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A QUALITATIVE CONTENT ANALYSIS OF THE DEVELOPERS' PERSPECTIVES ON DEVELOPMENT CHARGES

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Abstract

The conversion of land, increment of plot ratios or density that increases the land value often comes with a development charge. While the local governments view the development charge as one of their income sources for providing utilities to the society, property developers' communities still contend that the charge surges development uncertainty. Moreover, the existing empirical studies of the implementation of development charges in Malaysia are limited since lack of developers' views regarding this matter. Through semi-structured interviews among the property developers, this paper had explored the property developers' perspectives on the implementation of development charges in Malaysia. Data from the interviews were analysed using content analysis techniques. Findings from the analysis revealed that the effect it has on property developers seems to have increased the developers' uncertainties, especially on the cost of property development. This paper provides new insights for future research in the study of relevant approaches to improve the efficiency of the development charge and the effect it has on the developer's uncertainty.

Keywords: property developer, development charge, qualitative content analysis

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RESEARCH BACKGROUND

The objective of this study was to explore the revolving arguments among property developers pertaining to a development charge imposed on property projects that were carried out in accordance with Section 32 of the Town and Country Planning Act 1976 (Act 172). The development charge was levied on the applicant if the project was approved specifically for land use conversion that changes the compactness, the increment of plot ratios and density that will increase in land value (Abd Rahman et al., 2019). Currently, the property developers are juggling the surge in the cost of doing business. The growing concerns of high imposition rate, increasing development cost, and unstandardized payment procedures are still interspersed after the implementation of the development charge. Moreover, the absence of specific rates of charges and standard methods of calculation on development charges by the local planning authorities have created dissatisfaction among developers. In addition to that, past research on the implementation of development charges in Malaysia is inadequate due to the lack of developers' perspectives concerning this matter. Thus, this study will give an insight into the local authorities on the competency of the development charge and the effect it has on the developer's uncertainty.

Development Charge: Definitions and the Implementation

In the context of development charges, several definitions explain the meaning and how it is used appropriately. Some important words that reflect the implementation as a whole are development charges, development, land use, planning permission, development charges, and rules. This definition is stated under Act 172 and the Development Charge Rules at the state level, as well as a reference to the Dewan Bahasa dan Pustaka Dictionary. The definition of 'development charge' as mentioned in Section 32, Act 172, clarifies the development charge and liability. Besides, if a local plan or a variation of a local plan results in a change in use, density, or floor area in respect of any land, to increase the value of the land, a development charge should be levied in respect of any land development initiated, undertaken, or carried on according to the change. The Development Charge Method also refers to the same definition, which is under the Section 32 of Act 172.

The development charges are usually related to planning actions that cause an increase in land value. Maximizing plot ratios could fulfil the high population (Abd Razak & Yin, 2021). In the context of planning theory, development charges are required when the authorities carry out a land-use conversion on a particular area. The charge is imposed when there are basic changes in planning such as land use zone change, increase in density, and

increase in plot ratio, however, the effect of the planning action has proven that there is an increase in land value to be charged (City Planning Department, 2019).

Several countries also implement development charges. According to Crawford & Juergensmeyer (2017), the implementation of development charges is a popular concept among countries in reducing the burden of local governments providing facilities as a result of the municipal process. In Singapore, the law for the payment of development charges has been used since 1965. However, the development charges were first introduced in 1980 through the Planning Act (Chapter 232, Section 40), Planning (Development Charges) Law Revised 2007 Edition. Meanwhile, in the United States (US), the source of private income is from the “development impact fees (DIF)” translated as development impact costs. The changes in the US have shifted from public policy to land use and the provision of infrastructure as enshrined in the Mitigation Fees Act (Brunson 2020).

In general, the development charges are a way to shift the expense of additional infrastructure to the developers because of the changes in development plans that result in a larger development. The development charges have become an increasingly popular option among local authorities because they can hand over the fees directly to the developers instead of providing direct costs to residents, as in the case with property taxes. In the previous research by Abd Rahman et al. (2019), there are five (5) main concerns after the implementation of the development charge namely, duration, the collection of data, individual application, payment method, and unstandardized rate. The unstandardized rates charged can be summarised as in Table 1.

Table 1: Percentage of Development Charge Rate

Types of municipalities	States				
	Selangor	Perak	Kelantan	Kedah	Johor
City hall	30 %	10 %	-	20 %	25 %
Municipal	30 %	10 %	15 %	20 %	15 %
District	20 %	10 %	10 %	20 %	10 %
International Zone	-	-	-	-	30 %

Source: Federal Department of Town and Country Planning (PLANMalaysia)

The development charge method also stipulates that the local planning authority should ensure that a local plan for its area has been gazetted and contain information on proposed land use, density, or plot ratios. The rate of charge is as prescribed by the State Authority (PBN), and gazetted in the development charge method of the states that implemented this charge. Each state uses different rates

according to the current scenario and their respective needs. However, most states set the rate classification according to the status of the local authority in their respective states to create uniformity and capability, as well as the development potential in the local authority area. The calculation method or basic formula for the calculation of development charges is as follows:

$$R \% * x \text{ difference in land value } **$$

* the percentage rate depends on the PBN ruling

**differences in land values are due to changes in land use categories, changes in density or density, and changes in floor area

In the Malaysia scenario, the development charge imposition is high. Hence, many developers or applicants show protest and appeal for a lower rate. McAllister et al. (2018) suggested that the local governments review the charge imposed conferring to the applicant's category, whether the applicant is an individual or developer. This is to prevent the applicants from cancelling their application, which may later cause a loss of income to the local government. With a high development charge, the development costs might increase which may result in the increase of end buyers (Smith & Teitz, 2020). This is because the development charge is also a part of total development costs. The increase in the development costs will increase the selling price of the development, thus, will reduce the demand for that particular development (Jones, 2015).

METHODOLOGY

This study applied qualitative content analysis to obtain robust descriptions of property developers' perspectives and experiences regarding the implementation of development charges in Malaysia. Data was gathered through an in-depth semi-structured interview. The key to having a conversation with experts is to gain an in-depth understanding of the matters to be studied (Berner-Rodoreda, et al., 2018). The characteristics of a semi-structured interview are it is focused on the respondents' experiences regarding the research topic, and it takes place with respondents known to have been involved in a particular experience (Mansor & Sheau-Ting, 2021).

Semi-Structured Interview

The semi-structured interviews were conducted virtually, and the recorded sessions were saved in Google Drive. Each session lasted for approximately 20 to 40 minutes. As this study espoused a semi-structured interview, an interview guide is essential to assist the researcher to achieve the research objective (Brinkmann & Kvale, 2015). The questions used for the interview guide during

the virtual interview sessions were relevant to the implementation of the development charge in Malaysia. The perspectives, experiences, and differences in answers among the property developers were explored. Other questions which were not included in this guide are considered additional.

Table 2: Interview Guide

Procedures	Questions guide
Introductory question	Would you please describe your professional background and experiences in the property development sector?
Focus questions	In your opinion, is development charge a mechanism used to encourage developers in land development, or is it a penalty to increase the local authority's source of funds? Are there any other concerns you find lacking or in need of revision?
Concluding question	Is there anything else that you feel that we should have talked about but did not?

Source: Authors' Research, 2021

This guide aimed to achieve the research objective, which only serves to gauge the property developers' perspectives regarding the implementation of development charges in Malaysia.

Methods of Sampling

The respondents for this study were sampled by using the purposive sampling technique. Purposive sampling is used when a difficult-to-reach population needs to be measured and the key to allow the respondents to provide ample and justifiable feedback (Pandey & Pandey, 2015). Respondents were selected based on their wide range of experience in property development. Table 3 displays the characteristics of respondents.

Table 3: Characteristics of Respondents

No.	Experience	Main Area
N1	More than 10 years	Property development and construction
N2	More than 10 years	Property development and construction
N3	More than 10 years	Property development and construction
N4	More than 10 years	Property development and construction
N5	More than 10 years	Property development and construction
N6	More than 10 years	Property development and construction
N7	More than 10 years	Property development and property investment
N8	More than 10 years	Property development and construction
N9	More than 10 years	Property development and construction
N10	More than 10 years	Property development and construction

No.	Experience	Main Area
N11	More than 10 years	Property development and construction
N12	6 – 10 years	Property development and property management
N13	More than 10 years	Property development and construction

Source: Authors' Research, 2021

Data Analysis

In analysing the interviews data, Brinkmann and Kvale (2015) distinguished five processes for qualitative content analysis. The first stage begins with interview sessions, involving an invitation; obtaining consent, setting up the virtual meeting space, conducting interviews and recording. Next, information generation and after that is transcribing the generated information into an electronic format. Then, during the data transcription, their responses were coded by determining keywords and phrases commonly used amongst the participants that involved indexing, highlighting, and sorting out quotes and rearranging them to develop thematic content (Creswell, 2018).

During the transcription process, the phrases and keywords were analysed and encoded with suitable category labels and afterwards, the concerns or impediments were formed (Saraf et al., 2019). Finally, it is the interpretation of the findings. These new emergent findings were narrated to relate to the implications of the research. As it builds directly from the raw data, the process itself ensures the work's validity (Bryman, 2012). Figure 1 displays the interview procedures and analysis.

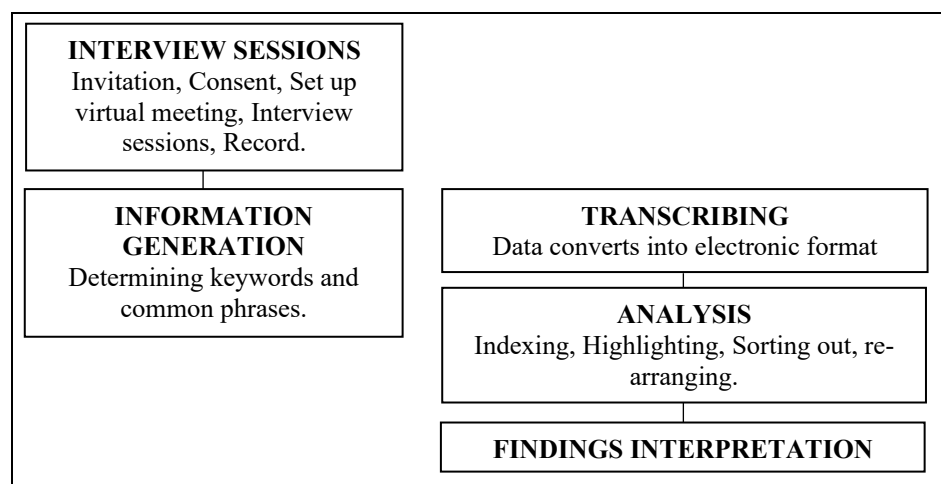


Figure 1: Interview Procedures
 Source: Brinkmann & Kvale, 2015

Rigour and Reliability in Qualitative Data Analysis

In the analysis stage of qualitative data, three strategies were used to ensure the rigour of data analysis namely credibility, confirmability and accuracy (Othman et al., 2020). The reliability of the qualitative content analysis was achieved as transcribed data was cross-checked with the transcripts while indexing, highlighting, sorting out and re-arranging the data several times to ensure accuracy.

RESULTS

This section presents the findings of qualitative research, probing the property of developers’ perspectives in the implementation of development charges in Malaysia. Thirteen property developers were interviewed and the abstracted data were categorised into five main categories as presented in Table 4. The categories were described with quotes from the participants.

Table 4: Abstraction analysis

Categories	Descriptions
Source of fund	Increase funds, a penalty
Rates imposition	High tax rates, unstandardized rates
Payment consideration	Duration of payment, appeal concern

Source: Authors’ Research, 2021

Category 1: Source of Fund

From the content analysis, regarding the first interview question, six of the interviewees claimed that the development charge is one of the ways to increase the local authority’s source of funds.

‘It is a mechanism used to encourage developers in land development, but it should not be high.’ N1

‘...one of the ways to increase the source of funding.’ N2, N3

‘Development charge appears to be a source of funds to local authorities.’ N6

‘One of the ways used by the local authority to spur the development of land with potential value [translated].’ N9

‘Local authorities can expand their sources of income.’ N13

To add on, four interviewees disagreed that the development charge encourages land development, instead, they said that it was a penalty to the developers.

'It is definitely a PENALTY to increase the local authority's source of funds.' N4

'The development charge is a fine to increase the income of the local authority.' N7

'...it (the charge) is not to encourage land development as it has become an additional burden to developers.' N10

'The implementation of this development charge is only beneficial to one party only (the local authority). While the other side (applicant) had to bear the loss.' N11

Category 2: Rates Imposition

Furthermore, one of the main concerns of the interviewees was related to the high imposition of rates by the local authority. The charge is generally high and often burdens the developers.

'The current (rate) is too high and the charges are different from one council to another.' N2

'(Nevertheless) when we commit to the state government that we are building whole affordable housing, and appeal to local authorities for a lower rate of a development charge, it is not entertained by them.' N8

'...it (the imposition rate) should not be unreasonable (high).' N1

'The rate imposed was excessive. (Nevertheless) when we commit to the state government that we are building whole affordable housing, and appeal to local authorities for a lower rate of a development charge, it is not entertained by them.' N6

'...the charges are very high.' N12

'...the rate of Development Charges should be lowered.' N13

Another highlight was the demand for an urgent review to lower or abolish unnecessary charges that have a direct impact on the cost of property development.

'Local authorities have to take consideration of the type of house, whether it is the high-end product or affordable housing. Besides, open for discussion when we submit a valuation report to the local authority.' N6

'For any developer who wants to develop affordable housing and below (low-cost housing), the Development Charge ought to be reviewed to be reduced or waived.' N9

'.... request a review of the development charges imposed on the developer, this has indirectly caused the sale price of the house to increase significantly.' N11

'Development Charges could be waived, provided that the developer needs to develop one large-scale development or affordable housing. With this exception, to some extent can reduce the development costs borne by developers who do not get a high profit from the sale of affordable housing. This makes the local authority and the developer in the same situation - both wins.' N13

From the content analysis, the concern also underlined the unstandardized rate levied for land use conversion. The levy of development charge is different from one local authority to another local authority, this leads to objection and appeal and eventually, it prolongs the payment process of development charge.

'Not standardised and different states imposed different requirements.' N1

'There is by right a standard rate to follow but council seems to ignore this and comes out with their own formula. Which apparently also cannot be revealed to developers as to how they derive the formula or come to final numbers.' N2

'Rates should be fixed. High development upfront payment deters developments.' N4

Category 3: Payment Consideration

Providing a different dispute, one of the respondents stated that the duration of the development charge should be extended until the issuance of Certificate Completion and Compliance (CCC). Furthermore, several respondents claimed that the appeal system to lower the rate of development charge was not efficient, as the local authorities did not entertain such appeals.

'...the duration of payment should be given until just before CCC is issued.' N2

'...payment should be collected upon CCC rather than before planning approval.' N4

'...we did appeal to the local authority for a lower rate of development charge; (hitherto) it was not entertained by them.' N6

DISCUSSION AND CONCLUSION

Based on the findings discussed in this study, this section concludes the developers' perspectives on the implementation of development charges in Malaysia. There are two main highlights from the findings: firstly, property developers alleged that the development charge is a penalty given to developers to escalate the local authorities' source of funds because the imposed rate was unreasonably high. Nevertheless, the development charge is a solution to find alternatives to shift the cost burden of new infrastructure to developers because of changes in development plans that increase the size of the development.

Secondly, the property developers demand an urgent review to lower the development charges. They argued that the appeal system to lower the rate of development charge was not efficient, as the local authorities paid no attention to such requests. Concerning these matters, the developer should be aware that the payment of development charge imposition under Act 172 (Section 33). The Act states that the amount determined by the planning officer is final without the appealing procedure. Furthermore, Section 34 of the same Act requires the payment must be in full, not partially.

Policy Recommendations

This paper recommends two propositions for future research in the study of relevant approaches to improve the efficiency of the development charge and the effect it has on the developer's uncertainty. Firstly, a town hall meeting session involving the related parties in the post-development charge should be a priority to address issues from different perspectives. For further research, it is suggested that a study to be performed to propose a holistic work procedure that is

technically efficient and legally permissible based on the findings from developers' perspectives.

Secondly, the need to revisit Section 33 and Section 34 of Act 172. Consequently, the effect it has on property developers was the intensification of developers' concern of the increase in total property development cost. Moreover, the contentious issue concerning how the development charge affects the availability and affordability of housing mainly surrounds the use of development charges, as developers increase the house price. Some local authorities have increased the development charges fee that has affected the total cost of development. In addition, the developers have no choice but to opt for the necessary changes to muddle through the increase in development cost input. Therefore, with a revision, a decent procedure will guarantee full cooperation with the applicant, thus, will make the duration of the planning approval and payment of the development charge to become efficient.

Study Limitations

This study has some limitations and would not draw a biased conclusion. Firstly, it is expected that the developer's perspective on the implementation of the development charge may not be representative of the study context. The findings could be affected by gender, designations, APDL class category (Advertising Permit and Developer's License) and economic status. Secondly, the study used purposive random sampling of developers' views using an interview guide, which probably could not reflect different views using other research methods such as quantitative.

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