

ARCADIS INSIGHTS

SINGAPORE AND REGIONAL CONSTRUCTION COST TRENDS

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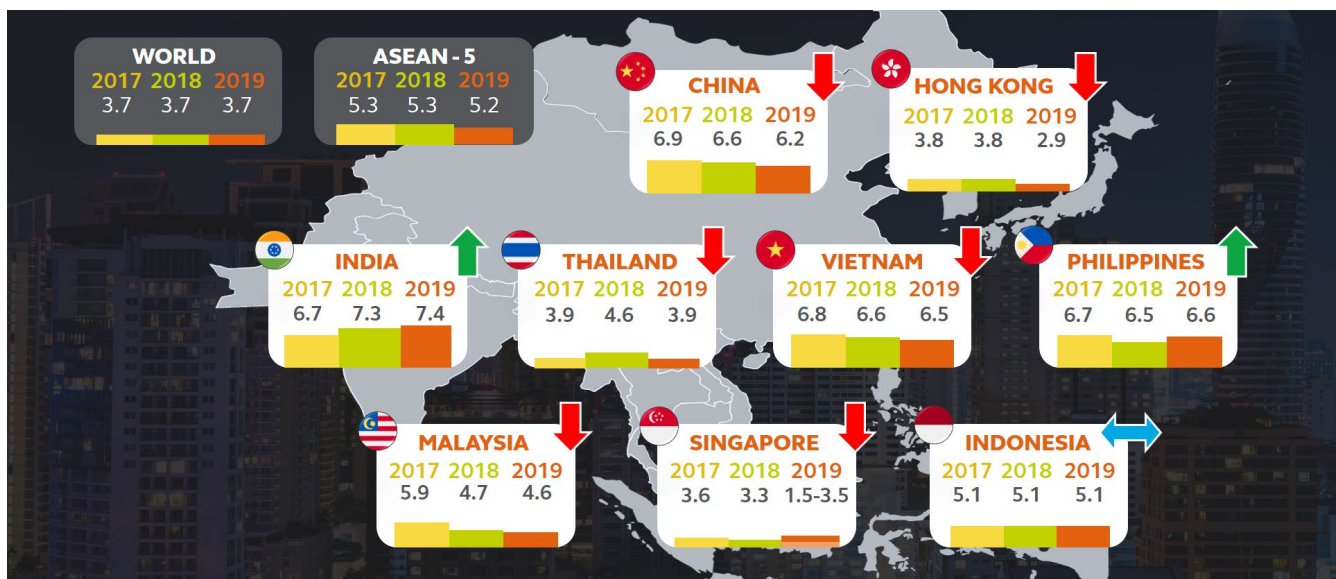
GLOBAL AND REGIONAL TRENDS

The Trump administration policies have led to an escalation of trade tensions between the United States (US) and China, as well as tit-for-tat tariff increases with the European Union (EU), Canada and Mexico. The further escalation of these on-going trade tensions could lead to the disruption of global-supply chains, triggering a sharp fall in business sentiment and other factors of growth – all of which would create an adverse spillover effect on global economic growth. Although the US and China have agreed to set aside a 90-day ceasefire, a definitive conclusion has yet to be reached. The uncertainties of this trade war and the potential fallout remain under close watch.

Facing the possibility of a full-fledged trade war with the US, regional economies are moving into alternative trade paths by pursuing free trade agreements. Regional collaboration enhances globalisation and opens the market to international competition. Intra-regional trade in Asia has surged in recent years, and the push for one belt one road initiatives and good infrastructure investments remain key factors contributing to the economic well-being of Asia.

GDP GROWTH FORECAST

Economic growth across Asia is expected to be slow in 2019. Tensions between the US and China, and the resulting stagnation of demand for Chinese goods are significant risk factors to growth.



Source: IMF World Economic Outlook October 2018
For Singapore, based on Ministry of Trade and Industry's Press Release dated 2 January 2019

SINGAPORE ECONOMIC CLIMATE

Based on MTI's advance estimates, the Singapore economy grew by 3.3% in 2018, down from 3.6% in 2017.

Authorities have indicated that the economy could cool even further in 2019, with a forecast of 1.5% to 3.5% GDP growth. There are major uncertainties in the year ahead, due to worsening trade conflicts, nervous financial markets and other signs of slowing growth.

The construction sector shrank by 3.4% in 2018, which represents an improvement from 2017 when the sector shrank by 8.4%. However, the sector is likely to see further improvement in 2019, as successful en-bloc transactions awarded from 2017 to first half of 2018 are likely to translate into construction activities over the next few quarters.

SINGAPORE CONSTRUCTION OUTLOOK

EN-BLOC FEVER

Singapore's redevelopment market has seen a frenzy of en-bloc deals over the last two years, beginning in 2016 with 3 successful transactions amounting to S\$1 billion. In 2017, there were a total of 28 successful transactions amounting to S\$8.7 billion, and the market boomed in 2018 with 38 successful transactions totalling S\$10.8 billion.

In 2018, 84% of successful transactions took place in the first half of the year. However, the property market saw a drastic decline in en-bloc transaction after the new cooling measures announced in July 2018. Total successful transactions in the second half of 2018 reduced to 6, a drastic decline compared to the 32 successful transactions recorded in the first half of 2018.

NEW RESIDENTIAL PROPERTY COOLING MEASURES

Due to the sharp increase in private residential prices and to maintain a stable and sustainable property market, the Government stepped in with new cooling measures effective on 6 July 2018. The new measures include raising the Additional Buyer's Stamp Duty (ABSD) for second and subsequent properties and further tightening of Loan-to-Value (LTV) limits.

Consequently, the market faced challenges finding successful bidders for en-bloc launches as developers are adopting a more cautious approach. For the past 6 months, over 30 sites had no bids, or received bids below the reserve price. This also resulted in sellers from approximately 15 en-bloc sites lowering their reserve price.

OTHER CONSTRUCTION NEWS

Based on news reported over the last few months of 2018, construction workload is expected to be lower this year as a result of fewer Build-to-Order flats, reduction in Government Land Sales for the first half of 2019 and the deferment of major infrastructure projects. Nonetheless, the general market sentiment is that the spillover from the successful en-bloc sales in 2017 and the first half of 2018 will form the main bulk of construction demand for the private sector in 2019.

REGULATORY UPDATES

1. Revision to the Guidelines on Maximum Allowable Number of Dwelling Units (DUs)

As part of enhancing livable space and addressing capacity concerns to reduce strain on local infrastructure, there has been a revision to the guidelines on maximum allowable number of DUs in non-landed residential developments outside central area. Under the new formula, the maximum number of DUs will be derived by dividing the maximum allowable Gross Floor Area (GFA) by 85m², up from 70m². This will inevitably translate to lesser number of residential units and reduce car parking provisions (if based on a 1:1 car park lot to residential unit ratio provision). This revision is effective from 17 January 2019.

2. Revision of Bonus GFA Incentive Scheme

With effect from 17 January 2019, the bonus GFA cap for private outdoor spaces will be reduced from 10% to 7%. The size and width requirements of balconies will be capped at 15% of the net internal area and each balcony is required to have a minimum width of 1.5m so that the outdoor space can be used meaningfully. As some owners seek to convert large balconies into an extra room with screens, developers are now required to inform homebuyers of the allowable balcony screens at the point of purchase.

3. Bonus GFA Scheme for Indoor Communal Recreation Spaces

With effect from 17 October 2018, the new scheme cap bonus GFA for indoor communal recreational spaces at 1% of total GFA, or the GFA of the residential component for mixed-use developments. Examples of indoor communal recreation spaces include gyms, function rooms, libraries, etc. Implication is a slight reduction of saleable areas.

4. Changes to Land Transport Authority's Car Parking Standards

With effect from 1 February 2019, developers will have greater flexibility in managing car parking provisions to promote car-lite vision in Singapore. Reduction in car parking provisions lowers construction cost and may result in a potential increase of asset enhancement improvement works for existing buildings that may have a surplus in car parking spaces, as it could be converted to other revenue generating uses – subject to payment of development charge.

DIGITAL AND INNOVATION IN CONSTRUCTION

Singapore's digitalisation journey began 8 years ago and has evolved from Building Information Modelling (BIM) to Virtual Design and Construction (VDC) and now Integrated Digital Delivery (IDD). The Government has launched the Industry Transformation Map (ITM) and pledged funding to transform the Built Environment Industry from a labour-intensive workforce into a skilled workforce proficient in digital tools and applications. It aims to transform the sector to build smart, efficiently and green through technology, innovation and digitalisation.

Design for Manufacturing and Assembly (DfMA) is one of the initiatives that has been implemented in recent years, and the adoption rate has seen a steady increase from 10% in 2016 to 19.2% in 2017. By 2020, the Government targets to increase the DfMA adoption rate to 40%. For projects that implement PPVC construction, Arcadis advocates the adoption of Early Contractor's Involvement as it promotes greater collaboration amongst project stakeholders.

REGIONAL CONSTRUCTION WORKLOAD PROSPECTS AND COSTS TRENDS

CHINA

China is generally experiencing slower growth as uncertainties remain amidst the trade war, higher interest rates, and increases in material and labour cost. As a result, construction costs are anticipated to rise.

HONG KONG

Based on statistics from the Construction Industry Council Hong Kong (CIC HK), the city is expecting stability in construction activities. Major projects in the pipeline include the airport, healthcare, infrastructure and Tung Chung new town extension.

Contractors generally sense that many on-going major infrastructure projects are ending soon and that demand for residential projects is declining. Therefore, it is anticipated that in 2019, contractors will be competitive in their tender bids to fill up order books. Like Singapore, the Hong Kong Government is also promoting BIM and Modular Integrated Construction (MiC) to improve construction productivity.

MACAU

Being a city that is predominantly tourism focused, casino projects continue to dominate majority of the construction activities. However, there are also many other upcoming projects in the pipeline such as hospitality, rail, healthcare, infrastructure and public housing. Construction costs are anticipated to increase marginally in 2019.

INDONESIA

Indonesia faces political uncertainties with the upcoming presidential election scheduled in April 2019. Potential new policy changes and the future outlook of the 225 National Strategic Project are expected to have an impact on the construction industry. However, general market sensing is that regardless of the election result, the 225 National Strategic Project is likely to proceed as the country is in urgent need of infrastructure works. In view of the pending election, there are uncertainties concerning funding issues and rule changes, and private sector developers are adopting a "wait-and-see" attitude and have started to slow down on private developments. Construction costs are also anticipated to rise.

MALAYSIA

Uncertainties in Malaysia continue post-election, and the general outlook remains cloudy in the near-term with no clear catalyst expected. There has been several reviews of public spending on infrastructure projects where many projects were either suspended, deferred or with budget reduced. The market is weakening, with slower construction growth anticipated in 2019. However, the Government's allocation of RM1.5 billion for an affordable housing programme could be a stimulus for the industry. Construction costs are anticipated to remain stable but may increase slightly in coming months.

PHILIPPINES

Construction activities remain robust mainly due to the Philippines' "Build, Build, Build" Project which is in full swing. Several airport and airport-related infrastructure and other infrastructure projects are in the pipeline. Construction costs are anticipated to be on the upward trend.

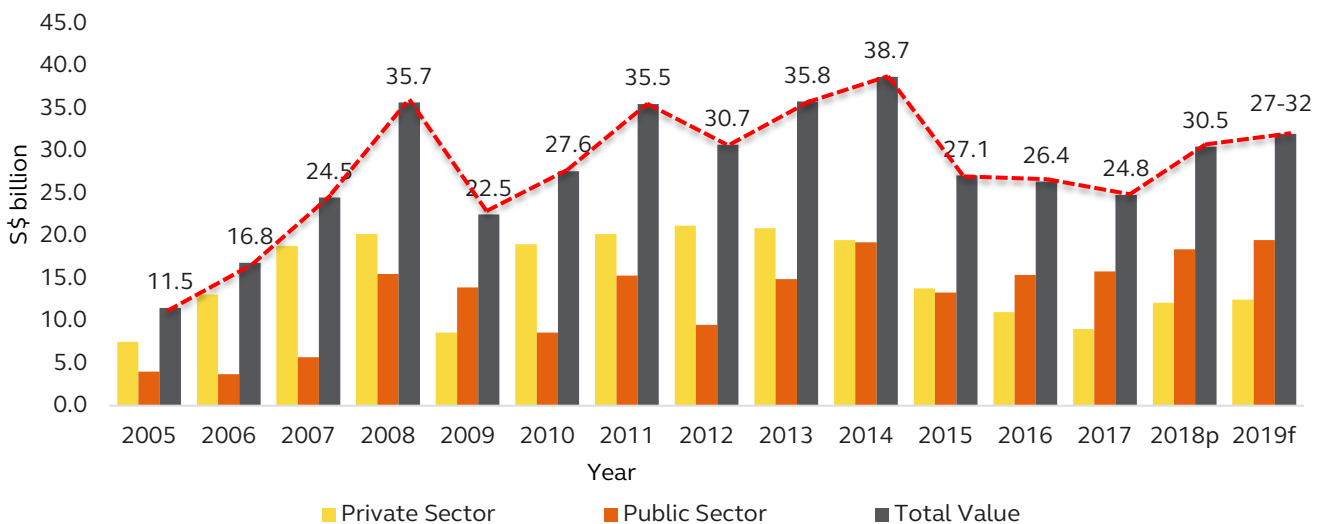
THAILAND

Thailand's General Election (GE) is one of the most pertinent factors affecting the construction market as it has been deferred several times since 2015. A key concern is whether would the Eastern Economic Corridor (EEC) be implemented in full swing, as the Government expects to spend US\$43 billion to realise the EEC over the next 5 years. On the other hand, private sector projects continue to remain busy with several major projects including One Bangkok Mixed Development, Dusit Thani Redevelopment and the British Embassy Phase 2.

VIETNAM

Growth expansion is anticipated to be slightly lower than in 2018. Major construction outputs are attributed to infrastructure projects, with notable growth in commercial and residential projects in South Vietnam. Current major projects include a casino and hospitality development around the coast of Central Vietnam, MRT lines, and power and renewable energy projects. Construction costs are anticipated to increase in 2019.

SINGAPORE CONSTRUCTION WORKLOAD PROSPECT AND COST TRENDS



Source: Building and Construction Authority as at 14 January 2019
p – denotes preliminary data; f- denotes forecast

CONSTRUCTION DEMAND IN 2018

The construction demand has been on the downward trend for three consecutive years (2015 to 2017) due to slower economic growth and lacklustre private residential property market.

The construction industry has felt the pressure in those three years. The Government has stepped in to help beleaguered firms to ride out the downturn. In 2017, the Government announced that S\$1.4 billion worth of public projects were brought forward to start between 2017 and early 2018. Government agencies are also encouraged to parcel out large infrastructure projects to create more opportunities for local Small and Medium-sized Enterprises (SMEs) and to diversify risk.

As a result of the Government's efforts to inject high-value public sector institutional and civil engineering projects and backed by the private sector residential and industrial developments, construction demand has picked up significantly in 2018.

According to preliminary figures published by Building and Construction Authority (BCA) on 14 January 2019, total construction demand for the whole of 2018 was S\$30.5 billion. This is close to the upper bound of BCA's earlier estimate of S\$26 - S\$31 billion for 2018. This represents a 23% increase in construction demand compared to 2017.

Public sector construction demand increased 16% year-on-year from S\$15.8 billion in 2017 to S\$18.4 billion in 2018. The increase was mainly driven by stronger growth in institutional and civil engineering works.

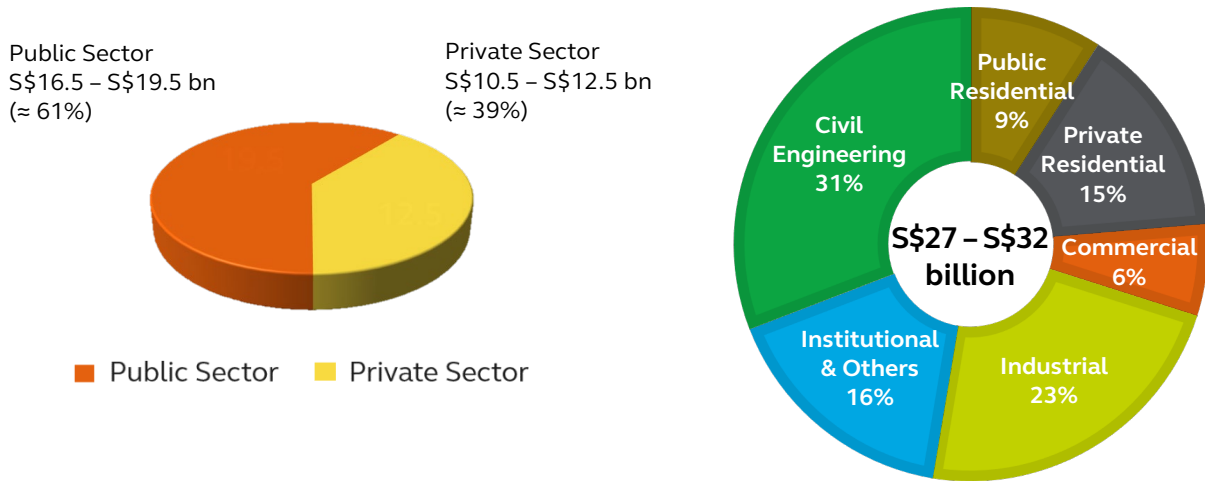
Private sector construction demand grew 35% year-on-year from S\$9 billion in 2017 to S\$12.1 billion in 2018. Demand for private sector was predominantly fuelled by the redevelopment of various successful en-bloc transactions and industrial developments.

CONSTRUCTION DEMAND OUTLOOK IN 2019

Based on BCA's forecast, total construction demand (excluding reclamation works) for 2019 is projected to maintain at a sustainable level between S\$27 billion and S\$32 billion. Private residential construction demand is projected to drop due to reduction in the number of successful en-bloc transactions in second half of 2018.

On the other hand, public sector construction demand is projected to remain strong at S\$16.5 billion to S\$19.5 billion, contributing to approximately 60% of the total construction demand. Public housing construction demand is projected to soften due to stabilising demand. Public sector industrial construction demand is projected to strengthen in view of JTC's, NEA's and PUB's upcoming pipeline of developments.

Key projects in 2019 include Changi Airport Terminal 5 infrastructure works, Punggol Digital District, Bulim Industrial, Jurong Regional Line, Tuas Mega Port, Integrated Waste Management Facility and redevelopment of en-bloc projects which are a spillover from successful transactions in 2017 and in the first half of 2018.

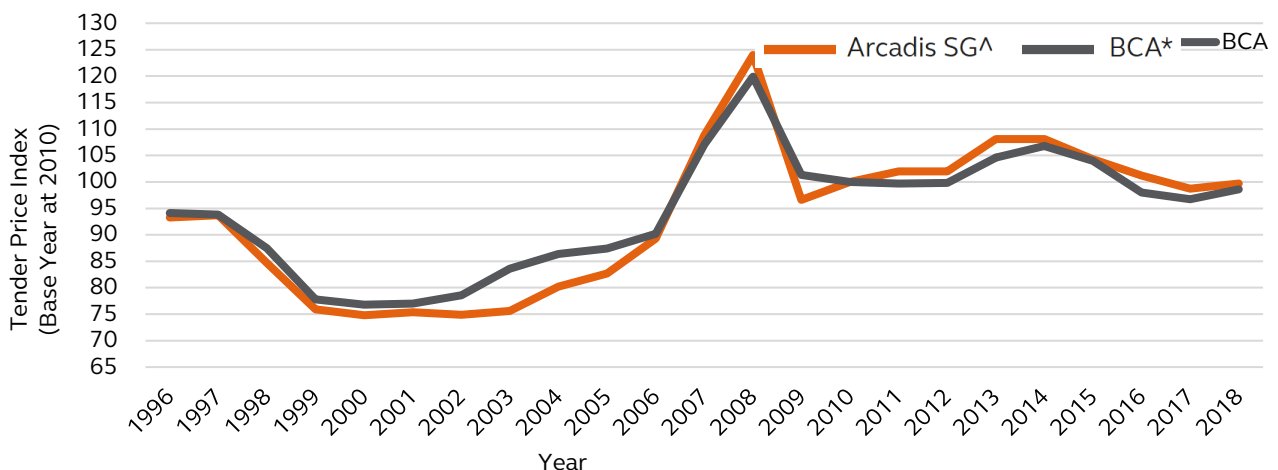


Source: Building and Construction Authority as at 14 January 2019

CONSTRUCTION OUTLOOK FOR 2020 TO 2023

Construction demand for the next four years (2020 to 2023) is anticipated to remain at a comparable and sustainable level from previous years with 2020 to 2021 forecasted at S\$27 to S\$34 billion per annum and for 2022 to 2023, at S\$28 to S\$35 billion per annum. Similar to previous years, the public sector will continue to be the major contributor to construction demand. Public sector projects will be mainly supported by public housing, civil engineering and infrastructure works. Private sector construction demand is forecasted to grow steadily following the growth momentum of the respective sectors.

TENDER PRICE MOVEMENT IN 2018 AND 2019



Source: * Building and Construction Authority as at 14 January 2019
^ From 2009 onwards, Arcadis Singapore TPI based on 4th Quarter Index

Based on Arcadis Singapore's data, tender price movement for the past three years (2015 to 2017) was in tandem with the weakened construction demand. The decline was mainly driven by the continued competitive tendering climate by the contractors to fill up their order books.

Arcadis had earlier put forth a forecast during the BCA-REDAS Construction and Property Prospects Seminar conducted in January 2018 that tender price movement for 2018 could be in the range of -1% to 2%. It was initially anticipated that construction tender price will remain competitive as signs of global economic recovery was still shrouded with uncertainties at that time and contractors are likely to tender competitively to fill up their order books.

We also cautioned back then on the possibility of a sudden upsurge of redevelopment projects arising from the en-bloc fever which could then have an impact on construction cost. Indeed, we have seen an increase in tender pricing in the first half of 2018. However, the same cost escalation momentum did not continue in the second half of 2018 after the announcement of new residential property cooling measures in July 2018 which saw a slowdown of residential projects in the market. As a result, the actual tender price movement for 2018 at 1% was slightly lower than our earlier forecast. Nonetheless, the actual overall tender price movement for 2018 turned out to be rather close and within our earlier forecast.

Looking ahead, with the slow global economy growth and the comparable level of construction demand as 2018's, tender prices in the first half of 2019 are likely to remain stable and competitive as contractors are eager to fill up their order books. For the second half of 2019, key construction material prices are expected to rise whilst labour costs remain high, tender prices are expected to increase moderately taking into consideration that contractors' order books are being filled up and may become more selective in tendering for projects.

Based on the above, the price movement (if any) for the whole of 2019 is anticipated to be in the range of 0% to +2%, the actual level depending on the prevailing market sentiment and any adverse ramifications of prevailing economic instability.

CONCLUSION

2019 will be an exciting and challenging year as we remain vigilant and watchful of things happening both locally and globally. The US-China trade tensions, slowdown in China's economy and warning signs of slow economy growth in Asia are events that we need to keep a close watch.

We cannot predict whether the trade tensions will escalate further. If it does, Singapore's construction industry probably may not feel an immediate impact, but it will certainly cause economic uncertainty and continued negative repercussions for various industries.

Whatever the outcome, it is important that we are ready to embrace new and innovative technologies to improve our work productivity and efficiency.

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