

Singapore Construction Market Review and Outlook

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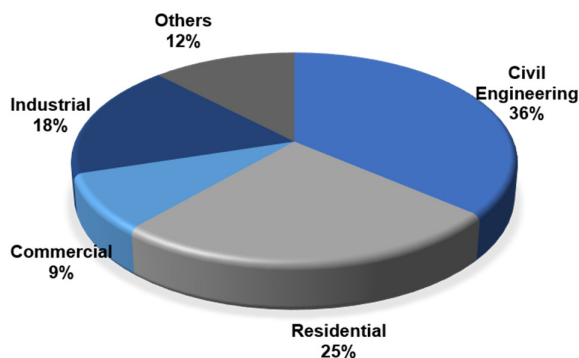
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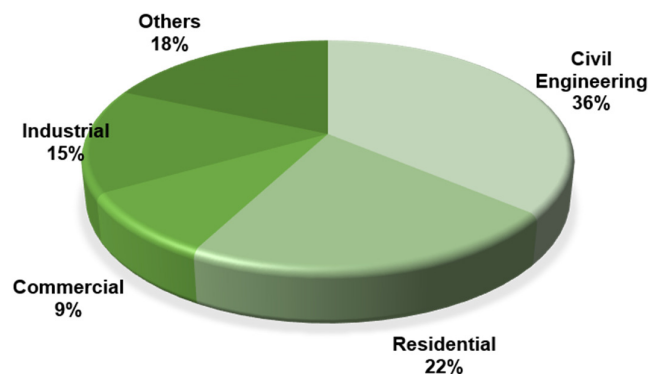
Threesixty Cost Management Pte Ltd is a subsidiary of Surbana Jurong which specialises in cost management and contractual administration from project inception to completion.

CONSTRUCTION DEMAND

CONTRACTS AWARDED IN
2017



2018 FORECAST



2017 – S\$24.5 billion

2018 – S\$26 – S\$31 billion

Continuing the trend that prevailed in 2016, 2017 has characteristically seen a downward trend in construction volume in the private sector, although the public sector's somewhat sustained spending in infrastructure projects helped to ameliorate the gloom.

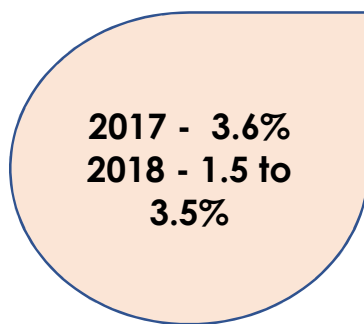
The dampened private housing market seems to be finally bottoming out as property prices rebounded slightly in Q4. In the whole of last year we have witnessed very aggressive pricings for government land sales and private collective sales (en-bloc) that was driven by the desire of both foreign and local

developers to expand their land banks in Singapore. The number of en-bloc transactions hit a fresh high with developers snapping up more than **30** properties in 2017, with more expected to follow suit this year.

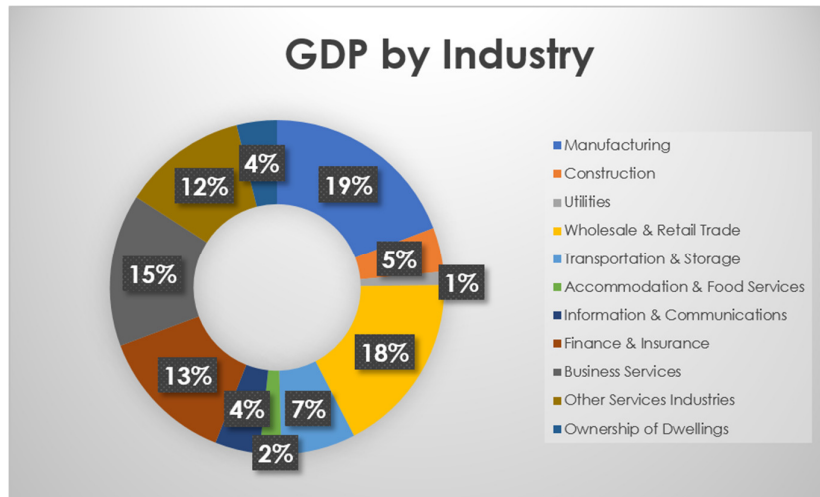
On the commercial front, there is an uptick in demand, even with more than 1,000,000 square feet of office spaces available with the completion of One Marina, Guoco Tower and OUE Downtown. Grade A offices' rental in the CBD is expected to increase in 2018, driven mainly by the growing co-working spaces scene and demand for premium office spaces. While the retail sector recorded a 4.7% growth year-on-year, it continues to experience sustained pressure from the emerging e-commerce platform and growing vacancies.

Looking forward to the next 12 months and beyond, analysts are expecting the local economy to expand steadily, albeit at a slightly reduced pace.

SINGAPORE GDP



GDP by Industry



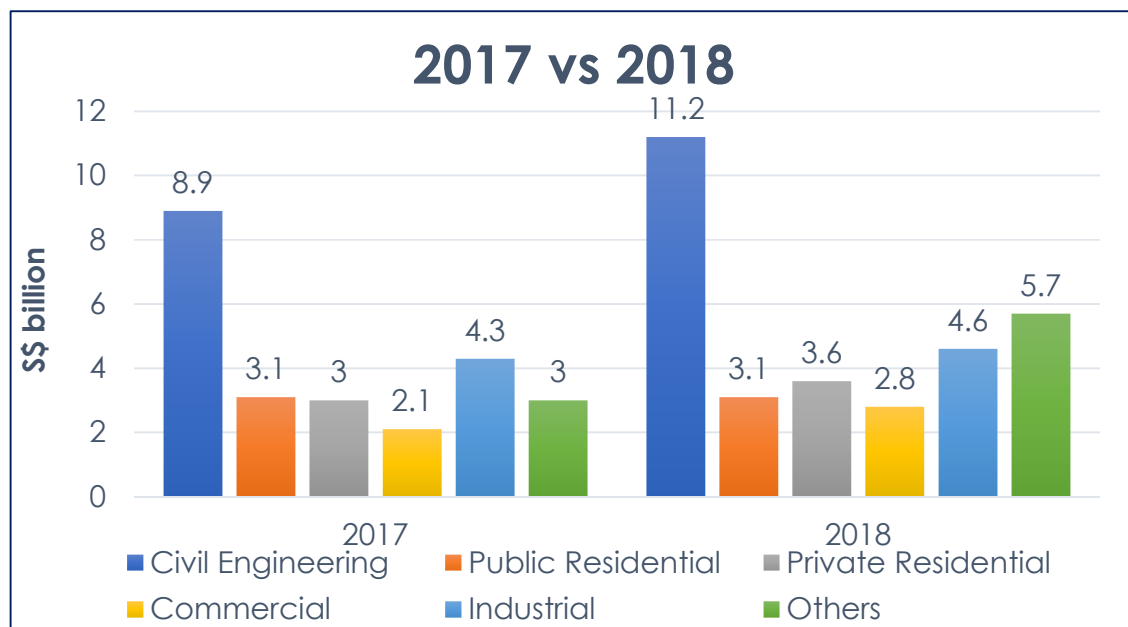
Singapore surpassed expectations and recorded a 3.6% GDP growth last year amid a better performing manufacturing sector and a stronger global economy backdrop. Global sentiments are bullish, riding on the wave of optimism as Trump's presidency comes to a full year, even as geopolitical tensions grow, especially in North Asia. BCA's annual construction demand forecast for 2018 is at the \$26 - \$31 billion range, again with the bulk of construction demand coming from the public sector.

Notwithstanding that the main demand is still attributed to major infrastructure projects, the development of Changi East's Terminal 5 is not expected to start until 2020. We anticipate a quick ramping up of construction demand for private residential, fuelled by the unprecedented number of en-bloc sales with the Qualifying Certificate requirement through Residential Property Act amendment in 2011. With the

public housing supply remaining at 2017 levels, tender activities in the public building sector will stay stable.

This year, BCA will continue to push for improved productivity in the built environment industry, through the implementation of the Industry Transformation Map (ITM) that encourages the adoption of Design for Manufacturing and Assembly (DfMA) and Integrated Digital Delivery (IDD) with more than 50 projects incorporating prefabrication technologies will be up for tender in 2018. The emphasis on DfMA will continue to see a high adoption of Prefabricated Prefinished Volumetric Construction (PPVC) modules. We envisage that the cost of PPVC may begin to stabilise this year, as supply and demand reaches an equilibrium with more PPVC suppliers entering the market. This encouraging trend is reflected in the recent tender prices for PPVC projects.

2017 – A YEAR IN REVIEW



Source: Building Construction Authority

Preliminary figures released by BCA indicate that the total construction contracts awarded last year amounted to S\$24.5 billion, a 7.2% drop compared to the S\$26.4 billion worth of projects awarded in 2016. Public sector projects again contributed approximately 63%, and the total expenditure stemming from public projects has increased more than 50% since 2012. Of the S\$15.5 billion public sector projects, about S\$9 billion came from civil engineering / infrastructure works. Kim Chuan Depot was awarded to Woh Hup at S\$1.2 billion, while China State Construction Engineering was awarded more than S\$500 million worth of contract for the construction of the Keppel and Cantonment Station. The

same firm was also awarded the S\$80 million contract for the extension of the North-East MRT line in December 2017. The last parcel of the Circle Line extension is the Prince Edward Station, which was awarded to China Railway Tunnel Group at S\$310 million. LTA has also awarded the first civil contract to design and construct a stretch of the North South Corridor at S\$809 million to Samsung Corporation, while the value for the 3 packages awarded for the design and build deep tunnel and link sewers for the DTSS Phase 2 project totals approximately S\$1.5 billion. In the residential sector, we have seen a steady stream of public housing supply in 2017, with approximately 17,500 BTO flats launched.

The residential segment of both the public and private sector contributed a total of **S\$6.16 billion** worth of projects, secondary only to the infrastructure sector. Some residential projects awarded last year include Grandeur Park Residences, Martin Modern, PPVC projects at Sengkang, Woodleigh Lane, Tampines Avenue 10, Stirling Road, Serangoon North Avenue and Perumal Road. Some of the bigger commercial projects awarded in 2017 include the Golden Shoe Redevelopment, Orchard Boulevard Hotel, CPF Building, and Robinson Road Office Block. A good number of ramp-up logistics facility and ramp-up warehouse projects were awarded last year, and together with the S\$150 million Bedok Food City, the S\$358 million JTC Logistic Hub, and the S\$435 million Defu Industrial City, the industrial sector marked a 17% increment from the previous year. The Integrated Care Hub at Tan Tock Seng Hospital, new National Cancer Centre, a myriad of nursing homes / senior care facilities, and A&A works to community centres are among the bigger institutional projects awarded in 2017.

2018 – LOOKING AHEAD

MACROECONOMICS

At the recently concluded World Economic Forum, the International Monetary Fund raised its global growth forecast to 3.9% on the back of an optimistic global trade and investment and growth momentum arising from the US tax reforms. China's GDP growth is projected at 6.6%, with India remaining on course to be the world's fastest growing economy, and the outlook for the Asia Pacific region continues to out-pace the rest of the world. Business sentiments are positive, and many businesses have earmarked this year as the catalyst for sustained growth in 2019 and 2020.

BRIGHTER PROSPECTS

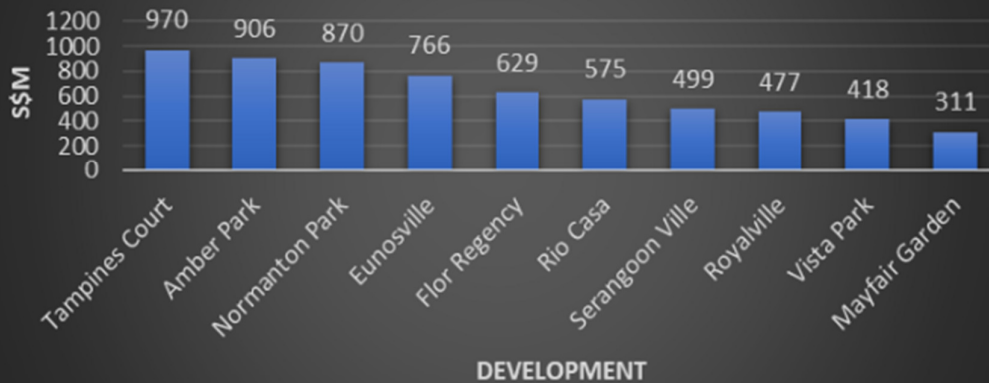
Global economic activity continues to firm up.

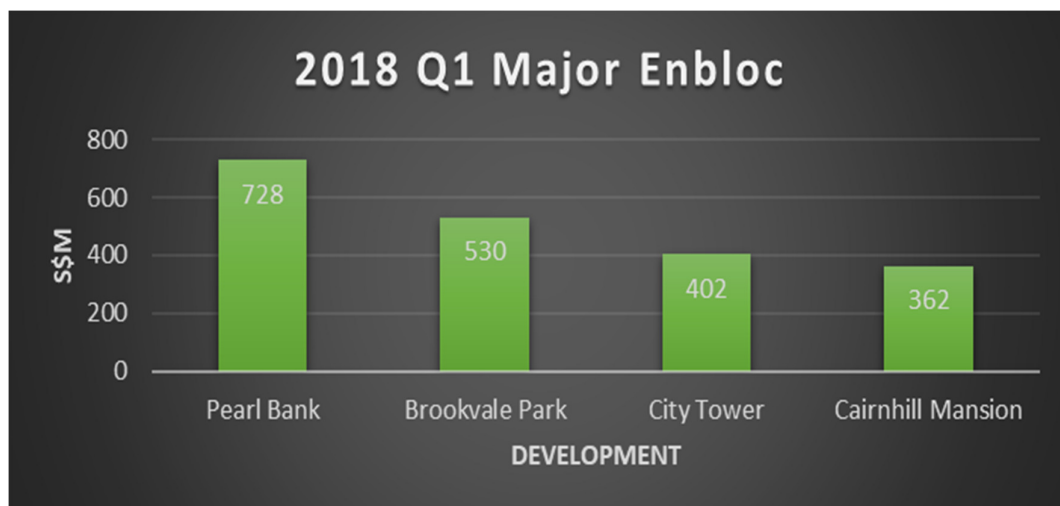


Source: International Monetary

RESIDENTIAL

2017 Major Enbloc





Developers' appetite for land banks doesn't seem to be slowing down, as GLS tender and collective sales continue to attract relentless and aggressive bidding. With a spate of collective sales transaction in 2017 (approximately S\$8 billion), the private residential market is expected to see a surge in supply by 2020 onwards. En-bloc transactions this year has already reached S\$3.1 billion, as we head into the third month of 2018's Q1.

Home owners displaced by these en-blocs activities will be in the market looking for new homes, and are likely to fuel demand and private residential sales for projects launched this year. Real estate statistics released by URA showed that prices have already increased 1.1% overall in 2017, and some analysts expect prices to increase further by as much as 10% for the foreseeable short term.

Moving forward, the government has raised the BSD (buyer's stamp duty) rate for residential property value in excess of S\$1 million. The existing 1 to 3 per cent BSD rates still apply to residential property values of S\$1 million and below. Announced at the recent 2018 Budget, this hike affects all residential properties bought on or after 20 February 2018, including en-bloc property deals and residential land deals. Additional DC (development charge) rate for both non-landed and commercial sites also took effect from 1 March 2018. The hike could add some friction to sales, but unlikely to dampen the aggressive bidding trend and derail the upturn in the segment.

COMMERCIAL

On the commercial front, it is expected that activities in this sector will continue to be muted except for the Central Boulevard Site and some advance tender activities are expected from the major commercial site at Beach Road sold last year. Woodlands Square, the only URA commercial site put up for sale in 1H 2018, is unlikely to involve any major construction works by this year, and similarly for the Holland Village and Sengkang Central sites which are under a concept and price revenue tender system. On a more optimistic perspective, some retail malls and hotels may undergo major asset enhancement initiatives & improvement works this year, on the back of record tourist arrivals and tourist spending in

2017. The tourism market should be further spurred by the news that the multi-million Formula One Grand Prix is to be held in Singapore for another 5 years. In addition, collective sales for commercial properties are also picking up pace. Office fit-out and reinstatement projects will remain dominant as newly completed office buildings enjoy better-than-expected take-up rate. The expected increase in Grade A offices' rental may see older commercial buildings undergo A&A works, such as the recent upgrading works we have seen to One Marina Boulevard building, Clifford Centre, AXA building, etc.

INDUSTRIAL

Singapore's manufacturing sector extended its growth streak in 2018, as January's manufacturing PMI is at its highest level since December 2009. Supply of industrial space is expected to peak this year, before slowing down over the next few years.

Jurong Innovation District, or "JID", a 600ha innovation district covering Nanyang Technological University (NTU), CleanTech Park, and the surrounding areas of Bulim, Bahar and Tengah will be developed in several phases over the next 20 years. The majority of industrial projects should come from the Jurong Innovation District. While demand for new warehouses and single/multi-user factory remains tepid, the data centre market continues to show promising growth, at the back of large demand for cloud-supporting and back end facilities. The Singapore co-location segment generated an estimated S\$1.3 billion last year, and is expected to grow more than 10% in 2018. BCA's push for DfMA and productivity will see the construction of more Integrated Construction and Prefabrication Hubs (ICPH). The tender for the latest ICPH has just closed recently, and it is expected that the construction at Pulau Puggol Barat should start by end of this year.

INSTITUTIONAL

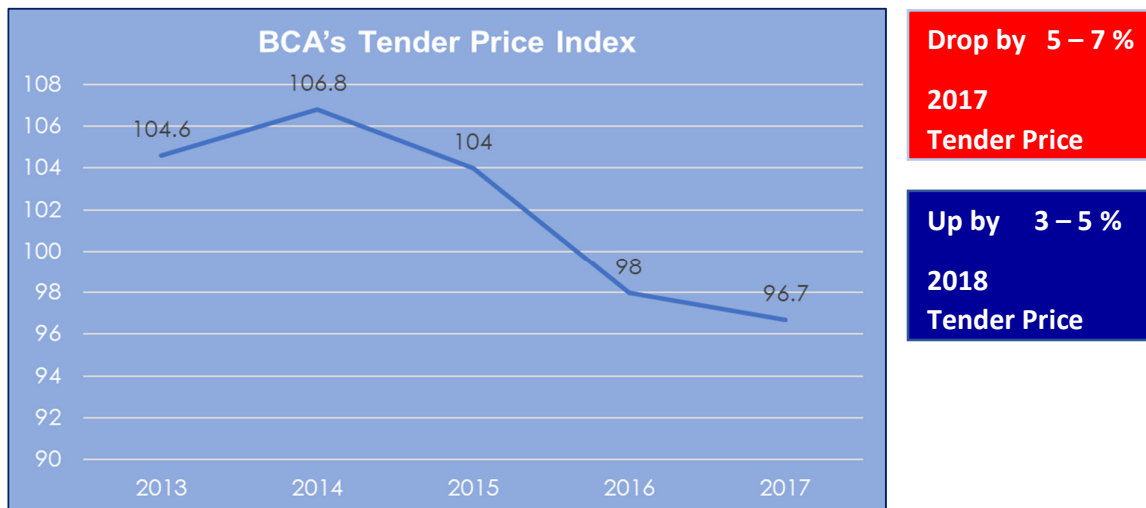
In terms of public sector projects for institutional building works, it is expected that this year's construction activities should surpass last year's S\$2.98 billion share, through the award of projects such as Mandai Redevelopment, Woodlands Integrated Health Campus, National Skin Centre extension, various educational facilities for Institutes of Higher Learning, healthcare projects as well as a slate of smaller government projects being brought forward in response to the slowdown in the previous years. The government's plan to build six more General and Community Hospitals, four new Polyclinics and many more nursing home / senior care facilities, announced at the recent Budget, is a shot in the arm for those involved in the healthcare sector, and should see tender activities picking up in the next few years.

INFRASTRUCTURE

The public civil sector continues to drive and dominate the construction market, and if all projects slotted for tender are awarded within this year, we could see a record high (S\$11.2 billion) for the public civil sector since 2012. Mega infrastructure projects including the Integrated Waste Management Facility (IWMF) with colocation of Tuas Water Reclamation Plant (TWRP) are in the 2018 pipeline with the remaining North-South Corridor works to be awarded this year, and the tender for the advanced works for both the Jurong East HSR station and Woodlands North RTS station should also begin by late 2018, or 1H 2019. Infrastructure works for the new Tengah township should also start this year. Other upcoming tender activities that can be expected to roll out soon include LTA's Jurong Region Line and Cross Island Line advanced works, while the infrastructure works on Changi East Development will likely to commence in 2019 followed by the mega Terminal 5 development over the next few years.

TENDER PRICE MOVEMENT

The tender price level for building works remained competitive in 2017 generally due to less intense construction demand in both public and private sectors.



We noted a **drop of 7-10% in tender prices** in **2017**, mainly driven by aggressive price competition in private residential projects. Notably the cost premium for PPVC projects has de-escalated gradually in tandem with the increase in the number of PPVC suppliers in the market.

TENDER PRICE MOVEMENT (CONT'D)

Tender activities should pick up sharply in the 1H of 2018, with more sub-contracts to be called in 2019. BCA's Tender Price Index (TPI) for 2017 remains below the 100 level, but there are strong market indications that point to a slight increment for 2018. Steel mills in China, the world's largest producer of crude steel, are ramping up production, in anticipation of an imminent price rally. Copper prices have increased 11% since January 2017 and are currently hovering slightly above the S\$9,000/tonne mark, the highest since early 2014, which will affect certain M&E trades. The en-bloc frenzy bodes particularly well for the smaller pool of demolition contractors which would invariably results in an increase in demolition costs, while piling costs are expected to stabilise in Q4 and beyond as demand for piling rigs eases off on the back of the completion of piling works for some of the Thomson Line MRT stations and tunnels.

The projected 2018 construction demand will be driven by the anticipated increase in public infrastructure and building projects and a very busy private residential segment. We anticipate the tender price movement will be on a gradual upward trend this year (by 3 – 5%), driven by the rising prices for raw material, cost increment in certain trades, and the higher wage growth; however some Contractors will still be eager for work to fill up their order book and may be inclined to tender more aggressively, given that not all large Contractors are active in the residential segment and/or infrastructure works.

SINGAPORE CONSTRUCTION PRICES (as at 4Q 2017 prices)

DEVELOPMENT TYPE	COST PER CFA S\$/m2
CARPARK	
Above ground	700 - 800
Basement	1,200 - 1,400
RESIDENTIAL	
Mass market	2,100 - 2,200
Good quality	2,300 - 2,400
High end	3,200 - 3,300
OFFICE	
Grade A	2,700 - 2,800
Grade B	2,300 - 2,500
RETAIL	
Mass market	2,500 - 2,700
High end	3,200 - 3,400
INDUSTRIAL	
Light	800 - 1,000
Heavy	1,100 - 1,300
HOTEL	
4-star	3,500 - 3,700
5-star	4,200 - 4,400
INSTITUTIONAL	
Nursing home	2,000 - 2,200

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

ABOUT THREESIXTY COST MANAGEMENT

Threesixty Cost Management Pte Ltd is a subsidiary of Surbana Jurong 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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