so high because developers financed their project with their own funds or other financing schemes from the financial institutions. In addition to this, for small developers, it's more difficult for them to get any financing facilities. It is because the bank will look at the strength of company and the viable of their projects before they approve the application. This may cause the small developers to be out of business if they cannot secure any financing for their projects.

This is not the case in the UK. Dowdeswell (2004) explained that the UK property developers use the service of specialist property finance brokers to source for their project fundings. Once the lender has issued a formal offer to the developer, the broker must explain any conditions of the offer that are unclear to the developer. In practice, many small developers are quite familiar with typical conditions such as valuation, insurance, construction cost verification

etc. Following acceptance of the offer, the broker will continue to liaise between the client and the lender and perhaps the valuer and solicitor to ensure that the loan completes in time for the land acquisition or refinance to take place.

Build Then Sell Variant Concept by Other Countries (GROUP B)

This group is classified as the BTS Variant concept which was practiced by other countries. This concept essentially means that the purchasers must pay money deposits upon signing the Sale & Purchase Agreement before the construction work started and the balance will be paid after the houses are completed with title and CFO is issued.

In this model, the purchaser must pay a deposit or down payment before the construction works start. The deposit ranges from 10% to 40%. Hence, the BTS could exist in different permutations such 10:90 model, 15:85 model, 20:80 model, 30:70 model and 40:60 model. The deposit money paid to the developer is used to lock in the purchasers at the beginning of the development process while the remaining amount will be paid after the houses are completed.

If the purchasers are not satisfied with the quality of the houses, they can terminate the agreement and ask for their deposit money back. In this model, as the bridging financing cannot apply, the developers financed their project using their own fund and/or other financing from the financial institutions or even from the purchaser's deposit that are paid to them. This concept is practiced in many countries such as Australia, Singapore, Taiwan, United Kingdom, US and Thailand.

The case of Australia and Singapore

The 10:90 model is used extensively in Australia and Singapore. The Australian model is regulated by the Sale of Land Act 1962 of the State of Victoria. S9AA of the Sale of Land Act 1962 of the State of Victoria.

In Australia and Singapore, the concept requires buyers to pay 10 percent of the property price as down payment into an escrow account held by a

stakeholder, with the balance payable only when the house is completed and delivered with Certificate of Fitness issued. The duration of time required for such approval is about three to six months in Australia.

Obviously the house buyers have zero risk and the total risk factor will be borne by the developer. In Australia and Singapore, from the very beginning, the developer will have to use his own or borrowed funds to finance the housing project. He does not even have the luxury of using the buyer's 10% deposit (Teo, 2005). Architects and Engineers have no role in this model and are not required to certify progress payments because developers do not use purchasers' fund to finance their projects. According to Boyd (1992), the buyers in Australia can pay deposit ranging from 10% to 20%.

As for the case in Thailand, developers financed project development by use of purchasers' down payments of 10 to 40 percent of sales prices (Chaitrakunchai, 1995). Down payments of 10% to 40% of the sales prices, paid to the developer, are occasionally accepted in installment, most commonly over seventeen to twenty-two months on adjustable rate term (Sharkawy and Chotipanich, 1998).

The case of Thailand

By the late 1980s in Thailand, the economy was growing so fast that urban land prices skyrocketed. Terraced houses and town houses became unaffordable and private developers switched to low-cost condominiums. A study in 1986–1987 found that the private sector had gone “downmarket” by building smaller, cheaper, simpler houses (mainly row houses and townhouses), using more efficient construction methods and more sophisticated marketing methods (Yap, 2002). They built apartments of 30–40 m² for sale, but many of the condominiums were in rather remote locations. An inexperienced developer would have some difficulties obtaining project loans from a commercial bank, but the bank would happily refer the client to its own subsidiary finance companies.

A major shortcoming of projects by inexperienced developers was a lack of market research. The main source of information on demand and supply were

visual surveys and the mass media. Equity would come from the sale of family assets or from the profits of another of the family's companies. There was often no clear separation between companies owned by the same family. Informal transfers of funds between companies were common practice, even if one of the companies was listed on the stock exchange. It was not uncommon to use public-company money to launch private companies.

In 1992, the government established the Bangkok International Banking Facility (BIBF) to attract International capital to Bangkok. Some of the capital that entered the country through BIBF went into real estate including housing. With all the liquidity in the money and capital market, it became easy for real estate developers to borrow funds to finance real estate projects and for homebuyers to obtain housing loans. The government fixed the exchange rate and this facilitated the repayment of US-dollar loans. The government initially also controlled the interest rates for Baht loans. As the loan volume multiplied, the Bank of Thailand urged the banks to be more prudent with their lending.

However, many government ministers were close to the commercial banks and the real estate sector, since both supported the political parties financially. Moreover, professional staff moved freely between the Bank of Thailand (the regulator) and the commercial banks (the regulated) and this did not help to maintain a strict control over the banking sector.

As the commercial banks lend to developers for housing development, it was critical for them to ensure that the housing units were actually sold. So, banks and real estate developers agreed on a package deal whereby the bank would provide mortgage loans at lower interest rates to buyers of housing that the bank had financed to develop. Some banks had their own real estate companies and this allowed them to control the entire process.

However, by early 1999, the Government Housing Bank initially alone, later in competition with the commercial banks, extended loans to private-sector developers and homebuyers to support the demand for housing finance (Richupan, 1999 and Yap, 2002).

Because the higher income housing sector was saturated, the private sector focused its attention on the lower-middle income groups which for the first time, they could afford to buy a house.

The case of UK and USA

United Kingdom and United States also practice the variant. In United Kingdom, buyers can pay deposit money of up to 30 percent (30:70). In order to assist potential purchasers with their decision to buy, the developer will build a sample dwelling for each of the housing types that will be contained in the housing development project. A typical development will have between 3 and 6 different housing types, and will usually have models of the most common ones. Along with the show house block, a developer will build a number of properties for occupation, but he is likely to keep his construction programmed very much in line with his achievement of sales (Courts, 1992).

Although a house must be built and ready for occupation before final payment by the client is made, a developer in the UK will not often start to construct a particular house until he has at least have a verbal commitment from the potential buyers that they will proceed with their purchase. In some cases the initial commitment from the clients to the developer may need to be a financial one. For example, the house buyers may have to pay the deposit of up to 10% from the final purchase price for the house that they are interested in. Thus, this will indirectly fix the price at the date of paying the down payment regardless of subsequent general price movements in the market.

Sometimes, for developer is building a block of apartment or terrace, he has to settle all the dwellings that are needed to be substantially completed before any new dwelling can be occupied. Here, the developer may choose to wait until a number of the block has been "reserved" before construction will commence (ibid).

Dowdeswell (2004) added that, the smaller developer can source his finance through a number of different routes. His first port of call is likely to be his high street bank and he may also have an existing relationship

with a specialist lender. Alternatively, he will seek out his own finance, perhaps through the property media, his accountant, his solicitor, his financial adviser or by talking to fellow developers. Often, a better option for the developer is to use a specialist property finance broker to source the funding he needs.

The advantage of using a reputable broker is that he has the market knowledge that will help the property developer especially for the developer who was unable to obtain the facility he needs from his usual sources. The broker will approach reputable funders. He will respect the confidentiality of information supplied by the client (developer) and will charge a fee that is commensurate with the service provided. He knows which banks are lending in which sector and where they operate geographically. He also knows what their lending terms and security requirements are and how quickly they can consider and sanction loans because time is often of the essence to the developer who is competing to buy land with others (ibid).

There are a few accurate statistics on the number of lenders involved in the financing of residential property development. Out of the 600 or so banks that are registered in the UK, a fair estimate is that there are no more than 50 that are actively seeking residential development funding. This excludes short-term bridging funders and private equity suppliers. These active lenders/banks come from all sectors of the banking and funding industry.

- There are the major commercial banks seen in the high street as well as the Irish and Scottish banks.
- There are also the quoted and unquoted specialist property lenders who have great expertise in assessing development projects, some of whom have been lending through all economic conditions for over 40 years.
- Additionally, there are some small private lenders using their own funds for projects.
- There are some private individuals who specialize in providing mezzanine funding for development projects where the small residential developer

has insufficient equity to meet the lending bank's requirements.

- Some of the property banks will also add a mezzanine layer to their lending for the right deal.
- Lastly, there are the 100% funders who will provide all the funds needed for the scheme in exchange for a significant share of the profits. These funders are sometimes house builders themselves, or they may be a special unit of a major bank. (ibid)

The strength in these models also protects the house buyers from the victim of unscrupulous developers. Generally, the purchaser gets to view the completed housing unit before paying the balanced. In addition, they also get to examine the property and its workmanship and quality before they make a payment for the balanced. Purchasers are given the opportunity to inspect the house. In case default by developer, the purchasers can break the agreement and get the deposit back. So, this concept promotes the building of better quality houses if the developer wants its completed products to sell.

The case of Singapore

In Singapore, according to Ong (1997), developers have less incentive to provide quality workmanship if their properties are sold before completion. The larger the portion of the project that is sold during the development or construction stage, the lower the effort level that the developer will exert, since buyers are already committed to purchase.

In this concept, the purchaser is insulated from any risk of the completion of the project being abandoned or delayed, hence having to pay unnecessary amount of interest to his financier. The purchaser only pays when the property is ready for occupation because the developer is solely and singly responsible for financing the construction towards the completion of the housing project.

Under this concept, the developer gets to be paid a lump sum of the full purchase price and the risk of a purchaser defaulting in the payment will not arise. The housing development project can have a better

control because the developers will minimize the risk in construction. To sell after construction, it will lead to a better technology being introduced for efficiency and the standardization of components in housing industry where the chances of abandoned housing project can be reduced.

One of the weaknesses for this model is purchasers are exposed to higher price offered by developers under this model because the high interests for financing the cost of construction and the risks are borne by developers and bank. Moreover, it is difficult for developers to secure bank loans to finance housing projects because it involves a bigger sum of financing and a greater risk.

On the other side, the purchasers will have lesser choice of housing types as developers will tend to build those types of houses which are popular with the purchasers. Hence, this will discourage genuine innovative products to be made available to the public. Projects carried out by developers may also be on a smaller scale as developers will try to avoid their projects being abandoned due to poor sales.

Overall, there will be a fewer number of developers who will have the financial capacity to carry out their housing projects. If this happen, then the industry will be monopolized by only big developers who will dictate the cost and pricing of properties. The costs of funding will surely increase and this will be passed on to the purchasers and resulting in a higher selling prices. Developers will undertake housing development in more affluent locations and they will unlikely embark on any major housing development in remote areas.

This will deprive lower income groups of owning properties even if it is a low-cost or medium-cost housing unit. Under this concept, it will require huge shareholders' funds and capital commitment of the company if the developer is unable to secure any bank's borrowings where the banks are reluctant to

finance his project under the BTS concept due to the nature of the risks involved.

It has been a trend that small developers will stand little chance of securing any project financing. As we know, there are not many companies out there with huge market capitalisation which can adopt the BTS concept and implement it in every of their housing projects. For the bank to provide financing to them on case basis, this will have to depend on many factors especially from the developers' track record, the viability of the housing projects and the financial credibility of the developers' company.

Build And Sell (BAS) Variant Concept by Other Countries (Group C)

This group is classified as the build and sell model. In this method, the developers will partly build the houses before proceeding to sell the houses at certain time during the construction phase. The main characteristic of this model is, the selling activity of the housing unit will start at certain time during the construction phases.

There is an evidence of a small-sized developer who practiced 'Build and Sell' in the UK. In this instance, the purchasers can make a request to change or modification their house during the construction period (Abdul, 2005). Besides that, in England, this model of BTS concept has very limited choices of housing and it is suitable for high income earners. For housing properties in China, it can be offered for sale prior to the completion, but only after two-thirds of the structural work has been completed. However, a study conducted by RAM (2003) pointed out that there is no regulation pertaining to the purchasers, where payment is vis a vis for the pre completion sales.

In Hong Kong, developers are allowed to commence sales 20 months from the date of expected completion (based on the architect certification of the estimated completion date) (ibid). Similarly in China, there is also no ordinance that governs the use of such

sale proceeds prior to handing over the properties. Nonetheless, the report also noted that the financing from the banks would normally impose restrictions on the use of those proceeds. Both the above arrangements would probably reduce the completion risk borne by purchasers to some degree.

The strength of this model is that, as evidenced in China and Hong Kong, many citizens especially in low-income families and single person household are protected from unscrupulous developers. The purchasers are given the opportunity to inspect the house first before they purchase the house. In addition to this, the risk of having abandoned project can be reduced.

One of the weaknesses of this model is that, there is limited choice for housing under this model and it is difficult to meet all the necessary requirements. In addition, as the prices will be considerably high, the middle and lower income family must secure financing first if they want to purchase the houses. Thus, in order to own a house, people in Hong Kong must spend a lot from their saving on residential housing. Table 3 summarises the characteristics of each discussed group.

SYNTHESIS OF THE BUILD THEN SELL MODELS

After the lengthy discussions on the proposed Malaysian BTS models and the other international BTS models, it is apparent that the Malaysian models can be improved considerably even before its full implementation. The first two years of the BTS operation should be regarded more as a trial run where plenty of rooms are provided to fine-tune the newly installed system. Only when all the stakeholders are willing to allow a degree of changes to the system, can it be given a proper chance to survive and then ultimately, to prosper.

It could be said that, the two Malaysian BTS models are heavily influenced by the Australian, UK and Singapore BTS housing delivery systems. By leaning itself towards the more established systems practised in these three countries, it is clear that the Malaysian government wants to minimise the upheaval the new system might cause to the Malaysian property development industry. This safe strategy can actually work, but it should be noted that, all the parties involved must not be lulled by the false sense of stability in the newly implemented BTS system. The system must be allowed to evolve and grow within the unique Malaysian economic realms. Some elements

Table 3: Groups of BTS Models by Other Countries and their Characteristics

Group	Model	Country	Characteristics
A	100% BTS	UK, USA, Thailand, Netherlands	• Purchasers buy the house only when the house is fully completed. • There will be no collection of payment from purchasers and house buyers before completion of the housing project. • Developers seek financing from banks and/or use their own fund to finance their project. • The development process involves an element of risk which is borne by the developers and banks.
B	BTS Variant (10:90, 15:85, 20:80, 30:70 and 40:60)	Thailand, Singapore, Australia, Taiwan, Netherlands, UK, US	• The purchasers pay deposits ranging from 10% to 40%. • The deposit aims to lock in the purchaser at the beginning of the development for housing process. • The balance will be paid after the houses are completed. • Developers finance their project with their own fund and/or financing from the banks besides using the purchaser's deposit.
C	Build and Sell	China, Hong Kong, England (UK)	• Developers build the house first and in the certain required time, they can start selling the houses.

of the originally proposed models might need to be dropped along the 2-year bedding-in period, so that the system can succeed and accepted by all parties.

The Malaysian BTS models do not actually deliberate on the incremental value of properties from its construction until completion. This issue had been the bone of contention for some property developers who opposed the implementation of BTS. It is a normal practice for property developers to actually raise the price of their property development within weeks or months from the initial soft launch. If they get an overwhelming response to their proposed projects, they will increase the price accordingly. This is more so when the project is nearing completion and people can already see how the development is going to look like after its full completion. Hence, if the price of one double-storey terraced house is RM200,000 at the initial launch of the project, it could be sold off by the same developer to the subsequent buyers at RM220,000 in later stage of the successful project. By sticking to this practice, the property developers will not lose out on the capital appreciation during the course of their projects. The UK experience on this matter as discussed earlier under the Group A BTS model is that, the developers should be given the opportunity to profit from the capital appreciation even before the project completion. Initially, it worked pretty well in the UK's free economy system where everything that is put on sale is subject to the demand and supply mechanism. But lately, amidst the property boom in the UK, the issue came to head when there are so many incidences of 'gazumping' – a situation whereby a late buyer got their offer of a better price accepted by the developer and consequently left the original buyer without a house unless he is willing to match the prevailing market price. This vicious offer and counter-offer practice between buyers and developers even before the project is completed can lead to a overheated property market, especially during the property boom time. To tackle this case even before it happens in the Malaysian BTS system, the government needs to draw a line on the time any property deal must be locked in. A mechanism to allow the property developers to profit from capital appreciation must also be put in place so that they will not suffer from economic injustice.

Another interesting point that had been discovered in the literature review is the use of market research in the UK and Australia. The property developers in these two countries are adept in using market research techniques, enabling them to predict the house buyers' response to their product offering. For them, the prediction of customer behaviours has almost become a science. Gone are the days when they could just base their property development decisions on just 'hunches'. Because of the sophisticated use of these market research techniques, property overhang is not as widespread as in Malaysia. This is a massive achievement since many of their property developments are delivered by BTS system. It is clear that, the Malaysian property developers should take a leaf out of their counterparts' books so that they could target their market with intelligence and planned actions. The arrival of the BTS system could inadvertently, encourage the Malaysian property developers to utilise market research techniques in their project planning.

BTS AND STB COMPARED

Both BTS and STB have their own unique characteristics that could appeal to the house buyers, developers, and financiers. It is not true to claim that all house buyers would prefer BTS over STB. From the discussions earlier in this paper, the BTS housing delivery might come at a premium because of the higher cost of financing to the developers. This could be passed onto the buyers. Because of this, a significant number of house buyers might prefer to buy properties through STB system from reputable companies. The following table summarises the main differences between BTS and STB.

CONCLUSIONS

This article focused on BTS models that were proposed in Malaysia and all the other models used in other countries. Two variants of the proposed models, i.e. 100% BTS and 10:90 BTS were described. The paper then explored BTS models implemented in other countries. The models were classified into three groups based on the similarity of their characteristics. Group A is 100% BTS Model, Group B is Variant BTS Model while Group C refers to Build and Sell (BAS) model. Discussions were then centred on the strengths of the BTS models applied in other

Table 4: Comparing BTS with STB

Factor	BTS	STB
Price to the house buyers	Likely higher price because of higher lending costs to the developers	Likely lower price
Tangibility of product before purchase	The buyers can view the house in situ	Only model houses can be viewed during S&P
Quality of workmanship	Likely higher quality because developers want the buyers to complete their purchases	Likely lower quality
Waiting period	Shorter time period, could be less than 3 months	Longer, up to 2 years
Financial security (buyers)	Higher	Lower
Financial risk (developers)	Higher	Lower
Freedom of choices to the buyers	Theoretically, buyers can 'shop' around for better houses	Less choices because everything is shown as perfect in sells brochures
Capital appreciation during construction	No, everything is locked in at purchase time	Yes

countries. These strong elements of the foreign BTS can be harnessed into the Malaysian BTS to make it more acceptable to all the property development stakeholders.

In Malaysia, a few developers has adopted the 100% BTS model. Those are Mah Sing Properties, Hasrat Angkasa Sdn.Bhd, Bandar Tasik Semenyih Group, Worldwide Holdings Berhad and a few others. It is important for other developers to learn from the experience of these pioneers.

The 100% BTS and 10:90 variant models proposed by HBA were finally approved by the government to co-exist with the current STB concept. The BTS itself will be subjected to a two-year review after the government recently gave an "approval in principal" for it to co-exist with the STB concept. However, these BTS pioneer projects are relatively small in terms of the total number of housing units to be built in the near future.

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