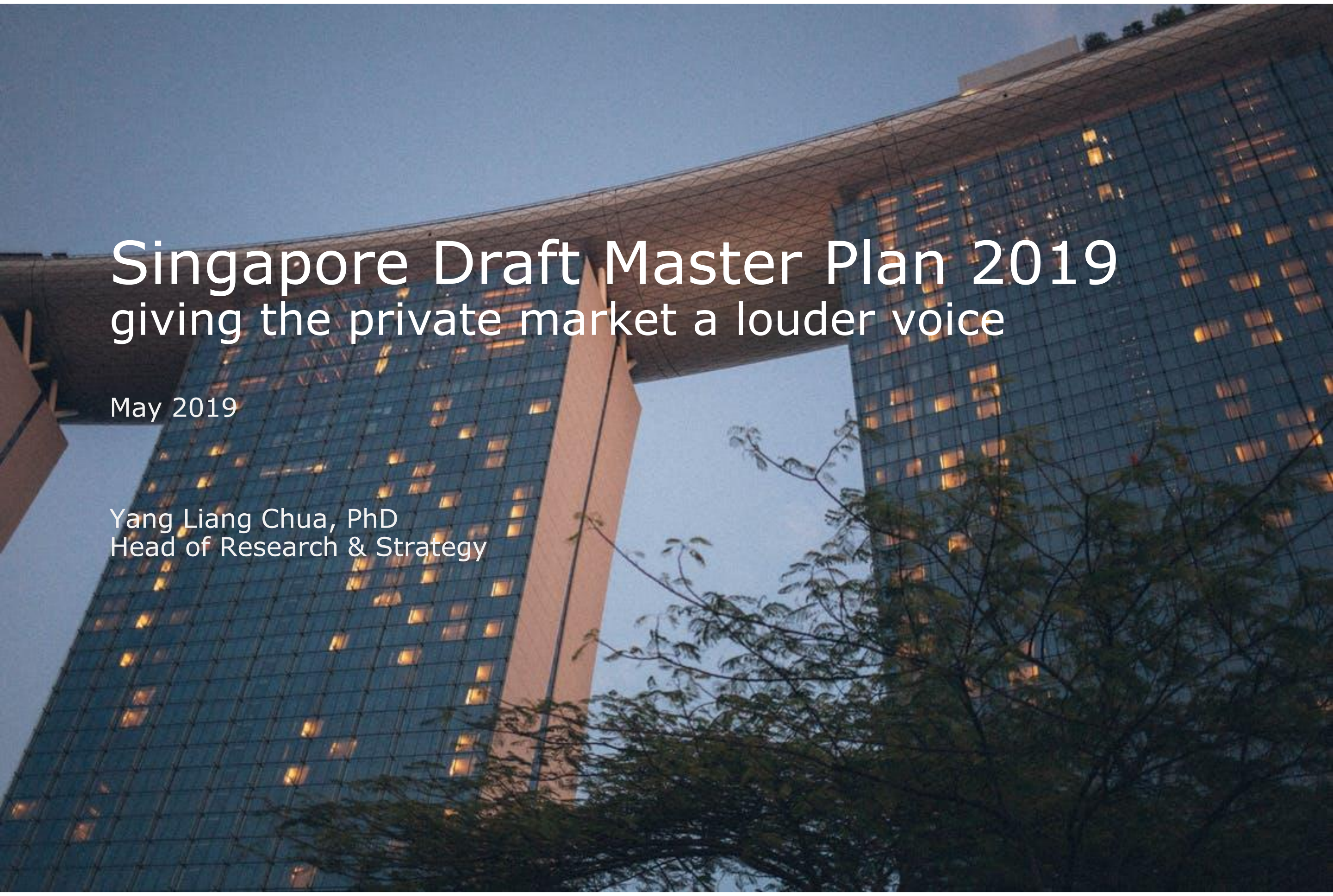
ARA Asset Management

Research Paper



Singapore Draft Master Plan 2019
giving the private market a louder voice

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Executive Summary

- In the latest quinquennial review of the country’s development guide plan, Singapore’s national planning agency - Urban Redevelopment Authority, while has made no significant changes to the land uses, the underlying strategy and “planning tone” have shifted.
- The approach to new concepts and ideas are not as “prescriptive” but more consultative and collaborative; as epitomised in the Enterprise Zones, Business Improvement Districts, and Strategic Development Incentives.
- The vesting of greater development control over to the private market bodes well for an environment where the future is likely to be disruptive. However the jury is not out, and given the operational challenges, some of these incentives offered may not be adequate.
- As business model continues to shift from the traditional manufacturer-centric to one that is more consumer-centric, this may also warrant a review of the permitted uses as currently provided in the Written Statement.

Introduction

- Towards the end of the first quarter of 2019, Singapore's national planning agency, Urban Redevelopment Authority or URA for short, released the quinquennial review of the country's development guide plan.
- This blueprint plan not only shows the permissible use of and development density for every parcel of land but includes guidelines on parks, roads, waterways as well as urban design controls.
- The statutory document, with roots dating back to 1958 during the British era, provides a lighthouse illuminance on the development of the country as envisioned by the planners.
- This statutory document has further reinforced the city-state as one of the more transparent real estate markets globally. According to the biennial Global Real Estate Transparency Index by JLL, Singapore is ranked 12th globally and 3rd after Australia and New Zealand in the Asia Pacific region.

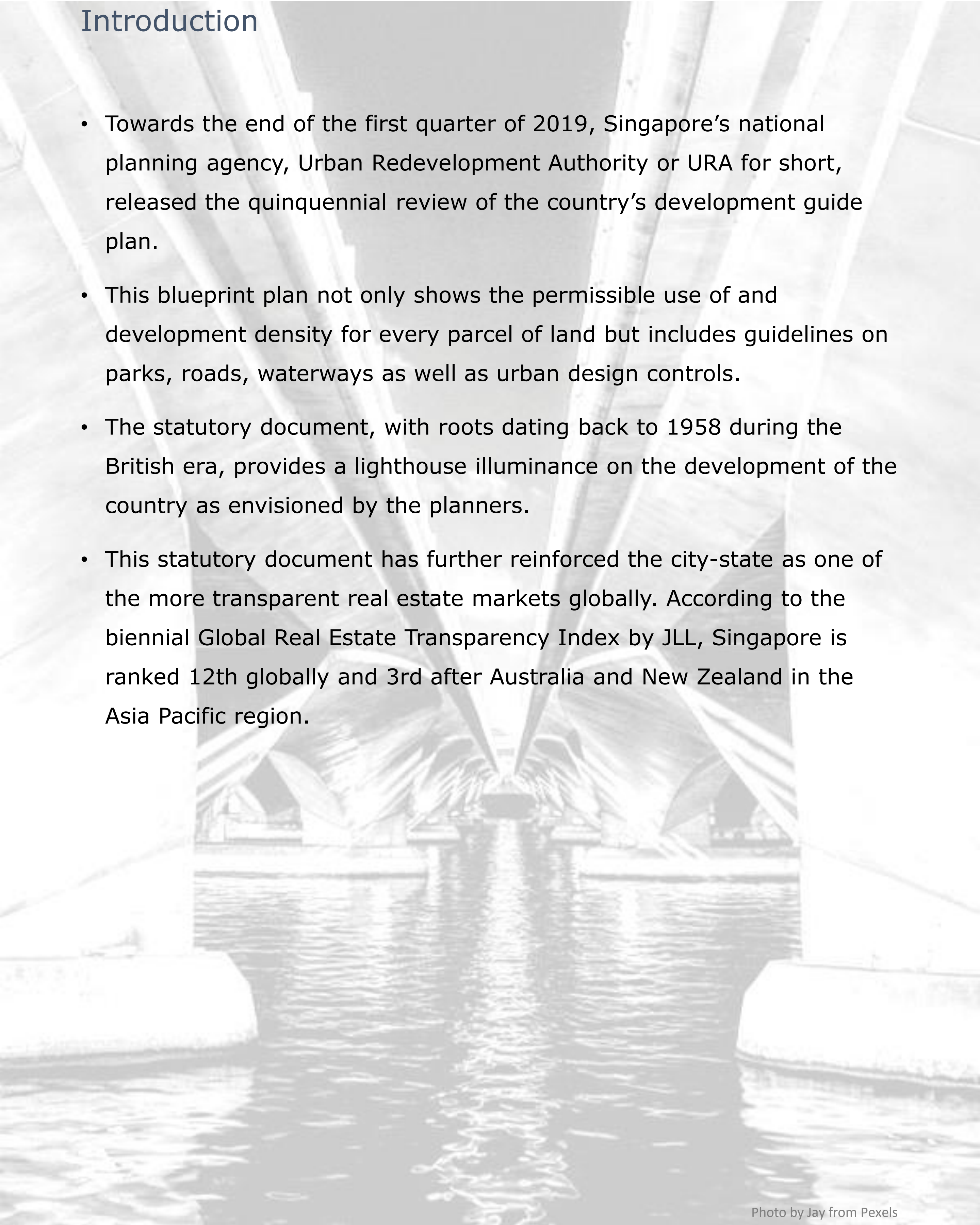

Photo by Jay from Pexels

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- In this latest review of the Master Plan, there are no major changes to the land uses but the underlying strategy and "planning tone" has shifted. The approach to new concepts and ideas are not as "prescriptive" as it was in the eighties and nineties but more consultative and collaborative.
- This shift is epitomised in a couple of planning concepts/policy - Enterprise Zones, Business Improvement Districts, and Strategic Development Incentives reflecting the need for greater engagement with stakeholders in light of the current physical conditions and economic challenges facing the city-state.
- The development of the planning regime in this direction should bode well in enhancing the quality of the urban environment in Singapore in the years ahead.

Business Improvement Districts

- Business Improvement Districts (BIDs) is not new, but its application has expanded. This business-led and -funded precinct-improvement collective, comprising building owners and businesses, has been applied to nine new commercial areas beyond the piloted Singapore River precinct.
- In this collective, the private market has a much larger role and bigger responsibility in driving the vibrancy and attractiveness of the precinct. The building and business owners must engage their community through active programming and market precinct level events.
- The new areas include China Place, City Hall, Jurong East, Kampong Glam, Marina Bay, Marina Center, Paya Lebar, Raffles Place and Tanjong Pagar.

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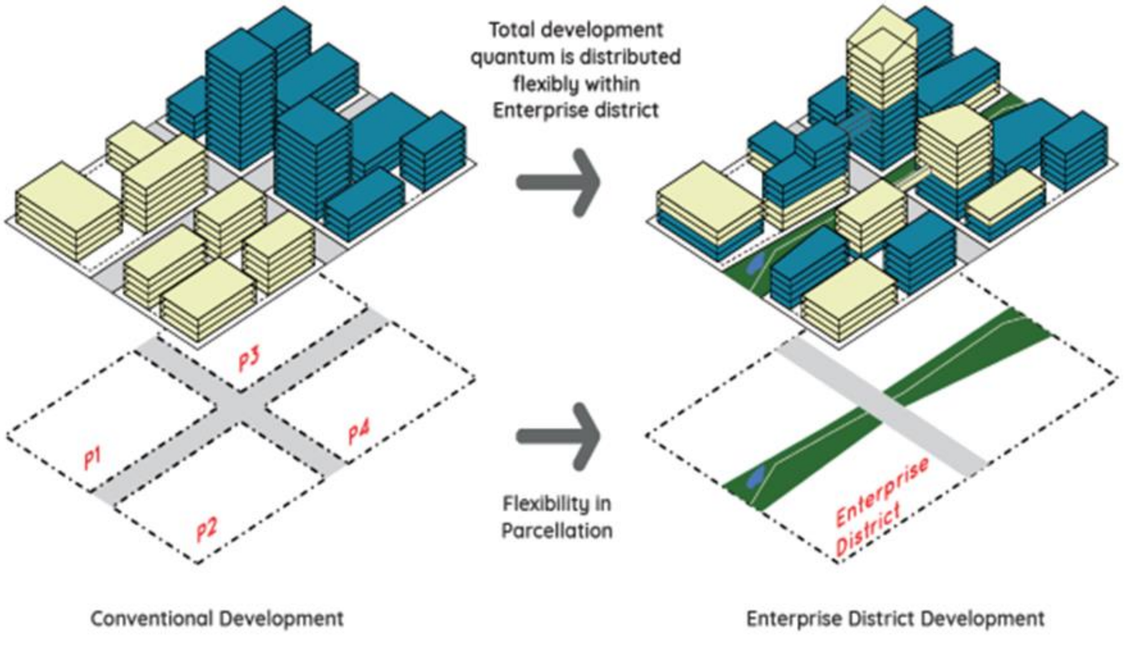
Enterprise Districts

- More importantly is the introduction of the concept of Enterprise Districts (EDs).
- Instead of predefining the land use zone and density for every parcel, landowners are given an overall district-level density quantum (in terms of gross floor area) by each permitted land use type within the ED.
- The district developer or Master developer as it is more commonly known then decides the composition of the different uses on each parcel as they deem fit, provided the total quantum of each use does not exceed that at the district level.
- The ED gives the Master developer the flexibility to decide the best compositional land use and a quicker response to changing market demand. Arguably occupiers should have greater access to shared facilities and collaborative spaces as the developer could then introduce district-level infrastructure including more holistic transportation connectivity.



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- This ED concept was first mooted as a pilot for industrial projects in Punggol Growth Cluster in 2017. The planners have since formally introduced this concept into the 2019 Draft Master Plan.
- Punggol Digital District has been earmarked as the pilot district housing both business park spaces (JTC Business Park) and education (Singapore Institute of Technology). The aim is to get the industry and academia to mingle through the sharing of work spaces and facilities and promote greater collaboration and cross-fertilisation of ideas in key emerging technologies.

Potential challenges of EDs

- While the ED appears to have greater market sensitivity, the price of this flexibility is higher uncertainty over the materialisation of the desired planning outcome for that district and the adjacent environment.
- The larger an area, the more time is needed for full completion. The longer the time, the higher the uncertainty and risks. What should happen if the original Master developer fails financially midway through the development process? And what if market forces shift drastically, thrusting the earlier proposed concept into irrelevance? Could the imposition of a fixed period for completion of the entire district development then undermine the goal of greater market flexibility? How would you avoid land hoarding by the developer?
- Nonetheless, amidst these uncertainties, the tectonic shift in the global economic engine from financial to tech-centric industry set forth by the digital disruption continues.

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- How this digital transformation impacts existing and future industries have left urban planners in a bind. The outcome is harder to predict than guessing which side a piece of toast would land.
- And yet planners must continue to equip the nation for this known unknown. Taking such a bold step to allow a quicker response to market forces into the urban plans is admirable and most commendable.

Strategic Development Incentives (SDIs)

- A new set of incentives was also introduced into the market at the same time the Draft Master Plan was announced. This set of incentives will be implemented for a period of five years from the date of gazette of the Master Plan 2019.
- Technological disruption and changing market demands are development agnostic although the older a development, the greater the risk of functional obsolesce. Land limitation also makes it essential that there is a recycling of this resource to ensure developments stay productive and relevant.
- It is perhaps this rationale that motivated the planners to concurrently introduce a new planning incentive package – Rejuvenation Incentives for Strategic Areas, to encourage private landowners to undertake regenerative efforts.

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- This package has two schemes - Strategic Development Incentive Scheme and the Central Business District (CBD) Incentive Scheme. The planners hope to get private landowners to update their assets especially those in fledging areas to meet the new market demand.
- The first scheme, in the words of the planners, is intended to encourage the redevelopment of older buildings in strategic areas into new, bold and innovative developments that will positively transform the surrounding urban environment.
- Prerequisites such as a minimum age of development, land use and transformational impact, i.e. the redevelopment must include a minimum of two adjacent sites, are expectedly required.
- A second scheme applies only to select areas within the CBD.
- While the eligibility conditions are more stringent such as only predominantly existing office developments of a minimum plot size ranging between 1,000 sqm and 2,000 sqm (depending on the site's location), the permitted new use, and additional density are way more prescriptive.
- For example, to promote greater mixed uses (hotels, residential and retail) in the CBD, the planners have specifically articulated the permitted additional intensification at between 25% and 30% depending on the proposed composition of mixed uses.

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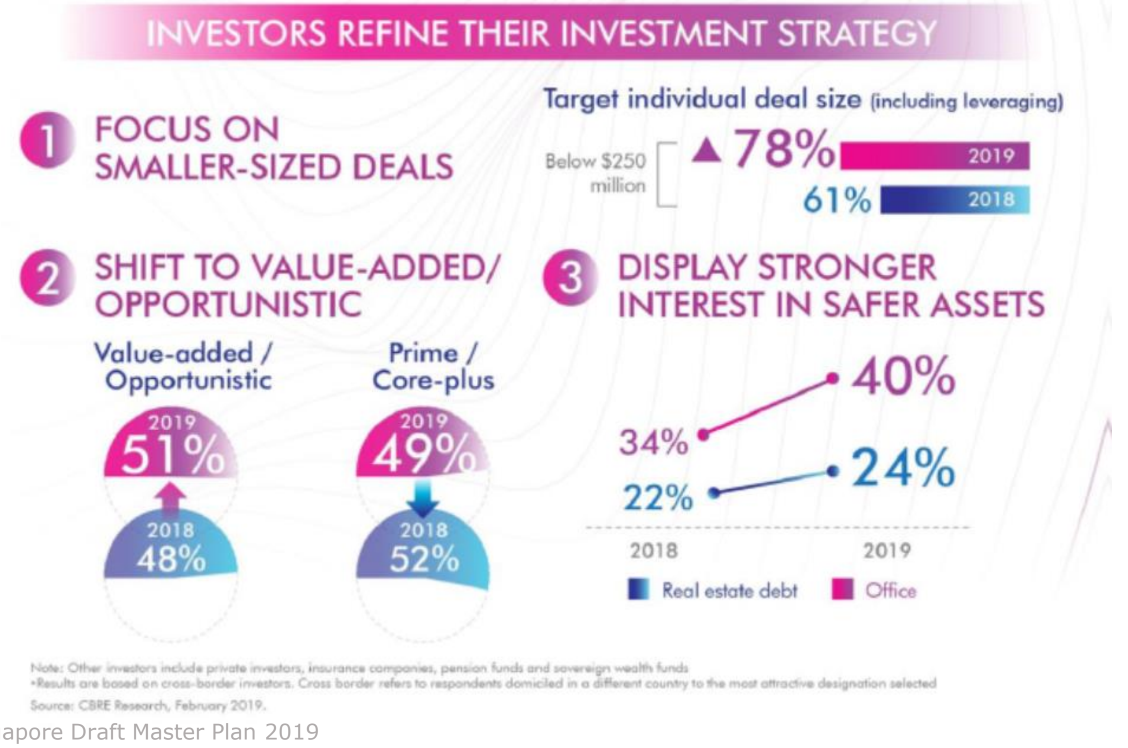
An Immaculate Timing of SDIs

- The timing of these two schemes is quite immaculate.
- In this era of high liquidity and late stage of the property cycle, most institutional investors are taking on value-add strategies, and this should bode well for the urban regeneration efforts in Singapore. According to a CBRE report, Asia Pacific investors in 2019 are more focused on smaller sized deals and adopting value-added/opportunistic strategy compared to 2018.
- Additionally, according to a Cushman and Wakefield (CW) analysis, there are some 28 properties in the CBD that meet the planner’s criteria and are potentially ripe for redevelopment. Given the tight yield environment and abundance of capital, we should expect foreign investment interest and local capital flowing into the rejuvenation of these older assets going forward. Could this be the renaissance of Shenton Way and Tanjong Pagar?



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Potential Challenges of SDIs

- However, aside from the list identified by CW, there are some potential operational challenges especially for smaller sites within the CBD.
- Views from consultants so far has not been as sanguine as the initial market euphoria suggested. The issue of differences in tenure (freehold versus leasehold) and the ownership structure (single versus multiple strata owners) could affect the amalgamation of smaller CBD sites for redevelopment, which if left on their own would not qualify for the incentives offered.
- In our discussion with a market consultant, full commercial use made more financial sense than a mixed use based on their initial study of some sites. Separately, JLL in a recent report[1] suggested a partial to full waiver of development charges be given, should the adoption of this scheme, over the initial five-year implementation period (2024), is low.
- While the jury is not out on this incentive, the planners should be prepared to work with the private market to tweak their incentives if a vibrant neighbourhood is the desired outcome.

Potential Building	Est. Year Built*	Potential Building	Est. Year Built*
100AM	1997	GB Building	1982
110 Robinson Road	1978	Genting Centre	1986
146 Robinson	1996	Hub Synergy Point	1984
78 Senton Way	1988	International Plaza	1976
79 Anson Road	1992	Keppel Towers	1991
80 Robinson Road	1994	MAS Building	1985
Anson Centre	1971	RHB Bank Building	1979
Anson House	1998	Robinson 77	1997
AXA Life Building	1982	Robinson Point	1997
Bangkok Bank Building	1978	Shenton House	1969
Cecil Court	1985	The Globe	1992
City House	1983	The Octagon	1982
Fuji Xerox Towers	1987	Tong Eng Building	1980

Note: Buildings that have gone through significant asset enhancements may not be eligible.
Source: Business Times March 29, 2019, Cushman Wakefield Research, ARA Research & Strategy

[1] Singapore's CBD revitalisation to widen its lead as a global office hub, April 2019

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Final Words

- These various policies and initiatives gesture to the market a greater community and stakeholder engagement mindset of the urban planners today, preferring a collaborative effort with the private market rather than a solely government-driven urban rejuvenation program.
- This vesting of greater development control over to the private market bodes well for an environment where the future is likely to be disruptive. The agility and market sensitivity arising from this greater private participation would help the city thrive in this new era.

Some thoughts for investors and the government

Urban Regeneration: moving beyond Asset Enhancement Initiatives

- The two incentive schemes empowering existing landowners to redevelop their parcels are to be expected given the condition in some parts of the CBD. The older part of the CBD such as the commercial strip along Shenton Way was developed as early as the late sixties.
- While some building owners have enhanced their assets over the years, the parcel sizes for most are rather small, generating floor plates that are not necessarily efficient in today's context. The uses are predominantly offices leaving the area largely deserted after office hours.
- With the high land prices in Singapore coupled with the supportive economic and political environment, these two incentive schemes have created an opportunity for owners/investors to redevelop or amalgamate with their neighbouring plots, creating a more efficient and vibrant development.
- While the bigger assets along Anson, Cecil Street, Robinson Road, Shenton Way and Tanjong Pajar as identified in the CBD Incentive Scheme, should draw the larger investors/developers' attention; smaller parcels would be ideal for those midsize investors with an appetite for partnership arrangements with the landowner next door.
- The incentives should bode well for investors given the tight yield for prime assets in Singapore. However we are not certain if these sweeteners are adequate given the operational challenges. Landowners and investors should seek early consultation with the urban planners.

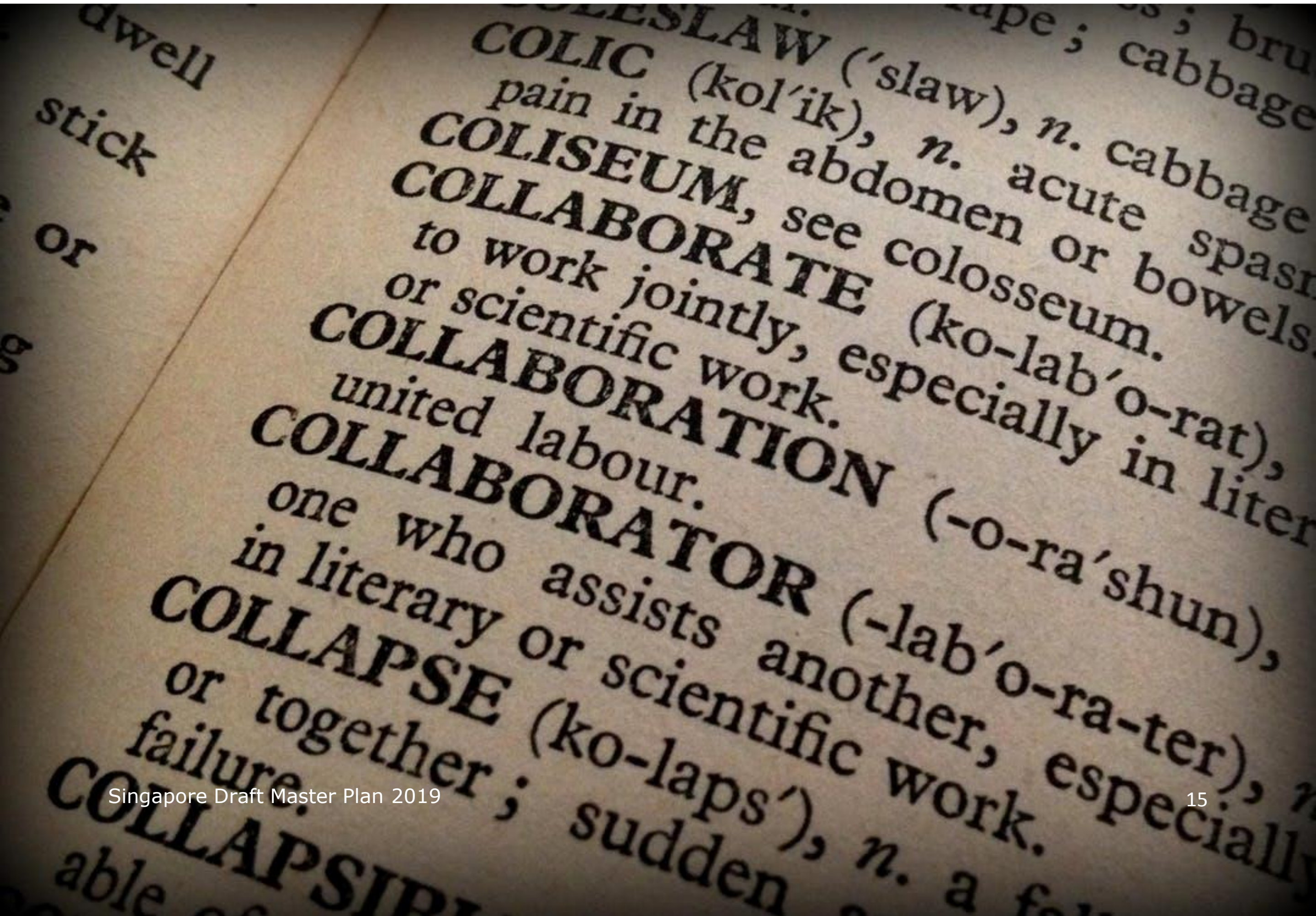
Some thoughts for investors and the government

Upping the engagement framework

- Besides the Strategic Development Incentive Scheme, the planners could enhance the revitalisation and regeneration efforts of private owners in existing precincts, especially those within the older BIDs such as Marina Square, Orchard Road, and City Hall, through an "envelop" control on the land use and overall density. That is, apply the Enterprise District concept of land use and density control to these existing older but strategic commercial areas and allow the private owners to re-vision, re-define and re-create the various uses according to market demand.
- The retail disruption from e-commerce and industrie 4.0 has shifted the business model from the traditional manufacturer-centric to one that is consumer-centric. Consumers have also gravitated towards more individualised service and products, emphasising on the experiential element. Together with additive manufacturing (3D printing), the business and definition of retail will continue to morph, pushing beyond the current definition of permitted uses provided in the Written Statement.

Some thoughts for investors and the government

- There is a pressing need to review these definitions contained within the traditional single land use zones. The definition of the permitted uses especially for Commercial, Hotel, and Business 1 should be more accommodative of the seismic collapse of the boundaries between the three traditionally discrete uses of manufacturing, retail and logistics.
- The planners could use this opportunity to let the market forces dictate the most relevant definition and interpretation by testing it in areas as they have done for industrial.
- In our view, Singapore's retail scene could use some help from the planners through a more accommodative definition of the use groups to support the consumer-centric business model of retail today.



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Dr Chua has almost 20 years' experience in the research and planning-related field. His most recent stint was with JLL where he headed their research teams across South-East Asia.

Trained as an urban planner, Dr Chua brings to the Firm a different perspective to property market research and he publishes original papers covering property market updates as well as investment and property related matters.

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