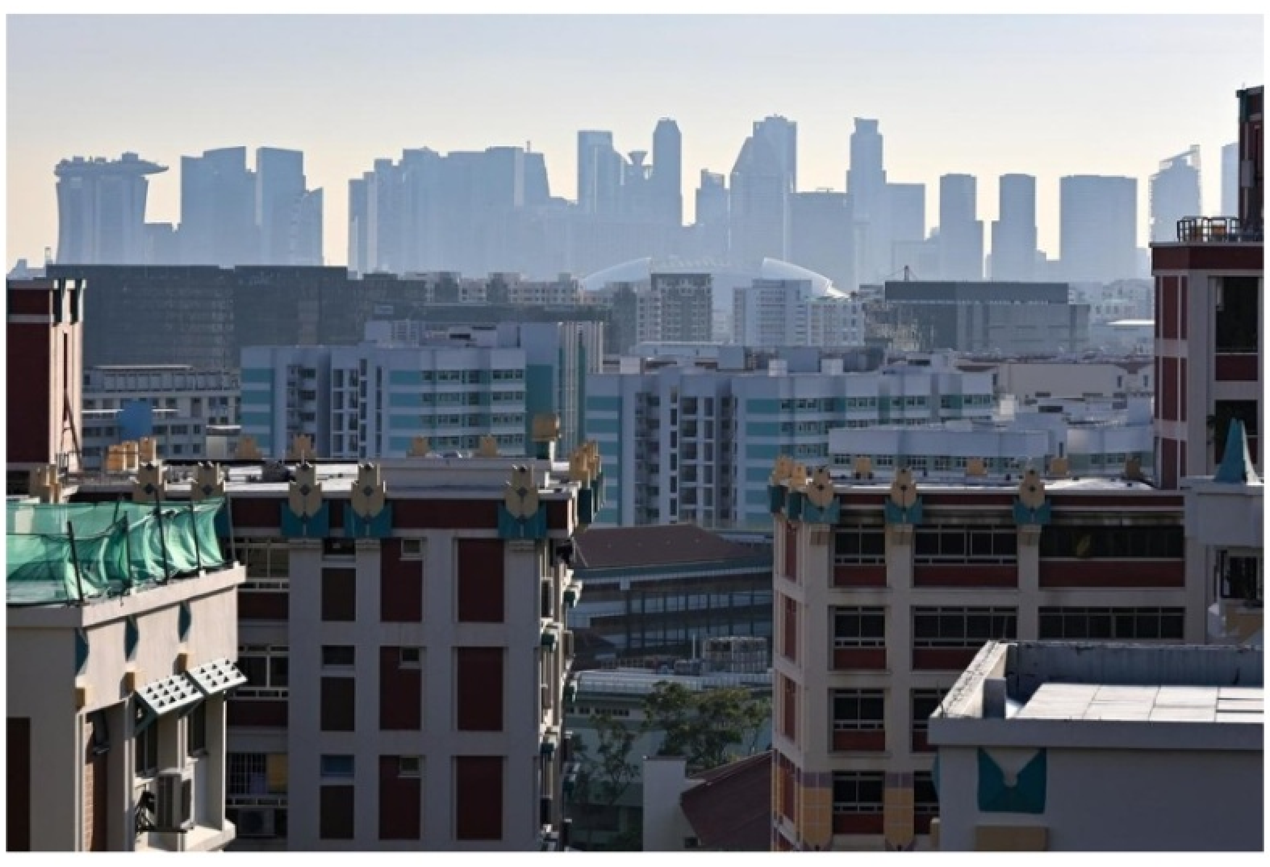
News analysis

Singapore's urban rejuvenation schemes should be extended but fine-tuning needed: Experts



Analysts say the review is timely as office space demand has evolved in the face of developments such as hybrid work.
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SINGAPORE – Two urban rejuvenation schemes of the Urban Redevelopment Authority (URA) reached the end of their five-year term in late November, and industry experts said the initiatives, which have led to major city renewal projects, should be extended after some fine-tuning.

The Central Business District Incentive (CBDI) and the Strategic Development Incentive (SDI) schemes hit their five-year milestone on Nov 26 and are being reviewed by the URA. The two schemes give developers and building owners incentives to undertake rejuvenation projects.

Analysts added that the review is timely as office space demand has evolved in the face of developments such as hybrid work.

Both schemes were launched in 2019. The CBDI aims to encourage the conversion of older and predominantly office developments in the CBD into mixed-use buildings.

To help grow the live-in population there, the scheme offers developers an increase in the maximum allowable gross floor area (GFA) in exchange for a change in land use from offices to homes or hotels.

The SDI scheme requires owners of two or more adjacent sites to jointly come up with a redevelopment proposal, although URA has said exemptions from eligibility criteria can be considered.

These schemes are critical as they help spur redevelopment in built-up areas such as the CBD and Orchard Road where the private sector and developers control most of the land on a freehold or 99-year leasehold basis. Without these incentives, the authorities would depend heavily on the market to initiate and determine redevelopment outcomes.

To date, URA has given in-principle approval for 13 out of the 17 applications received for the CBDI scheme. Of these, three projects are under development.

For the SDI scheme, URA has granted the in-principle nod to seven out of the nine applications received, two of which are under development.

Projects being developed under the CBDI scheme include The Skywaters on the former AXA Tower site in Shenton Way, and Newport Plaza on the former Fuji Xerox Towers site in Anson Road.

Under the SDI scheme, projects under development are a hotel on the location of the old Faber House in Orchard Road, and Union Square on the Central Mall and Central Square sites.

Ms Tricia Song, CBRE head of research for South-east Asia, said the schemes' take-up rate could have been better if not for the pandemic. It resulted in many people working from home between 2020 and 2022, and the jump in construction costs and interest rates heightened development risks.

For the CBDI in particular, analysts said using more GFA as an incentive may no longer be sufficient to spur more non-office uses in the CBD, as construction costs and timelines have increased significantly. The bonus GFA might not be enough to justify the developer's loss of recurring income during this period.

Instead, developers and analysts said the scheme could also grant concessions on the land betterment charge (LBC), a fee paid to the state for redevelopment.

The LBC creams off 70 per cent of the increase in land value when some sites are built more intensively or put to higher-value use, which means additional costs upfront. This also affects returns on investment to developers.

Mr Edwin Loo, an associate director at real estate consultancy Cistri and a former urban planning team lead at URA, pointed out that "additional GFA as an incentive works more effectively when LBC is also charged at a lower rate, as it ensures the developer is fairly compensated in exchange for undertaking development risk, especially if profitability is marginal".

He noted that this approach of using GFA incentives and LBC concessions helped the authorities successfully push through the redevelopment and conservation of Golden Mile Complex.

Perennial Holdings, Far East Organization and Sino Land in May 2022 purchased Golden Mile Complex for $700 million in a collective sale, which came with a package of incentives to support redevelopment.

At the time, URA said the incentives included lease renewal to a fresh 99 years, bonus gross floor area resulting in a one-third increase over the site's original development intensity, and a partial development charge waiver on the additional floor area.

Ms Song hopes that the schemes will be extended for at least another five years to allow market conditions to normalise, and recommends "relaxing or tweaking some of the more stringent requirements".

One stumbling block Mr Loo noted was the doubling of the additional buyer's stamp duty (ABSD) for foreign buyers to 60 per cent in 2023, which dampened private residential sales in and near prime areas such as the city centre.

"Very high ABSD rates applied on a blanket basis to foreign buyers is not viable in the long term, especially if the authorities need developers to undertake residential redevelopment in the CBD to realise planning objectives," he said.

On the SDI, Mr Loo said he believes it encourages developers to take risks with major urban transformation projects.

But the scheme runs into issues when it comes to strata-titled retail and office developments because of fragmented ownership. He added that it would be difficult to get all the owners on the same page.

"Given that many older buildings in need of rejuvenation in strategic areas across Singapore are strata-titled, such as Orchard Towers, Orchard Plaza and Cuppage Plaza, among others, this is an issue that requires further policy development as the SDI scheme is reviewed," he said.

To encourage more participation in the SDI scheme, a City Developments (CDL) spokesperson suggested streamlining the approval process and reducing the burden of public contribution requirements. These refer to enhancements to public infrastructure, pedestrian networks, public spaces and cultural facilities.

Loosening some restrictions on design and usage could give developers flexibility in repurposing older buildings, the spokesperson added.

"However, repurposing costs can be high, and buildings may not meet the latest standards for space provision (for example, floor-to-ceiling height), limiting rental income. Supportive measures like additional green subsidies or tax rebates for retrofitting help achieve sustainability goals," CDL said.

Five years since they were launched, it is clear the two schemes have so far had moderate success in spurring renewal of the city centre, but some adjustments are needed to keep up this momentum.