

# Abandoned Housing: An Unfinished Dream

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## Introduction

On 18 October 2024, the Malaysian government announced several budget initiatives under Budget 2025 to ensure housing remains affordable and accessible for the *rakyat*. These include financing initiatives such as RM10b of *Skim Jaminan Kredit Perumahan* (SJKP) government guarantees, benefitting approximately 20,000 first-time home buyers, a proposed individual income tax relief of up to RM7,000 on housing loan interest payment, and the *Skim Pembiayaan Perumahan Muda* by *Lembaga Pembiayaan Perumahan Sektor Awam* (LPPSA) to increase youth access to home financing<sup>1</sup>. With these initiatives set to take effect next year, they are anticipated to encourage homeownership and stimulate housing demand among aspiring homeowners.

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<sup>1</sup> Budget 2025 Speech. Source: MOF (2024)

While these efforts focus on enhancing housing affordability through financing options, they do not address the longstanding risks faced by homebuyers in the housing market. **Are buyers adequately protected from the commercial risks that arise when housing projects are declared abandoned?** Often, government intervention becomes the last resort to revive these abandoned projects. This highlights the systemic vulnerabilities in the housing market.

Hence, this article examines the current state of abandoned housing projects in Malaysia, discusses the root causes behind project abandonment, and explores the challenges faced by affected house buyers. It highlights the need to prioritize buyer protection via the Build-Then-Sell housing delivery system.

## The overview of the abandoned housing situation in Malaysia

A housing project is declared abandoned when it fulfils the following criteria<sup>2</sup>:

1. It fails to be completed within the time period specified in the Sale and Purchase Agreement (SPA), and construction activity has stopped for six consecutive months or more; or
2. A winding-up petition has been filed in the High Court under Section 218 of the Companies Act 1966; or
3. The company has been placed under the control of a Receiver and Manager; or
4. The developer has provided a written admission of its inability to proceed to the Controller of Housing; and
5. The project is confirmed as abandoned by the Minister of Housing and Local Government under Section 11(1) (ca) of Act 118.

However, projects categorised as *delayed* and *sick* also carry the risk of becoming abandoned. A delayed project refers to one where the construction progress on-site lags behind the scheduled work by 10-30%. In contrast, a sick project is defined as one delayed by more than 30% of its anticipated completion date or where the SPA has lapsed<sup>3</sup>.

As of 31 October 2024, Malaysia recorded 113 abandoned housing projects, alongside 212 delayed and 382 sick projects. Collectively, these projects represent a gross development value (GDV) of RM113.25b<sup>4</sup>.

Figure 1 shows a detailed breakdown of the 113 abandoned housing projects in Malaysia. Of these, 51 are in the planning stages of rehabilitation, 48 are undergoing rehabilitation work, and 14 remain static. Together, these projects account for approximately 29,511 units involving 16,055 buyers.

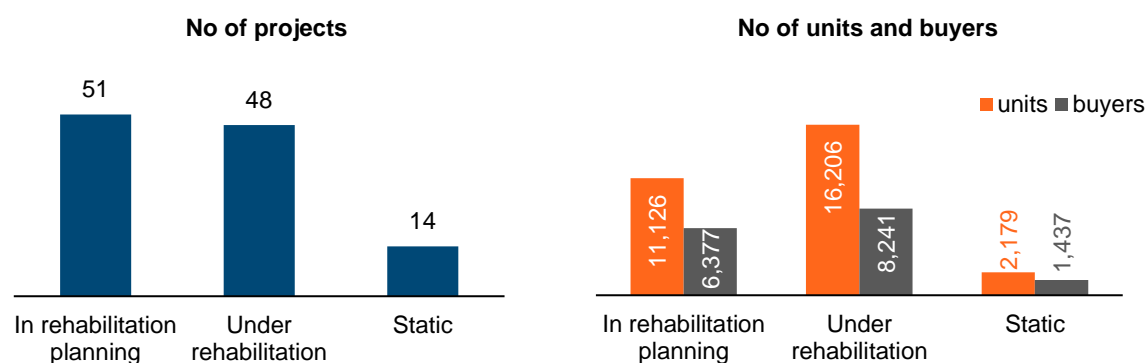
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<sup>2</sup> Definition outlined by *Jabatan Perumahan Negara* (JPN) on their website. Source: JPN (n.d.a)

<sup>3</sup> Ibid.

<sup>4</sup> Bernama (2024)

**Figure 1: The breakdown of abandoned private housing projects by status, as of 31 October 2024**



Source: JPN (n.d.b) and author's calculation

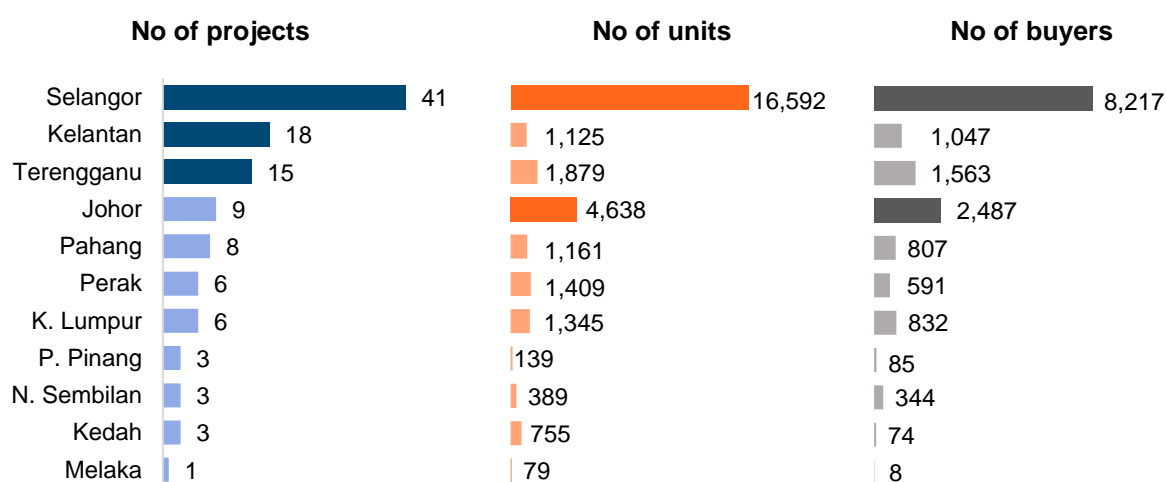
Note: JPN releases the list of abandoned housing projects categorized by status: in rehabilitation planning (*dalam perancangan*), under rehabilitation (*sedang dipulihkan*) and static (*statik*). The figures were then aggregated to derive the chart above. The complete list of projects can be found on the Portal TEDUH.

Additionally, state comparison shows that Selangor, along with Kelantan and Terengganu on the East Coast, recorded the highest number of abandoned housing projects (see Figure 2). Selangor recorded 41 projects, affecting 16,592 housing units and 8,217 buyers—the highest figures nationwide. Even a relatively economically developed state like Selangor continues to face challenges with abandoned housing projects.

Kelantan and Terengganu reported 15 and 18 abandoned housing projects, respectively, affecting over 1,000 units and buyers in each state. Interestingly, more than 80% of these projects were sold prior to abandonment, with Kelantan recording 93% of buyers affected and Terengganu 83%.

Johor, despite reporting only nine abandoned projects, ranked second in terms of affected units and buyers, with 4,638 units and 2,487 buyers. However, approximately 50% of Johor's units remained unsold, a trend also observed in Selangor. These lower sales rate likely affects project viability, contributing to financial challenges for developers and, ultimately, resulting in abandonment.

**Figure 2: The breakdown of abandoned private housing projects by state, as of 31 October 2024**



Source: JPN (n.d.b) and author's calculation

An interesting observation is that Negeri Sembilan, although reporting fewer abandoned projects and units, has nearly fully sold these projects, with approximately 88% of buyers affected. This indicates that high sales rates also do not necessarily ensure project viability. Instead, there could be other potential underlying issues that further exacerbate the commercial risks borne by the buyers.

## Root causes of abandoned housing projects

There are various interrelated factors contributing to abandoned housing projects in Malaysia, with developer mismanagement and financial constraints emerging as primary causes, as highlighted in some studies<sup>5</sup>. *Jabatan Perumahan Negara* (JPN) has also noted reasons such as developers failing to manage the project and company expenses effectively or neglecting to conduct proper Return on Investment (ROI) studies<sup>6</sup>.

One key aspect of mismanagement is the lack of proper feasibility studies, which refers to a thorough market analysis to assess local demand and identify the most suitable type of development. Without proper feasibility studies, developers may undertake an unsuitable project that fails to meet buyer demand, thus leading to unsold units or even property overhang if the project reaches completion.

However, the situation worsens when developers are unable to attract sufficient buyers—which could also be due to poor marketing strategies<sup>7</sup>. When there is no good response from buyers, projects do not achieve the desired sales revenue, thus disrupting cash flow, as many developers rely heavily on buyer funds or unit sales to finance ongoing construction. This financial instability ultimately affects the completion of project construction and increases the risk of project delays or abandonment.

In contrast, some abandoned projects have achieved higher sales rates, as shown in Figure 2. This indicates that there are factors beyond market demand, such as unfavourable economic conditions<sup>8</sup>, may further exacerbate the financial challenges faced by housing developers and contractors. Unanticipated events such as the COVID-19 pandemic were also one reason for many project delays during the pandemic period<sup>9</sup>. Moreover, rising construction materials costs, conflicts among stakeholders, and insufficient coordination with authorities are among the contributing factors that affect project timelines and budgets<sup>10</sup>.

Some studies<sup>11</sup> have identified issues with regard to lack of government enforcement and monitoring as contributing factors to abandoned housing projects. As of 31 October 2024, there were 175 abandoned housing projects involving unlicensed developers, impacting 12,428 units as 5,760 buyers<sup>12</sup>. This situation is worrying and underscores the urgent need for stricter licensing requirements for developers and enhanced systems to identify and address early signs

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<sup>5</sup> Yap Eng Hoe et al (2010), N F Ariffin et al (2018), and Dzuljastri Abdul Razak et al (2015)

<sup>6</sup> Reasons outlined on JPN website. Source: JPN (n.d.c)

<sup>7</sup> Ibrahim (2006) as cited in Yap Eng Hoe et al (2010)

<sup>8</sup> Khalid (2005) as cited in Yap Eng Hoe et al (2010)

<sup>9</sup> A mention by the Deputy Minister of KPKT, YB Datuk Hajah Aiman Athirah binti Sabu. Source: New Straits Times (2024)

<sup>10</sup> Muhammad Nur Hadiff Basharrudin et al (2024), Yap Eng Hoe et al (2010) and Dzuljastri Abdul Razak et al (2015)

<sup>11</sup> Dzuljastri Abdul Razak et al (2015) and Ibrahim (2006) as cited in Yap Eng Hoe et al (2010)

<sup>12</sup> Portal TEDUH - *Senarai Projek Perumahan Swasta Terbengkalai (Tanpa Lesen)*. Source: JPN (n.d.b)

of project abandonment<sup>13</sup>. While the government has proposed measures such as travel bans for errant housing developers involved in abandoned projects<sup>14</sup>, such penalties are not sufficient to mitigate the commercial risks borne by affected house buyers.

Most importantly, the critical issue lies in the nature of Malaysia's housing delivery system which is the Sell-Then-Build (STB) system. Under the STB system, houses are sold first before construction begins, enabling developers to rely on cash flow from the buyers rather than using their own capital to finance projects as the construction work progresses.

An advantage of this system is that it allows for more developers with smaller capital funds and other small players to participate in the housing supply chain. However, this system exposes buyers to significant risks. In the event of developers' poor financial management, insufficient project planning, or broader economic downturns, buyers face the possibility of being left with unfinished homes despite having already servicing their mortgages. The vulnerability of the STB system highlights the urgent need for structural reforms to protect the homebuyers' interest and ensure a more resilient housing delivery system.

### **Causing financial and emotional distress for the affected buyers**

The persistently high number of buyers affected by abandoned housing projects remains a pressing concern, with over 16,000 buyers currently impacted. Many of these buyers have purchased their homes as early as the late 1990s and early 2000s. Yet, decades later, they are still waiting for a solution. Approximately 55% of the abandoned units are under rehabilitation<sup>15</sup>, giving hope to more than 8,000 affected buyers that they may finally receive their long-awaited homes. However, of particular concern are 1,437 buyers whose projects remain in the static category, with little progress toward a solution.

The abandoned housing situation places a dual burden on affected buyers. Not only are they obliged to continue paying loans for homes they have yet to see or receive, but they must also cover the cost of renting their current residences. The struggle is even greater for buyers from low and middle-income families, who already have some sort of financial constraints and carry the risk of bankruptcy if they fail to pay their monthly mortgage payments. If blacklisted, borrowers' possibility of taking another loan is near zero unless they have completed loan repayments. In the event of non-declaration of project abandonment, buyers might also not be able to make a second withdrawal from EPF to purchase a second home<sup>16</sup>.

In addition to the financial burden, these buyers could also endure significant emotional stress, dealing with the frustration of paying for a property they cannot live in, and the taxing legal processes associated with abandoned projects. These legal proceedings also incur additional legal costs, adding to the buyers' financial challenges as well as demanding substantial time and energy.

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<sup>13</sup> Ibrahim (2006) as cited in Yap Eng Hoe et al (2010)

<sup>14</sup> The Star (2024)

<sup>15</sup> See Figure 1

<sup>16</sup> House buyers impacted by a declared abandoned housing projects can obtain project status confirmation letters from KPKT. These letters can be presented to financial institutions to request for interest rate reductions, loan repayment restructuring and approval for a second EPF withdrawal. Source: The Edge Malaysia (2023)

Moreover, even when housing projects are rehabilitated, they may not align with the original specifications outlined in the SPA. Rehabilitation efforts typically involve extensive negotiations aimed at achieving a compromise between buyers and the rehabilitation parties. These negotiations can result in significant deviations from the original plans.

In some cases, projects are repurposed, such as conversions from residential to commercial developments<sup>17</sup>. There are also instances where buyers receive a refund of their deposits<sup>18</sup>. However, there are also situations where homes are rebuilt but with reduced sizes or changes to the features due to increased construction costs, requiring buyers to accept less or pay more than what was initially promised<sup>19</sup>.

### **Not all projects worth rehabilitation**

Rehabilitation of abandoned housing projects is a complex process involving multiple stakeholders, including developers, financiers, contractors, technical agencies, and government authorities. Critical considerations for rehabilitation include the number of units already sold, existing purchasers' interest, and the likelihood of buyer take-up upon project completion<sup>20</sup>. As such, only projects with clear revival potential proceed to the next stage of rehabilitation. This indicates that, even with government intervention, there is less assurance that affected buyers will receive a solution.

Studies have reported several challenges in rehabilitation efforts, including a lack of collaboration between stakeholders, land ownership disputes, resubmission of project approval documents, and difficulties in achieving consensus and cooperation from buyers<sup>21</sup>. The latter challenge could be due to reasons such as inadequate compensation or rehabilitation plans that do not align with originally promised specifications. Thus, these challenges often delay or hinder successful rehabilitation.

Figure 3 shows the status of resolved abandoned housing projects. Between 2009 and 2024, a total of 241 abandoned housing projects were resolved, involving 62,433 units. Of these, approximately 67% (41,658 units) were successfully sold. Among the resolved projects, 138 were completed with Certificates of Fitness for Occupation (CFO) issued, 27 were settled by returning deposits to the buyers, 38 involved changing the development plans, and 2 projects were converted into commercial developments.

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<sup>17</sup> See Figure 3

<sup>18</sup> Ibid.

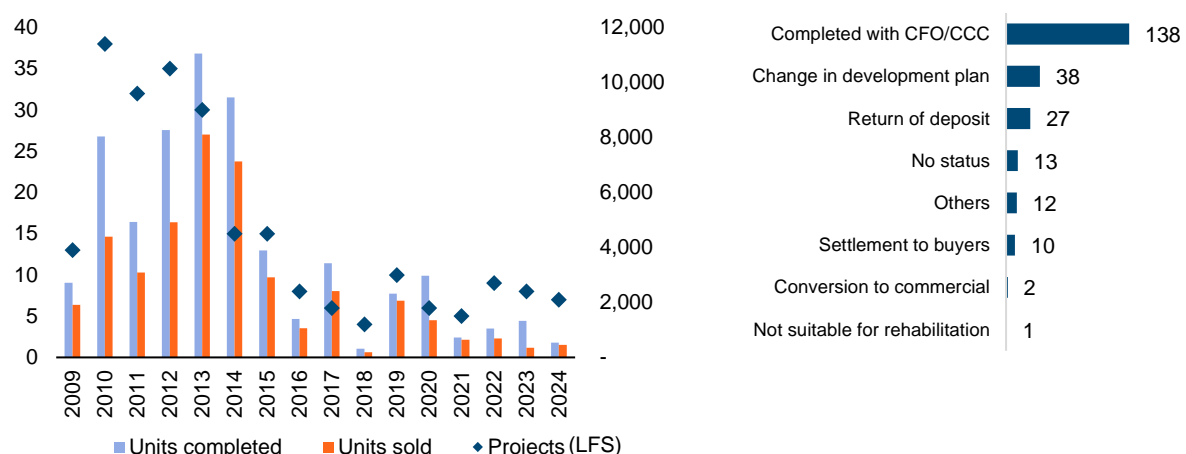
<sup>19</sup> For example, the case of Villaria project in Petaling Jaya, mentioned in a website post titled Rescue & Revival of Abandoned Real Estate Schemes by Lim & Yeoh Advocates and Solicitors. Source: Lylaw (n.d.)

<sup>20</sup> A mention by Unijaya Holdings Sdn Bhd as quoted in The Malaysian Reserve (2023)

<sup>21</sup> Rudy Firdaus Christopher et al (2024)



**Figure 3: Status of abandoned housing projects resolved between 2009 – 2024, as of 31 October 2024**



Source: JPN (n.d.b) and author's calculation

The Task Force on Sick and Abandoned Private Housing Projects (TFST), established under the Madani Government in 2022 is responsible for monitoring and facilitating the recovery of sick and abandoned housing projects to safeguard the interests of house buyers. Between January to September 2024, TFST successfully rehabilitated approximately 371 problematic and abandoned housing projects involving 46,139 private housing units, with a GDV of RM44.59b.

Out of these rehabilitated projects, 348 projects received Certificate of Completion and Compliance (CCC), 17 delayed projects resumed construction, and six abandoned projects were restored<sup>22</sup>. These active rehabilitation efforts by TFST show the government's stronger intervention in addressing issues surrounding abandoned housing projects.

### Build-Then-Sell (BTS) as a viable solution for abandoned housing projects

Every house buyer bears the commercial risk of being left with incomplete or abandoned homes due to Malaysia's STB housing delivery system. Statistics show thousands of buyers have been affected both financially and emotionally, with many waiting decades while enduring financial losses. Although government interventions have helped resolve some cases, such measures remain unsustainable as a long-term solution.

The challenges faced by affected buyers highlight the urgent need for robust regulatory measures to prevent project abandonment and protect buyers' rights. The government must enforce stricter regulations to ensure developers have sound financial standing and robust risk management systems. On the buyers' side, taking extra efforts, such as verifying developers' track record, and their reputations before investing in the projects, can mitigate risks to a certain extent. However, this does not fully eliminate the commercial risks inherent in the STB system.

<sup>22</sup> Media release: Task Force Pergiatkan Usaha Pemulihan Projek Perumahan Swasta Sakit dan Terbangkalai. Source: KPKT (2024)

Buyers, as vulnerable stakeholders, should not bear the penalties for placing trust in developers with the expectation of receiving the promised project.

**A more viable long-term solution is transitioning to the Built-Then-Sell (BTS) system to safeguard buyer's interest.** Under BTS, developers finance construction upfront and sell houses only when the house is completed and ready for viewing. Buyers would start to pay their mortgages only after the houses are built, thus reducing the risk of abandonment and protecting buyers from financial losses.

After all, buying a house is one of the biggest life investments for many people, with their hard-earned savings put toward achieving the aspiration to own their dream house. A shift to the BTS system would provide stronger protection for house buyers, ensuring their investment materialise into a completed and secure home, free from the risks of being left unfinished.

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