THE INSTITUTIONAL STRUCTURE OF RESIDENTIAL DEVELOPMENT INDUSTRY IN MALAYSIA: A PRIVATE DEVELOPERS’ PERSPECTIVE

A thesis submitted to the University of Manchester for the degree of PhD in the Faculty of Humanities.

2010

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ABSTRACTS

The Institutional Structure of Residential Development Industry in Malaysia: A Private Developers’ Perspective

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30th June 2010

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ABSTRACT This research is intended to examine the institutional structure of the Malaysian residential development industry with a specific focus on the nature of interaction between developers and the state. On this basis, this thesis aims to examine the institutional role of developers and their interaction with the state to improve the housing delivery system. Ball’s (1998;1986) Structure of Provision theory (SoP) and Wong and Madden’s (2000) North West Housing Assessment model were adapted to explore developers’ views and aspirations in various aspects of the residential industry in Malaysia. Case study research with extreme case scenarios were carried out in Kuala Lumpur and Johor to ascertain robust findings to contrast and compare.

The institution of the Malaysian residential development industry is severely plagued with a high level of bureaucracy, a multiplicity of approving agencies and tight planning legislations. These are the main impediments to a responsive housing delivery system. In addition, research findings indicate inherent tensions in the interaction between developers and the state which is caused by the weak influence of developers in shaping government policy. There was evidence of an informal culture, particularly extensive relationship building between developers and the state and in their application for planning permission. In some extreme cases, there was some evidence of malpractice. The state, professionals and homebuyers are found to be in tension and conflict with developers. Developers are seen to be extremely profit-driven to the extent of flouting the regulations which they claim to be excessive and outmoded.

The Malaysian residential industry has weak institutional capacity as it is characterised by a lack of trust and suspicion between developers and the state, and between developers and professionals. Hence, this thesis attempts to address the hindrances to effective implementation of legislative frameworks and to propose ways to overcome the present weaknesses. It also identifies some future directions for similar research to be carried out in Malaysia.
DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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ACKNOWLEDGEMENTS

As I was reflecting upon the journey that brought me to this point of my life, I was compelled to offer my highest praise to my dear Jesus. Indeed, He has faithfully kept His promise to see me through by bringing many wonderful people to encourage me and making many awestruck miracles to make the completion of my PhD a reality, of which the Graduate Assistantship from the Department of Planning and Landscape and the Tutor post from George Kenyon Hall of Residence are the most astounding ones.

To my supervisor, Professor Cecilia Wong, I owe her more than just ‘Thank you!’ Her red inks appearing on almost every line of every page of my draft chapters were hostile in the beginning, but have emerged to be an elegant expression of her dedication and a bearer of her professionalism. She has definitely impacted my life. Praise the Lord! I would forever remember Mark, Cecilia and Viola for their superb priceless meals over Christmases and New Years. Those meals could only take place with the hearts and hands of the ‘Bakers’ and they have met my longing for my family while I was away from home.

To Adam Barker, my second supervisor, thank you for your refining touch on this thesis. To Stephen Hincks and Alasdair Rae, this thesis is partially the culmination of your intellectual input, charisma and wit. As far as this thesis is concerned, both of you have helped to turn water into wine. To Sarah Payne, you are indeed the Good Samaritan for me since I started the pursuit of my PhD degree.

To Eunkyoung, Celesta, Ting -I, and Rocco, and the rest in the department, your company and many wonderful moments together would stay in my memory for as long as I live. Not forgetting Melissa, ‘Taylor’ (your guitar) and the songs that we sang, they have brought me immense inspiration and indescribable joy.

On another note, home strangely seems to be so much sweeter only when I am away. To my Papa, Mama, Ki, Meng, Chris, Andrea Shi Jie and grandma, I am blessed by the way you adore me. To my Mama particularly, ‘I am grateful for your daily prayer without which I would not have made it this far to pen down these lines, thanking those who have laid down their lives for me in various ways and forms’.
To Hephzibah and Janice, I know you are surely moved when you get to read this writing. You have been the pillars of my spiritual and emotional support, seeing me through the ebbs and flows of life here in Manchester. You ought to know how much I yearn for your embrace and fellowship.

Finally, to Jesus, my dear Lord, who daily sustains me with His consuming love. Your Word is a lamp to my feet and a light to my path, constantly reminding me of what Paul said: ‘I do not count myself to have apprehended; but one thing I do, forgetting those things which are behind and reaching forward to those things which are ahead. I press towards the goal for the prize of the upward call of God in Christ Jesus.’ (Philippians 3:10-11). Amen.
PREFACE

Ruth Foo attended The University of Nebraska-Lincoln, US, for her Bachelor of Science in Business Administration. She has a number of years of work experience with the public-listed developers in Malaysia. She then pursued her Master of Business Administration at The University of Science Malaysia.

She developed her interest in housing as a result of her work experience with the housing developers that she worked with in Malaysia, her home country, which then brought her to work on this piece of research about the Malaysian way of planning for housing.
For Hephzibah Liam, my dearest, most faithful and matchless confidant.
CHAPTER 1 INTRODUCTION

RESEARCH CONTEXT

Confucius teaching stresses the importance of families for the development of a nation. He teaches that a nation would only be strong if the family units are strong. Functional dwelling units and pleasant living environments are instrumental to fostering a healthy and creative generation, which is an asset for any country to compete globally. Consequently, it is important that families grow up in proper shelter and thus the challenge for the government is to provide sufficient and decent housing units for all income groups.

Home ownership is a dream of many because it fulfils a basic human need. Barker (2004) further elaborates its importance by emphasising that it ‘…is fundamental to our economic and social well being’ (p.1). This highlights the need for better planning and design of the living environment so that families can be weaved into the mainstream of a country’s development fabric. In addition, rising trade flows across national borders as a result of globalisation have increased the wealth of nations and individuals tremendously. Wealth accumulation increases exposure to the outside world which in turn raises homebuyers’ level of expectation which even applies in their housing demand and lifestyle. Hence, this increases the challenges of housing developers in housing provision to meet with the ever changing market demand.

Housing production is undeniably an important sector in spatial economic development. The production of houses is place-specific and that land, the most essential and also controversial factor of production, is different from capital and labour because it has a vast connection with the national and local level of political interest (Adams et al., 2005b:239). It is, therefore, ‘…often controversial and provokes strong reactions’ (Barker, 2004:1). This thoroughly explains that planning for housing is a national interest and that the government places great emphasis on providing sufficient housing units to meet the needs and demand of local population, which then determines its electoral success.
However, there is a growing expectation that the state should not just emphasise physical housing provision, it should also recognise the importance of developing houses for the communities which are “…inclusive, mixed and well-governed, with excellence in local strategic leadership…” with an emphasis on “homes need to be well designed, built and maintained”, instead of being situated in the “soulless housing estates” (HM Treasury and ODPM, 2005:3). Residential schemes should therefore be supported with public services such as health care, amenities, transport connectivity, education and employment opportunities, as well as recreational facilities. This explains the importance of the state’s housing legislative framework in shaping the housing outcome. The importance of an effective planning system in contributing to this end is summed up in a British housing review (Barker, 2006:5):

“Planning system has a profound impact on our quality of life. Its outcome influence the quality of our urban environment, the price and size of our homes, the employment opportunities available to us, the price of goods in the shops, and the amount of open space we have in our towns and countryside.”

The above elaborations summarise the importance of planning system which are to maximise the usage of urban land, protect the natural environment, maintain democratic accountability and mitigate risk (Healey, 1992b). However, these objectives can only be met if the housing development process is streamlined which then serves as an inducement for developers to fulfil the housing legislative framework.

Government can constrain or promote housing supply with the implementation of various fiscal incentives and grants to control housing supply on the basis of demand assessment by regions (Barker, 2004). If there is a lack of housing supply, it tends to raise house prices which make places expensive to live. However, if the reverse takes place, it suppresses house prices which are not healthy for local economic development. Furthermore, it helps to breed derelict housing estates in places where housing units are not widely occupied. This establishes the rationale behind the British government’s objectives in ensuring sufficient housing units which can only be materialised with a responsive housing delivery mechanism. Hence, this sets the direction for this empirical research.
The Malaysian economy has progressively evolved from an agricultural based into an industrial economy in the 1980s under the government’s modernisation program. The first 5-year plan was conceived in 1956 and was known as the First Malaya Plan. After Malaysia was formed with the joining of Sabah and Sarawak in September 1963, the First Malaysia Plan was launched in 1965 for the period of 1965 to 1970.

The Malaysian government aims to become a developed state by 2020. This target was set in 1991 under the leadership of the former Prime Minister, Tun Dr Mahathir Mohamad. Subsequently, Vision 2020 was built into the Sixth Malaysian Plan. Since the implementation of Vision 2020, Malaysia has achieved an average Gross Domestic Product growth of 6.5 percent from 1991 to 2005, and that the Gross Domestic Product per capital has grown at 7 percent per annum (EPU, 2006). Rapid economic growth tends to be accompanied by rapid urban growth (Chamhuri and Kasim, 1997), and the rate of urbanisation is closely related to the level of national development (Mayo and Sheppard, 1996). According to the National Urbanisation Policy which was launched in 2006, Malaysia experienced rapid urbanisation, recording an increase of urbanisation rate, from 54 percent in 1991 to 65 percent in 2000. The rate of urbanisation would continue to rise and is expected to reach 75 percent in 2020, the year in which the nation aspires to attain the status of a developed nation placing emphasis on building a liveable environment. This aspiration is expressed in the goal statement of the National Urbanisation Plan:

“…to create a liveable environment that could realise peaceful community and living environment requires a balance in all aspects of development, namely physical, economy, social and environment. This is in line with efforts to achieve the goal of Vision 2020 for Malaysia to be a developed nation.” (NUP, 2006:32)

To achieve Vision 2020, a National Mission is formulated every 5-years as the core policy and implementation framework which aims to realise the status of a developed nation. The thrust of the policies are to ‘enhance the capacity of Malaysia to compete globally…improve national integration and reduce tendencies towards racial
polarisation’ (EPU, 2006:4) that will help to distribute income and wealth to all races equitably. The Ninth Malaysian Plan is the 5-year blueprint for 2006-2010, aiming to enhance economic growth and competitiveness, with ‘private sector as the engine of growth while public sector takes up the roles of facilitator and regulator and civil society and others as partners in development’ (EPU, 2006:23). There is also an emphasis on the improvement of the institutional aspect of governance. The Malaysian government intends to improve its public service delivery system by revamping local authority administration, cutting red tape, implementing friendlier regulations and engaging information technology to reduce business transaction costs.

In Malaysia, Kuala Lumpur, Selangor and Negeri Sembilan are identified as the Level 1 conurbation centres while Penang, Johor and Pahang are the Level 2 conurbation centres. These states have the greatest potential to attract domestic and foreign investment, which is important for creating job opportunities. Property development is a major contributor to the country’s economic growth. The Malaysian residential sector contributed more than 50 percent of the property sector’s total turnover between 2001 and 2008 (see Figure 1.1) and contributed 2 - 8 percent of Gross Domestic Product growth (Khalid, 2003). As discussed by research in England (Barker, 2006), it is important for the state to identify various engines of growth for local economy. Since the housing industry contributes significantly to the Malaysian economy, it thus becomes the focus of this research.

![Figure 1.1: Performance of property sub-sectors by percentage of transaction value (Data source: OWNAPIC, 2009)](Image)
The residential sector in Malaysia is mainly led by developers. In the Fourth Malaysian Plan (1986 – 1990) and the Fifth Malaysian Plan (1991 – 1995), there was an under supply which was caused by the 1980s recession while oversupply was recorded during the implementation of the Sixth Malaysian Plan (1996- 2000) to the Eighth Malaysian Plan (2001-2005), due to the booming economy. In the Ninth Malaysian Plan (2006-2010), 72 percent (511,595 units) of the total housing units (709,400 units) are expected from developers (See Table 1.1). The public sector focuses on 100 percent provision of housing for the hard core poor, 49 percent on low cost housing and 56 percent on low medium cost housing; while the private sector is expected to contribute 87 percent of both medium and high cost housing and a lower contribution towards social housing. The government is highly dependent on developers to deliver 87 percent of the medium and high cost housing units in the Ninth Malaysian Plan, which is about 75 percent of the targeted 511,595 housing units expected from developers.

Table 1:1: Public and private sector housing targets (2006-2010)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Number of Units</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Housing for the Poor</td>
<td>Low-Cost</td>
</tr>
<tr>
<td><strong>Public Sector</strong></td>
<td>20,000</td>
<td>85,500</td>
</tr>
<tr>
<td>Low Cost Housing</td>
<td>-</td>
<td>67,000</td>
</tr>
<tr>
<td>Housing for the Hard Core Poor</td>
<td>20,000</td>
<td>-</td>
</tr>
<tr>
<td>Housing by Commercial Agencies</td>
<td>-</td>
<td>13,500</td>
</tr>
<tr>
<td>Housing by Land Schemes</td>
<td>-</td>
<td>4,500</td>
</tr>
<tr>
<td>Institutional Quarters Staff</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accommodation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Private Sector</strong></td>
<td></td>
<td>80,400</td>
</tr>
<tr>
<td>Developers</td>
<td>-</td>
<td>77,700</td>
</tr>
<tr>
<td>Cooperatives Societies</td>
<td>-</td>
<td>2,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,000</strong></td>
<td><strong>165,400</strong></td>
</tr>
<tr>
<td><strong>%</strong></td>
<td>2.8</td>
<td>23.3</td>
</tr>
</tbody>
</table>

(Source: Adapted from EPU, 2006:446)
With the context discussed above, it is, therefore, important for Malaysia to have a responsive housing delivery system to meet the government’s housing objectives. Academic literature highlights the importance of providing housing supply at the right locations, prices and designs, which is accompanied by well-planned infrastructure, public transport, amenities, and green spaces (Baker and Wong, 2006; Champion and Fisher, 2004; White and Allmendinger, 2003; Adams and Watkins, 2002; Wong and Madden, 2000; Breheny, 1999; Green, 1997). In addition, Tiesdell and Allmendinger (2005) identify social relationships and collaboration as one of the key planning tools, alongside development and regulatory plans, contractual agreements, tax imposition and tax exemption. In light of this, the nature of interaction between developers and the state becomes the central focus of this research since it has a critical effect on housing outcome. In particular, the state-market relations and the nature of interaction to achieve consensus will be examined from the developers’ perspective, alongside the roles of the state in providing the legislative framework and the participation of key professionals in the housing development process.

In the past, the World Bank conducted some studies (Bertaud and Malpezzi, 2001; Mayo and Sheppard, 1996; Malpezzi and Mayo, 1997) for Malaysia in the 1980s and 1990s. Mayo and Sheppard (1996) conclude that the Malaysian government imposes moderate control on the housing supply when compared to Korea which exercises high level of control and to Thailand with looser control. They also identify different levels of planning control resulting in different degrees of responsiveness. However, developers face greater development risk with lower degree of responsiveness as housing supply is unlikely to react timely as shown by the 1980s’ Malaysian property bust (Malpezzi and Mayo, 1997). Another observation of the Malaysian property industry is the lengthy approving process which constrains the supply of housing units. The bureaucratic red tape requires developers to clear a total of 55 steps with 15 - 20 government departments before obtaining approvals of land development and building plans (Strassmann, 1996). Today, it is difficult for developers to survive the lengthy process even though some streamlining has been initiated by the state. There was no request for the World Bank to conduct further studies from the Malaysian government since the economy showed improvement in the late 1990s.

However, there are housing studies carried out by Malaysian academics. Their topics range from public housing (Abdul-Aziz and Hanif, 2007; 2004; Khoo, 2006; Shuid,
2002; Kathirava, 2001); urban poverty (Agus, 1989); urbanisation and development (Golam-Hassan and Salleh, 2001); urbanisation and quality of life (Omar, 2003); harmonious community living (2005); housing crisis in Peninsular Malaysia (Mat, 1978); factors deciding government investment in housing industry (Lim, 2006; Romli, 2006; Yow, 2007); private investment in housing industry (Ong, 2006); particularly low cost housing (Chong, 2006); abandoned projects (Khalid, 2005); late delivery of housing projects (Ismail et al., 2002); housing problems and prospects (Lim, 2001); housing supply and demand (Arumugam, 1996); and review on Section 5 and 6 of the Housing Development (Control and Licensing) Act 1966 (Dahlan, 2003). Having examined these past studies, there remains an apparent research gap in examining the interaction between the state and the private sector to foster effective collaboration for a responsive housing delivery system. Hence, this study is significant in contributing to the academic work by bridging this knowledge gap.

**RESEARCH AIM AND OBJECTIVES**

This research aims to examine the institutional framework of housing provision in Malaysia, with a specific focus on how the State and the development industry interact to shape the process and delivery of residential development to meet the housing objectives of the government.

To achieve the above overarching aim, there are 5 research objectives:

1. To examine the institutional structure of house planning in Malaysia by clarifying the legislative framework and the roles played by different actors including different levels of government, Non-Governmental Organisations, professionals and developers in the residential development industry.

2. To identify the structure and characteristics of the development industry in Malaysia through secondary data analysis to construct a typology of developers in Malaysia.
3. To elicit the views, attitudes, and aspirations of developers over different aspects of housing development, and to find out the nature of their interaction with the state and their influence over policy change.

4. To compare the visions and views of developers and those of the state and other key stakeholders and to identify the tensions and conflicts in the process of delivering residential development in Malaysia.

5. To draw out key theoretical and practical ideas to inform the development of new approaches for effective interaction, cooperation, and coordination between the state and developers to achieve a more responsive housing delivery system.

After this introduction there are 7 more chapters in this thesis. Chapter 2 discusses the importance of institution and various models of institutionalism. It then moves on to evaluate various housing development theories to help inform the development of the conceptual framework for the study.

Chapter 3 discusses various trends, opportunities and issues in the Malaysian housing industry. It also introduces the key legislative framework and key policies which shape the housing provision in Malaysia.

The thesis turns to discuss the conceptual framework in Chapter 4. The marriage between institutional theories and development process theories (discussed in Chapter 2) and the housing planning framework (presented in Chapter 3) contribute to the core conceptualisation of the study. It then sets out the research methodology and the selection approach of case study areas based on housing market and socio-economic indicators.

Chapter 5 introduces the institutional environment of the housing industry in Johor and Kuala Lumpur. It explains how the various socio-economic linkages and the differences in their housing legislative framework shape their housing demands and needs. In addition, it highlights how federal level housing policies can be adopted at varying scale in the case study areas because the state government has a prerogative over land use matters.
With the understanding of the case study areas in Chapter 5, this thesis then moves on to Chapter 6 which presents the comparative findings for Johor and Kuala Lumpur. It examines the views and attitudes of developers towards various processes in housing development and various recent institutional reinforcements. It then concludes with a discussion on the aspirations of developers over areas in which they would like to see further improvements.

Chapter 7 sets out to present the outcomes of policy implementation in Johor and Kuala Lumpur. It analyses the interaction between developers and the state on the various stages of housing development and identifies the causes which explain their negative (in the case of Johor) and positive (in the case of Kuala Lumpur) housing outcomes. It also seeks to identify the gap between the unmet vision between the state, developers and key actors, which help to explain their tensions and conflicts throughout the housing development process. Chapter 7 concludes by recommending a Structure of Provision for the Malaysian residential industry, particularly for the medium to high cost housing sector.

Chapter 8 is the final chapter which begins with an evaluation of various theoretical models adopted for this empirical research. It then moves on to offer the short and long term theoretical and practical approaches to improve the coordination and cooperation between the state and developers, and between developers and other key actors. This thesis then concludes by highlighting the key implications of the research findings and future research directions.

The structure of this thesis is presented in Figure 1.2 to help navigate the readers.
STRUCTURE OF THE THESIS

Chapter 1
Introduction

Chapter 2
Literature Review

Chapter 3
Residential Development in Malaysia:
Planning and Policy Review

Chapter 4
Conceptualisation and
Methodology

Chapter 5
Institutional Structure of the
Residential Industry: Johor and
Kuala Lumpur

Chapter 6
Housing Planning Process:
The Developers’ View

Chapter 7
Policy Delivery

Chapter 8
Conclusions

Figure 1.2: Structure of the thesis
CHAPTER 2 LITERATURE REVIEW

INTRODUCTION

This chapter reviews the major theoretical ideas that help to shape the conceptual framework for researching the institutional structure of the residential development industry in Malaysia. The discussion first clarifies the definition and meaning of institution from different disciplinary perspectives, it then discusses the key factors that contribute to the building of institutional capacity. It then examines how state-market relationships affect the development industry in general before proceeding to a final discussion of the models of development process.
DEFINING INSTITUTION

Institution is defined differently by scholars from different disciplines. Political scientists define institution as a structural identity in the society or polity which expresses itself in a formal structure, such as a government department or an informal networking supported by shared values or norms (Peters, 1999; Hall, 1986). North (1990), the economist, further defines institution as ‘a set of constraints’ (p.1) or rules of the game which facilitate interaction to minimise transaction cost. Nevertheless, organisational and economic theorists refer to institution as constitutions, statute laws, common law or bylaws and state organisations (Clemens and James, 1999). Sociologists (Meyer and Rowan, 1991), however, refer to institution as a set of cultural practice and beliefs which provide meaning to activities. The variation in definitions reflects the nature of different disciplinary perspectives over what constitutes institution. Table 2.1 provides a summary of the definitions and functions of institution given by the scholars from different disciplines of study.

From a property development point of view, it is important to note that planners (Healey, 2005; 1991; 1990, Ball, 1998; 1986) and geographers (Amin, 1999; Amin and Thrift, 1995; 1994) share similar views as those of the institutionalists (Scott, 2001; Powell and DiMaggio, 1991). They expect active interactions between public and private sectors to optimise social changes. Nevertheless, they have different emphasis over the intended changes. For example, institutionalists anticipate the outcome to be expressed in the institutional framework, whereas planners focus on built environment change and geographers on the expression of place.

Institutions are normally consciously formed with a set of values which evolve continually. Actors operate in an expected pattern of interaction which is self-repeating and it is known as the constitutive aspect of institutional evolvement (Burlamaqui, 2000; Peters, 1999; Clemens and James, 1999; Powell and DiMaggio, 1991; Giddens, 1984). However, actors operating in the stable institutional environment are influenced by and influence shared values and norms. This social relation causes actors to be mutually dependent and act according to the rules of the institution. Adams et al. (2005a) also identify similar elements that form an institution, which are ‘rules, norms, conventions and customs, along with institutional capacity that enable sophisticated and smoother forms of state intervention in market processes’ (p.52). It is interesting to note that
cultural values and norms have been identified as the institutional success factors for Japan’s rise to the second largest economy in the world (Hill, 1995).

Essentially, there are 2 key purposes that explain why institutions exist. First, the constraining and proscriptive function of institutions which define and structure actions or policies; and second, the constitutive and prescriptive purpose of gathering different ideas and strategies to improve the strategic behaviour of actors (Clemens and James, 1999). Political scientists (Peters, 1999; Hall, 1986) and institutionalists (Scott, 2001; Meyer and Rowan, 1991) share their belief that institutions shape the interaction between actors and provide stability to the system. Their exchange results in a set of predictable and reproducible patterns of interaction among actors. From the economist’s perspective, institutions are expected to reduce the risk of investment (North, 1990) and lower transaction costs in the market, where information is limited and asymmetrical (North, 1990). Hodgson (2000) suggests that institutions provide a cognitive framework for sense-making and intellectual development which contribute to socio-economic stability. However, informal culture, which is a set of taken-for-granted practice ingrained in the system for a period of time, is another significant element in institutions which work alongside the formal structure that provides stability and patterns the interaction among actors, as suggested by the organisation theorists and institutionalists (Scott, 2001; Peters, 1999; Jepperson, 1991).

Nevertheless, institutionalists emphasise that institutions are expected to provide a template for conflict resolution and to continuously support the structure and network (Friedland and Alford, 1991). Importantly, institutions establish a pattern of interaction from the basis of shared norms, values and culture and that this set of informal culture integrates the actors into the core of the institution. The cultural aspect, expressed through symbols, routines and habits, is the critical force that exists within the institution to bring actors together. Healey (2006) holds a similar view about shared norms and practices which shape the action of actors and that informal culture ‘through continual active effort...reinforces and changes both meanings and materialities’ (p.302). However, she sees institutions as where ‘social action is mobilised and regulated’ (Healey, 2006:301) and she reckons it similar to the propositions of political scientists.
### Table 2.1: Definitions and functions of institution by the scholars of different disciplines

<table>
<thead>
<tr>
<th>Theorists</th>
<th>Political Scientist</th>
<th>Economist</th>
<th>Institutionalist/ Organisation Theorist</th>
<th>Planners</th>
<th>Geographers</th>
<th>Sociologists</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Formal structures such as compliance procedure, standard operating procedure.</td>
<td>- Rules of the game</td>
<td>- Multi -faceded, durable social structures which are made up of symbolic elements, social activities, and material resources.</td>
<td>- Formal social structures (rules) and informal norms shape actors’ actions, practices and interactions.</td>
<td>- Organisations from public and private sectors are governed by a set of shared social -cultural and institutional factors.</td>
<td>- Cultural rules provides meaning to entities and activities.</td>
</tr>
<tr>
<td></td>
<td>- Formal rules and Regulations.</td>
<td>- Informal norms, values, habits.</td>
<td>- Processes are influenced by cultural -cognitive, normative and regulative elements.</td>
<td>- These practices are widely embedded in social relationships and organisations from public and private sector.</td>
<td>- Network s of interactions between organisations.</td>
<td>- Values, norms, habits, routines are pattern interactions.</td>
</tr>
<tr>
<td></td>
<td>- Informal norms, routines, values and cultures.</td>
<td>- A patterned form of interaction among actors.</td>
<td>- Stability and inert Quality becomes an important features over time.</td>
<td>- Help to construct actors’ thinking and actions.</td>
<td>- Develop coalition for common objective.</td>
<td>- Integrate values, habits and routines into larger sphere.</td>
</tr>
<tr>
<td></td>
<td>- Firms and market are guided by rational preferences.</td>
<td>- Process of rational preferences and material resources.</td>
<td>- Provide stability to social life.</td>
<td>- Distance, proximity and association are the sources of learning and knowledge.</td>
<td>- Source of change or resistance to change.</td>
<td>- Promote or hinder change in society.</td>
</tr>
<tr>
<td></td>
<td>- Stable and inert Quality becomes an important features over time.</td>
<td>- Multi -faceded, durable social structures which are made up of symbolic elements, social activities, and material resources.</td>
<td>- Provide stability to social life.</td>
<td>- Strengthen network s of interaction which are subject to continual changes.</td>
<td>- Establish manner of handling social issues.</td>
<td>- Place for cognitive and intellectual development.</td>
</tr>
<tr>
<td></td>
<td>- Formal rules and regulations.</td>
<td>- Informal norms, values, habits.</td>
<td>- Processes are influenced by cultural -cognitive, normative and regulative elements.</td>
<td>- Production of new social structure to manage the old and new challenges.</td>
<td>- Establish pattern s of interaction.</td>
<td>- More enduring features – provide solidity and ‘life’ to institutions.</td>
</tr>
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<td>- Place for cognitive and intellectual development.</td>
</tr>
</tbody>
</table>
|           | - Stable and inert Quality becomes an important features over time. | - Multi -faceded, durable social structures which are made up of symbolic elements, social activities, and material resources. | - Processes are influenced by cultural -cognitive, normative and regulative elements. | - Production of new social structure to manage the old and new challenges. | - Establish pattern s of interaction. | - More enduring features – provide solidity and ‘life’ to institutions.
From the discussion so far, it is clear that institutions are different from organisations. Organisations refer to political units (political parties, the parliament, municipal council, regulatory agencies), economic units (corporate companies, firms, trade unions, cooperatives), social entities (churches, clubs, athletic associations) and educational centres (schools, colleges, universities, vocational training centres). Organisations within the same industry are driven by complementary or conflicting objectives and they form the collection of relational networks and social qualities such as expertise, knowledge and information. These qualities can be regarded as elements that form institutional capacity, which drives the economic competitiveness of a place and enriches the social relations and flows of information and expertise (Amin and Thrift, 1995).

Institutional capacity is identified by Wong (1998) as one of those intangible factors alongside quality of life, business culture and community image and identity, which has become increasingly crucial in enhancing local economic competitiveness. Turok (2004) echoes this view and sees competitiveness as a strong contributor to economic success for a place and further postulates that competitiveness is influenced by the ability of local actors, the value of their products and the employment rate of a place. This heightens the need for the state to promote institutional innovation to enhance local competitiveness (Haughton and Thomas, 1992) and to attract more entrepreneurial and creative actors.

Turok (1993) proposes developmental and dependent models of economic framework and their emergence is dependent on how local actors interact and network with each other. In the developmental model of economy, actors engage actively in networking and interaction to build long term relationships and partnerships. This helps to weather volatile market changes and economic fluctuations. Furthermore, actors are willing to share information and expertise and build trust, which is an important element in planning (Swain and Tait, 2007). A developmental economy offers high skilled and high income employment to local people to achieve self-containing economic growth to meet the needs of local markets. On the other hand, a dependent economy exhibits signs of short term contracts, price cutting and cost saving business models which do not...
foster long term relationships or exchanges. When there is a lack of trust building, local actors are vulnerable to external forces which cause institutional change and thus it fails to promote a self-sustaining economy. A summary of the differences between developmental and dependent models is presented in Table 2.2.

Table 2.2: Alternative linkage scenarios: A summary of the main tendencies

<table>
<thead>
<tr>
<th>Nature of local linkages</th>
<th>Developmental Model</th>
<th>Dependent Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborative, mutual learning based</td>
<td>Unequal trading relationships</td>
<td>Conventional sub-contracting</td>
</tr>
<tr>
<td>on technology and trust. Emphasis on</td>
<td>Conventional sub-contracting</td>
<td>Emphasis on cost-saving</td>
</tr>
<tr>
<td>added value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration of linkages</td>
<td>Long term partnerships</td>
<td>Short term contracts</td>
</tr>
<tr>
<td>Meaning of flexibility</td>
<td>High level interaction to accelerate product development and increase</td>
<td>Price cutting and short term</td>
</tr>
<tr>
<td>and increased responsiveness to</td>
<td>responsiveness to volatile markets</td>
<td>convenience for multinationens</td>
</tr>
<tr>
<td>volatile markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inward investors’ ties to the locally</td>
<td>Deeply embedded High investment in decentralised, multi-functional operations</td>
<td>Weakly embedded Branch plants restricted to final assembly operations</td>
</tr>
<tr>
<td>Benefits for local firms</td>
<td>Market for local firms to develop and produce their own products</td>
<td>Markets for local firms to make standard, low tech components</td>
</tr>
<tr>
<td>and transfer of technology and</td>
<td>Transfer of technology and expertise strengthens local firms</td>
<td>Sub-contracting means restricted independent growth capacity</td>
</tr>
<tr>
<td>expertise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of jobs</td>
<td>Diverse including high skilled, high income</td>
<td>Many low skilled, low paid, temporary and causal</td>
</tr>
<tr>
<td>Prospects for local economy</td>
<td>Self-sustaining growth through cumulative expansion of industrial cluster</td>
<td>Vulnerable to external forces and corporate decisions</td>
</tr>
</tbody>
</table>

(Source: Turok, 1993:402)

According to Turok’s (1993) developmental model, longer term working relationships are developed when actors in the same industry collaborate and learn from one another by sharing expertise and knowledge, which is a form of social capital. Social capital is defined as ‘relations between actors and is a resource that is drawn upon to facilitate collaborative activities’ by Maloney et al. (2000:802), and is seen as having a significant outcome on local economy. Actors, according to their definition, include voluntary and Non-Governmental Organisations which work alongside major players and professionals through obligation, expectation, trust, reliable information, norms and effective sanction. Haughton and Thomas (1992) also endorse collaborative working because they view actors’ collective knowledge and expertise as leading to trust and advantage building. Hence, it is crucial for actors to collaborate for their common
interest because it helps to build thicker relational networks (Amin and Thrift, 1995) and develop greater efficiency in the rationalised formal structures (Meyer and Rowan, 1991). When institutions grow thicker with the active involvement of actors, it improves the capacity for a better planning system and outcome.

DEVELOPING INSTITUTIONAL CAPACITY

Developing institutional capacity requires the commitment of key actors because each of them plays different but complementing roles. For instance, the government formulates policies and regulations which form the structure of institutions to shape the behaviours of actors which otherwise are driven by their respective objectives. This structure is required to provide a check-and-balance function for the institution. The purpose of check-and-balance to develop the institution is, nevertheless, often influenced by various interests that arise from the market (supply and demand), hierarchies (power relations as it is related to rules and authority) and networks (interactions between public, private sectors, voluntary and community services); and they tend to affect the formation of institutional capacity (Stewart, 2002; Taylor, 2002). The inter-working of the market, hierarchy and networks help to reduce transaction costs. It is important to point out that networks are different from partnerships: in partnerships, the actors are bound by official agreements in which there are distinct boundaries, formality and structural constitutions (Stewart, 2002), whereas networks are normally formed without any binding agreement and their size is determined by the frequency of interaction and level of activities among the actors (Verhage, 2003).

Partnerships

Partnerships are formed to achieve the objectives of efficiency and effectiveness (Brinkerhoff, 2002). The major driver of partnerships are horizontal integration and coordination that draws on the competitive advantage of partners which are their values, mission, skills, expertise and technology to form part of their joint venture identity (Brinkerhoff, 2002). Trache et al. (2007) further elaborate on partnerships as sharing ‘responsibility, accountability and in a practical sense, shared know-how in the implementation of strategies and projects’ (p.169). These resources generally make the joint venture economically successful.
In the development industry, partnerships are formed predominantly between the public sector and developers, as the state assume the regulator role while private developers deliver public policy initiatives. Partnerships between the federal and local government in coordinating the delivery of public services were observed in the early 1980s in the UK (Trache et al., 2007). However, the shift was marked in the 1980s in which the task of urban regeneration was transferred to developers. The new trend in the 1990s was the involvement of the community in urban development and regeneration (Adams and Hastings, 2001). In the UK, new institutional arrangements in the area of partnership have paved the way for developers to get involved in regenerating some major cities and to revamp the declining inner city (O’Toole and Usher, 1992). This has made the partnership initiatives in the planning and development field more challenging and dynamic.

Cost efficiency assists the formation of public-private partnership because each party has its niche expertise that can contribute to the partnership. The characteristics of public-private partnership are “risk, tasks, and responsibility sharing, incentive structures, private investment, life cycle optimizations, innovation through output specifications and long term contractual partnership” (Fischer et al., 2006:539). In view of the huge investment outlay and the management of goods and services, developers are invited to share out risk, cost and responsibility. Out of technical, commercial, economic and political risks, political and regulatory risks arising from government policies are seen to have the most direct impact on the profit objective of developers.

Development activities are typically carried out by developers, and the principal, which is the government, devises an institutional framework to shape their interaction. Principal-agent theory explains how hierarchy ensures the compliance of agents and their capacity of delivery but it exhibits a unidirectional relationship as agents are only expected to meet the objectives of the principal (Eisenhardt, 1989). This theory encapsulates the complications in the development industry, particularly the relationships between the state and developers. It introduces the hierarchical issue as the state exercises its executive power to ensure that the agents comply. However, the above theoretical propositions appear to be idealistic because the relationship between the principal (the state) and agents (which is used interchangeably with actors in this thesis) is highly complex. In view that the development industry is highly capital-
intensive, agents intend to recover their investment and to generate profit from their development activities within the shortest timeframe. Hence, compliance is always a hindrance in this pursuit because it costs finance and time which are the 2 crucial factors that will affect housing supply from developers. When they face this situation, they have a tendency to compromise the objectives of the principal. Hence, the challenge lies with the principal as how to devise a legal framework that could make the agents comply and collaborate to meet its objective.

Out of market, hierarchy and networks, networks are seen to be the more effective way for building institutional capacity at a lower transaction cost. However, they have their limitations because developers are rational and driven by their individual profit objectives which make it difficult for them to collaborate. In fact, they are often in Prisoner’s Dilemma which causes them to guess their competitors’ strategic direction particularly if they serve the same market segment. Game theory suggests that players receive the best outcome that benefits all if they know well how each other is going to play in the game (Rubinstein, 1991). However, rationality suggests that it is unlikely that players could gauge the games of opponents (Lu and Stahl, 1994). In fact, the game can only be played when actors find payoffs attractive and they are willing to comply. The critical challenge is that all actors need to cooperate and comply with the regulations for the game to be played continually (Rubinstein, 1991). However, both regulations and the sharing of information involve financial costs. As a result, developers often find it to collaborate and form networks to develop institutional capacity. Consequently, they prefer to conceal their preferred operational strategies.

**Power relations and conflicts resolution**

The above discussion brings in the issue of power relations among actors, typically between developers and the state in the development industry. Developers initiate development activities and they deal with various government agencies for planning permission and key professionals for consultancy. While the Planning Department which issues planning permissions has greater authority over developers, developers also have influence over key professionals as they engage them for professional services. These kinds of power relations are defined by Wilkinson (1974) as ‘...the ability of a firm to affect another’s decision making and/or overt behaviour, which can vary in strength and amount’ (p.14).
Pennings (1981) identifies 3 types of interdependence to analyse the power relations among actors in the development industry. They are: i) horizontal interdependence which explains organisations within the same industry, selling their products or services to the same pool of customers, tend to fight for the limited amount of resources to achieve their objectives at the level playing field; ii) symbiotic interdependence which means organisations complement one another in the same industry yet they are unable to provide one another the required resources; and iii) vertical interdependence which refers to organisations which are structurally above or below one another allowing transactional benefits to be derived. Of the 3 types, vertical independence describes the relationship between the state and developers, while symbiotic interdependence illustrates the relationship between developers and key professionals.

While developers are regulated by government, they exercise power over key professionals and these relationships tend to involve power relations and conflicts. Conflict is defined by Weber (1978) as “a social relationship....insofar as action is oriented intentionally to carrying out the actor’s own will against the resistance of the other party or parties” (p.38). Thomas (1992), however, sees conflict as ‘the process which begins when one party perceives that another has frustrated, or is about to frustrate, some concern of his’ (p.265). Conflict occurs between key actors in the housing industry because the regulations of the state threaten the profit maximisation goal of developers. Developers engage key professionals for development planning, but their profit maximisation mentality tends to frustrate the goals of professionals who try to make sure that they comply with planning guidelines.

Since conflicts are expected in the relationship between key actors, an effective conflict resolution method is required. Thomas and Kilmann (1974) construct a 2-dimensional conflict handling model (see Figure 2.1): assertiveness which refers to the attempt to satisfy one’s own desire, and cooperativeness which is defined by the attempt to satisfy others’ desires. Of the competition, collaboration, compromise, avoiding and accommodation, collaboration is the best model of conflict resolution as it accommodates both parties’ desire to reach a consensus. This method is strongly advocated by theorists in the conflict management field because it is able to generate better quality conflict resolution and to retain open communication for information exchange information to reach win-win decisions.
Institutional capacity is vital for policy making in the development industry, particularly in identifying ways to regulate development activities (Healey, 1998b). Healey (1997), the proponent of collaborative planning, reckons that institutional capacity is the way to it. She identifies 3 key elements of institutional capacity, which are ‘knowledge resources (K), relational resources (R) and the capacity for mobilisation (M)’ (Healey, 1998a:1541) (see Figure 2.2). The increase of these 3 components builds up the institutional capacity of a place by ‘encouraging ways of thinking and ways of acting which generate an enduring capacity to discuss the qualities of places and to address the evident reality of conflicts of interests in noncombative ways’ (Healey, 1998a:1541).

Consequently, it is important to understand the background of the actors to reconcile their differences and that such a method of conflict resolution tends to minimise ‘time, cost and institutional damage of adversarial conflict-resolution over all issues’ (Healey, 1997:1542).

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**Figure 2.1: 2-dimensional taxonomy of conflict handling models**
(Source: Thomas and Kilman, 1974:11)

*Building trust and consensus*

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Wenban-Smith (2002a) identifies a number of internal and external factors that help to build local institutional capacity (see Figure 2.3). The success of internal factors requires the sharing of intellectual, social and political capital as well as knowledge, resource and expertise to reach consensus by understanding the core opinions and values held by the local community which will then lead them to discuss and debate about their differences and eventually lead to conflict resolution. The capacity of an institution in resolving conflicts and disagreement among actors and various cultural perspectives is a pivotal factor in determining the capacity of institution in handling external challenges. Therefore, collaboration among actors is crucial in developing and strengthening institutional capacity. Innes and Booher (2003) further argue that collaborative efforts help to deliver policy initiatives in the public realm that is not covered by regulation. Drawing from Innes (1996), ‘consensus building aims to resemble the theorists’ account of communicative rationality. It is a method of group deliberation that brings together for face-to-face discussion a significant range of individuals chosen because they represent those with differing stakes in a problem. Facilitators, training for participants, and carefully designed procedures are intended to ensure that the mode of discourse is one where all are heard and all concerns are taken seriously’ (p. 461).
Figure 2.3: Developing institutional capacity
(Source: Wenban-Smith, 2002a:200)

Strong institutional capacity allows the institution and its actors to cope with internal and external challenges. Its success is contingent upon the support and resources from actors and organisations for continual information and knowledge sharing, and that the trust among them helps to deliver promises and commitments. However, trust has to be fostered among actors who have different and conflicting interests. According to Swain and Tait (2007), ‘trust appears as a crucial concept in understanding planning, not only in the individual relations of trust built by planners and others but also in the broader trustworthiness of the planning system and the planning profession’ (p.230).

Consequently, the state needs to promote an institutional environment that encourages trust and joined-up thinking which are important for building institutional capacity.

Stewart (2002) suggests that government must initiate the building of institutional capacity to reduce the transaction costs between public and private agencies. Healey (2006) sees the contribution of Giddens’ Structuration Theory in explaining the development of institutional capacity in which she sees the material resources such as land, labour, technology and finance are regulated by authority and power through formal and informal structures. Hence, government should support interaction, involvement and working relationship between different parties who are directly or indirectly involved in policy making. In other words, institutional policy making has to develop trust and create thicker social capital to reduce market and investment risk.
(Tiesdell and Allmendinger, 2005). Maloney et al. (2000) also perceives that social capital which ‘inheres in the relations between actors and is a resource that is drawn upon to facilitate collaborative activities’ (p.802). They further elaborate how creative social and political resources can lead to more success in social and economic activities. Hence, it is important to develop social capital which hinges on the relations of actors, which is a key component of institutional capacity. Furthermore, the advent of information technology in this era eases information flows and greater exchange of information helps to thicken institutional capacity (Healey, 2005). Hence, the state needs to be aware of the importance of information technology in building institutional capacity, rather than simply relying on the traditional model of relationship exchange.

**Governance**

Governance is an important aspect of institutional capacity and it is different from government because it deals with the managing process of state affairs and often involves rules formulation to maintain order and encourage collective action. Governance is defined as ‘all forms of collective action focused on the public realm (sphere) in one way or another, from those orchestrated by formal government agencies, to lobby groups, self-regulating groups, social campaigns and movements targeted at resistance or challenge to dominant governance relations’ (Healey, 2006:302). Politics is used to manage governance activities through the mobilisation of influential and pervasive social resources through institutional arrangements (Healey, 1997).

The interdependence among the public sector, the private sector and Non-Governmental Organisations is articulated by Stoker (1998). He further postulates that the line between the public and private sector is blurred due to the intense interaction between them for optimal outcome. In urban development, governance is required because it actively seeks views from actors in formulating policies which involve lengthy deliberation and idea exchange (Healey, 2005). This is supported by Lambert and Oatley (2002) who define ‘new governance’ as the deepening of various actors’ participation to increase ‘knowledge and help build up intellectual capital’ (p.217) that build trust and consensus.

Healey (2006:303) articulates the importance of governance as it forms ‘a complexly intertwined social reality in which integrations and boundaries, cohesions and exclusions cannot be read off from simple “maps” of organisational structures’, while
Innes and Booher (2003:7) suggest it ‘lacks formal authority, is linked in varying ways to formal government, and engage stakeholders who are typically outsiders to public choices’. Hence, governance is found to tear down institutional barriers that hamper efficiency and effectiveness as compared to solutions which are shaped through policy initiatives (Innes and Booher, 2003; Healey, 1998a). The self-organising type of governance activities is found to be the key improvement in managing urban affairs (Stoker, 1998). Maloney et al. (2003) further links the richness of social capital to the success of governance and communicative exercise as they contribute to the development of institutions and institutional capacity which will enable institutions to be more entrepreneurial than managerial (Healey, 1998a). This is recognised by the UK government and Allmendinger (2003) sees it as a way to enhance economic governance by ‘coordinating and integrating the processes, institutions, plans and strategies of public and (to a lesser degree) private bodies’ (p.324). However, there seems to be an impediment to the building of institutional capacity - the declining trust in the institution of planning (Swain and Tait, 2007).

Relationships are important in the governance network because they help to create meaningful dialogue that can generate effective solutions when facing difficult situations. Their communication allows them to express their diverging interests and help to reconcile their differences to reach a consensual solution (Innes, 2004; Innes and Booher, 2003), which will in turn generate ‘network power’ (Innes, 2004:13) and minimises the potential of wasting time and resources if consensus is not reached (Innes, 2004). Instead of consensus building, Davy (2008), however, contends that it is important to maintain a certain level of polyrationality, instead of monorationality in planning. He develops his arguments from Douglas’ (2005) Cultural Theory and argues that ‘polyrationality suggests that we may watch other rationalities and listen to different voices, as soon as we are prepared to let go a bit of our own rationality’ (Davy, 2008:310). Consequently, it is important to include views of various actors in policy making to increase the degree of relevance and effectiveness.
MODELS OF NEW INSTITUTIONALISM

Different institutional theories have been developed in various disciplines to conceptualise and explain the meaning of institution. In order to understand how to thicken institutional capacity, it is important to understand how different institutional theories explain what forms an institution and how they mould the behaviour of actors.

Old institutionalism was first developed after observing patterns and trends of governmental systems which functioned well (Peters, 1999). The 5 major assumptions under old institutionalism are: i) legalism – use of law in governing; ii) structuralism – concerning how structure moulds behaviour of actors who have no influence on governmental outcome; iii) holism - focuses on the whole system of government instead of its sub-components such as legislature or bureaucracy; iv) historicism – reflecting on the historical background, formation and development of institution with socio-economic and cultural emphases; and v) normative analysis - incorporates norms and values into institutional analysis (Peters, 1999). This theory, however, fails to explain the contemporary trend that takes place in institutional systems because it only believes that the state contributes to the society but not vice versa. Hence, new institutionalism has evolved to bridge the missing link and models it as ‘behavioural inputism’ (Peters, 1999:14). In other words, it recognises the contribution of institutions to society as well as from society to institutions. New institutionalism is underpinned by rational choice and behavioural approaches as compared to cultural and socio-economical approaches adopted in old institutionalism.

Of the various definitions of institution (see Table 2.1), political scientists provide the most appropriate one in explaining the dynamics of institution of the development industry. Commentators (Peters, 1999; Hall and Taylor, 1996) recognise the importance of formal structures in supporting institutions, alongside the prevalent practice of informal culture through which actors maximise their utilities. Hence, this research will adopt the political scientists’ definition and their proposed models of new institutionalism.

6 models of new institutionalism were promulgated by Peters (1999). The first model is empirical institutionalism which explains the presidential and parliamentary system of a
nation and how best they structure policy and decision making. International institutionalism, however, refers to the state-level institution working with international organisations such as the International Monetary Fund. The third model is normative institutionalism which prescribes roles and behaviours to actors and their compliance comes with authority, responsibilities and privileges. The code of conduct and practice are clearly spelled out and those who adhere to it receive legitimacy while those who don’t, are not accepted into the group. However, actors tend to develop logic of appropriateness rather than logic of consequentiality over time (Peters, 1999) which means that they carry out their function voluntarily. Indeed, actors will often reflect on the consequences of underperforming and the penalties that are associated. It is common that the normative institutional actors contribute to their institution even when they need to sacrifice their own interest or when financial payoff is absent.

The fourth model is historical institutionalism which emphasises the importance of historical patterns and conventions in shaping institution. In other words, it stresses path-dependent policy making. Sociological institutionalism, the fifth model, focuses on values, norms, myths, and cognitive templates of actors by associating them with the cultural-specific practices. This type of institutionalism was originally modelled to explain similar educational systems adopted in many countries which are culturally different (Hall and Taylor, 1996). However, none of these above 5 models of new institutionalism are able to conceptualise the development industry which is predominantly driven by profit-oriented developers.

Rational choice institutionalism, the sixth model, is found to be most appropriate in explaining the development industry. It consists of 2 important aspects: the formal structure and informal practice. Formal structure refers to the regulatory framework (Peters, 1999), while informal practice includes tradition and social norm, values and attitudes that influence the conduct of business (Keogh and D’Arcy, 1999). According to the economists (Keogh and D’Arcy, 1999; North, 1990), the formal and informal practices reduce instability and consequently transaction costs, as they can control and reduce the chances of externalities.

Rational choice theorists argue that actors are driven by benefits, gains, and incentives (Hall and Taylor, 1996). Although they are governed by regulations, they are opportunists who seek to maximise their personal utilities (Peters, 1999) and gains from
trade (Moe, 1990). Because rational choice actors strive to maximise their individual gain than collective gain, their survival is subject to competitive pressure. Hall and Taylor (1996) suggest that the behaviour of rational choice actors can be explained with the principal-agent model, in which the principal is the governing unit such as the state, while the agents are normally the subordinate units interacting with the principal in a hierarchical manner. However, they recognise that guessing behaviour often takes place among rational choice actors to maximise gain, which can be explained with either the formal rules in the principal-agent model or “tacit bargain” (Peters, 1999:51) in the game-theoretic model. Nevertheless, neither of them explains the phenomena of interaction between the state and actors through informal practice or even trade associations to influence the formal structure. The formulation of formal structure by the state and the reformulation by the actors is expected to improve their utilities which are termed as ‘duality of structuration’ in the Structure-agent model, which is underpinned by Giddens’ (1984:169) Structuration Theory. A more detailed discussion on the Structure-agent theory will be presented later under in the state-market relationship section.

The most distinguishing difference across normative, historical, sociological and rational choice institutionalisms (putting aside the international and empirical institutionalisms which are irrelevant to the study of development industry) is the degree of actors’ engagement and structural influence. The stark contrast between the rational choice and normative models is that the actors in the rational model are driven by utility maximisation while actors in normative model are self-sacrificial to achieve common objectives. Actors’ efficiency accounts for the success of rational choice model whereas actors’ voluntarism for the normative model. However, the importance of rational choice actors has been over exemplified when compared to the normative model, which stresses more on the institution’s collective objectives. When comparing the normative model with the historical model, it is the path dependent approach in the latter that sets the difference because the normative model emphasises routine and prescribes responsibility to actors. In contrast, historical institutionalism exists and persists because it widely embraces conventions and past practices which serve as behavioural templates. The continued existence of rational choice institutionalism comes from the actors’ efficiency while self-sacrificial aspect is for the normative institutionalism, as compared to path-dependency for historical institutionalism. The survival of
sociological institutionalism, however, draws from the social norm, identity and legitimacy to the actors.

The above discussion shows that the shaping of behaviour is dependent upon values, routines and responsibilities for normative institutionalism; rules/procedures and path-dependent patterns for historical institutionalism; institutional structures/mechanism that limits or enhance benefits for rational choice institutionalism; and the provision of identity to actors for sociological institutionalism. A summary of the 4 institutional theories are presented in Table 2.3 highlighting how the actors behave, how institutions influence their behaviour, why institutions persist, and their respective strengths and weaknesses.

In conclusion, rational choice institutionalism reflects the individualist culture of contemporary society. It clearly depicts how institutions affect the functions and benefits from the interaction between the governing unit and the actors, as well as among the actors. The major strength of normative institutionalism is the assumption that actors carry out their functions voluntarily, whereas historical and sociological theorists assume actors operating under expected situations such as historical practices or conventions. However, both historical institutionalism and sociological institutionalism assume that actors run their course of action by cultural norms, myths and expectations. Nevertheless, they are insufficient to conceptualise the utility preference of actors in the development industry.
## Table 2.3: 4 Models of institutionalism

<table>
<thead>
<tr>
<th></th>
<th>Normative Institutionalism</th>
<th>Historical Institutionalism</th>
<th>Rational Choice Institutionalism</th>
<th>Sociological Institutionalism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How do actors behave?</strong></td>
<td>- Actors behave under a set of routines, values, and the prescribed responsibilities that come with their role.</td>
<td>- Actors’ behaviour is strategic and driven by their own worldview. They solve problems with past solutions to meet their objectives. Actors are satisficers but not utility maximisers.</td>
<td>- Actors act to maximise their own fixed preference in a highly strategic manner but the collective outcome is sub-optimised.</td>
<td>- Culturally-specific practices (myths, ceremonies, cognitive scripts, moral templates and symbols) drive actors’ behaviour predominantly. Actors internalise these practices and meaning into their actions. They use the available institutional templates to solve problems.</td>
</tr>
<tr>
<td><strong>What do institutions do?</strong></td>
<td>- Shape the behaviour of actors with values, routines and responsibilities.</td>
<td>- Rules and procedures guide actions but actors also depend on moral or cognitive templates, symbols and routines to interpret actions and seek solutions. It influences actors’ behaviour by providing templates for problem solving.</td>
<td>- Institutions structure interaction, influence the range and sequence of alternatives. They offer information that reduces uncertainty and how others behave to gain from exchange.</td>
<td>- Institutions influence actors with cognitive scripts, models and categories in interpreting actions of others. It provides meaning to social life, identity and preferences.</td>
</tr>
<tr>
<td><strong>Why do institutions persist over time?</strong></td>
<td>- Actors carry out their roles with logic of appropriateness but not logic of consequentiality.</td>
<td>- Only historical conventions and practices can be readily accepted for institutions to persist. Actors obey the rules and patterns and incorporate ideas into institutions for problem solving.</td>
<td>- Institutions offer utility that actors like to benefit from.</td>
<td>- Social legitimacy is provided for organisations and actors. Actors depend on institutions to provide identity in a socially acceptable manner.</td>
</tr>
<tr>
<td><strong>Strengths</strong></td>
<td>- Actors perform with voluntarism to keep institution going.</td>
<td>- It is path dependent and recognises power asymmetry and struggles.</td>
<td>- Develop robust explanation on how institutions affect behaviour, their functions and benefits and vice versa. Emphasis on strategic interaction between actors.</td>
<td>- Build underlying preferences and identities of actors. It also explains the culturally-specific strategies that actors adopt.</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td>- Actors may perform to the extent of forgoing their self-interest.</td>
<td>- Less devotion on how institutions affect behaviour. An induction approach. Slower than others in coping with institutional change.</td>
<td>- It is functionalist, intentionalist and deductionalist. Exemplify human motivation. Overstate actors’ efficiency. Goals of actors are exogenous to institutional analysis.</td>
<td>- Understate power clash and struggle among actors. Exaggerate the outcomes than the actors.</td>
</tr>
</tbody>
</table>
Other than the political scientist’s model, Tiesdell and Allmendinger (2005), the urban planners, also develop the Political Economy of Institutionalism approach to explain development process with an emphasis on how policies shape the development process and the interaction of agents. The Political Economy of Institutionalism comprises of 3 important carriers which are actor/network relationships, formal rules and regulations and informal customs and conventions. Institution is defined as the outcome of social, legal, political and cultural factors. It stresses how institutional environment, agents’ strategies, style and ideas can make a difference in the outcome of development and recognises that each should have unique shaping effect on the outcome of development. Particularly, cultural factors influence the way agents think and act which will also determine the outcomes of development. This political scientist approach of development model recognises the fluid nature of each of these aspects and how they shape the social relations of agents differently in each of the property sub-sector, alongside the formal structure. PEI also recognises the main elements of rational choice institutionalism such as the informal customs and conventions and sees agents using them as an accommodative method of resolving conflicts in the institution. However, this model has yet to conceptualise the profit-maximisation behaviour of developers and how their utility-oriented mentality shapes their strategies.

The above discussion helps to identify that the rational choice institutionalism as the most appropriate model for research into the residential industry in Malaysia. The conceptual framework of this study will be further discussed in Chapter 4 after a review of the Malaysian housing policy and planning system in Chapter 3.
THE STATE AND THE MARKET: COMPLEX RELATIONSHIP

The development industry is a very complicated institution. As discussed in Chapter 1, the Malaysian government depends on developers to supply housing units for the low, medium and high cost income earners. Hence, the public and private sectors have to work together to achieve government housing objectives. This situation is explained by Stoker and Mossberger (1994) in their urban regime theory which proposes ‘the effectiveness of local government depends greatly on the cooperation of non-governmental actors and on the combination of state capacity with non-governmental resources’ (p.197). Mossberger and Stoker (2001) subsequently develop this theory by integrating the ‘elements of political economy, pluralism, and institutionalism’ (p.811), which illustrates the complex relationship between the state and developers.

This complex relationship begins when the state depends on developers for housing supply and for tax revenue. The state has to devise effective regulatory frameworks to shape developers’ behaviour. Tensions are generated when developers have to adhere to the regulatory framework for planning permission but also want to secure it within the shortest possible time to recover their investment. This depicts how the combination of institutional framework, communication methods and activities between the state and the market affects the effectiveness of any developments (Ambrose, 2003). The interactions of these factors make the development industry highly complicated and the dynamics of which is well captured by the rational choice institutionalism.

The state is established to protect social orderliness and to encourage collective endeavours (Stoker, 1998). Hence, the state formulates regulatory frameworks to structure the behavioural order of actors while recognising that informal culture is working in rational choice institution. Actors, ranging from developers and built environment professionals, form the provision end; while individual citizens form the consumption end of a development process, with Non-Governmental Organisations lobbying the state to advance their interests. Instead of imposing regulations for actors to adhere by the state, the state and the market need to communicate because an understanding of mutual needs and expectations lead to a more ‘democratic and effective vision of future development of towns and cities, constructed around a state-market dialectic not a state-market dichotomy’ (Adams et al., 2005b:241).
Chapter 2 Literature Review

Figure 2.4: State/market/citizens relationship and the built environment
(Source: Ambrose, 2003:12)

Ambrose (2003) models the relationship between the state, market and citizens in the development industry (see Figure 2.4). The state includes the federal and local governments. According to his model, the main role of the federal government is to protect the nation’s interest and it can be any matters deemed important and relevant; while the local state government has similar purpose of existence but also protects the interest of local constituents (which is housing needs and demand in the context of this research). The exchange between the state and the market is represented by the arrows between Boxes 1 and 2 in Figure 2.4. The capital accumulation producers, such as the developers, normally assess the market to meet its needs and demand. The outer loop of the model in Figure 2.4 explains that central and state governments are voted by citizens through elections. The low income group depends on the state to provide social housing which the state has to deliver to secure votes. As for citizens who have purchasing power, they express their choices and purchase preference through selection and purchase of built units offered by the capital accumulative producers who are
developers. The joint effort of the state and capital accumulative producers delivers the total stock of built environment which is indicated in Box 3 of the diagram. This figure explains the government objectives in meeting the housing needs and demand of citizens and delineates the role of planning to achieve these objectives.

**PLANNING FOR HOUSING**

Planning is defined as ‘*intentional public/governmental interventions in the land and property development process intended to achieve societal objectives*’ (Tiesdell and Allmendinger, 2005:58). They further elaborate the importance of planning to ‘*not only in affecting supply and demand but also in shaping the context for, social relations within, and process of land and property development through, for example, reducing risk, providing more authoritative information, affecting the weighing of cost, benefits and risks of a particular action…*’ (Tiesdell and Allmendinger, 2005:58).

Planning has in recent years moved from formulating policy to shaping development activities, particularly to regulate developers from achieving their profit objective to prioritise public interest of housing access (Healey, 1998b). However, Ball (1983) contends that the state does not pay attention to development activities specifically. Planning has also evolved into a regime that requires developers taking over the role of housing provision from government through various partnerships and joint venture initiatives. It then progresses to the building of institutional capacity (Tiesdell and Allmendinger, 2005; Healey, 1998a), which is reckoned to minimise the usage of various material resources that are required to formulate more regulations to shape housing development. This highlights the importance for actors to interact and to discuss their ideas and strategies.

It is interesting to note that planning for housing has become more market driven as developers are supplying housing units based on housing demand. Such understanding stresses the importance of communication between developers and homebuyers as developers seek to understand their housing demand and preferences.
The interaction of structure and agents in shaping the society is explained by Giddens’ (1984:376) Structuration Theory in which he defines structuration as ‘the structuring of social relations across time and space, in virtue of the duality of structure’. He claims that structure and agents are mutually dependent. Agents are defined as those who are endowed with the ability to perform certain functions and they live through the structure, defined as the ‘structuring properties… make it possible for discernibly similar social practices to exist across varying spans of time and space and which lend them ‘systemic form’ (Giddens, 1984:17).

Regulations, housing demand and preferences structure housing provision and thus the strategies of developers. The state, developers and consumers situate themselves in the continuum of housing provision and they influence one another and the overall structure of provision. The mutual structuration between the state (represented by structure) and developers and other actors or agents (which are used interchangeably) is crucial in making housing delivery more efficient, which is termed by Giddens (1984) as the ‘duality of structure’ (p.25) that structure and agents are both mutually dependent and that the ‘structural properties of social systems are both medium and outcome of the practices they recursively organise’ (p.25). Agents can reformulate the structure through continual training, learning and transforming and, consequently, influence the future outcome.

In the development industry, structure can be either a set of regulatory framework, financial or social resources or even ideas to plan and manage housing development (Healey, 1992b). Agents are developers who are motivated by the utility to perform the development function. Giddens (1984) perceives that structure as ‘enabling and constraining’ (p.25) at the same time which explains the need of actors engaging in informal practice, other than just complying with formal structure to maximise their utility. The assumptions of Structuration Theory (Giddens, 1984) are that agents are knowledgeable and understand the consequences of their actions and that the structural properties are adopted and reproduced as the patterns of institutions, which illustrates the duality of structure.
The interaction process between the structure and agents normally involves conflicts because each party has his/her own views and interests. While the state draws up institutional framework to reduce risks and consequently transaction costs, actors are concerned whether the framework favours or threatens their interest. This situation is often worsened if the policy is not business friendly during the economic slowdown. This creates conflicts which need to be resolved so that actors can continue to operate.

As discussed before, the best method for conflict resolution is collaboration (Thomas and Kilmann, 1974) through open communication and information exchange by having 2 parties’ voices heard and differences reconciled. This coincides with Healey’s (1997) collaborative planning in which she emphasises consensus building to mediate conflicts. Essentially, this is the process of ‘discursive practice’ (Healey, 1997:33) which seeks to understand all actors’ social and cultural backgrounds. This understanding will subsequently lead to one’s reflection or one’s perception of viewpoints and consequently seeks to reconcile them with others within the same environment. Eventually, it helps to understand one another’s social and cultural practice and foster cooperation and collaboration. This form of social capital is a key element of ‘institutional capacity’ (Healey, 1997:140) that helps to improve the built environment. However, recent critique comments that collaborative planning and communicative planning (also known as ‘new planning theory’), building on Habermas’ Critical Planning Theory, are too idealistic and unable to provide a clear direction to the planning process (Mantysalo, 2002). Nevertheless, they are an inspiration for actors of the development industry to pursue.
THE RESIDENTIAL INDUSTRY

This section provides a brief discussion on the definition of development and then proceeds to review various development models. This helps to identify the most appropriate development model to provide theoretical underpinning to the conceptualisation.

Lichfield (1956:1) defines development as:

“...a process of carrying out the constructional works which are associated with a change in the use of land or of land with its buildings, or with a change in the intensity of the use of land, or with a re-establishment of an existing use. Such works will include the alteration, erection, re-erection of buildings and also the construction of roads and sewers, the building of a river wall or the laying out of playing fields. The word is used also to describe such land and works jointly when construction has been carried out.”

Development starts when a developer sees market demand for built units under a favourable economic climate. Next, the developer must be able to deliver the development by acquiring a suitable site, securing construction capacity and obtaining approval from the approving authority. Most importantly, developers must be able to secure finance to carry out the development activities. Lichfield (1956) refers these economic activities as the “economics of development” (p.10).

The development industry’s impact on the socio-economic aspect of a nation is pervasive as it affects social life and land use. This explains why the development industry commands the state’s attention. Analysis of the property development market requires investigation into institutional form and change. It reflects the influence of political, economic, social and legal systems which are expressed in land law, planning and urban policy (D’Arcy and Keogh, 1998). Hence, it is important to carry out an institutional analysis of the development industry because it examines different functions carried out by different actors in development process (Healey, 1991). She argues that this kind of analysis must allow for in-depth investigation of the negotiation and interaction process engaged by different actors. The discussion in the following section focuses on understanding the development process and the different models used to conceptualise such a process and the interests of different actors.
EVALUATION OF VARIOUS DEVELOPMENT MODELS

Equilibrium model

There are several theoretical models to conceptualise the development process. Equilibrium model is the most rudimentary model which can be best explained from the neoclassical perspective using the principles of market supply and demand (Healey, 1992a). This model, however, does not take into account the volatility in the property market, which is normally affected by information asymmetry and supply side constraints. Hence, Healey (1991) argues that this theory is only applicable to a stable property market which is dominated by a few large property developers.

Event-sequence model

The event-sequence model (Goodchild and Munton, 1985; Cadman and Austin-Crowe, 1978) unpacks the development process into a few major stages and accepts variations and overlappings. It details land assessment, development planning, planning permission application, project implementation and disposal of built units as the key stages of development. Ratcliffe (1978) also proposes a similar model describing various stages of the development process, except that he specifically highlights the involvement of various consultants and the tendering of award which are absent in the model proposed by Goodchild and Munton (1985) and Cadman and Austin-Crowe (1978). To enhance Ratcliffe’s (1978) model, Barrett et al. (1978) improve their models by incorporating the cyclical nature of the development industry, government policy and finance availability into a “development-pipeline” (np) which operates in a spiral system (see Figure 2.5).
Figure 2.5: Development-pipeline model
(Source: Barrett et al., 1978: np)

Another variant to the above model is developed by Gore and Nicholson (1991) who identify 3 distinct groups of activity in their “sequential or descriptive approaches”. They are: i) development pressures and opportunities which trigger development activities such as government initiatives or private undertakings; ii) development feasibility which refers to identifying opportunities and potential hurdles (which must be overcome) in order to kick off housing development; and iii) implementation which refers to actual project construction and subsequent activities such as disposal by renting, selling, maintenance and management. This model is particularly relevant to housing projects which are led by private developers.

In summary, the event-sequence model captures the complexities of development process. It provides detailed analysis of each step of the development process as compared to the equilibrium model. Furthermore, it recognises that different projects flow through the development pipeline at different speeds due to location differences, marketability and other site constraints. This is complicated by different projects which have different stages and characteristics. The shortcoming of this model is that it does not include actors’ roles and strategies, or the external factors which affect the development industry such as the regulatory framework, economic conditions,
demographic changes and the availability of finance (Gore and Nicholson, 1991). It also
does not account for the subsequent stages of development such as management,
maintenance and disposal of the built units.

**Agency model**

The agency model fills the gap of the event-sequence model by delineating the roles and
Agency model is also known as an individualist and interactive approach (Gore and
Nicholson, 1991). The former treats actors as independent as those who are able to
make decision without referring to others, whereas the latter assumes the success of
actors is dependent on how much they can advance their interest with their political
resources.

Developers are mainly driven by their profit objective and Drewett’s (1973) model (see
Figure 2.6) places them at the centre by describing them as the initiators of the
development process beginning from sourcing land bank and finance, planning for
development, gathering production inputs, and organising them for production and
marketing them to homebuyers. The key strength of Drewett’s (1973:164) model is the
presentation of the linkages of different events, decisions, actors and financial sources.
It also identifies the driving force that pushes one stage of development to the other.

![Figure 2.6: Model of land development process by decision agents](Source: Drewett, 1973:164)
The advantages of Drewett’s model are that it considers various key factors and stakeholders involved in each stage of decision making (see Table 2.4). He suggests that land which has development potential will attract developers who will subsequently apply for change of land use, such as from non urban to urban use. However, if it is not suitable for urban use, then the purpose of the land will remain for agricultural or other uses. If the land is identified for urban development after feasibility evaluation, the owner of land, speculators or developers will consider land acquisition by bearing capital availability in mind. Subsequently, the interested parties will arrange preliminary discussion on purchase intent. If there is development potential, developers will proceed with application of planning permission before proceeding with land acquisition, which is different from Malaysia where developers apply for planning permissions only after they acquire the land. Once the land is acquired and planning permission is obtained, the developers are given the right to develop the land, provided that sufficient construction loan is secured to complete the development. Once the land is developed, ownership of housing units will be transferred to consumers and that most of the purchase is financed by housing loans or by the state (in the case of social housing).

*Table 2.4: The land development process*

<table>
<thead>
<tr>
<th>Stages of development</th>
<th>Description</th>
<th>Decisions</th>
<th>Decision agent</th>
<th>Financial support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonurban use</td>
<td>In agriculture, or woodland, or other nonurban use; possibly idle</td>
<td>Opportunity costs are lower than present use</td>
<td>Landowner, speculator, developer</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Nonurban use, under urban shadow</td>
<td>Changed use: greater intensity of use, multiple use, recreation, idle</td>
<td>Relative location change or pressure of opportunity costs</td>
<td>Landowner, speculator, developer</td>
<td>Agricultural mortgage corporation</td>
</tr>
<tr>
<td>Urban interest</td>
<td>Decision agent recognises land has the potential for a time period</td>
<td>Decision to consider land</td>
<td>Planner, Landowner, speculator, developer</td>
<td>Preliminary arrangement of financing</td>
</tr>
<tr>
<td>Active consideration: planning permission</td>
<td>Agent contacts planning authority and/or government for development permission</td>
<td>Decision to purchase land</td>
<td>Developer, Planner</td>
<td>Preliminary arrangement of financing</td>
</tr>
<tr>
<td>Purchase of land</td>
<td>Agent contacts another agent responsible for land sale</td>
<td>Decision to purchase land</td>
<td>Developer, Planner</td>
<td>Loan for purchase of raw land</td>
</tr>
<tr>
<td>Active development</td>
<td>Physical development of land</td>
<td>Decision to develop land</td>
<td>Developer, Planner</td>
<td>Construction loan</td>
</tr>
<tr>
<td>Purchase of development</td>
<td>Purchase of property and occupation</td>
<td>Decision to purchase</td>
<td>Consumer</td>
<td>Mortgage, local authority</td>
</tr>
</tbody>
</table>

*(Source: Drewett, 1973:166-167)*
Goodchild and Munton (1986) claim that Drewett’s (1973) model fails to consider institutional factors which constrain developers’ actions, such as legal constraints, planning control and policy, the provision of infrastructure, competitors, bankers, and purchasers. However, the agency model, unlike the earlier models, manages to conceptualise the complexity of development stages and the agents’ roles and interest in each stage. Nevertheless, the pitfalls are the oversimplification of development process (Gore and Nicholson, 1991) and the failure to conceptualise the power relation and struggles between the actors and the wider power relations imposed by the economy and society. In other words, the interplay of the actors’ relation and various forces driving the development process is absent.

Kaiser and Weiss (1970) propose a similar model which focuses on the sequence of the development process (see Figure 2.7) and the specific decision made at each stage to progress to the subsequent stage. In the initial stage, the potential of land is identified and the use of land becomes transitional when developers consider acquisition, which then kicks off negotiation between developers and landowners. If the purchase is successful, developers will decide on the concept and type of development which is suitable. Upon obtaining approval for their proposed development, developers will begin construction. Based on the approved development concept, interested buyers will buy on the basis of the characteristics of the property offered. Once the units are built, the owners will take over the possession. These development stages are regulated by the government’s development policies and implementation instruments. However, this model does not consider the dynamics of supply and demand, the development process, the major structuring forces and the timing of the development.
Figure 2.7: Model of residential and land conversion process  
(Source: Kaiser and Weiss, 1970:31)

Structure model

The structure model is a shift away from these conventional models because it encapsulates the external forces which drive and structure development. Ambrose (1986) theorises the development industry in the UK by conceptualising the actors’ roles and the driving force of financial industry which interacts with the state’s policy. Nevertheless, it fails to consider the economic climate which affects demand and supply and demographic changes that determine housing preferences. Ambrose (1994), nevertheless, revised his 1984’s model (see Figure 2.8) to include various sources of effective demands triggered by demographic, economic and cultural factors.
In Ambrose’s (1994) revised model, population size, age structure and household size are recognised as the demographic factors, whereas employment, income, availability of finance, interest rate and past saving levels as the economic factors. Lifestyle, use of public transport and spending patterns of disposal income are also considered as the cultural factors that influence the demand of built units. In addition, it clearly highlights the importance of cooperation between the public and private sector. The assessment of development need is undertaken by the public sector, and the demand is by the private sector. Both parties, driven by housing needs and demand, carry out development activities to deliver the required supply.

Ambrose’s (1994) model is relevant because it encompasses the roles of various private sector agencies, known as the ‘non-democratically accountable’, namely, developers, private sources of finance, private construction companies, real estate brokers and private construction companies. Eventually, these agencies are required to work with the public sector, which is named as the ‘democratically accountable’ (Ambrose, 1994:40) to obtain development approvals, site clearance, relevant finance or public subsidy, actual implementation of the development plan (construction of units), disposal of units, and management/maintenance if relevant. The level of their cooperation affects the quantity and quality of housing supply. However, this model focuses on state
funding for which the development is dependent on. It is more applicable for social housing developments than the middle to high cost housing developments. Nevertheless, it provides succinct explanation of how needs and demand for housing is derived.

**SUMMARY**

The characteristics of these different models are summarised in Table 2.5. The equilibrium model theorises the demand and supply of built units, but it is the most rudimentary model that does not explain the detailed development activities which entail enormous dynamics and complexities. It is, therefore, only applicable to stable property markets where only a few developers are actively operating. The event-sequence model, instead, provides the detailed analysis of what takes place in every stage of development process. Nevertheless, it does not explain the motivations for development or the roles and strategies of actors. It also assumes that all developments have similar development stages and that the economic condition is always predictable. The agency model fills in the gap by describing the roles and strategies of different actors in the development process. Nevertheless, it is plagued by the same weaknesses of event-sequence model because the institutional environment affecting the development industry is only tenuously investigated. It also fails to conceptualise the power relations between the actors, and between the actors and the institutional environment. However, it recognises that developers initiate development by assembling the necessary production inputs, and managing them for production and marketing them to buyers.

The structure model, however, attempts to model the institutional environment of the development industry by including the public and private sectors as well as their structural relationship in fostering a favourable development climate. It recognises government as an enabler of development, policing whether rules and regulations are adhered to by the various players in the industry. It recognises the power play of various actors in the structural relationship. Besides, it also identifies the sources of finance for the state and developers to commence developments. There is no specific modelling on the sequence of development process and consideration on the supply and demand. When comparing with the other models, the structure model is deemed as the most relevant model to conceptualise the key issues of this research study. It recognises the
dynamic power relations taking place and their influence on one another as well as on the government agencies. Importantly, it places all actors within a structural model in which their relationship is the driving force. This model, however, suffers from the limitations that it does not particularly focus on the supply and demand factors, other than the relationship between the structure and the institutional environment. Besides, it also assumes that all actors in development process are cooperative without which the whole development industry is considered paralysed with no driving force.
Table 2.5: Comparison of the models of development process

<table>
<thead>
<tr>
<th></th>
<th>Equilibrium Model</th>
<th>Event-Sequence Model</th>
<th>Agency Model</th>
<th>Structure Model</th>
</tr>
</thead>
</table>
| **Demand and supply** | - Demand drives development.  
- Supply must come at the right place, time and price. | - No consideration/specification. | - No consideration/specification. | - No consideration/specification. |
| **Timescale**         | - No consideration/specification. | - Different projects have different timescales to move down the development pipeline. | - No consideration/specification. | - No consideration/specification. |
| **Development process** | - No consideration/specification. | - Unpack into development into different stages and processes.  
- Recognise the complexity in the development process. | - Delineation of development process. | - No specific modelling on the development process. Describe structural relationship among the actors involved in development institutions. |
| **Actors’ interest and strategies** | - No clear specification except that government is the major land bank holder thus may be the source of supply side constraint. | - No consideration/specification. | - Take into account actors’ interests and roles.  
- Developer is the key coordinator and catalyst for development who assemble input of production. | - No consideration/specification. |
| **Power relation**    | - No consideration/specification. | - No consideration/specification. | - No consideration/specification. | - Conceptualise power relations and struggles of the actors who operate in the structure. |
| **Strengths**         | - Market demand is the predictor to supply. | - Analyse the details of each development process. | - Separate roles of agents from functions of institution.  
- Recognise events and sequence can run parallelly. | - Provision of institutional arrangement for development process.  
- Recognise the cyclical nature. |
| **Weaknesses**        | - Suppliers and buyers are not sure of what each other has to offer.  
- Supply side constraint due to land availability (controlled by the state).  
- Fail to consider the preference of user and investor market as well as the complexity of development industry. | - Blockages can happen in all stages.  
- Sequence of the development stages may differ from project to project.  
- Failure to capture cyclical nature and diversity of the development industry. | - Fail to conceptualise power relations and struggles of actors.  
- No consideration on demand and supply factor.  
- Relationship between the state, the housing industry and the financial sector which drives the industry are vaguely described. | - No consideration on demand and supply factor except Ambrose (2003)’s model. |
| **Assumptions**       | - Development process is unproblematic.  
- Only applicable to stable property market whereby only a few developers are operating. | - Development process is standard and consists of almost the same stages.  
- Economic condition is stable and predictable. | - Economic condition is stable and predictable. | - State, housing industry, and financial sector cooperate to achieve common objectives. |
STRUCTURE MODELS WITH INSTITUTIONAL CONSIDERATIONS

There are 2 structure models which take into account of external institutional factors, are examined for this research. They are Healey’s (1992a) Structure-agency model and Ball’s (1986) Structure of Provision. The following section will examine their advantages and disadvantages as well as applicability to provide theoretical underpinning for this research.

Structure-agency model

From an institutionalist’s perspective, Healey (1992a) proposes an institutional model of the development process which encompasses the events and agencies involved. Structure-agency model encapsulates development process in 4 stages: i) description of events in development process, the agents and the outcome; ii) identification of the process of development and roles of agents as well as the power relations between them (which Ball (1998:1511) terms it as ‘a relational analysis’), iii) analysis of the interests and strategies of different agents in relation to the structuring forces, (i.e., resources, rules and ideas); and finally iv) the ideology that shapes the model of economic development. The last concept of ideology can be, for example, an ‘economy dominated by corporatist-industrial production relations, highly codified land use regulations and a strong environmental movement (for example, in parts of Germany)’ (Healey, 1992a:37) and the relationship of agents with the wider society which Ball (1998) explains how the ‘social theories’ (p.1511) affect the third stage. In the development context, agents are understood to be developers, professionals and the public sector. However, the ideology of society is a distinctive element mentioned in Healey’s (1992a) Structure-agency model as it attempts to look at how the ideology of government generates institutional rules that administer the usage of resources. An illustration of this model is presented in Figure 2.9.
In this particular model, the development process is structured by material resources, rules and ideas (Healey, 1992a). Material resources refer to the inputs of production such as land, labour and capital, while rules and the institutional regulations determine the usage of production inputs. Ideas, being the driving force behind the strategies of agents, determine how material resources and rules are utilised to shape development outcome (Healey, 1992a). The novelty of idea, over resources and rules proposed by Giddens (1984), is the third link that Healey (1992a) proposes in her institutional model of the development process. In other words, ideas of actors are able to change the strategies that are devised to guide their behaviour. Also, she stresses that ideas and practices have transformative elements, and creative agencies normally ‘have the capacity to ‘travel’ not just from one arena to another, but from one level of consciousness to another. By this, a translation is meant from the level of conscious actor invention and mobilisation to that of routinisation as accepted practices, and beyond that to broadly accepted cultural norm and values’ (Healey, 2006:304).

Guy and Henneberry (2000) argue that this model emphasises on social relations, especially between land and property, in the development context which take place in a
less corporatist and capitalist societies even though Healey (1992a) claims that ‘it should be capable of application under different economic and political regimes’ (p.35). This model is a stark contrast from Harvey’s (1985) Circuits of Production that is more applicable in a capitalist society as the model explains how the primary, secondary and tertiary circuits of capital and finance change the built-environment.

However, Ball (1998) points out that the failure of Structure-agency model to identify in detail what consists of structure and agents and the confusion between whether agents are similar to institution poses difficulty in the application of this model. He describes this confusion as, ‘structure seems to be aspects of the broad context in which agents operate. Agents seem to be key people working in institutions, in which case institutions become wrongly personified as people, although it may be the case that institutions refer to broader social rules and regulations’ and ‘this emphasis on structure and agencies does mean that institutions disappear as independent entities’ (p.1512). As such, the strategies of agents are also those of institution mean that it will be difficult to bring about changes whenever there are crises.

Furthermore, the theoretical problem also lies with the vague definition of strategies (Healey, 1992a) which can be formulated after certain events that are resulted from the external institutional environment. Hence, this model lacks theoretical underpinning and any applications will require additional care in defining the confusing structures, agents and institutions. As it is now, the dichotomy between structure and agency requires an understanding of causality and explanation on changes, as well as how it should deal with changes. These are the key questions to answer in order for this theory to be made relevant theoretically in explaining the complicated development process. Hooper (1992) also expresses concern over the vague conception of institution and comments that institution as the link between structure and agency fails to take account of circumstantial factors in the wider society which can impact on the interaction between structure and agency.

Ball (1998) further argues that the Structure-agency theory is similar to the strategic style of game theory, except that it allows for pre-defined objectives through resources and rules for agents to benchmark their performance. Hence, he perceives that his Structure of Provision model can overcome this flaw as it offers a contingent nature by allowing the Structure of Provision to vary from one type of development unit to the
other. The Structure of Provision will be discussed in more detail in the following section. The complexity and dynamic interaction between structure and agents and between agents lead Gore and Nicholson (1991) to conclude that it is pointless to promulgate a universal model of development for the property sector. Instead, he supports Ball’s Structure of Provision which proposes different Structures of Provision for different property sub-sectors and in different countries as they have different economic and societal development models. This is resonated by Ball (2006) who further argues that housing market performance cannot accrue to institutional aspect alone, as institution is undergoing constant changes which makes difficult to capture the entire changes without a continual accounting basis.

Furthermore, the Structure-agency model is rather open and lacks the step-by-step investigative enquiry such as one offered by Ball’s (1986) Structure of Provision. Besides, it does not conceptualise market which is a structuring power for housing industry because the characteristics of market determine the housing provision of developers. Hence, it is difficult to examine the behaviour and strategies of developers which are highly influenced by the housing market. Probably, this explains the claims of Krabben and Beokema (1994) that the Structure-agency model fails to investigate the behaviours of agents and consequently it is inadequate to capture any potential institutional changes.

**Development cultures**

Whilst the above models conceptualise development process from the perspectives of economics, event-sequence, agency and structure perspective, none of them approaches the development process from a social and cultural perspective. Guy et al. (2002) and Guy and Henneberry (2000) bridge the gap by providing a different insight into the development process by capturing the preconceived ideas, values and assumptions of private developers as another set of factors which influence their development strategies. They note that institutional investors who are based at London tend to be driven by strategic rationality and utility-maximising behaviour in evaluating investment portfolios (Guy et al., 2002). In order to minimise risk exposure, they normally invest in areas and products which they are familiar with and would bring the expected financial returns. In other words, they operate with their preconceived knowledge about the
places and products which provide them certain confidence level in the investment that they decide to undertake.

Developers’ ‘reference to established guidelines and to previous practice and experience’ (Guy et al., 2002: 1193) is found to apply more to the London-based institutional developers than the local developers. The latter are seen to be more risk-taking and innovative as they are willing to invest in locations and products which might not be in their areas of expertise or specialism. In the case of Manchester, local developers were found undertaking unconventional developments in unfamiliar places. They are, however, more willing to engage in social and cultural activities rather than merely driven by financial objectives. These broader types of activity are seen by Guy and Henneberry (2000) as important because they led to more innovative urban regeneration activities (Guy et al., 2002).

It is, therefore, appropriate to conclude that not all developers engage in developments purely on the basis of expected financial returns that meet their investment criteria. While institutional-owned developers are expected to operate in this manner with a calculated risk, this might not apply to more innovative developers who tend to invest beyond the expected norm in the areas and products they develop. This social process is probably found to be irrational in economic terms (Guy and Henneberry, 2002) but is able to respond to local development need and consequently enables urban regeneration activities to take place which meet policy objectives.

Hence, cultural and social elements are found to operate alongside strategic rationality even though they are arguably found to prevent developers from achieving the optimal financial returns to their investments (Guy et al., 2002; 2000). These arguments offer a fresh view in approaching and analysing the behaviour of developers in shaping development process, over and above the power relations explained by Healey’s (1991) Structure-agency and her (1992a) institutional model of development process.

**Structure of Provision**

Ball (1998) also believes that any study of development must be approached from the institutional perspective because of the complications and dynamics between the state and the market, and with the key actors. Hence, Ball’s (1986) Structure of Provision, a
structure model analysing the institutional driving force of owner-occupier housing development, is identified to provide the most relevant theoretical underpinning for this research. Ball (1986:158) describes the Structure of Provision for owner-occupier housing industry as:

’a structure of housing provision describes a historically given process of providing and reproducing the physical entity housing, focusing on the social agents essential to that process and the relations between them’.

The Structure of Provision (see Figure 2.10) is developed (Ball, 1986) to examine the owner-occupied housing industry in the UK. Ball (2002) defines provision as the entire scale of development, ranging from construction to ownership and usage, which also includes secondary transactions. The Structure of Provision consists of a network of organisations such as professional firms, developers, contractors and regulatory units which help to structure the provision in which market is also part of it. Ball (1998) concludes that the network of organisations and the market are the ‘structure’ in the Structure of Provision and that they influence one another in housing delivery.

![Figure 2.10: Structure of provision of owner-occupier housing provision (Source: Ball, 1986:159)](image-url)
The Structure of Provision can vary from one type of building provision to another and it can continuously undergo alterations. It conceptualises institution as a major entity in the research of development processes (Ball, 1998) by claiming that the Structure of Provision bridges ‘agency and structure, organisations and markets, in a dynamic and contextual analysis’ (Guy and Henneberry, 2000:2405). In formulating a Structure of Provision for any development, the extent of institutional involvement in development is subject to the judgment of researchers (Ball, 1998). In order to conceptualise a robust Structure of Provisions, a thorough understanding of institutional structure and other social structures within which the actors are operating is critically important. Gore and Nicholson (1991) make several propositions for Ball’s (1986) Structure of Provision, which are concurred by Ball (1998), to highlight that social relation and economic interests among actors as well as structure is important to the production, exchange and consumption of built units. However, different development types have different Structures of Provision and they can only be structured after an investigation of that particular development by examining the institutional structure, the actors and other related players of which their economic interest can either be complementing or conflicting with each other. Eventually, adjustments or alterations to the Structure of Provision are permitted with new legal imposition, provision of alternative financial support and other forces in the external environment for adaptation purpose (Ball, 1998; Gore and Nicholson, 1991).

In sum, the Structure of Provision combines the main elements of the development process in the event-sequence model, the roles of agents in the agency model, and the institutional structuring factors. It further recognises the effect of raw material supply (supplied by raw material producers) and the availability of building workers (supplied by contractors or builders) as the major production inputs. The Structure of Provision recognises the role of the state in providing a planning system, a set of housing policy, infrastructure and regulatory measures such as tax and claims to govern the development industry. However, the involvement of the state is only confined to enabling the development according to regulations.

Nevertheless, the Structure of Provision does not consider how housing needs and demand are derived, which is also concurred by Kemeny (1987). Furthermore, it fails to provide a detailed elaboration on how the structure shapes the agents and vice versa, similarly between organisations and markets. The Structure of Provision sees market
and institution form a continuum, which is disagreed by Guy and Henneberry (2000:2405) as they view market and institution as 2 parties which mutually structure one another in urban development. In response to this critique, Ball (1998) claims that the Structure of Provision is a ‘methodological theory’ (p.154) that provides direction to investigate institutions and the role of actors instead of explaining them. He further proposes that other theories are required to answer research questions that this model is not able to address.

It is based on the above discussion that this study adopts Ball’s (1998) Structure of Provision instead of Healey’s (1992a) Structure-agent theory to provide the theoretical platform. However, while the Structure of Provision explains housing provision, it does not conceptualise the assessment of housing needs and demand. Instead, it simply assumes that they will be reflected in house prices. Therefore, Wong and Madden’s (2000) Housing Needs and Demand Assessment Model for the North West of England is adopted to bridge this gap. Their model is adapted from Brown and Moore’s (1970) study in which behavioural approach, demographic analysis and ecological approach are applied in deciding for a residential location. The behavioural approach captures the housing aspirations of households and their ability to maximise utilities while the demographic study is related to matching the need of a family depending with its life-cycle. Furthermore, ecological approach concerns with the neighbourhood or local environment’s pull and push factors in retaining or turning away the existing residents. However, their model does not examine the supply side of the housing market.

**HOUSING ASSESSMENT MODEL**

Based on Wong and Madden’s (2000) model, housing needs and demand begin with the household needs, aspirations and resources (see the top left box in Figure 2.11), which is an outcome of interaction between demographic and economic factors. This outcome is either enhanced or worsened by the residential neighbourhood (top right box in Figure 2.11) where the households reside. Local amenities, services and transport availability and accessibility are the factors that enhance or reduce the utility of the existing residential neighbourhood. If the households find their neighbourhood meeting their need and aspirations with their available resources, then they tend to stay in the same house. However, if they find their houses fail to meet their increasing family need
but still prefer to live in the same neighbourhood, the likelihood is they tend to seek new houses in the same neighbourhood. However, if neither the housing stock nor the neighbourhood meet their changing needs, then housing stress arises and they might move out from their present neighbourhood. Consequently, their houses are available for sale in the market. The available houses coupled with the needs of immigrants determine the eventual housing demand and needs which are either matched or mismatched by the housing supply. Housing supply can be categorised into several segments, such as housing size, type, quality, location, tenure and price. The quantity of housing supply is determined by the availability of land, urban capacity and environmental constraints, though their study did not deal with these issues. More importantly, house prices are the result of interaction between demand and supply, which is not clearly articulated in their model.

\[\text{Figure 2.11: North West housing needs and demand study: 2000} \]
(Source: Wong and Madden, 2000 :4)
This model provides a more systematic explanation of the key factors that households consider when deciding on house purchases or disposals, as compared to Ambrose’s (1994) model. Besides, it also makes the state and developers aware of the importance of amenity and accessibility of residential neighbourhoods in housing planning as they either help to retain or turn away residents. In addition, Wong and Madden’s (2000) model is an open model because it takes into account of the migration trend into a residential area. Housing need caused by migration trend is another key factor worth evaluating by the state and developers in the global age with accessible transport and communication. However, the attempts to maintain and improve the utility of the local residential areas should always allow housing to be continuously affordable by the present pool of local residents (Haughton et al., 1987).

However, Ball’s (1998; 1986) Structure of Provision alone is insufficient in explaining the residential development industry because it fails to assess whether housing supply can be matched by the housing needs and demand. Hence, it is complemented by Wong and Madden’s (2000) Housing Needs and Demand Model (for North West of England) to provide an understanding on the dynamics of housing market. This aims to assess how far developers supply according to market demand or affected by it. The combination of these 2 models is illustrated in Figure 2.12, which will be further explained and developed in Chapter 4.
Figure 2.12: Conceptual Diagram

Wong and Madden’s (2000) Housing Needs and Demand Assessment Model

Ball’s (1986) Structure of Provision

(Source: Adapted from Ball’s (1986) Structure of Provision and Wong and Madden’s (2000) Housing Needs and Demand Assessment)
This chapter began with explaining the importance of institutional capacity and how the thickening of institutional capacity can benefit the development industry. The discussion subsequently moved on to the formation, definition and functions of institution by scholars from different disciplines. It is then followed by a discussion on the various models of new institutionalism promulgated by the political scientists with the aim to identify the most appropriate model for the housing development industry. Out of normative, rational choice, sociological, historical, empirical and international institutionalism models, rational choice institutionalism is identified as the most appropriate model because it depicts the state who acts as the provider of formal structure with informal culture dominating the trade practice.

Ball’s (1986) Structure of Provision was also identified as providing a useful and relevant conceptualisation of housing provision, whilst Wong and Madden’s (2000) Housing Assessment Model is seen as providing a good understanding of housing needs and demand to complement Ball’s Structure of Provision. By combining these 2 models, the conceptual framework is further developed for this study, which will be discussed in Chapter 4.

The next chapter will discuss the opportunities, trend and characteristics of the residential development industry in Malaysia. It will also introduce the governmental system, planning system and housing policies which shape the housing delivery system. By examining the real policy context against the theoretical discussion in this chapter, the conceptual framework which is deemed to be appropriate for guiding research of the residential development industry in Malaysia can then be developed (see Chapter 4).
CHAPTER 3 RESIDENTIAL DEVELOPMENT IN MALAYSIA: PLANNING AND POLICY REVIEW

INTRODUCTION

This chapter aims to examine the legislative framework for housing planning in Malaysia. It begins with a brief discussion of the trend and characteristics of the Malaysian residential industry and various opportunities and issues in the sector. This is then followed by an introduction to the Malaysian political system and the roles of the Ministry of Housing and Local Government in shaping the housing policy and the residential industry. Finally, an overview of how the 1976 Town and Country Planning Act (Act 172) and other housing policies shape residential development in Malaysia is provided.
As part of the government’s initiative to liberalise the residential housing industry, a number of positive policies are put in place to promote growth. This has increased competition among developers which leads them to carve out their own competitive edge or niche to garner market share by offering more creative and unconventional products at certain hotspots. The Malaysian developers are found to be active in supplying housing units in various cost segments (Abdul Aziz and Hanif, 2007) in the more urbanised states such as Kuala Lumpur, Selangor, Penang and Johor. Generally, developers across all types of legal ownership, specialise in certain types of housing units or regions that they have gained their reputation in. For example, public-listed developers such as Sime Darby and SP Setia are reputed for their mass housing developments in Selangor state, while Sunrise and Bukit Kiara Properties are well known for their luxurious condominium developments in Mon’t Kiara, an ‘International Zone’ in the Kuala Lumpur Structure Plan 2020.

In April 2007, the Malaysian government lifted the Real Property Gain Tax on real estate transactions. This positive measure revitalises the housing industry which had before then experienced slower growth. More transactions in the primary and secondary housing markets have been observed, according to a key representative from the Central Bank of Malaysia. In addition, the removal of Real Property Gain Tax has opened up the international investor market in urban centres such as Kuala Lumpur and Penang. Developers have moved in a pack in these town centres grabbing land banks to develop luxurious housing units, with foreign homebuyers and local high income earners as their main target market. Inevitably, this has escalated land cost in certain hotspots in Kuala Lumpur and Penang. This phenomenon mirrors the price escalation of residential units in other major international cities (see Healey and Barrett, 1990). This explains the sharp increase in the number of developers supplying high cost housing units in Kuala Lumpur and Penang, including a high percentage of foreign investors and expatriates.

The Central Bank of Malaysia imposed a historic-low base lending rate, at 6.5 percent, during the period of fieldwork in 2008. It has recently removed the ceiling of loan margin, which was pegged at 60 percent of the house price for foreign homebuyers. These factors contribute to an increase in the number of housing transactions, alongside
the removal of Real Property Gain Tax. Furthermore, the Malaysian government has streamlined the homeownership procedures for foreigners which only require them to obtain approval from the state government and removed the requirement to obtain approval from the Foreign Investment Committee. Another key initiative to promote foreign homeownership is through the ‘Malaysia My Second Home Programme’. These programmes are implemented to bring growth to the Malaysian housing industry through foreign investment and ownership, though they have not delivered remarkable performance. Alongside this, the Real Estate Investment Trust is also introduced to spur housing development activities. This positive measure is adopted by some reputable public developers to provide design and build, and then dispose of the condominium blocks to foreign investors from the Middle East. These foreign investors subsequently package them into a Real Estate Investment Trust to make greater profit by enjoying the tax waiver. In summary, the Real Estate Investment Trust opens up another horizon of housing development activities in Malaysia.

Being a developing country, Malaysia requires medium cost housing units to meet the demand of the population which are mostly middle income households. Hence, developers mostly engage in mass housing developments, either vertical development in the land scarce Penang and Kuala Lumpur, or horizontal developments in states which offer ample land bank opportunities such as Selangor, Johor and Perak. Those states in the west coast of Peninsular Malaysia tend to have better infrastructure than the east coast. Home grown developers in these states, such as Boon Siew Company and Lip Sin Company in Penang and Sutera Development Company in Johor, mostly develop terraced housing development in their home states because land was ample and affordable. Hence, they acquired huge tract of land banks. However, developers which offer mass housing are getting more innovative in their product and selling strategies. This is understandable as competition is growing fierce, particularly with public-listed developers who have greater financial strength. Ball (2003) observes that developers strive to offer more innovative housing units, not only to cope with the sophisticated demand of homebuyers, but also to overcome the scarcity of land. This observation certainly applies to housing development in Malaysia as developers in locations such as Kuala Lumpur and Penang develop vertical housing development and venture into the concept of the ‘bungalow in the sky’ by offering only one unit of condominium per floor to deliver luxurious housing units.
The introduction of One-Stop-Centre in April 2007 is another impetus to the Malaysian housing industry. Malpezzi and Mayo (1997) note that land conversions and subdivisions in Malaysia could take up to a period of 2 to 7 years to complete albeit with a high level of uncertainty of approval. The studies further found that the number of steps required in the process of housing planning approval in Malaysia ranges from 40 to 50 while it only takes 12 steps in Bangkok (Strassmann, 1997). Such a delay implies higher development cost for developers and it definitely hinders the entry of new developers. Hence, the Ministry of Housing and Local Government introduced the One-Stop-Centre nationwide across all local authorities in Peninsular Malaysia in 2007 as the key measure to overcome bureaucratic delay and red tape in the approval process (Chan, 2007). This measure is undertaken to improve the housing delivery mechanism and improve the responsiveness of housing supply. More discussion on the implementation of the One-Stop-Centre will be provided in Chapters 5 and 6.

The Malaysian housing industry is, nevertheless, plagued with various issues. There are institutional factors and external factors which are not controllable by the state or developers. First, as in other countries of the world, land availability in major urban centres for housing development is a crucial problem and Malaysia is no exception. To overcome this issue, there is an increasing emphasis on brownfield developments by the Federal Town and Country Planning Department in its National Urbanisation Plan. It is found that the Urban Planning Department of the Kuala Lumpur City Hall has begun to draft planning codes to encourage developers to venture into brownfield developments by offering more planning incentives. The realisation of land scarcity has not led to any changes as a high percentage of land use is imposed for infrastructure purpose, as compared to developed countries such as the US. Malpezzi and Mayo (1997) report that approximately 25 percent of land proposed for residential development is allocated for roads (which is about 4 times higher per household compared to elsewhere in Asia, Europe and the United States for similar plot size), set-back and provision of community facilities for certain sizeable developments. Agus (2002) concludes that the potential of the private development industry in Malaysia is suppressed and depressed by the strict intervention of the state.

There is also an oversupply of medium cost housing units in certain locations in Malaysia. An increasing number of blue collar workers are unemployed as multinational manufacturing plants move to countries such as China, Vietnam and India, which offer
lower production cost, a problem which was also reported in the UK (Healey and Barratt, 1990). The problem of oversupply requires intervention from the State Planning Department to monitor housing stock and to avoid developers abandoning housing projects if they fail to sell sufficient units for profit. This raises to another institutional problem, which is the rising number of abandoned housing projects in Malaysia (Khalid, 2005), which requires a more effective planning system to manage the supply of housing units by developers. In the case of abandoned projects, developers fail to deliver housing units to homebuyers when homebuyers have already paid instalments on their mortgage under the Sell-then-Build system. This group of aggrieved homebuyers organised themselves through the National Housebuyers’ Association to communicate their grievances to the Ministry of Housing and Local Government. This results in the introduction of the Build-then-Sell concept to replace the conventional Sell-then-Build system. The effectiveness of these concepts will be discussed in detail in Chapters 5 and 6.

The following section provides an overview of the role of the Malaysian state on housing planning. It will also cover the governmental system and the political structure of the state.
THE ROLE OF THE MALAYSIAN STATE

The state determines the direction of housing industry through its policy framework. In this section, the role of the Malaysian state in shaping the housing industry will be discussed by looking into the governmental system and the political structure, as well as the housing policy framework.

THE GOVERNMENTAL STRUCTURE AND POLITICAL SYSTEM

Malaysian politics is mainly driven by racial matters. Malaysia consists of 3 major races, which are predominantly the Malays (also known as ‘Bumiputra’\(^1\)), Chinese and Indians, alongside other tribes in the West (also known as Peninsular Malaysia) and East Malaysia, which are also accorded the status of Bumiputra in Penang, Selangor and Johor states. The political system in Malaysia is one of a constitutional monarchy with a system of parliamentary democracy. However, Crouch (1996) comments that the democratic principles are influenced by an authoritarian regime.

Malaysia has a 3-tier government system: federal, state, and local. The 3 federal territories are the capital Kuala Lumpur, Putrajaya (the new federal administrative centre) and Labuan Island (see Figure 3.1). There are 13 states, 9 of which (Kedah, Perak, Johor, Selangor, Pahang, Terengganu, Kelantan, Negeri Sembilan and Perlis) have a hereditary ruler called ‘Sultan’ (which means the head of the state’s monarchy in Malaysian). These 9 hereditary rulers form the ‘Conference of Rulers’ and they rotate among themselves to assume the constitutional monarch for Malaysia which is known as ‘Yang di-Pertuan Agong’ (which means the King or Supreme Ruler in Malaysian) for a term of 5 years.

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\(^1\) Bumiputra means ‘the sons of the soil’ in Malaysian and it refers to the Malay race and a few other tribes in East Malaysia. Bumiputra is the preferred race over the Chinese and Indians who migrated to Malaysia in the 19\(^{th}\) century.
Figure 3.1: The heads of the federal/state monarch
(Source: OWMG, 2007)

The ‘sultan’ is also the leader of the Islamic faith for these 9 states. For states such as Penang, Malacca, Sarawak and Sabah which do not have hereditary rulers, they are led by a ceremonial head, which is the ‘Governor’. Sarawak and Sabah are located in Borneo Island, which is separated from Peninsular Malaysia by the South China Sea (See Figure 3.2). The housing legislation in Sarawak and Sabah is not legislated by the 1976 Federal Town and Country Planning Act (Act 172), because it only applies for the physical development of Peninsular Malaysia. For each of the Malaysian states, there is a written constitution, a state council and a legislature to deal with matters which are not under the jurisdiction of the Parliament. The non federal matters are handled by the ‘Menteri Besar’ (which means Chief Minister in Malaysian) for all the other 13 states. The federal territories of Kuala Lumpur, Putrajaya and Labuan are governed by the Ministry of Federal Territories under the direct supervision of the Prime Minister Department. Each of the federal territories is led by a minister who is appointed by the Prime Minister. The Prime Minister is conventionally the leader of the winning political party and the cabinet members are the Members of Parliament who win the parliamentary seats in the General Election. They are recommended by the Prime
Minister to the King who approves their appointment to hold ministerial functions (OWMG, 2007).

Malaysia gained its independence from Queen Elizabeth II on 31 August 1957. A general election is held every 5 years until the most recent being won by the National Coalition (which means ‘Barisan Nasional’ in Malaysian). It is an alliance of the 14 component parties, of which there are 3 key component parties, the United Malays National Organisation (which represents the Malays), the Malaysian Chinese Association (which represents the Chinese) and the Malaysian Indian Congress (which represents the Indians). The Malaysian government views political stability as a key attraction for foreign investment which has been spurring its economic growth in the past few decades. The National Coalition had always managed to secure two-thirds of the total 214 seats in the Lower House of Parliament to form the government until 2008. During the 2008 12th General Election, it only managed to garner 140 seats resulting in a 58 percent loss of seats. Although it is still able to form the government, it has lost its two-thirds majority for the first time in the Malaysian history. This major defeat caused the previous Prime Minister, Mr Abdullah Badawi, to step down on 3rd April 2009 before his second 5-year term in office. The baton was then passed to Mr Najib Razak, the son of the second Prime Minister.
The following section discusses the planning framework for housing development in Malaysia, alongside a few overarching national policies which shape the housing development industry.

**PLANNING FRAMEWORK FOR THE MALAYSIAN HOUSING INDUSTRY**

After the Japanese Occupation in 1947, the British government officially colonised Malaya and exerted heavy influence on the political, military and economic structure of the country (Goh, 1991). With strong trade links, the structure of capitalism was also introduced into the country’s administration. Due to the extensive historic influence of Britain, Malaysia has always looked to Britain in devising its government system and policy making which shows the legacy left by the British government on its colony. British influences had not only exported capitalism into Malaysia, but also the town planning system which aimed to improve the quality of life of the local population (Goh, 1991). The influence of the British Town Planning System was reinforced by the establishment of the Town Planning Institute in Malaya in 1951, which then developed the Malaysia Town Planning System by mirroring the practice in Britain (Goh, 1991).

The subsequent land use planning system in Malaysia is regulated by the 1976 Town and Country Planning Act (Act 1972) with its latest revision in 2001. It is modelled after the 1947 British Town and Country Planning Act (for England and Wales). The Act is based on a 3-tier system of government which are the federal, state, and local governments, to regulate physical planning in Malaysia (see Figure 3.3). It is administered by the Federal Town and Country Planning Department for Peninsular Malaysia. To ensure efficient land use, a strategic planning framework, the National Physical Plan, is formulated to deliver optimal socio-economic benefit. The Structure Plan is a policy statement which translates the national objective into state-level spatial planning. It emphasises preserving and aesthetising the physical environment, while the Local Plan translates the Structure Plan into detailed guidelines for the local authorities to approve land developments. The Special Area Plan is gazetted as a more detailed plan than the Local Plan, which serves as an action plan for a special area identified by local authorities for specific development, redevelopment, aesthetic improvement or conservation. Local authorities delineate lands which are designated for housing,
industrial and agricultural use according to the Local Plan which is used as a guide for approving housing planning application.

**Figure 3.3: The Malaysian development planning system**

Housing planning is shaped by the 1976 Town and Country Planning Act (Act 172), alongside other overarching national policies such as the National Urbanisation Plan, the New Economic Policies, the Malaysian Plan and other housing policies. The Federal Town and Country Planning Department drafted the National Urbanisation Plan in August 2006 to help achieve Vision 2020 (as discussed in Chapter 1). According to the Provisions under Part IIB Section 6B(3) of the 1976 Town and Country Planning Act (Act 172), the National Urbanisation Plan is the key policy for the preparation of the National Physical Plan (NUP, 2006) and is aimed at raising the effectiveness of urban services by building high quality townships to provide better quality of life through systematic town planning. The National Urbanisation Plan is also expected to guide housing development to cope with population growth by the year 2020 to achieve a balanced development from a social, economic and physical perspectives (NUP, 2006). In fact, the first thrust of the National Urbanisation Plan which calls for ‘efficient and sustainable urban development’ (NUP, 2006:36) highlights the need for efficient and responsive housing delivery system to meet the housing demand and needs of the
growing population. The National Urbanisation Plan aspires to achieve this by integrating the Structure Plan, Local Plan and Special Area Plan within the regional planning framework to shape housing planning.

Another key aspiration of the National Urbanisation Plan is to confine urban growth within a sustainable limit to avoid urban sprawl. Developers are required to carry out an Environmental Impact Assessment during the planning stage as part of the submission to secure planning permission. The National Urbanisation Plan stresses that employment zones are ideally to be located near to residential areas (NUP, 2006). The Ministry of Housing and Local Government aims for zero squatters and is committed to provide housing units to every Malaysian household. To achieve this objective, the NUP emphasises the importance of institutional capacity to provide ‘efficient and effective urban administration and management’ (NUP, 2006:67). Local Agenda 21 also shapes residential planning in Malaysia as it encourages the participation and involvement of the local community in development planning. As suggested in the UK housing reviews, the interests of the state and the market, as well as the community must be sought right from the beginning of the planning process, a practice that is known as ‘front loading’ (UCL and Deloitte, 2007:53).

Other than the 1976 Town and Country Planning Act (Act 172) and the National Urbanisation Plan, housing development is also framed by the New Economic Policy, the National Land Code and the Malaysian Plan. In 1969, a racial riot broke out in Selangor state due to economic imbalances among the major races in Malaysia. Subsequently, the Malaysian government instituted the New Economic Policy in 1971 to address this problem. The New Economic Policy was implemented and formed a significant part of the Second Malaysia Plan (Colin, 1977) to eradicate poverty by raising income levels and increasing employment opportunities for all races. These measures are aimed at redistributing wealth among the major races. The key principle of the New Economic Policy is to help the Bumiputra to own 30 percent of the productive wealth in the country. The Chinese were traditionally traders and businessmen and were economically better off than the Bumiputra who used to live in rural areas and earned their livelihood from agriculture and fisheries (Colin, 1977). When Malaysia gained its Independence in 1957, only 20 percent of Malay were city dwellers and most of them were civil servants. Comparatively, Chinese and Indians were then already actively engaged in the modern economy, as many were the active working class who held most
of the white collar jobs. The Indian Malaysians were more involved in rubber and oil palm plantation works while the Chinese Malaysians were prominent in ‘mining, commerce and industry’ (Crouch, 1996:15).

Since the 1957 Independence, racial issue and tensions have been casting a shadow over the Malaysian politics. Prior to the Independence, negotiations between the races resulted in the Malays dominating the local politics while the Chinese and Indians were given the prerogative to keep their culture and economic status, but at the expense of political control. The government gave employment priority to the Bumiputras in the civil and armed services with few Chinese and Indians being promoted to high positions in these services (Haque, 2003). Nevertheless, the relationship between the Bumiputra and the non Bumiputra is reported to have improved in recent years (Reynald-Querol, 2002).

The implementation of the National Economic Plan as an institutional measure to redistribute the wealth between the major races has also influenced housing policies. The Malaysian developers are required to allocate 30 to 40 percent of their planned housing units to meet the Bumiputra quota which have to be sold at a special discount rate of at least 5 percent (e.g. Selangor imposes 7 percent, Johor 15 percent). As a provision in the 1965 National Land Code 1965 (Act 56), developers in Peninsular Malaysia, except those that operate in Kedah and Perlis states, are allowed to apply for a transfer of the Bumiputra quota to non Bumiputra quota. According to Section 40 of the 1965 National Land Code, land belongs to the state government which has the ultimate decision making power over land use. This prerogative has in some ways generated strife between the federal and state governments.

The Malaysian government sets housing targets for various price categories in its 5-year Malaysian Plan. Malaysia is now implementing the Ninth Malaysian Plan (see Table 1.1) from 2006 to 2010. Housing targets are categorised into high, medium, low medium, low cost housing and housing for the poor, with low cost housing receiving the most attention of the state as it aims to eradicate poverty to achieve the objectives of the National Economic Plan. Developers have been required to provide at least 30 percent

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2 The 1965 National Land Code (Act 56) is an instrumental land law which regulates land transaction in Peninsular Malaysia.
3 The Malay Reservations Enactments of the Malaysian Constitution stipulate that the Malay Reserved Land in Kedah and Perlis states could only be transferred to the Malay race.
of low cost housing in their housing projects since the Fourth Malaysian Plan (1981-1985), alongside the public low cost programmes which are directly funded by the government (Abdul-Aziz and Hanif, 2003). The percentage of quota and selling price varies from state to state because the structure of income differs from one state to the other due to economic progress.

APPLICATION FOR RESIDENTIAL PLANNING

The above section discusses various national and housing policies which shape the Malaysian housing planning. While they are mainly administered by state governments, the Ministry of Housing and Local Government has a significant role in regulating housing development activities. The Ministry of Housing and Local Government is established with a vision to provide ‘high quality and complete living environment for all levels of Malaysian society’ and a mission to ‘provide a healthy, safe, peaceful, and beautiful environment combined with socio-economic growth for a progressive and disciplined Malaysian society’ (OWMHLG, 2007a). The primary aim of the Ministry of Housing and Local Government is to ensure that the housing needs and demand, and the living environment in Malaysia are well planned and provided by the local authorities (see Annex I for the role played by the Ministry of Housing and Local Government in Malaysian housing development). The legal provisions administered by the Ministry of Housing and Local Government to regulate housing planning and their primary objectives are summarised in Table 3.1. In addition, there are non legislative measures, which are similar to the ‘Planning Policy Guidelines’ in the UK context including specific ministerial intention to develop certain regions, for examples, ‘Iskandar Malaysia’ (formerly known as the Iskandar Development Region) in Johor and the Northern Corridor for the Northern Region of Malaysia.
Table 3.1: Legislations governing the Malaysian housing development

<table>
<thead>
<tr>
<th>Acts</th>
<th>Scope of Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984 Uniform Building Bylaws with its latest revision in 2007</td>
<td>Delineation of building specifications and codes to serve as guidelines for town planners and architects.</td>
</tr>
<tr>
<td>1974 Street Drainage and Building Act (Act 133) with its latest revision in 2007</td>
<td>Construction, maintenance and responsibility of developers and local authority on street, drainage and building as approved in planning permission.</td>
</tr>
</tbody>
</table>
| 1985 Strata Title Act (Act 318) with its latest revision in 2007 | i) Application for subdivision of a building or lands  
  ii) Registration of strata titles  
  iii) Provisional block: Issue of strata titles upon completion of building  
  iv) Subdivided buildings: Division and amalgamation of parcels and their rights and obligations  
  v) Management of a subdivided building  
  vi) Termination of subdivision of subdivided building  
  vii) Provisions for low cost buildings  
  viii) Strata titles board |
| 1966 Housing Development (Control and Licensing) Act 118 with its latest revision in 2007 | i) Role of minister, controller, inspector and other officers  
  ii) Licensing of housing developers  
  iii) Duties of a licensed housing developer  
  iv) Investigation and enforcement  
  v) Powers of (Housing) Minister  
  vi) Tribunal for homebuyer claims  
  vii) Offences and penalty for developers |
| 1989 Housing Development (Control and Licensing) Regulations | i) Application and renewal of developer’s license  
  ii) Application and renewal of sale permit  
  iii) Contract of sale  
  ‘Sell-then-Build’ Concept  
  Schedule G – Sale and Purchase Agreement (Land and Building)  
  Schedule H – Sale and Purchase Agreement (Building or Land Intended for Subdivision)  
  ‘Build-then-Sell’ Concept  
  Schedule J – Sale and Purchase Agreement (Land and Building)  
  Schedule K – Sale and Purchase Agreement (Building or Land Intended for Subdivision)  
  iv) Appeal, penalties, savings and repeal |
| 1991 Housing Development (Housing Development Account) Regulations | Responsibility of developer to open housing developer’s account by depositing RM250,000 \( ^4 \) (£45,454) with the Ministry of Housing and Local Government. Collection of progressive payments from homebuyers must be deposited into this account and withdrawal must be certified by the architects on the completion of stages of construction. |
| 2002 Housing Development (the Tribunal for Homebuyers Claims) Regulations | Provision for aggrieved homebuyers whose claim against developer does not exceed 50,000 (£9,090) and for Sale and Purchase Agreement signed before 1 December 2002 to seek compensation through tribunal court. |

*(Information source: OWMHLG, 2007a; HBA, 2009)*

The standard housing planning application begins with the submission of development planning. According to Sections 21, 21A, 21B and 21C of the 1976 Town and Country Planning Act, the Principal Submitting Person of the plans has to be either town planner (for development plan) or an architect (for building plan). However, the One-

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\( ^4 \) The exchange rate between the Pound Sterling (£) and the Malaysian currency (RM) is £1:RM5.5. This exchange rate is applied throughout this thesis.
Stop-Centre is not covered in the 1976 Town and Country Planning Act. The current application process for housing planning is presented in Figure 3.4. The One-Stop-Centre system (see the grey box in Figure 3.4) has been introduced since April 2007 to streamline the bureaucratic approval process. It acts as the administrative centre to receive housing planning applications, coordinate replies between approving departments and expedite the issue of planning permission. It aims to approve housing planning application for the Sell-then-Build concept within 6 months, and 3 months for the Build-then-Sell concept.

**Figure 3.4: Approving process for development planning or building plan**

Under normal circumstances, a standard application requires the approval of 11 to 14 departments, of which some are within the jurisdiction of local authorities, such as the Health Department, Landscape Department, Building Department, Road and Drain Department and Planning Department; while others are the sub-authorities departments which are not managed by local authorities, such as the Fire-Brigade Department, Sewerage and Irrigation Department, Telecom Malaysia, National Power and Water
Utility Company. Regardless of whether they are managed by local authorities, all approving departments are given 14 days to comment on the proposed housing plans and to provide feedback to the One-Stop-Centre. The One-Stop-Centre will then table the new housing planning application to the State Executive Councillors for approval, if it receives clearances from the approving department. However, the One-Stop-Centre Committee is empowered to approve building plan for certain phases of the approved housing development. The One-Stop-Centre system has replaced the Certificate of Fitness for Occupation which was issued by the Building Department of local authorities in previous practice, with the Certificate of Completion and Compliance, which can now be issued by architects, to improve the efficiency of housing delivery system.

Housing development planning requires the contribution of various key professionals such as town planners, architects, land surveyors, civil engineers, mechanical and electrical engineers. They are legislated by various Acts to provide professional certification on housing development planning. For instance, as discussed in the One-Stop-Centre section, town planners are required to submit development planning while architects submit building plans. Civil, structural and electrical engineers are required to prepare various technical drawings which form the essential part of the submission for development planning. After developers obtain planning permission, land surveyors will carry out land use conversion and subdivision of master title. The approval of land use by the Office of Land and Mine will then lead to the preparation of building plans by architects for housing projects with the delineation of housing plots. These professionals are represented by their respective associations (see Table 3.2) in their efforts to influence policy making for their professions.

Table 3.2: Associations for residential development industry professionals in Malaysia

<table>
<thead>
<tr>
<th>Professionals</th>
<th>Name of Associations</th>
<th>Acts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town Planners</td>
<td>Malaysian Institute of Planners</td>
<td>1995 Town Planners Act (Act 538)</td>
</tr>
<tr>
<td>Land surveyors and valuers, and real estate agents</td>
<td>The Board of Valuers, Appraisers and Estate Agents Malaysia</td>
<td>1958 Land Surveyors Act (Act 458) with its latest revision in 2006</td>
</tr>
<tr>
<td>Civil, Mechanical, Electrical Engineers</td>
<td>Malaysian Institute of Engineers</td>
<td>1967 Engineers Act (Act 138) with its latest revision in 2002</td>
</tr>
<tr>
<td>Architects</td>
<td>Malaysian Institute of Architects</td>
<td>1967 Architects Act (Act 117)</td>
</tr>
<tr>
<td>Real estate agents</td>
<td>Malaysian Institute of Estate Agents</td>
<td>1981 Valuers, Appraisers and Estate Agents Act</td>
</tr>
<tr>
<td>Contractors</td>
<td>Master Builders Association (MBA)</td>
<td>-</td>
</tr>
</tbody>
</table>
Other than these associations which represent the professionals, there are 2 other important Non-Governmental Organisations, the Real Estate Housing Developers’ Association and the National Housebuyers’ Association, which represent developers and homebuyers respectively. These organisations represent their members through interaction with other professions in the housing industry, and also with the Ministry of Housing and Local Government on issues affecting their professions.
CONCLUSIONS

This chapter discussed opportunities, trends and issues in the Malaysian housing industry. The Malaysian government has implemented a few positive policies to promote the growth of the housing industry, such as the uplift of Real Property Gain Tax, the introduction of One-Stop-Centre, the removal of the ceiling loan for foreigners, the introduction of low interest rates, and the implementation of ‘Malaysia My Second Home Programme’. However, the Malaysian housing industry has encountered issues over land scarcity, bureaucratic delay, obsolete planning guidelines, oversupply and abandoned housing projects.

The discussion then moved on to provide an overview of the Malaysian governmental system and political structure. It also discussed the influence of key national policies such as the 1976 Town and Country Planning Act (Act 172), the National Urbanisation Plan, the New Economic Policy, the 1965 National Land Code for housing development.

By considering the western theories of the property development process and the policy context in Malaysia, Chapter 4 will present the conceptual framework developed for this empirical study. It will also discuss the research methodology and selection of case study areas.
CHAPTER 4 CONCEPTUALISATION AND METHODOLOGY

INTRODUCTION

This chapter has 3 main sections. The first section outlines the conceptual framework for this research and explains the theoretical rationale that underpins the framework. The second section provides the socio-economic profile of the Malaysian states to help identify the appropriate case study areas for this research. The last section discusses the overall research methodology and the data collection methods as well as the difficulties that the researcher encountered in the fieldwork.
CONCEPTUAL FRAMEWORK

As explained in Chapter 3, the Malaysia government made extensive reference to the 1947 British Town and Country Planning Act (For England and Wales) when developing the planning system for Malaysia, which is now known as the 1976 Malaysian Town and Country Planning Act (Act 172), with its latest 2001 revision. This explains the similarity between the planning system in Malaysia and the UK where both emphasise the involvement of the state as the enabler, which is unlike in the US where state involvement is relatively minimal and market forces play a more influential role. Often, development planning models such as the one in the US are market-led and lack a nationalised land use system cascading from the central government (White and Allmendinger, 2003). “Fiscal Zoning” (White and Allmendinger, 2003:962) rather than a policy-led planning system, is the key element of the US planning system whereby certain areas are delineated exclusively for residential development and others for industrial development. However, following the Thatcher government’s neo-liberal ideology, extensive privatisation of many state-controlled utilities was carried out by the Malaysian government in industries such as energy, water, telecommunication and sewerage in the 1980s. Similarly, deregulation was witnessed in the development industry. Due to the heavy involvement of the state and the adoption of a centralised planning system in both Malaysia and the UK, the conceptual framework of this research will be largely based on the theoretical models developed in the UK.

The residential industry is a rational institution and developers are profit-driven actors which constantly seek opportunities to maximise their utility level. In order to examine the institution of residential development delivery in Malaysia, Ball’s (1986) Structure of Provision theory is identified as the most relevant theoretical model to underpin the central backbone of the conceptual framework because it focuses on owner-occupier residential industry, which is the focus of this research. In spite of the fact that the Structure of Provision is developed for the UK, it still has many relevant ideas given that the Malaysian planning system has been making reference to policy practice in the UK for decades. More importantly, the focus on the interaction between the state and the private development industry, and treating the state as a separate entity that provides the legislative framework to guide residential development activities within the framework, is very useful for the examination of the residential industry in Malaysia.
However, the Structure of Provision alone does not adequately reflect the dynamics of the housing market because it ignores the demand side (as discussed in Chapter 2). Therefore, Wong and Madden’s (2000) model is introduced to the conceptual framework to supplement the demand side of the market to examine whether housing provision is influenced by the housing demand assessments carried out by developers. A conceptual framework illustrating the complex relationship between different institutional actors of the residential development industry in Malaysia is outlined in Figure 4.1. Ball’s (1986) Structure of Provision theory is represented by the box on the right hand side of Figure 4.1 and is supplemented by Wong and Madden’s (2000) Housing Needs and Demand Assessment Model which is represented by the left hand side box. There are 5 important components in this conceptual framework: i) Residential industry; ii) Housing provision; iii) Housing demand assessment; iv) The state; and v) Institutional capacity.
Figure 4.1: Conceptual framework for the interaction between the state and developers
RESIDENTIAL INDUSTRY

Political scientists (Peters, 2005; 1999; Hall and Taylor, 1996) define an institution as a set of formal regulations and legislations which is created to shape the interaction of actors and to provide stability to the institution by forming a level playing field. The state is expected to provide the formal structure to the system. Apart from the formal structure, political scientists also recognise the existence of informal norms and values which are viewed to stabilise and regulate the system as actors assimilate them into their practices. Based on this definition of institution, Peters (2005; 1999) identifies 6 types of institutional system, which is known as institutionalism. They are international, presidential, rational choice, normative, sociological and historical institutionalism.

As discussed in Chapter 2, rational choice institutionalism is identified to provide the most suitable conceptualisation of the residential industry. Rational choice institutionalism postulates that actors are mainly driven by utility and their strategic preference is always about maximising their utility level. They are seen as putting their individual interest above institutional interest. This is an appropriate description of the developers in Malaysia who are the key actors within the residential industry as they are the initiators of housing development who work alongside other actors such as contractors, building workers, town planners, architects, engineers and the end user of housing units as well as the homebuyers.

Understanding that the residential industry is a highly complicated sector and that the actors are highly utility-driven, the formal structure is thus unlikely to regulate the entire institution, particularly in their dealing with the state and key professionals. Therefore, the conceptualisation of informal culture in the rational choice institutional model is helpful in providing another perspective to see how the residential industry and the key actors, mainly developers, function and interact with the state and other actors. Furthermore, the practice of informal culture also raises possibilities about how the state could further develop this supporting and complementing element in rational choice institutionalism, alongside the formal structure, to form a new modus operandi for housing development as the state tries to relinquish itself from the provider role. With this theorisation of the residential industry and the role of the state, developers and other actors, a conceptual framework was proposed to assist the investigation of the research issues established under the objectives of this study.
The conceptual framework mainly consists of 2 key components (see Figure 4.1) which examines housing provision and housing demand. They are Ball’s Structure of Provision (SoP) and Wong and Madden’s (2000) housing demand assessment model for the UK.

**HOUSING PROVISION**

Ball’s (1986) Structure of Provision theory is adopted as the main conceptual component of this study because it specifically emphasises that developers (or speculative developers in the UK context) as the actors and drivers of residential development who actively assemble production inputs. The emphasis of developer, as the key actor, who undertakes development when there is availability of capital and land in the UK, mirrors the development scenario in Malaysia. Capital is a pivotal structuring force in the capitalistic society of Malaysia without which the provision of residential units by developers to meet the housing objectives of government, specifically in the middle to high cost housing markets, is unlikely to happen. It is important to stress that the Structure of Provision sees the state as the regulator and provider of housing units, which opens up the possibility of forming partnerships with developers in housing provision. This is examined through the joint venture models through which the state engages with developers.

There are a few sources of capital that the Malaysian developers normally acquire from. These sources include the internally generated fund (for private limited developers), public fund (for public-listed developers), institutional investment fund (for federal and state government agencies) and state subsidy through funding or land provision (for joint venture arrangements). The source and strength of capital that the developers have are hypothesised to influence the interaction between developers and the state. The Malaysian developers normally award a building contract to the contractors (or builders in the UK context) who assemble building materials and labour. Developers in Malaysia normally organise their own sales and marketing department for the disposal of housing units. After they assemble the necessary production inputs directly or indirectly through the contractors, sales of residential units normally take place concurrently with development activities. This enables developers to collect progressive payment from homebuyers that corresponds to the stage of construction on site to ease their cash flow.
Various key professionals such as town planners, architects, engineers and land surveyors are important actors in the residential development sector because they are legislated to prepare and certify various plans according to various Acts, such as the 1984 Uniform Building Bylaws, the 1974 Street Drainage and Building Act, the 1965 National Land Code and the 1985 Strata Title Act, for the application of planning permission. In the Malaysian context, bankers (or the mortgage lenders in the UK) and real estate agents are also key actors because they provide mortgage facilities and professional expertise on the disposal of housing units respectively. Real estate agents are found to play a significant role in the secondary housing market while developers themselves normally engage in the disposal of housing units that they develop. However, there is a new trend whereby developers engage professional real estate agents by tapping into their database to shift the difficult selling products; and for the smaller set-up developers, engaging such agents will help to save their operational costs.

The Structure of Provision sees the state as the regulator which provides the legislative framework, such as housing policy, employment act and taxation, to shape the residential industry. In Malaysia, the state assumes the role of the regulator of the residential industry, but it also works closely with developers to deliver the national housing objectives as discussed in the Malaysian Plan. This research particularly focuses on medium to high cost housing that is priced above RM50,000 (£9,010). It is the interaction between the state and developers in shaping the delivery of housing units that forms the primary focus of this research.

**HOUSING DEMAND ASSESSMENT**

Rationally, developers need to assess the demand before planning for the supply of relevant residential units, in terms of product, pricing and design, to prevent the mismatch between supply and demand and the outcome of oversupply. In order to assess housing demand, developers are expected to understand the latest housing demand trends which are desired by homebuyers. However, the Structure of Provision theory largely ignores the assessment of housing demand both qualitatively and quantitatively, though it conceptualises the primary and secondary housing market transactions. Hence, it is reckoned that the Structure of Provision has to be

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5The pricing for low cost and low medium cost housing varies from state to state depending on the income level and standard of living. For instance, RM80,000 houses are considered medium low cost in Kuala Lumpur but is considered as medium cost in Johor.
supplemented by Wong and Madden’s (2000) model, which shows how housing needs and demand can be systematically derived. Their model considers the interaction of economic (rising or decreasing affluence), demographic (decrease or increase in family size), social (proximity to local amenities/workplace or demand for an exclusive housing address to reflect the affluence level) and cultural factors (extended family or nuclear family), to provide a more complete picture of nature of the housing demand in a location. Their model also takes other factors into consideration such as commuting time and distance as well as the migration factors which help to boost housing demand. It also highlights the importance of infrastructure and job opportunities that the developers need to consider in housing provision as both affect housing demand. The interaction of these factors generates new levels and patterns of housing demand which will then inform the strategies of developers to meet the market demand.

In Malaysia, the state meets the housing needs of the low income group by requesting developers deliver 30 to 40 percent of the approved planned units in each development submission. The imposition of percentage varies from state to state in Peninsular Malaysia. The state also provides low cost housing (or social housing in the UK context) through its development agencies operating under the jurisdiction of the Ministry of Finance, the Ministry of Housing and Local Government as well as through various state government agencies. Typically, housing demand is met by developers as potential homebuyers express their housing preferences through their demand from the housing supply in the market.

Since the derivation of housing requirements is not a central concern of this study, the inclusion of Wong and Madden’s (2000) model to the conceptual framework largely focuses on the housing demand assessment aspect of the model. This study aims to find out whether developers in Malaysia assess housing demand and consider the potential mismatch of supply and demand to avoid market failure.

**THE STATE**

In Malaysia, the state machinery with the responsibility for devising and implementing the regulatory framework for residential development planning is shared by the Ministry of Housing and Local Government and its Federal Department of Town and Country Planning for Peninsular Malaysia. They are represented as the ‘Federal Government’ in
the conceptual framework (see Figure 4.1). This regulatory framework is termed by political scientists (Peters, 1999; Hall and Taylor, 1996) as the ‘*infrastructure*’ or ‘*formal structure*’ (Peters, 1999:55) which shapes the interaction of actors. The Ministry of Housing and Local Government is the key government department which formulates and continually improves the legal framework for the housing industry, mainly through the 1966 Housing Developers’ Act (Control and Licensing) (Act 118) in which various contracts of sale, namely Schedules G, H, I and J of the Sale and Purchase Agreement are used to bind developers and homebuyers. The latest legislative implementation, under the jurisdiction of local authorities (which are governed by of Ministry of Housing and Local Government), is the One-Stop-Centre which acts as the coordinating unit to expedite approval for development planning and building plans through the Build-then-Sell system rather than the old Sell-then-Build approach. The Ministry of Housing and Local Government is encouraging the Build-then-Sell system by promising a shorter approval timeframe of 4 months as compared to 6 months for the Sell-then-Build concept. In an attempt to expedite the issue of Certificate of Fitness for Occupation (which has a history of long delay), the local authority under the state government (in Figure 4.1) has recently introduced the Certificate of Completion and Compliance which allows architects to issue the Certificate of Fitness for Occupation to developments which have obtained approvals from the relevant technical departments. The Federal Town and Country Planning Department, acts through its various State Planning Departments, monitors the residential planning in Peninsular Malaysia through the housing zones gazetted in the Structure Plans.

In addition, the Malaysian government applies macroeconomic policy such as fiscal or monetary policies, the adoption of which is dependent on the state’s strategic direction, market conditions, and the main instrument of interest rate to constrain or promote the growth of the residential development industry. The regime of interest rate does not only affect the capital market that developers are dependent on, but also the mortgage market from which homebuyers draw their mortgages. This explains how macroeconomic policy structures the availability of capital for the housing industry which affects both developers and homebuyers.
Institutional thickness is dependent on the number of institutional actors that affect effectiveness and performance. The state and the financial sector are 2 key actors who structure the institution of residential development and the way it functions. Besides, professionals such as town planners, architects, engineers, land surveyors, contractors (builders), real estate agents are influential players in the institution and the way they operate and interact with one another and with the state influences institutional capacity. However, in Malaysia, these key actors are represented by their associations, which are the Non-Governmental Organisations, that play a significant role in the residential industry. The Real Estate Housing Developers’ Association is a prominent Non-Governmental Organisation which actively represents developers while the National Housebuyers’ Association represents homebuyers. These bodies negotiate, lobby and influence the policy making of the state government through their branches and the federal government through their headquarters. The degree of their influence is represented by the arrows between the state, the Real Estate Housing Developers’ Association and the National Housebuyers’ Association in Figure 4.1. Therefore, the views of Real Estate Housing Developers’ Association and National Housebuyers’ Association views are expected to be taken into consideration at the federal level of policy making. Another significant institutional contribution is that planners and the planning system are expected to include opinions of the formal and informal networks of actors (Allmendinger, 2003; Allmendinger et al., 2003) who are the users of the built environment and those who are affected by it. Hence, homebuyers are considered as actors and that their views are important to this research.

Based on these 5 key components of the conceptual framework, a series of detailed research questions were formulated to address the objectives of this research.

**Research objective 1: Institutional structure**

Rational choice institutionalism suggests that formal structure which refers to legislations and regulations are important to guide the strategic behaviour of actors (which are the developers in this research). Bearing in mind that other than the key Acts and national policies devised by the Ministry of Housing and Local Government to
shape housing development activities, land remains a state matter in Malaysia. Hence, state government reserves its absolute right to formulate policies which are related to land use. Research objective 1 is set to examine the federal and state level legislative framework to provide a comprehensive understanding of different levels of policy making and the involvement of key actors in housing development.

To examine the institutional structure of housing planning in Malaysia by clarifying the legislative framework and the roles played by different actors including different levels of government, Non-Governmental Organisations, professionals and developers in the residential development industry.

Specifically, the following questions have to be answered to address the first objective:

- **Question a:** What are the federal and state level legislative frameworks and policies that govern the residential development planning process in Peninsular Malaysia?
- **Question b:** What are the strengths and weaknesses of the present legislative framework in regulating the residential development industry?
- **Question c:** What is the state institutional structure in devising and implementing the regulatory framework?
- **Question d:** How do the federal and state level regulatory frameworks and policies and the institutional structure guide the developers to work with the industry’s professionals, financiers and the non-governmental organisations to shape the delivery process of residential development?

This objective required an extensive review of the 1976 Town and Country Planning Act and its latest 2001 revision, the present regulatory frameworks such as the National Urbanisation Policy, the National Economic Plan, the Malaysian Plan and other housing policies devised by the Ministry of Housing and Local Government, alongside other state policies, particularly in relation to land matters, which can vary from state to state. In-depth interviews with key representatives from the Ministry of Housing and Local Government, the Federal Town and Country Planning Department, professional associations and the Non-Governmental Organisations which represent developers and homebuyers, were conducted to gather the relevant data.
The National Property Information Services only supplies information on the total turnover of residential sector for both primary and secondary transactions, but there is no such breakdown of primary and secondary transactions in terms of the volumes and property values of these transactions. The research would, therefore, require the researcher to collect the information directly from various approving local authorities throughout Peninsular Malaysia and then aggregate them for the analysis. In view that this was not the key objective of this research, this

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6A division of the Ministry of Finance which is created to collect property transaction data from primary and secondary data. It was formed after the Asian Economic Crisis to monitor supply in various property subsectors.
aspect of data collection was not carried out. Instead, the researcher focused on collecting data to address the core research objectives, especially data about the interaction between developers and the state.

**Research objective 3: Views and ideas on aspects of development**

The Malaysian government is looking into various ways to improve the efficiency and responsiveness of the residential industry. Hence, it is important to listen to the views and ideas of developers to identify the problems they face and the areas of improvement. Eliciting the views, attitudes and aspirations of the state, developers, and other key actors helps to understand the nature of their interaction so that they can inform future policy change. Adams *et al* (2005b) stresses that “*some understanding of market processes and operations*” (p. 241) are required to achieve this objective. This will entail extensive debates “…about their respective agendas, and especially on the extent to which they conflict and complement each other” (Adams *et al.*, 2005b:246). Consequently, research objectives 3 and 4 were specified on the premise of these arguments.

To elicit the views, attitudes, and aspirations of developers over different aspects of housing development, and to find out the nature of their interaction with the state and their influence over policy change.

To achieve this objective, the following questions were formulated:

- **Question h**: What are the views, attitudes, and aspirations of developers on different aspects of housing development?
- **Question i**: What is the relationship between developers and other key actors over various aspects of housing development?
- **Question j**: What kind of communication platform do developers use to address to the federal and state governments if there is a need for policy change?
- **Question k**: Are developers’ views and ideas being heard and subsequently translated into new policy or led to policy change?
- **Question l**: What is the perception of developers towards their influence over the policy on residential development?
**Research objective 4: Barriers to implementation**

To compare the visions and views of developers and those of the state and other key stakeholders and to identify the tensions and conflicts in the process of delivering residential development in Malaysia.

The following questions help answer research objective 4:

- **Question m:** What are the differences between the state and the developers’ visions and views? What are the differences between those of the developers and other key actors?
- **Question n:** How do the differences create tensions and conflicts in the industry and how these issues are reconciled based on their own experience?
- **Question o:** What kinds of impacts or repercussions do such tensions and conflicts have on the industry?

In-depth interviews were used to unravel data for research objectives 3 and 4. Developers were approached on this topic and were probed on their interaction with the state and other key actors. There were many difficulties that the researcher encountered in this type of sensitive research and a detailed discussion will be made in the last section of this chapter. Despite many hindrances, insightful data was collected to shed light on these research issues.

**Research objective 5: Bridging the gap**

In order to shed light on ways to improve policy making for the Malaysian residential industry, this research is essentially intended to identify the most effective interaction approach between the state and developers. The ultimate objective of this research is to find ways to shape and improve the process and delivery mechanism of the housing industry to meet the government objectives of providing better quality of living to the Malaysian population.

To draw out key theoretical and practical ideas to inform the development of new approaches for effective interaction, cooperation, and coordination between the state and developers in order to achieve a more responsive housing delivery system.
Based on the research findings, the following questions were formulated to help answer research objective 5:

- **Question p**: Which types of developers are most successful in influencing policy change? What are their characteristics?
- **Question q**: What are their strategies and key factors of success?
- **Question r**: What are the approaches that form effective interaction, cooperation and coordination between the state and developers?

After outlining the core research questions, the following section focuses on the research methodology and data collection methods. This involves an overview on the selection of case study areas based on a set of socio-economic and housing indicators. The overall participation rate and outcome of the in-depth interviews with various actors for the 2 case study areas are presented.
RESEARCH METHODOLOGY

Planning and policy command a high level of research interest because they affect every step of the development process (White and Allmendinger, 2003). Healey (1992a) raises 2 important points concerning this type of research; it is an exhaustive process that the researcher has to go through and that it requires a certain level of mental sensitivity to handle developers who are wise ‘in concealing their business strategies and interests’ (p.43). Ball (1998; 1986) advocates different Structures of Provision for different development sub-sectors because each development type has different institutional structures and the involvement of actors differs from one type of property subsector to another.

In developing a Structure of Provision, unpredictability is expected and consequently changes can be incorporated for great flexibility and applicability based on the analysts’ judgment (Ball, 1998; 1986). However, the weakness in Ball’s (1986) Structure of Provision theory is that it fails to assess housing demand before developers decide on what types of product to supply to the market. Instead, it predominantly focuses on how developers assemble various production inputs and how institutional controls affect provision, such as legislation. This research aims to test the combination of Ball’s (1986) Structure of Provision theory and the housing demand assessment analysis by Wong and Madden (2000) in the Malaysian context. It aims to develop a more in-depth understanding of the interaction between the state and developers in delivering a responsive housing mechanism to meet the national housing objectives of the Malaysian government. Considering that the nature of this research focuses on examining contemporary issues in the property development industry and that ‘what’ and ‘why’ questions are often required to explore the research issues; a case study strategy is, therefore, the most appropriate research method to be adopted (see Yin, 2003) for this empirical research.

CASE STUDY STRATEGY

This research focuses on unravelling the nature of interaction between the state and developers, the legal framework, the conflicts and tensions between different actors as well as their respective aspirations, visions and missions for the residential industry. It
Chapter 4 Conceptualisation and Methodology

aims to identify the most effective interaction approach between the state and developers and what types of developers are most effective in fostering such interaction. A case study method was selected as the main research strategy because multiple data sources were collected for triangulation to deal with contemporary events (see Yin, 2003).

Case study research has been widely applied in urban planning such as in studies that examine the institutional relations between local development corporations and the Hong Kong government before 1997 (Adams et al., 2001), the factors which contribute to local economic development in the North West and Eastern Regions of the UK (Wong, 1998), the contribution of Japanese collectivism for institutional success in Japan (Hill, 1995), the role of local authorities in the urban development process of Utrecht in the Netherlands (Verhage, 2003), the production of landed property in Shanghai (Wu, 2001) and the effects of various regulatory measures on housing supply in Malaysia (Malpezzi and Mayo, 1997). This research adopted an extreme case strategy which exhibits different housing outcomes. However, due to time and resource constraints, only 2 cases were carried out, with one reflecting a more responsive housing planning system, compared to the other that is relatively less responsive. The selection of case study locations was based on a set of housing market and socio-economic indicators that will be discussed in the following section.

**SELECTION OF CASE STUDY LOCATIONS**

To identify the case study areas in Peninsular Malaysia, a set of socio-economic and housing indicators were derived from the criteria in the conceptual framework to profile the Malaysian states. First, housing market indicators such as overhang stock, house price index and future supply versus housing requirement in each state are examined to identify which state fares best in planning terms and which state is ineffective. Second, socio-economic factors such as the development index, urbanisation level, gross development product growth rate, planned regional growth level, mean household income and job opportunity as well as the education attainment of local population were analysed to help identify suitable cases. The analyses are appended in Annex II.

The profiles of the Malaysian states are shown in Table 4.1, leading to 2 case studies areas, Kuala Lumpur and Johor, being identified. Kuala Lumpur is the capital and
financial hub of Malaysia and has achieved a 100% urbanisation rate and attained the highest level on the development index. Kuala Lumpur, alongside Selangor and Negeri Sembilan, are identified as the Level 1 National Conurbation Centre (see Annex II). The population of Kuala Lumpur has the highest tertiary education attainment level and makes up the highest percentage of managerial and professional workers as compared to other states, which explains why it has the highest average household income level in Malaysia. Situated within an area of 243 square kilometres, it experiences a lower housing overhang when comparing with other more developed states such as Selangor, Melaka, and Johor. Because Kuala Lumpur is the capital city of Malaysia, the planning system for housing is expected to be carried out more systematically and with greater innovation. Hence, it was selected as the first case study area to investigate the residential development planning process and delivery.

Johor was identified as the other case study state to contrast with Kuala Lumpur’s housing industry. In spite of Johor’s achievement in enjoying a higher than average annual Gross Domestic Product growth rate in the Eighth Malaysian Plan (2001 – 2005), it has been recording the highest level of residential units overhang between 2004 and 2007 and the lowest house price level in Peninsular Malaysia. Johor was expected to provide the best job opportunities in Peninsular Malaysia with 1,091 approved manufacturing projects which created 119,031 jobs during the implementation period of the Eighth Malaysian Plan. However, housing units were not well absorbed by the working population despite such a high employment level. In addition, the state government of Johor has already approved an incoming and future supply of 113,990 housing units which far exceeds the housing requirement in the Ninth Malaysian Plan by 125%, which is expected to worsen the present overhang. Johor is similar to Penang in many aspects, such as the industrial structure, high proportion of employment in operation and assembly lines, and is identified as the Level 2 Conurbation Centre in the Ninth Malaysian Plan. However, Penang experiences a low level of housing overhang compared to Johor. Hence, Johor was selected as the negative case for this research.

In summary, Kuala Lumpur and Johor were selected as the case study locations in view of the contrasting scenarios in their housing industry, after evaluating the housing market and socio-economic indicators presented in Table 4.1. In-depth investigation of the interaction between the state and developers was carried out to identify the causes of the success and flaws in the housing planning system in each case study area.
### Table 4.1: Profiling of states in Peninsular Malaysia by housing market and socio-economic indicators

<table>
<thead>
<tr>
<th>Housing Market Indicators</th>
<th>Selangor</th>
<th>Kuala Lumpur</th>
<th>Negeri Sembilan</th>
<th>Penang</th>
<th>Johor</th>
<th>Pahang</th>
<th>Melaka</th>
<th>Perak</th>
<th>Kedah</th>
<th>Kelantan</th>
<th>Trengganu</th>
<th>Perlis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overhang stock (As at Q3/2007)</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Extreme High</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Extreme Low</td>
<td>Low</td>
</tr>
<tr>
<td>2. Average house price index (1999 - 2006)</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Extreme Low</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>3. Difference between incoming and planned supply and demand (units and percent)</td>
<td>High</td>
<td>High</td>
<td>Extreme High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Extreme Low</td>
<td>Extreme Low</td>
<td>Extreme Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Socio-Economic Indicators</th>
<th>Selangor</th>
<th>Kuala Lumpur</th>
<th>Negeri Sembilan</th>
<th>Penang</th>
<th>Johor</th>
<th>Pahang</th>
<th>Melaka</th>
<th>Perak</th>
<th>Kedah</th>
<th>Kelantan</th>
<th>Trengganu</th>
<th>Perlis</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Development composite index</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>5. Urbanisation rate (Based on 2005 data)</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>6. Average annual growth of Gross Domestic Product (Based on the Eight Malaysian Plan)</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>7. Hierarchy of conurbations Level 1: Highest Importance Level 4: Lowest Importance</td>
<td>Level 1</td>
<td>Level 1</td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 2</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Level 4</td>
<td>Level 4</td>
<td>Level 4</td>
<td>Level 4</td>
<td>Level 4</td>
</tr>
<tr>
<td>8. Potential employment (Based on approved manufacturing projects from 2001 - 2005)</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>9. Average annual urban population growth rate for 2006 - 2010</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>10. Tertiary education (Percent of population)</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>11. Percentage of managers and professionals over population</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>12. Mean monthly household income (RM/E)</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Large</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Extreme Low</td>
<td>Low</td>
</tr>
<tr>
<td>13. Land size (sq km)</td>
<td>Medium</td>
<td>Smallest</td>
<td>Small</td>
<td>Small</td>
<td>Large</td>
<td>Largest</td>
<td>Small</td>
<td>Large</td>
<td>Medium</td>
<td>Large</td>
<td>Large</td>
<td>Small</td>
</tr>
</tbody>
</table>
RESEARCH DESIGN

STAGE ONE: PREPARATION WORK

Documentary analysis

Documentary analysis was carried out to gather information about the present legislative framework which regulates the residential industry in Malaysia. A review was already made in Chapter 3 on the 1976 Malaysia Town and Planning Act (Act 172) and its latest Revision in 2001, alongside other national policies such as the New Economic Policy, the Ninth Malaysian Plan, the National Urbanisation Policy and other housing policies such as the low cost housing quota, Bumiputra housing quota, Build-then-Sell concept, Sell-then-Build concept and One-Stop-Centre concept. The review is important to help understand how the present regulatory system shapes the delivery system for residential industry. It also guided the identification of relevant research questions to investigate the effectiveness of the legal framework.

The researcher visited 5 public universities in Malaysia and another one in Singapore: The University of Malaya, The University of Science Malaysia, The University Kebangsaan Malaysia, The University of Technology Malaysia, The University Utara Malaysia and The National University of Singapore between July and August 2007. The purpose of these visits was to conduct a thesis search on whether a similar topic of research has been carried out. The search concluded that thesis with a similar research focus was not found. This further establishes the significance and contribution of this empirical research.

Pilot interviews

In view that Penang state was not selected as the case study area, a total of 12 pilot interviews were carried out there from February to March 2008. The participants of pilot interviews were 5 developers, 2 officials from the State Planning Department, a chartered town planner, an architect, a banker, a contractor and a real estate agent. The list of pilot interview participants is presented in Table 4.2. Pilot interviews helped to
test how effective the research questions were at examining the interaction between the state and developers, and between developers and other key actors, particularly the industry’s professionals. After analysing the result of the pilot interviews, the research question schedule was fine-tuned in terms of the way the questions were phrased and the sequence of questions being asked. Pilot interviews improved the flow of actual case study in-depth interviews and shortened the interview time to no more than an hour per interviewee.

Table 4.2: Pilot interviews in Penang

<table>
<thead>
<tr>
<th>Developers</th>
<th>Number of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Public -listed</td>
<td>a) 2 Senior Managers</td>
</tr>
<tr>
<td>b) Private Limited</td>
<td>b) 2 Directors</td>
</tr>
<tr>
<td>c) Semi -Government Agency</td>
<td>c) 1 Project Manager</td>
</tr>
<tr>
<td><strong>Town and Country Planning</strong></td>
<td></td>
</tr>
<tr>
<td>Department</td>
<td>2</td>
</tr>
<tr>
<td>(Director and Building Inspector)</td>
<td></td>
</tr>
<tr>
<td><strong>Chartered Town Planner</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Architect</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Banker</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Contractor</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Real Estate Agent</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12</td>
</tr>
</tbody>
</table>

Handling sensitive topics

The initial findings from the pilot interviews, to some extent, revealed the inefficiency of the state and a number of questionable housing policies. Specifically, there were mentions of bureaucracy and informal culture which had negatively affected the housing planning process and delivery system. In addition, developers that have political connection tended to enjoy special privileges in the housing planning process. Furthermore, racial harmonisation policies such as the Bumiputra quota policy (under the implementation of National Economic Policy) raised the challenge of effective housing planning because the Bumiputra housing quota for the high cost segment was found to be difficult to dispose of. Furthermore, developers involved in the pilot interviews were dissatisfied with the imposition of low cost housing policy which required them to allocate 30 percent of the total planned units for low cost housing units which have to be sold at a capped price (as discussed in Chapter 3).
Adler and Adler (1993) claim that hostile political and social climates make the data collection effort and process sensitive, especially for research that deals with controversial topics such as the state-market relations and national policies which accord special attention to racial harmonisation and low income earners. It is to be noted that Malaysia went through an unstable political climate beginning in March 2008, as the ruling party, the National Coalition, suffered its worst defeat in the 2008 General Election since the country’s Independence in 1957. The National Coalition lost two-thirds of its majority in the Parliament. The post-mortem analysis identified the lack of transparency and governance, money politics and corruption as the main causes of such a historical defeat (The Star, 2008a).

The uncertain political climate during the fieldwork period also meant that certain questions could pose a risk to both the researcher and the participants. The causes of the 2008 electoral defeat as explained above were often vehemently mentioned by the participants in the pilot interviews who happened to be the top representatives of their organisations. The initial findings suggested that the nature of the empirical research was likely to be ‘socially sensitive’ (Sieber and Stanley, 1988:49) because ‘there are potential consequences or implications, either directly for the participants in the research for the class of individuals represented by the research’. Furthermore, the topic was likely to be controversial because the performance of the state was criticised (Lee, 1993). The researcher has to be ethically responsible towards the research participants when dealing with sensitive topics.

In order to protect the research participants, their identity would be kept anonymous. When reporting the research findings, they were each given a code number (such as K1 to K28 for the 28 participants for Kuala Lumpur case (see Annex III) and J1 to J28 for Johor case (see Annex IV). In addition, ‘he’ would be used consistently to protect the identity of the research participants. Sensitive issues raised would be sensibly and appropriately phrased by making reference to the terms and expression adopted in published and official documents.
STAGE TWO: IN-DEPTH INTERVIEWS WITH THE FEDERAL GOVERNMENT, NON-GOVERNMENTAL ORGANISATIONS AND PROFESSIONALS’ ASSOCIATIONS

In-depth interviews were also carried out with the political elites from both the federal and state departments, key representatives of Non-Governmental Organisations and developers. Prior to the actual case studies in Kuala Lumpur and Johor, in-depth interviews were conducted with key representatives from the Ministry of Housing and Local Government, the Federal Town and Country Planning Department, key professionals and Non-Governmental Organisations (see Table 4.3 and Annex V). This was done to gather background information about the industry and their perceptions about the role of developers so that the case study would be conducted with more contextual information. A total of 14 interviews were carried out with the Non-Governmental Organisations which include the professionals’ associations, the Central Bank of Malaysia, a property research consultant and an academics.

Table 4.3: In-depth interviews with the federal government, non-governmental organisations and professionals’ associations

<table>
<thead>
<tr>
<th>Organisations</th>
<th>Number of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
</tr>
<tr>
<td>Real Estate Housing Developers’ Association</td>
<td>1</td>
</tr>
<tr>
<td>National Homebuyers’ Association</td>
<td>1</td>
</tr>
<tr>
<td>Federal Town and Country Planning Department</td>
<td>1</td>
</tr>
<tr>
<td>Ministry of Housing and Local Government</td>
<td>2</td>
</tr>
<tr>
<td>Malaysian Institute of Planner</td>
<td>1</td>
</tr>
<tr>
<td>Malaysian Institute of Architect</td>
<td>1</td>
</tr>
<tr>
<td>Malaysian Institute of Engineers</td>
<td>1</td>
</tr>
<tr>
<td>Institute of Surveyors</td>
<td>1</td>
</tr>
<tr>
<td>Master Builders Association</td>
<td>1</td>
</tr>
<tr>
<td>Financial Institution</td>
<td>1</td>
</tr>
<tr>
<td>Land and Property Research Company</td>
<td>1</td>
</tr>
<tr>
<td>Central Bank of Malaysia</td>
<td>1</td>
</tr>
<tr>
<td>Academician and author of Planning related publications</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
</tr>
</tbody>
</table>

Aberback and Bert (2002) suggest that senior officials of organisations would not prefer closed ended questions as they would not provide room for them to express their ideas and views. Hence, a list of open-ended research questions is most suitable for them to express their insight and viewpoints on the research topic. However, gaining access to top officials in the public sector, Non-Governmental Organisations and developers was
extremely difficult and the success rate was tremendously low. Numerous attempts in writing and calling were required from the researcher on a continual basis as senior officials were normally ‘well-sought after’ (Aberbach and Bert, 2002:673) because they were the key representatives of their organisations. In a nutshell, gaining access was a major hurdle that the researcher faced in data collection, particularly with the officials from public sector who were not able to keep the engagement with the researcher on several occasions.

**STAGE THREE: CASE STUDY INTERVIEWS**

Multiple-case study strategy with 2 extreme scenarios to compare and contrast housing planning as well as interaction between the state and developers were carried out in Kuala Lumpur and Johor. This research required in-depth discussion with the institutional actors, predominantly developers, about the complex and delicate situation they engaged with the state and key professionals. Research participants have to be carefully selected because this determines whether they are the appropriate representatives for their professions and thus their capacity to provide insightful findings about contemporary issues (Patton, 2002). Generally, developers could be classified into 4 types of ownerships, which are public-listed, private limited, foreign-owned and turnkey contractor-cum-developer (who form joint ventures with landowners). Each type of these 4 types of developers was profiled according to the 3 major product types: terraced housing units (which can either be single, double and three storeys), apartment and condominium (a form of strata title development), and high-end lifestyle condominium/service apartments (a niche segment targeting high net worth homebuyers). Based on these 2 variables, a matrix of developers was tabulated to inform the number of interviews required in Kuala Lumpur and Johor (see Tables 4.4 and 4.5).

Most of the research questions focused on the interaction between developers and the public sector in each aspect of the housing planning and delivery process, which mainly include the approval for development planning, building plan and the issue for Certificate of Fitness for Occupation. They were intended to examine the interaction and tensions between the state and developers, and to further examine how developers resolved conflicts with the approving authorities and their degree of influence over policy making. The views and visions of key actors such as the industry’s professionals
and homebuyers were also explored to understand whether their expectation was met or not.

The fieldwork of this research took place between June and September 2008. The open-ended questionnaire used to guide the interviews is attached in Annex VI. A total of 24 in-depth interviews with developers was planned for each case study and the actual number of successfully completed in-depth interviews was higher at 28 each for Kuala Lumpur and Johor (see Tables 4.4 and 4.5). Most of the contacts were acquired from the Directory of Real Estate Housing Developers’ Association and the website of the Ministry of Housing and Local Government. There was hardly any snowballing effect from research participants because they did not want to be known to have participated in this type of sensitive research. Hence, more efforts were required to establish contact with the research participants. The profile of research participants for the 2 case studies is provided in Annex III and IV.

Table 4.4: Fieldwork participants in Kuala Lumpur

<table>
<thead>
<tr>
<th></th>
<th>Number of In-depth Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public-listed</td>
</tr>
<tr>
<td></td>
<td>Target</td>
</tr>
<tr>
<td>Terraces</td>
<td>3</td>
</tr>
<tr>
<td>Apartment/Condominium</td>
<td>3</td>
</tr>
<tr>
<td>High-end Lifestyle Residential Unit</td>
<td>3</td>
</tr>
<tr>
<td>Subtotal</td>
<td>9</td>
</tr>
<tr>
<td>Total Interviews</td>
<td>24 (Target) versus 28 (Actual)</td>
</tr>
</tbody>
</table>
Table 4.5: Fieldwork participants in Johor

<table>
<thead>
<tr>
<th></th>
<th>Number of In-depth Interviews</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public-listed Target</td>
<td>Actual</td>
<td>Private Limited</td>
<td>Foreign-Owned</td>
<td>Turnkey Contractor cum Developer</td>
</tr>
<tr>
<td>Terraces</td>
<td>3</td>
<td>17</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Apartment/Condominium</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>High-end Lifestyle Residential Unit</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Subtotal</td>
<td>9</td>
<td>17</td>
<td>9</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Total Interviews</td>
<td>24 (Target)</td>
<td>versus 28 (Actual)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For the case studies, the views of state level officials who were involved in housing planning were seen as very important. They were the representatives from the Building Department and the newly set up One-Stop-Centre of the Kuala Lumpur City Hall and Johor Bahru City Council. They were approached to comment on their interaction with developers (see Table 4.6 and Annex V). Focus group discussion with residents was also carried out in each case study area to understand the perception of homebuyers about developers based on their purchasing experience and exposure to their local housing market.

Table 4.6: State-level participants in Kuala Lumpur and Johor

<table>
<thead>
<tr>
<th></th>
<th>Kuala Lumpur Target</th>
<th>Actual</th>
<th>Johor Target</th>
<th>Actual</th>
<th>Total Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Planning Department</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Building Department of Local Authority</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>One-Stop-Centre of Local Authority</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Workshop with Residents</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>8</td>
<td>7</td>
</tr>
</tbody>
</table>

7 Johor has ample land. Most public developers own several hundred to several thousand acres of land banks. They normally build terraced houses and apartments in the township that they develop. There are some developers who have mixed portfolios such as having joint ventures with the state government to build apartment or condominium blocks to meet the supply vacuum.

8 There are hardly any developers which develop high-end residential units in Johor because there is limited demand and thus it incurs high risk. The few high cost housing developments are mostly undertaken by public developers. The researcher only managed to approach one developer which has a high foreign equity. Johor homebuyers are more blue collar because the state economic activity is highly manufacturing based and dependent on the manufacturing sector in Singapore. Johor market is vastly different from Kuala Lumpur market which is more affluent and emphasises lifestyle.

9 The Malaysian government requires foreign developers to allocate 30 percent of their equity to Bumiputra.

10 An interview with this planning official covered the areas of One-Stop-Centre and state planning matters.
DIFFICULTIES ENCOUNTERED DURING THE FIELDWORK

Fieldwork was carried out in Malaysia in the summer of 2008, during which the crude oil reached its record high of almost USD140 per barrel. During this period, the prices of construction materials such as steel bar and cement also hit their peak. The residential industry was going through a period of instability and it was exacerbated by the hostile political climate in Malaysia. These factors set the backdrop of the research fieldwork. Nevertheless, the main difficulties that the researcher faced were gaining access to the developers and the senior personnel in the public sector.

In both Kuala Lumpur and Johor, many developers with private limited ownership were not willing to participate in the interview. They suggested to the researcher to approach the ‘big boy’ developers, meaning the public-listed developers, who supply the bulk of housing units. However, the researcher had to repeatedly explain the importance of their participation because their input was as important as the public-listed developers. It was indeed more difficult to gain access to the private limited developers than the public-listed developers. Furthermore, it was impossible to find any developers completely owned by foreigners because the Malaysian government requires a minimum of 30 percent company equity to be owned by the Bumiputra for this type of developer.

In view that this research required interview with senior government officials and senior management representatives of developers, it increased the difficulty of gaining access. Enormous time and effort were spent to repeat the process of establishing contacts through telephone calls, emails and personal visits to secure interview appointments. The success rate was only 1 out of 5 attempts. Nevertheless, approximately 80 percent of the contacted developers who participated in the study were from the rank of General Manager, Director, Managing Director, Chief Operating Officer and Chief Executive Director. This is considered as very successful in light of the difficulties encountered.

As for government officials, the interview appointments were carried out as scheduled because of their busy schedule. The former Minister of Housing and Local Government, Datuk Seri Ong Ka Chuan, who was committed to participate in the research; he could not meet for the research interview due to an emergency meeting. The researcher was then referred by the Minister to interview another senior official in the Ministry of
Housing and Local Government. Similar difficulty was also encountered to gain access to the officials of the State Planning Committee, the Building Department and the One-Stop-Centre of the Johor Baru City Council and the Kuala Lumpur City Hall. There were several occasions that the researcher was left waiting for several hours.
CONCLUSIONS

This chapter explained the conceptual framework for this research. Ball’s (1986) Structure of Provision and Wong and Madden’s (2000) Housing Needs and Demand Assessment Model for North East of England were combined to provide the theoretical underpinning for the conceptual framework. The research objectives are to understand the institutional structure and regulatory framework of the residential industry in Malaysia, the structure and main characteristics of the residential industry and their views and vision on housing planning process and delivery system. It also places emphasis on exploring the tensions and conflicts developers have with the state. The research findings are expected to help develop a relevant and effective approach to improve the interaction between the state and developers.

A case study approach with extreme case strategy was adopted for this research. Based on housing and socio-economic indicators, Kuala Lumpur and Johor were selected as the positive and negative case respectively. For each case study, developers were carefully selected based on their legal ownership and specialised product segment. This research successfully completed 56 in-depth interviews with developers, alongside 14 interviews with federal and state level government officials, key professionals and homebuyers’ groups.

Chapter 5 will provide a detailed introduction to the case study areas and the specific legislative framework which shape the local housing industry.
This chapter aims to examine the institutional structure of the residential industry in Johor and Kuala Lumpur. Johor had the highest level of housing overhang and the lowest house price index in Peninsular Malaysia during 2004 and 2007, despite being the second largest provider of employment through its manufacturing activities. Furthermore, the trend of housing price index failed to mirror that of the national index. Instead, it is mirroring the trend of the Singaporean housing price index. Hence, it was selected as the negative case for this research.

Kuala Lumpur, the capital of Malaysia, is widely perceived as having the most effective and holistic residential development planning system in the country. Housing indicators published by the National Property Information Centre showed that there had been a consistent rise in the house price index and a low to moderate level of housing overhang between 2004 and 2007. Its buoyant market was also confirmed by other socio-economic indicators. It was against this backdrop that Kuala Lumpur was selected as the second case study area because its buoyant housing market can potentially relate to an effective housing planning system, which contrasts the less favourable housing outcomes in Johor.
THE ECONOMIC LINKAGES OF JOHOR

Johor is situated at the southern tip of Peninsular Malaysia (see Figure 5.1). The main economic drivers are tourism, logistics, food and agricultural processing, petrol and oleo chemicals, electrical and electronics. Johor Bahru is the capital and administrative centre of Johor state. It is also the ‘Southern Gateway’ of Malaysia where 60 percent of Malaysia’s foreign tourists arrive with most being Singaporeans (OWJSG, 2008). Johor’s economy is highly dependent on the international city-state of Singapore as it has easy access via the Causeway (bridge link). Singaporeans are the major shoppers in Johor, as goods and services are cheaper at the current exchange rate\textsuperscript{11}.

\textbf{THE BLUE COLLAR ECONOMY}

Interview findings from this research reveal that it is this ‘Singapore Factor’ that makes developers continue to supply residential units, despite the problem of oversupply and overhang. Also, when the Singaporean economy is growing, it needs the supply of blue collar workers from Johor. Due to higher living standard in Singapore, blue collar Malaysian workers tend to continue living in Johor Bahru and the surrounding cities and commuting daily to Singapore. With the Singaporean currencies they earn, they can afford medium price residential properties in Johor. Developers also see the potential

\textsuperscript{11} The exchange rate of Singapore dollar (SGD) to Ringgit Malaysia (RM) is SGD1:RM2.4, which has stayed at this level for the last 2-3 years.
market of attracting Singaporean investors to purchase residential properties, as the price is comparatively cheaper to that in Singapore. This explains the influx of developers into Johor Bahru’s housing market. This is evident from the fact that Johor is the only state in Peninsular Malaysia which displays a different trajectory in its house price index (see Figure 5.2) when compared with other states, but mirrors the Singapore house price index (See Figure 5.3). The similarity in the house price index between Singapore and Johor reflects the dependence of Johor’s domestic economy on Singapore instead of Peninsular Malaysia’s.

Figure 5.2: House price index in Peninsular Malaysia by states (Data source: NAPIC, 2007b)
The construction work of Integrated Resort, Singapore’s latest casino development at the Marina Bay, has helped to employ many blue collar workers from Johor and is believed to continually provide more working opportunities for the Johoreans when it is operational. The casino is believed to generate some tourism spill-over to Johor. This explains the optimism of Johor developers in supplying medium to high price residential units as they see the positive spill-over effects from the Singaporean project which increase job creation and economic growth. Despite the recent economic slowdown, it is reported that the construction work for the Integrated Resort has been rapid (The Straits Times, 2008a).

Besides the positive economic linkage with the Singaporean economy, Johor also benefits from the regional development initiative of Iskandar Malaysia. Iskandar Malaysia, that was formerly known as Iskandar Development Region, is a regional development initiative between the federal government of Malaysia and the Johor state government. It is administered by the Iskandar Development Region Authority and aims to promote South Johor as the regional business development centre for Johor-Singapore-Indonesia to complement the Singaporean economy as an international financial and business centre for South East Asia (OWIRDA, 2008). This again demonstrates the importance of the Singapore factor over internal regional economic
policy. With strong external economic linkage and government support via Iskandar Malaysia initiative, Johor has attracted a large number of public-listed developers.

Essentially, there are 5 economic nodes in the IM (see Figure 5.4). Nodes A, B and E have more residential developments than nodes C and D which have more industrial activities in Southern Johor. This explains why housing overhang is mainly concentrated in nodes A, B and E.

![Figure 5.4: The 5 economic nodes of Iskandar Malaysia (Source: OWIDRA, 2008)](image)

The case study was conducted in Southern Johor whereby key economic activities concentrate. 90 percent of the supply and overhang of residential units are found in the case study area (NAPIC, 2004-2007). The housing supply is predominantly absorbed by the blue collar workers who work in Singapore and bring back their earnings in Singapore dollars (SGD). The blue collar workers typically can afford medium price housing units ranging from RM150,000 (£27,272) to RM300,000 (£54,545). Therefore, developers mainly supply medium cost housing units to meet the demand of the blue collar workers.

Johor Bahru and its surrounding cities offer lower living costs compared to that of Singapore. Blue collar workers commute daily between Johor Bahru and Singapore using the Causeway. Commuting workers normally arrive at the former Malaysian Immigration Building on their motorbikes (or scooters) (see Figure 5.5), which are
parked near to the Immigration Building\textsuperscript{12} (see Picture A of Figure 5.6) in Johor Bahru. After clearing immigration, they use public transport (Picture B of Figure 5.6), normally buses to cross over to Singapore via the Causeway (Picture C of Figure 5.6). They will have to pass Singapore Immigration (Picture D of Figure 5.6) before they disperse to their work place with public transport or buses provided by their employers. The Causeway is always jammed up as early as 5am by people crossing over to Singapore to work (Picture E of Figure 5.6). The researcher experienced the commuting of the blue collar workers by crossing over to Singapore. The total commuting time takes about 3-4 hours a day, including clearing the immigration at both the Malaysian and Singaporean checkpoints. The frustration of the long travelling hours is caused by the long queue at the immigration checkpoints.

\textit{Figure 5.5: Motorbikes of the blue collar workers parking near to Johor Bahru Immigration Building}

Since the Asian Financial Crisis in 1997, Johor lost many of its manufacturing activities to China, Cambodia and Vietnam which offer lower production cost. According to the developers (note: official statistics for housing overhang is not available prior to year 2004), there was high oversupply in Johor after the Asian Financial Crisis, but it was absorbed after the economic recovery in early 2000. The present overhang is the result of the Singaporean economic slowdown in 2002 and 2003 which caused job losses for blue collar workers. However, developers are optimistic that Iskandar Malaysia will spur the state’s economy and create employment. They are still actively supplying housing units because of their confidence in Iskandar Malaysia.

\textsuperscript{12} The new immigration building, the Sultan Iskandar Customs, Immigration and Quarantine (CIQ) was newly opened on 16 December 2008, after the case study in Johor was completed.
Figure 5.6: Daily travelling routine of Johor’s blue collar workers to Singapore
Kuala Lumpur, the capital of Malaysia, is strategically located at the central part of Peninsular Malaysia (see Figure 5.7). Kuala Lumpur was conferred the status of Federal Territory on 1 February 1974. It is administered by the Ministry of Federal Territory, a new ministry established in 2004 by the former Prime Minister, Mr Abdullah Badawi. Unlike other states in Malaysia (governed by the State Constituency), Kuala Lumpur is administered by the Federal Territory Acts through the Kuala Lumpur City Hall which is headed by a mayor. Specifically, Kuala Lumpur is regulated by the 1982 Federal Territory Planning Act (Act 267). Despite the fact that Kuala Lumpur has 11 parliamentary constituencies, their Members of Parliament do not form a government to administrate this federal territory. In other words, the enactment and revision of the Act is approved by the Ministry of Federal Territory.

Kuala Lumpur is easily accessible as many international airlines are operating scheduled flights into Kuala Lumpur International Airport. Being situated at the most developed west coast of Peninsular Malaysia, it is served by the North-South Expressway connecting the most northern state, Perlis, to the most Southern state, Johor. Kuala Lumpur is the administrative, financial and trade centre of Malaysia where
various federal ministries are located, such as the Ministry of Housing and Local Government which regulates housing development. Among all the states and federal territories, Kuala Lumpur has the highest average household income and the highest percentage of white collar workers in Malaysia (see Table 4.1). According to the Kuala Lumpur Structure Plan 2020, Kuala Lumpur aspires to become a world-class city by 2020. It is, therefore, improving its public service delivery in order to realise this vision.

THE WHITE COLLAR ECONOMY

Kuala Lumpur evolved from the Gombak River where tin was first discovered in the 19th century by Mr Yap Ah Loy. The immigrants from other states of Peninsular Malaysia, mainly Chinese, settled in central Kuala Lumpur as tin miners along the Klang River and Gombak River (coloured in red in Figure 5.8). Tin mining became a sunset industry in Kuala Lumpur in late 20th century after the exhaustion of the metal. The emergence of other natural resources such as rubber, palm oil and petroleum coupled with rising commodity prices had slowly phased out the mining sector. Kuala Lumpur later developed into an administrative, financial and trading centre of Malaysia, which is partly attributed to its strategic location at the centre of the west coast of Peninsular Malaysia.
The unprecedented growth in the 1980s and 1990s was mainly helped by its rich natural resources such as petroleum, tin, palm oil and rubber. The Malaysian government adopted an expansion policy which promoted infrastructure expenditure that induced growth in other sectors of the economy such as manufacturing, trade, housing, retail, leisure and transport. This explains the 8 to 9 percent annual growth rate in Gross Domestic Product throughout the 1990s. This resulted in a change of landscape with skyscrapers mushrooming in the Central Business District of Kuala Lumpur. The rapid economic growth fuelled the affluence of Kuala Lumpur’s population and, consequently, asset ownership of which housing is one of the major items.

The residential development industry in Kuala Lumpur, prior to the waiver of Real Property Gain Tax in April 2007, was mainly a domestic economic sector. Kuala Lumpur’s residential market mainly targets white collar workers as they form 20 percent of the residents in the capital. These include professionals, corporate managers and managerial and executive level workers. Their high level of disposal income, exposure to the west and higher level of education attainment mean that they are more sophisticated homebuyers. They have become the important reference points for developers in planning their housing provision.

While public transport is the main commuting mode of white collar workers in many international cities, most of them drive to work in Kuala Lumpur. Kuala Lumpur is yet to have a fully integrated public transport system such as that in Singapore, Hong Kong and London. This issue is also highlighted by Jusoh and Abdul-Rashid (2008). Even though Kuala Lumpur has light railway transit and monorail linking the housing estates in the city periphery to the Central Business District, the integration between different modes of public transport is absent. This discourages commuters using public transport.

Due to the rapid rise in car ownership in the last 2 decades, particularly with the influx of cheaper cars domestically in the late 1980s (that is, the Proton brand), many white and blue collar workers started to own cars. While the road system has been undergoing major development and improvement, it is still unable to cope with the rising volume of vehicles. The traffic pressure is further exacerbated by the intensive commercial developments of the city. Hence, traffic congestion is the daily routine of the Kuala Lumpur’s white collar workers. This is another factor which affects housing demand and preferences that developers have to take into consideration in housing planning.
Traditionally, housing supply in the upper end of the market in Kuala Lumpur has been low. However, land scarcity and high land prices, coupled with strict development control, are the factors influencing the supply strategy of residential units in Kuala Lumpur. These have led to a shift in the strategy of major developers from providing mass housing projects to the upper end high cost housing schemes in Kuala Lumpur. A reputable developer explained his shift of strategy.

There are 2 or 3 reasons to that. First, land is depleting. There is no such thing as few hundred acres in prime area. Second, construction cost is going up. If you sell (mass housing), the selling price is just at mediocre value. Forget about making money (in this market segment). Low cost flats are a big loss to any developers. So, you have to go up to the higher end, add value to your products. Sell at a higher price so that there is a margin to play with and to continue in business even if the construction cost goes up.

(Personal interview with K12, 5 June 2008)

The shift to developing upmarket properties by major public-listed developers in Kuala Lumpur is induced by the increasing affluence of the population who desires high end lifestyle residential units. This contrasts sharply with the situation in Johor which is supported by the blue collar economy. Despite the implementation of Malaysia My Second Home Programme (as discussed in Chapter 3), the result is insignificant because the programme is aimed at the retirees who prefer to stay in other more tranquil towns in Malaysia. As the capital of Malaysia, Kuala Lumpur houses many of the headquarters of public-listed developers, this research secured (though with much persuasion) interviews with corporate managers of several public-listed companies. This was rather different from the situation in Johor, where even the branch managers of public-listed developers were reluctant to participate in the research because they felt they were not the top executives and consequently lacked the experience and exposure to answer the research questions.

To operate in a mature market such as Kuala Lumpur, private limited developers need to be very experienced, keep abreast of development trends, and be willing to take higher risk due to very high land costs. The escalating land costs coupled with the exclusive lifestyle preferences expressed by homebuyers have pushed developers to supply more lifestyle housing products rather than building conventional dwelling units in recent years.
High cost housing as indicated in Figure 5.9 (in maroon colour) are those priced above RM180,000 (£32,727) in the 2020 Kuala Lumpur Structure Plan. However, this price range was commonly regarded as the medium price range by the Kuala Lumpur developers. To the developers, the high cost housing is at least from RM500,000 (£90,900) up and could be afforded by the white collar workers. This again shows the different perceptions between the government and developers over what constitutes high price housing. This is partly because the calculation the government uses to determine on medium and high cost housing is based on the affordability level of the Malay population because there are more Bumiputra than the non Bumiputra in this category.

![Figure 5.9: Distribution of housing by type (Year 2000)
(Source: KLSP, 2008: Figure 12:3)](image)

The following section discusses the legislative framework adopted in Kuala Lumpur and Johor to set the context for analysing the fieldwork findings. Although planning guidelines and housing policies are formulated by the federal government, through the Ministry of Housing and Local Government, they are, nevertheless, implemented differently at the state level because the state government has the ultimate decision
making power on land use. In addition, there are different situational contexts which cause variations in the adoption of planning guidelines and housing policies.

**LEGISLATIVE FRAMEWORK**

This section compares and contrasts various planning systems and housing policies implemented in Kuala Lumpur and Johor. They are found to be almost similar except that there are more planning controls in place for housing planning in Kuala Lumpur as compared to that in Johor. In addition, there are some differences in the levels of Bumiputra housing quota allocation, Bumiputra discount and low cost housing quota.

**HOUSING PLANNING SYSTEM**

As explained in Chapter 3, the housing industry in Johor and Kuala Lumpur is shaped by the legislative framework formulated by the Ministry of Housing and Local Government. As expressed in the 1976 Town and Country Planning Act (Act 172), housing development can only take place in a residential zone gazetted in the local plan and that housing planning in Johor is guided by this Act. However, Kuala Lumpur, being the capital city, is regulated by the 1982 Federal Territory Planning Act (Act 267) and it is directly governed by the Prime Minister Department through the Ministry of Federal Territory. Kuala Lumpur has its first Structure Plan in 1984 and its revision was gazetted in 2004. Its first draft city plan was released for public scrutiny in May 2008. Before the draft plan of Kuala Lumpur is gazetted, the development in the Federal Territory of Kuala Lumpur is classified into 10 zones with each zone housing its own development control. Hence, developers are requested to submit their development planning to the planning officers who are in charge of that particular zone; whereas Johor developers only need to forward them to the State Planning Department. Johor Bahru, the capital of Johor, has its local plan since 1984. Out of 9 districts in Johor state, the district of Johor Bahru has the highest level of housing overhang and oversupply in Malaysia, which is probably related to the lack of consideration of the market conditions in the housing planning system (Rameli et al., 2006a; 2006b). The district of Johor Bahru is divided into 5 districts, which are the city of Johor Bahru, Johor Bahru Central, Pasir Gudang, Pontian and Kulai.
In terms of planning guidelines and controls, land availability affects the way the State Planning Department regulates housing planning. Developers are generally required to contribute 10 percent of land for green landscape if their land is larger than 5 acres. In the land-scarce Kuala Lumpur, the Urban Planning Department of the Kuala Lumpur City Hall controls density, height, façade, and plot ratio in housing planning. Apparently, there are now more vertical housing developments in Kuala Lumpur which require these types of controls. In addition, the Kuala Lumpur City Hall is also working on brownfield development guidelines which are seen as important to the land scarce capital. The Kuala Lumpur City Hall also partners with developers to supply various medium cost housing projects in the capital to bring back the local population which is driven out by the high cost housing projects to enhance the appeal of Kuala Lumpur to be an international liveable city. This shows that both positive and negative measures were developed by the Kuala Lumpur City Hall in addition to the common legislative framework of the Malaysian government.

However, the scenario in Johor is rather different because land is still widely available outside of the city of Johor Bahru. According to the Planning Guidelines of Johor Bahru, a typical township and the surrounding cities are required to provide 3-tier of planning requirements if the land size is over 5 acres. These requirements are: i) neighbourhood centre facilities, such as a secondary school, neighbourhood field, mosque, hospitals and fire-brigade office; ii) neighbourhood facilities such as a primary school, polyclinics and field; and iii) a sub neighbourhood facility such as a smaller mosque (‘surau’ in Malaysian) and a children’s playground. Planning Standards specify the technical requirements of the site, plot ratio, building setback, density, landscaping and parking requirement (PDJBCH, 2008).

The application of housing planning is similar in Kuala Lumpur and Johor. In both case studies, housing development has to be approved by the State Executive Council. Developers need to secure planning permission from the Urban Planning Department in Kuala Lumpur and from the State Planning Department in the case of Johor. In Kuala Lumpur, if an application of housing planning involves land conversion, for example, from agricultural to residential or mixed development, then developers need to obtain approval from the Office of Land and Mine before applying for building plan approval.
(see Figure 5.10). The land conversion process in Johor is named as ‘subdivision and realienation’. Developers normally surrender their land to the land office which subdivides the land based on the surveyor’s plan. The land office retains the subdivided title deeds which are approved for road reserve, facilities, amenities and institutional units and only returns the title deeds approved for residential units to the developers.

![Figure 5.10: Standard process for residential planning in Kuala Lumpur and Johor](image)

However, in Johor, housing planning and land conversion applications are submitted concurrently to the State Planning Department. Only 5 departments (Road and Drain Department, Office of Land and Mine, National Power, Water Department and Sewerage Department) are involved in approving residential planning for developments less than 5 acres. This translates into a shorter time duration when obtaining planning approvals. Development planning applications are, however, required for developments over 5 acres of land. The application will be circulated to the local authority and sub-authorities which involve 11 to 14 departments. Consequently, it takes at least 6 months or even longer to obtain housing planning approval.

**One-Stop-Centre**

The Ministry of Housing and Local Government introduced the One-Stop-Centre in April 2007 to improve the housing delivery system, which is plagued with bureaucracy and fragmented decision making. To ease the submission of the development planning process, the Ministry of Housing and Local Government is paying the expenses related to setting up the One-Stop-Centre in the local authorities throughout Peninsular Malaysia. According to Jusoh and Abdul-Rashid (2008), the One-Stop-Centre was originally introduced in the 1980s as part of the effort to improve the efficiency of public governance but it did not take off then.

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13 ‘Serah Balik Kurnia Semula’ in Malaysian
Essentially, the One-Stop-Centre administrates the plan circulation tasks for the approving departments. For new developments, developers are required to hand in development and building plans simultaneously to the One-Stop-Centre. The One-Stop-Centre imposes a 14-day timeframe for the approving departments to respond, which otherwise is deemed as approved. Subsequently, a One-Stop-Centre meeting will be held and directors of the approving departments are required to attend to decide on the development planning. The One-Stop-Centre aims to provide developers a decision within 6 months from the date of submission of the project (except for the Built-then-Sell system and special-purpose projects), which will be discussed later. The One-Stop-Centre system allows the consulting engineers and architects to issue the Certificate of Completion and Compliance to replace the Certificate of Fitness for Occupation, which is seen as another bottleneck in the Malaysian housing delivery system.

When the One-Stop-Centre receives a development planning application, it will circulate plans to internal departments (Planning, Building, Engineering, Landscape, Town Services, Traffic and Health) and the privatised utility companies (such as those dealing with power, water, telecommunication and public works which fall under the Ministry of Public Works) for their comments and feedback. As for the building plan, it is normally vetted by the Building Department and circulated to another 10 to 15 internal and external departments (see Figure 3.4) depending on the type and complexity of development. The Building Department is also responsible for issuing the Certificate of Fitness for Occupation to ensure building safety which is now replaced by the Certificate of Completion and Compliance under the One-Stop-Centre system.

Alongside the introduction of the One-Stop-Centre, the Ministry of Housing and Local Government also introduced the Build-then-Sell system with an aim to replace the present Sell-then-Build concept. The Build-then-Sell system allows developers to collect 10 percent down payment with 90 percent balance received upon project completion. Based on the One-Stop-Centre guidelines, the approving time for Build-then-Sell is 3 months, which is half the time taken for the Sell-then-Build. The Build-then-Sell requires zero deposit for opening up of a Housing Developers’ Account as compared to a deposit of RM250,000 (£45,454) under the Sell-then-Build. In addition, it also waives the stamp duty on the Sale and Purchase Agreement for housing units transacted in the Sell-then-Build system. It is important to highlight that the Build-then-Sell system was introduced after the Ministry of Housing and Local Government
received numerous complaints from aggrieved homebuyers about abandoned development projects which caused them to pay endless bank instalments for houses which were not completed nor delivered.

**Bumiputra and low cost housing policies**

The Malaysian government aspires to help low-income earners and Bumiputra in obtaining home ownership. The vision of the Ministry of Housing and Local Government is to ensure that every family owns a shelter. Hence, developers are legislated to contribute 30 percent of their total planned units for low cost housing with the selling price capped at RM42,000 (£7,636). In addition, they are stipulated, under the New Economic Policy, to allocate another 30 percent of their planned units to deliver the Bumiputra housing quota, which have to be sold at a special discount. The special Bumiputra discount is pegged at a minimum of 5 percent in Kuala Lumpur. The Kuala Lumpur City Hall imposes these 2 housing policies across all 10 zones in the federal territory of Kuala Lumpur, with the flexibility for the capital zone to be exempted from the low cost housing requirement.

The Johor state government imposes a low cost quota of 40 percent on any developments above 5 acres. There are 3 price bands for low cost housing provision and their respective percentage allocations are 20 percent for those which are priced at RM35,000 (£6,363), 8 percent for RM50,000 (£9,010), 8 percent for RM80,000 (£14,545) and 4 percent for low cost shops which are priced at around RM100,000 (£18,180). Low cost housing units of RM35,000 (£6,363) must be surrendered to the State Housing Department (‘Cawangan Perumahan Negeri’ in Malaysian) for disposal. The State Housing Department normally generates a list of eligible low cost homebuyers for developers to approach.

Besides the low cost quota policies, the state government of Johor also imposes the highest percentage of Bumiputra quota and Bumiputra discount in Malaysia. It stipulates 40 percent of the total planned units to be allocated for Bumiputra and that developers must offer a 15 percent special discount on the selling price. However, the 40 percent only applies to housing units priced below RM200,000 (£36,363). The Bumiputra allocation is lowered to 30 percent if they are priced above RM200,000 (£36,363) and further reduced to 20 percent for properties priced above RM250,000.
one of the catalyst and high-impact developments (£45,454). Generally, developers perceived this sliding scale as a positive policy development.

In summary, the Bumiputra housing policy is implemented differently in Kuala Lumpur and Johor in 3 aspects. First, the Kuala Lumpur City Hall imposes 30 percent of Bumiputra quota in comparison with Johor’s 40 percent, on the total planned units. Second, the Bumiputra discount is pegged at a minimum of 5 percent by the Kuala Lumpur City Hall while the Johor state government imposes 15 percent. Third, the Bumiputra release mechanism, which allows developers to transfer unsold Bumiputra units to non Bumiputra status, also differs. In Johor, developers surrender the Bumiputra housing units to the State Housing Department for disposal and a payment is charged on this service. In both Kuala Lumpur and Johor, developers are required to advertise 3 times in the Malay newspapers. However, in addition to this, Kuala Lumpur developers are required to participate in the Bumiputra housing roadshow organised by the Kuala Lumpur City Hall. Again, this illustrates the differential policy implementation when putting national government policy in practice.

**COMPREHENSIVE DEVELOPMENT PLAN FOR SOUTH JOHOR ECONOMIC REGION**

The first Johor Bahru Structure Plan was gazetted in 1985. It is one of the first few Structure Plans that was completed (Goh, 1991) after the implementation of the 1976 Town and Country Planning Act (Act 172). In preparing for the Ninth Malaysia Plan, the federal government of Malaysia and the state government of Johor see the potential of South Johor in becoming a regional centre for the growth triangle of Indonesia, Malaysia and Singapore, as well as to capture the increasing trade flows that Malaysia have with China and India (CDP, 2006). To achieve this, a special initiative was undertaken to draft the Comprehensive Development Plan for South Johor Economic Region for the period of 2006 – 2025, which mainly consists of the Physical Plan and the Economic Plan. The Comprehensive Development Plan for South Johor Economic Region is ‘one of the catalyst and high-impact developments’ (CDP, 2006: Chapter 1 and 2) under the Ninth Malaysia Plan, covering the Johor conurbation identified in the National Physical Plan. The state government of Johor gazetted both the revised Johor State Structure Plan and Johor Bahru Local Plan on the 3 January 2008 and that the Comprehensive Development Plan for South Johor Economic Region covers the
Southern Planning Zone of the 2008 Johor State Structure Plan (CDP, 2006). Effectively, these policies have been steering the physical and economic development planning for Johor Bahru.

**DRAFT KUALA LUMPUR CITY PLAN**

During the fieldwork, the Kuala Lumpur City Hall launched its Draft Kuala Lumpur City Plan 2020. It was displayed from 15 May 2008 to 30 June 2008 for public scrutiny (see Figure 5.11). The Draft Kuala Lumpur City Plan 2020 received mixed responses, ranging from positive responses by developers to apprehensive remarks by the public. The positive responses included the following comments:

*Make the development guidelines very clear and open for everybody. I think they have taken a good step. Recently, there is a Draft (Kuala Lumpur) City plan...it would help a lot because it is very clear that the plan says what it is. So, not many people can argue for it. They authority cannot say, 'This is different. You got to change it!' This is the plan now. You got to follow because the plan is endorsed.*

(Personal interview with K10, 4 June 2008)

*I think Kuala Lumpur...continues to have the potential to be a world-class city. Every visitor that comes here is shocked, 'Wow...I didn’t realise it is like this!' To even have the draft local plan and structure plan, I mean that’s great. I have a quick look at it and it is very detailed. You can (zoom) down into your own lot and how many units you can build in it. I mean it is fantastic. So, with that kind of transparency, it will always spur your development because developers feel more comfortable.*

(Personal interview with K20, 26 May 2008)

*Figure 5.11: Public display of the first Draft Kuala Lumpur City Plan 2020*
Furthermore, developers believed that the Draft Kuala Lumpur Draft City Plan 2020 would reduce unnecessary bureaucracy and issues in housing development. It will help to eliminate public protest which has been frequently happening quite recently, especially when there are complaints made by residents who have political connection. As explained by the following developers,

(When it comes to Development Order approval), you can never guarantee what will happen because your neighbour who happens to be some VIP makes a fuss (over the development), (then) they change (land use) half way through and then you are kind of caught when you have submitted your plan...

(Personal interview with K20, 26 May 2008)

In Australia, if a piece of land is zoned for 5 units. It means you can only develop for 5 units. So, this is very systematic. Here, your land can be (approved) for 5 units, but your neighbour can build 50 units because they got contact…yeah, he got good rapport with ‘upstairs’. All these happen in Malaysia, you know!

(Personal interview with K3, 6 June 2008)

Lack of transparent guidelines increases developers’ risk because they can be issued stop-orders due to public protests. Some protests happened after developers started construction, while some took place during the approval period if the residents happened to know the details of the proposed development. Presently, the Draft Kuala Lumpur City Plan is being amended and fine-tuned by incorporating the comments of key actors in the industry such as developers, professionals and residents. The eventual outcome of the usefulness of this process will take a period of time to test. However, this is considered a very bold step undertaken by the Kuala Lumpur City Hall in improving the transparency of policy making.

The discussion here shows that the Draft Kuala Lumpur City Plan 2020 is seen as a constructive step to increase the transparency in the planning system and strengthen its governance as it is open for public input and comments during the display period. Despite being positively received by developers, the actual impacts of these institutional changes are yet to be felt. However, the Malaysian Nature Society, a non-governmental organisation which vetted the draft Kuala Lumpur City Plan 2020 identified a few issues from the perspective of residents (MNS, 2009). First, the Malaysian Nature Society discovered that the number of person per square meter space was reduced from 25 (in the Kuala Lumpur Structure Plan 2020) to 11 (Draft Kuala Lumpur City Plan...
2020) and this is expected to vastly reduce the open space in Kuala Lumpur, and correspondingly increase the population size from the present 1.6 million to 2.2 million in 2020. In other words, it means much higher density, which may negatively affect the sustainability of the city. Second, the preparation of the Draft Kuala Lumpur City Plan 2020 was felt to be against the law according to Section 12A of the 1976 Town and Country Planning (Act 172), with its latest revision in 2001 and Act 1129, which stipulated the need to consult with the public before it was drafted (Dola and Mijan, 2006). Third, the Kuala Lumpur Structure Plan 2020 and the Draft Kuala Lumpur City Plan 2020 were not reviewed to incorporate the aspirations of the National Physical Plan which is served as a guide for the preparation of the Structure Plan and Local Plan. Fourth, Volume 3 of the Draft Kuala Lumpur City Plan 2020, which documented a crucial aspect of the development planning in Kuala Lumpur, was not released for public participation. Last, the justification on the selection of candidates sitting on the Public Opinions Hearing Committee was not transparent.

Other than the Malaysian Nature Society, various key actors in the development industry also carried out a roundtable discussion in July 2008. This involved representatives from the Real Estate Housing Developers’ Association, the Malaysian Institute of Planners, the Malaysian Institute of Architects and a resident group. In contrast with the views of Malaysian Nature Society, the Real Estate Housing Developers’ Association felt that Kuala Lumpur needed higher density to move towards becoming a world-class city (The Star, 2008b). The Malaysian Institute of Planners reckoned that Kuala Lumpur could achieve sustainability with higher density, if it could balance economic prosperity, social equality and environmental integrity as that in Singapore and Hong Kong (The Star, 2008b). The Malaysian Institute of Architects concurred with their views and further commented that the Draft Kuala Lumpur City Plan 2020 promoted governance and transparency in development planning of Kuala Lumpur. Furthermore, the Malaysian Institute of Architects stressed the importance of having a regular review of the planning system and that the state made appropriate intervention to enable Kuala Lumpur to achieve the vision of being a world-class city by delivering an affordable housing program, effective transport system, waste disposal system and disaster management program (The Star, 2008c).
CONCLUSIONS

This chapter introduced the 2 case study areas for this research. The discussion started with various economic linkages which form the external institutional environment for the housing industry for each location. It then proceeded to highlight the similarities and differences in their housing planning framework.

The economic development of Johor is highly dependent on the Singaporean economy. The manufacturing sector in Singapore provides employment opportunities to the blue collar workers in Johor, which are the target market of Johor housing developers. Kuala Lumpur, being the capital of Malaysia, has the highest percentage of its population working in the white collar segment. This makes Kuala Lumpur enjoy the highest average household income in Malaysia. Consequently, developers supply more of the high end housing units to cater for high income earners and foreign investors.

Generally, Kuala Lumpur and Johor adopt the federal level housing policies though there are some differences in their implementation. They have very similar administrative processes for housing planning. Most notable differences are found in the implementation of Bumiputra and low cost housing policies, particularly the required levels of quota and Bumiputra discount.

Chapter 6 will compare and contrast how developers in Johor and Kuala Lumpur view the legislative framework and the housing development process, with a specific emphasis on their interaction with the state in the process.
This chapter aims to discuss the views of developers on the legislative framework which shapes the Malaysia housing industry. Generally, the state government of Johor and the Kuala Lumpur City Hall adopt the federal level housing policies and planning guidelines, but with some variations with regard to land use matters.

This chapter compares and contrasts the views of developers in Johor and Kuala Lumpur over different aspects of the housing planning guidelines, the administrative process and the implementation of the One-Stop-Centre. It discusses the conflicts and tensions that the developers face in the housing development process and the methods that they adopt to resolve conflicts with the state. It also examines the effectiveness of various housing policies and institutional reinforcements. This chapter concludes with discussing the aspirations of developers towards the Malaysian housing delivery system.
Chapter 6 Housing Planning Process: The Developers’ View

INSTITUTIONAL FRAMEWORK OF THE RESIDENTIAL DEVELOPMENT SECTOR

This section discusses the views of developers on the institutional framework of the housing industry. It then highlights the differences between the views of developers that operate in Kuala Lumpur and Johor.

LAND ACQUISITION

Developers in Johor and Kuala Lumpur adopt slightly different land acquisition strategies. Even though outright acquisition and joint venture initiatives are commonly adopted, it is found that Kuala Lumpur developers tend to engage real estate agents to search for land while Johor developers approach landowners themselves. A few developers who developed high cost housing schemes explained that they normally conceived their development concepts and then engaged real estate agents to hunt for a suitable land bank in terms of price and location on their behalf to save time. This seems to demonstrate the difference in the level of sophistication between Kuala Lumpur developers who operate in a more competitive housing market as compared to their counterparts in Johor.

It is a norm for developers in Kuala Lumpur and Johor to confirm whether they can convert the original land use to their intended land use (for instance, from agricultural to residential), which is then followed by a feasibility study on development control issues such as the approved density and height of the buildings in the adjacent plots. Based on these constraints, they develop the mix of housing types, carry out market research to gauge cost and profit calculation, and ultimately make the decision of whether to pursue the acquisition.

Land scarcity is a very pressing problem in Kuala Lumpur. However, the developers in Kuala Lumpur remain optimistic and are still actively scouting for land banks. In fact, a developer commented that Kuala Lumpur developers were going to be a dying breed because land was being depleted. He also emphasised that while getting a suitable piece of land in terms of pricing was an issue, the transparency of land use information was equally crucial in decision making.
The high end market is still growing because Kuala Lumpur is still growing and people are still coming into Klang Valley, and then from Klang Valley to Kuala Lumpur. I used to tell my colleagues in the Real Estate Housing Developers’ Association that we are the dying breed because KL is running out of land. If you look at the Federal Territory of Kuala Lumpur, the prospect is still good. There are still a lot of opportunities for development...the prospect is more for the high end (segment). (When we source for land) We highlight certain areas we are interested in to a broker who happens to be quite good and professional. We set the criteria and the price. I guess the obstacle (in getting a piece of suitable land) is the capital...Maybe it is not necessarily the capital but also the transparency of (land use) information.

(Personal interview with K20, 26 May 2008)

There has been a vast reduction of land for residential purposes in Kuala Lumpur, from 523 hectares in 1984 to 288 hectares in 2000 (KLSP 2020, 2008), because most of the old residential areas were redeveloped for commercial purposes. In contrast, commercial land use doubled from 504 hectares to 1,092 hectares during the same period (KLSP 2020, 2008). It is expected that more land originally zoned for residential use will be rezoned for commercial purposes because it commands higher value, though this will further reduce the size of city population.

The most common method is outright purchase, though it is less common nowadays as landowners prefer joint ventures which might offer them a more lucrative return. The landowners in Kuala Lumpur are getting more market savvy and they tend to approach developers themselves or through real estate agents for joint ventures. For landowners who have sizeable land, they tend to approach reputable public-listed developers due to their financial strength. Nevertheless, only public-listed developers who have the financial strength for outright purchase can afford the exorbitant land prices in the capital because most of them are zoned for institutional use. Public-listed developers will enter joint ventures provided that the land perfectly matches their planned developments.

During the fieldwork period, there was a phenomenal change in the capital’s property market that saw the price of land surrounding the iconic towers of Kuala Lumpur – the Petronas Twin Towers in Kuala Lumpur Centre Park soaring (see Figure 6.1). According to a developer who completed a high cost condominium block in Kuala Lumpur Centre Park area, he likened the Petronas Twin Towers in Kuala Lumpur to the Eiffel Tower in Paris. He elaborated how Petronas Twin Towers has created a significant impact on land prices and town planning in Kuala Lumpur.
The iconic cast of the city such as Petronas Twin Towers in Kuala Lumpur, is like the Eiffel Tower in Paris. There will never be another iconic centre (Petronas Twin Towers in Kuala Lumpur). If this is the iconic view, town planning will also reflect that. While the price may look expensive now, if it is still worthwhile, they can, they will buy and hold. Because tomorrow, 3 years down the road, it will appreciate. It will never come down. The sheer cost of inflation and construction, you can never build it at today’s cost or cheaper...if you can afford to hold for the long term, I think you can always buy.

(Personal interview with K21, 6 June 2008)

Notwithstanding the sharp increase in land prices in Kuala Lumpur Centre Park, developers were still acquiring land because they saw the potential of a new foreign buyer market after the lifting of Real Property Gain Tax in April 2007. In fact, a reputable public-listed developer experienced an increase in take-up rate after the removal of Real Property Gain Tax. Furthermore, there is evidence of foreign investors purchasing luxurious condominiums in Kuala Lumpur, especially in Mon’t Kiara, Hartamas and Kuala Lumpur Centre Park which are known as the ‘International Zone’ in the Kuala Lumpur Structure Plan 2020. Most of the residential developments in Kuala Lumpur are high cost, high rise, condominium blocks (from RM500,000 (£90,900)) where many expatriates reside.

Johor has the third largest land area in Peninsular Malaysia. Land use has almost reached its maximum capacity in Johor Bahru city centre, so housing developments have spread out to the surrounding cities of Johor Bahru which covers the 4 nodes in

Figure 6.1: Kuala Lumpur Central Park and Petronas Twin Towers
Iskandar Malaysia (see Figure 5.4). They are the Senai-Skudai node (where the state airport terminal is located) which covers Kulai (the constituency of the former Minister of Housing and Local Government); the Western Gate Development node and the Nusajaya node which cover Pulai and Gelang Patah (the future administrative centre of Johor); and the Eastern Gate Development node which covers Kota Tinggi, Tebrau and Pasir Gudang (the main industrial area in Johor). These towns offer ample land for residential development at affordable prices for blue collar workers. There are many public-listed developers developing 200 to 6,000 acres of banked land in these cities. Nevertheless, it was frequently mentioned by the interviewees that land was getting scarce and land prices were soaring in Greater Johor Bahru.

Generally, developers can be classified on the basis of their land acquisition strategies (see Table 6.1). In Johor, public-listed developers own huge tracts of agricultural land through outright acquisition. Their financial strength allows them to acquire land banks spanning from several hundred to several thousand acres and then convert them into self-contained township developments. These developments come with commercial units, a shopping mall, medium to high price residential units; institutional units such as schools, educational centres and hospitals, and landscaped parks and a golf course for recreational purposes as well as serving as a selling point. However, this kind of town development is impossible in Kuala Lumpur due to the scarcity of land. In contrast, private limited developers tend to own smaller tracts of land due to their limited capital and will then immediately submit for development planning after land acquisition. However, they enjoy full discretion on their development strategy which might not always be the case in joint ventures. Similarly, joint ventures have become a common practice in Johor in view of the rising cost of land. A few participants undertook joint venture projects with state government agencies to build institutional units such as wet markets, dry market complexes, and cultural centres. Joint venture developers are rewarded with land banks which allow them to build residential units. Some developers might share development profits with state government agencies, depending on their contractual agreements.
Table 6.1: Land acquisition strategies and developers’ legal ownership

<table>
<thead>
<tr>
<th>Land Acquisition Strategies</th>
<th>Legal Ownership</th>
<th>Development Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Outright purchase</td>
<td>Public-listed developers</td>
<td>Convert plantation land into a self-contained township.</td>
</tr>
<tr>
<td>2. Joint ventures with land owners or state government agencies</td>
<td>Public-listed and private limited developers</td>
<td>Share profit or allocate built units with joint venture partners. Developers do not have full autonomy on development strategy.</td>
</tr>
<tr>
<td>3. Purpose-driven land purchase</td>
<td>Public-listed or private limited developers</td>
<td>Identify suitable pocket of land for specific development, normally in the city of Johor Bahru.</td>
</tr>
<tr>
<td>4. Small pockets land takeover</td>
<td>Turnkey contractors cum developers</td>
<td>Contractors are compensated with land by the developers who owe them payment. They engage in vertical integration by being developer and contractor themselves with the land that they are compensated. There are also instances whereby turnkey contractors <strong>enter into joint venture deal with the state or land owners for housing developments.</strong></td>
</tr>
</tbody>
</table>

Both public-listed and private limited developers in Johor and Kuala Lumpur engage in land acquisition through joint ventures. Joint venture arrangements have become very common as it spares private limited developers from committing a huge capital outlay. Payment to land owners was either in the form of shared profits or a certain percentage of the built units. This research managed to approach 3 developers who have joint venture deals with the Kuala Lumpur City Hall in designated growth centres such as Sentul, Damansara, Bandar Tun Razak and Wangsa Maju (in the 1984 Kuala Lumpur Structure Plan). These areas are easily accessible with light rail transit and Sentul and Bandar Tun Razak being served by 2 transit terminals. These designated growth areas are occupied by the middle income groups and comprised the majority of Kuala Lumpur’s workforce.

The third type of developers found in Kuala Lumpur and Johor tends to engage in purpose-driven land acquisition. Developers first identify suitable land for the type of residential developments they have in mind and then approach the land owner for
acquisition. After acquisition, they immediately submit for housing planning to avoid high holding costs and investment risk. The last type of developers is turnkey contractors, who are the contractors turned developers. Normally, they are compensated with land or half completed developments when the developers they work for wind up. This happened prevalently during the Asian Financial Crisis. Their past experience with developers who were unable to pay them led them to start their own development operation. With their construction skill, they organise sales and payment collection departments. This is a new phenomenon whereby contractors engage in vertical integration and become developers themselves. Their continued exposure and experience earlier on in the project allows them to continue the development operation by having joint ventures with land owners. This arrangement prevents them from having problems in collecting payments from the cash-tight developers and exposes them to lower payment risk as compared to getting contracts from developers. They are termed as ‘turnkey contractors’ when they have joint ventures with land owners. They are responsible for constructing, selling and collecting payments from homebuyers.

**PLANNING PERMISSION, BUILDING PLAN APPROVAL AND HOUSING DELIVERY**

The Structure of Provision theory sees the state as the regulator and the facilitator in the residential development industry (Ball, 1998; 1986). Most developers work on the concept of housing development after land acquisition, except the purpose-driven developers who have conceived their concept prior to land acquisition. Interviews with developers in Kuala Lumpur and Johor found that they generally conceived their development concept based on their instinct, experience and market knowledge, and they engaged town planners to formulate the development concept and then proceeded with plan drawing. Town planners are responsible for submitting development planning to the State Planning Department on behalf of the developers. However, architects are allowed to submit development planning for land size that is less than 5 acres.

Generally, developers agreed that they were regulated by the comprehensive legislative framework and policies. Nevertheless, they complained about the bureaucratic approval process. There are 11 to 14 internal and external departments (depending on the scale and type of development concept) to approve development planning. The timeframe of
getting development planning approval, (also which is known as ‘planning permission’in Johor or ‘Development Order’ in Kuala Lumpur), ranges from 6 months (for a block of apartments) to 2 years or longer depending on the complexity of planning, the scale of development, and land matters. Due to the long waiting time, developers start preparing their building plan while waiting for planning permission. Upon the obtainment of planning permission, they immediately send in the building plan for approval. Normally, the duration for building plan approval is shorter, ranging from 3 to 9 months. All developers participated in the research expressed a consensual view that the approval process and timeframe should be shorter.

In general, the decision making for housing planning is fragmented as it requires the approval of numerous departments, of which some are external departments which are not controlled by the approving authorities. For example, the Kuala Lumpur City Hall approved projects in the past which required the water or power companies (which are not managed by the Kuala Lumpur City Hall) to provide the utilities. However, neither the reservoir nor the power station was ready for operation, thus interrupting the utility supply to homebuyers despite the Building Department of the Kuala Lumpur City Hall having issued the Certificate of Fitness for Occupation. This illustrates the extent of fragmented decision making which increases the risk to developers and homebuyers.

**Professional follow-up service**

There were various factors which caused the lengthy timeframe for planning permission and building plan approval. As discussed in Chapters 3 and 5, some of these approving departments are run by local authorities while others are by privatised sub-authority companies (such as the power, telephone, water and sewerage companies). Consequently, local authorities are not able to exert pressure for quicker approval. However, developers commented that even a long delay was taking place in the departments under their jurisdiction. Hence, it was a normal practice for Johor and Kuala Lumpur developers to create a special position in their firms by engaging a ‘professional liaison officer’ responsible for chasing up planning permission (or Development Order) and building plan approvals. Professional liaison officers are expected to build a rapport with government officials within and outside the local

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14 ‘Kebenaran Merancang’ in Malaysia n. Planning permission will be used interchangeably with Development Order in this thesis.
Chapter 6 Housing Planning Process: The Developers' View

authorities. They are supposed to pay them visits and engage them regularly with social functions to establish relationships or commonly known as ‘friendship’ in the developer’s circle. ‘Friendship’ helps to speed up approval because more attention will be given to their files. When asked about the likely outcome if no follow-up was done, the consistent remark was that ‘the file would be laid idle’. The most candid reply is quoted below:

You know, we have 11 departments to go through. Our system is that sometimes people just sit on your files unless you propose something to them. These are the things that cause the problem.

Upon probing what did he mean by ‘propose something to them’?

Sometimes, they just refused to process your file. Let’s say you go to this water department. They keep your file and they don’t want to do anything about it. Unless you have a special connection with them or you are their good friends or family members, they can make it faster. If you are not, then just sit there and wait.

(Personal interview with J22, 23 July 2008)

Developers are profit driven and are certainly aware of the potential lengthy waiting time and the uncertainty that their plans are being processed if they do not follow them up. They know that time is essential and such a follow-up exercise is a relatively negligible expense when compared to the potential delay without the follow-up. A foreign-owned developer explained if they missed the timing, they missed a profit making opportunity.

As a developer, launching is very important to us. The timing because that’s where the market, the property market at this point of time. If it is so called, the property market, say 10 o’clock, by the time you get it, it is already 2 o’clock. So, that’s the part. As a developer, we may lose out on this.

(Personal interview with K24, 8 July 2008)

Developers tend to adopt a humble approach to deal with the approving authorities. According to the interviewees, they regularly visited and befriended the approving officers, despite the fact that they were not courteously treated or were even belittled at times. They dared not offend the officers in fear of jeopardising their development planning. They, ultimately, relied on the officers’ service in getting speedy approval. In the State Planning and Building Departments, every submission is assigned a file number. With this file number, the liaison officer has to ‘follow and track’ the movement of the file. If there is no movement, (s)he is supposed to find out the reason
of ‘stagnation’ and to resolve the problem, so that the file will move on to the next processing department. As mentioned by a public-listed developer,

We have a Project Manager, a team, to follow up with them as well. Sometimes, like DO (Development Order), where there is a long list of applications. If you know them, then it can expedite things, like putting your file… (he paused)…ahead of others.

(Personal interview with K4, 5 June 2008)

Furthermore, developers found it difficult to insist on the ‘correctness’ of planning guidelines with local authorities as it tended to trigger tension in their relationship. As one interviewee recalled his experience:

…let’s say we have (an) incident in the past when we first started a project. Our consultant, architect, they designed and then they had their own consensus. But the checker from ‘Majlis’ (meaning local authority in Malaysian) also had their own reading of the rules. So, there was a clash…we had a stressful situation with them. There was a tension there. Then subsequent plans that went in were handled very slowly. They were angry…at that time, we felt it very strongly…despite we thought we were right but they thought they were right…now we look at it and say, oh, better try to accede to them, change the plan to suit them…so we follow them, then things are moving very smoothly. Because if you try to be right about it, it causes a lot of tension.

(Personal interview with J5, 24 July 2008)

The frequency of follow-up could be on a daily basis as explained by a developer. The ultimate purpose was to have an idea of the movement of the file which contains their development planning application.

…we have specific people just going there everyday. Yes (to follow up everyday). We have dedicated people who are only submitting plans and obtaining approvals. They have to follow up. We have hundred of files ongoing at any one time.

(Personal interview J16, 25 July 2008)

**State Executive Council Meeting/Urban Planning Committee Meeting**

In both Johor and Kuala Lumpur, getting development approval was likened to jumping hurdles by the developers that participated in the research. According to the developers, even they could expedite the application process by following up closely with various departments to seek feedback on planning submissions (which might require them to amend and resubmit plans), they always hit the ‘red light’ at the last hurdle, which was
the State Executive Council Meeting for Johor and the Urban Planning Committee Meeting for Kuala Lumpur. Normally, this type of meeting has to be chaired by the Chief Minister in Johor or the Mayor in Kuala Lumpur and the directors of the approving departments within and outside the approving authorities. This meeting is supposed to be held monthly, however, it is often cancelled and postponed because the Chair often runs a tight schedule and cannot be present at the meeting or not all State Executive Councillors are present. This adds to the challenge of holding this meeting monthly. A Johor developer said,

> Even though from the day you submit the thing (plans), you submit to all (departments), and you got all the technical clearance. When it comes to the highest level, which is supposed to be the State Executive Council Meeting, then suddenly there is a delay because (the) meeting (is) only once a month and chaired by the MB (‘Menteri Besar’ in Malaysian means the Chief Minister of the State). MB is very busy and there is a very long queue. For you to reach the queue, to follow the queue…(long wait).

(Personal interview with J21, 25 July 2008)

Kuala Lumpur developers viewed this as an impediment to the fulfilment of the vision of developing Kuala Lumpur into a world-class city. A director of a foreign-owned development company in Kuala Lumpur was aware of the infrequent State Executive Council Meetings despite being seconded there for only 2 years. On another account, a reputable developer who developed high cost lifestyle condominiums expressed the need for more frequent meetings to speed up the delivery, so that the property sector stayed competitive when compared to those in other international cities such as Shanghai and Dubai.

> They have to somehow streamline the process and reduce red tape, reduce the need for too many approval steps. Also, have more frequent planning meetings…if that particular month, if the Chief Minister or some of the senior officers are called for either election or special meeting, then you wait for another month…how to develop fast when you only meet once a month to approve things…if you have one seating, say if you have a dozen projects, how can you get through all? Then you approve 2 projects, then snowball to another month?

(Personal interview with K9, 12 August 2008)

Furthermore, most of the State Executive Councillors are not professionals in the planning and development industry. As one developer highlighted, they might not have the best knowledge to approve or reject development planning from a professional perspective. The State Executive Councillors are politically appointed and they come
from all walks of life. Therefore, their judgement on the approval or rejection of development planning was questioned by some of the interviewees.

**Planning guidelines**

The interview findings suggest that residential development planning in Malaysia has been masked by the lack of clarity in development control guidelines which are susceptible to planning officers’ subjective interpretation and consequently results in dispute. In addition, policies have been frequently changed whenever new directors or heads of department are in the post. In the past, there were instances whereby inexperienced officers withheld their approval because they were unsure of the interpretation of the guidelines. However, some officers took advantage of this situation by imposing additional conditions or planning gains. These inconsistencies were seen as causing tremendous difficulty to developers in carrying out developments with calculated risk. Developers who experienced this situation expressed their sentiments:

“Follow their whims and fancies...”

“We don’t have choice!”

“At their mercies...”

(Verbatim from several developers)

Examples of ambiguous guidelines were given by the interviewees. For example, township developers have to contribute 10 percent of green space for the recreational need of residents. However, developers felt that the level of green space contribution was high and tended to negotiate it down with the planning officers. One of their arguments was that the development of semi-detached houses took up extra land and should be seen as part of the contribution towards the 10 percent green space. Another example of ambiguous planning requirements was provided by a pioneer developer in Kuala Lumpur. He was told to provide a road in his township development which could only be possible with the acquisition of the neighbouring land. This developer debated with the authority but he had to resort to informal practice to get the officers’ goodwill. Another instance he faced was the imposition of a 4-acre school site which was located at the border of 2 plots of land belonging to 2 different landowners. This developer was one of the landowners but he was later requested by the Urban Planning Department of Kuala Lumpur City Hall to shift the proposed school to a site within the boundary of his own land on the ground that he owned a larger plot of land than the neighbouring
landowner, who only owned 40 acres of land. In other words, he had to contribute 4 acres of land instead of 2. Such a request from the Urban Planning Department was imposed on him to facilitate and benefit the neighbouring housing development. To tell the tale in his own account,

In the first occasion, they put a school in our layout which took up 2 acres of our land and 2 acres of our neighbouring land. But, the Kuala Lumpur City Hall pressured us when we submitted in our planning application. They said, ‘Why don’t you move your school to another place and you contribute the 4 acres required for the school site? Then, the original school site can be freed for residential purpose. They said, ‘You have got a big piece of land. This guy (neighbouring developer) only has 42 acres of land.’…so we suspected that this guy (neighbouring developer) must have done something, so that the Kuala Lumpur City Hall came and asked us to move (the school site to be in our land completely). We fulfilled, so that our project would not be jeopardised. So, we relocated our school land, changed the layout. With this move, that guy (neighbouring developer) had additional 2 acres of land just because we shifted the school site. Consequently, his land price jumped triple. This thing happened!

(Personal interview with K13, 9 July 2008)

Developers wanted clear and transparent guidelines so that they can expect certainty in development planning. Some developers who encountered this problem tried to address the issues to the officer-in-charge because the interpretation of guidelines was beyond reasonable doubt and it tended to incur additional costs on the part of the developers. The additional requirements were often seen by the developers as the leverage for civil servants to achieve their ‘agenda’. A quote from a Johor developer,

One part of the frustration is human factor. Another part is the policy and the guidelines. Sometimes, they are not very clear. So you leave them to the person who handles the file to interpret the way(s) he wants. And, he will come out with a lot of comments which may not be right. Then, you have this kind of ‘ding -dong ding -dong’ (colloquial phrase in Malaysian which means ‘going back and forth and thus causing delay in the dealing’) issues. You see, they can just make it difficult for you by giving you a lot of condition and then you just have to comply. But for developers to do that, the cost will be tremendous. Some of them are not practical. So, you have no choice but to negotiate with them.

(Personal interview with J16, 25 July 2008)

According to a Kuala Lumpur developer, who has 20 years of housing development experience, the line managers of the planning officers who were involved in informal practices were actually aware of the situation but they condoned it so that they could amass more power. In his own words,

There are certain guidelines which are not clear and then they (planning officers) use it as their upper hand to make decision...this thing happens because the law or policy may not be very clear. It gives them a lot of discretionary power, you see...
Upon asking him whether their authority realised it:

Ah, I think the power behind it, all realised it and then probably they want it so that they have more power…

(Personal interview with K10, 4 June 2008)

In some instances, after negotiations developers were able to obtain exemptions from the conditions or certain subjective interpretations of the guidelines imposed by planning officials. These negotiations normally involve some form of remuneration. A frustrated developer was requested by the Building Department to obtain another permit to develop a ‘gated and guarded housing development’, even though it had already been approved by the State Planning Department. He expressed his frustration because he had to go through the same number of departments which was time-consuming. He later ‘settled’ the request of the Building Department by presenting some ‘tokens’ to the official in-charge.

Notwithstanding the opinions of developers, the representatives from the State Planning Department and the Building Department commented that the failures of developers (in the case of Johor) or developers’ town planners (in the case of Kuala Lumpur) to fully adhere to government guidelines is the main reason for the delay. The cited reasons include: the submission of sub-standard plans by planners because developers do not pay them the full scale of fees or only pay reduced fees and not promptly; and that developers deliberately test the system to see whether their submissions can be accepted with some omissions. However, developers generally felt that too many policies and regulations had been imposed and they lowered their profit margins, particularly with the increasing cost of building materials and fuel prices. Consequently, they sought every possible avenue to lower their development costs which included deliberate omissions in development planning applications to get extra leeway. However, the key State Planning official viewed it differently and he insisted that State Planning Department had transparent acts, guidelines and policies, but the developers failed to comply with them most of the times.

…we have guidelines. Transparent, really transparent. We have guidelines, policies, local plan and structure plan. Everyone has access. By right, when the developers do submission, consultants know what can be done and what can’t be done. But they also want to take advantage. If they can minimise the cost, they will. For example, 10 percent for green area. Everybody knows but they only submit 5 percent to us. If we approve then they profit. So,
who has the problem here? If you can allow 10 percent to comply at the early stage, then it can be tabled and approved within 25 days. It will be approved with no conditions if they fully comply. I will have an easy job. I don’t have to re-check the plan.

(Personal interview with a key official of Johor State Planning Department, 27 June 2008)

Apparently, the planning official is also aware of the tensions between developers and architects in terms of plan preparation. An official of the Building Department of the Kuala Lumpur City Hall offered his views:

They (developers and architects) blame each other. At the end of the day, who lose? Everybody. And then they blame the authority slow which is not fair….in fact, we give them the checklist for them to go through each item. If they use the checklist, and go through their plans, and then they can easily find the mistakes already. But then, they don’t really use our checklist.

(Personal interview with an official from the Building Department of the Kuala Lumpur City Hall, 9 July 2008)

A few trend-setting developers in Kuala Lumpur felt that planning guidelines need revision to keep abreast with the latest development concepts. They highlighted the fact that the local authority was not able to approve new development concepts such as the development of link semi-detached properties - because up-to-date guidelines were not available to regulate such new housing developments and the local authority decided to reject their development proposal. Developers experienced frustration in their drive to develop innovative products to meet the sophisticated demand of homebuyers. The key official in the Johor State Planning Department was aware of this situation and was committed to drafting new guidelines for new development concepts. In his own words,

As it is now, high end developments such as cluster homes, link houses are not in the original development planning standard. This is a new development concept. We try our best to cater for this type of development. We don’t want to be seen as not supportive. But we can’t process the application because we don’t have the guidelines. We don’t want that kind of excuse! If there is such a concept, we should not pose any problems to the public. We will make the policies and we will try to use them. This is my vision.

(Personal interview with a key official of the Johor State Planning Department, 27 June 2008)

15 which is a cluster of 4 units of semi-detached housing units which share their middle and back party wall with no back lane between them.
Developers, so far, tended to resolve the matter by holding briefing meetings with the State Planning Department. They presented their development by quoting precedence in Kuala Lumpur where the guidelines were adopted. This education drive has so far proved effective because the officers ultimately approved the plans. There were also cases whereby developers paid for government officials’ study trips locally or internationally to expose them to the latest development trends. Planning officers’ knowledge and exposure gaps were regarded by developers as a factor that caused the bottleneck in the delivery system.

However, a very reputable developer argued that being an established and socially responsible developer helped him to command trust from the Urban Planning Department. Certain planning requirements were exempted from his company’s development planning because of his social credentials in resolving problems. The Urban Planning Department had the confidence that if any incidents arose, he would resolve it without jeopardising the creditability of State Planning Department and the officers-in-charge. This shows that an established and reputable developer in the capital city commands leverage through his credibility. These elitist developers tend to gain access to the senior authority to lobby for their case. As one elitist developer explained,

Let’s say there is a rule which needs interpretation of the more senior people. We go all the way to see the senior. What I am saying is this, at the end of the day, we will go all the way up to seek the so-called…interpretations can be here and there. We tend to seek interpretation which is more advantageous to us. So far, we have been lucky. We can convince them. We are able to do it to make sure it works.

*When posed whether the size of his company and its corporate social responsibility help the negotiation with the State Planning Department:* …if you are a reputable developer, they do consider. You see what they don’t want is that (you cause problem) when I give you some leeway based on my interpretation (and) my daringness in approving. If you are a reputable developer, you won’t cause problem down the line then they are happy. What they don’t want is those developers who cause problems to purchasers in the implementation stage. That is something. The difference between us and that developer is because the reputable guy (developer) will solve the problem if there is ever a public outcry. His (planning officer) name won’t be implicated. You know what I mean…

(Personal interview with K11, 12 June 2008)

As compared to Johor, the Kuala Lumpur City Hall imposes more conditions on building plans through its functional departments such as the Landscape, Health and Façade Departments. This is partially related to the fact that Kuala Lumpur is the capital
of Malaysia and developers are subject to a longer list of requirements as compared to the situation in Johor to ensure that developments in Kuala Lumpur are in line with the vision of being a world-class city by 2020. Issues of density control, height control\textsuperscript{16}, compatibility matrix\textsuperscript{17}, façade treatment and traffic are becoming more important in the development planning process as Kuala Lumpur is getting more developed and congested. Developers also commented that they faced very similar issues in the application of Development Orders and approval for building plans resulting in lengthy and bureaucratic processes. As explained by a developer on the issue of height control,

\begin{quote}
If you have development over here in Maluri, then you have to get approval from the Directorate of Civil and Aviation Control which controls the flight path. You see, over here in Sungai Besi Airport Base, you must confirm with them on the permissible height of the building you want to build. They call it Civil Aviation Height Control. Over here, in Maluri, the highest height allowed by Directorate of Civil and Aviation Control is about 20 storeys whereas in Sungai Besi area, near to Rashid Hussein Bank, Directorate of Civil and Aviation Control allows for only 7 - 8 storey building, and then 3 - 4 storey building for the rest of the area along Sungai Besi Road.
\end{quote}

(Personal interview with K15, 10 June 2008)

It was also confirmed by a key official from the Urban Planning Department of the Kuala Lumpur City Hall that his department has set strict planning criteria to regulate housing development in the capital. In his own words,

\begin{quote}
We have a planning evaluation where we rely on certain criteria. Actually, developers have to meet a lot of criteria. One of them is the legal provision and also other technical requirements like building set back and the uniform building bylaws. And, on top of that, the compatibility matrix which helps us to evaluate how best this project blends with the surrounding development.
\end{quote}

(Personal interview with a key official from the Urban Planning Department of the Kuala Lumpur City Hall, 3 June 2008)

**Civil service**

The attitude and mentality of civil servants were seen as another layer of problems to developers’ application for planning permission, which was also highlighted by both Johor and Kuala Lumpur developers. Instead of facilitating the application process, civil servants were regarded as a stumbling block to an efficient delivery system. As one developer expressed his view,

\textsuperscript{16} It is imposed by the Department of Aviation because Kuala Lumpur is near to the flying zone

\textsuperscript{17} It is meant to ensure the design harmonises with the surrounding environment
...it is the human side of it which delayed the thing...human is the main frustration...

(Personal Interview with J14, 27 June 2008)

I think, basically it is, the attitude of certain officers. You can get approval very quickly from some departments but you just could not get it out from some other department s...

(Personal Interview with K3, 9 June 2008)

Developers argued that civil servants did not perceive speed and expediency as critical to development because they did not benefit directly from it. They also felt that civil servants were not disciplined enough to do their job and engaged in a lot of unproductive activities such as attending seminars or courses for social reasons rather than delivering public services.

In addition, they also found that instead of raising significant planning issues, some officers picked on trivial matters such as the format and font size of the covering letter. Misplacement of files and letters was frequently found in the approving departments which further delayed the bureaucratic approving process. They had, therefore, delivered an additional set of plans to the approving departments rather than merely relying on the counter officer for plan circulation. Developers came to learn to always prepare a duplicate copy of urgent letters and plans, so that they could immediately forward them to these departments for approval if any were misplaced.

Another crucial area which causes a hiccup in the planning system is the knowledge and the quality of the professionals. The public sector has yet to recruit well trained architects and technical staff to improve the quality of decision-making and communication. An architect-turned-developer who has accumulated 15 to 20 years work experience with the authorities recollected his encounters with the less qualified architects as frustrating and demoralising because of their low level of technical knowledge. The professionals in the government, instead of carrying out their jobs, were often found to wield their position and power. This developer was a joint venture partner of the state, but he was also not accorded special privileges.
You know some of these guys are not good enough to have the degree but only do the diplomas. They just do the diplomas which only take 3 years. So they just keep recruiting these people and just put them there. And there are so many, so many of this type of people at this level operating the thing. You know, sorry to say that, once you are in the position of power, even though just a diploma (holder), and then you look, you see the developers at your mercy, at the back of your mindset, you become inefficient.

(Personal interview with K27, 6 June 2008)

A number of developers raised similar issues because they recognised that the quality of planning officers would subsequently affect the quality of development. Instead of making communications, the officers tended to follow formal guidelines and in some worse instances, some even took advantage of the strict rules for their own benefits.

**Certificate of Fitness for Occupation**

The Certificate of Fitness for Occupation is issued towards the end of the development process. Developers who participated in the study generally found this process more manageable than the application of development planning and building plans. This was because it did not need to involve a lot of negotiations, deliberations or dealings with the planning officers at this stage. Nevertheless, regular follow-up on appointment dates and clearance letters were still very crucial in ensuring the issue of a Certificate of Fitness for Occupation on time. Most developers contented that they were able to obtain their Certificate of Fitness for Occupation smoothly provided that they complied with the requirements set out at the beginning of the development process.

Nevertheless, one notable problem observed in both Johor and Kuala Lumpur was the difficulty in getting an inspection appointment with the Building Inspectorate. This is widely seen as the main problem and may partly be related to the lack of qualified officers to carry out inspection. In Johor Bahru, the President of the local authority had to carry out the final inspection before issuing the Certificate of Fitness for Occupation. This system is implemented because in the past when some lower ranking staff carried out the inspection, some malpractices were found. However, developers complained that it was too difficult to get an appointment with the President and time was lost when waiting for the President to physically inspect the site. They, therefore, questioned the viability of this system because consultants and government officials would have already inspected the development. Besides, the President might not have the technical
knowledge to check on the safety issues of development to issue the Certificate of Fitness for Occupation.

After the inspection, inspectors can potentially impose further ad-hoc requirements on completed developments. Developers normally have to comply with the ad-hoc conditions not stated in the planning permission or the approved building plan, which otherwise will delay the issue of Certificate of Fitness for Occupation. This, of course, has cost implication in terms of paying liquidated damages to homebuyers. This quotation captures the frustration of developers when a new condition was imposed.

They have one department which vets our building plan. But, the operation department to which the development will be handed over for maintenance will come in for inspection. So, they will now come in and put in what they want in our development to ease their maintenance. Maybe they discover things did not run well during the operation. Then they will say they want this and they want that. But the thing is if you don’t do it for them, then they would not issue the recommendation letter (which is also the clearance letter). Your Certificate of Fitness for Occupation is held up again. So, it was arm-twisting all the way. We always tell them if you want to implement this, you implement this for the next plan that we submit for approval. Since this has already been approved, you should not ask. But of course, ah, time is of the essence and we can’t wait to argue with them for too long.

(Personal interview with J5, 24 July 2008)

Since there are cost implications, developers tend to comply with the ad-hoc conditions. However, if the cost is high, developers will appeal. For instance, a Kuala Lumpur developer was requested to install a centralised gas piping system in his apartment development, which he felt was not practical. This developer then elicited opinions from homebuyers and the majority of them did not prefer to have a centralised gas piping system. The developer then forwarded the survey results to the Kuala Lumpur City Hall and appealed. For cases when an appeal fails, developers tend to flex their relationship web to get an exemption. A few developers admitted that they did not usually fulfil all the requirements because they could bargain with the building inspectors. In general, applying for the Certificate of Fitness for Occupation is seen to be a more manageable challenge to developers. Nevertheless, there was suggestion that for those developers who strictly followed the book and did not engage in informal practices, they received their Certificate of Fitness for Occupation in a slightly longer timeframe. The tension in this development aspect is much less in comparison to getting planning permission and building plan approvals.
Timely delivery of housing units to homebuyers is very important because of the legal and cost implications. Developers are legally bound by the homebuyers through a Sale and Purchase Agreement instrument under the 1966 Housing Development Act (Act 118). The Act requires developers to pay homebuyers 10 percent of the house price as liquidated damages if they fail to deliver housing units within 24 months for landed property\(^{18}\) or 36 months for stratified property\(^{19}\) from the date of Sale and Purchase Agreement. Therefore, developers are cautious of the timeframe of delivery. Consequently, they tend to comply with the ad-hoc requirements or out of desperation to engage in informal practices, whichever way lowers the cost.

The interview findings suggest developers found that the application process for Certificate of Fitness for Occupation was more manageable in Kuala Lumpur than in Johor, despite facing similar problems of getting inspection appointments and the potential imposition of the ad-hoc conditions at the completion stage. This is probably related to the introduction of the issue of Temporary Certificate of Fitness which reduces the time pressure for developers in delivering housing units to homebuyers. For the developments which require minor improvements to receive the Certificate of Fitness for Occupation in Kuala Lumpur, the Temporary Certificate of Fitness is issued by the Building Department. The Temporary Certificate of Fitness helps developers to avoid the need to pay liquidated damages to homebuyers when minor improvements are needed which may exceed the delivery date. However, the Kuala Lumpur City Hall also allows for the renewal of the Temporary Certificate of Fitness if developers are unable to complete the required rectification. Even though the written guidelines restrict the extension to 3 times, some developers managed to obtain an extension for more than 3 times. This is seen as a positive measure adopted by the Kuala Lumpur City Hall, as it provides a measure to help developers to hand over good quality housing units to homebuyers without the threat of paying damages. This eases the working relationship between the Kuala Lumpur City Hall and the developers because it eases their financial burdens. As one developer jovially complimented the Kuala Lumpur City Hall for this positive measure,

\(^{18}\) which is a housing unit seated on a plot of land of which an individual title is issued to it.

\(^{19}\) which is a housing unit situated in a parcel of a subdivided building of which separate strata title is issued to it.
So many departments, sure you got something you need to comply. So, if you want to comply to this thing, ‘ding -dong ding -dong’ (meaning ‘dilly -dally’ in Malaysian which is time-consuming), takes some times…if you hand over late, you have to pay liquidated damages to the buyers. So, we apply the Temporary Certificate of Fitness. Once we get Temporary Certificate of Fitness, it is more than enough for us to hand over the keys to cut off the liquidated damages date…normally they (the Kuala Lumpur City Hall) say Temporary Certificate of Fitness is valid for 6 months and can only renew 3 times, but our projects, Temporary Certificate of Fitness renewed for more than 3 times…we got some issues…most developers can get it more than 3 times.

(Personal interview with K28, 13 June 2008)

However, the issue is that when the Temporary Certificate of Fitness is renewed for more than 3 times, the likelihood is that homebuyers will be exposed to higher risk if the developers fail to complete the required rectification works to get the permanent Certificate of Fitness for Certification. This measure has to be handled by the Kuala Lumpur City Hall with extra care to avoid developers from taking advantage of the system.

### Quality of construction and the skills of workers

Developers were dissatisfied with the quality of the construction work in recent years. The public sector and the developers in Kuala Lumpur and Johor were aware of the decline in construction quality. Malaysia has been experiencing an outflow of skilled labour in the construction industry. They attributed this problem to the shortage of skilled workers and professionals who were attracted by the higher pay in Singapore and the Middle East. The pay abroad is normally 3 times higher than their salary in Malaysia. The vacuum is not filled because the younger generation is not keen to enter this vocation. Furthermore, contractors are unable to pay high salary to bring back the migrated workers as their profit margin is getting lower due to rising material and fuel prices. They, therefore, hire a lot of low wage unskilled and semi-skilled workers, mainly from Indonesia, who might be just a ‘padi’ farmer before they came to work in the construction site.

A lifestyle developer candidly illustrated how research and development might have enhanced the size, technology and features of personal computers and mobile phones, but not the quality of construction. He sighed at the construction technology in Malaysia that has stayed unchanged for the last 20 years while customer expectation has gone up.
He, therefore, had to strategically shift his operation approach from raising the customer experience rather than the quality of the product. In his own words,

What happens in the last 20 years about construction innovation? Nothing! It stood still at the best. Actually, it slips. Because all the good ‘sifu’ (in Cantonese which is equivalent to the ‘masters’ or ‘gurus’) and plasterers and all that they have gone to Middle East and other parts of the world. We are left with Indonesians. There is no innovation in the construction. It is still the mud, you throw it on the wall and you have to smoothen it.

(Personal interview with K20, 26 May 2008)

The poor workmanship problem gives rise to the prominent presence of the National Housebuyers’ Association, which champions the aggrieved homebuyers who face poor quality workmanship and are victimised by abandoned projects. Homebuyers are represented by the National Housebuyers’ Association to make complaints to the Ministry of Housing and Local Government. Even though the National Housebuyers’ Association was just established in 2002, its voice has received the attention of the Ministry of Housing and Local Government and led to some policy changes such as the extension of the house defect liability period from 18 months to 24 months, and the implementation of the Build-then-Sell concept (which will be discussed later). The influence of the National Housebuyers’ Association over policy making will be discussed in detail in Chapter 7.

INFORMAL CULTURE

Tensions and conflicts between the public and private sectors are felt but often not expressed. Developers normally resolved conflicts by accommodating or conceding to the requirements imposed on them. A few other developers shared their sentiments of being helpless in dealing with the local authority. They were at the authority’s mercies and had to comply and deliver any ad-hoc or ‘insensible’ requirements. This shows the perceived imbalanced relationship between developers and the local government. When this aspect was raised in the interview, the director of a private limited developer said that he was willing to go as far as ‘crawl and beg’ to please the officers as long as they granted approval. Another manager described the situation with this analogy: developers were ‘cucumbers’ while local authorities as ‘durians’ (a big large Malaysian fruit with a hard spiky shell). He made this analogy cynically and helplessly, in spite of
working for a government-linked developer who should normally gain leverage in dealing with the public sector.

Developers have learnt to cope with various tensions, but often through informal methods to circumvent them. As discussed in the previous sections, developers are frustrated with the bureaucracy and unclear planning guidelines and system. It is apparent that the interaction between developers and the state is always delicate and complicated. When developers find guidelines are hard to adhere because they involve added financial cost, they engage in informal practices. To overcome this hurdle, they engage in relationship building to foster a ‘friendly’ relationship with the officers who process their planning applications. The liaison officer employed by the developer is expected to know at the finger-tip the ‘position’ of the file and when it will move out from that ‘queue’.

Delay, is basically bureaucratic delay. I mean after you submitted the application, you have to go and chase the file to move it from desk to desk. And even within the same department, you have to make sure it moves from one officer to another other officer to make sure it moves.

(Personal interview with J14, 27 June 2008)

Developers saw dealing with officials from the approving departments as the main challenge in the approval system. The officers tended to embrace some bureaucratic attitudes and characters which were not seen as fit for facilitating the operation in residential industry. A disgruntled project manager complained about the civil service’s working style, but at the same time repeatedly commented that these approving officers could not be offended as their applications would be jeopardised and incur great losses.

Oh, you must follow their steps. What they like, what they don’t (like). Don’t offend them. If you know their style, just follow them. So, if they (are) slow, look like, if the person likes to take advantage on people, then let them take (advantage). You don’t offend them.

(Personal interview with K28, 13 June 2008)

According to some interviewees, the friendship with officers in the local authority could sometimes develop to the extent that developers had to help them to resolve their personal financial problems. However, a reputable developer commented that most relationship building tended to be in the form of small gestures such as dinners or golf games or holidays.
Cannot (be done if without relationship). ‘Guan Xi’ (meaning relationship in Mandarin).
And you have to buy favour much to your dislike.

Upon probing the cost of the ‘favour’ in terms of eating up capital

No. Favour can be in the form of golf game. Favour can be in the form of small dinner or a
golf game. Sometimes, you have to strike relationship…you have to be in constant touch
with ‘friends’.

(Personal interview with J3, 28 July 2008)

We actually have to create that friendship with them. Maybe on and off, we have some
outings with their families…

(Personal interview with K15, 13 June 2008)

The frequency of follow-up visits and the ‘depth’ of relationship building with local
authority officers were seen by the developers as the 2 determinants which accelerated
the speed of approval. Developers normally started their relationship building exercise
with the first officer they met at the submission counter of the local authority and
continued the process till the last person signed off the approval. This lowest ranking
officer, whose job was merely to acknowledge the receipt of development planning
submission, as said by a developer, could cause a major hiccup in the application
process. They could sometimes misplace the submission file and thus cause delay as
developers had to prepare a fresh submission.

(You have) to talk to them nicely. They appear to be busy with their departmental matters
but they are not actually. You know, one front line small officer, can also kill you. Not to
say kill you…kill you in terms of time. Like I said just now, to developers, time is money.

(Personal interview with J22, 23 July 2008)

Developers reckoned that the friendship they developed over time brought them benefits
and insider’s knowledge. Most of them knew the schedule of the officers who signed
the approval documents. For example, they knew their holiday plans and their returning
date. They perceived that their friendship with the local authority materialised to
quicker approval. An experienced developer who was also the joint venture partner of
the state government made this remark,

If I am the approving authority, today you come, tomorrow, I give you the approval, would
there be any value for my service?...This is generating avenues for them to be given
’sweeteners’ to expedite the process…

(Personal interview with K26, 13 June 2008)
To overcome this bottleneck, developers organised social gatherings with the approving officers which were normally handled by their internal staff or an external ‘professional liaison officer’. Building relationships with approving officers is an important task in the residential development industry in both Kuala Lumpur and Johor. Having regular social functions and gatherings with these officers were found to be helpful in building rapport which in turn speeded up their applications. A candid illustration of the follow-up tasks was provided by a developer noting that his liaison officer even prepared an extra copy of the letter ready for signature to avoid any further time delay.

We have someone who liaise. We call her ‘authority liaison’. We have someone who is very good. The only thing she asks from all of us every year is around Christmas and the end of the year, ‘You got any umbrellas and diaries?’. She grabs the whole bunch and goes to the office, and tells them (local authority officers), ‘Woi, everyone, come and take’. So there is no under table and it is all very transparent. If she needs to speed something up, she will invite someone for a cup of coffee and ask, ‘Hey, when is your boss back? I just need to get this letter signed.’ And then he (authority officer) says, ‘Oh, really, maybe (the letter) is buried somewhere…’ and then she will say, ‘Here is another copy of the letter. Can you get him to sign the moment he gets back?’ It helps to have people to speed it up. Having said that, maybe instead of 3 months, it will take 4 to 5 months. It is time that you must be prepared to wait.

(Personal interview with K20, 26 May 2008)

Some developers were very upfront in communicating their methods of seeking exemption from planning requirements. In some extreme cases, it could cross the line to involve malpractice. As this developer said in his words,

Like I said, we try to be their ‘friends’. Hopefully, they won’t open their mouth too big!

(Personal interview with K12, 5 June 2008)

…there are always some people in the authority who try to be funny for personal interest ...

(Personal interview with J19, 8 July 2008)

Research on the interaction between the public and private sectors is a highly sensitive and controversial subject, which can easily reveal the trust issue between the 2 sectors. Some developers were not willing to comment on their working relationship with the public sector. In view of the sensitivity in uncovering informal practices, research questions have to be posed in a discreet manner, such as, “What are the resources involved to get faster approval?” When this type of question was posed, most of the developers in Kuala Lumpur and Johor were generally very sceptical of the research objectives, some expressed growing concern and unease at participating in the research
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and hastily shifted the interview to the less controversial topics. In the same interviews, the participants asked the researcher to reiterate her research objectives half way through the interview because they were suspicious of her intention in trying to unravel this type of information. On a few occasions, the researcher had to reiterate the research objectives and motivation in length to make them understand. A developer even asked whether this research was initiated by the public sector to check on developers.

In both Kuala Lumpur and Johor, it was revealed that developers who had a political connection apparently enjoyed more leeway. However, a few government-linked developers or joint venture partners of the Kuala Lumpur City Hall and the state government of Johor found it uncomfortable to provide their comments on such matters because of their working relationship with the authority, while a few others refused to participate in this type of research. Their unwillingness to participate possibly indicates the awkward situation they were in should they accidentally reveal any sensitive information. For instance, a Johor developer who had joint venture development activities with the state government agency approached the interview with great caution. When asked questions about his dealing with the local authority, he brushed off the questions by repeatedly saying ‘no problem’, despite being probed by the researcher several times.

No problem.
No problem also.
Tedious but no problem....

(Personal interview with J27, 23 July 2008)

Due to the sensitivity of some questions, one developer took an uncooperative and rude attitude towards the researcher because he felt that his replies might jeopardise his development operation. This particular respondent answered the research questions defensively and spoke offensively because he felt that the researcher was trying to uncover unethical practices in the industry. He withdrew from the conversation by folding his arms up and leaning his back on his high executive chair. This body language showed that he was not willing to cooperate when discussing his dealings with the local authority while the recorder was on. However, he revealed the excessive relationship building exercise with the local authority after the recorder was switched off towards the end of the interview. Another developer also mentioned that it was dangerous to answer this type of question, while others were reluctant to discuss their
working relationships with the approving officers. Furthermore, a foreign-owned developer refused to be recorded for research of this nature, but he kindly allowed the researcher to take a longer time to jot down notes as he discussed his experience and opinions.

Another interesting incident happened during an interview in Johor whereby a home grown developer took a long silent pause, stared at the researcher trying to figure out her research agenda. But he subsequently broke into laughter as he was amazed that such a sensitive and difficult question was being asked. However, he later provided a response through signed language (to avoid formal recording) to indicate the sum involved. A few other developers also indicated the practice in signed language. A corporate manager of foreign-owned developer, despite being in Kuala Lumpur only for 2 years, was also aware of the informal practice when he was asked of ways to get fast approval. However, another public-listed developer felt that some developers were to be blamed themselves for not complying with planning guidelines by seeking waivers. Their inclination to cut corners caused some malpractices in the industry. Despite condemning developers who created and perpetuated the culture of malpractice, this developer emphasised that the planning guidelines had to be more flexible to serve the interest of the businessmen and the state. In his words,

> Sometimes, all these problems are created by the developer themselves. You want certain things that break the rule. You are also asking for it (malpractice). So, some developers sometimes, I would not say my own company, ask people to do this and that (to allow for things which go against the planning guidelines or rules). (But), of course, the rule of the game must be flexible. It must be flexible to meet the interest of the state and the people. Sometimes, the business sector wants to put their interest before others’. They are also sometimes to be blamed. So, you cannot just blame the authority. They created the nest for such practice to continue…

(Personal interview with J8, 26 June 2008)

In summary, developers have to gather comments from 7 (minimum) to 14 (maximum) departments within and outside the jurisdiction of approving authorities. They normally deploy their personnel, can be a few staff, to visit and gather technical comments from these departments. Even though this is the task of the consultants, developers prefer to approach these departments themselves because comments or conditions imposed can be addressed immediately through bargaining and negotiating, and sometimes even involving informal practices of relationship building with the officers. As the engagement of informal practice is very delicate, it is hard to expect consultants to
perform the extensive negotiation task on behalf of the developers. The use of informal practice has thus become a culture in the residential development industry in Kuala Lumpur and Johor.

Nevertheless, a few government-linked developers who participated in this research revealed that they did not engage in relationship building or contribute any benefits to government officials, as it would go against their corporate governance. They were public-listed companies which emphasised Corporate Social Responsibility and contributed to societal welfare developments. They normally organised company games or matches with the civil servants to build rapport. The top management of government-linked developers tended to visit the officers and their departmental heads in the local authority or the sub-authority departments, only when issues arose from their development planning. Furthermore, there were a few developers who emphasised a high standard of integrity and refused to be involved in this kind of malpractice. This meant that they had to wait for longer approving time for the Development Orders. It is a common practice that the contractors, upon completion of construction, would approach the approving departments for the recommendation letter to support their application of the Certificate of Fitness for Occupation. At this stage, these highly disciplined developers mentioned that they were not interested in knowing nor being involved in this kind of malpractice.

You see, we usually take a lot longer to get the Development Order. I think it is because we don’t push so hard. In this company, one of our core values is ‘Integrity’. So, we don’t believe in incentivising people (which he means the malpractice) to get the job done. But, having said that, I guess, it always helps to speed things up.

(Personal interview with K20, 26 May 2008)

Many developers thought the main strategy to get leverage, quick approval or waivers was still through political connections. According to a project manager of a joint venture partner of the federal territory:

Depends on the company, how strong is your connection with the Kuala Lumpur City Hall.

Upon asking reason his company can get Development Order and building plan approval in 2-3 months.

See, how is your relationship with them. Because our company, our boss has very strong connection with the Kuala Lumpur City Hall, so we also very often go there and visit them. Just to chit-chat and chit-chat just (as) a friend. Most of them, we can get it quite fast.

(Personal interview with K28, 8 July 2008)
Another reputable developer in the country briefly commented on the leverage that could be built through making acquaintance with the people who were in power to ease the negotiation process. In his own words,

…it is managing the relationship. Yeah, we have to actually… build a good relationship with the power that be, so to speak.

(Personal interview with K1, 16 June 2008)

The most intriguing fact is that even the homebuyers are aware of the special connection that helps developers in getting a special waiver. During the focus group discussion with the Kuala Lumpur homebuyers, they discussed extensively about a politically connected developer who cleared a forest reserve which could be ready for harvest in the next 2 years. The unplanned housing development in the former forest reserve subsequently caused flash flooding in the neighbouring housing estate.

That ‘xxx’ is very close to the former key minister. So, he got away with many things… if you could convert a forest reserve, I tell you, nobody else…and the disaster he created was every time it rains after clearing the area, we were the victims. You know, if it rained heavily, we cannot come into our town…

(Focus group discussion with the Kuala Lumpur homebuyers, 9 August 2008)

**HOUSING POLICIES**

Developers are found to have weak influence on government’s policy making. Despite channelling their voices through the Real Estate Housing Developers Association (Johor Chapter), their efforts bear minimal impact. The 2 controversial housing policies which were consistently mentioned by Johor and Kuala Lumpur developers are the low cost housing and the Bumiputra quota. Developers generally felt the cost implications of these policies were excessive and did not really achieve the government’s objectives. Developers acted collectively through the Real Estate Housing Developers Association to lobby the state government for policy change. While understanding the issues, politicians were worried about losing their political authority should they amend these state level policies because they would not want to be seen as caving in to the demand of developers. The arguments over low cost housing and Bumiputra quota have been the political football ground between politicians and developers.
**LOW COST POLICY**

The Ministry of Housing and Local Government imposes the supply of low cost housing on developers through state governments. The rising land cost has caused most developers in Kuala Lumpur and Johor to develop low cost housing schemes in remote areas which has resulted in low take-up rates. Low cost homebuyers tend to find it costly to live in areas which are far from the workplace. Typically, travelling distance, time and cost are the factors which put them off. For those who made the purchase, they might not live in the units but rent them out. This significantly undermines the spirit of this policy which aims to help those who are genuinely poor to own a shelter.

The Kuala Lumpur City Hall has recently waived the low cost housing policy in the city centre zone. This exemption is implemented because of the vision of the Kuala Lumpur City Hall in making Kuala Lumpur a world-class city. The Kuala Lumpur City Hall does not want to create slums in the city centre which tend to be associated with low cost housing. Instead, they have been demolishing low cost flats and turning them into affordable or social housing for rental. Developers in this study expressed their grous with the low cost housing policy as it incurred high losses even if the maximum selling price was raised from RM35,000 (£6,363) to RM42,000 (£7,636) by the state.

However, the implementation of the low cost housing policy is found to be more problematic in Johor than in Kuala Lumpur. In Johor, the capped price for low cost units is RM35,000 (£6,363) and developers have to pay an additional RM6,000 (£1,909) for each unit they construct to cover the cost of fuel and building materials. If homebuyers reject the offer, developers have to approach the State Housing Department for a fresh list of homebuyers, which normally takes a long time to deliver. The low take-up rate means that developers have to bear the holding cost, which is an additional loss for each unit they construct. The developers that participated in the research were further frustrated by the fact that low cost housing units in areas more desirable were often used as a political instrument to allocate to buyers whom the state deemed as eligible. This is confirmed by Agus (2002) who also reveals that Johor politicians interfered in the distribution of low cost houses to benefit their political supporters. A developer raised the tone of his voice when explaining the unfair practice of allocating their profit-losing low cost housing for political ends.
So, all the mismatch in supply and demand, followed by favour, given especially to the politicians which enable those who are very rich to own many low cost units. All these mishandlings give rise to a lot of problems for low cost. After you build low cost units, you have to pay for the maintenance fees (because there is no buyer due to mismatch in supply and demand). All these are very frustrating.

(Personal interview with J3, 28 July 2008)

Johor politicians, other than allocating the low cost units to political supporters whose income level did not qualify for low cost housing units, also decided on the final list of qualified candidates (see Agus, 2002). The political quota for low cost was capped at 10 percent but the ruling party in Johor, United Malaya National Organisation (UMNO), has raised the allocation to 20 percent. The low cost units allocated to meet political purposes are known as ‘political houses’ (Agus, 2002:59) and ‘political rewards’ (Agus, 2002:60). The low cost housing system is thus seen as an ‘ethnic quota system tended to favour the Malays rather than the non-Malays’ (Agus, 2002:59). Developers argued that the state should consider taking over the provision of low cost housing. It should also consider providing higher standard low cost housing for rental, so that low income earners could enjoy a better quality of living as social problems tended to be associated with low cost housing areas.

**BUMIPUTRA QUOTA POLICY**

It is a statutory requirement for the Malaysian developers to allocate at least 30 percent of the total planned units of their housing development towards the Bumiputra housing quota. However, the Johor state government imposes a 40 percent Bumiputra quota on housing developments over 5 acres. In Kuala Lumpur, the Bumiputra quota policy requires a minimum of 5 percent special discount, as compared to 15 percent in Johor (which is the highest in Malaysia), across all residential development projects. In Kuala Lumpur, Bumiputra units are not classified as ‘Malay Land Reserve’, unlike that in Johor state which will then require the Johor state’s Office of Land and Mine to remove this restriction on the title deeds, which is normally a time consuming process.

The saleability of Bumiputra units is related to their locations and the developer’s ethnic background. Housing estates which have Bumiputra residents tend to attract more Bumiputra residents. Similarly, Bumiputra developers, especially those who are government-linked, are able to sell their Bumiputra units better. The non Bumiputra
developers or housing estates tend to have more unsold Bumiputra units. A Bumiputra developer successfully met the imposed 50 percent Bumiputra quota, even though it was 20 percent higher than other housing projects. This was because this developer had a joint venture agreement with the Kuala Lumpur City Hall.

I am a Bumiputra. I understand developers’ frustrations in meeting the Bumiputra quota. You know ours is how much? One of the rules we were successful, and you can ask the the Kuala Lumpur City Hall, what do they think about us? I am very sure they will, they will, they are happy with us because we have complied with the Bumi quota. It is 50 percent.

(Personal interview with K27, 6 June 2008)

This success story was largely related to the medium price range units (RM120,000 (£21,800) onwards), locating in a predominantly Bumiputra area. With innovative sales strategies, the Bumiputra were able to secure a 100 percent housing loan as they generally had difficulty in paying the 10 percent down payment. This successful story may be a one-off case and should not be over generalised. However, even the same product built in a different area tends to command different receptivity by the Bumiputra. There are some lessons to be learnt – the importance for the state and developers to develop innovative ways to promote their Bumiputra units.

In the event that developers fail to sell out the Bumiputra units, they can apply for Bumiputra Release to sell the unsold units to the Non Bumiputra, but only after they produce evidence to prove that they have made an effort to promote their housing units to Bumiputra. Developers in both Kuala Lumpur and Johor are required to advertise at least 3 times in the Malay newspaper. However, the Kuala Lumpur City Hall organises Bumiputra property roadshows by inviting developers to participate and promote their unsold Bumiputra properties, while Johor developers can hand over their unsold Bumiputra units to the State Housing Department to assist them in promoting the sale by paying the State Housing Department a scale fee.

Presently, there are no transparent guidelines on the Bumiputra Release mechanism if developers in both areas are not able to sell them. Developers in both Kuala Lumpur and Johor can only repeatedly approach the state after they put in additional effort to dispose the Bumiputra units. The researcher went to the Economic Planning Unit of the Kuala Lumpur City Hall to seek information on the Bumiputra Release mechanism, but the officer was unable to provide a published guideline. This implies that decision makers
can exercise their discretion in approving Bumiputra Release. Developers have no other choice but to comply with the condition. As a foreign-owned developer commented:

We have no choice but to live up to it but it is very unfair…depending on location. Like my housing project, which is about location again. This project has a lot of Bumiputras there…we just do what we are supposed to do. We do the normal thing. Advertise, and do our promotion. It does not work, then we ask for waiver. Then another round…something like that. The old tape recorder…you can’t do much. They won’t give a blank (approval) on this. They are very sensitive. They are government servant, so they just comply…(follow the (unpublished) guidelines).

(Personal interview with K24, 8 July 2008)

Developers generally agree to extend a discount to Bumiputra homebuyers, but they would like to see this as a genuine policy to help first time Bumiputra homebuyers to get on to the home ownership ladder rather than benefiting those with the privilege of purchasing their second or third homes to profit millions from properties. However, the Bumiputra quota policy remains a sensitive policy and to review it will be a difficult task. It is important to highlight that some Bumiputra developers did not have any difficulties in disposing their Bumiputra units. In fact, they could be the first to be sold out because the Bumiputra homebuyers were attracted to the location of the development. This shows that the policy could work if both developers and the government share the common ground to work out the objectives and delivery of the policy.

INSTITUTIONAL REINFORCEMENTS

Developers collectively address their grievances through the Real Estate Housing Developers’ Association to the Ministry of Housing and Local Government. As mentioned, the Ministry of Housing and Local Government has made several legislative changes and administrative enhancements to improve the operation of the housing industry. Some measures are aimed at improving the housing delivery system while others are expected to provide more protection to homebuyers. The following section explores the views of developers on the recent institutional reinforcements for the housing industry.
Chapter 6 Housing Planning Process: The Developers’ View

ONE-STOP-CENTRE

The Real Estate Housing Developers’ Association complained about the lengthy approving process and the increase in development holding costs. Hence, the Ministry of Housing and Local Government introduced the One-Stop-Centre to overcome the weaknesses in the delivery system and to increase the efficiency of housing planning process and delivery. However, the success of One-Stop-Centre received mixed receptions in Kuala Lumpur and Johor.

Developers in Kuala Lumpur and Johor were complimentary of the introduction of the One-Stop-Centre as it was seen as a genuine effort by the Ministry of Housing and Local Government to streamline the approving process. If it had been implemented properly and supported by all the approving departments, the One-Stop-Centre should be able to improve the efficiency of delivery system. However, they had mixed reactions over its implementation so far. While some developers observed that processing time has been halved, some felt there were still challenges to overcome to make this a success.

Several issues in relation to the establishment of the One-Stop-Centre were identified. First, developers were not convinced that their development plans would be circulated to the approving departments speedily via the One-Stop-Centre, they still delivered their plans to the relevant departments as in the past. Second, developers still visited the approving departments to gather feedback themselves. Developers argued that the One-Stop-Centre staff might not be technically trained in planning matters and they preferred to clarify the matters directly with the approving authorities to get accurate feedback. By visiting these authorities, developers could also engage in negotiations rather than just seeking clarifications. Third, the One-Stop-Centre requires developers submit full development planning which includes requisition survey, infrastructural drawings (such as earthwork, electrical, civil and structural drawings), which were found by developers as grossly impractical because any changes in development planning would affect the rest of the drawings. This situation occurred frequently because the directors who sat in the One-Stop-Centre meeting might disagree with the conditions imposed by their officers who engaged in discussion with developers. A government-linked developer described the problem,
…it is good if they comply strictly with the objectives of having the One-Stop-Centre. Of course, it is a benefit to developers and the private sector…but sometimes, certain part of the submission may not be practical. For example, because under the One-Stop-Centre, submission for Development Order, building plan, all the road and drain (plans), everything…if there is a comment on the plan, your submission, then everything has to be changed unless you comply 100 percent. The discussion is handled by certain officers, but the decision is made by the top people such as the ‘Datuk Bandar’ (Mayor) and ‘Pengarah’ (directors) and all these things. Once they impose a new requirement which is not discussed in the initial meeting, developers ending up amending the plans. Once you amend, you start amending everything. It is another cost to us. Then to prepare the amended plan, it is not easy also. It takes another round of time.

(Personal interview with K5, 8 July 2008)

There were comments that the One-Stop-Centre was a cosmetic change to the approving system which would not bring material change to delivery efficiency. Generally, developers viewed reducing the number of approving departments as the key to cutting the lengthy processing time. However, the same number of departments is still involved in the One-Stop-Centre concept. Consequently, they were not optimistic that the One-Stop-Centre could achieve its objectives. A very experienced developer viewed the One-Stop-Centre as a political tool of the Ministry of Housing and Local Government to show that it has taken positive steps to streamline the delivery process.

Till today, I could tell you it is not effective…when they implement the One-Stop-Centre, it still comes back to square one. We have problems. We were so happy that Datuk Ong Ka Ting (former Minister of Housing and Local Government) has actually set up this One-Stop-Centre. And hopefully, everything would be approved under one roof. But, till today, it does not work. They still have to rely on certain departments again…

(Personal interview with K2, 11 June 2008)

According to developers in Kuala Lumpur, in order for the One-Stop-Centre to be implemented successfully, the officers who handled the application had to be re-educated. They commented that government officials tended to carry a particular mindset and attitude that hampered the system’s efficiency. Regardless of what was introduced to streamline the delivery process, improvements could only be achieved if there was sufficient resources and positive attitude. This is supported by the following quotations from developers in Kuala Lumpur and Johor.
Because I really believe, Kuala Lumpur has a long way to go to become efficient. The government is trying their best, the One-Stop-Centre, to make it more efficient, more streamlined. Eventually, it is the people who are doing it, you see…We will have the same people doing the same system. You will get the same result. You can change the system, 10, 20 times, but the same person doing it, with the same mindset doing it. I am talking about all the malpractices involved, all the inefficiencies. The same issues remain. Fundamentally, you got to change the people.

(Personal interview with K26, 13 June 2008)

At this point in time, I think the Majlis (means local council in Malaysian) people, they are not sufficiently trained as to what to do in the new One-Stop-Centre system. Sometimes, if we force (them) a bit, they will tell you, ‘We also don’t know what to do.’

(Personal interview with J13, 28 July 2008)

The lengthy rejection process of proposed housing planning is found to be another problem arising in the One-Stop-Centre system. When officers in the State Planning Department reject a new concept of development, they are unable to reject it right away under the One-Stop-Centre. The application has to be tabled in the meeting and any rejection has to be authorised by the State Executive Council which can take a lot of time. This practice is related to the Official Secrecy Act which does not allow officers to reveal any information from the meeting until the minutes of the meeting is confirmed. This means that the objectives of the One-Stop-Centre to shorten the approval time has not been delivered and was, therefore, perceived as a waste of time for unjustifiable causes. As expressed by a corporate manager of a reputable developer in Johor,

You see time is money. Sometimes, when a structure, when some design concept is crystallised, I would say with due respect to the authority, some officers that are handling your case are not that experienced. And, they don’t have the exposure. Sometimes, they are stereotyped. They just follow (the) book. Sometimes, a bit different (than the standard development), instead of understanding it, they will come back with a ‘no’ first. In fact, a lot of time was. This loss was due to one small thing, they say ‘no’. For the process to go into the One-Stop-Centre (to say) ‘no’. From there to go back to the Unit Mesyuarat (which is ‘Meeting Unit’ in Malaysian), then they have to finally pass to Datuk Bandar (Mayor) to say ‘no’. Meaning to say today they have made a decision that your plan has not been accepted, from the time that it goes to the process and come back to you, it is 6 weeks later. That’s where the biggest problem lies. Under the so called Official Secrecy Act, the officers are not supposed to tell you what has happened in the meeting. So, I think there is a lot of time being lost.

(Personal interview with J3, 28 July 2008)

In line with the implementation of the One-Stop-Centre, another improvement made to the delivery system is the introduction of Build-then-Sell system (as discussed in Chapter 3). Developers who participated in this research unanimously disagreed with the implementation of Build-then-Sell system. The arguments were that it incurred high
capital outlay for which bankers were not willing to provide working capital. The Ministry of Housing and Local Government has yet to arrange bankers to provide capital to support this system. Both the financial and legal frameworks are not set up comprehensively to support the implementation. Developers felt that the Build-then-Sell system would reduce housing supply and raise house prices and this was not seen as the right move for Malaysia as it is still in need of medium price housing to meet the housing demand. They believed that the Ministry of Housing and Local Government actually realised the situation, thus the Build-then-Sell has not been made a mandatory enforcement as it was under a 2-year testing period from its adoption in 2006.

**CERTIFICATE OF COMPLETION AND COMPLIANCE**

The Ministry of Housing and Local Government has introduced the Certificate of Completion and Compliance in 2007, alongside the setting up of One-Stop-Centre, to replace the Certificate of Fitness for Occupation. This initiative is aimed at overcoming the problems that developers faced in applying for the Certificate of Fitness for Occupation, such as getting inspection appointment with Building Inspectors, being imposed new conditions at the completion stage of housing projects, and the lengthy waiting time for clearance letter to support the application for the Certificate of Fitness for Occupation.

When fieldwork was carried out in summer 2008, the Certificate of Completion and Compliance had just been introduced for 14 months and the standard timeframe for vacant possession ranged from 24 months for terraced units to 36 months for apartments. Hence, there was not any housing project which was approved through this system. Even though the introduction of the Certificate of Completion and Compliance is a step that moves toward self-regulation, it is a surprising finding that developers were doubtful that the Certificate of Completion and Compliance could ease the process. Their argument was that Building Inspectorates still had to inspect the construction site and consultants still needed to get a clearance letter from these authorities before issuing the Certificate of Completion and Compliance.

Ironically, instead of believing that the certification of consultants would streamline the process of issuing the Certificate of Completion and Compliance, developers were concerned that they might be blackmailed by consultants if they did not receive the full
fees. In actual fact, it is still a common practice that developers do not pay consultants the full scale of fees in the Malaysian housing industry. This institutional problem will be discussed in length in Chapter 7. A developer expressed his struggle with the architects over the fees rather than having issues with the local authority in obtaining the Certificate of Completion and Compliance. This suggests that some developers would rather deal with the local authority that they knew rather than paying fees to the consultants which might cost more. Furthermore, the additional cost might not guarantee expediency because under the self-certified system architects had to ensure that construction was properly carried out, so that it would not damage their profession credibility.

I don’t think the Certificate of Completion and Compliance issued by the consultant is going to help. My architect will eventually threaten me. They don’t want to sign because I don’t pay them sufficient fees and all that. I prefer to deal with the (local) authority. For the architects to sign, they are also worried because they got to make sure that thousand and one thing (are properly done).

(Personal interview with K3, 9 June 2008)

**ASPIRATIONS OF DEVELOPERS**

This research ultimately aims to recommend ways of improving the Malaysian housing planning process and delivery system. After discussing the views of developers towards different aspects of housing planning, it is imperative to understand their aspirations over policy improvements.

Developers expected the state to improve the approving system to cut operational costs through a more efficient and effective civil service. Developers felt that there was a need to improve the quality of civil service, particularly to re-educate civil servants to have a more positive mindset and attitude. Therefore, there is a need to provide further training to civil servants on new policies and systems, so that they can provide clear information to developers. It is also important to educate them on the significance of their role in reducing the approval time. The outcome could lead to cost reductions for developers, lower house prices for homebuyers and an increase in sales, which could ultimately lead to higher tax revenue for the government to achieve a win-win situation.
As it is, additional cost is passed on to homebuyers who will pay a higher house price because of cost inefficiency. This point was particularly raised by the Kuala Lumpur developers who supplied luxurious condominium units. Following the lifting of 1976 Real Property Gain Tax (Act 169) in April 2007, improvements were expected in the delivery system to make Malaysian properties attractive to both domestic and foreign homebuyers following the lifting of 1976 Real Property Gains Tax (Act 169). This aspiration was expressed by several developers in Kuala Lumpur who developed high cost housing units:

(The participant expressed a long sigh in making this statement)...I would like to see the approving process to be 100% working...My wish list is one, the approval. The authorities follow all the processes correctly. Timing, plus the guidelines, do that. There are no ambiguities and it saves a lot of money for the country. Firstly, faster approval means cheaper, lower (cost)...so my wish list (and) I think it is every developers’ wish list - implement the processes properly and correctly, and efficiently. And I think it is very important, or else you will never improve yourself to be efficient for the country and then the consumer will suffer.

(Personal interview with K11, 12 June 2008)

(Improve) the delivery system, the so-called authorities system. The developers call to improve the delivery system for the purchasers. We have a role to play. All these will certainly enhance our delivery to the public. I don’t see much changes in the past, sadly, for the past 10 to 15 years.

(Personal interview with K24, 8 July 2008)

Furthermore, they also expressed the need for civil servants to have a higher level of professionalism. Better professional knowledge would enable constructive pre-consultation meetings between planners and developers to iron out issues prior to drawing up development plans. Some developers had carried out pre-consultation meetings which were found to be very helpful in reducing approval time. However, they hoped that the State Planning Department could be more open-minded to development and product innovation which might call for amendments to the obsolete development control and guidelines. A developer cited that the US experienced similar problems until the rise of new urbanism, which was the movement to get local authorities reviewing planning codes to enhance the quality of development and places. He quoted Seaside, Florida as a classic example.
America suffers from this obsolete planning codes and building codes. You should read the work of Andres Duany and Elizabeth Plater-Zyberk. They are one of the early pioneers of new urbanism. They did Seaside, Florida and Seaside is featured in Jim Carrey’s new movie, The Truman Show. You know those houses were meant for affordable housing but instead you find a lot of rich people are buying with huge sum, paying for what is supposed to be affordable housing…what they did to the Seaside was they get the local authority to change the planning code. Otherwise, you face constraints.

(Personal interview with K22, 9 June 2008)

The developer who commented on Seaside Florida pioneered a distinguished revolutionary residential development in Kuala Lumpur himself. It caused an amendment in the Housing Act recently due to its novice development concept which was building terraces on strata titles. This was a total breakaway from the conventional model of building terraces on individual title deed. The developer convinced the authority that his development should be viewed as a low rise condominium. Thus, the communal facilities should be packaged as accessory parcels such as those of strata developments. Consequently, the expenses on maintenance should be built into the monthly maintenance charges. The outcome of his development won many accolades. He described his experience in achieving this innovative idea.

In any planning development, any physical planning, we are overlaid with planning codes. Unfortunately, the authority and the professionals are not reviewing, questioning that the planning codes are too inhibitive, or relevant? As a result, it is suppressive to modern progressive development idea. I think you can check this by looking at the enactments and codes (which) were introduced during British times or even before the British times…we just run with it. (We) never stop and ask and see what is not given the new reality. What should we retain, and what should we discard, and how should we streamline to ensure modern ideas flourish?

(Personal interview with K22, 9 June 2008)

It is clear that this particular developer is a visionary and progressive businessman. Unlike the traditional, profit-driven type of developers who developed standard housing without carrying out further research, he was the only developer who was interviewed, engaged a professional market research firm to conduct a few focus group discussions to investigate the housing requirement of his targeted middle income segment. From the focus group discussions, he learnt that the white collar population in Kuala Lumpur reminisced about the close-knitted community living such as those in their hometown whereby the residents knew almost everyone and that their relationship was closer to one another. This developer incorporated their desire for community interaction in his novice housing development which totally removed the iron-grille layout. Instead, there were no fenced-up houses in his development to meet the housing preference of
homebuyers. The terraced houses were built on stratified titles after a long deliberation with the state. This visionary developer caused a historic breakthrough in the Malaysian housing development industry because the 1985 Strata Title Act (Act 318) was subsequently amended to allow for the development of terraced units on stratified titles.

This visionary developer commented on the lack of progression in the planning system to cope with new development ideas due to the public sector’s post completion maintenance task (see also Bertaud and Malpezzi, 2001) in their research of land use in Malaysia. The same developer proposed to use more stylish lamp posts rather than the box standard type one could find throughout the country, but National Power rejected it because the specific new style light bulbs were not in use. He also gave another example about the massive space required for the fire-brigade to manoeuvre without taking into account the technological change that has made fire engines smaller in size. He, again, was dissatisfied with the obsolete planning and building codes which caused major drawback in creating innovative development with high land cost. The need for constant review of planning policies and guidelines is also urged by Singh (1994).

Currently, leading developers take initiatives to update the public sector on innovative development concepts which are not supported by any guidelines for approval. Hence, it takes longer processing time for innovative concepts to filter through. A leading developer frustratingly expressed his experience.

We try to take a proactive approach. We try to educate. We sit down with them and we try to negotiate and debate…but (for) the authorities, the officers, the leaders of the authority or the public sector, we realised what we need to do is innovate their behaviour. We (developers) cannot be innovative unless they are innovative because they are the one who approve our proposals. If they can’t see what we see, we can never get that approved. So…we make efforts to educate, to innovate, then only our ideas can be accepted…we invited them to go all over the world to see what others are doing, best practices and everything so that they can open their eyes and…are more receptive to new ideas. But, this has been the battle going on for many years. I will also like to say…they are starting to change. Like in the Kuala Lumpur City Hall, from the angle of innovations, there is a change in their receptiveness.

(Personal interview with K1, 16 June 2008)

However, another developer also felt that the Kuala Lumpur City Hall was getting very progressive and coping well with creative development.
I think at the moment we are having a more efficient mechanism. This will help the homebuyers a lot. In terms of design and concept, we are doing fine. Our people here are truly quite creative. It amazes me when I see some of the development. We work very closely with the Kuala Lumpur City Hall. So, we can see that they are also learning and adapting to the changes.

(Personal interview with K21, 6 June 2008)

In addition to the need to be innovative, political stability is another factor that was identified as important. A public-listed developer, who developed lifestyle products for upmarket housing and foreign owners, expressed his aspiration to have more political stability in Malaysia as the nation was broiled in uncertain political directions at the time of his interview. He explained that political stability in Malaysia, alongside marketing, was needed to create a vibrant business environment. In his own words,

Marketing and also political stability. If we don’t have political stability, people don’t feel safe being here… currently the key issue here is the political issue. Economy always goes through a cycle. If it is bad, then it will get better as it always moves in a cycle. But, if the political side were to screw it up, then we are in trouble because that takes ages to rebuild…this is an issue that we are following closely. We hope it does not go to some unrest then it will be very difficult to build confidence.

(Personal interview with K9, 11 August 2008)

One suggested alternative to overcome the present bureaucracy would be to implement an e-submission system for development and building plans to reduce the amount of human contact. E-submission reduces time and resources because developers will not have to send their staff to various departments to build a relationship for quick approval. Developers expected the Urban Planning Department to prepare the submission template and guidelines, so that they only needed to adhere to the guidelines for submission. In fact, there was an unpublished paper documenting a case study of a computerised planning approval system in Kuala Lumpur (Yaakub et al., n.d.) to achieve better efficiency. Some developers suggested that the implementation of an e-submission system could be similar to that in the Federal Territory of Putrajaya (the new federal administrative centre of Malaysia) or the system adopted by the Singaporean government.

There is also an urgent need to improve the implementation of One-Stop-Centre. Even though the One-Stop-Centre aims to improve the coordination between various approving departments, developers still continue the follow-up practice because they do not have the confidence that the One-Stop-Centre can process their application quickly.
Furthermore, the state government has to provide leadership to find ways to improve the coordination within and across the internal and external approving departments. At present, developers expected consistency in decision making, but they failed to obtain consistent comments from different sub-departments within the same approving local authority. The local authority could not intervene in this situation because it was out of its jurisdiction.
This chapter began with a comparison of views and attitudes between the Kuala Lumpur and Johor developers towards different aspects of the Malaysian housing planning process. Research findings suggest that they encountered similar problems in the application process and they also held similar views about various institutional inefficiencies and outmoded housing policies.

This chapter particularly discussed the prevalent culture of exercising informal practices in the Malaysian housing planning system. It then moved on to discuss the views of developers on recent institutional reinforcements such as the One-Stop-Centre and Build-then-Sell system. Finally, it identified the aspirations of developers regarding areas of improvements in the planning system.
CHAPTER 7 POLICY DELIVERY

INTRODUCTION

This chapter aims to compare and contrast the policy delivery in Kuala Lumpur and Johor. The key factors that contribute to the more efficient housing planning in Kuala Lumpur and those which cause the negative housing outcomes are identified in Johor. The discussion also highlights the roles and contribution of key professionals and their attitude and views about developers. It moves on to highlight the main barriers of implementing the existing legislative framework and to identify the missing link which hinders the development of a more effective delivery framework. It concludes by arguing that a new Structure of Provision could be developed for the Malaysian housing industry, by incorporating various institutional changes to overcome the barriers.
DELIVERY OUTCOMES OF JOHOR AND KUALA LUMPUR

Based on the institutional structure analysis for Johor and Kuala Lumpur and the comparison between their processes for planning for housing, it is found that they share similar procedural characteristics. Despite being regulated by different Planning Acts in Kuala Lumpur and Johor, the Acts share the same core philosophies. In addition, developers in these 2 areas are found to encounter similar problems in the process of achieving planning approval for new housing.

POLICY INITIATIVES OF THE KUALA LUMPUR CITY HALL

Kuala Lumpur is governed by the Ministry of Federal Territory, which is directly supervised by the Prime Minister Department. The housing market in Kuala Lumpur is more sophisticated, regulated and monitored. Since Kuala Lumpur has a significant number of foreigners and high income earners for the high cost housing market, more stringent planning controls (such as planning controls for flight path, façade and compatibility matrix control) are needed. The Urban Planning Department of the Kuala Lumpur City Hall is widely seen as a progressive and positive department. At the same time, the innovative and elitist developers, who engage in developing high end housing, tend to find the service delivery of the Kuala Lumpur City Hall satisfactory. In view of their substantial investments, the developers who participated in this study emphasised that they needed to work with efficient local authorities and the Kuala Lumpur City Hall was known to be efficient in dealing with the nation’s top capitalists in the development sector. These factors partly explain Kuala Lumpur’s moderate level of housing overhang is related to its more efficient delivery system.

The Kuala Lumpur City Hall has been receptive to new development ideas. Foreign architects such as Norman Foster, Ken Yang and Jean Nouvel, have all left their signature architecture in Kuala Lumpur. In the past, developers organised fieldtrips to show the officers of the Urban Planning Department the world’s latest development trends and best practice. Interestingly, the Urban Planning Department has also started to organise its own fieldtrips and invite developers to participate. This pursuit is seen as constructive to the residential industry. In recent years, the Kuala Lumpur City Hall
approved terraced houses on stratified titles which resulted in a precedent\textsuperscript{20} for other State Planning Departments to follow.

As explained in Chapter 6, the Kuala Lumpur City Hall was enlightened by an elitist developer who presented his proposed housing scheme which was stratified terraced houses in the form of low rise condominiums which came with common facilities, such as parks, road and facilities. This innovative development was finally approved by the Kuala Lumpur City Hall and led to a significant legislative amendment in the 1985 Strata Title Act with the latest amendment made in February 2007.

There is an increasing emphasis on brownfield development. The Kuala Lumpur Structure Plan 2020 promotes inner city living by encouraging brownfield residential development at higher density. The Kuala Lumpur City Hall recognises that a vibrant city depends on the people using the facilities and infrastructures in the city centre at both day and night time. Thus, the Kuala Lumpur City Hall sees the promotion of brownfield development at higher density as a way to resolve the land scarcity issue in the city centre and to encourage urban renewal projects.

As the policy matter that has been agreed upon by the Mayor, is that they will allow higher density (for brownfield developments). That is already reflected in the plan (Draft Kuala Lumpur Local Plan)...last time you have the 2 storeys low rise apartments, the same thing will not remain there. They will allow you to go higher than that. So, that is also an inducement for you to re-develop your dilapidated properties.

(Personal interview with a key official from the Urban Planning Department of the Kuala Lumpur City Hall, 11 June 2008)

The Urban Planning Department of the Kuala Lumpur City Hall has become more flexible in development control guidelines. It has allowed density increases to tackle land shortages to offset high land cost in many projects for which many developers expressed relief about. Their only area of discontent was that guidelines were inconsistently implemented and subjectively interpreted by different officers; the latter point was also mentioned by Johor developers. To overcome this situation, developers expected the Kuala Lumpur City Hall to adopt more transparent guidelines. They cited

\textsuperscript{20} As explained in Chapter 6, terraced houses could only be built on individual title in the past and strata titles are only issued to flats, apartments and condominiums based on the former 1985 Strata Title Act 1985.
Singapore as a model for the Malaysian government to emulate because their development plan provided detailed information for each plot of developable land which helped to mitigate developers’ risk.

According to the Kuala Lumpur Structure Plan 2020, the focus of the Kuala Lumpur City Hall to develop 4 major designated growth centres in Damansara, Sentul, Wangsa Maju and Bandar Tun Razak to cater for the need of medium cost residential units. This suggests that the Kuala Lumpur City Hall is aware of the undersupply of medium cost residential units and is increasing its effort by providing incentives to developers to provide residential units for the middle income group. Presently, house prices in Kuala Lumpur are beyond reach for the middle income group. The representative of the Malaysia Institute of Planners articulated his concern for the middle income earners, particularly in Kuala Lumpur, because their affordability had been threatened by land scarcity and high land cost.

We (the public sector) are very concerned about low cost. We seem to be taking care very well there. We don’t have to bother about high cost housing because these people got a lot of money...but it is the middle income people. They are neither here nor there now. This is the area that I think government also misses out because we are always thinking that if we take care of the poor then everything will be alright and the rest will take care of their own. Actually our middle income is also our young generation if you look at their age profile. These are the people who are yuppies, professionals who just started work. They form small families and just start out life. These are the people who need a lot of money because they just start out their lives and pay back some education loan probably. And if there is no programme to assist them to buy a house then it won’t be until when they reach 40s before they can buy (a house).

(Anonymous interview with a key representative from the Malaysian Institute of Planners, 22 May 2008)

In addition, the Kuala Lumpur City Hall is planning to develop public transportation through a light rail system to connect the medium cost housing estates to the city centre. This reflects the situation described by Hull (1997) in which the landowner, in this case the institutional owner, can package their land with infrastructure development to enhance the development value to attract the participation of developers. The attempt of the Kuala Lumpur City Hall is made possible with the political means and the availability of resources, both are seen as important factors to broker successful development projects (see Hull, 1997). However, the joint venture deals might not guarantee developers any leverage in achieving more efficient planning approvals.
The Kuala Lumpur City Hall is beginning to emphasise the need for flexibility in planning and delivering housing. It encourages pre-consultation meetings between developers and planning officers to discuss the proposed development planning prior to the official submission, which is aimed to reduce the plan processing time. It also carried out research studies to assess the present and future housing conditions in Kuala Lumpur by inviting developers to participate. As a result, the Kuala Lumpur City Hall is planning to provide incentives to encourage developers to create partnerships with them while maintaining a level of flexibility in planning approval.

..types of houses in the city must be also of certain quality because we don’t want to have substandard housing units in Kuala Lumpur area. That will not be able to achieve our vision. Maybe as I said, incentive is important for the Kuala Lumpur City Hall to offer to the land owners. And, the Kuala Lumpur City Hall got to have some flexibility in the price range and the allowable unit size also.

(Personal interview with a key official from the Urban Planning Department of the Kuala Lumpur City Hall, 11 June 2008)

The above discussions indicate that the Kuala Lumpur City Hall has become a more progressive local authority and is striving to improve processes and practices to enable the fulfilment of Kuala Lumpur’s vision of becoming a world-class city by 2020. Under this mission, it has begun to develop a more holistic planning approval system, to adopt more flexible approaches to handle development approvals, and to employ more constructive measures to tackle the issue of land scarcity and high development cost. More interestingly, the government is actually engaging developers to form partnerships to sustain urban development and renewal in Kuala Lumpur.

**PLANNING IN JOHOR**

In contrast to Kuala Lumpur which is governed by the progressive Kuala Lumpur City Hall, Johor is still operating a more lagging planning system. Several factors are found to engender the negative planning outcome in Johor. These are briefly discussed in the following section.
**Parochialism**

While Kuala Lumpur’s housing market is highly dependent on the ‘Capital factor’, Johor’s market is highly dependent on the ‘Singapore factor’. Compared to Kuala Lumpur, Johor’s housing sector is enabled by ample tracts of developable land. However, its development is seen to be constrained by parochialism, inefficient land use and the failure of the local authority to monitor housing oversupply. Johor’s state government approves planning applications for housing solely on the basis of technical compliances rather than the wider market intelligence. Hence, there is high level of overhang, oversupply, and approved housing supply. The state government of Johor fails to impose any control mechanism, but allows speculative developers to drive the housing market with their products.

Local politics is the key factor which contributes to parochialism in Johor, which is described by as ‘*ethnic and political bias*’ (Agus, 2002:58). This problem, to a large extent, has influenced the allocation of low cost housing in Johor as it has not fully tapped into the economic potential of Singapore. In the past, the state government of Johor implemented a retrospective property exit tax policy which taxed Singaporean investors heavily on property gain tax. Since then, they have shied away from real estate investment in Johor. As it is, Johor’s housing market is mainly dependent on the blue collar commuting workers who earn Singaporean currency and invest in the local market (as discussed in Chapter 5). Furthermore, because of the historical link between Johor and Singapore prior to Singapore’s independence, there has always been an uneasy relationship across the Malacca Straits. Instead of working together for mutual benefits, hostilities and threats have been felt by the state government of Johor. A CEO described the petty squabbles between Johor and Singapore which had strained their relationship:

> Johor Bahru has got a lot of opportunities. Also because of the demand from Singapore…it will come. It came once. I supposed people, the authority itself did not manage it well…because of relationship. Sometimes, when you are brothers, you have got these petty quarrels.

(Personal interview with J7, 24 June 2008)

Another highly reputable developer lamented Johor’s failure to achieve greater economic progress as it had immense latent development potential if the politicians had been more open-minded. It was felt that Johor’s politicians had not been willing to open
up their economy to Singapore because of fears of losing control over their state and economy.

Yes, we can jump much higher hurdle. But only thing is the politicians are so worried to open up that they will lose their piece of cake. They don’t know we can grow the cake so big and this is a challenge…you only grow your potential and there is certain part of the economy which you have not known and didn’t know is there. You only imagine your cake is this big. But your cake is that big but you never acknowledge…you can own the piece of land but you never harvest. You never plant the seed.

(Personal interview with J25, 25 June 2008)

This research finds that Johor developers are of the opinion that the state should formulate investor friendly policies to entice foreign housing investors back to Johor, particularly the Singaporeans. Although there is evidence that Iskandar Malaysia, a ministerial development initiative, is beginning to open up for foreign home ownership, such practices are yet to be felt in other parts of Johor. Furthermore a developer highlighted in the interview that he enthusiastically hoped that politicians could shift from a narrow paradigm to a more forward-looking perspective. This progressive thinking developer, who built high end housing units, expected the state government of Johor to improve the education level of the Johoreans to generate a larger market of white collar for high end residential units. This was seen to add value to Johor’s economy which has mainly relied on blue collar economy. His comments were recorded as:

Our education system is such that our children, more than 30% of them drop out after they reach Form 3 (which is level 3 in secondary school). Some do not even reach Form 3….there is something very wrong with the education system and nobody actually take the trouble to really examine the problem….So I think if we don’t have a proper education which the government promises to every citizen and if it is not properly implemented, and then we can’t see the result, and we just churn out sausages, then we are in trouble. That’s why Johor is in trouble.

(Personal interview with J23, 25 June 2008)

In addition, another dimension of Johor’s parochialism is related to its civil service which only transfers civil servants within the state of Johor. This type of mentality is extended to their dealing with the private sector as they only work with Johor based companies, contractors and consultants who have developed rapport with them over the years. Developers who engage contractors or consultants who are not based in Johor are likely to encounter difficulties in getting approvals. This stifles potential innovation in the housing industry. However, this seems to reduce the extent of informal practice in
Johor as its civil servants are mostly Malays whose relationship with the Johorean developers is seen as purely ‘friendship’ in the context of ‘kampung’ (means village in Malaysian) spirit because the chances of them knowing one another’s relatives are high. Thus, they did not dare to ask extra benefits.

In Kuala Lumpur, people from outside of Kuala Lumpur come and work there. But, in Johor, they are mostly Johoreans and come from ‘kampung’. I am also a Johorean and when I go there, we just chit chat. They know our relatives (and) we know their relatives. If they want to ask something more, we cannot give. But, they are also embarrassed to ask because we know one another. It is still very important that we go to their office to see them to have breakfast or lunch together.

(Personal interview with J2, 25 July 2008)

Inefficient planning system

Johor requires a more proactive government to raise the standard of its planning system. At present, developers assess market demand and then submit their proposal for development planning. The state government normally approve development planning based on the plans’ technical adherence. In other words, it would approve housing developments in locations with housing oversupply as long as the submitted plan meets the technical requirements. Developers have been worried that this may not help to curb the long term overhang and oversupply problems in Johor Bahru and its surrounding cities. This poses a dilemma, on the one hand, the government is not expected to evaluate the feasibility of residential project; on the other hand, it is expected to regulate the residential market to avoid overhang and oversupply.

However, many forward-looking developers felt that planning guidelines needed revision to keep abreast with the latest development concepts. They highlighted the fact that the local authority was not able to approve new development concepts such as the link semi-detached housing units\(^\text{21}\) properties because up-to-date guidelines were not in place, which often resulted in the wholesale rejection of their development proposal. Developers experienced frustration in their drive to develop innovative products to meet the rising demand of the sophisticated homebuyer market. The key official in Johor State Planning Department in Johor is aware of this situation and is committed to draft new guidelines for new development concepts. In his words,

\(^{21}\) which is a cluster of 4 units of semi-detached housing units which share their middle and back party wall and that there is no backlane between them.
As it is now, high end developments such as cluster homes link houses are not in the original development planning standard. This is a new development concept. We try our best to cater for this type of development. We don’t want to be seen as not supportive. But we can’t process the application because we don’t have the guidelines. We don’t want that kind of excuse! If there is such concept, we should not pose any problems to the public. We will make the policies and we will try to use them. This is my vision.

(Personal interview with a key official from the Johor State Planning Department, 27 June 2008)

Furthermore, Johor developers have to devote more effort to meet the required contribution of 45 - 50 percent of their land for infrastructural, institutional and recreational purposes (see also Bertaud and Malpezzi, 2001; Othman, 1999; Singh, 1994). It is obvious that this planning requirement limits their potential to maximise profit. However, this percentage of allocation is found to be 20 percent higher than the average requirement in the US (Malpezzi and Mayo, 1997).

**Questionable policies**

Malaysian developers are affected by housing policies, such as the low cost housing and Bumiputra quota. These policies impose constraints on their development strategies as 40 percent of their total planned units are allocated as low cost housing units and another 40 percent for Bumiputra units (to be sold at a 15 percent discount rate). Developers tend to adopt a cross-subsidy strategy and pass the additional cost to the higher cost housing units. It was argued by developers that these 2 policies failed to achieve their objectives because the low cost units were built in remote areas (as is also found in Kuala Lumpur) with lower land cost and that the problem of oversupply and overhang in the Bumiputra housing market depressed the potential of capital appreciation. The irony was that Bumiputra homebuyers were found buying non Bumiputra housing units to avoid depreciation of housing value, which reflected the problem of institutional structure deficiency. These housing policies are widely seen as factors that contribute to market inefficiency which requires the intervention of the state. Members of the Real Estate Housing Developers’ Association (Johor Chapter), who participated in the research, argued that the state government should look into these issues more closely. While they understood the political constraint in reviewing the sensitive low cost and Bumiputra quota policies, but Johor, in fact, had the highest percentage of quota throughout Peninsular Malaysia.
Chapter 7 Policy Delivery

There has been increasing dialogues between the state government of Johor and the Real Estate Housing Developers’ Association (Johor Chapter), to discuss the concerns of developers. However, instead of lobbying for policy change, the dialogues have become a dissemination platform for the local authority’s internal and external departments to communicate any changes in government guidelines and the publication of new documentation to interested parties. Lobbying for policy change has not been found effective via this platform. Nevertheless, a developer who has been actively involved in the Real Estate Housing Developers’ Association (Johor Chapter) expressed his optimism:

Continue (to influence on policy change) because the person in charge is a politician. And politician comes and goes. And sometimes we just keep our fingers crossed , hoping that a more understanding politician will come. So, we have to continue. I won’t use the word ‘pressure’. So, we will continue to appeal our grievances to the authority and hopefully some light will come.

(Personal interview with J3, 28 July 2008)

**Factors affecting Johor housing market**

From the research findings, it is clear that housing demand in Johor’s housing market is mainly shaped by the blue collar commuting workers who work in the manufacturing plants in Singapore and can afford medium cost housing units. These buyers seek to fulfil their needs for proper shelter and are less concerned about the design and concept. Furthermore, they are highly dependent on their private transport to access their place of work because the public transport system is not efficient in Johor Bahru. The middle income group is more price-sensitive and thus the availability of local amenities and facilities may not be a key factor of consideration in comparison to the price and location of their housing requirement. Although developers do not generally conduct scientific research to assess housing demand, they do have a good understanding of the blue collar labour market segment in Johor. Hence, they structure their business strategy by focusing on the medium cost housing and the conventional housing units that blue collar workers aspire to own.

It is important to point out that the manufacturing sector has been negatively impacted by the recent worldwide economic downturn (The Straits Times, 2008b), which was shortly after the fieldwork in Johor was completed. The blue collar workers employed
by the Singaporean manufacturing sector are likely to have been affected by the downturn as are the sales of medium cost housing units in Johor. A number of developers commented that the housing market in Johor would go through a correction. The housing development industry is very likely to become an oligopoly, which is the next stage of the development cycle as the present situation is in near perfect competition (see also Ball, 2003; Healey and Barret, 1990). Hence, developers must also strategise their development based on market conditions rather than just the objective of profit maximisation.

The state, when approached on the oversupply issue in Johor, admitted that there was no mechanism in the planning system to address this issue. In view of the incoming supply amidst oversupply and overhang, planning officials felt that developers should carry out feasibility studies. Developers, however, felt that it was the state who should undertake a comprehensive study on the housing industry in Johor. The state’s stance was that the local authority was unable to gauge project viability on behalf of developers because it involved risk assessment and project evaluation of the development. It is clear that while there is a recognition of the issue, neither the state nor developers are taking a lead to resolve it.

Johor developers have, nevertheless, engaged in a few positive housing policies introduced recently, such as the uplift of Real Property Gain Tax and the sliding scale of Bumiputra quota allocation. The uplift of Real Property Gain Tax has prompted developers to venture into high cost housing market in Johor Bahru to attract foreign homebuyers. A typical example is the luxurious housing development in Nusajaya (the future administrative centre of Johor Bahru), which is the key development in Iskandar Malaysia. Iskandar Malaysia aims to create a small ‘Dubai’ in Nusajaya and creates an educational hub which is known as EduCity in which the School of Medicine and Surgery of Newcastle University will run its first international branch campus (The Star, 2009b). Other upscale housing developments are Setia Tropika (developed by SP Setia, which is one of the Top 10 Developers in Malaysia) and the upcoming Lido Boulevard (a high end housing project facing the Malacca Straits and overlooking Singapore). The sliding scale of the Bumiputra quota based on the selling price of housing unit means that developers have fewer Bumiputra quotas to deliver on houses with high prices and that they can sell higher priced housing units to the non Bumiputra homebuyers.
BARRIERS TO THE IMPLEMENTATION OF LEGISLATIONS

The previous section provides a discussion about the positive delivery outcome of Kuala Lumpur housing industry while the opposite was found in Johor’s. The analysis of their delivery outcomes reveals several implementation barriers of its legislative framework. Thus, the following section explores these barriers and identifies the missing link in the institutional structure.

INTERACTION BETWEEN DEVELOPERS AND THE STATE

The housing industry is capital intensive and developers are exposed to high development risk. Apart from land, capital and labour, time is an essential factor of production. In both case studies, tensions and conflicts prevail in the relations between developers and the state and there are some common causes. First, excessive planning legislations and housing policies have significantly increased the development costs, and developers do not see these legislations and policies achieving the government’s objectives effectively. Second, developers see the ‘capacity and efficiency of local authorities’ (Agus, 2002:64) as another impediment to responsive housing planning delivery (see also Agus, 2002; Othman, 1999; Siwar and Kasim, 1997). Efficiency is widely seen as crucial for a rational choice institution (Peters, 2005) such as the housing industry. Ineffective and inefficient approving agencies and bureaucrats hinder effective functioning between the state and the private sector (Denison, 2004) and the implementation of federal level policy by local governments (Baker and Hincks, 2009). Hence, the bureaucracy that requires developers to obtain approvals from multiple internal and external departments of local authorities needs to be streamlined. Thirdly, the lack of positive attitude, mindset and professional knowledge of civil servants are identified as the main causes of delay in the delivery system (see also Agus, 2002).

The relationship between the state and developers is dominated by tension and lack of trust. A typical example is the costly implementation of the One-Stop-Centre system to reduce bureaucracy and approving timeframe. As discussed before, developers question the workability of the One-Stop-Centre and the effectiveness of the state in streamlining bureaucracy and improving the quality of civil service and delivery system. From the perspective of the state, developers are highly profit-driven and they often fail to fully
adhere to planning guidelines. A key official from the Ministry of Housing and Local Government commented that developers are interested in maximising their profit at the expense of cutting corners. Such behaviour ‘presumes extensive calculation’ (Hall and Taylor, 1996:945). Developers are rational choice actors and that their profit-oriented mentality is rational because they only comply if the policies are financially rewarding. Whenever policies fail to favour their profit objective, they urge for periodic review by contending that the lack of regular review undermines the structuring power of the legislations and stifles the potential for innovation in the housing industry. This echoes the findings of Adams et al. (2005b) that the lack of sound institutional rules will increase the risk of development.

Therefore, it can be concluded that the nature of interaction between developers and the state is obliging and that mutual trust is severely missing (this type of relationship was also found in Swain and Tait, 2007). Their working relationship is genuinely entwined between their dependency for one another to attain developers’ objectives of profit-making and the delivery of housing units to meet the government’s housing delivery needs.

Developers understand the strength of collective action and they proactively lobby the Ministry of Housing and Local Government and the state government over policy changes through the Real Estate Housing Developers’ Association. The recent amendments of the 1985 Strata Title Act and the 2007 Building and Common Property Act (Maintenance and Management) (Act 663) are the result of their efforts. These Acts allow terraced houses to be developed on strata title and their common facilities as common property, which is an unconventional practice. A key representative from the Real Estate Housing Developers’ Association proudly described its success and emphasised that the Real Estate Housing Developers’ Association aimed for self-regulation because the residential industry has been excessively regulated and that developers were never consulted for the workability of the housing policies.

In the last 5 years, we saw a lot of fresh developments but somehow rather (our legislations are not formulated for these developments)…we are happy that the Strata Title Act and the Common Property have been amended. We are of the opinion that all these regulations are lagging behind the (new) development concepts…(The objective of the Real Estate Housing Developers’ Association is) to self-regulate and to represent the industry (and express our views on) the so-called unfair policies and requirements (which are) imposed on us by various or quasi government agencies…we are very rational in (our) approach, except that (the) policy makers always implement policies without consultation with the industry players…some of these policies are not thought out at all. That’s why we have changed the
government (he referred to the recent political upheaval in Malaysia)...we have sent the signal out clearly. You (the government) must involve the stakeholders in whatever changes in the housing policies. You must involve (us) but sadly, it does not happen in most of the ministries. Everything is hidden under the OSA (Official Secrecy Act)...we cannot question and then suddenly it is passed in the Parliament. That's the way now…

(Personal interview with a key representative from the Real Estate Housing Developers’ Association, 22 May 2008)

The above comments highlight the tension between developers and the state. Even though there are regular dialogue between the Ministry of Housing and Local Government and the key industry players, the process is not seen as ‘consultation’ by the Real Estate Housing Developers’ Association because relevant policy changes have not been instituted. Nevertheless, developers have adapted to the institutional environment well and tend to see the need to adapt through assimilating culture and values being crucial to survival. The Real Estate Housing Developers’ Association and the Ministry of Housing and Local Government are both aware that politics is at play in every policy change and it can be difficult for the state to formulate policies which only favours developers. As Adams et al. (2005b:246) comment: ‘in developing a shared understanding, it is important for market operators not to expect those engaged in state process necessarily act contrary to political and institutional realities’.

Therefore, there is a need to strengthen the interaction between developers and the state. A series of research studies in the UK (Tiesdell and Allmendinger, 2005; Ambrose, 2003; Healey, 2003, 1999, 1997; Verhage, 2003; Wenban-Smith, 2002a; Lambert and Oatley, 2002; Kumar and Paddison, 2000; Wong, 1998) highlight the importance of communication in developing institutional capacity for institutional success. The study emphasises trust and mutual understanding as being the important social capital needed to deliver policy. It, therefore, demands the incorporation of the views and aspirations of developers and key actors to enhance the structuring power of legislations in Malaysia. This will then lead the residential industry to progress into a developmental model as suggested by Turok (1993) (see Figure 2.2) in which actors are highly collaborative to increase the competitiveness of the industry and the potential to attract investment. A key official from the Ministry of Housing and Local Government expressed his aspiration towards devising a solution to the problem.
We have all the rules, acts and laws. What needs to be done is how to enforce it…Now, we need to have more forums between the Ministry of Housing and Local Government and the developers and other key actors who are involved in the housing industry. It is through this forum that we discuss, for instance the problems of price increase for the building materials. This requires the inputs from the parties involved. We are the one who drafts the policies but we can’t solve the actual problem. We need all the information from the developers (and other actors). We have been holding these forums but we need to make sure that it can work in a better way. Also, we need to improve the depth of the discussion from time to time.

(Personal interview with a key official from the Ministry of Housing and Local Government, 30 July 2008)

While the nature of interaction between developers and the state has to be improved to enhance the implementation of legislative framework, there are also tensions and conflicts between the different tiers of Malaysian government that hamper the delivery of the planning system. The analysis turns to explore the conflicts between the federal and state governments in the next section.

**CONFLICTS BETWEEN THE FEDERAL AND THE STATE GOVERNMENTS**

In Malaysia, the federal government, through the Ministry of Housing and Local Government, formulates the legislative framework for state government to regulate housing development. The role of the state government is to follow this framework to ensure that there is sufficient housing supply to meet the housing needs and demand of the state (similar to the UK situation, see Ambrose, 2003). However, there have been conflicts between the federal and state government over the comprehensive adoption of the legislative framework. First, the 1976 Federal Town and Country Planning Act (Act 172) is an adoptive and enabling act, which means the state government reserves its right to fully or partially adopt the act for the context of the state. Second, the 1965 National Land Code allows the state to formulate its own State Land Rules, but it has to be in line with the aspiration of the 1965 National Land Code (Singh, 1994). As a result, planning guidelines varies from one state to another in Malaysia and that the lack of vertical linkage in federal-state level policy making tends to create confusion and inconsistency in the implementation of plans and policies (similar problem was raised in the UK, see Wong, 2006).
In fact, even the local authorities within the same state have different guidelines which cause further inconsistency. However, the Ministry of Housing and Local Government cannot encroach into state-level land and development matters, but can only supervise the implementation of the legislative framework and work on areas of improvement. Ironically, the local authorities do not necessarily follow the advice set out by the Ministry of Housing and Local Government, even though they draw their operational budget from the Ministry of Housing and Local Government. North (1990) attributes the enforcement issue in local authorities to 2 main reasons: i) the cost of enforcement is higher than the benefits; and ii) the utility of enforcement agents is threatened. The combination of these factors offers some explanation as to the problems faced in Malaysia.

From the case study findings, it is evident that national interest can at time be undermined by the state and local level politics (as that observed in the UK, see Adams and Watkins, 2002), which creates unmanageable tensions between the 3-tier of government. The representatives from the Ministry of Housing and Local Government and the Federal Town and Country Planning Department commented that some state politicians refused to fully adopt the legislative framework because they wanted to retain their political control. The state level politicians tended to relax certain parts of the housing acts and policies to wield their political power to gain support, such as exempting some developments from the requirements of making contribution for amenities and facilities.

Singh (1994) describes the Malaysian planning practice as ‘…a technical and efficiency oriented exercise, planning is a political exercise. Creating a popular and organised consensus in support of development proposals is a critical aspect of implementation of land use policy’ (p.17). It is, therefore, valid to conclude that politics shapes policies and it is also true that politics at the state-level has the capacity to intervene in the implementation of housing policies for its agenda and interest. Furthermore, there has been a coordination issue between the State Planning Department and the State Executive Council. The State Planning Department is supervised by the Federal Town and Country Planning Department and it serves as an advisory body to the State Executive Council on development planning. However, the State Executive Council, which consists of councillors who might not necessarily have professional knowledge of planning, tended to ignore the advice of State Planning Department and proceed with
approvals of certain housing developments. The frustration with the lack of coordination was described by a key official of the Federal Town and Country Planning Department,

...You think we (State Planning Department) have the authority? We don’t have the authority. We are only an advisory authority. There are a few cases whereby we rejected the (development) applications but the State Executive Council still approved the developments. Why? What can we do? There are a lot of abandoned houses now. There is no demand even though the houses are already completed.

(Personal interview with a key official from the Federal Town and Country Planning Department, 26 May 2008)

This type of conflict is resolved by the Local Government Council, which was established to address and reconcile the issues of implementation of Housing Acts and policies. The Local Government Council is chaired by the Prime Minister and is attended by all the heads of states in Peninsular Malaysia. In view that most of the states are ruled by the ruling party, the National Coalition, the heads of states are obliged to submit to the directives of Prime Minister because they are his political appointments. It is tricky to tease out the issue of coordination because the problem is related to the Malaysian Constitution, so the Local Government Council is seemingly the only solution to it. Similar findings are also found in Britain (see Bramley, 2007; Monk and Whitehead, 1996) whereby the local housing outcome is affected by the coordination between national and local governments. However, the Local Government Council might face further challenges in the future because it has to work with the heads of states, particularly the 4 state governments (e.g. Penang, Kedah, Selangor, Kelantan) which are now run by People’s Alliance, the alternative political party to National Coalition.

The above discussion unravels the tensions and conflicts between the Ministry of Housing and Local Government and the state government, and also between the State Planning Department and State Executive Council, in implementing housing planning legislative framework. Rameli et al. (2006a; 2006b) reveal that the federal government through the National Economic Action Council identify the speculative supply of developers, the institutional flaws in planning system and the land approving system as the main causes of market failure in Johor. Their findings are supported by this study’s interview findings with the representative of the Ministry of Housing and Local Government specifically that the release of planning permission is based on technical compliance rather than market consideration. This contributes to the market imbalance
in Johor. The Kuala Lumpur City Hall is, however, more visionary and proactive by developing partnership initiatives with developers to fill the supply vacuum in the medium cost housing market (as discussed in Chapter 6).

**INFORMAL CULTURE**

Relationship building with the approving authorities is a notable form of the established informal culture in the Malaysian residential industry. It is definitely an important factor that helps Malaysian developers to circumvent the institutional deficiencies (Abdul-Aziz and Ho, 2006) of the planning system. Relationship building, also known as a ‘foul means’ by western scholars (e.g. North, 1990:5), is found working alongside the legislations (Ball, 2003). The practice of informal culture was also found in developed countries, such as in Britain (e.g. Williams and Batho, 2005; Ball, 2003) and in developing countries such as in China (e.g. Wu, 1999). Adams et al. (2005b) capture the nature of the situation commenting that: ‘…those market operators skilled in networking and bridge building, who realise that a single visit to city hall will no longer suffice as a means of securing state support for their particular development’ (p.246). Hence, the influence of politics in planning is more pervasive than technocratic, which explains the Malaysian phenomenon.

Informal culture is deeply entrenched in the Malaysian housing industry. Developers find various inefficiencies in the public service delivery system and they seek to find ways to evade from such institutional structure that raises their development cost. Consequently, they resort to the culture of exercising informal practices, which costs them less. Developers appeal and negotiate for fewer planning requirements to achieve their financial objectives and that this planning culture is known as ‘appeal-led’ in Britain (Tiesdell and Adams, 2004). In some extreme scenarios in Malaysia, political connection and malpractice are used to get leeway from the inhibitive regulations. However, it is worth mentioning that not all developers adopt informal culture because it is not seen to be in line with their corporate governance. Some public-listed developers emphasise on Corporate Social Responsibility to improve their coordination with the approving authorities, while others are willing to wait for development planning approval rather partaking in informal practices.
However, the elitist and visionary developers are able to change and lead the planning profession. They educate the planning officials by showing them international examples of best practice. Pre-consultation meetings are also found helpful in housing planning because visionary developers who develop innovative concepts normally seek consultation with the State Planning Department to discuss and negotiate over relaxation on certain planning requirements. Pre-consultation and constructive sharing of knowledge and expertise are found to be effective in bringing changes in the legislative framework. Although it might take more time, it has been proven that this can certainly be carried out in a constructive manner. Intriguingly, the developers who have joint-venture deals with the state government might not necessarily gain leverage in getting their development planning approvals.

Informal culture co-exists with the formal institutional structure in the Malaysian residential industry. Relationship building, if developed in a positive manner, could enhance its institutional capacity by bringing many positive impacts (as discussed in Chapter 2) and overcoming the current institutional drawbacks. Developers do not see relationship building as the ultimate solution for the problems they face in the long run. Instead, they argue for a review of the legislative framework to adapt to the contemporary development context and culture. However, the ethos of policy making in Malaysia has been passively driven by issues and that the state is not as proactive as desired - which explains the inhibitive nature of the housing policies. Hence, the state requires improvements to fulfil its role as the regulator and facilitator of the housing industry. Nevertheless, the sharing of expertise and knowledge among the professionals and key actors in the industry is important to achieve this outcome. The next section aims to evaluate the role and contribution of professionals in the Malaysian housing industry.

**PROFESSIONALS: THE MISSING LINK**

Development processes involve a network of actors who interact in a complicated institutional environment to deliver the final development outcome (Ball, 1986). The Malaysian development industry was hard hit by the 1997 Asian Financial Crisis. The developers suffered from poor sales which affected their ability to pay promptly and fully to the contractors and professionals they employed and resulted in many abandoned housing projects. Despite the economic recovery at the turn of millennium,
the poor payment practice has continued to affect the professionals as developers argue that they have to pay for higher construction cost as a result of the sharp increase in the price of building materials. Therefore, developers claim that they are unable to pay the scale of fees to professionals and this matter has severely strained relationships. As a result, many professionals are demoralised and this malevolent practice has weakened the institutional capacity of the housing industry. Developers are widely perceived to put profit at the expense of making proper remuneration to professionals. Hence, there is a loss of faith and trust on the part of professionals in relation to developers. This is understandable given the benefits of being a professional, such as ‘social status, power to make decisions, greater financial rewards and employment security’ (Allmendinger, 2002:142), are completely threatened by developers in the Malaysian housing industry.

Furthermore, the expertise of professionals is not well respected by developers. Instead of letting private sector planning consultants and architects propose ideas for developments, the Malaysian developers tend to inform the professionals of their own preferred ideas. Private sector planning consultants and architects rarely have any opportunity to express their ideas because most developers just replicate established planning concepts, or make some modifications in the design which do not require professional expertise. This also underpins the reason that developers are reluctant to pay professionals full scale of fees for the recycling of established designs and practices. The practice of paying the professionals lower fees has become an ‘institutional norm’, which is worsened by the fact that developers also defer payments. This contentious practice inevitably lowers the morale of professionals and affects the quality of their work, which contributes to the lack of innovation in the Malaysian housing industry.

The representative of the Malaysian Institute of Planners described this situation:

At the moment, there is no way (to solve payment issue with developer)...they want their margin. They are squeezing others for their own margin. We find that they (fellow private sector planning consultants) are not being paid and not bothered to put quality work on the table (for developers)...

(Personal interview with a key representative from the Malaysian Institute of Planners, 22 May 2008)

Key professionals do not have many opportunities to put forward their visions for housing developments. Their ideas of providing housing to improve the quality of living for all income groups and to consider sustainability principles tend to be in conflict with the financial objective of developers who strive to meet the minimum standard of
planning requirements. A representative of the Malaysian Institute of Planners cited an example which reflected the poor implementation of the 1976 Town and Country Planning Act 1976 (Act 172). There were two major landslides in Kuala Lumpur and in Selangor (the neighbouring state of Kuala Lumpur) in 1993 and 2007 respectively. For the latter incident, the residents of ‘Bukit Antarabangsa’ (means the ‘International Hill’ in Malaysian) blamed the local authority for approving housing development on an unstable hill slope, while the local authority blamed the developer for failing to maintain the stability of slope (The Star, 2008d). The interviewee also mentioned that the inclination of developers was to ask private sector planning consultants to increase the plot ratio by ignoring the guidelines and then seeking approvals through negotiations with the planning authority. In his words,

For instance, when you are not supposed to plan on the hilly terrain, but you go and plan on the hilly terrain. You are not supposed to plan on other people’s land, but you do that! There are many cases here…for example, the allowable plot ratio is only 5 but the developers say 7… and then they say, ’let us talk to the authority and get it endorsed’. That happens all the times. That’s why I say everybody is involved. The one (State Planning Department) who is approving it must be very strong. You prepare a plan but you do not implement according to the plan. This is the role of the state or local authority to monitor. They are the biggest culprit also.

(Personal interview with a key representative from the Malaysian Institute of Planners, 22 May 2008)

Based on the 1967 Architect Act (Act 117), architects submit the building plan application to the local authority according to the 1984 Uniform Building By-laws and the 1974 Street, Drainage and Building Act (Act 133), which makes architects the key actors in the housing delivery system. However, most of them simply act as draughtsmen for developers which mirrors Tiesdell and Adams’ (2004) finding of architects being ‘technicians rather than designers to design housing layouts, using standardised layouts and house types’ (p.38). While architects are frustrated with developers, developers, in turn, view architects as being inefficient and lacking creativity. Some public-listed developers set up their own design department by employing architects and draughtsmen to speed up development planning, so that they can supply housing units to the market promptly. In fact, architects are not spared from the payment issue, which puts them in the same dilemma as private sector planning consultants. The representative from the Malaysian Institute of Architects expressed his frustration:
I think in reality...not many people can pay the full scale of fees. As long as they
(developers) pay us an amount of fees regularly, we are fine. However, architects are facing
problem with ridiculously low fees. And, they (developers) don’t pay on time. So it is a
strain to the finance of architect firms.

(Personal interview with a key representative from the
Malaysian Institute of Architects,
4 June 2008)

Other than town planners and architects, engineers are also the victims of the payment
issue. Engineers are regulated by the 1967 Engineers’ Act (Act136), with its latest
amendment in 2002, to provide professional expertise in the structural, civil and
electrical aspects of housing planning. There is a practice of undercutting one another’s
professional fees, so that they can win contracts in the highly competitive market (which
seriously raise the issue of professional ethics). A representative of the Institute of
Engineers in Malaysia felt that the level of professionalism among engineers was
deteriorating and that they were at times requested by developers to ‘overlook’ some
problematic construction works. In his words,

(Contractors) can’t train the foreign workers (because they tend to leave for greener pasture).
Over a period of time, you can see the houses are not well constructed. The joint is out and
not aligned properly (he laughed in saying this). Of course, engineers also come into (the
picture). (The developers) also asked them to ‘close one eye’ (meaning to ‘overlook’ it).
They (fellow engineers) say it is a bread and butter issue. They want the job. Perhaps, they
are not on the consultant’s (particularly, engineer’s) side. (So, they said), ‘Ok, I let this go.’
Maybe (it went) through some negotiation...there are many engineers nowadays. Maybe
they are not the so called ‘registered engineers’. They undercut fees and so on. (We have
received) many complaints from our members.

(Personal interview with a key representative from the
Institute of Engineers in Malaysia,
10 June 2008)

Contractors (or builders in Ball’s (1986) Structure of Provision) play a significant role
in housing production. Nevertheless, they have been the major victim of the poor
payment culture in the Malaysian housing industry, which prevents them from paying
various suppliers and sub-contractors and the chain effect can lead to the abandonment
of housing projects. The Master Builders Association of Malaysia, which represents
contractors, has been trying to influence the Ministry of Public Work to replace the
present contract that binds contractor and developer (which is the version adopted by
the Malaysian Institute of Architects) with the instrument from the Construction
Industry Payment and Adjudication’s Act (which is adopted in Singapore). The latter
provides contractors the right to demand for adjustment in the sum of contract
whenever prices of building materials, fuel and labour are increased. Tensions between developers and contractors flared up at the time of the fieldwork because contractors would not be legally compensated by developers for sharp increase in fuel, steel and cement prices at the time of the fieldwork. They could only appeal to developers for making cost adjustment. On another note, contractors are often pressurised by developers to deliver higher quality construction work. Since housing quality becomes an institutional issue, the Ministry of Housing and Local Government encourages contractors to use the Industrialised Building System to maintain consistency in the quality of construction and to reduce their dependence on foreign labour (Badir et al., 2002). However, contractors find the Industrialised Building System a costly investment and that it cannot be used for different types of housing development. Contractors are hard pressed by the demand for higher quality construction and the low and often delayed payments.

The introduction of the Certificate of Completion and Compliance makes the relations between developers and key professionals, particularly, between architects and engineers, more intriguing. The Certificate of Completion and Compliance is a form of self-regulation that the Ministry of Housing and Local Government institutes in the housing delivery system which has so far evoked mixed reactions from developers. Those developers who take advantage from key professionals are likely to feel that they are coerced into accepting the Certificate of Completion and Compliance given that it is issued by the professionals whom they often undermine. They will no longer enjoy having the upper hand in their relations. In return, they may be demanded by the professionals for payment before the issue of Certificate of Completion and Compliance. The Certificate of Completion and Compliance has now become an instrument that tilts the dominance of developers to key professionals as they will not be able to exploit key professionals by reducing and delaying their fee payments.

Developers attempt various ways to maximise their profits. They also negotiate for lower fees with key professionals to exploit the fact that these professionals face fierce competition for business. The internal struggle of professionals between professionalism and livelihood has strained their relationship with developers which results in mistrust, suspicion and lack of collaboration between them. This problem seriously hampers the formation of thicker institutional capacity and the institutional resilience that can help to deal with external and internal challenges (see Adams et al., 2005b; Ambrose, 2003;
Wenban-Smith, 2002a; Healey, 1997). The struggles between developers, and key professionals are partially caused by tensions and conflicts between the state and developers, as examined in the previous section. The vicious cycle begins with the cumbersome and ineffective institutional structure. Instead of creating an institutional order, the structure frustrates the utility-maximising developers who try to circumvent the institutional framework by ‘shirking’ (Peters, 2005:50) responsibility. The way key professionals are subdued by developers is similar to the ways developers are subdued by the state. Thomas and Kilmann (1974) argue that collaboration (as discussed in Chapter 2), is the most effective way to resolve conflicts. However, this has not been happening in Malaysia yet as the communication and collaboration between different key actors in the industry is poor.

There is a chain effect when developers owe payments to key professionals and contractors. As contractors and key professionals receive late and insufficient payments, their subcontractors and workers will also be affected which then causes late delivery of housing units and poor workmanship. The repercussion is significant as many actors are involved (Tan, 2006; Ang, 2006, Abdul-Kadir et al., 2005). Nevertheless, the land surveying profession is the only which is not entangled with developers on payment issues because the 1958 Licensed Land Surveyors Act (Act 458) requires developers deposit payment for land surveying work. Hence, there is no tension between land surveyors and developers. In Malaysia, developers engage real estate agents whenever they have difficult selling products. Even though it is common that developers may not pay the real estate agents based on their scale of fees, there is no prevalent issue of payment between them. As for financial institutions, developers treat them with respect because they rely on them for capital, which is the most important input of production. Capital finance flows relatively efficiently in Malaysia, provided that developers are able to demonstrate the feasibility of their housing projects.

The Malaysian developers may have dominated the professionals but they are subject to the pressure of the National Housebuyers’ Association. The collective voice of the National Housebuyers’ Association has successfully triggered several significant changes in the legislative framework. This confirms the argument of Ball (1986) that tensions and conflicts lead to changes in the Structure of Provision. Such tensions and conflicts between developers and key professionals can be appropriately summed up by Ball (1986): ‘capitalist housing producers, like any other productive capitalist, exploit
building workers. Yet, capitalist builders need not prevail. Similarly, when a series of capitalist agencies are involved in a structure of provision, as they are in a market-orientated housing provision in advanced capitalist countries, it is again impossible to give a prior specification of which of them will dominate’ (p.158).

The tensions between developers and key professionals are summarised diagrammatically in Figure 7.1. It shows that major tensions exist between housing developers and contractors, private sector planning consultants, architects, engineers and homebuyers, while minor tensions are felt between developers and land surveyors, financial institutions and real estate agents.

Figure 7.1: Views of key professionals towards the developers

<table>
<thead>
<tr>
<th>Legend</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>No payment issue between professionals and developers.</td>
<td><img src="image.png" alt="Diagram" /></td>
</tr>
<tr>
<td>Payment issue exist between professionals and developers.</td>
<td><img src="image.png" alt="Diagram" /></td>
</tr>
<tr>
<td>Professionals being affected by the poor payment practice of developers.</td>
<td><img src="image.png" alt="Diagram" /></td>
</tr>
<tr>
<td>Professionals /financial institutions not being affected by the poor payment practice of developers.</td>
<td><img src="image.png" alt="Diagram" /></td>
</tr>
</tbody>
</table>
Adams and Watkins (2002) view the professionals as the forgotten group and that they are at a disadvantaged position in their dealings with developers. The problems that the professionals face in Malaysia were also found in the western countries. The professionals in Malaysia have recently started approaching the state through various channels, primarily their professional associations, to express their grievances and to seek legislative changes to protect their interest. For example, contractors have lobbied for a change in the nature of their contract; the requirement of developers to remit payment to consultants based on a standard payment structure; and the engineers’ attempt to change the legislation to protect their scale of fees. Their reference is the payment method in the 1958 Land Surveyors Act (Act 458), which has proven to be effective as land surveyors encounter very few problems in obtaining payments from developers.

In short, the present conflicts and struggles between developers and key professionals require state intervention in the form of institutional change, which will be discussed in Chapter 8. The state needs to facilitate collaboration between developers and key professionals by helping them to build trust in their relationships, which is a sign of weak institutional capacity (Wenban-Smith, 2002a). However, as North (1990) argues politicians will only consider institutional change if it generates political, social and economic benefits. In view of these benefits, the state needs to work with developers and key professionals to resolve their tensions and conflicts and develop institutional capacity to improve housing delivery. At present, the issue of payment between developers and key professionals are resolved through arbitration (Ang, 2006).

At present, the professionals find it difficult to influence the state for legislative amendment to protect their interests. Furthermore, some members of their associations are not sufficiently united to insist on full scale fee payments from developers. Instead, they compete by undercutting for business. In this aspect, professionals seem to face similar dilemma as the developers in their dealing with the state. The Real Estate Housing Developers’ Association also has some unscrupulous developers who abandoned projects and tarnished the image of developers in the eyes of the Ministry of Housing and Local Government. Although the Ministry of Housing and Local Government seeks advice from the professionals in policy making, the findings of this study suggest that informal connections seem to be more effective in affecting
legislative changes. A key representative of the Institute of Engineers in Malaysia expressed about the effectiveness of such informal link,

Sometimes, we adopt direct approach such as sending letters (to the Ministry of Public Works), which may not be entertained. However, it seems to work very well when we send our members (who are the employees of ‘Jabatan Kerja Raya’ which is ‘Ministry of Public Works’ in Malaysian) to talk to these people (in the Ministry of Public Works).

*Upon probing him whether this has to be carried out over lunch or in the office setting?*

I don’t know. It is up to him to approach the director. We see things are moving. So, we see that having members (who are engineers) from various government agencies help a lot provided they are the dedicated members.

*Upon asking him, ‘Do they represent the IEM in the Ministry? Does it work better this way?’*

(It works better through) the informal link because the members can approach their director (who is also a member of the Institute of Engineers in Malaysia). It is the frontliners (who are the members of the Institute of Engineers in Malaysia IEM) who frequently come here for committee meeting then we ask them, ‘Can you help us to do this? ’ They oblige.

(Personal interview with a key representative from the Institute of Engineers in Malaysia, 10 June 2008)

Hence, it is apparent that developers and the professionals are subservient to the dominant power of the institution. This again heightens the need to develop institutional capacity which promotes collaboration instead of power struggles. As the current situation stands, homebuyers, the victims of the vicious struggles, have championed several successes by exerting public pressure on the government. This is to be discussed in the following section.

**HOMEBUYERS: THE VICTIM AND THE WATCHDOG**

Developers are pressurised by the demand of a new generation of more informed and demanding Malaysian homebuyers. While blue collar workers in Johor choose their housing units based on location, price and reputation of developers, white collar workers in Kuala Lumpur have gone a step further by searching housing units which offer them lifestyle and exclusivity. With the advent of information technology, homebuyers can easily search for more information about housing trends. This new type of ‘exposure’ raises expectations in relation to housing preferences, and subsequently
poses challenges to developers in meeting demand. Developers can no longer simply adapt a template for housing design and replicate developments in different localities. Using previous design can tarnish the reputation of developers’ reputation if they are seen by homebuyers as not investing in innovative design, even though the standard design may lower their research and development cost and lead to quicker approval for planning permission (see also Adams and Watkins, 2002).

A group of aggrieved homebuyers who are the victims of abandoned projects and poor workmanship of housing units from Peninsular Malaysia, organised themselves through the National Housebuyers’ Association to present their complaints to the Ministry of Housing and Local Government. Although the National Housebuyers’ Association was established in 2000, it managed to influence several legislative amendments on Housing Acts to protect homebuyers. Ball (1985) describes this type of action as a form of democratic accountability when the state removes or improves legislations for the benefit of citizens. The key representative of the National Housebuyers’ Association proudly explained the achievements of the National Housebuyers’ Association:

I can say that 80 percent of our feedback has been accepted by the Minister (of the Ministry of Housing and Local Government). We are happy! We are glad that the Minister of Housing is receptive to our recommendations. So, 80 percent of our feedback has been accepted by the (former) Minister of Housing, Datuk Seri (which is equivalent to ‘Sir’) Ong Ka Ting.

…We play the ears and eyes for homebuyers. If the Ministry of Housing and Local Government or the Minister (of the Ministry of Housing and Local Government) does anything wrong, or when they utter anything that is not consistent with the law itself, we will respond with newspaper articles and letters and hold press conferences. If you check our website, (then you know that) we have been doing that. We have been quite proactive in this area.

(Personal interview with a key representative from the National Housebuyers’ Association, 7 June 2008)

It is apparent that the National Housebuyers’ Association serves as a watchdog for homebuyers. Developers are threatened by the growing prominence of the National Housebuyers’ Association even though it is only established for 7 years. The success of the National Housebuyers’ Association is reflected in the number of legislative changes: i) the extension of the Defect Liability Period, from 18 to 24 months, to increase the warranty period of the housing units against poor workmanship; ii) the establishment of a Tribunal Court which handles homebuyers’ claims from developers for liquidated damages if the sum does not exceed RM25,000 (£4,545); and iii) the introduction of
Build-then-Sell concept to avoid abandoned projects and to prevent homebuyers from paying instalment on undelivered housing units. It is very interesting to note that while the Real Estate Housing Developers’ Association views the National Housebuyers’ Association as a growing threat, the National Housebuyers’ Association argues that the Real Estate Housing Developers’ Association has greater influence over policy making.

House sales in Malaysia are conventionally conducted on the basis of the Sell-then-Build system, which means homebuyers buy off the plan or ‘depend on surrogates for example, perspective drawings, models or mock-ups’ (Lee and Ng, 1996:103). Subsequently, they will get a mortgage to finance their home ownership. Lee and Ng (1996) stress that homebuyers take up high risk in the Sell-then-Build concept which allows developers to start collecting progressive payments from mortgage lenders based on the payment schedule stated in the Sale and Purchase Agreement. This model results in many homebuyers paying housing instalments even when the developers fail to deliver the housing units in the case of abandoned projects. The Ministry of Housing and Local Government has introduced several measures to monitor housing projects through the 1989 Housing Development Regulations (Control and Licensing) and the 1991 Housing Development (Housing Development Account) Regulations. The National Housebuyers’ Association questions the enforcements of these Acts because abandoned projects are still common. It is clear that monitoring the progress of construction through the Housing Developers’ Act and Form 7F has so far failed to prevent project abandonment. Hence, the National Housebuyers’ Association has aggressively lobbied the Ministry of Housing and Local Government for a wholesale adoption of the Build-then-Sell concept rather than the present hybrid model of 10:90 Build-then-Sell concept that allows developers to collect 10 percent downpayment, followed by 90 percent upon housing unit completion. Developers are not in favour of the Build-then-Sell system, which is understandable as the Build-then-Sell requires huge capital outlay and it means that developers bear all the risk of development, unlike the Sell-then-Build system whereby homebuyers bear the risk. Despite the pressure from the National Housebuyers’ Association, the Ministry of Housing and Local Government is aware that the Build-then-Sell cannot be made mandatory because the legislative and financial frameworks are not ready for full scale implementation to completely replace the Sell-then-Build concept.
The failure of the Ministry of Housing and Local Government to control abandoned projects means that homebuyers bear the consequences of the continuous struggle between the state and developers, and between developers and key professionals. In addition, none of these key actors in the housing supply chain are motivated to develop quality housing units because they are caught up by the issues of cost and payment. Hence, homebuyers who are victimised have become the watchdog to deal with these problems. Generally, homebuyers are becoming more cautious in home purchase because they know that developers sometimes make promises that they cannot deliver after luring them into the purchase. Interestingly, homebuyers are not ignorant of the involvement of politics and malpractice in the housing production system. The analysis highlights that the National Housebuyers’ Association is able to facilitate the reformulation of the institutional structure to strengthen the regulation of the housing development sector. In addition, the voice of homebuyers is getting stronger in Malaysia and they are no longer subject to the exploitation of profit-oriented developers. In fact, the Real Estate Housing Developers’ Association has been frustrated in their attempts to influence policy making as only the minimum has been done to meet their request. Thus, on the basis on this analysis, there is a genuine need for developers to improve their development strategy, operations and practices.

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21 A half-yearly report that the developers have to submit to the Ministry of Housing and Local Government, alongside their audited statement of account, for the purpose of monitoring the construction progress of housing projects.
From the views of various actors discussed above, it is apparent that the state, developers and key professionals have similar aspirations towards the housing development process and delivery. They expect less bureaucracy, transparent planning guidelines and efficient civil service. However, the adoption and implementation of planning guidelines and legislative framework which shaped their strategic behaviours were found to be ineffective, inefficient and inconsistent. Tensions and conflicts were found not only between developers and the state, but also between developers and key professionals as well as between developers and homebuyers. Trust is a missing element in the institution of the Malaysian residential industry. It is very obvious that actors, instead of collaborating and trusting one another to deliver housing units, are found to be subservient to the parties who have power over them. Consequently, they do not voluntarily share resources, knowledge or expertise. In fact, the lack of motivation of professionals, as a result of poor payment practice adopted by developers, has stifled innovations in the Malaysian housing industry.

The signs of weak institutional capacity (Wenban-Smith, 2002a) are the dependent model of economy (Turok, 1993) and the lack of collaborative planning (Innes and Booher, 2003; Innes, 2002; Healey, 1997). The institutional structure in Malaysia is muddled by dysfunctional informal culture which helps to generate mistrust and suspicion among key actors. This has prevented developers from harnessing their respective knowledge and expertise to develop institution capacity. A stronger institutional framework can potentially serve the interest of all actors by reducing development and compliance cost through greater degree of self-regulations and fewer regulations.

In the face of this kind of crisis, the state needs to proactively take up the role of being a regulator and enabler. Other than fine-tuning the formal institutional structure to enhance the efficiency and effectiveness of the housing system, it needs to enhance trust building and develop institutional capacity, which are known as market capacity planning tools (Tiesdell and Allmendinger, 2005). These implications for future policy change will be discussed in Chapter 8.
CONCLUSIONS

This chapter began with a discussion on the positive delivery outcome in Kuala Lumpur and the factors which inhibit similar progress in Johor. The Kuala Lumpur City Hall is driven by Vision 2020 which aims to make Kuala Lumpur a world class city. Hence, it is receptive to innovative housing concepts and delivers a more efficient housing system to meet with the expectation of many elitist and visionary developers in the capital. In contrast, Johor developers are tightly regulated by inflexible planning guidelines and contribute higher levels of Bumiputra quota and low cost housing units.

The nature of interaction between developers and the state is undermined by mistrust and there is a clear absence of collaboration. Similar problems were found between developers and professionals, and between developers and homebuyers. Furthermore, homebuyers are becoming more influential in shaping policy making as the Ministry of Housing and Local Government has amended a few legislations to favour the interest of the National Housebuyers’ Association instead of the Real Estate Housing Developers’ Association.

Based on the above discussion, this chapter concludes by summarising the key characteristics of the Structure-of-Provision of the Malaysian residential industry. Various external and internal institutional factors and structures are identified and illustrated in Figure 7.2. The degree of influence and power is represented by the level of shade and the thickness of arrows. Darker shade and thicker arrow indicates stronger influence in influencing policy change, while dotted line indicates relatively weak influence. As shown by the darker shade arrows, the Malaysian residential industry is mainly led by developers and that the types of housing supply are influenced more by the external factors, such as the ‘Capital factor’ for Kuala Lumpur and the ‘Singapore factor’ for Johor. Developers are found to rely less on housing assessment (indicated by the dotted line) in housing provision, except those who develop high end housing units.

As discussed in the previous section of this chapter, there is clear evidence of conflicts between the federal and state level governments in the implementation of housing legislative framework. In addition, the practice of informal culture is taking place alongside the implementation of housing policies and has thus influenced the working
relations between the approving authorities and developers. It is interesting to note that developers are not only constrained by the housing policies, but also the growing influence of the National Housebuyers’ Association in the policy making activities undertaken by the housing industry in Malaysia. However, developers are found to exercise power over the industry’s professionals, except land surveyors, in the area of payments.

Bearing in mind the issues and factors which affect the Malaysian housing industry, the next chapter will explore the policy implications and theoretical insights emerging from the study with the aim to improve the understanding of the relationships between developers and the state in Malaysia.
Chapter 7 Policy Delivery

Figure 7.2: The Structure of Provision for the residential development industry in Malaysia

Shaded area indicates the degree of contribution in the Structure of Provision.
CHAPTER 8

CONCLUSIONS

This research set out to examine the institutional framework of the Malaysian residential industry and how it shapes the process and delivery of housing. Specifically, it investigated the nature of interaction between developers and the state to provide an understanding of the efficiency and effectiveness of their working relationships. A case study approach with extreme cases was adopted as the research strategy for data collection to meet the research objectives. The research findings clearly show that there are tensions and conflicts between developers and the state in the areas of policy making and implementation. Furthermore, there is high level of mistrust among the key actors which fosters a weak institutional capacity in the Malaysian housing industry.

In this final chapter of the thesis, an evaluation of the applicability of various theories developed in the UK context that inform the development of the conceptual framework of this research is made. The focus is to examine their relevance to conceptualise property development in the Asian context. A discussion is then made to connect the key research findings to areas where policy changes could be achieved. Both theoretical and practical recommendations will be made on ways to improve the policy framework and the level of cooperation among the key actors to enhance the efficiency of housing delivery in Malaysia. Finally, this chapter concludes by highlighting the limitations of this study and explores areas requiring future research.
EVALUATION OF THE THEORETICAL FRAMEWORK

In order to understand the Malaysian housing industry, Ball’s (1986) Structure of Provision is adopted as the key institutional theory to examine the institutional structure and social relations among the key actors in housing delivery. It is supplemented by Wong and Madden’s (2000) North West Housing Assessment Model to provide a more comprehensive understanding of housing demand issues. The combination of these theoretical approaches helps to explore how housing supply, which is the main focus of this study, interacts with housing demand to form a more complete picture of the operation of the housing market. More importantly, the models offer a way of conceptualising the roles played by the state, developers and other actors in shaping the housing sector.

STRUCTURE OF PROVISION AND STRUCTURE-AGENCY THEORY

Ball (1986) conceptualises the Structure of Provision to explain the supply of owner-occupier’s housing units in the UK. The Structure of Provision encapsulates how various key actors such as the state, developers, landowners, building workers and finance structure the housing supply. The Structure of Provision was found to be the most relevant institutional theory to analyse the Malaysian housing industry.

The key actors in the Structure of Provision, including developers, the state, landowners, contractors, building workers, capital providers and real estate agents, are applicable but carry different weight in the Malaysian context. For instance, real estate agents and building workers do not directly contribute to the Structure of Provision as the former are only engaged whenever developers have problems in selling certain products while the latter are employed by contractors. Furthermore, the skill level of building workers in Malaysia is low and they are not vocationally trained as many are immigrant workers from Indonesia who only acquire skills on construction sites. The influx of Indonesian construction workers is made possible by the foreign labour legislation. However, their quality of skill is seen as a main factor that contributes towards the declining housing quality in Malaysia, which has captured the attention of the Ministry of Housing and
Local Government. Various legislations have been revised to provide more protection to
homebuyers, which often work against the profit-maximisation objective of developers.
In addition, the contribution of key professionals is significant in the Malaysian context
because they are legally required to produce development plans and sign them off for
submission. However, the roles of key professionals are not reflected in Ball’s Structure
of Provision. The analysis of the findings suggests certain weaknesses in the
institutional structure of the Malaysian housing industry as developers and key
professionals are found to entangle in conflicts and tensions that are resulted from the
poor payment practice of developers. Hence, this highlights the need for the state to
initiate trust building activities to overcome the tensions and conflicts between
developers and key professionals and to strengthen their working relationships.

The Malaysian state assumes the regulator and enabler roles of housing development
while developers are the initiators, which are conceptualised in Ball’s (1986) Structure
of Provision. The state in the Structure of Provision refers to the government as a whole,
but this research takes a closer look at the contribution of 3 levels of government in
Malaysia, which are the federal, state and local governments, and how they jointly
shape housing development through the adoption of federal and state legislative
frameworks.

The research findings provide some insight into the conflicts between the federal and
state governments on the adoption of legislative framework. The federal government
through the Ministry of Housing and Local Government formulates housing policies
and guidelines while the state government has the prerogative to formulate land-related
policy. Besides, land and capital are the 2 major production inputs for housing
development in Malaysia with greenfield land being the main land source rather than
brownfield land. Ball’s (1986) Structure of Provision is used in this study to analyse the
primary circuit of housing production in Malaysia (this study did not examine second
hand housing supply). In addition, the 2 prominent Non-Governmental Organisations,
the National Housebuyers’ Association and the Real Estate Housing Developers’
Association, are found to have significant influence on housing policy development in
Malaysia. The Malaysian homebuyers are provided with more legal protection from
developers as a result of a number of recent legislative changes, which have triggered
tremendous tensions between these 2 key Non-Governmental Organisations.
The existing tensions and conflicts in the institution of the Malaysian residential industry show that there is an urgent need for the state to step in and mediate their conflicts as well as generate effective and amicable solutions. These solutions will change the dynamics in the present Structure of Provision and very likely lead to the formation of a new Structure of Provision which will address various internal and external institutional factors and changes. In view of the fact that the Structure of Provision is a methodological theory to analyse the development industry, it is useful in allowing for continual adjustments (Ball, 1998; Ball and Harloe, 1992) by the researchers concerned (Ball, 1998). This research has specifically included key professionals and homebuyers because of their value in understanding the functioning of the housing industry and the role of developers. This helps to increase the robustness of data as the researcher can triangulate various views and visions about the behaviour of developers to provide well-informed empirical research findings. A good understanding of the interaction, power imbalance and differences between key actors and how they influence one another are vital for developing effective, inclusive and collaborative policy making (Adams et al., 2002; Healey, 1997).

Nevertheless, the Structure of Provision theory fails to capture the dynamic relationships between developers and the state, and between professionals and homebuyers. These social relations are delicate in nature, with the dominating party dictating the interaction which has often undermined the quality of their social relations, and resulted in the wicked conflicts and tensions between the actors (see Chapter 7). Healey’s (1992a) Structure-agency model is able to offer some insights into the tensions and conflicts within the Malaysian house building industry as she emphasises the power relations and ideas that are involved in the production of the built environment. In addition, Healey (2006) proposes that ideas transform the strategies adopted by developers and her proposition offers an explanation to the scenario in Kuala Lumpur, as the elitist and visionary developers translate their innovative concepts into high cost luxurious condominium blocks for high income earners and foreign homebuyers. Their housing preferences and aspirations encourage developers to innovate and to exert pressure on the state for legislative change to realise their new development concepts. It is important to point out that neither the Structure of Provision nor the Structure-agency theories are able to capture the prevalent practice of relationship building and informal culture in the Malaysian housing industry. Such social and cultural activities are ingrained in the institutional structure and have become a template for problem solving.
This set of social and cultural activities can be seemingly explained with sociological institutionalism (see Pg. 40-43), but a theoretical misfit is found because they can never be deemed as socially legitimised. Hence, it might have been more robust theoretically to adopt the approach of Guy *et al.* (2002) in explaining the social and cultural activities that are taking place in the Malaysian housing industry.

The above evaluation summarises the institutional front of the Malaysian housing industry. However, in order to provide a greater understanding of the sources of tensions and conflicts between developers and other key actors, a closer examination of the behaviour of developers and how they drive their interaction with other key institutional actors is crucial. Hence, the adoption of rational choice institutionalism to study their behaviours has been proven to be useful.

**RATIONAL CHOICE INSTITUTIONALISM**

Rational choice institutionalism has helped in the understanding and analysis of the behaviour of developers in the Malaysian housing industry which is a highly speculative and utility-driven sector. Developers seek every opportunity to maximise their profits. This includes occasions where they deliberately fail to meet the state’s housing guidelines when preparing development plans, but pursue waivers through making appeals to the State Planning Department. This has shaped the present planning culture in Malaysia, which is mainly appeal-led. High development costs drive developers to engage in informal practices to circumvent the formal structure. They either do not pay the full scale of fees to key professionals or they do not pay them promptly. At the same time, the ‘savings’ from informal practices and low payment to key professionals is not passed onto homebuyers. Furthermore, developers can adopt a ‘cross subsidy’ strategy to pass on the additional cost to some homebuyers so that they can fulfil the controversial Bumiputra quota and low cost housing policies without affecting their profit margins. This clearly reflects the nature of rational choice actors’ profit-maximisation behaviour.

However, some developers are found to demonstrate the behaviour of ‘herd mentality’, especially those who moved in a pack to grab up lands surrounding the Kuala Lumpur Central Park, despite the phenomenal escalation in land price (see Pg 143-144). Based
on the positive market sentiment, they were willing to pay for high land prices because they believed that there was a strong potential demand for high cost housing units in that area. This is also aided by a positive policy which has removed the Real Property Gain Tax and encouraged homebuyers to invest and speculate.

Having discussed about the rationality of developers and that they normally operate in a highly strategic manner, it is a rather surprising observation that some developers operate with ‘herd mentality’ and are highly speculative, to the extent of engaging in a potentially irrational decision from the financial perspective. This seems to echo with the arguments of Guy *et al.* (2002) that developers also engage in social activities which might not be rational. However, it is their ‘faith’ in the market that spurs that speculative behaviour even though such an irrationality might not guarantee them expected financial returns.

The research suggests that the legislative framework co-exists with an entrenched informal culture in the housing industry and that the latter has slowly become a prevalent practice in Malaysia. For instance, if a new developer enters into the housing industry, they will have to learn about the informal practices underpinning the delivery of housing in Malaysia in order to improve the livelihood of their survivals. However, there is a concern over the power of legislations as informal practice is adopted to circumvent them. It is fair to say that the legislations are weak as there are no sanctions for developers who fail to comply and resort to the use of informal practice to lower their development costs. In fact, the practice of informal culture is not captured by Ball’s (1986) Structure of Provision. As explained by Peters (1999), developers are capable of manipulating institutional arrangements particularly when they are familiar with how they function. However, the Malaysian developers are seen as highly profit-driven, to the extent of cutting corners in their delivery. This affects their credibility and integrity which then reduce their ability to influence the state’s policy making process. Consequently, there is little duality of structuration taking place between developers and the state as legislations are rarely reviewed in favour of developers. This, however, further explains the prevalent engagement of informal culture in developers’ dealing with the state as there is a lack of effective interaction between them.

It is clear that informal culture is not just a transparent solution for the whole housing industry even though it lowers the development cost of individual developers. Essentially, the structural problems in terms of scarce production inputs and their
spiralling prices require some form of intervention from the state to help developers overcoming the problems without undermining the delivery of the housing policies and objectives (e.g. Bumiputra quota). The federal government of Malaysia has been working on improving the legislative framework of the housing industry. The Ministry of Housing and Local Government has increased its emphasis on transparency and governance to develop a more comprehensive and holistic framework for the Malaysian housing industry. Kuala Lumpur has certainly been making headway in developing more systematic control of housing development and the informal culture will potentially regress through the introduction of a newly structured legislative framework and the adoption of strict enforcement practices and protocol. This will further strengthen the planning system of Kuala Lumpur to serve as an exemplary model for other state governments to emulate.

**HOUSING DEMAND ASSESSMENT**

As it was found that the Structure of Provision does not theorise how housing demand influences housing supply, Wong and Madden’s (2000) North West Housing Assessment Model was adopted to bridge the gap. In view that housing development is capital intensive, developers need to acquire a better understanding of market demand to determine their products, pricing and locations. Wong and Madden’s (2000) model is found to be more helpful in understanding the decision-making process of homebuyers in Kuala Lumpur than in Johor, even though the consideration of migration factor in their model is relevant to both case study areas.

White collar and foreign homebuyers in Kuala Lumpur are more sophisticated and they tend to compare the facilities and amenities in different schemes and in different locations. Their financial ability allows them to make this as one of the important decision making criteria, alongside house prices. Johor homebuyers, however, are mostly blue collar workers and their aspiration is often to own a house that meets their affordability criteria rather than their lifestyle goals. In fact, most of them are first time homebuyers whose ultimate objective is to own a physical shelter. Hence, it was found that they tend not to evaluate their targeted housing areas based on lifestyle need or infrastructural support. The absence of a robust housing assessment is a possible cause of market imbalances in Johor because planning permission is released solely on
technical compliances, instead of considering the wider socio-economic factors. Nevertheless, public amenities and facilities such as recreational parks, community halls, institutional units such as hospitals, schools and shops in the housing areas are relevant in the Malaysian context as planning guidelines stipulate these types of contribution in housing development planning.

Developers actively research the trends and preferences of homebuyers and consider the amenities and facilities needed in housing areas. However, their approach is based solely on qualitative evidence and little consideration is given to comprehensive quantitative assessment. The Kuala Lumpur developers tend to do more quantitative and qualitative assessments than their counterparts in Johor because they need a comprehensive understanding of demand of homebuyers to avoid supplying mismatched products. This is particularly important as they mainly develop high end housing units. As discussed above, blue collar workers have lower aspirations than the white collar buyers in housing design and utilities of neighbourhood areas. Hence, developers in Johor tend to spend less effort in collecting information in these areas. They mostly recycle housing design with slight modifications. Most of the qualitative surveys on housing demand are carried out by the sale and marketing department of the developers’ firm, which is the first and most frequent contact point between homebuyers and developers. Developers gather feedback from both existing and prospective homebuyers who are channelled to assist in product development.

Wong and Madden’s (2000) model demonstrates how a developed country such as Britain advances their housing assessment system. This model encapsulates the socio-economic factors of homebuyers as well as their family life cycle. It also considers the accessibility of public transport to achieve sustainable development. Since sustainable development has become the key driving force of development in Kuala Lumpur, the Ministry of Housing and Local Government should develop planning guidelines of sustainable development to improve the standard of Malaysian housing planning. The Ministry of Housing and Local Government should also consider developing a housing assessment system for the Malaysian context, which incorporates factors such as the facilities of neighbourhood, public transport system and green spaces. Furthermore, the Ministry of Housing and Local Government should explore ways of developing predictive model for future housing assessment by taking into account various socio-
economic factors which influence future housing demand, such as economic activity, sustainability and quality of life.

**INSTITUTIONAL CAPACITY**

From the case study findings (see Chapters 6 and 7), the institutional analysis of the housing industry in Kuala Lumpur and Johor reveals a weak institutional capacity. The state, developers, key professionals and homebuyers are entangled in vicious tensions and conflicts with one another. The most apparent tension lies between developers and the state. The nature of their interaction does not reflect a type of developmental model (Turok, 1993) nor does it foster strong institutional capacity (Wenban-Smith, 2002a). It is apparent from the research that there is little collaboration, mutual trust or sharing of expertise, resources and knowledge because the capacity of the state is found to be limited. Even though there are some progressive developers who share their knowledge by educating the state on the latest housing concepts, they are more driven by their personal objectives to get planning permissions than benefiting the industry as a whole. Hence, it is valid to conclude that they are suspicious of each other’s motives despite the fact that they are supposed to work with one another in delivering the housing objective of government.

Furthermore, developers are broiled in wicked conflicts with key professionals and with homebuyers. They are found to pass on their loss of profit, as a result of a stringent legislative framework and excessive planning guidelines, to professionals and homebuyers. Various institutional weaknesses, such as the top-down government approach associated with a declining institutional capacity (Wenban-Smith, 2002a), has its inherent coordination problems between actors, not forgetting the limited sharing of resources and knowledge. This type of institution does not have the resilience needed to cope with external challenges (Wenban-Smith, 2002a). The tensions and conflicts among the actors limited their scope of partnership working which has undermined their capability to achieve institutional success. Hence, the theories of institutional capacity and collaboration help to identify the critical problem that needs to be addressed in this study.

The understanding of the importance of collaboration and institutional capacity highlights the importance of social capital, which is mutual trust that leads to
collaboration (Swain and Tait, 2007; Kumar and Paddison, 2000). This is a crucial element in developing a strong institutional capacity and it needs to be proactively developed between developers and other actors. Mutual trust reduces the need for more legislation to guide the behaviour of developers and the policing of tasks. It will tackle many negative perceptions that the actors have of another. In summary, institutional capacity and the developmental model are policy instruments which could offer ways to overcome institutional weaknesses in the Malaysian housing industry.

The theoretical perspectives offered by the Structure of Provision, the UK housing assessment model, and institutional capacity are all relevant in explaining the overall housing development processes and patterns in Malaysia. However, the development status, the rate of urbanisation and the degree of transparency in public administration and urban governance in Malaysia help to explain some of the areas which are not captured by these models. For instance, the embedded informal culture in the Malaysian housing industry, the lack of a systematic housing assessment model and the lack of awareness of the importance of institutional capacity among developers and the state, are key underlying factors that affect the evolution of a responsive housing delivery mechanism.

The Structure of Provision theory, which is supplemented by Wong and Madden’s (2000) North West Housing Assessment Model, has proven to be useful in analysing the institutional structure of the residential development industry in Malaysia. However, this research reveals that external institutional factors, such as the ‘Capital factor’ and ‘Singapore factor’, have far reaching implications for housing provision in Malaysia. Hence, it is suggested that future research on the institutional structure of the housing industry in any capitalist society has to take account of the external factors which are found to influence its housing legislative frameworks.

The above section evaluated the relevance of various theoretical models for this study and identified the theoretical gaps from the findings of this study. The following section shall discuss several short and long term policy recommendations to improve the coordination between developers and the state in the Malaysian housing delivery system.
POLICY IMPLICATIONS

Based on socio-economic and housing market indicators for this research, Kuala Lumpur was selected as an example of a progressive case while Johor, was used as an example of a case with under-developed housing delivery practices. From the research findings, Kuala Lumpur may be regarded as a good model for housing planning in Malaysia. The Kuala Lumpur City Hall is relatively more efficient, receptive to new housing concepts and susceptible to new planning principles such as sustainability and urban regeneration to tackle land scarcity. Vision 2020 is a major impetus which could help to improve the level of efficiency in the delivery system. Moreover, Kuala Lumpur implements more development policy measures to plan and to control housing development in the capital. While it becomes an example for other state governments to emulate, the development context in Kuala Lumpur is rather different. The housing market in Kuala Lumpur is very buoyant and there is still unmet housing demand, especially for medium cost housing. The Kuala Lumpur City Hall has started to partner with developers to fill this gap in demand. In order to address the housing pressure, Kuala Lumpur will need to take a positive lead in housing planning and development by continually and proactively seeking improvements in planning guidelines and incorporating new housing concepts into their practices. This in turn makes Kuala Lumpur an exemplary model in leading the trends in Malaysian housing planning.

In contrast, the unhealthy housing outcome in Johor signals an urgent need to improve its housing planning system. As a result of high levels of oversupply and overhang, housing areas which are not well occupied often fall into dereliction and tend to breed social problems that bring negative socio-economic impacts to the state (see broader research by Wenban-Smith, 2002b). In the future, the state will need to rectify the development deficiencies and the social problems. Furthermore, Johor faces the problem of rapid urban sprawl as tracts of agricultural land are converted for massive housing development, especially in relatively isolated areas where employment opportunities are limited. This increase in time and volume of travel to work reduces the quality of life of homebuyers and certainly does not contribute to the principle of sustainability. More importantly, there is no corrective action for this situation and the state government, instead of controlling sprawl, is still continuing to support planning permissions purely on the basis of technical compliance without any considerations of
the market conditions. Hence, the housing outcome is expected to deteriorate unless there are interventions from the state government because it will be impossible to rectify the oversupply in the housing market that causes high vacancy rates in many completed residential schemes in Johor.

The findings from this research demonstrate the necessity for the Ministry of Housing and Local Government and various state governments to work more closely together to regulate and to facilitate Malaysian housing planning. The Malaysian Constitution provides the state governments with the prerogative to administrate their own land matters. At present, the state-level planning guidelines supersede the guidelines from the Ministry of Housing and Local Government (see Bruton, 1982). In order to achieve the objectives of the federal level legislative framework, there needs to be more consistency and transparency in the implementation at the level of state governments. However, state governments might need to have certain degree of discretion over the implementation of the guidelines from the Ministry of Housing and Local Government because different state contingent factors require different policy interventions. For instance, the high level of overhang in the low cost housing units in remote areas and the Bumiputra housing units require some fine-tuning in the implementation of the federal level guidelines to ensure that the objectives of policy intervention are met.

There is a missing link between housing demand in the physical plans such as the National Physical Plan, Structure Plan and Local Plan, and the housing needs and demand assessment figures presented in every Malaysian Plan. This has to be addressed to develop a more coherent and well-connected federal-state planning framework for Malaysia to enhance more joined-up thinking. Further discussion on this matter is provided in Page 242.

In addition, it is important to develop a housing supply and demand monitoring system to track changes in the market against existing housing stock. The lack of robust assessments on housing needs and demand means that there is a lack of guiding principles for local authorities making decisions on housing developments. For instance, the state government of Johor needs this mechanism to prevent a worsening of housing oversupply, which has become even more vital as a result of the recent economic downturn. The recession has severely contracted the Singaporean economy and consequently affected the employment opportunities of blue collar workers from Johor. Many of them have been retrenched and sought assistance from the state government of
Johor for employment. This will slow down the housing industry and will take a longer period of time for housing supply in Johor to be absorbed. House prices in Johor are anticipated to fall since there is a demand shock. Although there is no severe housing oversupply in Kuala Lumpur, the uncertain economic outlook will likely impact on the high end lifestyle condominium units in the ‘International Zones’, which are targeted for occupation by high income groups and foreign homebuyers. Furthermore, the re-imposition of Real Property Gain Tax of 5% of property transaction irrespective of the year of acquisition which is effective from 1 January 2010 seems to reflect a flip-flop type of policy making as the complete waiver of Real Property Gain Tax was announced just 2 years ago but its effectiveness has yet to be felt.

The Ministry of Housing and Local Government has attempted to improve the institutional structure of the residential industry by introducing various new measures such as the One-Stop-Centre and Build-then-Sell system. However, these measures need to be supported by constant dialogue with developers and key professionals to evaluate their effectiveness and communications. To achieve further improvements, more effective interactions between developers and the state is needed. The tension that developers have with the state is mainly concerned with their weak influence in policy making and may regard the recent legislative to be in favour of homebuyers. Developers perceive this matter to be a threat to their position as a key partner of the Ministry of Housing and Local Government in delivering the housing objectives of the government because their interests are not protected. Hence, the Malaysian housing industry requires institutional reform to improve the interaction between developers and the state, and between developers and the key professional groups to improve the effectiveness and efficiency of the existing procedures and practices. This will meet with the expectation of Peters (1999:59) who stresses that ‘a good institution is one which performs that assigned task well and efficiently, usually while maintaining commitment to other powerful norms such as democracy’. The research found that all actors felt that they are taken advantage of. Hence, the state should take the lead on institutional reform by giving more opportunities to actors to voice their opinions and to work together to re-design policy measures which serve the interest of the nation and the homebuyers. This will call for a strengthening of the areas of governance structure and more transparency in policy making and implementation. However, for this to happen, the quality and standard of civil service have to be improved.
POLICY RECOMMENDATIONS

This section is aimed to provide both short and long term policy recommendations to improve the Malaysian housing industry. The research findings (see Chapters 6 and 7) identify a number of institutional weaknesses such as the outmoded legislative framework, inefficient civil service, and the lack of transparency and governance within the housing industry. Furthermore, it requires a housing market intelligence system to monitor housing supply and demand to work alongside an improved delivery system.

The following section here proposes several theoretical and practical approaches to help strengthening the institution of Malaysian housing industry. It is important to recognise that some of the institutional problems can be corrected in a shorter time, while others will require a longer period to institute and take effect.

SHORT TERM APPROACH

The findings demonstrate that the housing supply system in Malaysia is private sector led while the state performs the mediator and facilitator role. The research findings suggest that there is scope for the state to strengthen its role in regulating housing supply to improve the housing overhang situation. Instead of allowing developers to speculatively supply housing units to meet their financial objectives, there are several policy areas that the state could be involved in, in re-designing the delivery system in the short term.

Managing housing supply

Housing supply can be better planned and managed in order to achieve a more optimal outcome for the housing industry. ‘Plan, monitor, manage’ (Wenban-Smith, 2002b) is a system implemented in the UK which necessitates an assessment of housing demands and needs as a mechanism to ensure that the supply of housing is well-targeted spatially. In conjunction, there has to be a control system to avoid oversupply or undersupply as any market imbalances have negative effects socially and economically. The findings of the research support the argument that the state of Johor should explore the potential of adopting a monitoring system similar to the ‘plan, monitor, manage’ approach to
control housing supply by price and location. For instance, the district of Johor Bahru has a problem of oversupply and consequently the future supply has to be constrained.

Likewise, the ‘plan, monitor, manage’ approach will help the Kuala Lumpur City Hall to balance the housing supply for high and medium cost segments in Kuala Lumpur. This will ensure that the capital has sufficient medium cost housing for middle income earners who are the core labour segment for the capital. Encouraging middle income earners to live in Kuala Lumpur is seen by the Kuala Lumpur City Hall as a way of bringing life back into the city centre. A vibrant city centre will also promote tourism in Kuala Lumpur by supporting the development of both day and night time economies. However, the Urban Planning Department will have to adopt a more rigorous approach of housing assessment and translate the findings of the assessment into policy through the legislative framework (such as the low cost housing policy), to prevent developers from simply supplying high cost housing in Kuala Lumpur to take advantage of the capital’s dominant position in the urban hierarchy. Taking all these factors into consideration, a robust technical housing assessment is, therefore, important in the short run. The Ministry of Housing and Local Government is advised to develop a housing assessment model which incorporates financial (e.g. economic policies), economic (e.g. market supply and demand), demographic, migration and infrastructural considerations. In addition, it has to account of internal migration which tends to complicate the task of housing assessment (Baker and Wong, 1997) because Kuala Lumpur and other major cities in Malaysia tend to attract migrant workers because they offer better employment opportunities (NUP, 2006).

To achieve the culture shift needed to deliver improved housing intelligence will mean that the statistics of the planned incoming housing supply compiled by the National Property Information Centre will have to be considered alongside the wider institutional context and economic conditions. For example, developers might not necessarily supply the number of housing units that they commit to, especially during periods of economic depression. Bearing these wider considerations in mind, it is appropriate for the housing demand assessment model to adopt figures of household formation from the 2001 Population Census as the starting point, and reconcile these with the current housing stock by taking into account of the economic and market considerations, using the ‘plan, monitor and manage’ approach.
Chapter 8 Conclusions

**Developing a collaborative approach**

The Ministry of Housing and Local Government should take a proactive approach and show leadership to encourage developers, key professionals and academics to work together to develop a monitoring approach similar to that of ‘plan, monitor, manage’ to manage housing supply. It can act as a decision support tool to help planning authorities to assess whether proposed areas for housing development require more housing units before they decide to release more planning permissions. This will help to improve housing intelligence which local authorities could use to develop their policies and to inform decision making. Furthermore, the assessment can form the basis for discussion, facilitation and collaboration between developers and the state, which will probably improve the quality of decision making. By fostering a better collaborative culture that focuses on resolving conflicts and promoting the sharing of expertise, knowledge and resources (Wenban-Smith, 2002a:200), it will help all the actors to work together to generate more effective ideas for policy making in planning for housing in future.

Another area that could benefit the interaction between developers and the state is implementing effective communication mechanisms to develop mutual understanding and trust (Healey, 1997). Since developers are partners to the state in meeting housing demand and needs in Malaysia, it is imperative that the state works with developers to improve the sector and the relationships between key actors because there is a serious absence of trust in the industry as a whole. More importantly, developers should realise that their image is rather tarnished in the eyes of key actors and that they have a critical task ahead to rebuild their image by strengthening and delivering their commitment to genuinely provide quality housing units for homebuyers. By doing so, it will aid them in gaining the trust of the state and support of key professionals and homebuyers. The potential is that this will increase the influence of developers in policy making (Swain and Tait, 2007).

**Review outmoded housing policies**

Furthermore, it is crucial for the state to review the delivery of some of the housing policies such as low cost and Bumiputra quota housing policies to meet the needs of low income earners. The state needs to gather better information and carry out more rigorous assessments of the effectiveness of these 2 major housing policies to inform a basis for
debate and discussion with developers and homebuyers which will improve the policies to achieve their objectives. For instance, the location of low cost housing schemes in remote areas is certainly an issue that needs to be resolved because it is unlikely that low income earners will want to travel far to work for both time and cost reasons (Lowe, 1998). Consequently, it is important to ensure that low cost housing projects are located within a reasonable distance to workplaces. If low cost housing projects are to be effectively delivered, they have to be properly planned in consultation with developers by considering the local context rather than simply encouraging developers to meet compliances needed for approval of development. Therefore, the choice of construction sites for low cost projects has to be carefully considered and planning authorities should assess their feasibility instead of simply depending on developers’ proposals. It is also important to address concerns raised by developers over the low cost housing policy. There is a structural issue in the low cost policy that has to be approached from location, financial, social and economic feasibilities. Presently, there is an issue of cost associated with the provision of low cost housing by developers which explains low cost housing projects tend to be situated in remote areas where land prices are low. Instead of meeting the objective of the low cost housing policy to assist low income earners to own a shelter, this cost issue has led developers placing their profit maximisation objective over their social obligation. In addition, there is also a need to evaluate the effectiveness of the Bumiputra housing quota. While the noble objective of helping the Bumiputra to own a shelter should be continually upheld, for places which have oversupply of Bumiputra housing units such as Johor, the state government might consider implementing alternative mechanisms, such as financial contribution from developers or the state to help Bumiputra to pay their first down payment to stimulate demand. This type of policy could be implemented until the market imbalance is rectified.

**Strengthening the One-Stop-Centre**

Another area for improvement is to strengthen the implementation of the One-Stop-Centre. The One-Stop-Centre is aimed at streamlining the application process of housing development. More importantly, the Ministry of Housing and Local Government is attempting to implement improvements in the efficiency of housing delivery which can be seen through its effort to employ and second staff to the nationwide One-Stop-Centre which have proven costly. There are several explanations
to the costly measures implemented by the Ministry of Housing and Local Government. First, the Ministry of Housing and Local Government intends to develop an efficient and transparent culture in the housing delivery system by seconding a fresh group of civil servants who are not part of local authorities. Second, it aims to raise the awareness of developers about the role of local authorities by sending a strong message to developers that they should take the institutional reforms seriously.

In order to overcome the existing institutional weaknesses, the Ministry of Housing and Local Government has to be reflective and to review a few areas to explore and attempt to resolve problems around coordination in the approving system to ensure a more successful implementation of the One-Stop-Centre. First, approving agencies must be made aware of the need to overcome the inefficient use of time and to improve the quality of approval. Second, the state government should share the vision of the Ministry of Housing and Local Government about the One-Stop-Centre, thus developing coordination and cooperation among the approving agencies and the federal government. Third, the Ministry of Housing and Local Government should raise the quality of staffing in the One-Stop-Centre so that they can handle both administrative and technical issues to prevent developers from carrying out the traditional practice of deploying their ‘professional liaison officers’ to follow up approval or seek clarification on planning issues between departments. The Ministry of Housing and Local Government should raise the profile and authority of the One-Stop-Centre by only allowing developers to visit the One-Stop-Centre for development plan submissions and approvals. This will avoid developers continuing their old practice of making frequent visits to the respective approving agencies. This is also relevant to the application of Certificate of Completion and Compliance. This last hurdle in the Malaysian housing delivery is seen as a major issue even to developers who work within formal practice guidelines. In addition, there is a need to convince developers of the potential of One-Stop-Centre in resolving issues and inefficient bureaucracy as well as excessive time wastage. In addition, the significance of pre-consultation meetings should be promoted in view of the past successes whereby developers received more timely approvals by discussing and resolving ‘the grey areas’ in the housing planning system before proceeding to plan submission.

In view that the One-Stop-Centre is in its early stage of implementation, administrative glitches are expected but they need to be identified and improved. The Ministry of
Housing and Local Government should, therefore, begin to review its effectiveness by seeking feedback and comments from developers and key professionals to identify areas that require improvement. Since consultees would be the active users of the system, their feedback should be used to generate solutions to strengthen the implementation of the One-Stop-Centre. Also, the Ministry of Housing and Local Government needs to identify a set of monitoring indicators for the One-Stop-Centre, such as the approving timeframe of development plans against established targets. This will be discussed later as it forms part of the long term approach to improve the institutional structure.

The above discussion repeatedly highlights the importance of the state, developers and key professionals working together more effectively. Hence, the issue of trust among the actors needs to be tackled. The state, as the facilitator, is expected to proactively lead on institutional reform to transform the planning culture by carrying out more regular dialogue with developers to improve trust and transparency around the system, and to resolve tensions by identifying and working out areas of improvement. Trust is a form of social capital which is important for institutional success, alongside the intellectual capital, which is the expertise and knowledge of key actors (Turok, 2003; Wenban-Smith, 2002a). Hence, developers, key professionals, homebuyers and other key actors have to cultivate trust for each other to develop thick institutional capacity (Swain and Tait, 2007).

**Developing institutional capacity**

The state needs to establish a vision to build institutional capacity for the housing industry as it allows ‘...key stakeholders to grasp the complexity of different interconnected issues and express their vision in the policy formulation process’ (Wong and Watkins, 2009:504; Wong et al., 2008:.vi). Hence, the state has to take a lead by actively seeking new ways of working with developers and other actors to develop institutional capacity. Essentially, this will require better communication channels and a new working culture for the housing industry, even though this kind of capacity building may not be legally sanctioned (Giddens, 1984). The advantage of such an approach is that the fostering of mutual trust between developers and the state could lead to the sharing of knowledge and resources that help to tackle various institutional inefficiencies (Adams, 2002).
Wenban-Smith (2002a) further suggests that political resource is another type of capital which is crucial for developing institutional capacity. The involvement of the state through political capital helps to mobilise social and intellectual capitals to improve housing planning. In addition, even though trust is weakly sanctioned as compared to the legislative framework, it can lead to the development of collaboration among actors which has a lower transaction cost than formulating a set of new legislations. Also, it raises the resilience of the housing industry to cope with the boom and bust of business cycles. Another key area in developing institutional capacity is for the state, who acts as facilitator, to mediate and resolve conflicts between developers and key professionals, which are mainly related to fees and payment. This is particularly important for contractors since they are the most severely affected by the issues of payment, and that the lack of cash flow leads to the employment of low-skilled workers who deliver poor quality housing units. This issue has become a vicious cycle and the ultimate victims will be homebuyers. Therefore, the state needs to strengthen and enforce the legislations that legally binds developers to solve this institutional issue and that the views of key professional groups are deemed crucial because they are the key actors in the industry. Ideally, there has to be a strict legal obligation for developers to honour the contracts they sign with key professionals, specifically in terms of the sum of payment and timing of making the payment. If key professionals receive their payment sufficiently and promptly, it could lead to enhance professionalism and respect of key professionals, and encourage them to apply their expertise to contribute to the housing industry. Recently, there is a call to improve the cooperation between the federal and state governments in the pursuit of developing thicker institutional capacity. This is especially relevant in areas where state governments have the right to adopt the legislative framework and it is important to develop coherent linkages between different levels of physical plans to achieve the outcome of spatial planning as expressed in the National Physical Plan. The following section explains how the method of evidence-based policy making and institutional-managerial culture can help in developing more transparent and more efficient public administration by improving the cooperation between developers and the state in the long term.
**LONG TERM APPROACH**

The development of greater institutional capacity as discussed above will help to pave the way to achieving the longer term objectives of strengthening the governance structure and capacity need to develop a holistic planning system. There is a pressing need to initiate an institutional reform by promoting greater transparency and trust in urban governance.

**Institutional-managerial administration**

The new Malaysian Prime Minister, Mr Najib Razak, has adopted the ‘institutional-managerial’ style of administration by adapting the Key Performance Index to assess the performance of cabinet ministers (The Star, 2009c). This marks a positive approach in fostering a culture in the way that the Malaysian public administration and governance is conducted. The federal government needs to develop a system that rewards local authorities that perform well by raising their funding resources and remuneration to reward to staff based on their performance. As highlighted by some developers, civil servants need to be rewarded if they perform well. In light of this, the Ministry of Housing and Local Government should explore ways to develop a set of indicators to measure the performance of local authorities and local housing development outcomes could form one of these indicators as it appropriates the operational fund to various local authorities throughout Peninsular Malaysia. In other words, local authorities need to adopt an approach similar to the ‘plan, monitor and manage’ model to manage local housing supplies, with an overarching aim to meet local housing demand and prevent any oversupplies and overhangs. In the UK, resource allocation, particularly of funding from the central government to local authorities, has been based on performance management indicators (see Wong, 2006). Furthermore, the Ministry of Housing and Local Government should further adopt this culture by developing indicators to measure the effectiveness of various housing policies (Sawick, 2002), in particular, the low cost and Bumiputra quota policies, to make necessary adjustments on a regular basis.

Performance indicators could also be developed for the One-Stop-Centre, which include opinion rating of key users on the effectiveness and efficiency of the One-Stop-Centre. Importantly, the development of indicators should aim to identify the factors of success as well as drawbacks to improve the coordination and cooperation between the federal and state governments and between the local authorities and developers. The missing
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link in the system has to be bridged so that federal and state governments can arrive at the same objective and this could be facilitated through a more evidence-based decision making approach.

The Ministry of Housing and Local Government should, therefore, look into developing a ‘demand-led’ management style, instead of one which is ‘resource-led’, which means the aspirations of the customers of local authorities should be considered to monitor and manage the supply of their services (see Wong, 2006). In addition, local authorities have to be proactive and responsive, but not only reactive to development inefficiencies. As a House of Commons Select Committee report in Britain (ODPM, 2003) says: ‘The best local authorities already run their planning departments in proactive, responsive ways and if the resources are put into place, such approaches can be adopted by others.’ (p.7). It is possible to shift the ethos of policy management to one that is more proactive and positive which bears clear objectives to prioritise the interest of citizens and key actors over local politics (Wong, 2006). Hence, local authorities should be assessed on their efficiency and quality in the planning for housing (Adams, 2002, Houghton, 1997).

However, there are several important prerequisites for any successful development of policy making. First, there should be technical and policy expertise to develop and apply indicators to measure the effectiveness of the legislative framework. Hence, there has to be an up-skilling in the professional knowledge of planning officials and a change in their attitude and mentality, much of which can be stimulated through education and training. Furthermore, indicator development is an exercise that lies in between technical knowledge and consensus building (Wong, 2006; Innes, 2000), because it requires the expertise, knowledge and contribution of developers, key professionals, policy makers and social scientists. Their engagement is a form of collaborative policy making as it helps them to understand and to debate the implications of the indicators which will subsequently help to institutionalise the most relevant indicators and to develop more informed decisions (Wong, 2006; Innes, 2002).

It is also important to realise that indicators will not be the sole guide for politicians in policy making because they have to manage interests from different stakeholders (Wong, 2006). In addition, performance indicators should be carefully developed to strengthen the level of governance and transparency in public administration (Wong, 2003). Hence, it is recommended that an independent agency be set up for the purpose of developing
housing indicators in Malaysia to prevent any political influences from assessing the performance of housing policy and the housing industry.

The research findings indicate the need for regular reviews and updates on various housing guidelines and policies. Hugo (1992) has identified 6 indicator domains (see Table 8.1) which could be further developed into analytical tools for Malaysia. For instance, the housing quality domain indicators can be collected by asking homebuyers to provide information on the housing projects that they buy into and the information could then be analysed and reported to enhance public debate and be used as an evidence-based approach to inform subsequent housing planning applications. The housing production domain is also helpful to measure the effectiveness of the One-Stop-Centre and identify areas for improvements. Housing policies for the low cost and Bumiputra housing units could be measured with indicators from the housing subsidies domain while regulatory audit could be adopted to track the improvement on the effectiveness of various housing guidelines and policies. The assessment should be carried out by an independent agency to maintain impartiality. There should be consultations with key stakeholders at the beginning to select a set of performance indicators that everyone has a chance to give comments.

<table>
<thead>
<tr>
<th>Domains</th>
<th>Items of measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Housing Affordability</td>
<td>House prices, rents, household incomes</td>
</tr>
<tr>
<td>2. Housing Finance</td>
<td>Mortgages, credits and interest rates</td>
</tr>
<tr>
<td>3. Housing Quality</td>
<td>Key attributes of housing quality</td>
</tr>
<tr>
<td>4. Housing Production</td>
<td>Housing production and investment</td>
</tr>
<tr>
<td>5. Housing Subsidies</td>
<td>Subsidies and targeted subsidies</td>
</tr>
<tr>
<td>6. Regulatory Audit</td>
<td>Regulate affecting the exchange of land and housing, land registration and ownership, housing finance regulation, rent control, administrative delays, land use, land development controls and property taxation</td>
</tr>
</tbody>
</table>

(Source: Hugo, 1992:218)

In summary, planning outcomes are shaped by the diverging interests of key actors, institutional structures and environment. It is tremendously difficult to attribute outcomes or phenomena to a specific factor, especially when these factors interact with each other and are subject to continual changes (Wong, 2006). However, it is clear that the Malaysian housing industry requires institutional reform but there needs to be a strong political will to improve its efficiency, transparency and governance. It is now
probably timely to initiate around the need for a culture shift in the political landscape, in response to the substantial political upheaval resulting from the 2008 12th General Election (as discussed in Chapter 3).

**Sustainable planning**

In view that the state aims to adopt sustainable urban development (NUP, 2006), it should proactively initiate a paradigm shift in the planning culture, adopting a bottom-up planning approach, that learns and adapts to its environment (Innes and Booher, 2000). A proactive planning system, as argued in the UK, is one that is sustainable by making ‘...a move from a system predominantly of regulation. Instead whilst the regulation remains to underpin the system, there has to be clearer assistance to business and others to deliver the ‘sustainable economic development’ which planners (and the business sector) want. In this way, we can have a prosperous economy and a high quality environment’ (ODPM, 2003:5). The housing industry, therefore, should move from an institution that solely depends on legislations to operate, to an institution that is driven by a thicker institutional capacity with all the actors work collaboratively. Hence, developers, key industry professionals and the state should work more closely and have regular dialogue to identify their gaps in aspirations and should explore ways to bridge them in order to strengthen the planning capacity for housing. Their dialogues should never be a one-off event but a continual exercise to generate tangible efforts and benefits for the institutional actors (Taylor, 1996).

**Simplifying the planning system**

Planning system must be suitable for addressing the heterogeneous issues of the different states in Peninsular Malaysia. Hence, any adoption of British policy innovations will require careful considerations on the relevance of the existing planning system. At present, the Ministry of Housing and Local Authorities oversees the operation of nationwide local authorities and it engages private consultants to assess the housing needs and demand for the preparation of the Malaysian Plan. However, these figures are not adopted by the local authorities in guiding the approval of the housing development planning submitted by developers. Instead, as discussed in Chapter 6, the local authorities approve housing development planning based on technical compliance rather than the wider market consideration. Hence, it is appropriate to suggest that there is a need to develop a coherent housing planning system so that the federal and state
governments would adopt a similar set of housing assessment figures. This can be achieved by having the state governments carrying out their respective housing needs and demand assessment and provide the housing assessment figures to the Ministry of Housing and Local Government, which then compile the figures to aid the preparation of the Malaysian Plan. This will improve the present housing planning system and enhance the degree of accuracy, relevance and coherence of the housing assessment figures in the published documents. Furthermore, this measure will make the state governments hold more accountability in the delivery of housing outcomes based on their respective local context.

The above discussion presents both the short term and long term approaches to improve policy making for the Malaysian housing industry. Their objectives and areas of improvements are summarised in Table 8.2.
### Table 8.2: Summary of the policy improvements

<table>
<thead>
<tr>
<th></th>
<th>Short term approach (3 to 5 years)</th>
<th>Long term approach (10 years and more)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>▪ Develop institutional capacity .</td>
<td>▪ Simplify the planning system .</td>
</tr>
<tr>
<td></td>
<td>▪ Review outmoded housing guidelines and policies .</td>
<td>▪ Improve governance and transparency in public service delivery .</td>
</tr>
<tr>
<td></td>
<td>▪ Improve governance and transparency in public service delivery .</td>
<td>▪ Enhance the capacity of the state to develop a holistic planning system .</td>
</tr>
<tr>
<td></td>
<td>▪ Improve the capacity of the state to develop a holistic planning system .</td>
<td>▪ Develop an institutional-managerial culture through evidence-based policy making .</td>
</tr>
<tr>
<td><strong>Proactive Measures/Policies</strong></td>
<td>▪ Develop stronger institutional capacity through trust building between developers and the state, and between developers and key actors.</td>
<td>▪ Adopt ‘plan, monitor, and manage’ approach.</td>
</tr>
<tr>
<td></td>
<td>▪ Develop integration between the federal and state level of housing planning policies and guidelines.</td>
<td>▪ Set up an independent agency to develop performance indicators for housing industry .</td>
</tr>
<tr>
<td></td>
<td>▪ Improve coordination between federal, state and local governments.</td>
<td>▪ Establish evidence-based policy making system to track the performance of local authorities in managing the local housing market s.</td>
</tr>
<tr>
<td></td>
<td>▪ Improve housing quality .</td>
<td>▪ Increase professional knowledge of planning officials and improve the efficiency of civil service .</td>
</tr>
<tr>
<td></td>
<td>▪ Ministry of Housing and Local Government should proactively lead the conflict resolution process between developers and key actors.</td>
<td>▪ Encourage sharing of ideas, knowledge, resources and expertise among key actors .</td>
</tr>
<tr>
<td></td>
<td>▪ Evaluate the effectiveness of One-Stop-Centre and identify areas of improvements.</td>
<td>▪ Proactively review housing guidelines and policies on a periodic basis.</td>
</tr>
<tr>
<td><strong>Regulatory policies</strong></td>
<td>▪ Review outdated housing planning guidelines .</td>
<td>▪ Proactively formulate policies to promote growth in housing industry .</td>
</tr>
<tr>
<td></td>
<td>▪ Review low cost and Bumiputra quota housing policies .</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Develop housing market intelligence system and housing assessment model.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Strengthen legislations to enforce payment of fees to key professionals .</td>
<td></td>
</tr>
</tbody>
</table>
RESEARCH IMPLICATIONS

This research set out to examine the institutional structure of the Malaysian housing industry. The above sections have discussed the theoretical and policy implications of this study. The following section turns to discuss the implications for future research and the limitations of this study.

A case study approach with extreme case scenarios was adopted to address the research issues. This empirical study was exploratory in nature and it specifically investigated the interaction between developers and the state concerning contemporary housing issues, tensions and conflicts in their dealings as well as to identify their causes. The case study strategy has proven to be an effective research strategy. By collecting data from multiple sources and carrying out triangulation in the analysis, compelling and valid conclusions have been drawn. By capturing the extreme cases, there is a greater degree of generalisation of the findings for states which are in between Kuala Lumpur and Johor in socio-economic terms. Hence, the research findings will need to be applied with caution for states which have varying degree of socio-economic progress, as measured by socio-economic indicators. This research was only able to carry out 2 case studies in Kuala Lumpur and Johor mainly due to time and resource constraints. It adopted the extreme case scenarios which establish a range of housing outcomes and the findings show that more positive outcomes tend to be found in wealthier state with a well-structured housing planning system such as the one in Kuala Lumpur. More negative housing outcomes were found in Johor as its state government has not had any plan to strengthen its control or adopt any monitoring on incoming housing supply amidst the high oversupply and overhang.

The generalisation of findings from this empirical study has to be interpreted in light of wider institutional factors, such as the ‘Capital factor’ in the case of Kuala Lumpur and the ‘Singapore factor’ for Johor. These factors trigger major supply of high end housing in Kuala Lumpur and medium cost housing supply in Johor. The extent of speculative supply by developers requires the intervention of the state if the market is not able to absorb the supply. Otherwise, the state has to bear the cost of development deficiencies resulting from oversupply.
The fieldwork for this research was carried out shortly after the ruling party, the National Coalition, suffered a historic loss in the 2008 12th General Election. The political climate in Malaysia was hostile, unstable and full of uncertainty. Many political analysts identified malpractice and the lack of transparency in the public administration as the main causes of the defeat. This might have emboldened some developers to feedback certain sensitive issues such as the malpractice in the industry. It was due to this extraordinary situation that the interpretation of research findings should be treated with caution as the fieldwork was conducted at a time with political unrest and sharp increase in prices of fuel and raw materials.

In the future, the selection of interviewees will require a more clearly defined set of selection criteria on the types of developers, such as their legal ownership and product niche as well as the hierarchical position of respondents to maintain the representativeness and reliability of the data. In this study, those who agreed to participate were mostly senior management officials. Furthermore, it is important to shortlist interviewees who represent the 4 types of legal ownership: public-listed, private limited, foreign-owned and turnkey contractor; and the 3 major product niches: terraced housing units, lifestyle high end housing units and apartment developments. This criteria helps to identify interviewees who have similar experience in the Structure of Provision for these 3 product niches so that they can contribute representative data.

In addition, the selection of case study areas has to be approached from the socio-economic perspectives. Kuala Lumpur and Johor were selected as the positive and negative cases respectively on the basis of socio-economic indicators and thus similar indicators (see Table 4.1) have to be examined for similar case study research. It is also important to highlight that the political landscape plays a crucial role in shaping the housing development frameworks in Malaysia. As explained in Chapter 5, state government has ultimate decision making over the administration of the state and land matters. It is also worth highlighting that the planning authorities of Kuala Lumpur and Johor only partially adopted the legislative framework from the Ministry of Housing and Local Government, based on their respective state context. This has inevitably limited the generalisation of the research findings to states which adopt different state level housing guidelines and policies. For instance, the 40 percent of low cost and Bumiputra housing quota in Johor, and the strict building height and flight path control in Kuala Lumpur constrain housing supply. In addition, research findings indicate that
the Malaysian housing industry critically needs an improvement in the areas of policy making, quality of human resource and institutional capacity in both case studies. The effects of improvement in these 3 aspects could potentially help foster the development of thicker institutional capacity and success across Malaysia.

However, for future research, it will be interesting to conduct additional case studies in areas which have similar socio-economic indicators and housing market indicators such as those of Kuala Lumpur and Johor, to find out whether the findings can be generalised across other states. This will also help to unravel other potential factors which lead to positive and negative housing outcomes in Malaysia. Furthermore, it will be more interesting if the chosen states which are now governed by the People’s Coalition to allow the examination of whether the new state governments coordinate or derail the federal legislative framework. Specifically, the new research agenda should focus on whether these 4 states (e.g. Kedah, Penang, Selangor and Kelantan) deliver more transparent and efficient public service delivery and competency, compared to the states which are governed by the National Coalition. Furthermore, it will also be interesting to carry out research in East Malaysia, which adopts a different planning framework.

Finally, the current global economic slowdown has had negative impacts on the demand for housing units in Kuala Lumpur and Johor. For Kuala Lumpur, the price per square foot for the luxurious condominium units surrounding the Kuala Lumpur Central Park has dropped by at least 20 percent, and that those in the ‘International Zone’ of Kuala Lumpur has also reduced by 5 to 10 percent (The Straits Times, 2009a). Meanwhile, the Singaporean economy has suffered the hardest in South East Asia as it is highly dependent on the export economy to the US and Europe which are currently experiencing severe contraction in their economy (The Straits Times, 2008b). Therefore, the housing industry in Johor is also expected to be hard hit as the ‘Singapore factor’ is weakening. The demand for housing units in Johor will likely contract as the Singaporean manufacturing sector will not be able to absorb the blue collar workers from Johor. Consequently, one of the possible future research directions is to carry out a similar case study in Kuala Lumpur and Johor to investigate the longitudinal effect of

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23 People’s Coalition won the administration of five states which were Penang, Selangor, Perak, Kelantan and Kedah in the 2008 General Election. However, Perak has been defected to National Coalition, the federal level ruling party, in February 2009.

24 As part of its condition to maintain its autonomy after they joined the Federation of Malaysia in 1963.
the recent economic downturn and to explore how the state governments react to this situation, and how it impacts on the interaction between the developers and the state, as well as the housing delivery outcome.

This research was supported by numerous insightful face-to-face in-depth interviews with the top management of reputable public-listed and private limited developers in Malaysia. In fact, the participants were very experienced businessmen who had accumulated decades of exposure to the functioning of the housing industry and they were very familiar with its institutional environment. Their knowledge and experience certainly provided useful information and insights to address the aims of this research. However, due to the sensitivity of research topic, the explanation of the findings was constantly constrained by the choice of appropriate wordings to ensure that the research complies with ethical guidelines.

The interviews with the developers were conducted in English but the Malaysian language was occasionally used in the interviews, especially when the researcher interviewed the federal and state level government officials as they were found to be more expressive. The interviews were all fully transcribed and translated into English for data analysis. Despite all difficulties and constraints, this research managed to carry out 48 interviews with the developers in Kuala Lumpur and Johor, another 14 interviews with the government officials and Non-Governmental Organisations which represent various key professionals, homebuyers, academics, bankers and the Central Bank of Malaysia. They contributed a significant amount of data to address the key research issues. Furthermore, there has never been any in-depth examination on the working relations between developers and the state in the Malaysian housing industry. Therefore, this study makes a useful contribution to the empirical understanding of the field. It is, again, worth emphasising that the unique data will serve the interest of many local and international researchers who are interested in the Malaysian housing industry, specifically from the institutional perspective.
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The Straits Times (2008b) Chan, F & Chan, R., Forecast cut to 2.2%. Prediction for next year even worse: Most say zero or negative growth.


ANNEX I: THE ROLE OF THE MINISTRY OF HOUSING AND LOCAL GOVERNMENT

The Ministry of Local Government and Housing was established in 1964. After a series of Cabinet reshuffles and mergers between the Ministry of Housing and Rural Development and Department of Local Government (formerly a part of the Ministry of Local Government and the Federal Territory) in 1978, the new Ministry of Housing and Local Government has been formed since then. The vision of the Ministry of Housing and Local Government is to build a ‘high quality and complete living environment for all levels of Malaysian society’ and its mission is to ‘provide a healthy, safe, peaceful, and beautiful environment combined with socio-economic growth for a progressive and disciplined Malaysian society’. The Federal Department of Town and Country Planning for Peninsular Malaysia is under the jurisdiction of the Ministry of Housing and Local Government (OWMHLG, 2007b). Essentially, the primary aim of the Ministry of Housing and Local Government is to ensure that the housing need and demand as well as the living environment in Malaysia are well planned and provided by the local councils.

The objectives of the Ministry of Housing and Local Government are:

- ‘To establish and implement comprehensive and uniform nationwide rural and urban planning to strengthen and promote physical, social, economic and environmental development.
- To encourage, develop and guide Local Authorities to establish high quality urban, social and recreation services and to provide opportunities for uniform economic growth.
- To ensure adequate comfortable and balanced housing development, complete with social and recreational facilities.
- To ensure the safety of life and property through preventive and supervisory services regarding fire and dangerous materials, efficient and effective emergency and rescue services and the raising of public awareness and education on fires and fire prevention.
- To develop landscaping, parks, and quality recreational facilities and achieve the objective of making Malaysia a garden nation’.
In order to achieve the above objectives, the following outlines the functions of the Ministry of Housing and Local Government:

- ‘Planning and implementation of Ministry of Housing and Local Government policies to achieve primary national development goals.
- Provision of adequate housing for all citizens, particularly for the low-income group.
- Setting up of Local Authorities which are strong and able to contribute to the establishment of a progressive society and a clean and healthy environment.
- Provision of efficient Fire and Rescue Services for the safety of life and property.
- Strengthening and implementation of physical, social, economic, and town and country environment planning in accordance with the Town and Country Planning Act. 1976’.

(OWMHLG, 2007b)

The Ministry of Housing and Local Government is headed by the Minister, assisted by 2 Deputy Ministers (see Figure 1). The divisions which are important to the residential industry are the Planning Division, Development Divisions and the Local Government Department. The other important units are the National Housing Department which is responsible for affordable housing programmes (which covers low to low medium cost housing), which is responsible for the provision of social housing through renting or subsidised sale to the poor. The Ministry of Housing and Local Government draws research findings from the Malaysian public universities to assist in its policy making (OWNHD, 2007).
Figure 1: Organisational Chart of the Ministry of Housing and Local Government (Source: OWMHLG, 2007c)
ANNEX II: CASE STUDY SELECTION

The case study areas for this research were selected based on a set of housing market indicators and socio-economic data which will be discussed in the following sections.

HOUSING MARKET INDICATORS

Overhang stock

National Property Information Centre, a division of the Ministry of Finance, compiles the overhang residential stocks on a quarterly basis. Overhang stock refers to residential units which remained unsold 9 months after obtaining the Certificate of Fitness or the Temporary Certificate Fitness, which is a useful indicator to assess the effectiveness of housing planning system in Malaysia. Overhang stocks by states in Peninsular Malaysia, where the 1976 Town and Country Planning Act with its latest revision in 2001 applies, is tabulated in Table 1. The level of residential overhang in Peninsular Malaysia (excluding low cost housing units priced below RM50,000 (£9,090)) increased dramatically from 9,540 units in 2004 to the peak of 18,664 units in 2006 (see Table 4.1). In 2007, overhang stock dropped by 5% to 17,663 units. The average annual overhang from 2004 to 2007 is 15,006 units. Continual increase in the overhang between 2004 and 2006 highlights a need to examine the Malaysian housing planning system. Johor recorded the highest average annual overhang, at 5,593 units from 2004 to 2007, with the highest annual overhang taking place in 2006 (7,468 units). The second highest average overhang is recorded in Selangor, at 2,773 units, followed by Kedah which has an average overhang of 1,422 units.
Table 1: Residential overhang stocks for properties for priced above RM50,000 (£9,090)

<table>
<thead>
<tr>
<th>Region</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 (Until Quarter 3)</th>
<th>Average Overhang</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kedah</td>
<td>1,249</td>
<td>1,448</td>
<td>1,380</td>
<td>1,611</td>
<td>1,422</td>
<td>3</td>
</tr>
<tr>
<td>Perak</td>
<td>2,84</td>
<td>1,000</td>
<td>270</td>
<td>834</td>
<td>597</td>
<td>7</td>
</tr>
<tr>
<td>Perlis</td>
<td>3,67</td>
<td>225</td>
<td>204</td>
<td>173</td>
<td>242</td>
<td>10</td>
</tr>
<tr>
<td>Penang</td>
<td>5,35</td>
<td>924</td>
<td>525</td>
<td>352</td>
<td>584</td>
<td>8</td>
</tr>
<tr>
<td>Central Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melaka</td>
<td>9,11</td>
<td>1,017</td>
<td>1,371</td>
<td>1,796</td>
<td>1,274</td>
<td>4</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>9,95</td>
<td>968</td>
<td>1,143</td>
<td>1,117</td>
<td>1,056</td>
<td>5</td>
</tr>
<tr>
<td>Selangor</td>
<td>1,271</td>
<td>2,324</td>
<td>4,067</td>
<td>3,430</td>
<td>2,773</td>
<td>2</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>3,04</td>
<td>387</td>
<td>1,718</td>
<td>1,537</td>
<td>987</td>
<td>6</td>
</tr>
<tr>
<td>Southern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johor</td>
<td>3,368</td>
<td>5,398</td>
<td>7,468</td>
<td>6,138</td>
<td>5,593</td>
<td>1</td>
</tr>
<tr>
<td>Eastern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kelantan</td>
<td>39</td>
<td>32</td>
<td>61</td>
<td>243</td>
<td>94</td>
<td>11</td>
</tr>
<tr>
<td>Pahang</td>
<td>1,34</td>
<td>314</td>
<td>449</td>
<td>526</td>
<td>356</td>
<td>9</td>
</tr>
<tr>
<td>Trengganu</td>
<td>83</td>
<td>19</td>
<td>8</td>
<td>6</td>
<td>29</td>
<td>12</td>
</tr>
<tr>
<td>Total for Peninsular Malaysia</td>
<td>9,540</td>
<td>14,056</td>
<td>18,664</td>
<td>17,763</td>
<td>15,006</td>
<td></td>
</tr>
</tbody>
</table>

(Data source: NAPIC, 2004 – 2007)

The Malaysian house price index

The house price index shows that Johor has the lowest average house price (see Figure 1) since Year 2000 when compared with other states in Peninsular Malaysia. Perlis, Pahang, Kedah and Perak recorded higher house prices index between 2004 and 2006, even though they are situated in the less developed regions whereby economic development grows at a slower pace. The lack of housing supply due to slow economy raises the house price level.
Incoming and planned supply

By comparing the total of incoming¹ and planned² supply of residential property stock (NAPIC, 2007a), with the national housing requirement in the Ninth Malaysian Plan, it is apparent that the total incoming and planned supply exceeds the housing requirements by 97% in Peninsular Malaysia. This further explains the potential of failure of local authorities in controlling and constraining overhang, while still approving new housing planning applications. Negeri Sembilan shows a potential oversupply of 534%, followed by Kuala Lumpur, Penang, Johor and Selangor at 190%, 180%, 125% and 119% respectively (see Figure 2 and Table 2). The housing requirement figures are derived from the average annual growth rate of urban population and urbanisation rate (EPU, 2006). It is to be noted that the National Property Information Centre is unable to indicate whether the incoming and planned supply will be delivered within or after the Ninth Malaysian Plan. In terms of units, total incoming and planned supply exceeds housing requirement by 162,056 units in Selangor, followed by 142,585 units in Negeri Sembilan, 113,990 units in Johor and 61,695 units in Kuala Lumpur (see Table 2). For the state of Johor, the present overhang situation will be further exacerbated with this volume of housing, if the market is unable to absorb it.

¹Incoming supply refers to the housing units which are under construction and those which are pending the issue of the Certificate of Fitness (CF)/Temporary Certificate of Fitness (TCF).
²Planned supply refers to the housing units which are approved from the previous review quarters but the construction has not started.
Figure 2: Incoming and planned supply versus housing requirements  
(Data source: NAPIC, 2007a:Q3 and EPU, 2006: Table 21:3)

Table 2: Incoming and planned housing supply versus housing requirements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kedah</td>
<td>69,356</td>
<td>56,800</td>
<td>12,556</td>
<td>22%</td>
</tr>
<tr>
<td>Perak</td>
<td>69,337</td>
<td>58,200</td>
<td>11,137</td>
<td>19%</td>
</tr>
<tr>
<td>Perlis</td>
<td>2,916</td>
<td>6,600</td>
<td>-3,684</td>
<td>-56%</td>
</tr>
<tr>
<td>Penang</td>
<td>91,720</td>
<td>32,800</td>
<td>58,920</td>
<td>180%</td>
</tr>
<tr>
<td>Central Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melaka</td>
<td>41,568</td>
<td>20,800</td>
<td>20,768</td>
<td>100%</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>169,285</td>
<td>26,700</td>
<td>142,585</td>
<td>534%</td>
</tr>
<tr>
<td>Selangor</td>
<td>298,056</td>
<td>136,000</td>
<td>162,056</td>
<td>120%</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>94,095</td>
<td>32,400</td>
<td>61,695</td>
<td>190%</td>
</tr>
<tr>
<td>Putrajaya</td>
<td>1,145</td>
<td>-</td>
<td>-1,145</td>
<td>-</td>
</tr>
<tr>
<td>Southern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johor</td>
<td>205,490</td>
<td>91,500</td>
<td>113,990</td>
<td>125%</td>
</tr>
<tr>
<td>Eastern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kelantan</td>
<td>17,616</td>
<td>46,200</td>
<td>-28,584</td>
<td>-62%</td>
</tr>
<tr>
<td>Pahang</td>
<td>63,060</td>
<td>44,400</td>
<td>18,660</td>
<td>42%</td>
</tr>
<tr>
<td>Trengganu</td>
<td>28,819</td>
<td>32,800</td>
<td>-3,981</td>
<td>-12%</td>
</tr>
<tr>
<td>Total for Peninsular Malaysia</td>
<td>1,152,463</td>
<td>585,200</td>
<td>567,263</td>
<td>97%</td>
</tr>
</tbody>
</table>

(Data source: NAPIC, 2007a:Q3 and EPU, 2006: Table 21:3)

³ Forecast
**Socio-economic Indicators**

*Development Composite Index, urbanisation rate and average annual growth rate of Gross Domestic Product*

Based on the 2005 Development Composite Index (see Table 3), Central Region is the most developed region compared to the Northern, Southern and Eastern Region. Kuala Lumpur, the capital and the financial and administrative hub of Malaysia, enjoyed the highest the Development Composite Index at 109.6 points in the Central Region and in Peninsular Malaysia. Similarly, Kuala Lumpur has the highest urbanisation rate (100%), followed by Selangor (at 88.4%) and Penang (at 79.8%) in 2005.

*Table 3: 2005 Development and growth indices*

<table>
<thead>
<tr>
<th>Region</th>
<th>2005 Development Composite Index</th>
<th>Ranking Based on 2005 Development Composite Index</th>
<th>Urbanisation Rate (%)</th>
<th>Annual Gross Domestic Product Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2010</td>
<td></td>
<td>2001-2005</td>
</tr>
<tr>
<td></td>
<td>2010 Forecast</td>
<td>2010 Forecast</td>
<td></td>
<td>2006-2010</td>
</tr>
<tr>
<td>Northern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kedah</td>
<td>97.8</td>
<td>9</td>
<td>39.8</td>
<td>40.3</td>
</tr>
<tr>
<td>Perak</td>
<td>100.4</td>
<td>7</td>
<td>59.3</td>
<td>59.3</td>
</tr>
<tr>
<td>Perlis</td>
<td>99.9</td>
<td>8</td>
<td>35.1</td>
<td>35.9</td>
</tr>
<tr>
<td>Penang</td>
<td>105.7</td>
<td>2</td>
<td>79.8</td>
<td>80.0</td>
</tr>
<tr>
<td>Central Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melaka</td>
<td>104.2</td>
<td>3</td>
<td>70.6</td>
<td>73.4</td>
</tr>
<tr>
<td>Negri Sembilan</td>
<td>102.3</td>
<td>5</td>
<td>56.3</td>
<td>57.4</td>
</tr>
<tr>
<td>Selangor*</td>
<td>103.2</td>
<td>4</td>
<td>88.4</td>
<td>89.1</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>109.6</td>
<td>1</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Southern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johor</td>
<td>100.5</td>
<td>6</td>
<td>66.5</td>
<td>67.7</td>
</tr>
<tr>
<td>Eastern Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kelantan</td>
<td>93.1</td>
<td>12</td>
<td>33.4</td>
<td>33.3</td>
</tr>
<tr>
<td>Pahang</td>
<td>97.6</td>
<td>10</td>
<td>43.5</td>
<td>44.6</td>
</tr>
<tr>
<td>Trengganu</td>
<td>96.2</td>
<td>11</td>
<td>49.8</td>
<td>50.3</td>
</tr>
</tbody>
</table>

(Data source: EPU, 2006: Table 17.1 and 17.2)

---

* Urbanisation refers to gazetted areas with their adjoining built-up areas, which had a combined population of 10,000 or more.
* Forecast
* Including Putrajaya
In terms of the annual Gross Domestic Product growth rate, the Central Region achieved 4.6% in the Eighth Malaysian Plan while the forecast for the Ninth Malaysian Plan is 6.2%. Penang is the most developed state in the Northern Region which achieved the second highest Development Composite Index, at 105.7 points in 2005 and it is the third most urbanised state in Peninsular Malaysia, which is followed by Melaka in the Central Region at 104.2 points. Johor is the only state in the Southern Region and it achieved the sixth place in the 2005 the Development Composite Index, but the highest annual Gross Domestic Product growth among all states in the Eighth Malaysian Plan and is expected to deliver the highest figure again for the Ninth Malaysian Plan. The Eastern Region is the least developed region in Peninsular Malaysia as shown by the 2005 the Development Composite Index ranking for its 3 states – Kelantan, Pahang and Trengganu. The Gross Domestic Product growth for the Eastern Region was 3.5% in the Eighth Malaysian Plan and is forecasted at 3.7% in the Ninth Malaysian Plan.

**Hierarchy of Conurbations**

Based on the Hierarchy of Conurbations developed by the Federal Department of Town and Country Planning (Peninsular Malaysia) for the Ninth Malaysian Plan, Kuala Lumpur, Negeri Sembilan and Selangor are identified as the Level 1 National Growth Conurbation while Johor and Penang are identified as the Level 2 Regional Conurbations (see Figure 4). During the Eighth Malaysia Plan, states such as Johor, Penang and Melaka are the designated locations for investment due to the availability of infrastructure, access to ports and airports as well as financial services. These investments have translated into higher number of approved manufacturing projects and potential employment (see Table 4).
Approved manufacturing projects and potential employment opportunities

Since Selangor recorded the highest number of approved manufacturing projects during the Eight Malaysian Plan (2001 – 2005), a total of 105,422 potential jobs were expected from the 1,517 approved manufacturing projects (see Table 4.4). Johor had the second highest approved manufacturing projects at 1,091, which was expected to provide the largest number of potential jobs in Malaysia (at 117,993). Penang recorded the third highest number of approved manufacturing projects (at 663) and was expected to provide 69,146 potential jobs. Based on the concentration of approved manufacturing projects, it is concluded that the Northern Region, Central Region and Southern Region of Peninsular Malaysia are economically more vibrant than the Eastern Region.
### Table 4: Approved manufacturing projects and potential employment from 2001 – 2005

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Projects</th>
<th>Potential Employment</th>
<th>Capital Investment (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Northern Region</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kedah</td>
<td>275</td>
<td>30,398</td>
<td>9,118.8</td>
</tr>
<tr>
<td>Perak</td>
<td>265</td>
<td>22,715</td>
<td>6,955.5</td>
</tr>
<tr>
<td>Perlis</td>
<td>13</td>
<td>781</td>
<td>83.0</td>
</tr>
<tr>
<td>Penang</td>
<td>663</td>
<td>69,146</td>
<td>14,997.0</td>
</tr>
<tr>
<td><strong>Central Region</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melaka</td>
<td>205</td>
<td>24,677</td>
<td>10,317.0</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>184</td>
<td>12,898</td>
<td>6,327.7</td>
</tr>
<tr>
<td>Selangor</td>
<td>1,517</td>
<td>105,422</td>
<td>29,245.3</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>111</td>
<td>6,424</td>
<td>2,041.8</td>
</tr>
<tr>
<td><strong>Southern Region</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johor</td>
<td>1,091</td>
<td>117,993</td>
<td>19,031.1</td>
</tr>
<tr>
<td><strong>Eastern Region</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kelantan</td>
<td>40</td>
<td>2,163</td>
<td>474.9</td>
</tr>
<tr>
<td>Pahang</td>
<td>88</td>
<td>9,212</td>
<td>4,739.1</td>
</tr>
<tr>
<td>Trengganu</td>
<td>31</td>
<td>2,068</td>
<td>5,706.6</td>
</tr>
</tbody>
</table>

(Data source: EPU, 2006: Table 17.4)

### Land area and population

Kuala Lumpur occupies the smallest land area in Peninsular Malaysia with only 243 square kilometres and has a population of 1.62 million in 2005 and expected to grow to 1.70 million in 2010 (see Table 4.5). Pahang has the largest land area at 35,965 square kilometres in Peninsular Malaysia, followed by Perak, at 21,005 square kilometres while Johor occupying 18,987 square kilometres (see Table 5).

The total population in Peninsular Malaysia is recorded at 21.19 million in 2005 and it is expected to rise to 22.98 million in 2010. Selangor is the most populous state in the Peninsular Malaysia. It has 4.87 million populations in 2005 which is equivalent to 23% of the population in Peninsular Malaysia and is expected to grow to 5.31 million by 2010 due to in-migration from the neighbouring states for employment opportunities. This has translated into the highest housing requirement of 136,000 residential units compared to other states in Peninsular Malaysia. Johor is the second most populated state with 3.17 million (15%) of population in 2005 and is forecasted to grow to 3.46 million in 2010. Perlis is the least populous state with only 230,000 population in 2005 and is expected to grow by only 20,000 in 2010. In terms of the average annual growth rate of urban population, states such as Johor (in Level 2 Conurbation) and Melaka (in
Level 3 Conurbation) are expected to grow by 2.6% and 2.9% respectively, whereas the lowest annual average urban population growth is found in Kuala Lumpur at 1.5%.

<table>
<thead>
<tr>
<th>State</th>
<th>Area (sq km)</th>
<th>Population (millions)</th>
<th>Average Annual Growth Rate of Population (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Region</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kedah</td>
<td>9,425</td>
<td>1.85</td>
<td>2.04</td>
</tr>
<tr>
<td>Perak</td>
<td>21,005</td>
<td>2.28</td>
<td>2.44</td>
</tr>
<tr>
<td>Perlis</td>
<td>795</td>
<td>0.23</td>
<td>0.25</td>
</tr>
<tr>
<td>Penang</td>
<td>1,031</td>
<td>1.50</td>
<td>1.60</td>
</tr>
<tr>
<td>Central Region</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>6,644</td>
<td>0.96</td>
<td>1.03</td>
</tr>
<tr>
<td>Melaka</td>
<td>1,652</td>
<td>0.72</td>
<td>0.79</td>
</tr>
<tr>
<td>Selangor</td>
<td>7,960</td>
<td>4.87</td>
<td>5.31</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>243</td>
<td>1.62</td>
<td>1.70</td>
</tr>
<tr>
<td>Southern Region</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johor</td>
<td>18,987</td>
<td>3.17</td>
<td>3.46</td>
</tr>
<tr>
<td>Eastern Region</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kelantan</td>
<td>15,024</td>
<td>1.51</td>
<td>1.67</td>
</tr>
<tr>
<td>Pahang</td>
<td>35,965</td>
<td>1.45</td>
<td>1.57</td>
</tr>
<tr>
<td>Trengganu</td>
<td>12,955</td>
<td>1.02</td>
<td>1.12</td>
</tr>
<tr>
<td>Total for Peninsular Malaysia</td>
<td>131,686</td>
<td>21.18</td>
<td>22.98</td>
</tr>
</tbody>
</table>

(Data source: REHDA, 2007:38)

*Education attainment, employment by occupational groups and monthly household income*

Based on the 2000 Population Census, Kuala Lumpur has the highest average monthly household income, at RM5,175 (£740), in Peninsular Malaysia whereas Kelantan, being the least urbanised state, has achieved only RM1,829 (£261) (see Figure 4).
Both Kuala Lumpur and Selangor have approximately 19% of their population working as professionals, legislators, senior officials and managers, which are the 2 highest income groups (see Figure 5). This is supported by their higher tertiary education attainment level (20% and 18%) respectively (see Figure 6). Kedah has the lowest percentage in these same occupational groups (at 6.9%), and only 8% of its population acquired tertiary education level.
Figure 6: Education attainment
(Data source: Population census, 2005)
## ANNEX III: LIST OF KUALA LUMPUR DEVELOPERS

<table>
<thead>
<tr>
<th>Code</th>
<th>Date</th>
<th>Time</th>
<th>Type of Legal Ownership</th>
<th>Product Niche</th>
<th>Interviewee's Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>K1</td>
<td>16-Jun-08</td>
<td>3pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>General Manager</td>
</tr>
<tr>
<td>K2</td>
<td>11-Jun-08</td>
<td>11am</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Director</td>
</tr>
<tr>
<td>K3</td>
<td>09-Jun-08</td>
<td>4pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Director</td>
</tr>
<tr>
<td>K4</td>
<td>05-Jun-08</td>
<td>10am</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>General Manager</td>
</tr>
<tr>
<td>K5</td>
<td>08-Jul-08</td>
<td>2.30pm</td>
<td>Public-listed</td>
<td>Apartment/Condominium</td>
<td>Senior General Manager</td>
</tr>
<tr>
<td>K6</td>
<td>08-Jul-08</td>
<td>4.30pm</td>
<td>Public-listed</td>
<td>Apartment/Condominium</td>
<td>General Manager</td>
</tr>
<tr>
<td>K7</td>
<td>16-Jun-08</td>
<td>9am</td>
<td>Public-listed</td>
<td>Apartment/Condominium</td>
<td>Executive Director</td>
</tr>
<tr>
<td>K8</td>
<td>11-Jun-08</td>
<td>4pm</td>
<td>Public-listed</td>
<td>High end residential units</td>
<td>Assistant Manager</td>
</tr>
<tr>
<td>K9</td>
<td>11-Aug-08</td>
<td>3pm</td>
<td>Public-listed</td>
<td>High end residential units</td>
<td>Chief Executive Officer (CEO)</td>
</tr>
<tr>
<td>K10</td>
<td>04-Jun-08</td>
<td>11.30am</td>
<td>Public-listed</td>
<td>High end residential units</td>
<td>General Manager</td>
</tr>
<tr>
<td>K11</td>
<td>12-Jun-08</td>
<td>11am</td>
<td>Public-listed</td>
<td>High end residential units</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>K12</td>
<td>05-Jun-08</td>
<td>3pm</td>
<td>Public-listed</td>
<td>High end residential units</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>K13</td>
<td>04-Jun-08</td>
<td>10am</td>
<td>Private limited</td>
<td>Terraced units</td>
<td>Executive Director</td>
</tr>
<tr>
<td>K14</td>
<td>09-Jul-08</td>
<td>11am</td>
<td>Private limited</td>
<td>Terraced units</td>
<td>Manager</td>
</tr>
<tr>
<td>K15</td>
<td>10-Jun-08</td>
<td>2.30pm</td>
<td>Private limited</td>
<td>Terraced units</td>
<td>Project Manager</td>
</tr>
<tr>
<td>K16</td>
<td>13-Jun-08</td>
<td>10am</td>
<td>Private limited</td>
<td>Apartment/Condominium</td>
<td>Executive Director</td>
</tr>
<tr>
<td>K17</td>
<td>17-Jun-08</td>
<td>3pm</td>
<td>Private limited</td>
<td>Apartment/Condominium</td>
<td>Executive Director</td>
</tr>
<tr>
<td>K18</td>
<td>10-Jul-08</td>
<td>3pm</td>
<td>Private limited</td>
<td>High end residential units</td>
<td>Director</td>
</tr>
<tr>
<td>K19</td>
<td>17-Jun-08</td>
<td>10am</td>
<td>Private limited</td>
<td>High end residential units</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>K20</td>
<td>26-May-08</td>
<td>4.30pm</td>
<td>Private limited</td>
<td>High end residential units</td>
<td>Group Managing Director</td>
</tr>
<tr>
<td>K21</td>
<td>06-Jun-08</td>
<td>2pm</td>
<td>Private limited</td>
<td>High end residential units</td>
<td>Executive Director</td>
</tr>
<tr>
<td>K22</td>
<td>09-Jun-08</td>
<td>11am</td>
<td>Private limited</td>
<td>High end residential units</td>
<td>Group CEO</td>
</tr>
<tr>
<td>K23</td>
<td>09-Jul-08</td>
<td>3pm</td>
<td>Foreign owned</td>
<td>High end residential units</td>
<td>Director</td>
</tr>
<tr>
<td>K24</td>
<td>08-Jul-08</td>
<td>9.30am</td>
<td>Foreign owned</td>
<td>High end residential units</td>
<td>Executive Director</td>
</tr>
<tr>
<td>K25</td>
<td>07-Jul-08</td>
<td>4.30am</td>
<td>Foreign owned</td>
<td>High end residential units</td>
<td>General Manager</td>
</tr>
<tr>
<td>K26</td>
<td>13-Jun-08</td>
<td>10.30am</td>
<td>Turnkey developer</td>
<td>Apartment/Condominium</td>
<td>Director</td>
</tr>
<tr>
<td>K27</td>
<td>06-Jun-08</td>
<td>10am</td>
<td>Turnkey developer</td>
<td>Apartment/Condominium</td>
<td>Director</td>
</tr>
<tr>
<td>K28</td>
<td>13-Jun-08</td>
<td>2pm</td>
<td>Turnkey developer</td>
<td>Apartment/Condominium</td>
<td>Project Director</td>
</tr>
</tbody>
</table>
## ANNEX IV : LIST OF JOHOR DEVELOPERS

<table>
<thead>
<tr>
<th>Code</th>
<th>Date</th>
<th>Time</th>
<th>Type of Legal Ownership</th>
<th>Product Niche</th>
<th>Interviewee's Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>J1</td>
<td>30-Jul-08</td>
<td>3pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Senior Project Manager</td>
</tr>
<tr>
<td>J2</td>
<td>25-Jul-08</td>
<td>11.30am</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Project Executive</td>
</tr>
<tr>
<td>J3</td>
<td>28-Jul-08</td>
<td>2pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Group Managing Director</td>
</tr>
<tr>
<td>J4</td>
<td>24-Jul-08</td>
<td>12pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Branch Manager</td>
</tr>
<tr>
<td>J5</td>
<td>24-Jul-08</td>
<td>10am</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Senior General Manager</td>
</tr>
<tr>
<td>J6</td>
<td>24-Jul-08</td>
<td>5pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Vice President</td>
</tr>
<tr>
<td>J7</td>
<td>24-Jun-08</td>
<td>4pm</td>
<td>Public-listed</td>
<td>Terraced units/ Apartments</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>J8</td>
<td>26-Jun-08</td>
<td>3pm</td>
<td>Public-listed</td>
<td>Terraced units</td>
<td>Regional General Manager</td>
</tr>
<tr>
<td>J9</td>
<td>25-Jun-08</td>
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## ANNEX V : LIST OF INTERVIEWS WITH THE PUBLIC SECTOR/NON-GOVERNMENTAL ORGANISATIONS / PROFESSIONALS’ ASSOCIATIONS

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ANNEX VI: RESEARCH QUESTIONS SCHEDULE

SECTION 1: IN-DEPTH INTERVIEWS WITH THE FEDERAL GOVERNMENT AND NON-GOVERNMENTAL ORGANISATIONS

MINISTRY OF HOUSING AND LOCAL GOVERNMENT

1. How does the Ministry view the housing market now?
2. What are the policies which help to promote housing industry? What are the negative policies?
3. What are the main problems in the housing industry now? How would they affect the industry? How to resolve them?
4. Do the local authorities (which are under the jurisdiction of Ministry of Housing and Local Government) assess housing demand before releasing planning permission or building plan approvals? If yes, what type of assessment is used?
5. How do you describe the performance of developers in delivering the housing requirements?
6. How would you describe your working relationship with developers? What is the major problem the Ministry has in dealing with developers? How do you resolve these problems?
7. What is the process involved in proposing for a new housing policy? Which are the parties do you normally consult?
8. In what ways the recent measures of One-Stop-Centre, Build-then-Sell, Sell-then-Build, or the Certificate of Completion and Compliance help to improve the housing delivery system?
9. Ideally, how should an effective and responsive housing industry function?
10. What are the Ministry’s vision and mission for the housing industry? How does it plan to achieve these vision and mission?
11. Are there any efforts taken to improve the interaction between the Ministry and developers to improve your working relationships?

FEDERAL TOWN AND COUNTRY PLANNING DEPARTMENT

1. What is the role of Federal Town and Country Planning Department in the Malaysian housing planning?
2. What are the main problems in the housing industry? Why are there such problems? How would they affect the industry? How to effectively resolve them?
3. Which parties do you normally seek views and opinions in proposing for policy making?
4. In preparing for the Structure Plan, do you normally conduct any housing demand assessment? If yes, how do you assess housing demand?
5. How should an effective and responsive housing industry function?
6. What is your vision for housing industry in Malaysia? Do you see it contradict with developers?
REAL ESTATE AND HOUSING DEVELOPERS ASSOCIATION (REHDA)

1. What is the role of REHDA in the housing industry in Malaysia? What are your aim and objectives?
2. What do you see as the main problems in the housing industry? How would they affect the industry? How to effectively resolve them?
3. Does the Ministry of Housing and Local Government accept your view and opinion in policy making?
4. What is the most effective communication channel that REHDA uses in addressing the need for a policy change or a new policy?
5. How would you describe your working relationship with the Ministry of Housing and Local Government?
6. How do you resolve conflict/tension with the Ministry of Housing and Local Government when your views and ideas are not incorporated in policy making?
7. In what ways the recent measures of One-Stop-Centre, Build-then-Sell, Sell-then-Build, or the Certificate of Completion and Compliance help to improve the housing delivery system?
8. Are there any other measures implemented by the government recently?
9. How should the Ministry of Housing and Local government improve housing delivery system in Malaysia?
10. Ideally, how should an effective and responsive housing industry function?
11. What is REDHA's vision for the housing industry in Malaysia?
12. Are there any efforts taken by REHDA to improve the working relationships with the government?

Probe the following if not mentioned in the interview
13. What do you think of the 30% Bumiputra housing allocation and the special Bumiputra 5% discount? How is your sales performance for this product segment? How do you handle the unsold units?
Annex VI Research Questions Schedule

**NATIONAL HOUSEBUYERS’ ASSOCIATION (HBA)**

1. What is the role of HBA in the Malaysian housing industry? What are your aim and objectives?
2. How does HBA function?
3. What are the main problems in the housing industry? How would they affect the industry? How to effectively resolve them?
4. How do you normally handle the complaints of homebuyers?
5. What is the most effective communication channel that the HBA uses in presenting the complaints of homebuyers to the Ministry?
6. Recently, Ministry has extended the Defect Liability Period from 18 months to 24 months. Did you forward this issue to the Ministry? Did the Ministry meet your requested extension of the Defect Liability Period?
7. How would you describe your working relationship with the Ministry of Housing and Local Government?
8. How do you normally resolve conflict/tension with the Ministry of Housing and Local Government when your views and ideas are not incorporated in policy making? What is the most effective way to resolve?
9. Do you think the HBA achieve its aim and objectives?
10. How should an effective housing industry function?
11. What is the vision of HBA for the Malaysian housing industry? How do you see it contradict with the government’s or the developers’?
12. Are there any efforts taken to improve the interaction between the HBA and REHDA?

*Probe the following if not mentioned in the interview*

13. How do you think the 30% Bumiputra/Malay allocation and the minimum 5% discount for Bumiputra/Malay affects the non Bumiputra/Malay homebuyers?
MALAYSIAN INSTITUTE OF
PLANNERS/ENGINEERS/ARCHITECTS/
SURVEYORS

1. What is the role of your institute/association in the Malaysian residential development industry?
2. What are the regulations/acts that regulate your involvement in housing development and with developers?
3. What are the main problems in housing industry? Why are there such problems? How would they affect the industry? How to effectively resolve them?
4. How you normally present your views to the federal government about ineffective policies or policies which did not favour your profession with developers?
5. How would you describe your working relationship with developers?
6. What is the main conflict/tension in dealing with developers?
7. How do you effectively resolve them? Do you normally receive any favourable outcome?
8. How do you resolve the requests of developers which would hinder you from meeting the regulations?
9. How should an effective housing industry function?
10. What is your vision for the housing industry?
11. Are there any efforts taken to improve your working relationship between with developers?

ASSOCIATION OF BANKS IN MALAYSIA

Lending to developers

1. How do you see the housing market now? What about the lending capacity to developers?
2. What types of financing facilities are available for developers?
3. What are the criteria for these facilities? Which one is normally preferred by developers?
4. What is the interest rate for these facilities now? What kind of margin you can lend to the developers for each of them?
5. What are the criteria to determine whether facility can be offered to the developers?
6. Is there any situation whereby you are pressured to offer the facility even though the developers are not eligible based on the set criteria?

Lending to homebuyers

1. What are the criteria which determine whether a housing loan application can be offered to homebuyers?
2. What is the loan margin? What about the interest rate?
3. What level of income percentage do you consider when processing for loan approval?
4. How available is housing loan now?
MALAYSIAN INSTITUTUE OF ESTATE AGENTS

1. What is the role of your institute?
2. What do you think of the demand of homebuyers nowadays?
3. What do you think of the supply of developers? Is it meeting demand in terms of product type, pricing and quality?
4. Is there any market segment not served by developers?
5. What are the main problems in the housing industry now? Why are there such problems? How would they affect the industry? How to effectively resolve them?
6. What do you think of the role of real estate agents in housing industry?
7. How would you describe your working relationship with developers?
8. How should an effective housing industry function?
9. What is your vision for the housing industry?
10. Are there any efforts taken to improve your working relationship with developers?

MASTER BUILDERS’ ASSOCIATION MALAYSIA

1. What do you see as the main challenges in the housing industry?
2. Do you see the developers build to meet the market demand?
3. How would you describe your working relationship with developers?
4. What are the main conflict/tension you normally face in dealing with developers?
5. How do you normally resolve conflicts/tensions with developers bearing in mind that they are your paymasters?
6. Do you face labour shortage? How do you effectively resolve this problem?
7. Do you face any building material shortage? What about price hike? How would it affect the housing industry in general and your working relationship with developers?
8. How should an effective housing industry function?
9. What is your vision for the housing industry?
10. Are there any efforts taken to improve your working relationship with developers?
SECTION 2: CASE STUDY INTERVIEWS

PRIVATE DEVELOPERS

Land acquisition and financing

1. How do you see the housing market in this state?
2. How do you normally source potential land for housing development?
3. What are the main obstacles in getting a suitable land for housing development?
4. How do you normally finance for your land acquisition? What are the difficulties do you normally face?
5. Do you normally engage in research to assess housing demand to determine the product type, design and pricing for your development?

Development consent

6. Back to sourcing for land bank, do you normally refer to the Structure or Local Plan before sourcing for it?
7. How long does it normally take to get the Development Order and building plan approval?
8. What are your main difficulties in getting Development Order and building plan approval from the local authority?
9. What are the resources required to get approval from the local authority within the shortest time possible or the committed timeframe?
10. (If exceeding the committed timeframe of 6 months) Why did it take more than 6 months to get the Development Order from the local authority? Didn’t you follow up? How did you follow up? How often? What are the other resources to get this approval within the shortest time possible?

Application for Certificate of Fitness for Occupation

11. What are the main challenges in getting the Certificate of Fitness for Occupation, which always involves long delay?
12. What do you need to do to get the Certificate of Fitness for Occupation within 14 days after you (or the architect) submit the Borang E (official documents which show clearances of the 14 technical departments)? How do you follow up? How often?
13. How will the Certificate of Completion and Compliance help to expedite the issue of the Certificate of Fitness for Occupation help?
Dealing with the government

14. What is the most frustrating aspect (the main problem) in the residential development industry in Malaysia? Why did it happen? What are the impacts on the industry? How to effectively resolve them?
15. What is your main conflict/tension in dealing with the local authority? Why did it happen? What are the impacts of these problems? How to effectively resolve them with the local authority?
16. What are the areas that the local authority needs to improve to help in housing delivery?
17. Normally, does the Ministry of Housing and Local Government listen to your views? Does it seek developers’ views and opinions before implementing any policy? Why not?
18. How do you address the need for a new policy or your dissatisfaction on ineffective policies implemented by the Ministry of Housing and Local Government? What is the channel do you use to influence policy change?
19. Which is the most effective channel to lobby for new policy or policy change or even address dissatisfaction on policy to the state?
20. When your views and ideas are not heard or policies implemented do not favour you, how do you resolve the conflict/tension with the Ministry?
21. In your opinion, what are the impacts of conflict/tension on housing industry if they are not resolved?
22. (In Johor) Based on the data of National Property Information Centre, the overhang of houses ranked the highest in Johor. How would this affect the housing market here and your housing development activity?
23. (In Kuala Lumpur) Based on the data of National Property Information Centre, the incoming and future supply exceeds the housing demand by 190%. How would this affect the housing market here and your housing development activity?
24. How should the state government improve housing delivery system in Kuala Lumpur/Johor?
25. What do you think of the present legislative system such as the 1976 Malaysia Town and Country Planning Act, and the recent policies such as One-Stop-Centre (which is set up to expedite the approval of development and building plans), Build-then-Sell or Sell-then-Build Concept, or Certificate of Completion and Compliance, or any other regulations even not mentioned here which govern the housing industry?
26. How should an effective housing industry function?
27. What is your vision for the Malaysian housing industry? How do you see it contradict with the government or other professionals’?
28. Are there any efforts taken to improve your working relationship with the government?

Probe the following if not mentioned in the interview
29. What do you think of the 30% Bumiputra/Malay allocation and the minimum 5% discount for Bumiputra/Malay? What is your sales performance for this allocation? How do you handle the unsold units? What do you think of the 30% low cost quota?
STATE PLANNING DEPARTMENT/URBAN PLANNING DEPARTMENT

1. Do you normally refer to the housing demand requirement before you release Development Order or building plan approval?
2. Why is there a drastic increase of incoming and planned supply which exceeds the housing demand by 190% in Kuala Lumpur (125% in Johor and present highest overhang in Peninsular Malaysia)? What is the rationale for the approvals which bring such an influx of housing supply?
3. Are there any special policies implemented in this state which promote or constrain the growth of housing industry?
4. How would you describe your working relationship with developers?
5. Do developers normally adhere to regulations, policies and procedures when it comes to development planning, building plan submission and even application of CF? If they do not, how do you get them to adhere at the end?
6. What are the main problem/s/conflicts/tensions you have with developers? How to effectively resolve them? What is the best channel?
7. What are the impacts on housing industry if they are not resolved?
8. What is your vision for the Malaysian housing industry in this state? How do you see it contradict with developers’?
9. What is the most effective conflict resolution method so that we can have an effective and responsive housing delivery system?
10. Are there any efforts taken to improve your working relationship with developers?

LOCAL AUTHORITY BUILDING DEPARTMENT

1. In approving building plans, what is the main problem you encounter with developers? How do you effectively resolve them?
2. In approving the Certificate of Fitness for Occupation, what is the main problem you encounter with developers? How do you effectively resolve them?
3. How do you describe your working relationship with developers?
4. What are the main problem/s/conflicts/tensions you have with developers? How do you effectively resolve them? What are the impacts on the housing development if they are not resolved?
5. What is your department’s vision for the housing industry?
6. Are there any efforts taken to improve your working relationship with developers?
THE ONE -STOP -CENTRE IN LOCAL AUTHORITY

1. What are the objectives of the One-Stop-Centre?
2. What are the differences between the One-Stop-Centre and the previous approving system?
3. How is the One-Stop-Centre implemented?
4. Does it meet its intended objectives?

RESIDENTS’ FOCUS GROUP DISCUSSION

1. In buying houses, what are the factors that you normally consider?
2. What do you think of your present housing estate? Does it meet your expectation in terms of infrastructure, accessibility and amenities? If not, why?
3. What do you think of the housing supply by the developers in this state, in terms of house types, design, pricing and location? Do you think they meet the requirements of homebuyers?
4. Is there anything that you, as homebuyers, desire in a house which you find normally not provided by developers?
5. Which are the good developers in your area? What makes you say that they are good developers?
6. Is housing mortgage widely available for you now?

Probe if not mentioned
7. How do the 30% Bumiputra/Malay allocation and the minimum 5% discount for Bumiputra/Malay affect your house purchase experience?