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Lower plot ratios for properties in KL would dent earnings

The change to a 1:10 ratio could translate into depressed margins for developers, says analyst

by **MARK RAO**

THE introduction of a plot ratio for new Kuala Lumpur (KL)-based property projects to a maximum of 1:10 will affect the projects' profitability and developers' profit margins, industry experts said.

All future projects are required to abide by the ratio, but according to Federal Territories Minister Khalid Abdul Samad, the ministry will also look into applications which have been previously approved in principle, on a case-by-case basis.

The plot ratio is included in the KL City Plan 2020 (KLCP 2020) with the objective to control the size of city developments and to curb the incoming supply of office and residential units in the city's property market.

An industry analyst said developers that are required to change the project scope to comply to KLCP 2020 are expected to face reduced profitability.

"Because the land was initially bought with an intended built-up land area, the change to a 1:10 ratio could translate into depressed margins for the affected developers," the analyst, who spoke under condition of anonymity, said.

"The impact to margins will depend on what kind of changes to the plot ratio are required under the new requirement following a fresh application. This will be determined on a case-by-case basis."

JF Apex Securities Bhd head of research Lee Chung Cheng said the introduction of a plot ratio will impact the gross development value (GDV) of projects planned prior to the government's requirement.

"Developers who have to resubmit building applications will definitely be impacted as they initially bought the land at a certain price and intended for a high plot ratio," he told *The Malaysian Reserve (TMR)*.

SEE P4 COL1

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Plot ratio to curb oversupply in KL

FROM P1 Plot ratios

"The new requirement will negatively affect the GDV of the project in question."

On Feb 11 this year, a local daily reported that all property projects previously approved with a higher plot ratio are required to seek fresh approval from the Kuala Lumpur City Hall (DBKL) to comply with the KLCP 2020 standard.

One of the affected property projects is the Federal Hill development project.

The 20ha plot of land located near KL Sentral was acquired in 2012 by SP Setia Bhd in a land swap deal, but DBKL had imposed a freeze on the development in a bid to resolve the dispute between residents and the project developer.

The developments come amid a prolonged overhang situation of residential and commercial properties in Malaysia's capital city.

There were RM29.47 billion worth of 43,219 unsold homes nationwide in the third quarter of 2018 alone, with KL having the third-highest count of overhang at 5,114 units, according to Rahim & Co International Sdn Bhd.

The property consultancy firm said there was also a supply of 136 million sq ft of purpose-built office space in the Klang Valley in the same period — comparable to Hong Kong which has between 150 million sq ft and 170 million sq ft.

Lee further said the plot ratio requirement is forecast to predominantly affect high-end residential and commercial properties, and will go a long way to addressing the oversupply situation in KL.

"After the Asian financial crisis, the government froze the incoming supply of office space in the country. This resulted in developers moving to the high-end residential segment," he said.

"The 1:10 ratio is aimed at addressing this issue and should be effective in curbing the incoming supply of office and residential units in KL."