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Watching out for over-building

TOO much of a good thing is bad. Property development is an engine of economic growth, providing living space for people and premises for business. But over-building is wasteful and counter-productive. Deciding when that happens is usually left to the developers and risk-takers of the free market. When market mechanisms break down, however, and a glut occurs, the Government must step in.

The directive to State Governments to stop unnecessary development projects is timely. The property overhang is serious, as Prime Minister Datuk Seri Dr Mahathir Mohamad stressed when he told local authorities to consider the marketability of property projects before approving them. The number of unsold residential units rose by 10.1 per cent in the last quarter of last year compared with the previous quarter. Unsold properties increased from 54,265 to 59,750 units, of which 38.9 per cent had remained unsold for more than 24 months.

The property glut will continue if local authorities ignore reality and continue to approve property projects without looking at what the Prime Minister has rightfully described as the "big picture". The local authorities should not be too hasty in approving projects just because they want rapid development in their areas. Reducing the supply of new property units will allow demand to catch up and absorb the unsold units to reduce the overhang.

A property glut levies a large opportunity cost because money lent by banks to developers could have been used more productively for other purposes. Worse, all those involved in the chain of activities in property development, from the developers and contractors to the suppliers will be affected and possibly face financial difficulties. Projects which are abandoned half-way because of lack of buyers are an eyesore and a financial burden. Local authorities must monitor the market and go for projects with better prospects, such as low and medium-cost residential units. Otherwise, the excess in the property market will remain longer than necessary.