

Plot ratio stays – State lease not being topped up

What is the fate of leasehold condos

Many owners of old 99-year leasehold condominiums are still clamoring for en bloc sale. Do you think that their aspiration can be fulfilled within this year?

Not everybody's dreams will be thwarted in this case as every condominium project has its own attributes and selling point. But with major developers resuming new home launches after a 6-month hiatus and started reducing their asking prices, the mathematical equation for old condominium projects nearby the new launch is out – you will have to sell at much lower prices than the developers' current launch price.

For en bloc sale of old leasehold condominiums, two other critical factors need to be examined, i.e. plot ratio and topping up of lease period by the State.

Plot ratio remains status quo

Minister for the national development, Mah Bow Tan said that the government have no plans to increase the plot ratios despite the projected increase in population to 6.5 million people in the long term.

In fact, the new Master Plan 208 has plan for fewer homes. It allows for 327,200 new homes in Singapore. Whereas, the previous plan, MP 2003, allowed for 371,000 homes, 13.4% more than MP 2008.

URA added: 'In the medium term, around 350,000 dwelling units is a comfortable, reasonable number for land safeguarding purposes, which allows some flexibility to meet market demand. Both MP 2003 and MP 2008 have safeguarded about 350,000 dwelling units.'

Explaining plot ratio

Plot ratio is to determine the density of a piece of land, or in layman's term: "how many people are allowed to live on that piece of land at any one time"

It determines the gross floor area (GFA)

Plot ratio of land is the ratio (as in how many times) to which a building can be built up in GFA in relation to the land area. For example, when a 1,000 sq m land has a plot ratio of 2.5, the building on that land can have a GFA of 2,500 sq m which is 2.5 times larger than the land size.

It determines story height of buildings

In most cases, the plot ratio in turn determines a building's height limit (though there are other criteria which stipulate height limit)

Plot Ratio	Story Height Control	
	Old	New
1.4	4	5
1.5	5	6
1.6	10	12
2.1	20	\$24
2.8	30	\$36
>2.8	>30	>36

It is revised every 5 years in the Master Plan

The allowable plot ratios for the developments are stipulated in the Master Plan which is revised every 5 years and 2008 happens to be the beginning of a new 5-year period. This is the reason why many property owners started to extrapolate that there will be an increase in plot ratio.

They are so certain that plot ratio will be increased for 2 reasons:

- They are wishful that it will be increased so that they can have a windfall profit from selling their apartments en bloc;
- On the past 2 occasions when the Master Plan was reviewed, either the plot ratio or the storey height limit had gone up – resulting in larger GFA across the board.

But it is official now. The Minister for National Development who has the final say on this has spoken out, not once but thrice, and there is to be no increase in plot ratio.

So the genie is out of the bottle – and sorry, he can't grant you any wishes.

Extension of lease period by the State

Another hurdle for en bloc sale of old leasehold condominiums is the approval by the State to revert the state lease back to the full glory of the 99-year term.

Recent developments on the ground seems to point to a new government policy rationale – that is – we may have to get used to shorter state lease of 85 years rather than 99 years.

Don't you think that the figure 85 seems more and more familiar, such as CPF withdrawal age to be extended to 85 years old.

### Explaining State leases

In the past, all land in the country belonged to the sovereign, who is either a King or a Queen. The subjects were granted the use of the farm land and in return, shared certain percentage of their produce on the farm with the sovereign and they also pledge their allegiance to defend their kingdom.

The state while granting lease also decides how the land is used and for how long

Today, all land belongs to the government of the day, called the state. Only the State can grant land to either corporations or individuals for a certain period (called a lease) and in return, the lessees have to promise to do certain things, for example: pay property taxes, abide by the land rules such as zoning (how they use the land, either for commercial, residential, or industrial purpose), and very importantly, to revert the land to the State after the lease, which, depends on the circumstances, can be 10 years, 30 years, 60 years or in the case of residential land, mostly 99 years.

In the past few years, the State normally approved the applications by the land owners (developers) to extend the State lease to 99 years without a fuss. In return, the land owners pay a betterment tax proportional to the extended period. The tax is called 'differential premium'.

### More requests to top up leases turned down

However, in the last couple of months, a few applications were turned down outright and those who got the nod received extension for only 85 years.

An example is the Market Street Car Park's redevelopment into an office tower which has another 65 years to run. The developer's request for a top up to 99 years was rejected. Meanwhile, the former Crosby House site at 71 Robinson Road – which was being built into a new office block – had its lease topped up in April last year, to 85 years and 10 months instead of the full 99-year tenure.

### Lease extension now on a case-by-case basis

A spokesman for URA said that in granting extension of state lease, the government would have to consider various factors such as the future land to use, redevelopment plans and the ability to retain future flexibility.

In short, top up request will be considered on a case by case basis.

## The fate of leasehold condominiums

I have a strong sense that the State is trying to make land owners get used to the idea of a state lease that runs only 85 years instead of 99 years so that land costs can be kept to an affordable level and hence the costs of doing business in Singapore can likewise, be kept lower.

## Singapore's global competitiveness

The acute shortage of commercial space in the Central Business District (CBD) has pushed up land costs so high that Singapore has become one of the top ten most expensive places to live in. That will definitely hurt the country's competitiveness.

Like wise apartment rents, a major component of business costs, have skyrocketed.

Granting a shorter lease and making extension cheaper may help to bring land costs down significantly and regain Singapore's competitiveness as a global financial hub.

## Let's get used to shorter lease period

In the meantime, unless and until home buyers and housing developers can get used to the idea of a shorter leasehold tenure, there will be no go for en bloc purchase of leasehold residential projects with a shorter remaining lease.