

PROFITABILITY DRIVING FACTORS OF PROPERTY
DEVELOPERS IN MALAYSIA

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Abstract

Property developers has been enjoying a good profit margin when property market in Malaysia experiencing market boom after 2009, until it reached its peak at between 2011 to 2012, then the number of property transactions has steadily declined. Despite the property market is a cyclical business, the determinant of developer's profitability depends on how they react to business environment. Therefore, an assessment is on the profitability during factor of property developer in Malaysia is carried out. The questionnaire was used to collect the data with total respondents of 73 in Klang Valley and analyzed using descriptive and correlation analysis. The result obtained show there are about total 16 profitability factors. Besides, the relationship between financial competency and performance and developer's profit shows positively correlated. Hence, there is a need for developers to study the areas to maintain their profitability. Suggestions are given on the housing delivery and policy system to maintain the sustainability, survivability, profitability of property developer. Future researchers are recommended to expand this study on project design and project location that are profitable for property developer.

Chapter 1: Introduction

1.0 Introduction

The research is conducted to study on the factors affecting profitability of property developers in Malaysia. Profit margin has been one of the main financial indicator for many company to measure their financial competency and performance. This research will layout out the background and highlighted problem statements in this chapter. An overview of the whole study will determine on the research question, follow with objective, and the significant of this studies.

1.1 Research Background

Profit is necessary for all property developer allow them to stay in business and provide capacity to reinvest in business (Foo & Wong, 2014). The definition of profitability refers to the profit is generated when the amount for combined land, rent and market values is at least somewhat greater than development expenses (Coulondre & Jacobs-Colas, 2017). If the outcome is positive, it's profitable; if the outcome is negative, it's a loss. The profitability of a business is defined as revenue generated from sales of products or services because it measures how efficiently a company's operations generate profits.

Achieving high profitability is always one of the main objective of all property developers, it measures how well a company is generating profit for company and shareholders. It allows the company to build up a cushion against many disadvantages includes sudden spike of material prices, fierce competition, or economic downturns. In Malaysia, there is a strong correlation between property sector and Gross Domestic Product (GDP) growth, the more the GDP growth of Malaysia, the higher the house price (Tze, 2013). Wit and Dijk (2003) define real GDP as the main determinants of real estate cycles, it served as the direct measures of household income that determines how much one can afford a property also indirectly measure how much the developer can achieve the profitability (Schumpeter, 2017).

The bureaucracy of property development process in Malaysia is highly regulated and time-consuming, the regulation are imposed from federal, state, and local levels, adding on higher compliances cost on the already complicated property development business. This overly regulated industry, is one of the reason that discourage property developers to maintain a reasonable profit and allow capacity to reinvest for future project development. The housing delivery and policy system have very much to do with property developer's profit level as it is made up unproductive compliance cost that eats into big chunk of property developer's profit.

The profitability driving factors of the property developer is rather largely dependent on their company strategy, including their corporate positioning, the risk appetite, ability to secure good land banks, marketing strategy, higher plot ratio/density given, supports from vendors and suppliers, good relationship with local government, skilled employees, and others. Thus, a study on the internal and external factors will be carried out to understand the how profitable are property developers currently.

1.2 Problem Statement

A project is required to be sizeable one for any developer to have economic of scale to be profitable, but it also comes with high risks for developers to embark the journey (Sankar, 2019). Some of these major risks that can affect the profitability of a developer are economic, environmental, social, contractors, consultants, procurement, quality, time, cost, mobilization, cash flow, competitor, culture, communication, training and safety (Akomah & Jackson, 2016; Larsen et al, 2016).

The rising construction costs and building materials have forced property developer to pass on the cost to end consumer. In 2020, Knight Frank Global House Price Index reported that residential property prices increased estimated 5% since 2017. It is expected that house prices are likely to maintain upward due to property development supply chain are affected by covid-19 pandemic, constructions sites are lack of labour, social distancing is necessary at construction site, mandatory health equipment required for all construction workers, these are invisible cost that have incurred extra cost on construction stage. This covid-19 outbreak has impacted all sectors of economy

across countries. Mega construction project are forced to suspended or delayed (Burr & Castro, 2016), construction sites that still are operating during this period of time suffer additional cost incurred due to new health and safety requirement by Minister of Health (MOH) for practising social distancing at construction sites. Because of covid, the labour productivity dropped further due to limitation of worker's duty at sites, workers are concerns about their health conditions at hotel and working place, cause lower efficiency and effective of performance at delivery of work (Foo & Loo, 2021).

Among others, the project's construction time, cost, and quality are the three main elements that are contributing to a successful construction project development. When there is a construction, the finance costs increase significantly and often neglected product quality (Okpala, & Roslan, 2019). In construction, project construction delay would lead to cost overrun, but the construction cost is quoted at contract sum which include all related cost incurred by main contractor and sub-contractor, any changes in the cost will cause direct adverse effects on overall total development cost (Okpala, & Roslan, 2019), and when there are many changes during construction period, due to construction design issue, the construction cost increase and cause the contractors to absorb the sunken cost. This construction delay would often lead to delay in paying main contractors and sub-contractor, cause negative cash flow issues later (Harris & Roark, 2019). This action causes many sub-contractors and suppliers also subjected to financial payment delay, eventually, it affects the material quality and lack of labour at the site due to drop in morale level if matter remain unresolved for a long time.

Currently, the developers are hard to get a fixed-price contract due to high material and labour cost drain developer's cash flow and profit margin (Güleç & Bektaş, 2019). The raw material of steel prices was selling at RM3,100 to RM3,400 per tonne in August 2021, but the price had increased for 7% for just after 1.5 months. Developers are largely affected by the unstable in material prices during the covid-19 lockdown since March 2020 in Malaysia. This further extended into to locally manufactured raw materials like bricks. Central to all this, when there is pending up demand for property but there is no supply of materials, the property prices will go up (Leng, 2019). Nonetheless, accordingly to Bank Negara Malaysia (BNM), the Housing Price Index in 2021 shows moderate to negative stage, it means most there are no sign of house price increase, most

developers are forced to reduce their profit margin and absorb the costs. If the situation continues further, developers are most likely to pass on the costs to buyers and increase the property price, unless the commodity supplies are back in normal and intervened by government (Leng, 2019).

The net profit margin of the top 100 real estate developers in China recorded an average profit margin of 11.6% in 2015 as compared to 12% in 2014, due to rising operation and land cost, the extra material and construction costs had eaten into property developer's profit margin. In order to stay profitable in the first-tier city such as Beijing, Shanghai, Guangzhou, and Shengzhen, property developers have to launch more high-end projects to increase their profitability. In Singapore, developers' profit margins from private residential projects have shrunk due to rising land prices, construction costs, and higher commissions to property agents (Victor, 2021). One of the reasons in higher land price is due to competition profitability of new players from China, their land price is made up of 70% to 75% from Gross Development Cost (GDV). As a result, their local property developers like CapitaLand, Ho Bee and Keppel Land are forced to expand their profile into overseas for better returns. Whereas in Malaysia, an ideal profit margin is between 16% and 20% on development costs in Malaysia (Mastermind 2018). An average of profit margin of the public listed developers yielded 20% in 2017 to 2018.

Thus, examining the factors that will be influencing property developer is necessary because by understanding how profit is created in real estate, it allowed to understand the linkage between economic factors and the developer's entrepreneurial strategy in qualifying products that leads to profit making system.

1.3 Research Questions

The research questions that arise in this study are:

1. What are the profitability driving factors for property developers?
2. What does property developers do to stay profitable?
3. How to sustain profitability in long term growth?

1.4 Research Objectives

This study intends to achieve the following objectives:

1. To determine the profitability factors for property developers
2. To analyse the relationship between developer's strategy and profitability factors
3. To propose the ways to improve profitability for property developers

1.5 Scope of Studies

From the perspective of the property developer and researchers, this study will focus on the profitability driving factors of public listed company property developers.

This research uses random sampling method for public-listed property development companies on Bursa Malaysia which will be selected as a sample for this study. The public-listed property development companies have been in the market for more than 10 years since 2010. They have no major changes in their company's structure that may affect their financial structure. Financial reports are provided yearly and quarterly as required by Bursa Malaysia.

1.6 Significant of Studies

This study helps readers to understand how developers sustain in any competitive environment and maximize the wealth of its stakeholders, especially creditors, investors, management, and shareholders. It is one of the most important factors that signals management's success, shareholders' satisfaction, attraction for investors and the company's sustainability (Bekmezci, 2015), and eventually stand out among the competition to stay longevitly in business.

Besides, this study can benefit property developers or builders to understand the sustainable business model. It provided them a better idea on the factors that affect their profitability in business, to help them make informed decision based on benchmarking to maximize social and

economic status in their land acquisition and property development portfolio (Hapsariniaty et al., 2013).

1.7 Chapter Layout

The organization of this research is structured as follows:

Chapter 1 Introduction: Basically, this chapter gives a brief introduction of the challenges faced by property developer on current business situation in Malaysia, rising construction and material price and lack of policy and regulation that hinder the profitability of property developer.

Chapter 2 Literature Review: Journal, articles, and research paper in relation to the profitability driving factors of developer's are discussed in this chapter. It is believed that how developer formulates their strategy affect their internal and external factors, which will lead to profitability level. Hypothesis is generated based on literature collected from various sources.

Chapter 3 Research Methodology: A completed set of research design of the survey questionnaire is discussed here on how to collect the responds from the target respondents. The research used primary and secondary data, and questionnaire to collect data from the target respondent in Klang Valley areas.

Chapter 4 Results and Findings: The result and findings of the research is analyzed using Statistical Package for the Social Sciences (SPSS) software, it analyzes the data collected from respondents to understand the relationship between developer profit and internal and external factors, for example, the results show most of the respondents believed that population density is one of the key determinant factors of property developer's profit, thus, it shows there is a positive relationship.

Chapter 5 Conclusion: Finally, this chapter provide discussion on major findings of objective 1, 2, and 3 after respondent's data is analyzed, the hypothesis is concluded based on the result of SPSS

data. The limitation of study and recommendation to future researcher are provided to help researchers and readers to further benefit from this research.

The chapter layout is illustrated in figure 1.1 as a process flow for one page-view.

Figure 1. 1 Chapter Layout Flowchart



Source: Research developed, 2022

1.8 Chapter's Conclusion

This chapter specifies the foundation for the study in a nutshell, it provides an overview of this research, including the research background, narration of problem statements, research objectives, and research questions, etc. The next chapter will cover the secondary data, internal and external factors, and the developer's strategy which elaborates more on the literature review.

Chapter 2: Literature Review

2.0 Introduction

After giving an overview on the research topic in the previous chapter, this chapter will be discussed on the literature review which consists of the objective of property developer and how their business strategy affects their profitability. This chapter discusses the keys to profitability factors in relation to developer's business strategy planning on internal and external factors. This indicator provided a guideline of the company's performance in comparison between company and company.

2.1 Property Developers

A property developer is an "economic actor" and liaison agent who brings together a landowner, a capital provider, and building users around a particular project, with the aim of adding value to the capital (Coulondre, & Jacobs-Colas, 2017). A developer's entrepreneurial strategy is based on a continuous process of qualifying, designing, staging, and promoting the characteristics of the real estate product to make it attractive to all concerned (Smith, 1967).

From the developers' perspective, selling a building or its units is a process to create a profit margin on the capital used to develop it, this margin can be kept track of using various financial indicators including return on asset (ROA), return on equity (ROE), and return on investment (ROI), debt ratio, tax rate, and price earnings. The profit making is a rational undertaking in which accounting tools are used to compare between money income and money expenses (Fraser, 1993).

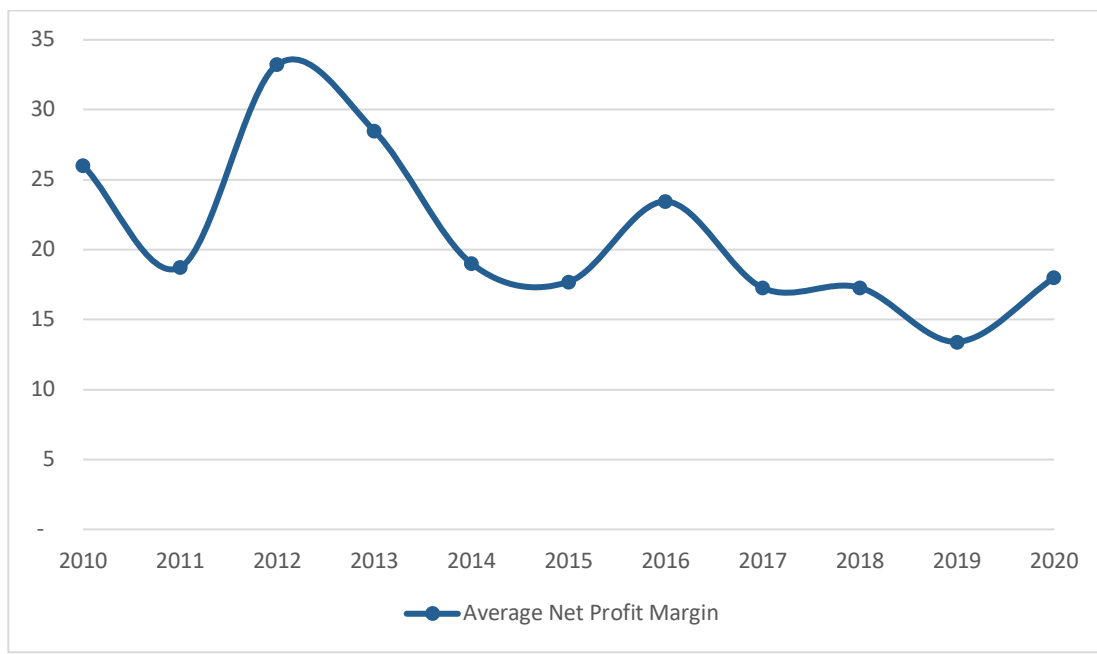
2.2 History and Event Records of Malaysia Property Developer Profitability

Generally, profitability is defined as the earnings of a company that are generated from revenue after deducting all expenses incurred during a given period. Figure 2.1 shows that average net profit margins peak in 2012 and then declined in the next following years, from an average of 33% in

2012 to 18% by 2015. This might be due to introduction of DIBS back in 2009 to stimulate market growth, the net profit of the developers was attractive, therefore, the profit margin for the next number of years enjoyed a handsome growth, but the good days did not last long. In 2013, the Developer Interest Bearing Scheme (DIBS) was lifted by government as a cooling measure to prevent real estate market overheated. The average net profit margins of the developer had fallen further after 2016 when property overhang number had increased when there were massive number of vacant possession due to aggressive launching in between 2010 to 2015. The average profit fell to record low at 13% in 2019 prior the COVID-19 pandemic hit in 2020.

The developer's profit had seen a declining trend started since 2012 then picked up in 2015 and declined after 2016, as shown in figure 2.1. The net profit margin for developers has been a bell curved shape between 2010 to 2019. The profit was peak at 21% in 2015 then dropped to 14% in 2018/2019, this is because most companies have exponentially growth in their revenue in between 2010 to 2015 period. The evidence is confirmed by Kim and Kross (2005) that a company used the earnings capability to predict the future operating cash flows in order to expand business within a timeframe.

Figure 2. 1 Malaysia Developer's Average Net Profit Margin From 2010 to 2020



Source: EquitiesTracker.com (2021)

The profitability in these 10 years came from few keys factor that had driven the property market: low interest rates, growing population, steady economy growth, and stable government policy, the lack of a preceding price or supply bubble together with active encouragement by the government then (through home ownership campaigns, allowing the Developer Interest Bearing Scheme, waiver of stamp duties, extending loan tenures and financing limits, among others) combined to create a highly speculative property market from 2010 to 2015. Prior to 2010, the cutting of real property gains tax (RPGT) rates, especially for shorter-term disposals, including a total waiver of RPGT from 2007 to 2009, had further spurred property development and construction activities.

Liquidity is very important to run the business properly. Leng (2019) examined factors that influence profitability for cement firms covering the period from 2001 till 2008. He concluded that liquidity, age of the firm, operating ratio, interest rate and inflation, are important determinants of profitability for the Indian cement industry. Apart from value appreciation through time, land price increases widely depending on a range of factors such as land use, local planning regulations, proximity to main centres, there have been aggressive infrastructure development from the last 10 years. Needless to mention that locations within markets with higher population growths, better economies, and more developed infrastructures are in higher demand.

However, it can't be denied that the development and construction cost have risen for the past decades which had made the property developer's profit margin shrinking. The rising commodity price and labour cost is the one of the biggest factor influencing the profitability of property developers. In addition, the rising compliance cost including setting aside land and infrastructure for public utilities at their own cost has alarmed developer as it further squeezes the profit margin of developer which make them think twice before developing more projects.

Gone are the old days of property developer making 30%-40% profit margin is no longer doable, the material and construction cost have risen significantly. According to Foo & Loo (2021), the developments cost such as labour, materials, machinery and equipment have increased over the years which affect the inefficiency of the country's housing construction industry and lead to skyrocketing house prices in Malaysia (Yeap & Lean, 2017). According to Housing Forward 2022

report by REHDA Institute, construction cost is made up of 50% to 60%; land cost is between 15% to 20%; profit is between 15% to 20%, and other cost at between 10% to 15%. Certain states like Selangor have building requirement on affordable housing in size, density, community facilities, parking requirements, these are the main cause of limiting the potential of the value of land. Any increases in land price will lower down the developer's profit margin and affect the quality of workmanship.

2.3 Malaysia Property Developer's Current Focus in Business

Malaysia property developers strive to challenge themselves and work toward to achieve stable and sustainable profit. The profit of Malaysia developers today are not as lucrative as in 1990s. A number of previous similar studies have covered the internal and external factors that influence profitability of firms, including development profit margin; cash flow (Richardson, (2006); and leverage (Pattiruhu, & PAAIS, 2020); factors affecting profitability in Malaysia (Alarussi & Alhaderi, 2018); and determinants of housing developer's performance (Jaafar et & all, 2014). However, these studies did not emphasize on the profitability driving factors of property developers.

The prolonged lockdown caused by COVID-19 since March 2020 has accumulated risk of abandoned projects rising amid extended pandemic. With building construction unable to operate at full capacity, many projects have been forced to delay and some developers and contractors are facing potential risk of abandoned projects due to weak operating cash flow to continue to fund their projects up to billions of Ringgit, if it happens, it will leaves buyer in the lurch. Apex court decided that Berjaya Times Square Sdn. Bhd. Vs M Concept Sdn. Bhd. (2010) was given the remedy for incomplete project attract continuing Liquidated Ascertained Damages (LAD), therefore, the sales and purchase agreement cannot be rescinded. As a result, bank have reduced lending to developers, sales progress is anaemic, while most of the property developers have leveraged highly, all of which increased operating cash flow pressure, same goes to high construction cost, labour cost, and COVID-19 compliance cost resulted from COVID-19 pandemic.

An increase in a leverage can reduce in asset of the companies and it is assumed that the property developers do not utilize much amount from debt financing (Daryanto, Samidi, & Siregar, 2018). According to Mayasari (2012), leverage has adverse effects on the firm's profitability, because it limits firm's liquidity due to interest and principal charges. Mayasari (2012) found that liquidity has positive relationship with the profitability, the more cash or assets the company own, the higher the profit they could generate.

2.4 Developer's Main Business Areas and Their Focus

According to the research conducted by Foo & Loo (2021), the Bursa Malaysia had 98 public-listed property companies focusing on different main business areas, as at February 2020. Based on Figure 2.2, 70 (71%) of the company focus on property development area only, whereas others have combination of other business areas. There are 8 (8.1%) companies have combination with property investment, 6 (6.1%) companies on manufacturing, 5 (5.1%) companies on construction, 4 (4.1%) companies on hotel and leisure, and remaining consist of other businesses.

To understand how the public listed property developers performed over the years financially, 47 out of 98 of them were further shortlisted for the academic study purposes. These shortlisted companies have more than 50% of their business revenue generated from property development in Malaysia, listed since 2010 without significant financial structure changes such as mergers and acquisitions in their company.

Figure 2. 2 Developer’s Main Business Areas and Their Focus

Main Business Area	Number of Company
Property development	70
Property development + Property investment	8
Property development + Manufacturing	6
Property development + Construction	5
Property development + Hotel & Leisure	4
Property development + Trading of building material	1
Property development + IFM	1
Property development + Healthcare	1
Property development + Energy	1
Property development + Education	1
Total	98

Source: Foo & Loo (2021)



However, the average net profit margin shrined down to 14% in 2018/2019 when the MITR and DIBS were ended on Dec 2010 and Jan 2014. Developers who planned to launch project from 2015 onwards were impacted by thinner average net profit margin, the market started to experienced staggering unsold properties due to the house price are still mainly driven by population and quantity of housing stocks in the long run (Kiong & Aralas, 2019).

2.5 The Property Developers' Current Profitability Structure

The capital structure and profitability of the property and construction sectors in Hong Kong. It is found that developers are among the largest and most profitable in the world compared to their contractor counterparts. The results shows that the construction company's profit has high significant positive relationship with profit before tax and profit with price earnings ratio. When their gearing ratio is high, the profit, profit before tax, and price earning would dropped significantly, thus lead to low profit on operations. A similar study by Mahmood & Zakaria (2007) learned that the developers in Malaysia are more profitable compared to contractors, This is because their capital gearing and debt equity ratio are less than contractors.

Diaz, & Hindro (2017) found that the real estate companies' profitability is decreased when a company focus too much investment on fixed asset due to higher maintenance cost that reduces profitability. If a project cannot be sold according to its forecasted sales figures, a developer may require additional capital to construct further houses until project completion.

Costello & Preller (2010) suggests that the most important financial measures for developer are the return on equity and the operating profit margin. The cost of capital equity has two main components: the annual dividends and the expected appreciation. Operating profit margin is a profitability or performance ratio that reflects the percentage of profit before tax and interest of a company in operation. The implication of the major public listed developers that determines their operating profit margin are the basic residual valuation inputs on the selling price of house, the cost of land, and the build costs. Other profitability driving factors include speed of building and selling inventory.

Property development is not limited to erecting buildings but it also includes installing infrastructure such as streets, water services, sewers, electrical lines and performing the necessary survey work to create building lots for single family residences. According to Ratcliffe, Stubbs, & Keeping, (2021), property development is concerned with the creation of space which includes the redevelopment of existing buildings as well as the erection of new ones.

In most developed countries, the research found that the industries that got support from external financial institute shows better growth (Rajan and Zingales, 1998). Besides, there is a positive relationship between companies that are financed by long-term external debt and their equity is positively associated with the level of a country's financial development. More ever, financial development affects firm investments through its impact on firms' costs of capital. These mean the liquidity of cash flow allows higher flexibility on various financial activities.

Prior to Housing Development Regulations, 1991, housing developers had to deposit RM200,000 into Housing Development Account with the Controller of Housing ("Controller") as a requirement for the developer license, however, after amendments to the Housing Development (Control & Licensing) Act, 1966 (HDA) in 2012, all developers are required to deposit 3% of the estimated cost of construction minus land cost from June 2015 onward, the level entry to become a property developer is definitely higher now.

The entire property development stages covered about total 140 industries, employed over 1.4 million workers, and generated about RM40billion salary annually in Malaysia. It is a high risk industry (Bowman & Thompson, 2009) and highly regulated industry due to its multilevel relationship across many industries. The real estate market is affected by market condition and consumer sentiment.

A successful business network shared a mutual commitment towards a same objective, Anderson and Weitz (1992) studied how manufacturers and distributors develop mutual commitment in their relationships by making a pledge- it is defined as an act of commitment that bind them in the business relationship. Holm, Eriksson, Johanson, (1999) expressed mutual commitment as a willingness on the part of both partners to make short-term sacrifices to realize long-term benefits

in the relationship (Anderson and Weitz, 1992). The company's business model that constitutes founder's central ideas in business strategy is most likely associated with theoretical traditions in the value chain, extended notions of value systems, and strategic positioning (Porter, 1996). Steinerowska-Streb (2012) results suggested that if SMEs are managed by the owner than by an employed manager, the company is less likely to be affected by the decrease of profits during slow economic activity.

It is to examine the developer's profitability and sustainability, for instance, some developers acquire land for future development; some developers acquire land and subdivide land for higher profit margin; some developers increased plot ratio to maximize the profit, all developers have their own uniqueness, having different background, entrepreneurial characteristic, and education and experiences are important to the success of property development business (Reuber & Fischer 1999). It depends on the company's business model and the value proposition of where the company vision is heading toward. Flamini, McDonald, & Schumacher, (2009) suggested that increased profitability level in a real estate sector is equivalent to increase in financial stability. However, if those profits are not paid out as dividends or bonus but are retained in the firms as part of retained equity. This retained equity can be utilized for future real estate sector growth or during emergency used.

Other similar research done by Mangâ, Githui, & Omurwa, (2018) found that both the capital adequacy and credit risk factors had a positive effect in determining profitability of the developer companies. Whereas Odeyinka, Kaka, & Morledge (2003) concluded that firm size does influence the choice of strategies for resolving deficit cash flow especially in the small medium size developer companies. In order to solve the problem and reduce the development risk, one of the recommendation is to joint-ventures with landowners to avoid and share development risk. Besides, the developer should also diversify their business activity in order to maximize and sustain its profit. By applying liquidity precaution, the developers will have level liquidity to meet its short-term obligation.

2.6 Future of Property Developer Industry

It is expected that there will be stricter government enforcement on future approvals for new property developments. An increasing cost burden is expected to persist for developers which will further pressure their profit margins, AllianceDBS Research commented that the new National Housing Policy (NHP) 2018-2025 is likely to incur higher costs on top of existing development sector as there are impending structural challenges in the industry (Surendran, 2019).

When the outcome of the development appraisal has marginal ratio difference between costs and value, a slight change in this ratio can cause a major difference in the marginal outcome. A small reduction in value such as 5% has a great effect on land value or development profitability, and sometimes 50% or more, the sector faces more degree of risks (Adeus, Kolapo & Aluko, 2014). This variable includes, project budget, office overhead, project completion duration, interest rate, market trend, which will be heavily affecting developer's profit.

This research is in accordance with Herbert, McCue, and Sanchez-Moyano (2013) suggested that developer is required to accurately define the specific real estate requirements to plan properly on the project's launching timeline, project positioning for the next launches of their new project while not to forgetting to their existing remaining stocks at the same time. Any developers that intend to adopts sell then build concept are to be regulated under Schedule G (landed property) and Schedule H (stratified property) require to have solid financial track record and supports from financial institutes to avoid major financial mistake (Baum, Crosby, & Devaney, 2021).

2.7 Property Developer's Profitability Factors

For developer, profit can be considered as an oxygen. If a company is profitable enough, then it can reinvest, expand its activities, and maintain a stable position in the market. Hence, it is crucial for every company to perform the profitability analysis. Profitability is one of the most important objectives of financial management since one goal of financial management is to maximize the owners' wealth (Malik, 2011). Under most circumstances, when a company has achieved a high market share, the turnover on investment rises slightly, but profit margin on sales increases sharply. High market share's developer tends to manufacture rather than buy raw materials in construction, the low purchased costs of materials reflected lower cost in purchasing material price and higher

bargaining power than suppliers, as a result, the purchase-to-sales ratio is lower (Buzzell, Gale, & Sultan, 1975).

When the developer acquired stable market share, their operation expenses tend to be lower thanks to good branding towards the public which shape the perception of emotional value on the company's product (Alwi, Ali, & Nguyen, 2017). A good corporation branding creates bandwagon effect that results from the brand's greater visibility in public highway or greater support from financial institutions. Market leaders develop unique competitive strategies and have higher prices for their higher-quality products than smaller-share developers, it allows them to spend significantly higher amounts on research and development, which translated into higher sales and low operating cost.

The Pareto Principle applies to the property industry, 80% of the market shares is dominated by 20% of the developers (Dunford, Su, & Tamang, 2014). Small and middle capital size property developers are competing with each other in their respective areas, on the other side, the top performing and major developers dominate the market through competing market shares. It is common situation in the developed countries in Malaysia, including Singapore, Australia, and UK.

In Malaysia, PublicInvest Research estimated 70% of the local market share are made up of only top 7 developers from 1,000 listed and non-listed property developers. These top 7 developers are SP Setia, Sime Darby Property, IOI Property, EcoWorld, Mah Sing, UEM Sunrise, and LBS Bina (Lun, 2021). The industry is monopolised by few top developers that have total landbank worth up to estimated gross development value (GDV) of RM100 billion. This provides an evident that property developers are leveraging on economic of scale to lower down their production cost in property towards higher profit margin. They are also less volatile against economic lock down cause by global pandemic as compared to smaller market share property developers, they managed to pull through the crisis and ride on the post-pandemic recovery.

2.8 Determinants of Profitability Factors

Based on all these key events combined, the key decision to decide to buy the development site requires judgements to be made based on cost, profit, and values which will reflect the development's true value of 2 to 5 years to come. Generally, a longer return-on-investment period of 1 to 3 years duration of return on profit is considered high risks investment, thus less profitable. Property developers are required to accurately define the specific geographical areas and the exact real estate requirements to avoid suffering major financial and opportunity cost loss (Herbert, McCue, and Sanchez-Moyano, 2013).

Furthermore, the analysis of Profitability and Capital Structure of the Property and Construction Sectors in Malaysia (Mahmood and Zakaria, 2007) and The Determinants of Firm Profitability and Risk On Real Estate Industry (Wahid, Ahmad, & Azhan, 2018) had covered the financial aspects of profitability. A number of non-financial indicators are important (Dobrovic, Lambovska, Gallo, & Timkova, 2018). The Marketing Science Institute Harvard Business School had together identified the major determinants on Return on Investment (ROI) in late 1973 and revealed many critical factors. These profit characteristics factors are divided into internal and external factors into the studies as follow:

2.8.1 Internal Factors

The internal factors include capital size, management competency, IT and technology adaptability, financial competency, and performance, entrepreneurial, ability to predict market demand, skills employee, and good service reputation.

2.8.1.1 Capital Size

The more capital a property developer has, the more resistant it will be to failure (Uche, 1998: 30). The amount contributed by the owners' fund available to support the company (paid-up share capital) allow the company to enjoy all the future earnings. Coulondre & Jacobs-Colas (2017) notes that capital is abundant in capitalist economies, both the availability of land and local demand, the absence of which may compromise profit, are obstacles to anchoring capital in cities. Property developers acts as a liaison agents who bring together a landowner, a capital provider, and building users around a particular project, with the aim of adding value to the capital.

2.8.1.2 Management Competency

Having good management competency also means top management is capable of utilising current resources efficiently and effectively to accomplish the goals in time management, cost management, quality control, risk assessment, environment set-up, safety management, contract planning (Grant & Baden-Fuller, 2018). Organisational strategy and policies planning are influenced by the organisation top management. Entrepreneur or small-medium business men tend runs business based on their experiences, family-own business tend to run by head of the family, whereas corporate runs their business based on proper procedure and standard operating procedure.

2.8.1.3 IT and Technology Adaptability

The rise of property + technology = proptech is the new wave of property developer must adapt to reach greater target buyer in today era to acquire bigger market share. Whether a developer is adaptable to adopt such proptech such as, bitcoin, block-chain, non-fungible token (NFT), virtual reality, augmented reality, and metaverse world. Each of the innovation is an investment to the future-proof their profitability (Starr, Saginor, & Worzala, 2020).

There are already property developers in Hong Kong and China adopt NFTs to showcase a property, create an exhibition or virtual twins of physical projects in the metaverse, as property buyers are also slowly opening up to cryptocurrency as a mode of payment for their real estate.

2.8.1.4 Financial Competency and Performance

Financial competency management is important, it measure Return on Equity (ROE), Return on Sales (ROS), Return and Assets (ROA), it measures cash from operating activities as a percentage of sales revenue in a given period. Housing development is capital intensive. Most developers measures return on investment by net income and cash flow ratio. The result was also validated by Pratheepan (2014) that 55 Sri Lankan static panel models manufacturers rely cash flow liquidity as main determinants of profitability, it is a commonly used profitability indicator and earnings quality efficiency. Housing development involve big sum of money on cash flow management. Every construction progress stage achieved requires money drawdown before allow to build higher storey. Besides, the financial credit report and payback period history are usually take time to build their profile to become a trusted company (Ahmad, Pyeman, Ali, & Abdul, 2018).

2.8.1.5 Entrepreneurial Characteristic

A developer is an entrepreneur that who can identify the need for product specific properties and are willing to take the risk to make a profit (Ratcliffe, Stubbs, & Keeping, 2021). A developer that has the entrepreneurial spirit as higher risk appetite towards business venture, despite risk may incurs chances of failure, but their ability to learn and adapt to new challenges allows them to reap greater rewards than their counterpart who are risk-averse (Aziz, Yi, & Jaafar, 2006). For example, self-made billionaire property developer entrepreneurs like Tan Sri Liew Kee Sin (Ecoworld), Tan Sri Leong Hoy Kum (Mah Sing Group) are very charismatic leaders that are constantly achieving higher success by displaying self-confident and strong independence, they are role model to many of their staffs.

2.8.1.6 Ability to Predict Market Demand

A developer's ability to predict market demand is important. Real estate is highly localised business, There is a need to be one step ahead of current market trends. Real estate market is segmented by geographic location (Massimo et al, 2018). The ability to predict market demand means one can gauge the buyer interest in advanced by having combination of gut feeling based on many years of experiences and proven market track record to kickstart a development. A good understanding of the potential of a of land and location will determine the success of a development project.

2.8.1.7 Skilled Employee

The study found that learning-by-doing is the most common way to gain competences in Australia (Avdic, Lundborg, & Vikström, 2014). Talent is an asset to a company, staff training and development provided adequately to employee, it helps company to grow. The study also found that the professional and highly skilled labour hired for the project has increased the construction cost and thus decrease the profit margin for property developer.

2.8.1.8 Good Service Reputation

Socially advantage individual tends to have greater advantage in winning people's heart and mind. Real estate is a people business in nature, good organisation and service reputation comes from completing projects on time with desired quality. In case of social crisis, developer that can manage the homeowner's emotion well ted to have been building relationship with them for very long time.

Furthermore, the developer industry network is very small in Malaysia, developers who wish to remain in business in the long term and succeed in business must make an effort to nurture good reputation and sustain them (Gubler & Cooper, 2019).

2.8.2 External Factors

However, for the external factors, it includes market share, relationship with authorities and supports from service providers, selection of the prime project location, housing policy and delivery system, macroeconomic, demographic, and land use patterns.

2.8.2.1 Market Share

Market share is where pareto principle of 80:20 rule applies in real estate development market. The market share and return on investment are strongly related, a high share of the markets they serve are considerably more profitable than their smaller-share rivals. Boston Consulting Group stated the bigger market shares are due to three possible reasons: Economic of Scale, is the most obvious rationale for the high rate of return enjoyed by large-share businesses is that a company have achieved economies of scale in procurement, manufacturing, marketing, and other cost components (Karji, Woldesenbet, Khanzadi, & Tafazzoli, 2019); While economic of scale is effective, the Market Power turned out to be a result of their greater market power and permits them to bargain more effectively; and finally Quality Management refers to a group of good managers are successful in achieving high standard of their respective markets. They are also skillful in controlling costs, getting maximum productivity from employees, and so on. Moreover, once a business achieves a leadership position-possibly by developing a new field-it is much easier for it to retain its lead than for others to catch up.

2.8.2.2 Relationship with Authorities and Supports from Service Providers

Land is a state matter and housing development is highly regulated by government,, every state has different own set of rules and regulation on land, developer is required to work with authorities to build relationship, a good relationship helps developer to run the applications smoothly. Apart from government bureaucrats, the relationship with competent support services providers from bankers determine what gets built as most developers rely on them for financing (Peiser, 1990). Developing a solid connection with financial institutions can result in less paper work, more

favourable financial package and quick loan application process. Other major service providers include consultants, engineers, quantity surveyors, valuers, vendor and suppliers, and property agents.

2.8.2.3 Selection of the Prime Project Location

Having the appropriate mix of competitiveness in resources can be out-compete rivals. Research from Man et al. (2002) found that prime location is ranked no. 1 factors competitiveness factor (Aziz, Yi, and Jaafar, 2006). The 'location, location, location' mantra are still applies to today's developer's competitiveness edge. Land that has a value will generate profits in the long term.

2.8.2.4 Housing Policy and Delivery System

The available literature review has indicated that there are six broad categories that can affect the success factors in the housing delivery system: economic, environmental and social factors, legislative factors, the enforcement factors, the financial factors, the project management factors and the communication factors (Almi, and Husin, 2017).

The economic, environmental and social is the first success factors for the housing delivery system. The successful delivery was considered by the natural environment of the construction project like a good weather and the sustainability such as the supply of the construction materials that can usually affect the project development. The economy also serves as an important success factors roles which can affect the price of the raw materials, and also the developers financial (Schätz & Sebastian, 2009). The changes of supply and demand in the housing market will muchly depend on the flow of the economic surrounding.

2.8.2.5 Macroeconomic

Developer perceived that when the interest rate is low and people are encouraged to purchase a house, a high demand for housing is automatically created and can further influence developers' decision on the housing price, and then follow by profit margins (Pillaiyan, 2015). MacDonald (2011) suggested that the low interest rate encouraged homeownership and created a new breed of property investors and contributed to the speculation that had increased the housing price

2.8.2.6 Demographic

The demographic such as age, race, gender, income, migration pattern, population growth, current standard of living, and lifestyle have contributed to developers' decision in determining the housing price. Significant factor that affects how real estate is priced and what types of properties are in demand. Major shifts in the demographics of a nation can have a large impact on real estate trends for several decades. In every period, the house is being sold by old people to young people. If there is smaller population growth, then there would be an oversupply of houses in the market leading to a decrease in house prices (Gevorgyan, 2019), and impacted housing supply.

2.8.2.7 Land Use Status

The rezoning and reclamation of land would have large impact on the housing price and developer's profit. Mullins (2001) supported that the land value is measured by scarcity effects. The lesser the land available in a particular location, the higher is the land selling price due to scarcity.

For example, Kampung Baru, KL is in the progress of land acquisition for urban development. This location of this land is located strategically next to KL Twin Tower, one of the most rare and prime land in Malaysia. Due to the scarcity of land in this location, the land is transacted at premium price, it pushes the property price to higher growth. This domino effect can have spillover effects on land prices in nearby location which push the land price to higher asking price. The same theory applies to land use that it will affect property developer's profit margin (Evans, 2008).

2.8.2.8. Company belong to a part of larger group

Whether it is a new or veteran developers, property industry network is very small in Malaysia, thus, a community belonging helps property developers to keep in touch with each other for latest industry updated. REHDA Malaysia helps most of the total real estate built in Malaysia, thus, developers who are in this community gets to access to latest industry update and issue and solution sharing (Claridge, 2018).

2.9 Developer Strategies

After the company's internal and external factors in measuring profitability, when it comes to developer strategies to achieve a desired return, site selection is one of the most important decision-making processes in a successful property development and investment (Krisnaputri, Setijanti, & Ratna 2016). The site selection decision are often made directly based on few key factors, there are landownership, land zoning and land use, company's strategic and planning, housing supply & demand, public utilities and infrastructure availability, land price, document planning, ability to build a township, and corporate ability. Other indirect factors include public transportation availability, population density, number of vacant land nearby, type of suburban area, aesthetic view and scenery, land taxes, organisation structure, and land physic.

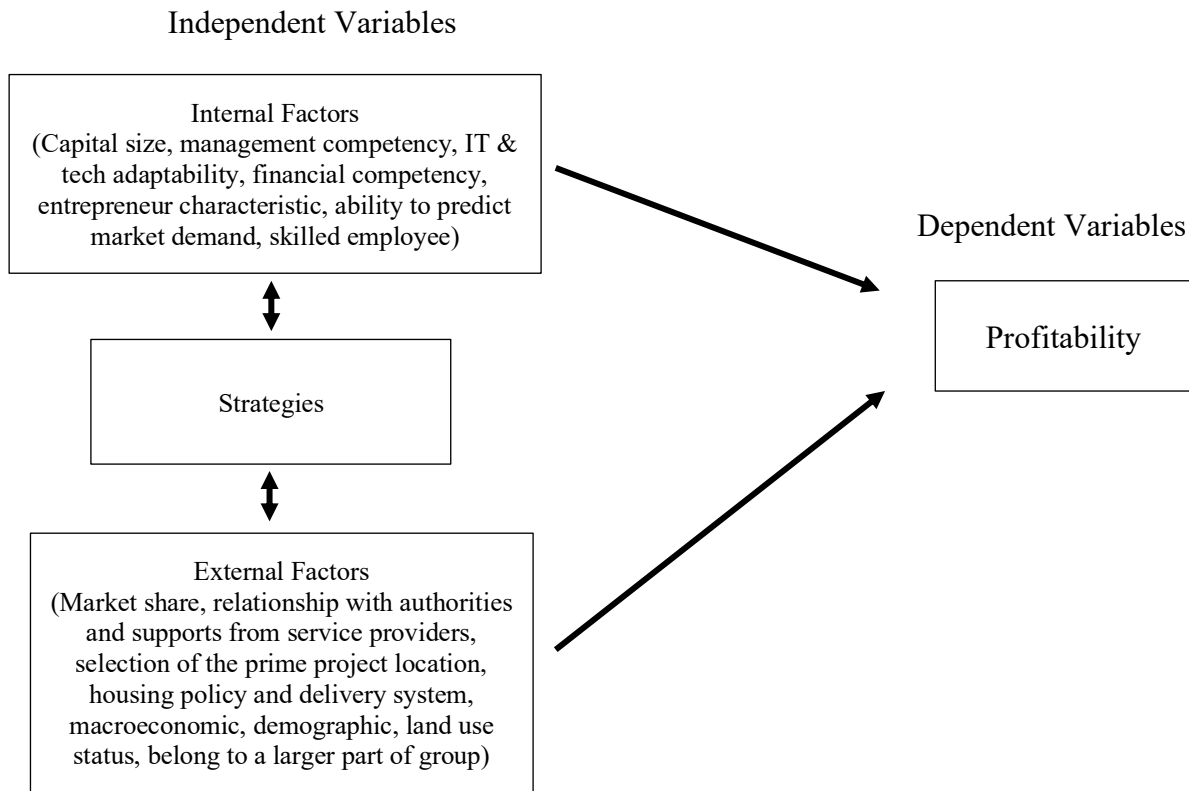
Developers must have strategic planning to work backward the ideal target return (Dobre, 2011). The developer's ability to use the unique skills and resources like the factors mentioned above to obtain higher profit margin is closely correlated to costs, because the success of this strategy is depends on the ability of a developer to keep the costs as low as possible (Porter, 1996).

In order to obtain performance and above average profitability, a real estate developer should choose the most appropriate strategy to focus on efficiency or on the mix of skills and resources as a unique proposition. A developer can either adopt a cost-leadership strategy to compete on multiple areas and developing many different types of projects, or it can try to choose a narrow scope and specialize in a particular direction to address to a specific type of targe buyer, to a particular geographical area, or to build only several types of projects and try to get a premium by creating differentiation for the buyer. Both of this methods requires talent as it is one of the key competitive advantages to make the dream comes into reality, there are no other resource can match the talent, skills and commitment of the human capital.

2.10 Proposed Framework

The proposed framework of this study will is adopted from other study to identify the competitiveness in property developers which includes the evaluating on the internal and external factors and strategies of the property profitability as shown in figure 2.4 as follow.

Figure 2. 4 A Proposed Theoretical Framework of Determinants of Profitability Driving Factors In Malaysia



Source: Adoption from Diaz & Hindro (2017)

The profitability can be measured by management competency, organising competency, technologies adaptability, financial competency (cash flow management), market share, CSR, regional competitiveness, prime location, ability to predict market demand, relationship with local authorities, good organisational and service reputation, ability to react to changes, support from service providers, skilled employee, risk taker and tolerance, organisation strategy planning, and being part of a larger group.

The property developer strategy to focus on either serving niche market or big township are closely related to internal and external factors which will result in their profitability level. For example, UOA developer focus on niche market on developing high-end residences and hotel in Bangsar South, KL areas are constantly identifying market demand gap (Khoo, 2017). Instead of purely building big shopping complex, the property developer identified the market needs and build a live, learn, work, play, lifestyle and integrated with various development component with to make

the place self-suffice for many years to come, provided with lush greenery landscape to make the place more vibrant. This type of property developer rely heavily on cash flow management due to fast turn-around project period, hence some of the profitability driving factors like prime land location, cash flow management, capital structure, capital size, the ability to predict market demand are important to them.

The other strategy used by developer is focusing on township development, their strategy is to acquire a sizeable land and launch it in many phases. For example, Ecoworld group acquired 2,198 acres of leasehold land in the Mukim of Ijok, District of Kuala Selangor for a total cash consideration of RM1.181 billion. The entire project is expected to take 15 years to complete and has an estimated gross development value (GDV) of RM15 billion. This result in estimated RM13.9 billion unbilled sales for this project, this type of strategy tends to have lower cost in the long run due to economies of scales that focusing on one area for a very long time (Highfield, Shen, & Springer, 2021). To successfully kickstart of this project, the profitability driving factors for them are prime location, market share, capital size, management competency, cash flow management financial support from banks.

2.11 Hypothesis Developed

How developer adopts strategy in business would decide the type of factors they used in internal and external environment, it will have different level of impacts on property developer profit. Some argued that internal factors are the main determinant factor because it is a unique competitive advantage that one company will never repeat in other company; whereas some argued that external factors shape the developer's profit to greater height in business revenue due to macroeconomic is the main profit indicator of the property developer. Hence, to validate this argument's statement, a hypothesis is developed between internal and external factors with property developer's profit to understand their relationship. The hypothesis is developed as follow:

H0: There is negative relationship between developer's internal factors and firm's profitability.

H1: There is positive relationship between developer's internal factors and firm's profitability.

H0: There is negative relationship between developer's external factors and firm's profitability.

H2: There is positive relationship between developer's external factors and firm's profitability.

2.12 Chapter's Conclusion

This chapter discussed the literature review of the profitability driving factors among property developers in Malaysia. The study attempts to fill the gap between profitability and developer's internal and external factors to provide comprehensive evidence on the improving profitability such as examining 98 public listed property development company in Malaysia listed since 2010. This chapter also discussed about developer's strategy on the site selection factors when considering a potential project development. The study will undertake survey questionnaire to further understand the hypothesis suggested as above, and the methodology will be discussed in the chapter.

Chapter 3: Methodology

3.0 Introduction

Chapter 3 will focus on the research methodology, it consists of research design, data collection methods, sampling design, research instrument, constructs measurements, data processing, and data analysis.

3.1 Research Design

A research design is a framework of research method that use to study which tools to use and how it is used. According to Sinkovics, Penz, and Ghauri (2008), research is based on a logical relationship of using the formalized and software-based calculation to analyze and interpret qualitative interview data. Research design consists of three methods that are qualitative methods, quantitative method, and mix method.

Qualitative research is an inductive approach that focuses in understanding a research query as a humanistic or idealistic approach. It is a more reliable method as it is based upon numeric and methods that can be made objectively to understand deeper about target respondent's experience in each case study (Pathak, Jena, & Kalra, 2013).

Whereas Leavy (2017) saw quantitative research method as a deductive approach that is design to measure and test variables based on relationship to understand patterns or correlation between variables, it is most useful in this research to explain and evaluate the relationship between profitability and developer's internal, external, and strategy factors.

The mixed method research is a combination of quantitative and qualitative research method that can help avoid single-source bias (Gibson, 2017). By increasing the number of data input for a given method is helpful in emphasizing that method while at the same time concurrently drawing on the strengths of the mixed method design.

3.2 Types of Research Design Chosen

This study is applying quantitative research method because this study set to understand the profitability with developer's internal and external factors and developer's strategy. The data are using questionnaire and the target respondents who are working in property related companies located in Klang Valley due to majority of the listed and non-listed property developers are based in Klang Valley.

3.3 Data Collection Methods

Data collection is the process of gathering and measuring variety of information to arrive at an answer that fits the research questions (Paradis, O'Brien, Nimmon, Bandiera, & Martimianakis, 2016). It is one of the most important processes in conducting research, further discussion on primary and secondary data are addressed as follow:

3.3.1 Primary Data

Primary data is the data that collected from firsthand information from a subject and before published. It is reliable, authentic, and objective. Research can be conducted without secondary data, but a research based on only secondary data has lowest credibility and reliability and may have biases because secondary data could have been amended privately before it is published. They can be obtained through interview, questionnaire, survey, and experiment (Heap, & Waters, 2019).

In summary, the primary data in this study will be the primary data in survey questionnaire collected from target respondents who are working in property related company located in Klang Valley area.

3.3.2 Secondary Data

The secondary data is often readily available, and it often takes considerably lesser time through various channels such as through books, journal/e-journal, magazine, published electronic sources, general website, and government records (Johnston, 2017).

In summary, this study used journals, research papers, subscribed newsletter, statistics, company's annual reports started from 2010 onwards as a main source of secondary data input as citation.

3.4 Sampling Design

A sample design refers to the selecting sample from the target population and using the estimation technique formula for computing the sample statistics- such as probability sampling and non-probability sampling. As the research will adopt simple random technique, the probability sampling method will be adopted to make strong statistical inferences in conclusions later.

3.5 Target Population

A target population is a number that will use to generate the number of sample size. They are identified as the intended audience for the research. (Krejcie, & Morgan, 1970).

Figure 3. 1 Types of Developers with Different Focus in Business Areas

Main Business Area	Number of Company
Property development	70
Property development + Property investment	8
Property development + Manufacturing	6
Property development + Construction	5
Property development + Hotel & Leisure	4
Property development + Trading of building material	1
Property development + IFM	1
Property development + Healthcare	1
Property development + Energy	1
Property development + Education	1
Total	98

Source: Foo & Loo (2021)

The targeted population in this study is the working profession who are working in property development related company in figure 3.1. The reason that this population is chosen because the majority of the listed and non-listed development company are located in Klang Valley area. Department of Statistic Malaysia (DOSM) in year 2020 shows that there are 8 millions of population in Klang Valley, and 4.32 million are employed, which consists of 3,446,500 from Selangor and 874,600 from Kuala Lumpur. Other than that, the target respondents must be working profession who are working in property related company.

Figure 3.1 shows that there are over 98 listed property developers with different focus in business areas as at 2020 located majority in Klang Valley (Foo & Loo, 2021), Klang Valley includes the Federal Territory of Kuala Lumpur, Gombak, Hulu Langat, Klang and Petaling. However, there are only estimated 47 out of 98 listed companies that will be involved in this study, so the number of target population for this study is 4.321,100.

3.6 Sampling Frame And Sampling Location

Sampling frame provide a means for choosing the particular element of the target population. The sampling frame here covers those who work in property related company in Klang Valley area.

The sampling location is in Klang Valley on those who are working in property development related companies. The reason that the Klang Valley is selected in this research is because majority of the nation's mega infrastructure development and project launching took place in Klang Valley, including Tun Razak Exchange (TRX) tower, KL 118, Mass Rapid Transit (MRT) Lines 2 and 3, KTM Komuter and Express Rail Link, and future access to major highway networks. There are also many other renowned commercial development and mega township launched in Klang Valley for the past decades, thanks to population have been growing steadily and it contributed as one of the success factors for large infrastructure project in Klang Valley (Masrom et al., 2015).

3.7 Sampling Elements

The sampling element refers to the population that is being measured. The population here includes those who are working in property development companies with minimum age from 20 years old and to 70 years old, working in Klang Valley in property related companies.

3.8 Sampling Technique

Random sampling techniques provides an equal probability of unbiased representation the total population. There are few types of random sampling techniques, including random sampling methods, simple random sampling, systematic sampling, stratified sampling, and cluster sampling.

By adopting this random sampling techniques, it allows all element in the population to have an equal chance of being selected, people who work in property related company will share equal chance to get responded in the survey. Random sampling technique ensures that results obtained from sample to approximate what would have been obtained if the entire population had been measured (Cook, Campbell, & Shadish, 2002). It has four random sampling technique method (Lohr, 2021):

- a. Simple random sampling- requires randomly generated numbers to choose a sample
- b. Stratified random sampling- dividing a population into groups with similar traits
- c. Cluster random sampling- dividing a population into groups or clusters
- d. Systematic random sampling- sample every “k”th element

Because of the population selected in this research comes from various background in property industry, which may not be property development only, their opinions varies towards the profitability level in survey questionnaire. Thus, this study will use simple random sampling to select a sample size for this study represent the group being studied.

3.9 Sampling Size

This research selects Taro Yamane formula to determine the sample size from a given population. Given the formula is $n = \frac{N}{1 + N(e)^2}$ where n is the sample size; N is the population selected; e is the margin error). This formula provides an approximation of known sample size formulas such as (Krejcie and Morgan, 1970) and (Cochran, 2007) formulas for proportion at 90% confidence level and population proportion of 0.10. Yamane formula is best suited for categorical variables and only applicable when the confidence coefficient is 90% with a population proportion of 0.05.

Based on the targeted population in this research are 4,321,100 respondents, a good maximum sample size is around 10% of the targeted population, hence, the simple random sampling technique by Taro Yamane formula is adopted in this research, which it randomly selects a subset of participants from a population (Thomas, 2020). The working is as follow:

N = Population of study

K = Constant(1)

e = degree of error expected

n = sample size

$$n = \frac{N}{K + N(e)^2}$$

$$4,321,100$$

$$1 + 4,321,100 (0.10)^2$$

$$4321100$$

$$43,212$$

$$n = 100$$

Based on the result computed above from Taro Yamane formula, 100 (round up of 99.99) sets of questionnaire was planned to distribute in this research, whereas only minimum 50 samples size is required for most research situations (Hair et al., 2018), owever, Williams (1935) justified that the sample size of 50 to 100 is relatively good enough. The statement also supported by Chandra, Huaman, Krishna, & Ortiz (2002) and Phatarfod (1977). Hence, this research will adopt 73 sample size in the research. Besides, another 20 sets of questionnaire has been distributed to respondents to carry out pilot test.

3.10 Research Instrument

Self-administered questionnaire is the selected approach in this research, the surveys questionnaire is given as a series of closed-ended and open-ended questions to deliver to a respondent without intervention of the researchers (Jenkins, & Dillman, 1995). All respondents will be remain anonymous and no personal data are collected. A google form link to the survey will be provided and distributed online for data collection.

There are two sections in the survey questionnaire, which consists of Section A that gather the respondent's demographic data and respondent's opinions on developer's strategy and profit margin level; Section B is questionnaire that focus on assessing the profitability driving factors of property developers in Malaysia based on company's internal and external competitiveness factors. All respondents are required to answer based on own opinions.

The questionnaire of this research are given through only online platform such as Whatsapp group that are related to property such as property investment and property-technology group. The decision too fully utilise the online platform is due to conveniences and preventive measures against spread of COVID-19.

3.11 Questionnaire Design

The survey questionnaire for this study is divided into two sections, which includes 19 numbers of question in Section A that are mainly made up of demographic information and respondent's opinions on developer's strategy and profit margin level. Section B is about profitability factors measured by Likert scale at Figure 3.2.

Figure 3. 2 Questionnaire Design

Section	Description
A	Demographic Factors and respondent's opinions on developer's strategy and profit margin level
B	Factors that drive profitability of property developers in Malaysia

Source: Research developed (2021)

3.12 Pilot Test

A pilot test is to improve the internal validity of the survey questionnaire by asking the subject feedback from a small group of respondents in order to identify ambiguity and unqualified questions. By developing a pilot test, it allows testing adequacy of the research instrument whether it is doable for a sampling frame (Teijlingen, & Hundley, 2001).

A sample sizes of 20 to 40 is said to be adequate in the pilot test for a target survey respondents size of 80 to 250 (Kieser and Wassmer, 1996). Isaac & Michael (1995) suggested 10 to 30 participants; whereas Treece (1982) suggested 10% of the project sample size. Since the rate of increase in precision is nonlinear, hence, this research would recommend that 20 representative participants from the population of interest is a reasonable minimum recommendation for a pilot test where the purpose is preliminary survey or scale development.

3.13 Constructs Measurement

Constructs must be measured at the appropriate level by combining several measures rather than single measure to provide greater construct validity in order to ensure conformity of the data to the level of theory to increase the predictive outcome (Nielsen, 2014) and importantly, improves generalizability and stability.

3.13.1 Nominal Scale

A nominal scale is a naming and qualitative measurement that are used to categorize or identify objects. This nominal scale will be used in Section A with open-ended question. Therefore, multiple choices are provided to respondents as stated in Figure 3.3 as follow:

Figure 3. 3 Nominal Scale, Section A

4) Are you working as/with property developer:
 A) Yes B) No

Source: Research developed (2021)

3.13.2 Ordinal Scale

The ordinal scale includes statistical data from highest to lowest in by different measurement points in orders without zero measurement as stated in Figure 3.4 as follow:

Figure 3. 4 Ordinal Scale, Section A

In general,	Strongly Disagree → Strongly Agree				
	1	2	3	4	5
a) Property developers are still profitable in Malaysia	1	2	3	4	5
b) Profitable property developers are more likely to expand beyond property development business to pursue greater profit	1	2	3	4	5
c) Staying profitable in business is the utmost important objective as a property developer	1	2	3	4	5

Source: Research developed (2021)

3.13.3 Likert Scale

Likert scale is a type of question to measure variable in importance, frequency, and satisfaction. In addition, it also used to determine the behaviour of the respondents. The scale start from “1) strongly disagreed, 2) disagree, 3) neutral, 4) agree, 5) strongly agree”. These scale will be used as the indicator for the respondent’s consent in profitability level as stated in Figure 3.5 as follow:

Figure 3. 5 Nominal Scale, Section A

Scale/Determinant	1) Strongly Disagree	2) Disagree	3) Neutral	4) Agree	5) Strongly Agree
Internal Factor					
i. Capital size					
ii. Management competency					

Source: Research developed (2021)

3.14 Data Processing

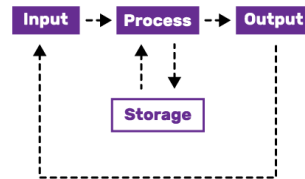
Data processing is a process of data collection and translation of a data set into valuable, usable information such as chart, graph, or table. The purpose of data processing in this research is to minimise redundant data and transforms irrelevant data into relevant and useful data.

3.15 Data Processing Steps Diagram

Data processing as stated in Figure 3.6, is the process of data collection and translation of a data set into valuable, usable information. Justice and etc (2002) stated the data processing cycle begins the step with data collection and preparation process before the input stage by extracting raw data from survey questionnaire form in order to eliminate incorrect, redundant or incomplete data and convert it into a suitable form for further processing and analysis. The processed data were organised based on quantitative data to make compatible with Statistical Package for the Social Sciences (SPSS) software for data input. Then, the data are processed by using different methods, for instance, using multiple regression analysis to predict the value of developer’s internal factor based on the value of capital size and market share. These data will be display as the form of

graphs, tables, and vector. Should there require of quick access and retrieval of information, the data will be kept in storage for next data used.

Figure 3. 6 The Data Processing Steps Diagram



Source: Justice & etc (2002)

3.16 Field Validating and Data Checking

The data will be processed as follow:

Step 1: Determine data sample

Validate a sample of data rather than the entire set. An adequate volume of data set is selected and data error is modified or removed to ensure smooth data checking process.

Step 2: Validate the database

All data is present in sequences in order to determine the number of records and identification compare the source and target data fields.

Step 3: Validate the data format

Changes will be made to the incongruent or incomplete counts, duplicate data, incorrect formats, and null field data to match the required data format.

3.17 Data Editing

The data editing process will edit those data with nil and only include valid data that fill up the entire survey questionnaires (Nielsen, 2014).

3.18 Questionnaire Coding

Given the fragmented information available on the profitability of developer and the different metrics that can be applied within different appraisal models, this research is designed to study (1) how developers typically appraise development schemes at the beginning of the development process to estimate profitability or land value and (2) how profitability was being assessed within the sector.

The research design will have combination of few aspects. First, developer's financial data will be assessed for evidence of the metrics used, it consists of financial databases, directories, and the published materials of the companies, because Brown and Matysiak (2000) and Geltner, Miller, Clayton, & Eichholtz (2001) suggest the use of historical return data from listed real estate development companies as a potential reference point. Second, a survey questionnaire of development companies will be undertaken. Lastly, interviews will be used as a bonus to study developers for in more depth on some of the issues raised by the analysis and the survey questionnaire.

3.19 Data Classification, Tabulation and Cleaning

Despite the nature of survey questionnaire has limitation such as inflexibility on rephrasing the questions and lack of depth in the topic which might seems to be confusing a number of respondents, but the research will be backed up with secondary data and additional interviews with developers to gain deeper understanding on the research questions.

3.20 Data Analysis

Content analysis is adopted to determine the patterns of communication in given qualitative data for a systematic manner, either primary or secondary sources. It is best known for analysing information produced by the mass media. The classic way to test reliability in content analysis is

to have two separate people code with at least a subset of the data, and then calculate a measure of inter-rater reliability, such as Krippendorff's alpha.

The code will be differentiated by using colour code. It is widely used among researcher to arrange al collected information and relationship between causes and factors. Besides, content analysis were obtain in the form of written, oral, and visual before translated into a set of texts for citation.

3.21 Analysis Discussion

There were three analysis highlighted in this research:

3.21.1 Descriptive Analysis

It is a representation of the entire population or just a sample. It helps to summarize data sets in a constructive way. It is useful for two purposes including to provide basic information about variables in a dataset and to highlight potential relationships between variables.

The data is interpreted in the form of result statement after it is collected, cleaned and analysed. These data are quantifiable information such as likely scales that are able to analysed the population sample. This approach is easy to conduct especially doing survey questionnaire and easier to make decision and go further into data analysis (Nassaji, 2015).

3.21.2 Reliability Analysis

It is to study the consistency of a research study or test by calculating the correlation between their different sets of results. The coefficient alpha (or Cronbach's alpha) is used to assess the internal consistency of the item. If the alpha value is .70 or higher, the instrument is considered reliable.

In order to ensure the result is reliable, it needs regular testing and comparing data. Then calculate the correlation between the different sets of results. If the outcome provides similar ratings, the test has high interrater reliability (Heale, & Twycross, 2015).

3.21.3 Correlation Analysis

To find out the relationship and connections between two variables by using statistical evaluation whether they are related. If the r value (the correlation coefficient) of the two variables fall at between 0.90 to 1.0, the relationship between two variables is generally considered strong, then it is a perfect correlation. Whereas 0.70 to 0.89 is strong correlation, and 0.4 to 0.69 is moderate correlation. For example, if macroeconomic and economic property price are positively correlated, it means when the macroeconomic condition is performing better (increases), the property price also increase, or vice versa (Gogtay & Thatte, 2017).

This research used correlation analysis to present the result in research and findings to understand the relationship between internal and external factors with profitability.

3.22 Chapter's Conclusion

This chapter discussed a completed set of data design that are used to collect data via survey questionnaire, it emphasize the sample design, sample size, questionnaire design, and analysis. Random sampling technique will be used to study the targeted respondents who are working in property related company in Klang Valley only.

From Taro Yamane's formula, the population's size was originally calculated at 100, but Huaman, Krishna, & Ortiz (2002) allowed that 50 population size is adequate enough to provide the ideal and relevant outcome. Furthermore, the survey questionnaire are separated into 2 sections, section A is respondent's profile and determinants of profitability factors measured by multiple choices, section B is internal and external factors measured by Likert scales. Next chapter will analyse respondent's feedback and discuss further by using SPSS software.

Chapter 4.0: Results and Findings

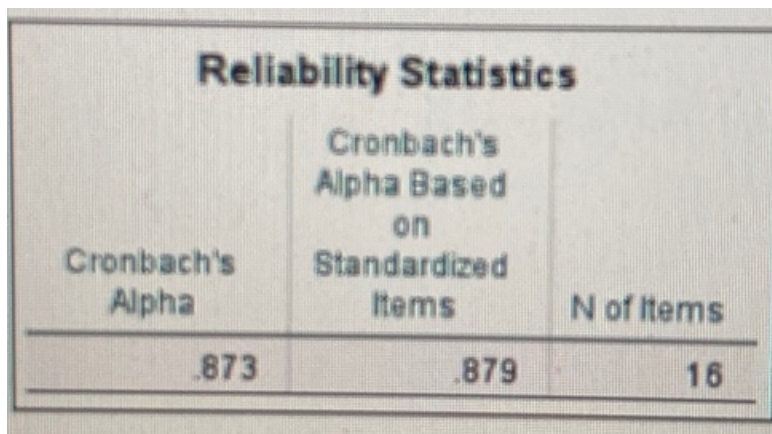
4.0 Introduction

This chapter summarise the result and findings on data collected from respondents as well as the literature review of the research's objective 1, 2, and 3. Based on the questionnaire distributed via Google form to the 100 target respondents on those who are working around Klang Valley areas in property related companies. There are total 73 respondents collected in this survey, each of them are given a set of 20 questionnaires to answer all the required questions relating to this research. As mentioned in Section 3.8 Sampling Technique, All the data collected is then transferred into SPSS for further analysis and presented in this chapter as follow.

4.1 Reliability Test

A set of questionnaire is distributed for pilot test. The data were later processed and submitted into SPSS software to test the Cronbach's Alpha Reliability Test, it is received that the set of questionnaire had a result of 0.873 as shown in Figure 4.1 below, this means the survey questionnaire is proven to be acceptable and it's in accordance with (Kieser and Wassmer, 1996).

Figure 4. 1 Reliability Test



Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.873	.879	16

Source: Research developed (2022)

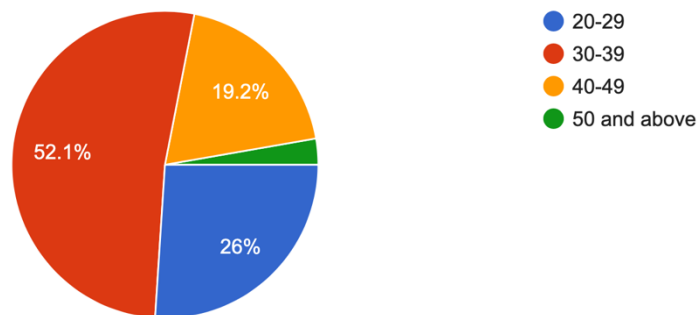
4.2 Respondents Profile

Wunsch (2012) suggested that demographic data including age, gender, ethnicity, academic level, years of working experiences, and role are an important factor in understanding survey respondents profile and background. There are over 73 respondents participated in this study, data is shown in pie chart from Google Form of respondent's data are shown in percentage as follow.

4.2.1 Age

Figure 4.2 shows the age of the participants, the age frequency between 37 respondents for age between 30 to 39 shows the largest age group at 50.7%; followed by 19 respondents for age between 20 to 29 at 26.8%, 14 respondents for age between 40-49 at 19.7%, and 2 respondents for 50 and above for 2.8%.

Figure 4. 2 Age Group

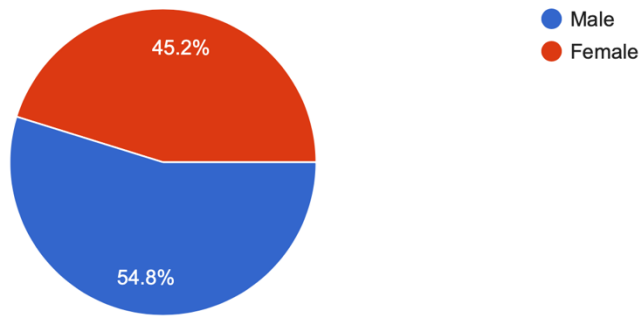


Source: Research developed, 2022

4.2.2 Gender

Figure 4.3 shows the gender of the participants, there are total 40 males and 33 females participated in this survey.

Figure 4. 3 Respondent's Gender

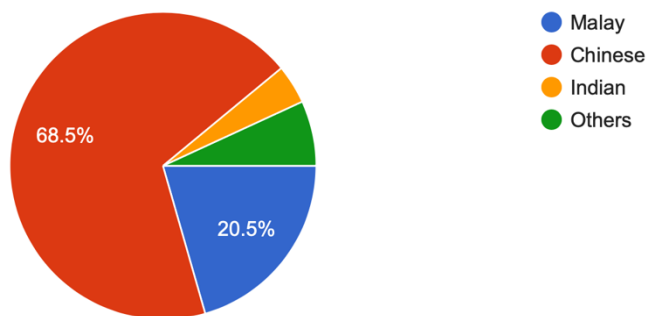


Source: Research Developed (2022)

4.2.3 Respondent's Ethnicity

There are 68.5% or 50 of the respondents are Chinese, followed by 20.5% or 15 of the respondents are Malay, 4.1% or 3 of the respondents are Indian, and 6.8% or 5 of the respondents are others.

Figure 4. 4 Respondent's Ethnicity

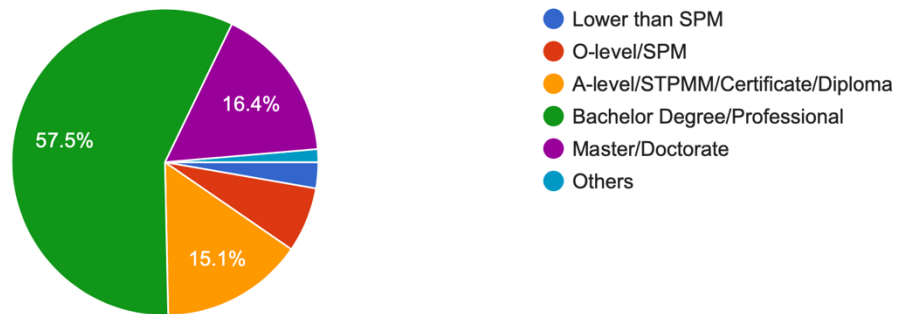


Source: Research Developed (2022)

4.2.4 Respondent's Highest Academic Level

There are total 65 (89%) of the respondents came have at least tertiary education level, and only 8 (11%) have only secondary education level and below participated in this survey.

Figure 4. 5 Respondent's Highest Academic Level

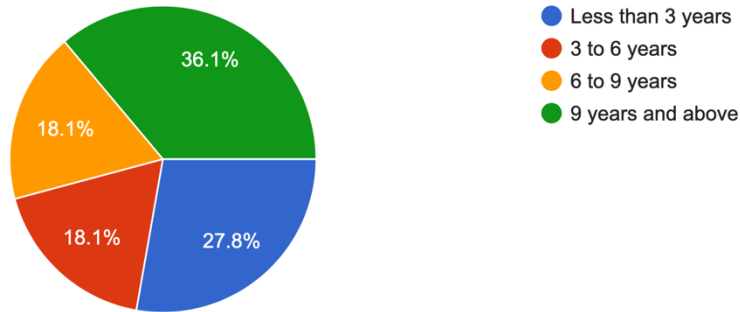


Source: Research developed (2022)

4.2.5 Working Experience As Property Developer

There are total 26 (36.1%) and 20 (27.8%) of the respondents had 9 years and above and less than 3 years of experiences working with property developers respectively, followed by remaining 26 (20.1%) respondents have 3 to 6 years and 6 to 9 years working with property developers equally.

Figure 4. 6 Working Experience As/With Property Developer

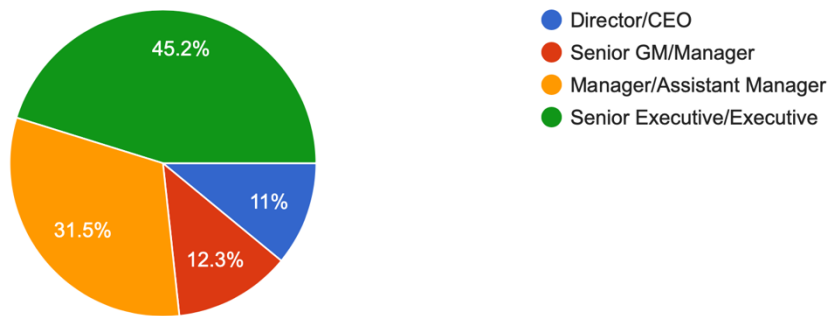


Source: Resource developed (2022)

4.2.6 Respondent’s Role

Most of the respondents are 33 (45.2%) are made up of Senior Executive/Executive role, 23 (31.5%) are Manager/Assistant Manager role, followed by 9 (12.3%) and 8 (11%) are Senior Manager/Manager, and Director/CEO role.

Figure 4. 7 Respondent’s Job Role



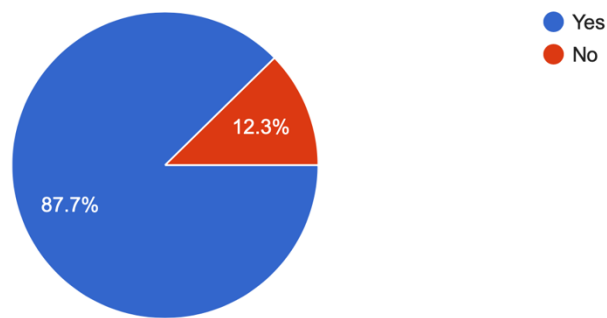
Source: Resource developed (2022)

4.3 Respondent's Opinion Towards Developer's Profit Margin

4.3.1 The Rise of Commodity Price Has Impacted Property Developer Profit Margin Severely?

Over 64 (87.7%) of respondents agreed that the rise of commodity price has impacted the property developer profit margin severely, whereas, 9 (12.3%) of respondents disagreed that the commodity price could impact property developer's profit margin.

Figure 4. 8 Does Rise of Commodity Price Impacted Property Developer's Profit Margin?

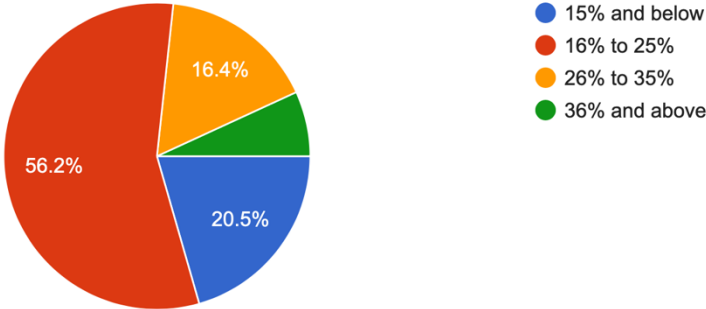


Source: Resource developed (2022)

4.3.2 The Ideal Average Profit Margin Today for Property Developer

There are more than half of the respondents at 41 (56.2%) respondents see that 16% to 25% are an ideal profit margin for property developer. Whereas 15 (20.5%) respondents see that the profit margin is 15% and below, 12 (16.4%) see that profit margin is in between 26% to 35%, only 5 (6.8%) see the profit margin is 36% and above.

Figure 4. 9 What Is the Ideal Average Profit Margin For Property Developer?

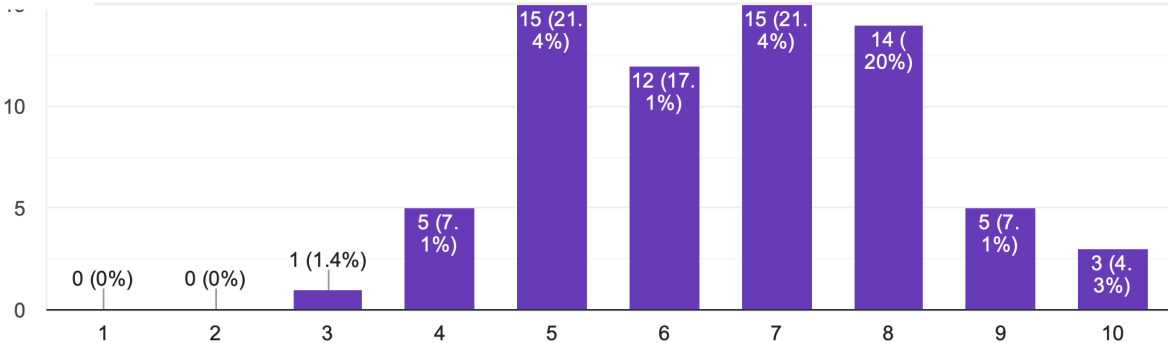


Source: Resource developed (2022)

4.3.3 How Profitable Is Property Development Business?

Generally, most of the respondents viewed that the property development business is still medium to medium high profitable. There are total 30 (42.8%) of respondents viewed that the business of property developer is still 5/10 and 7/10 profitable separately; 14 (20%) viewed that is 8/10 profitable; and 12 (17.1%) viewed that the property development business is 6/10 profitable.

Figure 4. 10 How Profitable Is Property Development Business Currently



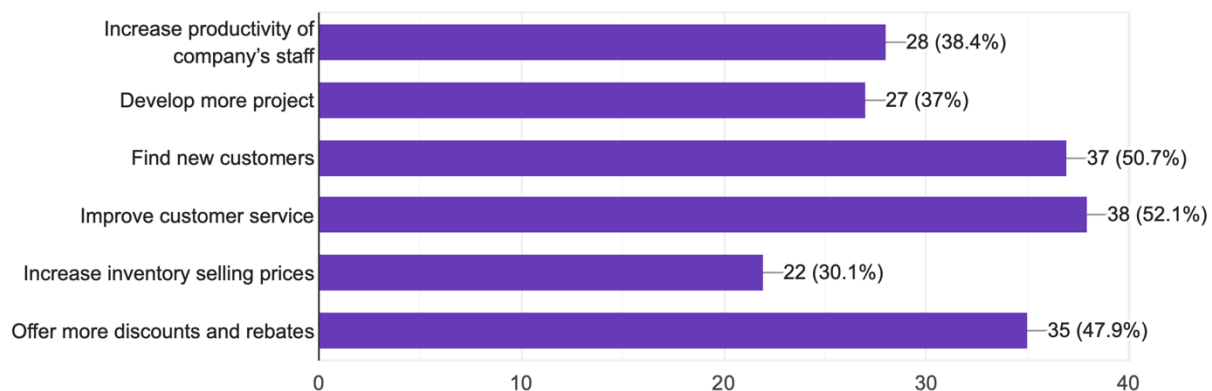
Source: Resource developed (2022)

4.4 Respondent's View on Developer's Strategy to Increase Profitability

4.4.1 What Are The Most Effective and Efficient Strategies to Increase Revenue?

Improving customer services, finding new customers, and offering more discount and rebates emerged to be the top 3 most preferred strategies amongst all respondents, ranged at 38 (52.1%), 37 (50.7%), and 35 (47.9%). Whereas the least preferred strategy is increase productivity of company staff at 28 (38.4%), develop more project at 27 (37%), and increase inventory selling price at 22 (30.1%).

Figure 4. 11 What Are the Most Effective and Efficient Strategies to Increase Revenue

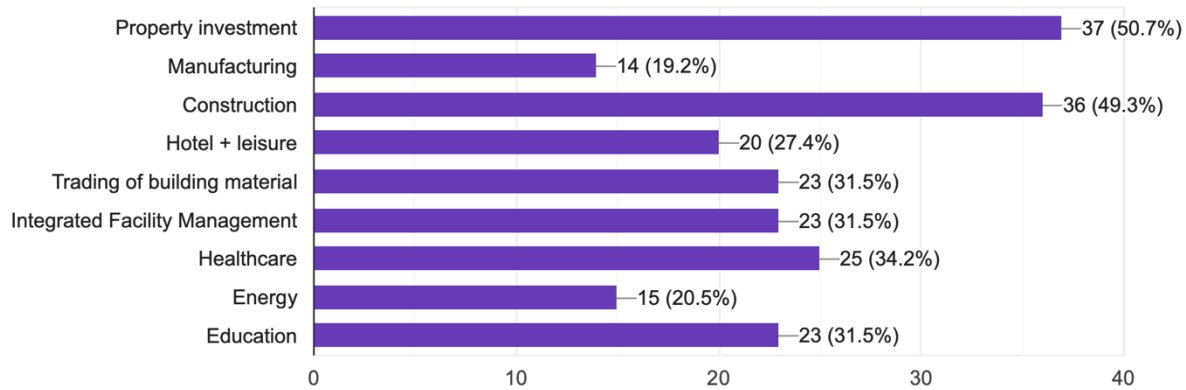


Source: Resource developed (2022)

4.4.2 Business Areas Should Be Explored By Property Developers to Pursue Higher Profit.

Over 37 (50.7%) and 36 (49.3%) of the respondents agreed that property developers should explore property investment and construction related activities to pursue greater profit. These result resonates with Foo & Loo (2021) research on the property developer's revenue are primarily generated from property development, investment, and construction in Malaysia.

Figure 4. 12 Which Business Areas Should Be Explored by Property Developers To Pursue Higher Profit?

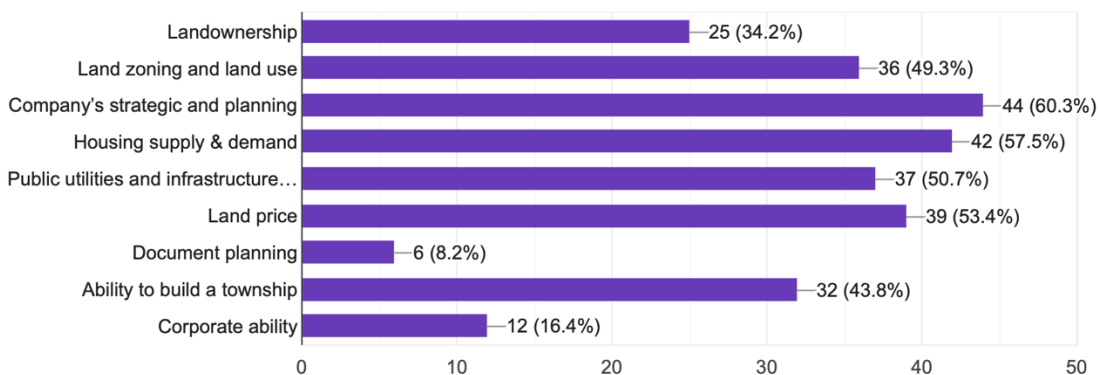


Source: Resource developed (2022)

4.4.3 The Strategies to Consider During Site Selection

The result shows that company’s direction plays an important role in leading the company, strategy and planning is the top 1 factor selected by respondent at 44 (60.3%), followed by market housing supply and demand at 42 (57.5%). Land price is perceived as third important factor when considering a land for development by 39 (53.4%) respondents as the important question is to putting together a site at a location which can be developed profitably.

Figure 4. 13 What Are the Strategies To Consider During Site Selection- 1

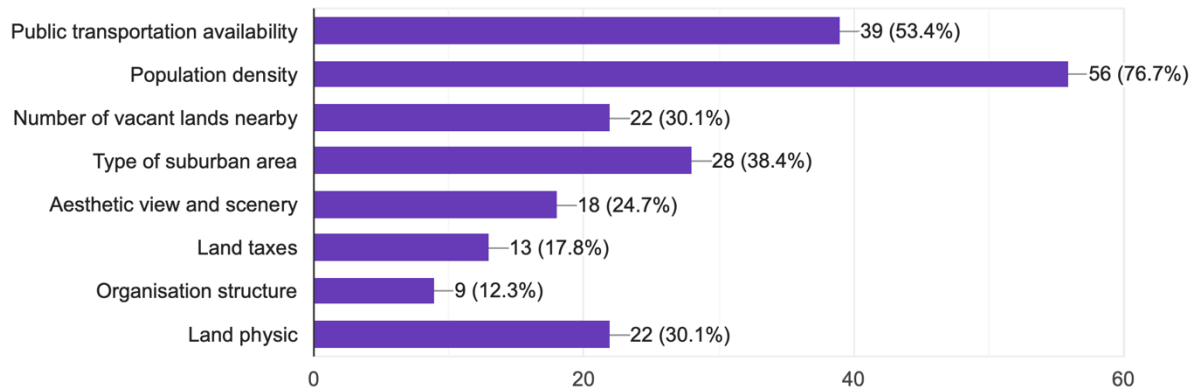


Source: Resource developed (2022)

4.4.4 Strategies to Consider During Site Selection

Total 56 (76.7%) respondents see the population density is the main factor indirectly impacting developer's profit. Whereas 28 (38.4%) respondents see the type of suburban area could affect the developer's profitability.

Figure 4. 14 What Are The Strategies To Consider During Site Selection- 2

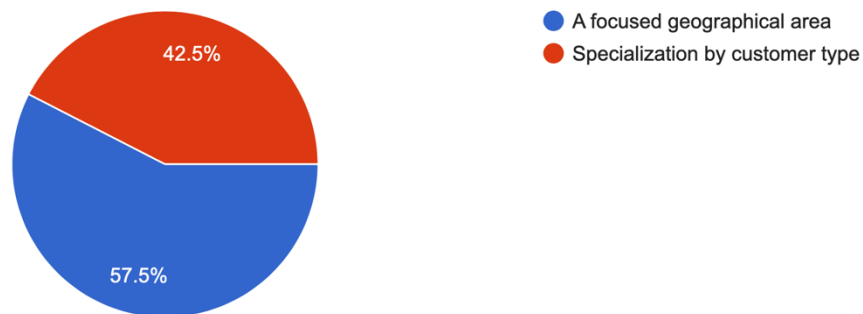


Source: Resource developed (2022)

4.4.5 The Strategy That Provides Higher Profit

42 (57.5%) respondents voted focused geographical area and 31 (42.5%) respondents voted specialisation by customer type as the strategy to fetch higher profit.

Figure 4. 15 What Are the Strategies To Consider During Site Selection- 2



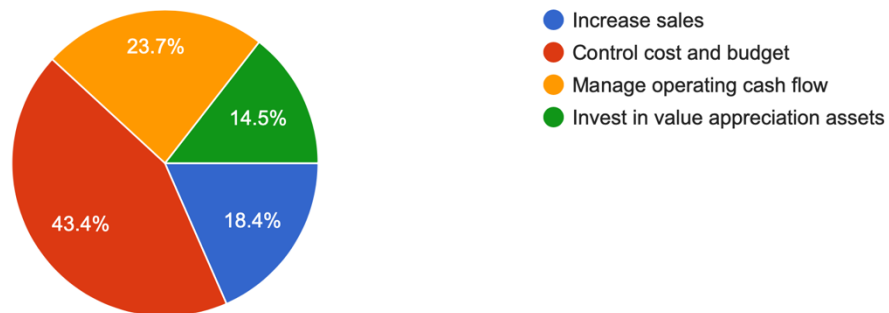
Source: Resource developed (2022)

4.5 Respondent's View of Profit Determinant Driving Factors

4.5.1 The Main Internal Factors Driving Profitability

33 (43.4%) respondents selected control cost and budget as the main internal factor to increase profit, whereas 18 (23.7%) and 14 (18.4%) respondents selected managing operating cash flow and increasing sales to increase profit.

Figure 4. 16 What Is Main Internal Factors Driving Profitability

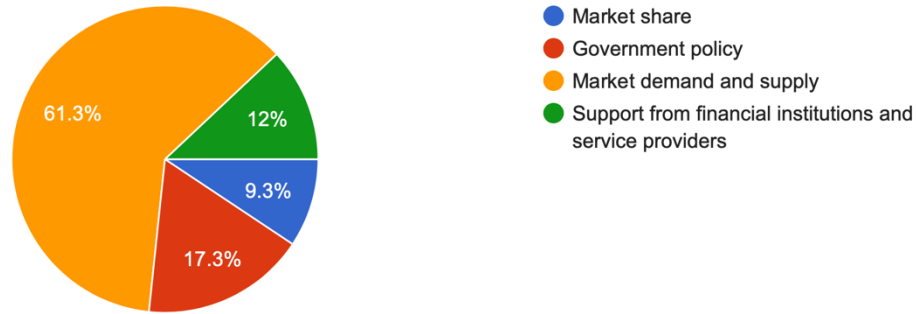


Source: Resource developed (2022)

4.5.2 The Main External Factors Driving Profitability

Predominantly of the respondents of 46 (61.3%) see the market demand and supply is the main external factors driving profitability.

Figure 4. 17 What Is The Main External Factors Driving Profitability

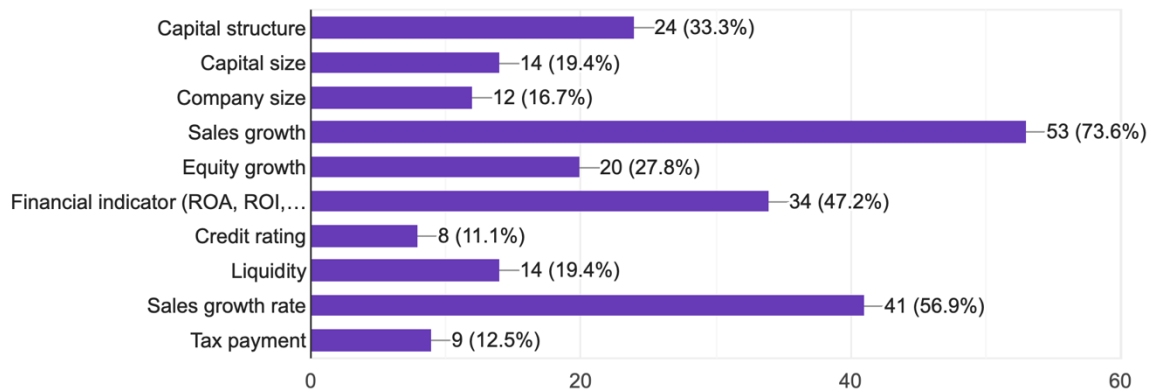


Source: Resource developed (2022)

4.5.3 The Determinant Factor of Profitability

Sales growth rated by 53 (73.6%) respondents, sales growth rate rated by 41 (56.9%) respondents, and good financial indicator such as return on assets, return on investment rated by 34 (47.2%) respondents are top 3 most important determinant factor of profitability.

Figure 4. 18 What Are the Determinant Factor Of Profitability

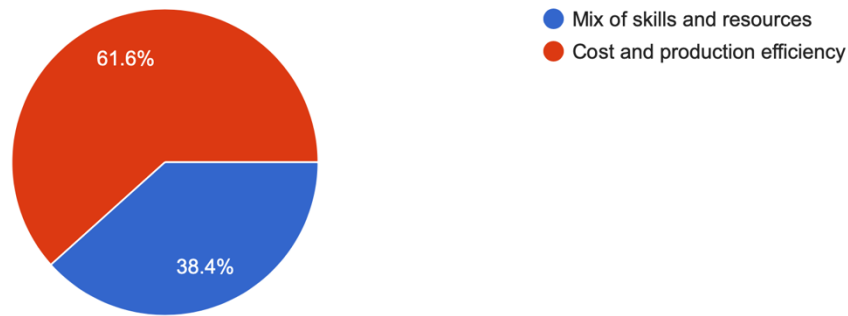


Source: Resource developed (2022)

4.5.4 Competitive Advantages That Provide Higher Profit

The result shows that cost and production efficiency surpassed at 45 (61.6%) respondents than the mix of skills and resources at 28 (38.4%) respondents.

Figure 4. 19 Which Competitive Advantages That Provide Higher Profit



Source: Resource developed (2022)

4.3 Result on 1st Objective: To Determines The Profitability Factors for Property Developers

Generally, a project development should be able to fetch a return between 15% to 20% by the time when project is completed at 5th or 6th year. At construction stage, profits are affected by various reason, including total cost of development; political uncertainty such as changes in housing delivery and policy; change in market demand; possibility of delay in completion; and other relevant factors. To cope with these uncertainty, the first thing to do is developers would try to retain the profit margin by increasing the selling price to survive, and building more units at higher price to recover the losing profit margin. However, developers should be aware that if price is too high for targeted buyers to afford, the purchasers will not be able to afford the property due to they are not entitled for loan eligibility. When property is unable to sell to purchasers at a given time, developer's margin is further affected by the overhang inventory and the vicious cycle of developer's diminishing profit margin is repeated again. Developer's profit determines their reinvestment capability of future project, it helps ensure business sustainability and future housing supply continuity into the market.

The internal and external factors discussed in chapter 2 are important factors to drive developer's profitability level as property development is a long term business investment. Essentially, the authors discussed each of the factors are highlighted in figure 4.20 as follow:

Figure 4. 20 Authors That Studies the Profitability Driving Factors

No.	Factors	Authors
1	Capital size	Coulondre & Jacobs-Colas (2017)
2	Management competency	Grant & Baden-Fullerte (2018)
3	IT & technology adaptability	Starr, Saginor, & Worzala (2020)
4	Financial competency & performance	Pratheepan (2014) Ahmad, Pyeman, Ali, & Abdul (2018)
5	Entrepreneur characteristic	Ratcliffe, Stubbs, & Keeping (2021) Jaafar et al. (2014) Aziz, Yi, & Jaafar (2006)
6	Ability to predict market demand	Massimo et al (2018)
7	Skilled employee	Avdic, Lundborg, & Vikström (2014)
8	Good service reputation	Gubler & Cooper (2019)
9	Market share	Karji, Woldesenbet, Khanzadi, & Tafazzoli (2019)
10	Relationship with authorities and support from service providers	Peiser (1990)
11	Selection of the prime project location	Aziz, Yi, and Jaafar (2006) Man et al. (2002)
12	Housing policy & delivery system	Almi, and Husin (2017) Schätz & Sebastian (2009)
13	Macroeconomic	Pillaiyan (2015) MacDonald (2011)
14	Demographic	Gevorgyan (2019)
15	Land use status	Mullins (2001) Evans (2008)
16	Company belong to a part of larger group	Claridge (2018)

Source: Research developed (2022)

Further study by Doan (2020) on profitability of real estate firms in Vietnam comprised of 55 real estate firms listed on Hochiminh and Hanoi stock exchanges from 2010 to 2018. The results shows that economic growth presented as the most significant factor to drive profitability growth on property developers. The leverage of property developer is second most significant factor in retaining property developer's profit, when market was down caused by COVID-19 pandemic, property developers were hit hard by slumpy sales, property developers with healthy cash flow and strong leveraging managed to survive in the financial difficulties, the leveraging factor were

supported by Burja (2011) and Seissian et al. (2018). The third factor is inflation rate boosted the property developer's profit in Vietnam between 2010 to 2018. Department of Statistical Malaysia (DOSM) published Consumer Price Index (CPI) 2021 report, it shows that Malaysia's annual inflation rate was at 3.2% in December 2021 as compared to average inflation for the period 2011 to 2021 at 1.9% (Tan, 2022). The main reasons are due to the rise in food and fuel prices that caused foods supply shortages and weather factor. This result reflects that mid inflation can stimulate property developers to operate and increase their profit.

4.4 Result Of Objective 2: The Relationship Between Developer's Strategy and Profitability Factors

This section selects correlation to analyse the relationship between internal and external factors with developer's strategies.

4.4.1 There Is Negative Relationship Between Developer's Internal Factors and Firm's Profitability

The result of correlations analysis from SPSS shows that, the ability to predict market demand is 0.134 (figure 4.21), which is less than 0.4 on minimum moderate correlation coefficient level stated in Chapter 3's Analysis Discussion. Although they have weak relationship, the ability to predict market demand is still somehow able to help increase ideal profit margin for the property developer.

Figure 4. 21 Result of correlations analysis between ideal profit margin and ability to predict market demand

		Correlations	Idealprofitmar gin	Abilitytopredic tmarketdema nd
Spearman's rho	Idealprofitmargin	Correlation Coefficient	1.000	.134
		Sig. (2-tailed)	.	.260
		N	73	73
Abilitytopredictmarketdem and	Idealprofitmargin	Correlation Coefficient	.134	1.000
		Sig. (2-tailed)	.260	.
		N	73	73

Source: Research developed (2022)

4.4.2 There Is Positive Relationship Between Developer’s Internal Factors and Firm’s Profitability

Internal factor of financial competency and performance is computed by using SPSS to understand the relationship with ideal profit margin. The result of 0.368 correlation coefficient in figure 4.22 shows there is almost close to a moderate correlation between financial competency and performance and ideal profit margin. Having a good financial performance and competency is the fundamental factor in shaping good performance track record. Hence, it is concluded that there is a positive relationship between developer’s financial competency and performance and the developer’s profit margin.

Figure 4. 22 Result of Correlations Analysis Between Ideal Profit Margin And Financial Competency And Performance

Correlations			Idealprofitmar gin	Financialcom petencyandpe rformance
Spearman's rho	Idealprofitmargin	Correlation Coefficient	1.000	.368**
		Sig. (2-tailed)	.	.001
		N	73	73
	Financialcompetencyand performance	Correlation Coefficient	.368**	1.000
		Sig. (2-tailed)	.001	.
		N	73	73

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research developed (2022)

4.4.3 There Is Negative Relationship Between Developer’s External Factors and Firm’s Profitability

The correlation coefficient is calculated to be -0.006 in figure 4.23, it suggested that as housing policy and delivery system has a weak negative correlation to the developer’s profit margin. It means when housing policy and delivery system becomes stringent (reduced), the property developer’s become slightly affected (increase), or vice versa. Hence, the answer suggested that housing policy and delivery system has a weak negative correlation to developer’s profit margin.

Figure 4. 23 Result of Correlations Analysis Between Ideal Profit Margin and Housing Policy and Delivery System

Correlations			Idealprofitmar gin	Housingpolic yanddelivery system
Spearman's rho	Idealprofitmargin	Correlation Coefficient	1.000	-.006
		Sig. (2-tailed)	.	.961
		N	73	73
	Housingpolicyanddelivery system	Correlation Coefficient	-.006	1.000
		Sig. (2-tailed)	.961	.
		N	73	73

Source: Research developed (2022)

4.4.4 There Is Positive Relationship Between Developer's External Factors and Firm's Profitability

The macroeconomic has moderate positive correlation relationship with developer profit as the correlation coefficient result show that 0.41 in figure 4.24. it means when macroeconomic is performing well, the property developer's profit margin will also perform well. Thus, the changes of macroeconomic would definitely impact the developer's profit margin.

Figure 4. 24 Result of Correlations Analysis Between Ideal Profit Margin and Macroeconomic

Correlations			Idealprofitmar gin	Macroeco mic
Spearman's rho	Idealprofitmargin	Correlation Coefficient	1.000	.041
		Sig. (2-tailed)	.	.732
		N	73	73
	Macroeconomic	Correlation Coefficient	.041	1.000
		Sig. (2-tailed)	.732	.
		N	73	73

Source: Research developed (2022)

4.5 Result of Objective 3: Proposal To Improve Profitability For Property Developers

Based on the research and findings result of objective 2, developer's profitability is still largely depending on financial competency and performance, ability to predict market demand, and macroeconomic factor. These main factors are directly impacting the property developer's profit all time. The declining profit margin of property developers discussed in chapter 2 literature review are believed to associate with these factors.

On the other hand, housing delivery and policy system is the only negative relationship with profit factor here. Developer that experienced challenges continue to expand their project for better profit are believed to associate with this factor. Hence, proposal is given to this factor as it is important to have sustainable housing model such as regulatory framework is advice to facilitate towards housing development and not prescriptive in nature, this is because private housing development is an entrepreneurial business ventures and should not allowed be used as government's social housing policies' funding. The compliance cost system should be restructured to lower overall cost of doing business to ensure sustainable house price, such proposals include:

4.5.1 Minimising Approval Timeline Through Self-Regulation Via Consultants:

Automatic approvals in principle based on preset compliance guideline will help to improve speed to market, minimise delay of approval of property developer. This should be applicable to all level of approval, including planning and release of unsold Bumiquota units to the market.

4.5.2 Removal of Cross Subsidies

Cross subsidies will add higher compliance cost and lead to higher construction house price to the developers. Removal of the cross subsidies can help property to be priced lower than before.

4.5.3 Government To Take Up Public Housing Segment

Affordable house scheme will be better controlled by government, the government can monitor overall construction cost from land price to delivery of vacant possession, and utilise the data to improvise as time goes by. Government can also have the final say on the land price to build affordable house especially in city area to cater for social housing buyers.

4.5.4 Off Set The Value Of Surrendered Land With Various Payable Charges

Huge township development often has more than 60% land surrenders to the government for public facilities, open spaces, infrastructure development. Such action result loss of nett many saleable land of remaining 40% land and developer is forced to increase selling price to survive from thin profit margin. If given the opportunity to offset the value of surrenders land with other various payable charges such as development charges, the house price could be priced lower and profit margin is sustained.

4.5.5 Plot Ratio As The Main Function In Planning Control

Plot ratio is able to ensure more standardised and efficient use of land

On top of the suggestion above, it must be done with data transparency that are real-time to public to ensure accuracy, the department and team that in charge this data must take accountability to facilitate a good coordination between market information and property developers.

4.6 Chapter's Conclusion

This chapter has addressed the chapter 1, 2, and 3 research questions by providing literature reviews, correlation coefficient result, as well as recommendation given to improve profitability for property developers. The Cronbach's Alpha Reliability Test has also passed the test and proven to be acceptable. Next chapter will summarize the overall report and provide a major findings that will be beneficial to readers and property developers.

Chapter 5: Conclusion

5.0 Introduction

This chapter summarize overall study from chapter 1 to 4 previously. The summary of demographic profile and statistical analysis allow us to understand the result in one paragraph. The major findings on objective 1, 2, and 3 provided an interesting point of views from interpretation from chapter 4. Result of hypothesis is generated based on chapter 4 correlation coefficient whether to accept or reject the hypothesis, then we will provide limitation of the study and recommendation for future researcher to take note on the blind spot that they might overlook. Lastly, a conclusion will be discussed to summarise this whole lengthy report.

5.1 Summary of Statistical Analysis

This research used Cronbach's Alpha Reliability Test and correlation coefficient. The reliability test result recorded at 0.873 which is acceptable and it's in accordance with (Kieser and Wassmer, 1996).

5.1.1 Summary of Demographic Profile

The majority of the respondents is made up of male at 54.8% and female at 45.2%. Their age is mainly coming from age between 30-39 at 52.1%, followed by 20-29 at 26%, 40-49 at 19.2%, and 50 and above at 2.7% only. Whereas more than half of them at 68.5% are Chinese, 20.5% is Malay, only 6.8% are Indian.

Their working experience with developer have more than 9 years and above have 36.1%, but at the same time, their working experience less than 3 years have 27.8%, followed by 18.1% for 3-6 year experiences and 18.1% for 6-9 year experiences. Throughout their career life, 57.5% of them have bachelor degree/professional, 15.1% of them have A-level/STPMM/Certificate/Diploma, and 16.4% of them have Master/Doctorate level.

About 45.2% of them are working as senior executive/executive level, followed by 31.5% of them working as manager/assistant manager level, 12.3% of them working as senior GM/Manager, and last but not least Director/CEO only accounted for 11%.

5.2 Scale Measurement

The scale measurement used here are 1 to 5, as 1 – Strong Disagree, 2- Disagreed, 3- Neutral, 4- Agree, and 5- Strongly Agreed.

5.3 Discussion of Major Findings

5.3.1 Objective 1: To Determine The Profitability Factors For Property Developers

This is in accordance with Leng (2019), that developers are most likely to pass on the diminishing profit margin by increasing property price to buyers until it is intervened by government. This is in accordance with Foo & Loo (2021) that a profit margin that is below 15% is considered not feasible after investigated 98 public-listed property-related companies on Bursa Malaysia in between 2010 to 2019, the result shows that, the company's ability to identify a prime location for land parcels, strong relationship with the authorities for fast approvals and smooth compliance are the key factors for these companies' overall performance their profitability. Hong-kit Yim, Anderson, & Swaminathan, (2004) supported that high quality sales team backup by senior management team can help increase sales growth and attract recurring customers. Salesperson who focus on customer relationship tend to be more attentive to customer' personal needs are more likely to secure long term sales. The foundation of finding new customers is a relationship building process, Kumar, & Reinartz, (2018) see a good customer relationship management (CRM) system in real estate development helps build new customer database pipeline.

In addition, the effect of product's rebates and discount further affects their buying emotion experiences, they feel more encouraged to make a first-time purchase with a company when they received an offer or discount (Roesler, 2021). The strategies of a high market shares companies

often emphasize their mission statement and long-term objectives to lead the direction of the company, their mission statement then helps them to identify the market gap (Bloom & Kotler, 2014).

The rising population density can make high and rising levels of house prices, and indirectly limiting property developer's targeted selling price and profit (Miles, 2012). 39 (53.4%) respondents voted public transport availability factor could indirectly impacting developer's profit. Study from Mathur (2019) development found that development built nearby public transport location could fetch higher profit due to higher density and plot ratio allowed. Developing country like Malaysia has segmented demographic and geographical area that are yet to fully explored, the demand for property at right price and location are still highly demanded, hence, the market segmentation strategy is still important as it helps developer to reach out to the right customer with right product which satisfy their needs and wants.

5.3.2 Objective 2: To Analyse The Relationship Between Developer's Strategy and Profitability Factors

On internal main factors, total 61 (84%) of respondents agreed skilled employee is paramount important on driving the company to higher profit. A company that is driven by clear vision and mission with "know-how" experiences employees have better chances in driving company's profitability. Property development is a complicated business that linked to more than 140 industries, full of risk and uncertainty, and highly regulated by local context. Employee is the key to contribute the success of the company when they are trained to perform their jobs according to industry standards, and the training is essential for all level of employee. An untrained employee is unable to produce high-quality product and service due to lack of adequate skills and knowledges leads to unable to provide customer service satisfaction, which is rated by most respondents 61 (84%) as most important factor. As a result, untrained employees is lack of motivation and knowledge to utilise company resources properly, which will lead to waste and affect customer interaction and retention in the long run, therefore, developer suffer from dwindling profit.

On external main factors, total 58 (79%) of respondents see the housing policy and delivery system as the main factors that could drive the property developer's profit. The housing policy refers to

the cost of compliances on those that do not add value in the property development process such as sluggish approval process, high cross subsidies cost (high affordable housing quota, compulsory capital contribution paid to the utilities service providers), and poor gross floor areas efficiency are identified as unnecessary compliances cost (REHDA Institute, 2022). Besides, the housing delivery system refers to the payment and charges bear by developer to numerous approving agencies, including Tenaga Nasional Berhad (TNB), Indah Water Konsortium (IWK), Malaysia Communication and Multimedia Commission (MCMC), Water Concessionaires, One-Stop-Centre (OSC), planning department, developer's licence application and renewal, conversion, and others. Depending on policies, an average compliances cost could range from 12.8% to 23.5% for a strata development less than 10 acres and 21.8% to 32.% for landed housing development for more than 10 acres.

Lastly on profitability factor, the ideal property developer profit margin between 16% to 25% has been rated by most respondents at 41 (56.2%). Further study conducted by REHDA Institutes on various developer with RM1 billion market capitalisation, in their annual reports from 2008 to 2018, the study found that only 3 out of 15 developer companies enjoyed double digit growth on Return on Capital Employed (ROCE) between 2008 to 2018, whereas these only top 3 developers that enjoyed double digit growth were UOA Development, Matrix Concept, and Mah Sing Group, However, if the property industry is to compare with other industry like utilities, transportation and logistics, healthcare, REIT (Property Investment), telecommunication & multimedia, and technology, property industry in general has been among the few industries that recorded lower profitability as the property industry has been experiencing declining profit since 2014 as discussed in chapter 2. That is also where majority of total 37 (50.7%) and 36 (49.3%) of respondents see property investment in REIT and construction sector that developer should explore to pursue higher profitability.

5.3.3 Objective 3: To Propose The Ways To Improve Profitability For Property Developers

After chapter 1 and 2, it is fair to conclude that developer's profit margin between 16% and 20% are standard profit margin as 41 (56.2%) respondents and Mastermind (2018) see that most property developer profit margin fall in this range.

Based on literature review in chapter 2, it is observed that all developers are seen to have segregated market segmentation to reach out more niche demographic to capitalize the profit margin by launching different product type to increase market share (Shinde, 2016). One of the method to control operating cost and budget is to invest in technologies and management skills that can help reduce redundant tasks and later translate into company profits (Onuonga, 2014). Big developers tend to have economies of scale and economies of scope advantages than small to medium developers.

5.3.4 Result of hypothesis

Based on the result given in correlation coefficient, a hypothesis table is provided to provide a summary whether it is accepted or rejected for hypothesis in figure 5.1 below:

Figure 5. 1 Result of Hypothesis

No.	Hypothesis	Result
1	<i>H0: There is negative relationship between developer's internal factors and firm's profitability.</i>	Rejected
2	<i>H1: There is positive relationship between developer's internal factors and firm's profitability.</i>	Accepted
3	<i>H0: There is negative relationship between developer's external factors and firm's profitability.</i>	Accepted
4	<i>H2: There is positive relationship between developer's external factors and firm's profitability.</i>	Accepted

Source: Research developed (2022)

5.4 Managerial Implication

The implication of this research helps aspiring property developers to gain a better understanding on the subject matter.

5.5 Limitation of Study

A major limitation of this research is the number of respondents collected in this research, the respondents covered only total 73 respondents, which could have collected more number of respondents to validate the relationship between profitability and internal and external factors better. Future research can increase the number of respondents by reaching out to developer's association body- REHDA Institute to extend survey to respondents during events to collect more input, it will be more impactful when event participants got briefed about the survey questionnaire and contributed their feedback on the same day of the event.

Second of the limitation includes the current approach is limited to property developers respondents in Klang Valley area only. It can't deny that Klang Valley has the greatest's working population of property developer companies for estimated 4.32 million population are employed, which consists of 3,446,500 from Selangor and 874,600 from Kuala Lumpur according to Department of Statistic Malaysia (DOSM) in 2020. However, the opinions from southern (Johor Bahru), northern (Penang), and western (Sabah) region are suggested to take into study's as a whole to fully understand the property developer's profitability driving factors that comes from various background, sizes, and company profile.

Lastly, it is the quantity of respondents of profile and demographic. The questionnaire in this research only reached out to total 73 respondents. The data analysed in research and findings are limited by the number of respondents that are predominantly one biggest group that shared the same interest or profile, thereby neglected the minority group's opinions and created bias in the end result and findings.

5.6 Recommendation for Future Research

The market demand and purchaser's need and want are ever changing. Future researchers are recommended to expand this study on project design and project location that are profitable for property developer.

Furthermore, it is interesting to look into the virtual world of real estate. With the rise of technology like block-chain, non-fungible token (NFT), cryptocurrency, metaverse, these could be a market trend that developer used as tools to market their product, such as accepting cryptocurrency as a mode of payment. It is possible that NFT, cryptocurrencies, and property will merge, when people start to accept the property NFT digital collection, when people discovered physical property collection is not only the option anymore.

5.7 Conclusion

The myth of property developer that is making a decent profit in current business era is not correct. The land and other development cost including materials, labour, professional fees, interest cost, operational cost, will keep increasing in the years to come due to inflation, change in market demand, and rapid urbanisation growth, are eating into their already thinning profit margin.

This research also has achieved the research objective stated in chapter 2, to determine the profitability determinant factors, analyse the relationship between developer's strategy and profitability factors, and propose the ways to improve profitability for property developers. Rapid changing circumstances are forcing the property developer to innovate to adapt to change, the rise of technology in metaverse, virtual reality, augmented reality, NFTs, cryptocurrency are a form of tools or medium that allow property developer to penetrate deeper market buyers and greater market share.

The Malaysia population recorded annual growth rate at 0.2% per annum, with an average family per household at 4.1 as at 2021. The demand for housing is required as Malaysia population is still growing steadily each year, property development business is still relevant and expected to grow for next few decades alongside with population density and market demand.

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Appendix A: Survey Questionnaire

Section A: Demographics

Instruction: please tick in the box next to your answer of your choice or write in the space provided as case may be:

1) Age:

20 – 29 30 – 39 40 – 49 50 and above

2) Gender:

Male Female

3) Ethnicity:

Malay Chinese Indian Others

4) What is your highest academic level:

Lower than SPM O-Level/SPM A-Level/STPM/Certificate/Diploma

Bachelor Degree/Professional Master/Doctorate Others: _____

5) Working experiences as property developer:

Less than 3 years 3 to 6 years 6 to 9 years 9 years and above

6) The rise of commodity price has impacted developer's profit margin severely?:

Yes No

7) How would you classify your role?:

Director/CEO Senior GM/Manager Manager/Assistant Manager

Senior Executive/Executive

8) What are the most effective and efficient strategies to increase sales revenue? (You may choose more than 1):

Increase productivity of company's staff

Develop more project

Find new customers

Improve customer service

Increase inventory selling prices

Offer more discounts and rebates

9) What is the main internal factors driving profitability?:

Increase sales

Control cost and budget

Manage operating cash flow

Invest in value appreciation assets

10) What is the main external factors driving profitability?:

Market share

Government policy

Market demand and supply

Support from financial institutions and service providers

11) Identify the determinant factor of profitability? (You can choose more than 1):

Capital structure

- Capital size
- Company size
- Sales growth
- Equity growth
- Financial indicator (ROA, ROI, ROE)
- Credit rating
- Liquidity
- Sales growth rate
- Tax payment

12) In your opinion, what is the ideal average profit margin today for property developer?:

- 15% and below
- 16% to 25%
- 26% to 35%
- 36% and above

13) Which of the following business areas should be explored by property developer to pursue higher profitability?

Please number the answer below from 1 (being the most preferred business areas) to number 9 (being the least preferred business areas) below in order:

- Property investment
- Manufacturing
- Construction
- Hotel + leisure
- Trading of building material
- Integrated Facility Management
- Healthcare

- Energy
- Education

14) What are the strategies to consider during site selection that are directly impacting developer's profit? (You can choose more than 1):

- Landownership
- Land zoning and land use
- Company's strategic and planning
- Housing supply & demand
- Public utilities and infrastructure availability
- Land price
- Document planning
- Ability to build a township
- Corporate ability

15) What are the strategies to consider during site selection that are indirectly impacting developer's profit? (You can choose more than 1):

- Public transportation availability
- Population density
- Number of vacant lands nearby
- Type of suburban area
- Aesthetic view and scenery
- Land taxes
- Organisation structure
- Land physic

16) Which strategy provides higher profit?:

- A focused geographical area
- Specialization by customer type

17) Which competitive advantages provides higher profit?:

- Mix of skills and resources
- Cost and production efficiency

18) The property development business has been a roller coaster for recent two years mainly due to COVID-19 pandemic. According to Malaysia Property Market Report for 1st Half of 2021 by published NAPIC, the property market activity in H1 2021 recorded an significance increase of 21.0% in volume and 32.1% in value compared to H1 2020. Volume of transactions across the sub-sectors showed upward movements. Residential, commercial, industrial, agriculture and development land sub-sectors recorded year-on-year growths of 22.2%, 28.5%, 29.4%, 13.9% and 21.3% respectively.

It shows that despite the market challenges that many property developers are facing, but the demand for various property types still remain intact.

Hence, in your opinion, on a scale of 1 to 10 (1 being "extremely unprofitable" and 10 being "extremely profitable"), how profitable do you think is property development business:

1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10

Section B

Section B is about the profitability factors measured by Likert scale. For this section, please circle your answer to each statement using five (5) Likert scales to indicate what extent you agree or disagree with each statement.

1-Strongly Disagree (SDA), 2-Disagree (DA), 3-Slightly Agree (SA), 4-Agree (A), 5-Strongly Agree (SA)

Scale/Determinant	SDA	DA	SA	A	SA
1) Internal Factor					
i. Capital size	1	2	3	4	5
ii. Management competency	1	2	3	4	5
iii. Technology adaptability	1	2	3	4	5
iv. Financial support from banks	1	2	3	4	5
v. Skilled employee	1	2	3	4	5
vi. Corporate social responsibility (CSR)	1	2	3	4	5
vii. Regional competitiveness	1	2	3	4	5
2) External Factors					
i. Prime location/land	1	2	3	4	5
ii. Cash flow management	1	2	3	4	5
iii. The ability to predict the market demand	1	2	3	4	5
iv. Relationship with authorities	1	2	3	4	5
v. Good organisation and service reputation	1	2	3	4	5
vi. Market share	1	2	3	4	5
vii. Relationship with service providers	1	2	3	4	5
viii. Tolerance to risks and uncertainty	1	2	3	4	5

ix.	Organisational strategy and policy planning	1	2	3	4	5
x.	Company belong to a part of larger group	1	2	3	4	5

Thank you for taking the time to complete this questionnaire.

Appendix B: Approval of Ethical Clearance Letter



UNIVERSITI TUNKU ABDUL RAHMAN

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Re: U/SERC/15/2022

10 February 2022

Ms Nur Hafizah Binti Juhari
Department of Building & Property Management
Faculty of Accountancy and Management
Universiti Tunku Abdul Rahman
Jalan Sungai Long
Bandar Sungai Long
43000 Kajang, Selangor

Dear Ms Nur Hafizah,

Ethical Approval For Research Project/Protocol

We refer to your application for ethical approval for your research project (Master student's project) and are pleased to inform you that your application has been approved under Expedited Review.

The details of your research project are as follows:

Research Title	Profitability Driving Factors of Property Developers in Malaysia
Investigator(s)	Ms Nur Hafizah Binti Juhari Wong Wee Chez (UTAR Postgraduate Student)
Research Area	Social Sciences
Research Location	Klang Valley
No of Participants	400 participants (Age: 21 - 70)
Research Costs	Self-funded
Approval Validity	10 February 2022 - 9 February 2023

The conduct of this research is subject to the following:

- (1) The participants' informed consent be obtained prior to the commencement of the research,
- (2) Confidentiality of participants' personal data must be maintained,
- (3) Compliance with procedures set out in related policies of UTAR such as the UTAR Research Ethics and Code of Conduct, Code of Practice for Research Involving Humans and other related policies/guidelines; and
- (4) Written consent be obtained from the institution(s)/company(ies) in which the physical or/and online survey will be carried out, prior to the commencement of the research.

Kampar Campus : Jalan Universiti, Bandar Barat, 31900 Kampar, Perak Darul Ridzuan, Malaysia
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Tel: (603) 9086 0288 Fax: (603) 9019 8868
Website: www.utar.edu.my



Should you collect personal data of participants in your study, please have the participants sign the attached Personal Data Protection Statement for your records.

The University wishes you all the best in your research.

Thank you.

Yours sincerely,



Professor Ts Dr Faidz bin Abd Rahman
Chairman
UTAR Scientific and Ethical Review Committee

c.c Dean, Faculty of Accountancy and Management
 Director, Institute of Postgraduate Studies and Research

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