

A Brief Introduction on Putting Land for Development to the Best & Highest Use Value

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The Malaysia Valuation Standards I (MVS I) states that in estimating at the market value of a subject property **a Valuer must first estimate the highest and best use of the property.**

The highest and best use is defined as the most probable use of the property which is **(i) physically possible, (ii) appropriately justified, (iii) legally permissible, (iv) financially feasible** and which is resulted in the highest value of the property being valued.

Properties such as **existing older** commercial complex, factory and resort property can be put into higher use value by **re-designing, refurbishing and modernizing** them to meet the changing economic condition. Here I will touch on a specific type of property, i.e. **land for development**. The financially feasible factor is the important factor that determining the highest and best value on land for development. Financial feasibility is not a constant figure and is subject to change as a result of economic conditions change. Increase in various commercial, industrial and agricultural activities will result in increasing demand of land and floor space. **In short financial feasibility is a function of various economic activities.**

In spite a site is ripe for development and financially feasible, **the highest and best use value is constrained by statutory requirements** e.g. Town & Country Planning Enactments, Building Bye Laws, provision for road & drain reserve requirements, Environmental Impact Enactments requirements and so on.

In order to analyses whether a piece of land which is ripe for development has achieved its highest and best use value in a given economic scenario and a given statutory requirements regulating on the permissible use.

Besides in fulfilling all the requirements as stated in the definition, namely, physically possible, appropriately justified, legally permissible and financially feasible the other factors that will affect the best and highest use value are as follows:-

- (i) Converting land to higher use value**
- (ii) Optimum Density**
- (iii) Optimum Development Layout Design**
- (iv) Appropriate Building Layout Design**

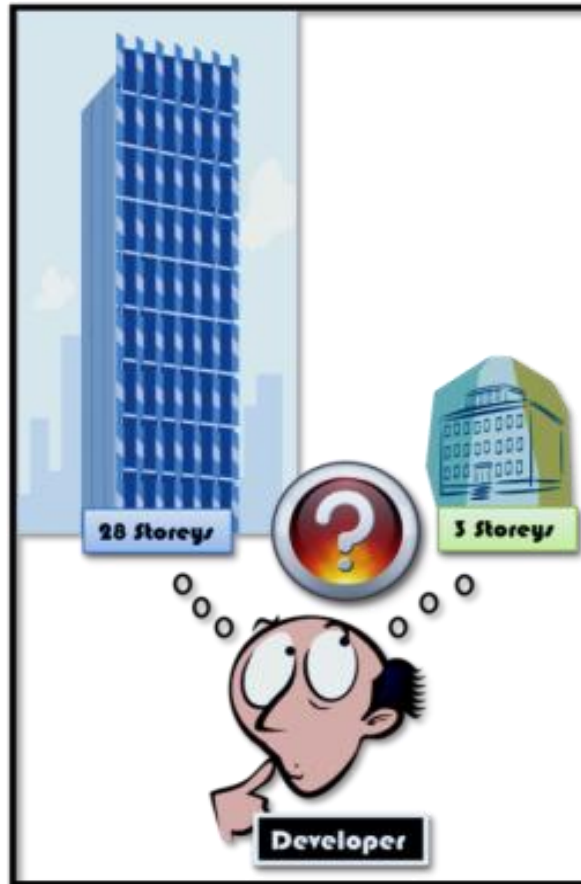
(I) CONVERTING LAND TO HIGHER USE CATEGORY

A change of use of a land will significantly bring about change of land-use value. **Change of land use from agricultural to residential, industrial or commercial use will bring about different hierarchy of land-use values.** Change of land use is usually driven by change in economic activities in the region where the subject property is located. Application for change of land use is usually made to Town & Country Planning department with the necessary justification and rationale in the form of planning brief. Approvals for the site to be rezoned e.g. from agriculture to commercial development, will release the potential land-use value to a higher hierarchy.

(II) OPTIMUM DENSITY OF DEVELOPMENT

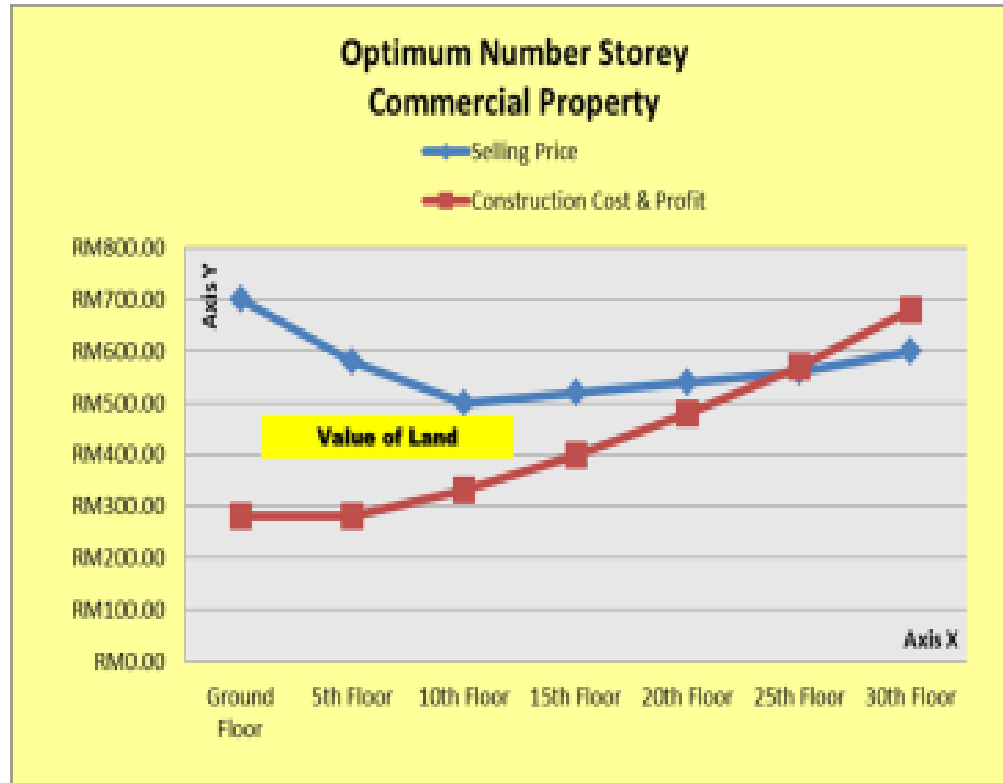
Apart from the total number of buildings in a development, the higher the number of storeys will also result in a higher density of the development. This will increase the area of saleable floor spaces and thus the sale revenue. However a developer cannot indiscriminately continue to build higher and higher because the differentiation in marginal return will set in. When marginal return is decreasing and approaching zero, this is the highest number of storeys a developer is advisable to build. Any additional number of storey to be built beyond this will result in overall lower return or lower of land-use value.

(II) OPTIMUM DENSITY OF DEVELOPMENT



For example in a suburban area of Kota Kinabalu the selling prices of a four-storey shophouse with a differential in selling prices of ground floor RM700, 1st floor RM310, 2nd floor RM270 and the 3rd floor RM230 per square foot, and assuming the cost of construction including developer's profit is RM270 per square foot. It is obvious that the maximum number of storey should be build is 3-storey shophouse. Any additional storey will result in a lower overall.

What is the optimum number of storeys of building to be constructed on a site? **The optimum height of building is reached when the differentiation in the marginal return becomes less and less and approaching zero.** An experienced Development Consultant with the help of a mathematical module or computer software will be able to calculate on the optimum number of storeys that should be built on the specific site.



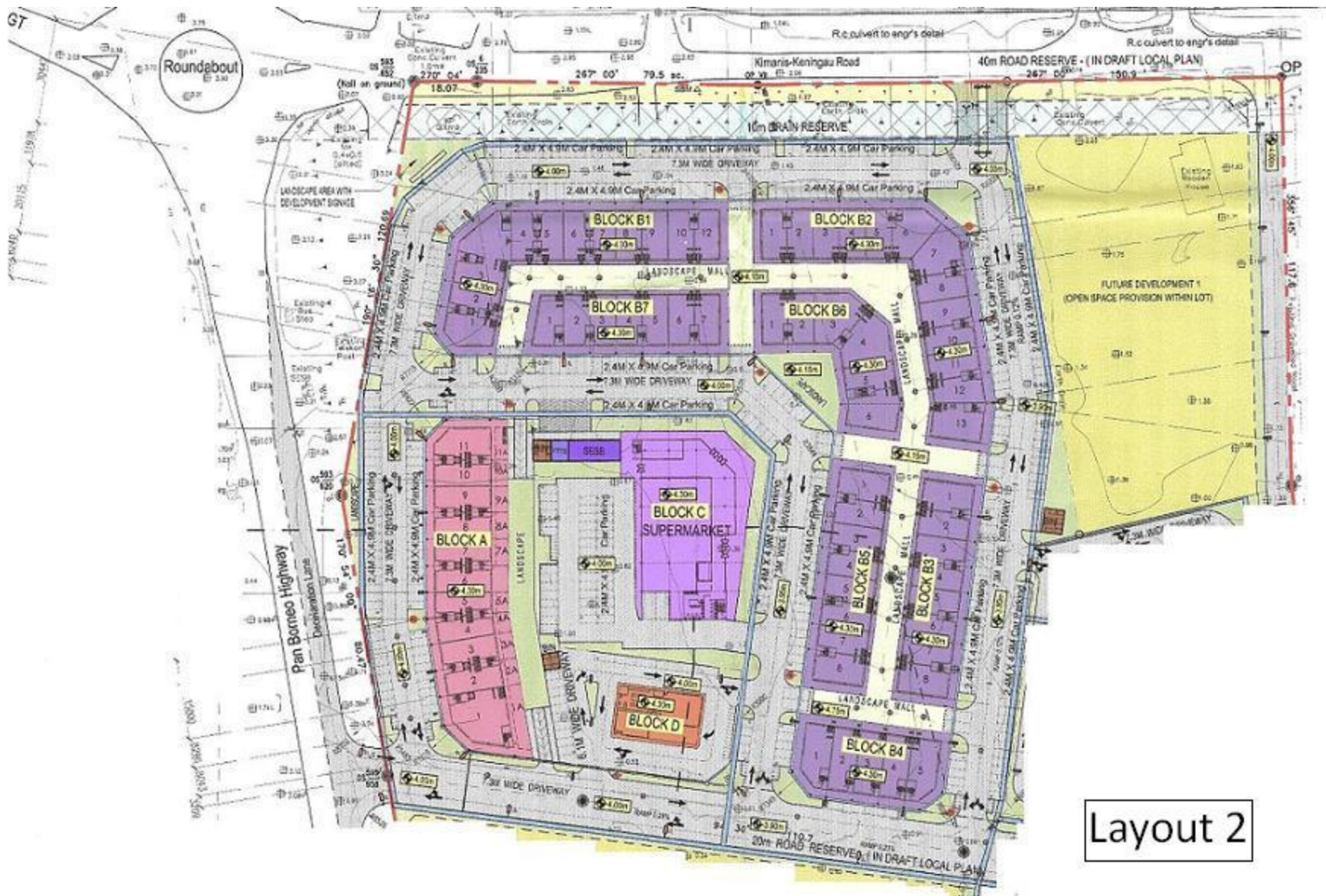
III. OPTIMUM DEVELOPMENT LAYOUT DESIGN

The skill of allocating of various development and ancillary facilities in the layout plan or development plan is crucial in bringing out the land-use value. **The objective is to maximize the land area for building saleable floor spaces.** For example, Design A is able to achieve an average of 10 units of shophouses per acre whereas Design B is able to achieve 12 units of shophouses. Design B has a better design layout thereby resulting in higher land-use value. This is a simplified version. In fact, a good design and layout needs to consider many other design criteria in order to achieve the highest and best use value of the land.

In a proposed commercial development, there are specific statutory requirements under the Town & Planning Ordinance and Building Bye Laws for the provision of open spaces, roads & drains, car parking bays, water retention pond, utilities, setback for buildings etc. These requirements take up approximately 65% of the total land area of a proposed site. This means it leaves the remaining 35% for the construction of commercial buildings or shophouses. This ratio on land uses can be varied by providing multi-storey car parks to reduce the on surface parking, roof top garden to reduce open space provision, larger and deeper storm water drain to replace water retention pond and so on. Creating more useable area is achieved at the expenses of higher development costs. In general, the average percentage is around 27% for commercial development. This percentage of “buildable area” can be much lower if the site is irregular in shape as more land area becomes “useless”. Different layout designs will give different percentage of land area being used for building saleable floor spaces. **A development layout plan giving the maximum land area for building saleable spaces will bring the land-use value to its best and highest value.**

Two Proposed Layouts on same site.





Layout 2

Which layout is most likely to achieve a higher use value?

IV. APPROPRIATE BUILDING LAYOUT DESIGN

Building particularly commercial should be designed to suit its purpose in order to achieve its highest and best use. Building layout design include floor layout, ceiling height common area and **connectivity** in the building to neighborhood and public transport. The typical example is the New Town plaza, Shatin, Hong Kong. It is the commercial centre that connecting shoppers/pedestrian from everywhere enhancing its use value.



Walkway on 2nd floor of Lucky plaza connecting to New Town plaza, Shatin, HK

Land Development Value Index (LDVI) if there any such index would be a good indicator to measure whether the subject land has been put to its highest and best value. Food for thought for property players.