

## **A Rethink on Building to “Maximum Plot Ratio”**

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There is one distinct feature in the Hong Kong real estate development industry : for the past 20 years or so, practically all development projects are built to their maximum allowable plot ratio(s) (gross floor area-GFA) and few, IF ANY, ranging from developers / investors to professionals, bother asking or analyzing whether there is sufficient demand to justify maximum development\* for any particular site or portfolio. Hence, real estate assets including land sites have been / are still bought, sold, priced, evaluated, planned, developed and built based on such maximum allowable development potentials.

There may be a need now to rethink the above presumption in view of the changing circumstances, among other things, in local land/real estate policies, income, regional development, and the global economy. For instance, in the USA/Canada, it is customary to first assess what level of (optimal) plot ratio (or floor area ratio-FAR-being the counterpart term in North America) a particular site or portfolio can sustain given certain demand, supply, timing and pricing assumptions. Generally, the maximum allowable FAR would be higher# than what is justifiable which in turn implies :

- a) Not all sites are developed to their maximum allowable plot ratio for any given use
- b) Pricing / evaluating a real estate asset based on its maximum allowable development potential may lead to over-pricing and over-payment

Hence, it may be prudent first to assess whether it is commercially feasible to develop the site to the maximum plot ratio allowed or **whether the more viable level is somewhere between the stated minimum and maximum GFA** under certain timeframe assumptions. While the overall plot ratio and GFA policies have not changed significantly, the speed/frequency/consistency/certainty of land supply has (actually this may spell good profits later on yet this is another topic for another day). Just one more question to ponder before acquisition and development decisions are made.

\*Please refer to our previous article “Hong Kong - A High Land Price Policy?” published in July 1997 for hints on the reason(s) for the observed practice. Readers may contact us for a copy.

#Not all North American municipalities/cities/towns etc have a comprehensive town planning framework and there are always cases where the FAR allowed for a particular use or site(s) may be lower than what the market deems sufficient. Beware though of cities/towns which have no coherent land development and town planning policies as over-building may then occur. Given all things being equal, look for municipalities, cities and towns which operate neither on the “free for all” nor “anti-development” basis and which offer a straight-forward / reasonable procedural process based on competent planning.