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PR1MA may be dissolved

It is mandated to build tens of thousands of homes but has little land

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PETALING JAYA: Public housing agency Perbadanan PR1MA Malaysia may be dissolved, pending a due diligence and turnaround plan which hinges on the take-up rate of its units becoming actual sales.

The turnaround plan is to help PR1MA make good its obligations, or a "substantial part" of whatever it has contracted.

It will also try "as much as possible" not to default on its contracts, PR1MA chairman Tan Sri Eddy Chen Lok Loi said.

"We are looking very hard, at the end of the day, to meet our obligations or substantial part of our obligations.

"How big the issue is, nobody knows. The turnaround plan is to make sure we recover as much money as possible.

"The market has come down and we have paid the contractors. This is where we have built and the market is against us," he said.

The due diligence is expected to be completed by the end of this month.

On how the agency came to this, Chen said: "The business model was numbers-driven. PR1MA was given a big number to build and virtually very little land to work with."

Chen was speaking to the media at the Naptic Report Overview 2019-cum-Big Data Analytics Conference organised by the Real Estate and Housing Developers Association Malaysia (Rehda) Institute.

He is also Rehda trustee and patron.

"Whether PR1MA will continue as an entity or not would very much depend on the ability of PR1MA to turn around," he said.

Earlier this week, Housing and Local Government Minister Zuraida Kamaruddin said PR1MA may be "dissolved" as it was in "a mess".

Many of its buildings were built in locations which were "questionable", said Chen.

"The business model was wrong in the sense that it was what you call a master en block purchase agreement.

"This means that when we contract with the second party, we buy the land from them and we sign a contract.

"We have to pay for the whole contract irrespective of sales.

"At that time, PR1MA was tasked to build-then-sell. This means that we do not sell for a few years.

"In good locations, when we started selling, it was all right.

"However, in locations with lower demand, it becomes challenging. The number of unsold units, to say the least, is far too big."

A substantial amount of the current overhang valued at RM19.86bil as at Dec 31, 2018 is made up of PR1MA and government affordable homes.

A Naptic source said up to 30% of the overhang units totalling 32,313 are government affordable units under various agencies. The rest are private-sector units.

Chen said the overhang has contributed to the difficult and very challenging situation facing the agency.

"The scenario we are talking about (today) is very different from the day PR1MA was started in 2013," he said, adding that it was critical to get the pricing right.

"What has happened is we are looking at a different price set. We have already contracted (the project) at a price which is legally immovable. So now, the big challenge for PR1MA is to meet these (obligations), to do our best not to default as much as possible on these contracts," he said.

A turnaround plan is in place but is dependent on the take-up rate of the projects, he added.

Chen said PR1MA has bookings of close to 10,000 units valued at RM2.3bil under the ongoing home ownership campaign, but this

depends on the loan applications being approved.

"Now, the challenge is to get loans for these.

"We are monitoring this and are working with partners to make sure that we get as much loans approved as possible," he said.

He said the due diligence would be a "position paper" on the company. "It would, in many ways, tell us where we are and how we would go about the future prospects of PR1MA.

"We have essentially a good team, but crucially now, it depends on the market and the ability of the people to secure their loans.

"More than 80% of our housing is priced below RM300,000. Many are in the RM150,000 category, so, it is very affordable.

"PR1MA is now presenting housing priced to the market, with many even priced below market value. Many are below the launching price and the take-up rate would provide the direction," said Chen.

"It is also to make sure we recover as much money as possible," he added.

According to a source, it has completed 16 projects with a total of about 11,000 units. It has paid for the projects, but many are yet to be sold.

PR1MA is trying to recover this money, said the source. At the same time, according to another source, it may have about 60 projects which are works-in-progress, offering between 50,000 and 60,000 units.

According to previous press reports, PR1MA was mandated to build 80,000 units of affordable housing.

However, the agency did not have much land. Prices of PR1MA units were in their early years capped at RM400,000.

According to its website, PR1MA was set up under the PR1MA Act 2012 to plan, develop, construct and maintain high-quality housing with lifestyle concepts for middle-income households in key urban centres.