KeppelCOMMENTARY

17 March 2017

Facing the Future: Impact on Singapore Real Estate

- 2017 Budget and Future Economy report have little short-term impact
- But deeper efforts for sustainable long-term growth support long-term real estate investment attractiveness
- Traditional real estate has to adapt to digital-ready landscape and new concepts

Introduction

The Singapore government recently released the anticipated Committee on the Future Economy (CFE) report and 2017 Budget. The two reports focused more on medium- and long-term initiatives aimed at helping businesses adapt to an ever-changing environment. This paper examines the impact on Singapore's real estate market.

A new economic normal

The overarching strategy for the CFE report and Budget is a stronger push for companies to digitise, innovate and internationalise. These are already running themes for the economy and initiatives announced are largely add-ons to existing efforts and very broad-brushed. More details are needed to flesh out the ideas put forth in the reports and the full impact of these measures will depend on their implementation.

Nevertheless, the push for businesses to adapt and innovate is necessary as the economy adjusts to a slower long-term GDP growth of 2-3% per year. This is to be expected as Singapore's economy matures, and will inevitably result in lower increase in real estate demand and possibly less volatile price/rental increases. Notwithstanding slower economic growth, recommendations in the CFE and 2017 Budget reports would have some positive implications for the real estate market, albeit in the longer term, and depending on implementation.

Sustained demand for office and business parks

Developments in the areas highlighted below could provide a boost to demand for office and business park space in the medium to longer term:

Innovation

- Measures to strengthen the innovation ecosystem which include growing the community of professional services related to IP protection and commercialisation such as patent attorneys, lawyers, managers and strategists.

- Growing the start-up ecosystem by facilitating networking as well as attracting entrepreneurial talent from overseas.

Continued hub status

- Measures to strengthen Singapore's hub status which include growing a liquid commodity derivatives marketplace, anchoring the headquarters of Singapore-based companies and tightening links between professional services.

Digitisation as new growth driver

- Areas in which the government hopes to develop further include electronic payments, data analytics and cybersecurity, which could in turn catalyse the development of new industries such as cyber-insurance.

Potential for data centres and industrial space

Aside from the push into digitalisation and technological innovation, plans to promote Singapore as a Digital Harbour – or a key node in the global digital network – will also inevitably fuel the appetite for data and lead to an increased demand for data centre space.

More efficient data centres in demand

Nevertheless, plans to increase water prices by 30% and to implement a carbon tax on the emission of greenhouse gases from 2019 may have an impact on the operating costs for data centres. However, the exact impact is still unclear, pending further details to be released by the government. Data centres which are run more efficiently will be in greater demand as such costs become more significant.

Logistics space to gain

The government plans to roll out an Industry Transformation Map (ITM) for the logistics sector. This is to reinforce Singapore's position as a logistics hub and to cater to trends like additive manufacturing – also known as 3D printing – and omni-channel retail, and will likely lead to more demand for industrial property.

New opportunities in mixed-use industrial parks

The government recognises the blurring of lines between services and manufacturing and alluded to possible regulatory changes that will allow landlords greater flexibility in integrating industrial space with other uses. This is evident in what the government envisions for what it deems as "next-generation industrial parks" in Jurong and Punggol – mixed used centres that fuse industrial space with complementary educational, commercial and residential uses. This could provide new investment and development opportunities but could also pose a challenge for decentralised office and retail space, especially those that are not well-located or equipped for changing trends. More details are likely to be released in the run-up to the next Master Plan update, which is expected to be in 2019.

Residential: minimal boost in transaction volumes

The government announced in the Budget that first-time homebuyers who purchase public sector resale flats will be able to receive an additional SGD 5,000-20,000 in subsidies. This was followed by unexpected policy adjustments, with effect from 11 March 2017:

- Reduction in seller's stamp duties (SSD) and in the holding period from four to three years for residential unit purchases;
- Removal of the 60% total debt servicing ratio (TDSR) limit for mortgage equity withdrawal loans (MWL) where the loan-to-value ratio is 50% and below

While the latest announcements could give a further boost to already improving market sentiment, we do not see a significant increase in transaction in the private residential market, although the increase in public housing subsidies could jog the public resale market in the near-term and filter into the more affordable mass market segment. The SSD and TDSR changes in themselves are minor tweaks and potential buyers will continue to be constrained by demand-side cooling measures, namely the Additional Buyer's Stamp Duty (ABSD) and the TDSR framework which are unlikely to be eased significantly in the foreseeable future. It took 9 years for the previous round of anti-speculation measures imposed from May 1996 to be fully eased. Moreover, the current removal of the TDSR limit for MWLs only applies to existing home loans to help retirees who have paid down significantly on their home loans to obtain additional loans and banks are expected to be prudent in ensuring that the borrower has the ability to repay.

Price pressure on some projects

The government also caught the market by surprise with the swift introduction of additional conveyance duties (ACD) on the transfer of equity interest in residential property holding entities (which previously entailed a stamp duty of only 0.2%) to level the playing field with the direct purchase of properties (which attracts an ABSD of 15%). Property companies which had intended to sell via the transfer of holding entities will face price pressure as potential buyers will have to factor in the higher stamp duties. However, this will be limited to only selected projects, mainly in the prime segment, and in completed projects with unsold units and coming up against Qualifying Certificate (QC) deadlines.

Retail: more challenges

With the government firm in its resolve to push companies to adapt to disruptive technologies, the retail sector will face more challenges amid deliberate efforts to further grow e-commerce.

E-commerce to become more entrenched

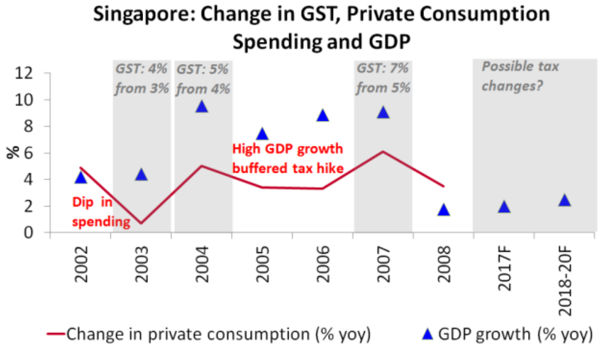
Under the CFE recommendations, the government intends to raise the e-commerce share of total retail receipts from the current 3% to 10% by 2020. Although brick-and-mortar retail space will still be important in meeting the needs of consumers who frequent malls for convenience, services and experiences which cannot be replicated online, more physical retail space will become irrelevant if landlords and retailers fail to incorporate online-to-offline strategies into their retail offerings.

Tax increases to have temporary effect

The government alluded to the possibility of changes in the tax structure in order to raise revenues to support social spending. Possibilities include a higher Goods and Services Tax (GST) and a widening of personal income tax bands.

Should tax rates be raised, consumer spending is likely to be dampened only temporarily as long as there is continued GDP and wage growth. When the GST was first raised in 2003, personal consumption expenditure dipped temporarily but spending growth remained high during subsequent GST increases in 2004 and 2007 (Figure 1).

Figure 1: Change in spending during past GST hikes



**GDP growth forecasts for 2017 and 2018-20 are from MTI*
Source: Department of Statistics Singapore, Keppel Research

Opportunities for large scale developments

In line with the theme of allowing for more flexible land use, the government will introduce a Master Developer concept. The government will take the lead at Punggol while Kampong Bugis has been identified as the first of such sites for private developers. This will benefit large experienced developers, result in more creative and connected developments with improved accessibility and also help mitigate market risks given a longer timeframe to phase projects out.

Conclusion

The CFE report and 2017 Budget recommendations deepen ongoing initiatives to strengthen Singapore's fundamentals of a highly-skilled workforce and a progressive and open business environment to meet technological changes and sustain future economic growth. While details are lacking and are unlikely to result in much demand impact on the property market in the short term, they support the long-term investment attractiveness in offices, logistics and data centres in Singapore. The challenge for landlords is to embrace new technology and concepts as traditional spaces face changes in consumer and occupier behaviour.

Authors

Chua Chor Hoon
Director, Research

Adeline Chan
Senior Analyst, Research

Keppel Capital
Trusted Investment Partner

Members of Keppel Capital:
Keppel REIT Management Limited
Alpha Investment Partners Limited
Keppel Infrastructure Fund Management Pte. Ltd.
Keppel DC REIT Management Pte. Ltd.

Our Offices

• Singapore • Australia • China • Japan • Korea • Taiwan

Disclaimer: This report is published solely for informational purposes and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. No guarantee, representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement and recipients should not act on the information contained herein without first independently verifying its contents. Any opinions or estimate expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by others as a result of using different assumptions and criteria. Keppel Capital Holdings Pte. Ltd. and its asset managers, namely Keppel REIT Management Limited, Alpha Investment Partners Limited, Keppel Infrastructure Fund Management Pte. Ltd. and Keppel DC REIT Management Pte. Ltd. (collectively known as "Keppel Capital Group"), have not given any consideration to and has not made any investigation of the investment objectives, financial situation or particular needs of the recipient, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient acting on such information or opinion or estimate. Keppel Capital Group is under no obligation to update or keep current the information contained herein. In no event and under no legal or equitable theory, whether in tort, contract, strict liability or otherwise, shall Keppel Capital Group be liable for any damages, including without limitation direct or indirect, special, incidental or consequential damages, losses or expenses arising in connection with the use of or reliance on the information contained herein.