

# 2019 SINGAPORE CONSTRUCTION MARKET REVIEW AND OUTLOOK



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Threesixty Cost Management Pte Ltd is a subsidiary of Surbana Jurong which specialises in cost management and contractual administration from project inception to completion.

## Construction Demand

After 3 sluggish years, 2018 recorded S\$30.5 billion worth of construction demands, the strongest since the record high of S\$38.8 billion in 2014. Public sector projects once again led the way and the trend is expected to continue this year with public sector's spending projected at between S\$16.5 billion to S\$19.5 billion. Whilst the overall construction demand has been in the region of S\$24-32 billion between 2015 and 2019, the construction demand has been led by civil engineering projects since 2016. The High-Speed Rail project is deferred to 2020, but LTA's advance contracts for the Cross-Island Line Phase 1 and Jurong Region Line works are in the pipeline. Mega

infrastructure projects such as the Integrated Waste Management Facility, Tuas Water Reclamation Plant, and Tuas Mega Port should all commence in the later part of 2019. Private sector demands look likely to be curtailed this year, particularly in the residential and commercial front, as the cooling measure which kicked in last July has dampened developers' interests in en-bloc transactions. While property sales performed strongly in 2017 and property prices rebounded in 2018, the demand for new launches is expected to dwindle with the higher Additional Buyer's Stamp Duty (ABSD) and lower Loan-to-Value (LTV) limits. Globally, the US-China trade war tension continues to cast uncertainties on international trades and markets; while China's economy growth is slowing amidst weaker external environment and waning policy stimulus effects. Singapore's GDP growth is projected to slow to 1.5%-3.5% this year, as the manufacturing PMI fell into contraction in Q4 2018 and industrial production declined 3.1% in January, dragged by a dip in new orders and lower factory output. With the declining number of building projects in both the public and private sector, we foresee competitive tender pricing for sizeable building projects as contractors strive for projects to fill up the order book.

## **2018 – A Year in Review**

In 2018, total construction demand peaked at S\$30.5 billion with all sectors recording growth year-on-year (y-o-y), except the commercial sector that contracted 28%. Total public sector construction demand grew 16% y-o-y to S\$18.4 billion representing 60% of the total construction demand; led by civil engineering sector which included approximate S\$4.8 billion worth of multiple contracts of North-South Corridor tunnels and over S\$300m sewer and water-related projects. Driven by a multitude of en-bloc residential projects, the residential segment (both public and private) continued to outperform other sectors, secondary only to the civil engineering sector. 2018's BTO flats supply remained steadily at 17,000 units, slightly less than the 17,500 flats launched in 2017. On the commercial and hotel front, Pan Pacific Orchard, Hotel at Cuscaden Road, PSA Corporate Headquarters, and the Woodleigh Mixed Development are among the bigger projects awarded last year, which otherwise represented a lacklustre 12-months. The industrial sector marked a 10% increment from 2017, with the award of the JTC recycling factory, Jurong Island Chemical Logistic Facility, Jurong Island Desalination Plant, North Coast industrial building, and Facebook's S\$1.4 billion data centre in Tanjong Kling, Jurong. Woodlands Health Campus, West Arrival Node and Bird Park Packages of Mandai Park Development, National Skin Centre, BCA Academy Phase 2, and Punggol Town Hub made up the majority of institutional projects awarded last year, which recorded the highest growth, when compared to 2017.

## 2019 – Looking Ahead

### Macroeconomics

2018 marked the 10-year anniversary of the 2008 global financial crisis, and as financial markets are inherently cyclical, economies are bracing for a few challenging years ahead, and analysts are anticipating higher risk period for stocks and bonds, with the bull market losing its momentum. The global economy is projected to grow at 3.5% this year, versus the 3.7% (estimated) growth in 2018 [*World Economic Outlook Update, International Monetary Fund, January 2019*]. Increased concern for a full-blown trade war lingers, and China's GDP growth this year is projected to decelerate to 6.2% [*Global Economic Prospect, World Bank, January 2019*]. The Federal Reserve expects the US economic growth to slow this year to 2.3%, compared to 2018's 3% growth. In Europe, uncertainties linger around Brexit, and a very weak Italy economy amidst rising borrowing costs and soaring debt. The 2019 growth forecast for Southeast Asia's most robust economies is expected to slow as key regional elections loom ahead this year [*Nikkei Asian Review, December 2018*]. The Belt Road Initiatives will continue to drive infrastructure growth in the region. Business sentiment in Singapore slips for the 3<sup>rd</sup> straight quarter, while domestic inflationary pressure is rising, and growths in the manufacturing and services sector are expected to be static, compounded with the foreign workers quota tightening and wage growth pressure.

## Residential

Public sector housing construction activities remain stable, with majority of the works stemming from the new Tengah township, and upgrading works to existing HDB properties. The cooling measures introduced in July 2018 has dampened demand for private homes, especially among foreign investors, who now must cough up an additional 5% Additional Buyer's Stamp Duty (ABSD), on top of a tighter Loan-to-value (LTV) ratio. Property developers are not spared either, as they now must pay additional 15% ABSD. More than 30 collective sales sites have since failed to attract any buyers, and those joining the tail-end of the en-bloc fever have sought to lower their asking price, hoping to find a buyer at the eleventh-hour. The situation is a stark contrast to the en-bloc peak in 2017 & 1H2018. URA's guideline changes to the maximum number of dwelling units have also kicked-in this year, which may see developers taking a different approach to land sales and en-bloc acquisitions. Property supply will continue to flood the market in 2019, with an average of more than 1 residential launch per week with a supply of 18,000 units from over 60 en-bloc projects, including Florence Regency, Normanton Park, Pearl Bank, Park West, City Towers, Brookvale Park, Pacific Mansion, Tulip Garden, etc. The bigger URA GLS sites sold last year include Holland Road (which drew 15 bids), Silat Avenue, Sengkang Central, West Coast Vale, and Hillview Rise; while 3 Executive Condominium Government Land Sale sites at Sumang Walk, Canberra Link and Anchorvale Crescent were sold last year. Tender activities in the private residential segment are expected to remain busy for the first half, before slowing down in the second half 2019, a lag effect of last July's cooling measures and residential GLS sites to be released in Q2 2019. Demolition and piling prices will remain inflated, for at least the first 2 quarters of the year. We expect tender prices for residential projects to increase moderately, given that the usual pool of private residential contractors have their hands full.

## Commercial

CBD Grade A offices' rents rose by 3.7% quarter-on-quarter (q-o-q), and are expected to continue trending upwards, with average vacancies below 3%. Over the last 2 years, office rentals have increased more than 20% [*Cushman & Wakefield, January 2019*]. Main Contract works at the Central Boulevard site was awarded in Q1 2019, and the piling works at the Beach Road commercial site are on-going with the main contract works expected to commence in Q2 this year. HDB recently awarded the mixed development white site at Pasir Ris, which may see some tender activities in the later part of the year. The white site at Woodlands Regional Centre is on the reserve list, and when completed can yield another 45,000 m<sup>2</sup> of office spaces in the northern region. The lacklustre commercial en-blocs may finally pick up momentum as the residential en-blocs slump, with older commercial buildings such as the Peace Centre and Realty Centre being put up for sale, joining the likes of Golden Mile Complex, Katong Plaza, and Goldhill Shopping Centre. The successful commercial en-blocs would provide a good commercial projects pipeline in 2020 and beyond. Office fit-out and reinstatement contractors remain busy, as the newly completed Frasers Tower and Paya Lebar Quarters 1 & 2 have a combined 1.2 million square feet of Grade A office spaces, and more fit-out works will flood the market in the next few years, with the anticipated completion of former CPF building on Robinson Road in 2020 and CapitaSpring (former Golden Shoe) in 2021. Our very own Surbana Jurong Campus, located in the new Jurong Innovation District, is expected to be completed by 2021. Construction activities for gaming company Razer's corporate headquarters and Grab's new S\$181 million HQ in One North have also commenced. The co-working space continues to sustain strong growth and demand in Singapore. US-based co-working operator We-Work set-up nine new co-working spaces in 2018, with other co-working operators expected to follow We-Work's rapid expansion. Commercial buildings and retail malls upgrading works are expected to continue, where landlords are looking to revamp aging buildings and to cater for rapid changes in shopping habits and patterns. The revamped Funan Mall and Jewel Changi are slated for opening by Q2 2019, but there are no major new (greenfield) retail developments in the pipeline. Technology-driven changes in shopping habits are slowly changing the way landlords utilise retail spaces, with the focus now shifting towards smaller retail and F&B units (but with bigger kitchen space to cope with the growing food delivery business).

The hotel sector will likely retain its growth momentum as international visitor arrivals to Singapore grew 7.3% in Q1 2018, compared to the same period in 2017, while gazetted hotel room revenue grew 8.5% to S\$1 billion [*Singapore Tourism Board, Q3 2018*], underpinned by a strong travel demand and increased flight connectivity to Singapore. The Club St GLS site slated for a hotel development was sold early this year and Resort Hotel in Mandai could likely be in the 2019 pipeline, while the hotel development at Marina View white site (if sold) is in the future pipeline.

## **Industrial**

Facebook's 170,000 m<sup>2</sup> data centre and Google's third facility in Singapore are both currently under construction. Digital Realty recently acquired another site in Loyang to develop its third DC in Singapore, and Equinix's S\$116.6 million data centre is expected to open in 2020. Construction on ST Telemedia largest facility is already underway with completion scheduled for mid-2020. The booming e-commerce landscape has created a need for adequate delivery and distribution centres, and multi-storey warehouses and ramp-up industry buildings are now big drivers for industry real estate development. The sector continues to embrace Industry 4.0 initiatives, with rising demand for 'smart' warehouses / industrial spaces that come with higher building specifications, such as big data, ASRS (automated storage and retrieval system), robotics, drones, fibre optic infrastructure, etc. As such technology becomes more widespread, landlords may need to upgrade their assets to cater to the changing demands of tenants. Foreign investment in the industry sector is on the uptick, with Toll Group setting up a S\$228 million logistic hub in Tuas, and Canadian-based Bombardier will quadruple the size of its aircraft maintenance centre in Seletar Aerospace Park. British home appliance manufacturer Dyson recently announced that they will set up its first electric car plant here in Singapore, and also doubling the size of its existing technology centre at Science Park One. Construction activities are on-going at JTC's massive 327,000 m<sup>2</sup> Defu Industrial City and the Business Park Developments at Cleantech Loop and Punggol Way, while construction works at Punggol Digital District are shaping up nicely.



## Institutional

BCA predicts that institutional projects demand will moderate to S\$5.3 billion this year, a drop of 10% compared to 2018. Construction of the West Arrival Node and Bird Park are on-going, and some other packages of the Mandai Redevelopment project should go out to tender this year. Foundation and piling works at the Emergency Medicine Building has started in 2H2018, and tender activities for Sentosa's North-South Link Precinct advance packages and main contract works should be progressively rolled-out this year. Singapore Institute of Technology's Punggol Campus, MOE's PERI upgrading works, MOH's nursing homes, various community centres upgrading works / A&A, and the upgrading works at SGH are among the bigger institutional projects to be tendered (or in tender process) in 2019. By 2023, the government will build 6 more polyclinics in Singapore to tackle an ageing population, while the remodelling of Changi General Hospital is on-going. Rejuvenation exercise for JCs, ITEs, and polytechnics will happen from 2022 to 2025, while the NEA also announced recently that four new funeral parlour sites will be progressively launched for development over the next decade.

## Infrastructure

The civil engineering sector continues to drive up construction demand, and it is expected that S\$10 billion worth of infrastructure projects will be tendered out/awarded this year. More than S\$5 billion of works covering civil, mechanical and electrical engineering for Tuas Water Reclamation Plant and Integrated Waste Management Facility are on the pipeline, with package C1A (site development works) and C2A (influent pumping stations) already tendered out in 2018. A further 5 construction packages will be rolled out in 1H2019. According to Fitch Solutions, mega projects in the transport sector will support the growth of Singapore's construction sector over the next decade. Construction works for tunnels, viaducts, pedestrian overhead bridges, bus stops, etc. that form part of North-South Corridor are scheduled to begin by end-2019. The 1<sup>st</sup> phase of Singapore's eighth MRT line (Cross Island Line) will span across 12 stations, and construction will commence in 2020. While the High Speed Rail project is deferred until May 2020, the RTS tender is in preparation and slated to be called in 2H2019, and the Jurong Regional Line works will be progressively rolled out this year. Changi's Terminal 5 is well into design phase now, and tendering activities should commence in 2021 and beyond. Tuas' terminal reclamation, wharf construction and dredging phase 2 was awarded in Q1 2018, and construction works are on-going. The Tuas Megaport construction works will continue for the next 20 years, and when fully completed in 2040, will span an area twice the size of Ang Mo Kio town, and is expected to sustain the infrastructure construction demand and create jobs in the maritime sector. The civil engineering sector should be further spurred by the government's plan to continue infrastructure spending, as announced in the recent Budget.

## Tender Price Movement

Overall the 2018 tender price level for building works have increased as compared to 2017, corresponding to a higher demand in construction works. Contractors (sector-specific) will remain busy in 1H of 2019, and BCA's Tender Price Index (TPI) has increased 2.5% y-o-y, and may likely to inch further upwards, particularly in the private residential segment. Global steel prices hit a high in September last year but experienced a sharp decline in December as there was a surge in Chinese production. Concreting sand prices have spiked more than 20% per tonne y-o-y, while concrete and cement prices have also increased by 4 - 6% compared to 2018. There was another surge in concrete sand price in February 2019 due to a disruption of supply chain. Barring an unlikely event of a US-China trade fall out or a catastrophic Brexit/Euro Zone meltdown, the Singapore dollar is expected to remain range-bound against most currencies in the near term, which will mean good news for importers (and M&E equipment) with the currency less likely to be exposed to volatility in foreign exchanges. Public infrastructure contractors will remain busy for the near future, as government's spending in mega infrastructure projects should be realised in the next few years. Amid the backdrop of economy growth uncertainties and a weak construction demand for bigger building projects, we expect keen participation of building contractors in future tenders with a tender price risk of rising prices of materials, excavation and piling cost. We forecast 2019 tender price escalation in the range of 1 - 3%.



## Singapore Construction Prices (as at 4Q 2018 prices)

DEVELOPMENT TYPE	COST PER CFA S\$/m2
<b>CARPARK</b>	
Above ground	750 - 850
Basement	1,250 - 1,450
<b>RESIDENTIAL</b>	
Mass market	2,150 - 2,350
Good quality	2,350 - 2,550
High end	3,250 - 3,350
<b>OFFICE</b>	
Grade A	2,750 - 2,850
Grade B	2,350 - 2,550
<b>RETAIL</b>	
Mass market	2,550 - 2,750
High end	3,250 - 3,450
<b>INDUSTRIAL</b>	
Light	850 - 1,050
Heavy	1,150 - 1,350
<b>HOTEL</b>	
4-star	3,550 - 3,750
5-star	4,250 - 4,450
<b>INSTITUTIONAL</b>	
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

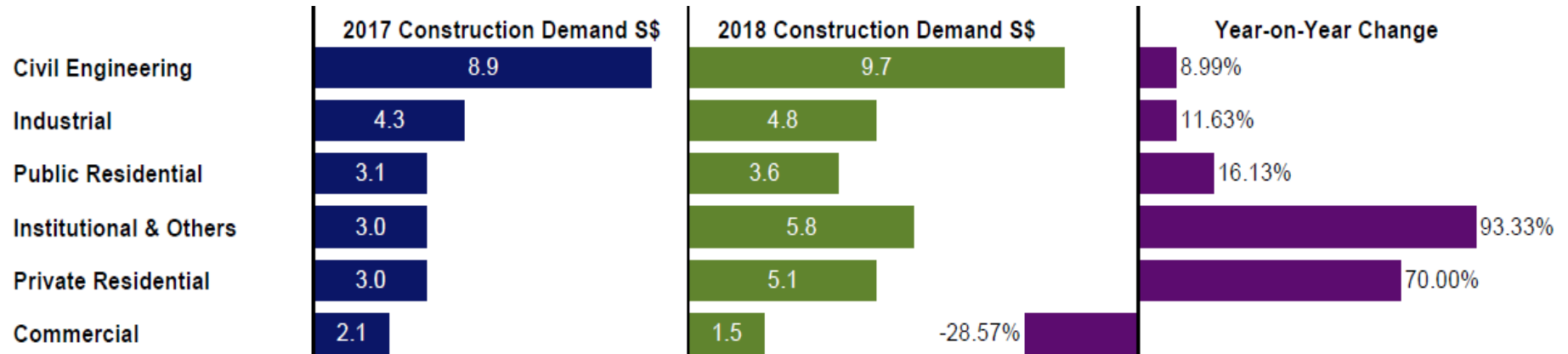
### **CFA – Construction Floor Area**

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*

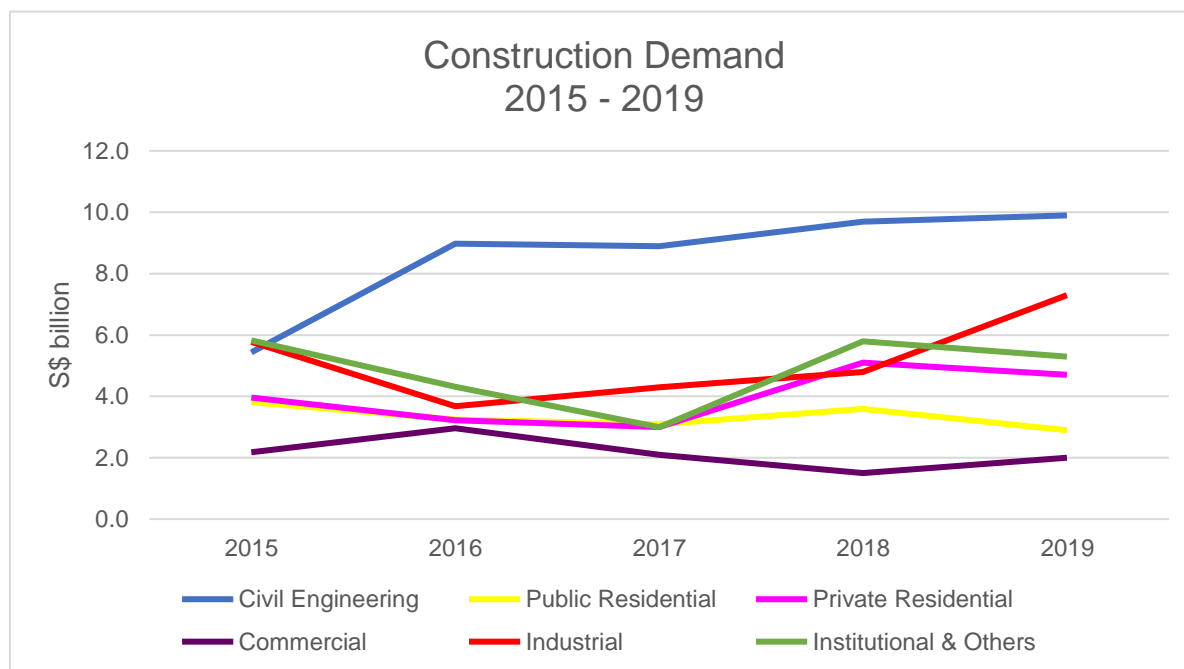
## ANNEX A: CONSTRUCTION DEMAND



Annex A.1: Construction Demand, 2017 vs 2018

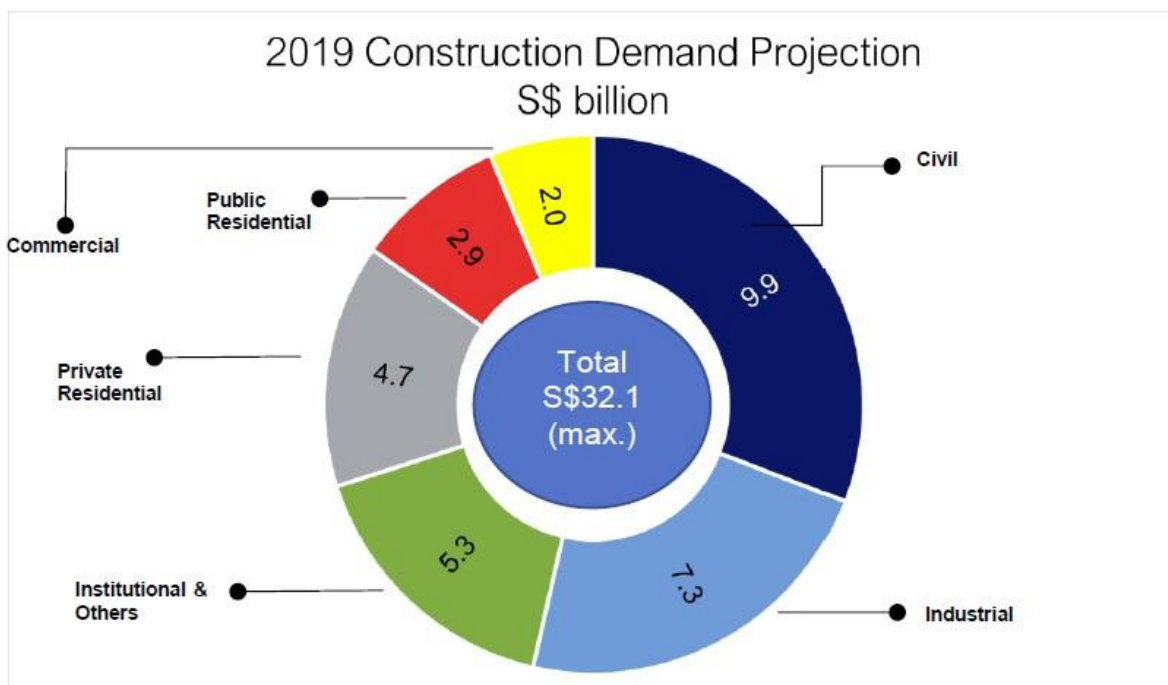
Source: Building Construction Authority, Singapore

## ANNEX A: CONSTRUCTION DEMAND



Annex A.2: Construction Demand, 2015-2019

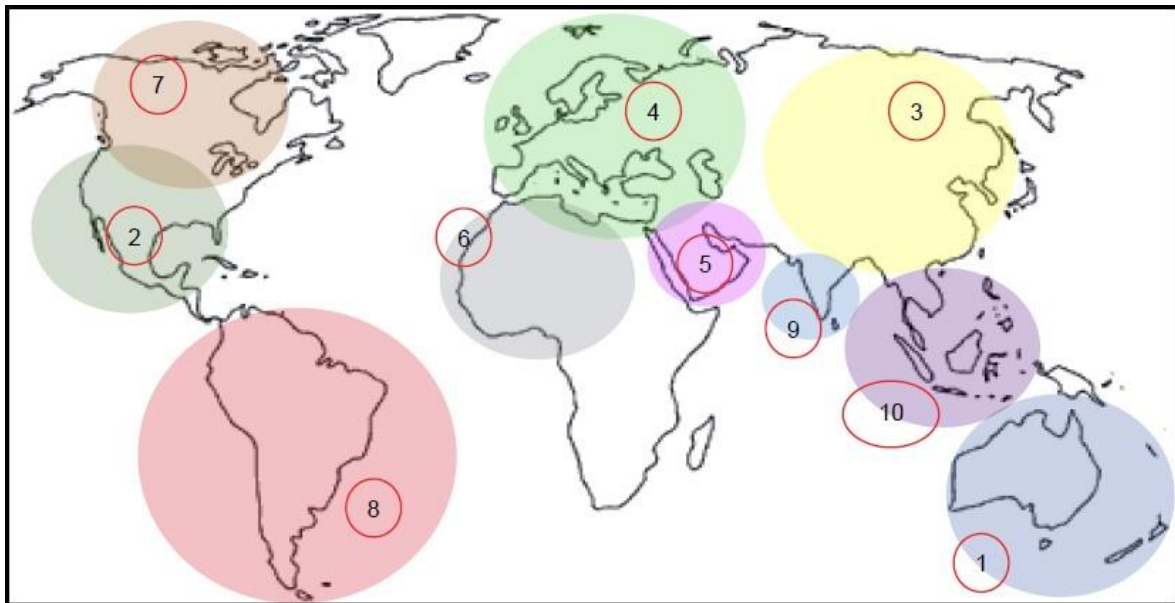
Source: Building Construction Authority, Singapore / Department of Statistics Singapore



Annex A.3: Construction Demand, 2019 projection (upper bound)

Source: Building Construction Authority, Singapore

## ANNEX B: MACROECONOMICS



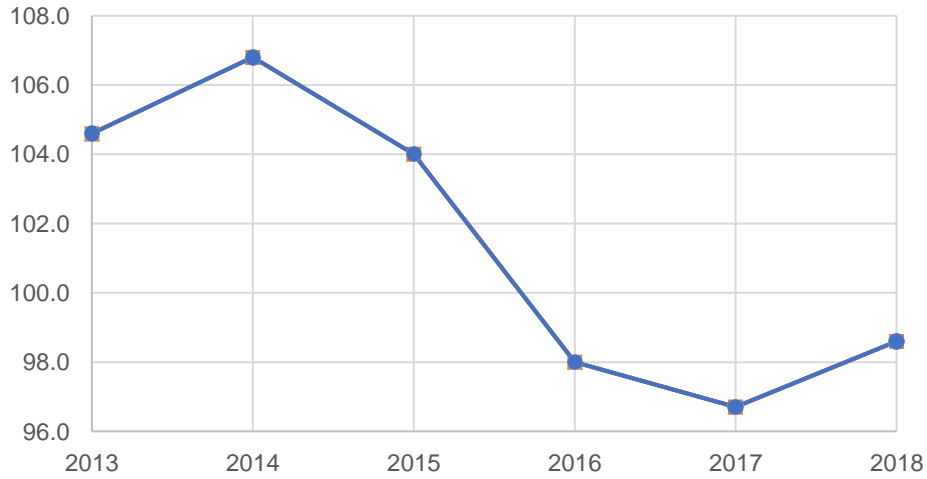
Region	Annual % Change
Australia and New Zealand	2.8
Central America	3.8
East Asia	5.0
Europe	2.0
Middle East (Region)	1.9
North Africa	4.5
North America	2.5
South America	1.9
South Asia	7.0
Southeast Asia	5.1

Annex B: Real GDP Growth, Annual Percent Change

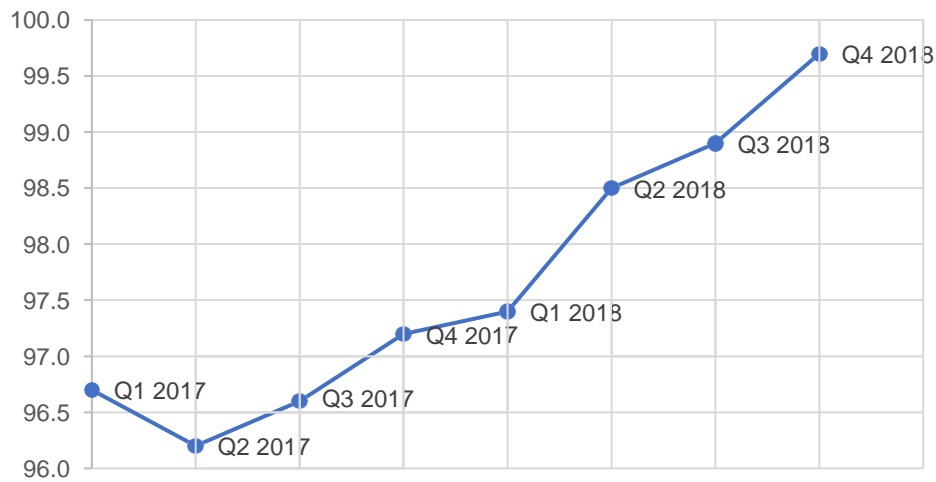
Source: International Monetary Fund

## ANNEX C: TENDER PRICE MOVEMENT

### BCA's Tender Price Index



### BCA's Tender Price Index



Annex C: Tender Price Index Movement, Annual/Quarter

Source: Building Construction Authority, Singapore

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