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SINGAPORE CONSTRUCTION MARKET REVIEW AND OUTLOOK

MARCH 2020

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CONSTRUCTION DEMAND

Despite a slowing global economy and an on-going trade dispute between China and the United States, the construction industry in 2019 generally outperformed the year before, with construction demand at S\$33.4 billion, a 9.5% increment year-on-year. There were S\$19 billion worth of public sector projects awarded in 2019, while the private sector spending increased to S\$14.4 billion, mainly driven by en-bloc redevelopments. The public sector continues to be spurred by infrastructure projects, while we saw a slight uptick in commercial en-bloc after the demand for residential en-bloc declined sharply. The COVID-19 (Coronavirus) outbreak is now a pandemic, and has deep and profound impact on economies, domestic consumer spending and the tourism industry as many countries have implemented border controls/lockdowns and imposed travel ban and limitations. The Singapore Tourism Board said visitor numbers may be reduced by as much as 30%, and local retailers are feeling the pinch as footfall numbers are dwindling. Uncertainties arising from the prevailing trade feud between China and the United States have hurt businesses and impeded the global economy, but a preliminary deal is finally in place to ease the tension, even though there are still many unresolved issues. Brexit has finally achieved conclusion after a prolonged debacle, and Hong Kong continues to experience tumultuous social unrest and sustained domestic protests on various issues not least their perception of unwarranted interference by China in its political affairs. On the domestic front, we were precariously close to a technical recession in Q3, and the full year GDP in 2019 was a mere 0.7 percent, the slowest growth in 10 years since the 2009 recession. The local economy shrank 2.2% year-on-year in Q1, and the Ministry of Trade and Industry has further downgraded the GDP outlook to be between -1% and -4%, as the pandemic affects Singapore's economy on all fronts.

2019 – A YEAR IN REVIEW

In 2019, civil engineering projects demand contracted 6.2% to S\$9.1 billion. The bigger projects awarded included Tuas Water Reclamation Plant Contract 1A (Site Development Works) and 2A (Influent Pumping Stations), Tuas Terminal Finger 2, Bulim Infrastructure Works, Sengkang West Bus Depot, Jurong Region MRT Line depot, stations and viaducts, and Changi Airport Terminal 2 A&A. The industrial sector grew more than 50% in 2019, fuelled by demands in higher specification factory space (both single user and multiple user), including the S\$1 billion Integrated Business Park Development at Punggol Digital District, JTC's Bulim Square, and the various rejuvenation works to industrial properties at International Business Park, Changi Business Park and Science Park. Notwithstanding that the Data Centre market seems to be reaching saturation, there are still pent-up demands, as in the case with Air Trunk's 60MW hyperscale data centre in Singapore, scheduled to be in service by mid-2020. Similarly, institutional sector also grew 10% to S\$6.4 billion, which includes Mount Alvernia Hospital A&A, SGH Contract 9A, and Singapore Institute of Technology Campus at Punggol North. Private residential sector remains constant at 2018 levels, with non-landed residential sales exceeding last year's numbers, and overall price levels have inched up 2.5%. In the public residential sector, total BTOs launched last year was approximately 14,600 units, a slight decline compared to both 2017 and 2018. Retail projects seem to have assuaged after the completion of Funan and Jewel Changi, and on the commercial and hotel front, Guoco Midtown Mixed Development, Sengkang Central Integrated Development, Central Boulevard Office Development, and Club St Hotel Development are among the bigger projects awarded.

After a price surge in 2018 which was largely impelled by construction demand from more than 50 residential en-bloc projects, albeit piling cost has generally stabilised. The price of construction materials like cement, sand and concrete price has increased over 10% in 2019; while aluminium and copper prices have fallen over 10% in 2019, and reinforcement bar price has dropped 5%. The local labour cost is on an escalating trend due to shortages in foreign labour, arising from the COVID-19 issue, plus a tightening of the foreign labour intake arising from the government's drive for increased productivity in the construction sector. With the shift of construction demand from private to public infrastructure projects in 2019 and as a result of intense tender competition, contractors have no alternative but to price for lower margins in order to secure the project. Overall, the tender price movement of building projects in 2019 is in the region of 1-3%.

2020 – LOOKING AHEAD

MACROECONOMICS

There is a growing concern that economies worldwide would plunge into negative growth and recession if the pandemic outbreak continues unabated and spiral out of control. Internationally, many major events this year such as the Tokyo Olympics, Euro 2020, etc. are set to be cancelled or postponed. Notwithstanding the upcoming presidential election, the United States is poised for another slow-down this year with a forecasted 1.8% growth or lower, amidst on-going concern on the pandemic, stock market volatility and oil price plunge. The US House of Representatives unanimously approved a historic US\$2.2 trillion aid package to help cope with the economic downturn inflicted by COVID-19. We expect China's growth to be further curtailed by the outbreak. The outbreak, which has infected more than 300,000 people globally as of mid-March, has severely hit the aviation, tourism, manufacturing sector and export businesses. Due to the outbreak, factories activities have grinded to a complete halt since the turn of the year. China's economy grew only by 6.1% in 2019, the lowest annual growth rate for 29 years, and look set to come in below 6% for the next 3 years. Business sentiment and consumer confidence in Singapore remain weak, amidst concerns over recession risks and rising prices. The construction industry contracted 4.3% y-o-y as of 1Q 2020. On a quarter-on-quarter basis, the sector contracted **22.9%**. As fears over the pandemic deepens, the Straits Time Index closed at its lowest level since the Global Financial Crisis in 2009, after investors went into panic selling across Asia Pacific as markets in Australia, Hong Kong, Japan, Malaysia and South Korea also registered heavy losses. With the various containment measures being put in place, retail businesses are also badly affected. Coupled with the travel ban, the tourism industry looks set to be the hardest hit, as hotel occupancy continues to tumble, with many Meetings, Incentives, Conferences and Exhibitions (MICE) events cancelled as tourists and travellers refrain from travelling. The Singapore Dollar continues to weaken against the greenback, as the tariff war between China and the United States remains the biggest downside risk, and compounded by the uncertainty of the extent of the economic impact from the pandemic outbreak. The key measures arising from Budget 2020 include a S\$4.0 billion supporting package to help companies with wage cost and cash flow, while the GST rate will remain at 7% come year 2021. As the COVID-19 crisis worsens, the government has unveiled an unprecedented S\$48 billion resilience budget, to further aid affected businesses and workers.

2020 – LOOKING AHEAD (CONT'D)

RESIDENTIAL

Following a series of key policy changes last year, around 17,000 units of Build To Order (BTO) flats will be launched this year. As income ceilings and housing grants are raised, HDB expects demand for BTO, Executive Condominium and HDB resale to pent up. Despite the cooling measures introduced in 2018, the private residential market remains resilient as prices for private non-landed residential increased by 2.9% in the Core Central Region (CCR), 1.6% in the Rest of Central Region (RCR), and 0.7% in Outside Central Region (OCR) [*URA flash estimate 3rd Quarter 2019*]. Looking ahead, the property cooling measures are unlikely to ease, even in the face of the upcoming election this year. The number of units in the pipeline for launch is estimated to be around 8,900 units. Upcoming new launches in the CCR include Leedon Green (former Tulip Garden), Avenir (former Pacific Mansion), and One Holland Village; while launches in RCR include Clementi Avenue 1, Bernam Street, One North Gateway, Middle Road, Tan Quee Lan St, and the former Katong Park Towers. Expected launches in OCR include the Pasir Ris Integrated Development, former Goodluck Garden, former Brookvale Park, and EC developments in Canberra Link, Anchorvale Crescent, and Tampines. En-bloc transactions in 2019 was mostly subdued, as only 4 residential sites found a buyer. 10 Residential GLS sites sold last year include Kampong Java Road, Middle Road, Sims Drive, Clementi Avenue 1, Tan Quee Lan St, Bernam St, One North Gateway, and Pasir Ris Drive 3; including 2 Executive Condominium Government Land Sale sites at Canberra Link and Tampines Ave 10. 2 URA GLS sites were awarded in January 2020, and a further 4 more sites will be put up for tender this year. The recent changes to the Qualifying Certificate Regime under the Residential Property Act is set to encourage more developers (with substantial Singapore connection) to participate in future GLS sites. Moving forward, we envisage that tender activities in the private residential segment will remain lackadaisical and pricing level will be more competitive, except for residential projects with Prefabricated Prefinished Volumetric Construction (PPVC) requirements, due to a dearth of contractors with established PPVC track records.

2020 – LOOKING AHEAD (CONT'D)

COMMERCIAL

After a strong showing in 2017 & 2018, CBD Grade A office rentals have moderated, and growth is expected to slow to 1% this year amidst a weaker demand as tenants look to consolidate operations and fringe office spaces enter the market (Paya Lebar Quarters, Woods Square). A slew of A&A works especially in the CBD area is on-going after URA introduced the CBD Incentive Scheme in Q1 2019 to encourage the creation of mixed-use neighbourhoods in selected parts of the CBD area. After 3 collective sale attempts, the Selegie Centre is finally sold and the new owner is poised to revamp the building into a hotel or commercial complex, while the Realty Centre in Tanjong Pagar will be redeveloped into a mixed-use building. Science Park, Shaw Towers, and Keppel Tower redevelopment would likely be in the 2020 project pipeline. More recently, the IOB Building on Cecil Street has also been put up for sale, where an outline application for a change of use to residential with commercial at the first storey and hotel has been submitted to the URA. In the Raffles Place vicinity, the Arcade was relaunched for collective sale, A&A to Chevron House is near completion, and renovation works are expected to commence for 6 Battery Road, 21 Collyer Quay, and Singapore Land Tower. Last year's buoyant demand for shophouses is set to continue in 2020. Notable shophouse transactions in 2019 include three adjoining shophouses in Tanjong Pagar Road, 2 conservation shophouses in Kampong Glam, and freehold shophouses in Pagoda Street and East Coast Road. We expect tender activities in the commercial segment to gain momentum, particularly if the white sites available for application this year (Marina View, Woodlands Avenue 2, and Kampong Bugis Master Plan) are triggered.

In the hotel sector, new projects under development this year include the 20-storey hotel development (PPVC) in Club St, and the redevelopment of the existing Liang Court into an integrated development which includes an upper midscale hotel, slated for opening in year 2025. The Singapore Shopping Centre, if sold, has been given provisional approval to re-zone for hotel use. The expansion of Resort World Sentosa and Marina Bay Sands is on-going, with some parcels and advance packages already called. Both the Marina View white site and River Valley Road hotel site are available for application under the current URA GLS programme, and when triggered, will pump more than 1,000 hotel rooms into the market in the near future. A few older hotel properties in the Orchard Road vicinity may undergo rejuvenation works this year, in anticipation of the proposed enhancements to refresh Singapore's shopping belt, where part of Orchard Road could be turned into car-free green space and there are plans to improve connectivity in the stretch towards Singapore River. Going forward, investors' interest in hospitality investment is set to remain healthy, particularly after a few hotels changed hands last year, which include Ascott Raffles, Andaz Hotel, Bay Hotel, Claremont Hotel, Marina Mandarin, and W Sentosa, which may further encourage hotel owners to spruce up ageing properties.

2020 – LOOKING AHEAD (CONT'D)

INDUSTRIAL

After a stellar year, the industrial construction demand is poised to quieten down this year, and recedes to S\$5.0 – S\$5.9 billion. Under JTC's IGLS for 1H 2020, more than 10-hectare of land will be made available via public tenders. Recently, JTC launched the Sungei Kadut Eco-District (SKED) which spans 500-hectare, designed to welcome new growth industries. 18-hectare of land has been set aside for the first phase of development for Agri-Food Innovation Park (AFIP), while around 200-hectares of land will be set aside for future growth industries. The aerospace industry is poised for strong growth, with more than S\$500 million of new investments secured at the Singapore Airshow 2020. As such, the demand for spaces at Loyang Estate, Changi North, and Seletar Aerospace Park remains high for manufacturing, over-haul, MRO, and distribution facilities. The local e-commerce continues to enjoy very strong growth, as total online spend increased by more than 20% in 2019, with Singaporean shoppers spending an average of more than US\$1,000 each on online purchases. We see that there will be adequate demand for warehousing spaces, either in build-to-suit properties, or revamped warehouses. According to an industry report by CBRE, the modernisation of the manufacturing sector has increasingly led to a change in leasing requirements, where tenants are on the lookout for buildings with higher specifications. Development for a new underground power station is also underway. The 230kV station is located at the former Pasir Panjang Power District, and is scheduled to be ready by 2025.

INSTITUTIONAL

Similarly, institutional projects are likely to moderate lower to the \$5 billion range (upper bound). A \$300 million sports and recreation centre in Punggol was recently awarded, and construction works will commence in Q1 this year. Piling works at both the Emergency Medicine Building and the SGH H9A building are on-going. The winning design for the Founder's Memorial at Bay East Garden has been announced, with construction expected to commence in 2022. As land leases are expiring in the near future, a few golf courses have taken the opportunity to undergo revamp works, while Sentosa Serapong Golf Course and the Orchid Country Club are likely to follow-suit. The design for the new Science Centre in Jurong Lake Gardens is afoot, so we expect tender activities to commence soon this year. The old Woodlands Town Centre has been fully demolished to accommodate the expansion of the Woodlands Immigration Centre and therefore we also anticipate that tender and construction works will commence in 2022. The Greater Southern Waterfront will be transformed into a new major gateway and location for urban living in Singapore's southern coast, and development will take place progressively in phases in the next 5 to 10 years. A new General & Community hospital will be built by 2030, while the redevelopment of Alexandra Hospital will take place in phases. By 2025, Jurong will house a new polytechnic and a 700-bed nursing home, and the largest polyclinic will be built in Serangoon, to address Singapore's ageing population.

2020 – LOOKING AHEAD (CONT'D)

INFRASTRUCTURE

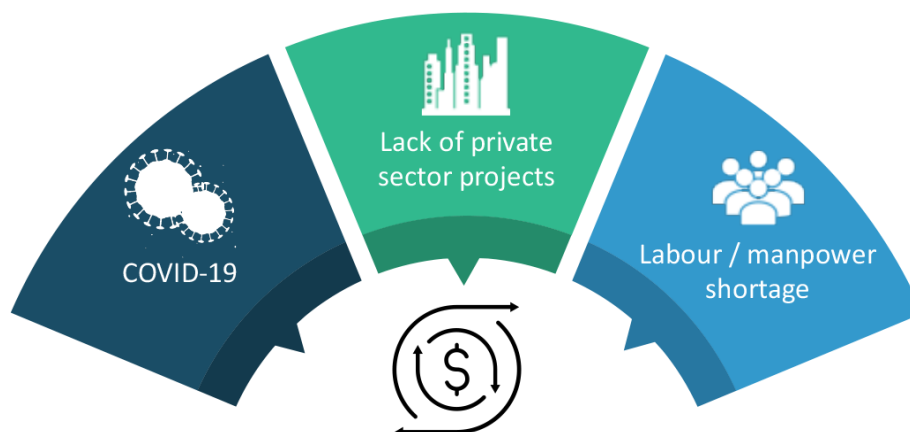
The civil engineering sector looks set to outperform 2019, with more than S\$12 billion (upper bound) worth of projects to be tendered out/awarded this year. LTA has awarded more than S\$2 billion worth of contracts in Q4 2019 and Q1 2020 for the construction of viaducts, stations and depot for the Jurong Region Line (JRL). Tenders for the remaining stations on the JRL are expected to be awarded progressively, with the first station slated to be opened in 2026. The last 3 civil contracts for the North South Corridor have been awarded in December 2019, and the alignment studies for the Cross Island Line (CRL) has also been completed. The government will channel over \$60 billion towards expanding and renewing its rail network over the next decade, including the renewal of the North-South and East-West line by 2023. Both the High Speed Rail and Rapid Transit System have been put on hold till Q2 this year, but many expects both projects will continue and as such we see that tender activities in this particular sector will pick up strongly in 2021 and beyond. Preparation of advance contracts on Changi East Development is on-going, and the major contracts for this huge T5 Development will be called progressively over the next 2 years. At the National Day Rally last year, Prime Minister Lee hinted that the country may need S\$100 billion or more over the long term to protect the country against rising sea levels, which could include reclaiming offshore islands or building polders to protect the coastline. The country is also boosting its resilience to floods and will commit another S\$400 million over the next two years to upgrade and maintain its drains. Under the Island Wide Cycling Network Programme, every HDB town will boast intra-town cycling paths by 2023. Construction on sections of cycling paths in Ang Mo Kio, Bishan, Bukit Panjang, Taman Jurong and Tampines will be completed this year, while the construction of cycling paths in Choa Chu Kang and Woodlands will commence in 2021.

2020 – LOOKING AHEAD (CONT'D)



TENDER PRICE MOVEMENT

The COVID-19 pandemic has inflicted many countries, and supplies of raw material and construction products continue to be affected as many factories in China are still struggling with multitude of challenges in supply, logistics, and workers who have yet to return to work. There are some 200,000 Chinese migrant workers in Singapore, and many of them are in the construction industry. In the face of the outbreak, the government has put in place many control measures and it was reported that 30,000 of work pass holders from China has yet to return to Singapore. The situation has an immediate impact on projects which are under construction, whereas the real extent of the impact on future tenders can only be established once the current situation has stabilised. The Building and Construction Authority said that contractors involved in public sector projects can seek extension of time and they have also urged private sector developers to adopt a similar sympathetic approach for projects that are affected. Some contractors have already claimed that there are serious disruption to the supply chain and shortages of skilled manpower. Projects that are already under construction may face completion delays and higher labour and preliminaries cost, in particular for PPVC projects. If the pandemic persists into the 2H of the year, many developers may find it judicious to adopt a wait-and-see approach to conserve cash flow in anticipation of unfavourable business conditions. It is anticipated there will be a curtailment of private sector projects and we foresee that the government may bring forward more public sector projects to galvanise a soft construction market. We anticipate that tender prices would assume a downward trend under the current economic uncertainties. Contractors would adopt prudent cost control measures to focus on conserving cash flow over the next 2 years and to consider earnestly cost cutting measures to lower their cost, overheads and margin under the current gloomy economic outlook. Material price for rebar and metal products is expected to drop in tandem with the slowing down of global construction demand amidst the COVID-19 pandemic. With the starting of the major Infra structure packages let out by LTA, specialist works like piling, diaphragm wall and excavation trades would remain buoyant.



2020 – LOOKING AHEAD (CONT'D)

For new projects out for tender this year, particularly in Q2 and Q3, tenderers may incline to adopt a more conservative and cautious approach to mitigate the risks. Effective from May 2020, the minimum salary for foreign professionals to qualify for an Employment Pass will be raised, to ensure that local professionals are also paid fairly. Come 2021, the foreign worker quota for S-Pass workers in the construction, marine shipyard and process sectors will be reduced, as the government plans to build up a pipeline of local manpower. Despite a serious shortage in foreign workers, the foreign worker levies will remain for now. We see that these policy changes will have a further effect on manpower and labour cost, as the industry is already grappling with shortages due to COVID-19. Moving forward, the remainder of 2020 remains hopeful albeit challenging, in particular for the construction sector with the disruption in supply chain, manpower shortages and on-going uncertainties in private sector construction demands. We forecast that 2020 tender price escalation to come in between **-2% to 2%**.

SINGAPORE CONSTRUCTION PRICES (as at 4Q 2019 prices)

DEVELOPMENT TYPE	COST PER CFAS\$/m2
CARPARK	
Above ground	750 - 850
Basement	1,250 - 1,450
RESIDENTIAL	
Mass market	2,150 - 2,350
Good quality	2,350 - 2,550
High end	3,250 - 3,350
OFFICE	
Grade A	2,750 - 2,850
Grade B	2,350 - 2,550
RETAIL	
Mass market	2,550 - 2,750
High end	3,250 - 3,450
INDUSTRIAL	
Light	850 - 1,050
Heavy	1,150 - 1,350
HOTEL	
4-star	3,550 - 3,750
5-star	4,250 - 4,450
INSTITUTIONAL	
Nursing home	2,050 - 2,350
Primary School	1,700 - 2,000
Secondary School	

LIST OF EXCLUSIONS:

- Land costs
- Development charges/differential premium
- Authority submissions fees
- Finance charges
- Site staff cost
- Professional fees
- Tenancy fit-out works
- FF&E (Furniture, Fittings and Equipment)
- Green Mark
- Contingency
- Escalation
- Goods and Services Tax

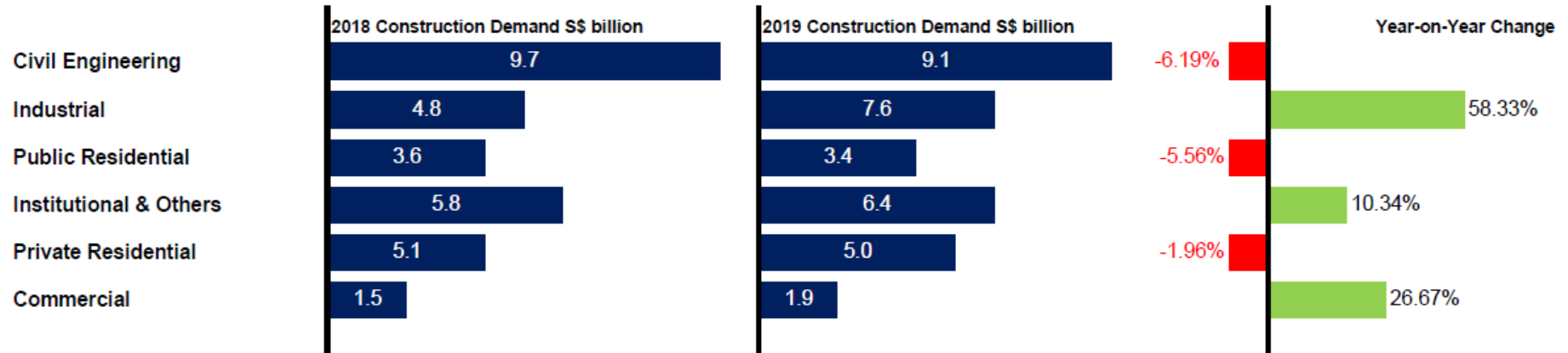
CFA – Construction Floor Area

Construction Floor Area is the area of all building enclosed covered spaces measured to the outside face of the external wall including covered basement carpark and above ground carpark areas

Notes:

The price ranges stated herein are indicative only; and may varies subject to design, specifications, site conditions, size, nature, and location of project

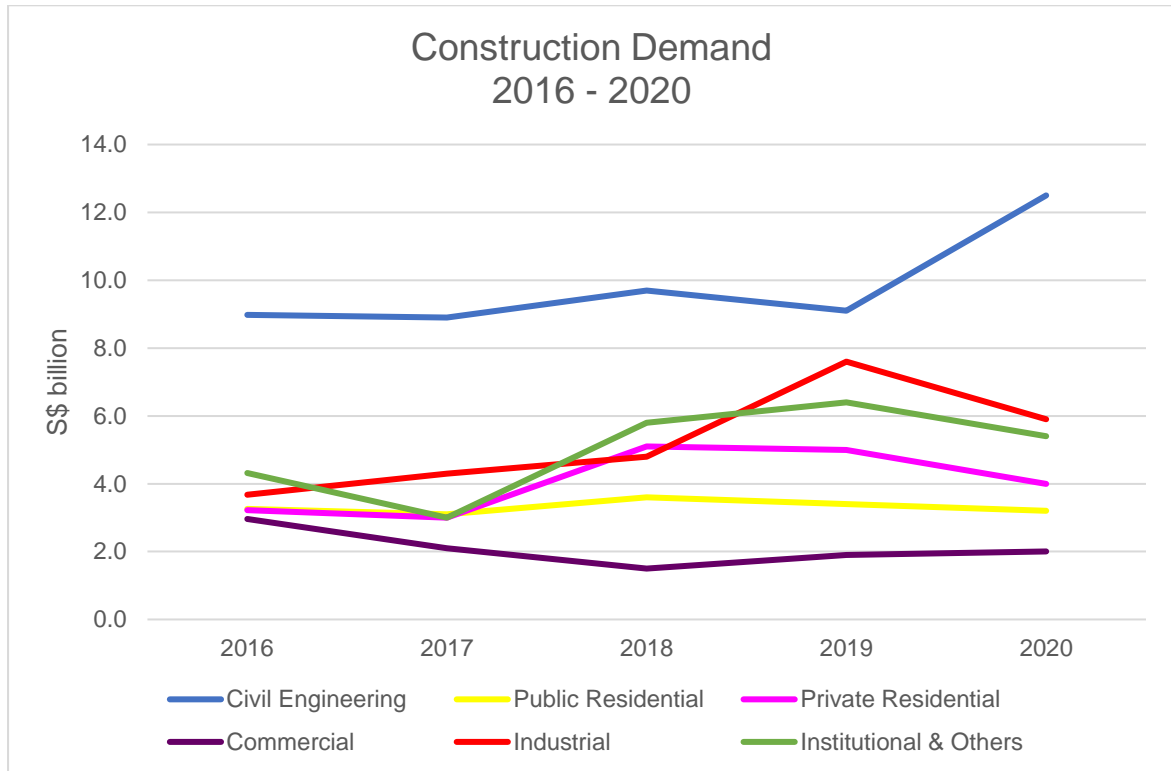
ANNEX A: CONSTRUCTION DEMAND



Annex A.1: Construction Demand, 2018 vs 2019

Source: Building Construction Authority, Singapore

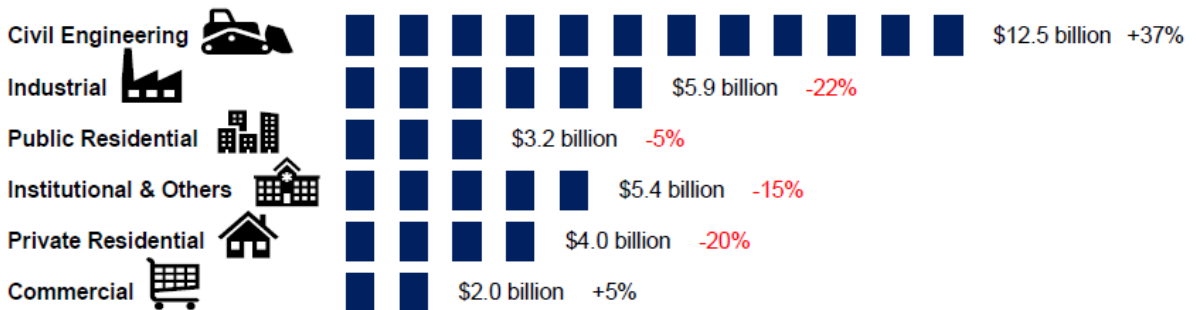
ANNEX A: CONSTRUCTION DEMAND



Annex A.2: Construction Demand, 2016-2020

Source: Building Construction Authority, Singapore / Department of Statistics Singapore

PROJECTED CONSTRUCTION DEMAND IN 2020: S\$33.0 BILLION

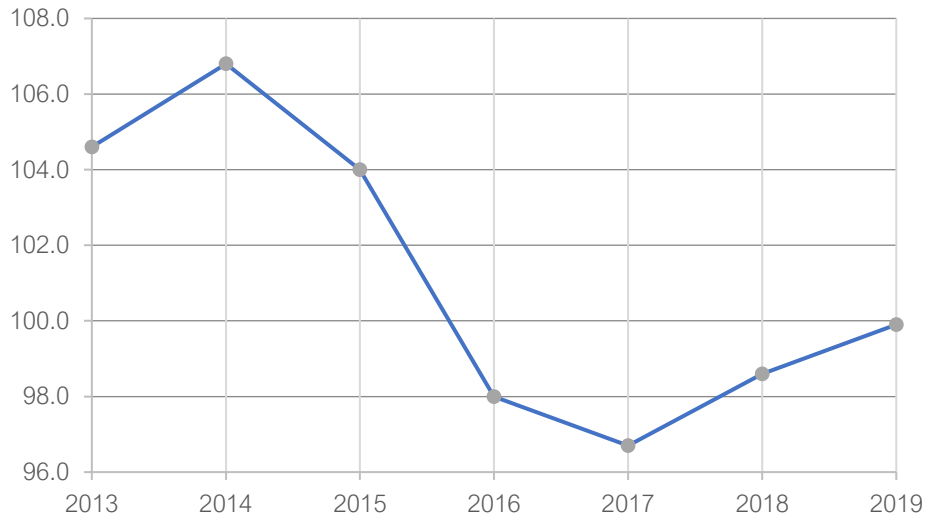


Annex A.3: Construction Demand, 2020 projection (upper bound)

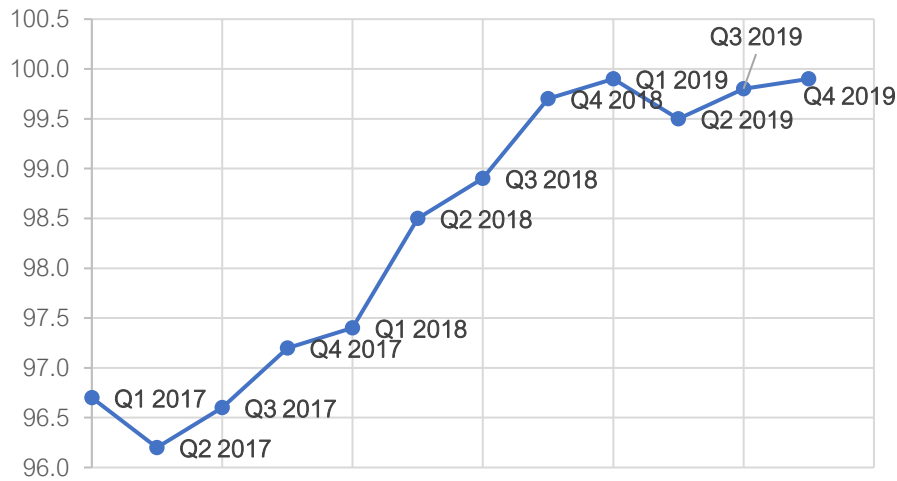
Source: Building Construction Authority, Singapore

ANNEX B: TENDER PRICE MOVEMENT

BCA's Tender Price Index



BCA's Tender Price Index



Annex B: Tender Price Index Movement, Annual/Quarter
Source: Building Construction Authority, Singapore

ABOUT THREESIXTY COST MANAGEMENT

Threesixty Cost Management Pte Ltd is a member of Surbana Jurong Group and currently comprises senior practitioners in quantity surveying practice whose experience spans over 3 decades under the leadership of Mr Seah Choo Meng; a respected practitioner in the construction industry. All the team members have extensive track records and expertise in both the private and public sector and are well placed to provide in depth cost management and contractual administration to the Client from project inception to completion stage. Our Cost Research unit is specialised in providing reliable cost estimate and cost benchmarking and publication of cost research paper on the market trend and new technologies in the construction market.

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