

Singapore Real Estate Singapore Property

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Mar 2019

Remake, Reposition & Refurbish

- Draft 2019 Masterplan gives a lift to commercial landlords with enhanced plot ratios in CBD and Orchard; key beneficiary is SGREIT
- New regional economic centers with focus on Greater Southern Waterfront and remaking of Paya Lebar Air Base
- New residential supply planned in Downtown, Marina Bay, and fringe areas to promote living closer to work places

Commercial landlords to gain from a lift in plot ratios.

The Urban Redevelopment Authority (URA) unveiled the Draft Master Plan 2019 (DMP19) yesterday. The highlights are higher plot ratios in the Central Business District (CBD) and a new scheme to promote development and rejuvenation of the CBD from a commercial district to one with vibrancy from an increase in live-in population in the Central Region. The increased plot ratio in the CBD will be positive for commercial (retail and office) property owners like office REITs (**CCT, KREIT, SUN, FCOT and OUECT**). The key beneficiary is **SGREIT**, with a 29% jump in plot ratios for its properties in Orchard – Wisma Atria and Ngee Ann City. Other developers with exposure in the CBD include the likes of **CapitaLand, CDL, FPL** and **UOL**.

Greater Southern Waterfront development to benefit MCT's VivoCity.

The government has plans to begin developing the Greater Southern Waterfront which spans across the southern coastline from Pasir Panjang to Marina East in the next 5 to 10 years. This development opens ample opportunities for developers. With an expected increase in residential developments in the Greater Southern Waterfront area in the longer term, **MCT's VivoCity**, the closest large retail mall, would be a key beneficiary.

New housing opportunities in CDB and long-term residential pipeline bodes well for developers. As part of the Downtown rejuvenation, URA plans to increase housing sites in Downtown, Marina South, Rochor and Bayshore areas so that people can live closer to their work places. While these offer interesting opportunities for developers to land-bank, we believe that investors' attention is on the supply overhang in 2019-2020 for now. While we remain positive on longer term trends in property prices, we believe a steady growth in supply of homes will likely be accompanied by more conducive policies to ensure stable growth in the property market in the longer term.

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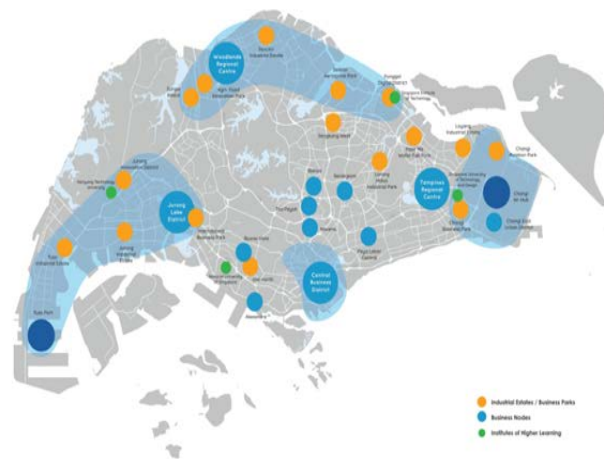
Potential Stock beneficiaries to the master-plan

	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%)		Rating
				3 mth	12 mth	
CapitaLand	3.52	10,842	3.62	14.3	(2.0)	BUY
CapitaLand Commercial Trust	1.97	5,449	2.00	11.9	10.1	BUY
City Developments	8.91	5,961	9.50	11.9	(31.3)	HOLD
Keppel REIT	1.28	3,215	1.31	10.3	6.7	BUY
Fraser's Property	1.77	3,813	1.98	7.3	(10.2)	BUY
Mapletree Commercial Trust	1.91	4,072	2.00	13.0	23.2	BUY
OUE Commercial	0.51	1,076	0.60	12.1	(19.0)	BUY
Starhill Global REIT	0.73	1,175	0.75	9.0	0.7	BUY
SPH REIT	1.05	2,002	1.05	5.0	6.1	BUY
Suntec REIT	1.98	3,916	2.12	8.8	5.3	BUY
UOL Group	6.78	4,217	7.15	14.3	(19.8)	HOLD

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 27 Mar 2019

Key focus areas



Source: DBS Bank



Live more, Bank less

URA Draft Master Plan 2019: Higher plot ratio is the talk of the town!

The Urban Redevelopment Authority (URA) unveiled the Draft Master Plan 2019 (DMP19) yesterday. The DMP19 is focusing on the development of 3 major economic gateways; in the West (Jurong Lake District, Jurong Innovation District and Tuas Terminal), in the North (Woodlands Regional Centre and Punggol Digital District) and in the East (Changi Region). The basis and overall focus is on planning for sustainable, green, inclusive neighbourhoods, and creating capacity for the future.

In summary, the highlights from the DMP19 are higher plot ratios for selected sites in the Central Business District (CBD) which include Orchard/ Somerset/Dhoby Ghaut, Tanjong Pagar/Shenton Way and Raffles Place. The key aim is to drive downtown rejuvenation and to have higher live-in population in the Central Region to facilitate a work, live and play environment. Over time, a larger live-in population coupled with more amenities within the CBD will also bring more vibrancy and allow retail to trade well across the week rather than only on weekdays currently. We believe the increased plot ratio will see positive benefits for select commercial property owners while plans for the Greater Southern Waterfront bodes well for Mapletree Commercial Trust (MCT).

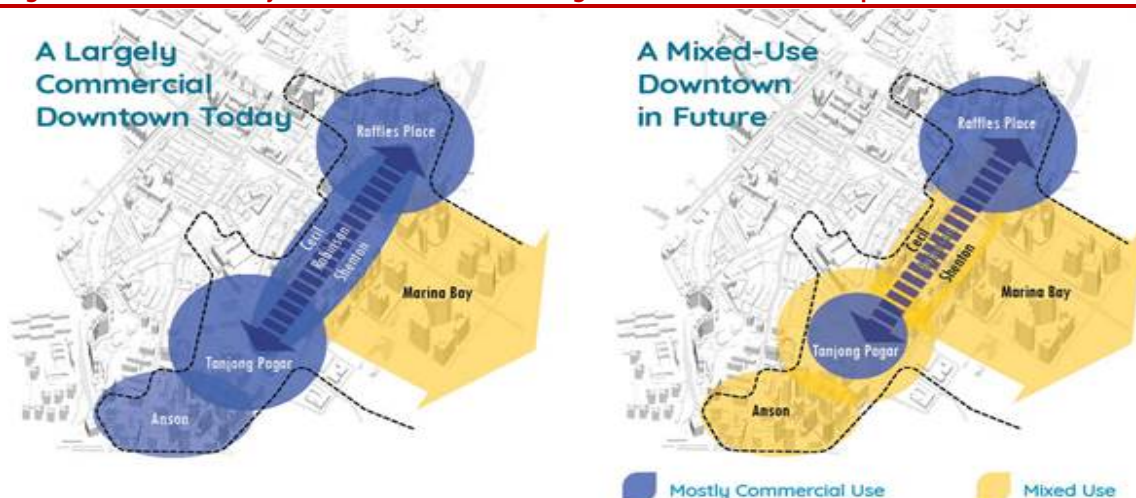
We highlight below the major new development plans in the masterplan, as well as our views on the impact on Singapore Property.

New Key Development Plans:

1) Remaking the Central Business District (CBD): Rethink, Refresh, Redevelop.

- Based on the 2019 draft masterplan, the Singapore government has intentions to convert Downtown Singapore from a commercial center dominated by offices into one which is more mixed-use and has more vibrancy after office hours. This is to facilitate a work, live and play environment. The government highlighted areas such as Downtown, Marina South and Rochor.
- To expedite the change in use in the Downtown area, we understand the government will offer an increase in gross plot ratio (CBD Incentive Scheme) for certain areas to encourage the conversion of existing office developments, especially the older grade B properties that are >20 years old into hotel and residential uses.
- In addition, large parcels of land at Marina Bay may be made available on shorter leases to act as a “test-bed” for innovative ideas which offer lifestyle concepts and generous public spaces.
- Furthermore, Robinson Road which is a key bus corridor connecting the two Downtown hubs of Raffles Place and Tanjong Pagar, may be transformed into a transit-priority corridor by giving more space to buses, cycling paths and pedestrian walkways.

Figure 1: Downtown rejuvenation – shift towards greater mixed-use developments

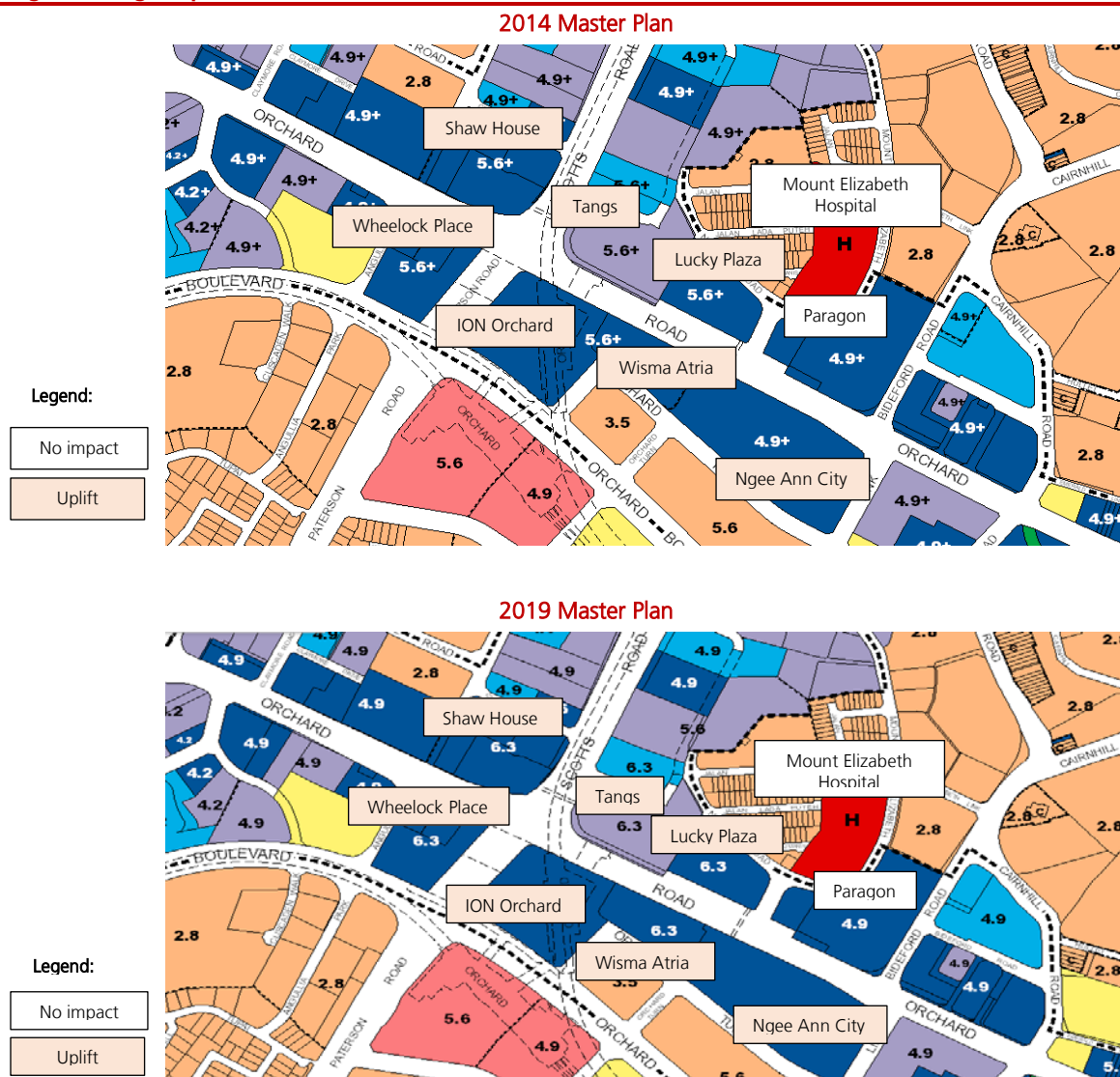


Source: URA, DBS Bank

2) Rejuvenating Orchard Road – selected sites receive up to 29% boost in plot ratios!

- To recap, the government recently unveiled plans to invigorate Orchard Road which seeks to address fundamental issues threatening the long-term competitiveness of Orchard as a retail hub.
- The incorporation of innovative and non-retail offerings appears positive for incumbents as it should help to inject vibrancy across the different precincts.
- Plot ratios were revised higher for selected sites under the new master plan, especially along the prime Orchard Road belt above MRT stations. Notable beneficiaries are Starhill Global REIT's (SGREIT) Ngee Ann City and Wisma Atria properties which saw their plot ratio rising from 4.9-5.6+ to 6.3. CapitaLand's ION Orchard also saw a slight uptick in plot ratio.

Figure 2: Higher plot ratios in Orchard

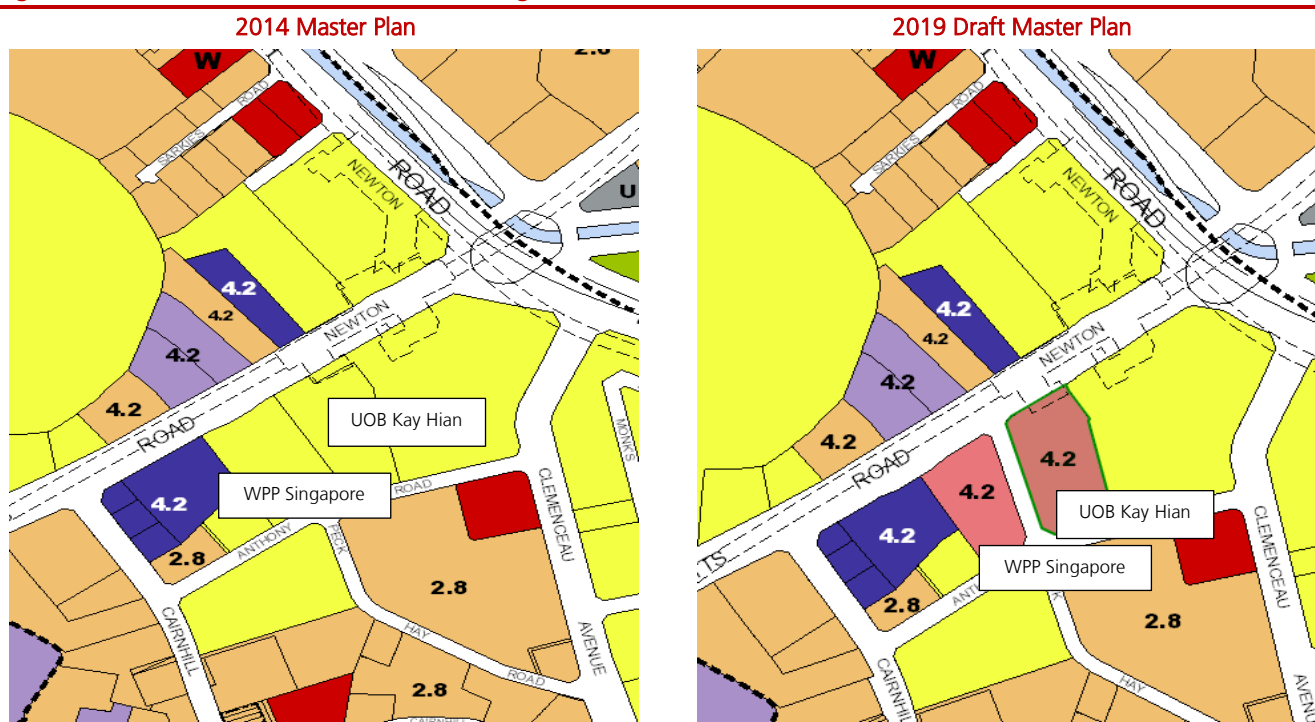


Source: URA, DBS Bank

3) Return of transitional office sites along Newton.

- We also note that the two transitional office sites in Newton awarded back in 2008 have been rezoned as “residential with 1st storey commercial” compared to the previous master plan.
 - Awarded back in 2008, the sites currently house WPP and UOB Kay Hian and with a 15-year tenure, the sites will most likely be returned to the government in 2023.
- With a combined GFA of close to 286,000 square feet (sqft), which is estimated to be c.30% of annual absorption for CBD office, the displacement of these office spaces will match the ongoing office developments along the CBD and Beach Road areas.

Figure 3: Selected transitional office sites along Newton rezoned



Source: URA, DBS Bank

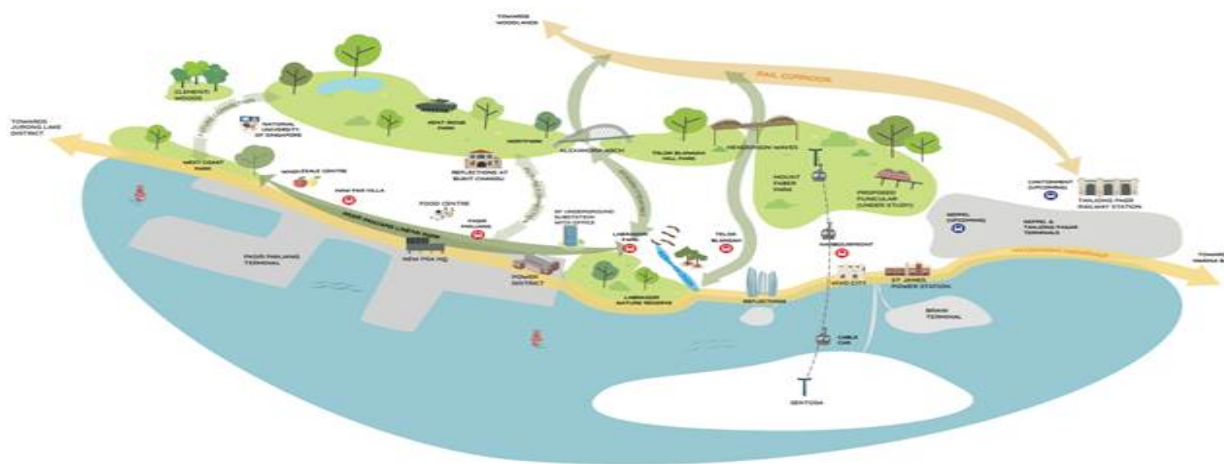
4) Greater Southern Waterfront: to begin development within the next 5 to 10 years

- The Greater Southern Waterfront spans across the southern coastline from Pasir Panjang to Marina East. The total area is estimated to be c.2k hectares (ha), post the relocation of City Terminal and Pasir Panjang Terminal that will free up some 1k ha of land.
- The government expects to start the development within the next 5 to 10 years with new

developments at Pasir Panjang Power District and the Keppel Club site.

- The Pasir Panjang Power District will house Singapore's first 230kV underground substation, and will be redeveloped next to the Labrador Park MRT station, and could be given a new lease of life as a lifestyle and heritage destination.
- The Keppel Club site will be redeveloped for waterfront housing after the current lease expires in 2021. The site is close to Telok Blangah and Labrador MRT stations.

Figure 4: Greater Southern Waterfront Development



Source: URA, DBS Bank

Figure 5: Greater Southern Waterfront: Keppel Club to be redeveloped into residential when lease expires in 2021



Source: URA, DBS Bank

5) Eastern Economic Gateway: Transforming Paya Lebar Air Base; a future Changi East Urban District

- The government expects to relocate Paya Lebar Air Base in the longer term, freeing up 800ha of land. This bodes well for developments around the area such as Lendlease's Paya Lebar Quarter, and Singpost Centre.

- Based on a longer-term plan for Changi Region and leveraging on the successful development of Changi Business Park, Singapore University of Technology and Design as well as the expansion of Changi Airport, the government plans to develop a new Changi East Urban District located at the doorstep of Changi Airport's future Terminal 5. In addition, this waterfront district will offer exciting new recreational and tourism possibilities and seamless inter-model "fly-ferry" linkages from Terminal 5.

Figure 6: Paya Lebar Air Base redevelopment



Source: URA, DBS Bank

Figure 7: Changi Region

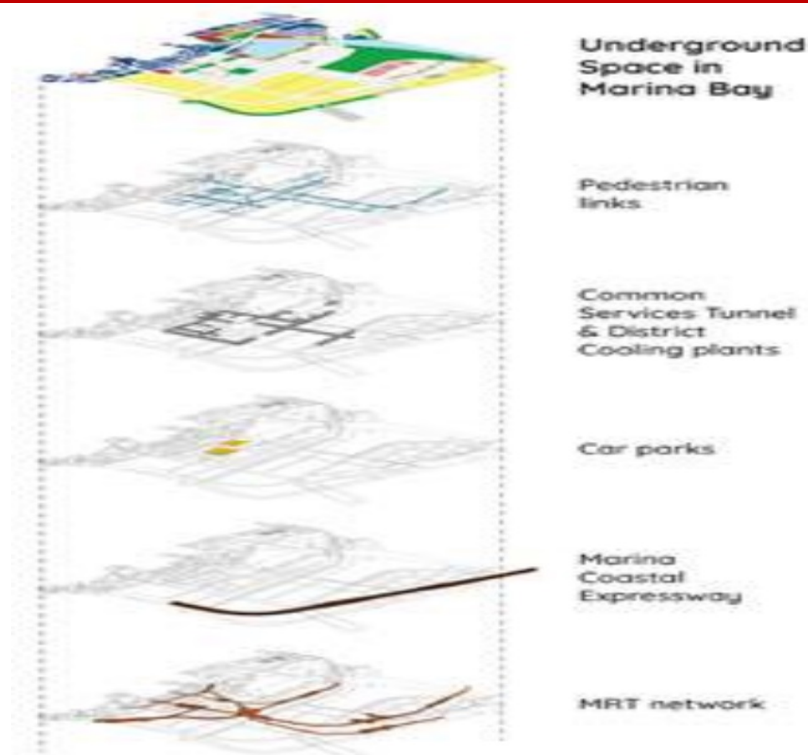


Source: URA, DBS Bank

6) Underground plans in 3 pilot areas – Marina Bay, Jurong Innovation District and Punggol Digital District.

- To enable better planning of Singapore's underground space, the government plans to roll out 3D underground maps in three pilot areas within the three economic gateways – Marina Bay, Jurong Innovation District, and Punggol Digital District.

Figure 8: Underground space in Marina Bay



Source: URA, DBS Bank

Our View:

1) Residential

- **New housing development opportunities in the Central Region.** With plans to increase the live-in population in the Central Region to facilitate work, live and play environment, the new masterplan will introduce more homes in city locations such as Orchard, CBD, Pearl's Hill (Capitaland acquired Pearl Bank Apartment via enbloc), Marina Bay and Marina South. The government expects to build over 9k new homes next to Gardens by the Bay in its efforts to build an urban neighbourhood and 2k private homes in Marina South. In addition, the new masterplan revealed waterfront housing along Rochor Canal where residents could enjoy a stroll towards Kallang Basin and Marina Bay
- **More homes near CBD and economic gateways.** Under the new plan, the government plans to add new homes in Bayshore precinct, Upper East Coast area, and mature estates such as Dakota Crescent (public housing) and Farrer Park. These residential developments are located at the fringe of CBD (Dakota and Farrer Park) and Eastern Gateway (Bayshore). In addition, large parcels of land at Marina Bay may be made available on shorter leases to act as a "test-bed" for innovative ideas which offer lifestyle concepts and generous public spaces
- **Long-term residential pipeline bodes well for developers.** With the new masterplan, we believe Singapore property will remain attractive in the medium to long term with a continuous residential pipeline especially in key developments highlighted in the DMP19. Potential beneficiaries include developers with good track record on mixed developments such as **Capitaland, FPL and City Development**.
- **Expect residential supply to be released gradually; potential conducive policies in the medium term?** Given the soft sentiment in the residential market (especially in Core Central Region or CCR) and flushed with supply in the short term, we expect the government to release new supply gradually into the market over the next 10 to 15 years. With increased home supply in the central region, could this imply potentially more conducive policies (such as relaxation of immigration policies or property measures) in the medium term?

2) Office

- **Reduced supply supportive of office rents.** With the potential reduction in office supply due to conversion into hotels or residential developments and a more vibrant Downtown area, we believe this will be supportive of both Grade A and Grade B CBD office rents going forward. However, this would be partially tempered by new office supply in the Marina Bay area with shorter land leases which would likely have lower asking rents, and increased decentralised office supply as the Singapore government focuses on developing various regional hubs. Key beneficiaries over the medium term would be office S-REITs - **CCT, FCOT, KREIT, OUECT and Suntec** - which have offices in the downtown area.
- **Uncertainty over upside from higher plot ratios.** Despite the change in plot ratios for some buildings owned by the various office S-REITs in the Downtown/Tanjong Pagar area and given the need to provide stable income to unitholders, it is unlikely any of these REITs will embark on any redevelopments to maximise the plot ratios. In addition, it is unclear whether these office landlords have previously been able to maximise the plot ratios to the revised plot ratios by utilising the existing Bonus Plot Scheme introduced in 1989 to allow intensification of commercial buildings around MRT stations. This Bonus Plot Ratio Scheme we understand will expire once the Master Plan 2019 is gazetted later in the year. Based on our discussions with various industry contacts, some office buildings are at or close to the revised plot ratios under the Master Plan 2019.
- **UOL / UIC could be potential beneficiaries.** Among the list of office buildings, UOL / UIC could be potential beneficiaries if Singapore Land Tower has yet to max out its higher revised plot ratio of 15x vs 12.6x previously.

Figure 9: Higher revised plot ratio – Raffles Place*

Building	Owner	Type	Previous Plot Ratio (x)	Revised Plot Ratio (x)
Maybank Tower	Maybank	Office	12.6	15.0
Bank of China Building	Maybank	Office	12.6	15.0
Six Battery Road	CCT	Office	12.6	15.0
UOB Plaza Tower 1 & 2	UOB	Office	12.6	15.0
CapitaSpring	CCT	Office	12.6	15.0
RB Capital Building	Royal Brothers	Office	12.6	15.0
One Raffles Place	OUECT	Office	12.6	15.0
Republic Plaza	City Developments	Office	12.6	15.0
GSH Plaza	Strata	Office	12.6	15.0
Chevron House	Oxley	Office	12.6	15.0
HSBC Building	CCT	Office	12.6	15.0
Ocean Financial Centre	KREIT	Office	12.6	15.0
Singapore Land Tower	UIC	Office	12.6	15.0
18 Robinson Road	Tuan Seng	Office	12.6	14.0
CapitaGreen	CCT	Office	12.6	14.0

Source: URA, DBS Bank

* Note: some buildings may have already achieved the revised higher plot ratio

Figure 10: Higher revised plot ratio – Tanjong Pagar & Shenton Way

Building	Owner	Type	Previous Plot Ratio (x)	Revised Plot Ratio (x)
CapitaTower	CCT	Office	11.2	13.0
ASB Tower	Ascendas Singbridge	Office	11.2	13.0
OUE Downtown	OUECT	Office	11.2	13.0
Frasers Tower	FPL	Office	11.2	11.2
Mapletree Anson	MCT	Office	8.4	10.5
International Plaza	Strata	Office	8.4	10.5
AXA Tower	Perennial, Breadtalk and partners	Office	8.4	10.5
MAS Building	Ministry of Finance	Office	8.4	10.5
Guoco Tower	Guocoland	Office	8.4	10.5
Twenty Anson	AEW	Office	8.4	10.5
Springleaf Tower	Strata	Office	8.4	10.5
Amara Singapore	Amara Holdings	Mixed Use	5.6	6.3

Source: URA, DBS Bank

* Note: some buildings may have already achieved the revised higher plot ratio

Figure 11: Higher revised plot ratio – Orchard / Somerset / Dhoby Ghaut*

Building	Owner	Type	Previous Plot Ratio (x)	Revised Plot Ratio (x)
Shaw House	Shaw	Commercial	5.6	6.3
Wheelock Place	Wheelock Properties	Commercial	5.6	6.3
Liat Towers	Bonvests Holdings	Commercial	5.6	6.3
Tangs Plaza	Tang Holdings	Commercial/Hotel	5.6	6.3
Scotts Square	Wheelock Properties	Commercial/Residential	5.6	6.3
Grand Hyatt Hotel	Sultan of Brunei	Hotel	5.6	6.3
Lucky Plaza	Strata	Commercial	5.6	6.3
ION Orchard	CapitaLand/Sun Hung Kai	Commercial	5.6	6.3
Ngee Ann City & Wisma Atria	Starhill Global REIT	Commercial	5.6	6.3
Centrepont	FPL	Commercial	5.6	6.3
313 Somerset	Lendlease	Commercial	5.6	6.3
Orchard Central	Far East Organisation	Commercial	5.6	6.3
Concorde Hotel and Shopping Mall	Hotel Properties Ltd	Hotel	5.6	6.3
Plaza Singapura	CMT	Commercial	4.9	5.6
Paragon	SPH REIT	Commercial	4.9	4.9

Source: URA, DBS Bank

* Note: some buildings may have already achieved the revised higher plot ratio

3) Retail

- **Plot ratio boost in Orchard bodes well for SGREIT.** The immediate focus would be the plot ratio boost for the Central area, as well as the proposed changes in land usage within the Downtown precinct. The shift toward a higher proportion of mixed-use vs commercial elements is generally positive for retail as it offers higher certainty of shopper traffic. In the immediate term, SGREIT is a key (if not largest) beneficiary of the 2019 master plan, which will take the plot ratios of Ngee Ann City and Wisma Atria properties from 4.9 and 5.6 respectively in 2014 to 6.3, and is positive for asset values. Further, with master lease for both assets due for renewal in June 2019, there could be valuable opportunity to renegotiate rents. As such, we anticipate higher tactical interest in SGREIT following the news.
- **Developers with retail malls in Orchard could be potential beneficiaries of higher plot ratio.** Capitaland (Ion Orchard) and FPL (Centrepoint) could be potential beneficiaries of the higher plot ratio in Orchard as well. However, depending on the size of the additional GFA available based on the higher plot ratio, the additional GFA could be left unutilised as it may be uneconomic to develop based on current construction costs and/or rents.
- **Decentralisation of business districts continue to benefit suburban malls.** Woodlands Regional Centre remains the strategic centre of the Northern Gateway, and will open its doors to the new Agri-Food Innovation Park (Sungei Kadut) and Punggol Digital District, while the Eastern Gateway will welcome Changi East Urban District in the near future. The Western Gateway will continue to be anchored by the Jurong Lake District, the largest commercial node outside the CBD. The decentralisation of businesses and industries to the suburbs effectively increases the addressable population catchment for the respective subzones. We believe this is positive for suburban malls from a footfall perspective, which should translate into

higher tenant sales and ultimately, rents over time.

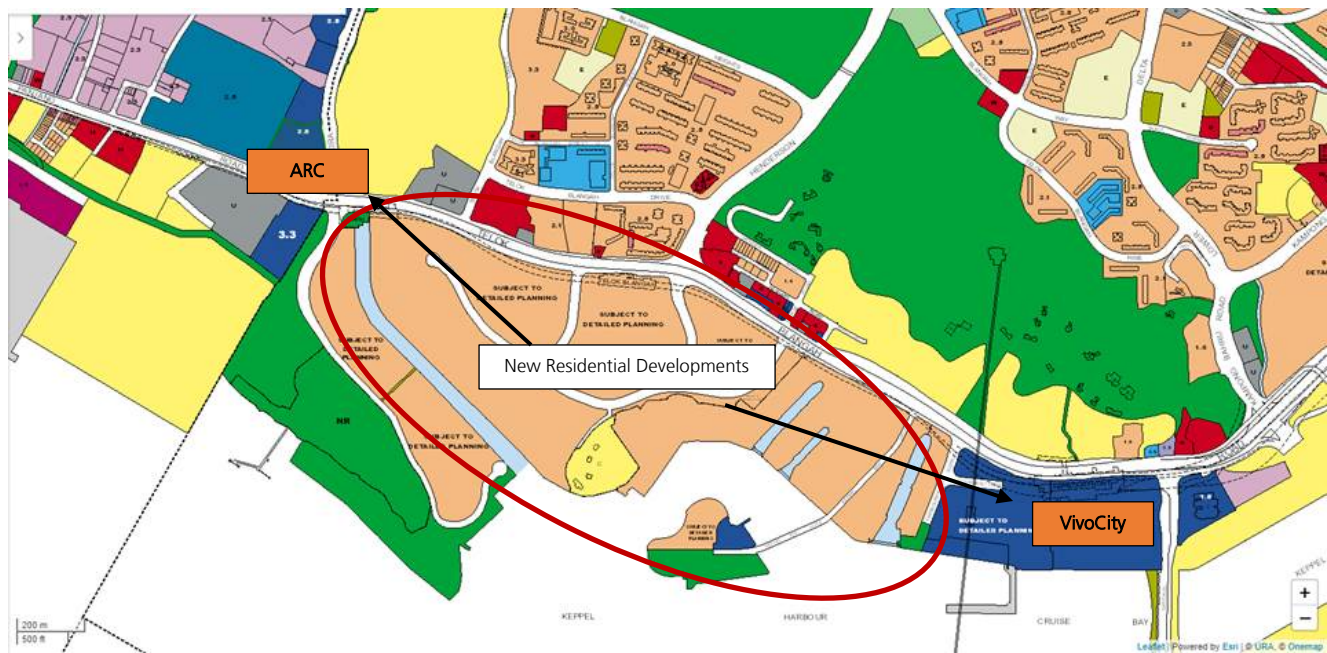
FCT's suburban assets feature prominently in these areas, such as Causeway Point, Changi City Point, IMM, Northpoint City, Westgate to name a few

- Enhancement works along the 24km corridor between the Hillview area and Bukit Timah Railway Station could spur the development of surrounding sites and rejuvenation of older districts when completed in 2021. This augurs well for **SPH REIT's** The Rail Mall, which is strategically positioned along Rail Corridor Central.
- **Increased residential catchment area at Greater Southern Waterfront.** With an expected increase in residential developments in the Greater Southern Waterfront area, MCT's VivoCity, the closest large retail mall, would be a key beneficiary. MCT's Alexandria Retail Centre should also benefit.
- Key beneficiaries over the medium term would be **FCT, MCT and SPH REIT.**

4) Hotel

- **Greater visibility on long term hotel supply.** While it is unclear at this stage which land parcels will be released in other parts of Singapore for hotel development, the potential increase in hotel supply in the Downtown precinct and higher plot ratios in the Orchard area for hotel sites provides some visibility over the potential hotel supply beyond 2021. Given the Singapore government has generally been measured in managing supply, we believe additional hotel developments in the Downtown/hotel area will likely have a neutral impact on the hotel industry/hospitality REITs.
- **Rejuvenation of Orchard net positive for hotel industry.** In fact, with the rejuvenation of Orchard Road this may result in a higher number tourists visiting Singapore, which should drive increased demand for hotel rooms, a net positive for the sector.

Figure 12: VivoCity to benefit from Greater Southern Waterfront



Source: URA, DBS Bank

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Share price appreciation + dividends

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