

**Report of the Land Working Group
Sub-committee on Taxes, CPF, Wages and Land
Economic Review Committee (2002)**

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PREFACE

The Economic Review Committee (ERC) was convened in Dec 2001 to review Singapore's development strategy and formulate a blueprint to restructure the economy. The Sub-committee on Taxation, Wages, CPF and Land was set up as part of the ERC to review Government policies with economic implications, including taxation, the CPF system, land allocation and the framework for wage competitiveness.

The recommendations on land related issues are the third major set of proposals from the Sub-committee. The recommendations are based on the work by the Land Work Group (LWG). The LWG's composition represents a wide cross section of views. Over the last 10 months, it has deliberated upon suggestions received from a wide variety of sources, including industry groups like the Real Estate Developers' association (REDAS) and the Singapore Institute of Surveyors and Valuers (SISV), as well as individual members of the public. The LWG would like to thank the contributors for their suggestions.

Executive Summary

AIM

1. The Land Work Group (LWG)'s aim was to review and suggest improvements to optimise the use of scarce land resources, in support of Singapore's overall economic strategy. This involved:
 - a. Broad-level reviews of the optimal role played by the Government in the land sector;
 - b. Cross-sectoral measures to enhance the international competitiveness of land;
 - c. Sector-specific recommendations; and
 - d. Specific rules, regulations and practices to maintain a flexible environment that allows market forces to work more effectively.

CHALLENGES AHEAD

2. The international environment is one of increased globalisation and competition. Competition will intensify with the greater integration of newer players such as China and India, with their abundant natural resources and cheaper labour into the world economy. Looking ahead, the challenge is to build on the strengths of the existing land system, while making modifications to better position Singapore for the future.

ROLE OF GOVERNMENT

3. The land sector functions through a public-private sector partnership. The Government provides a more strategic orientation, while the private sector provides an added degree of responsiveness to changing market conditions. The Government affects the market by:
 - a. Intervening directly through its land-related action agencies (e.g. HDB, JTC, URA and SLA).

- b. Influencing land supply, as the largest supplier of land in Singapore, releasing land through the Government Land Sales (GLS) programme.
 - c. Managing the land regulatory framework, which include policies affecting land pricing and the efficiency of the market.
4. The LWG supports allowing the private sector as much leeway as possible to respond to changing market circumstances. In principle, the **Government should minimise participation in markets where there are no developmental, strategic or socio-political considerations.** This minimises the crowding out of the private sector, and increases the available competitive space.
5. As a land supplier, the **Government should develop a single mechanism to regulate the supply of land and property into the market.** This ensures that the release of land and properties from the various Government agencies is co-ordinated. Separately, the Government can also affect effective land supply by its rules, regulations and policies. While more policy flexibility is often positive from an issue-specific perspective, taken together, such flexibility can have a significant cumulative impact. **In managing the land regulatory framework, the Government should therefore take into consideration the cumulative, economy-wide impact of policies on effective land supply.**

ENHANCING INTERNATIONAL COMPETITIVENESS

6. International competitiveness of land is a function of its **value added**. Hence, competitiveness can be improved by enhancing land's ability to **create value** as well as **reducing its costs**. This dual approach, instead of focussing narrowly on the latter, is needed to sustain an increasing standard of living for Singaporeans.

A) Value Creation

7. Some recommendations to increase the value created from land resources are:
- a. **Facilitate strategic developments by advancing transportation infrastructure.** The sooner strategic developments such as One-North, Jurong Island, Tuas and the proposed Business Financial Centre (BFC) are fully

occupied, the greater their contribution to the wider economy. Presently, investments in transport infrastructure (e.g. rail or buses) are made when there is sufficient passenger volume to cover operating costs. In the interim, the attractiveness of the development is reduced, companies incur costs providing transportation for their staff, and take-up rates are slower than they otherwise would be. Factoring in the earlier realisation of the economic contributions from such strategic developments, there are sound reasons to make transportation infrastructure investments earlier than at present.

- b. **Prioritise the sale of MRT sites in the GLS programme.** Wherever possible, the Government should continue to prioritise the sale of MRT sites as part of the GLS programme. This encourages the fuller utilisation of MRT lines. The concurrent development of the site with the MRT line also affords additional efficiency gains by allowing developers and the LTA to work out a mutually acceptable support structure and urban design, avoiding duplicative work and lowering construction costs.
- c. **Broaden and deepen capital markets.** The development of real estate securitisation e.g. via real estate investment trusts, REITs and other financial instruments that unlock value from what are essentially illiquid assets should be supported. This generates additional economic activity as institutional and foreign funds enter the Singapore market and as the fund management service in Singapore develops. Individuals will also have a wider choice of available investment instruments.
- d. **Explore new ways of selling land.** Innovative ways of selling land such as options, should be explored as in the case of the proposed BFC. Such arrangements can facilitate economic activity by affording market participants better risk management, increased operational flexibility and greater control over cashflows.
- e. **Widen the initiative to put vacant State properties and land to interim use.** Vacant State properties and land not required for development in the short term should be let out to encourage innovative uses or to meet demands presently not adequately met by the market. Vacant lands within or near housing estates could be put to sports,

recreational or community uses to add more life and vitality to the area and to encourage greater community bonding.

B) Cost Reduction

8. Some recommendations to reduce land and occupation costs are:
 - a. **Inject flexibility in Singapore's land tenure system to match user needs.** Land users should be offered the option of shorter leases that better match their needs. Shorter leases also reduce the upfront land costs that are payable.
 - b. **Charge a time-based enhancement levy for businesses on temporary planning permission.** New business start-up costs can be lowered by allowing entrepreneurs to pay a pro-rated levy for temporary planning permission instead of the full development charge (DC).
 - c. **Review property-related tax regime.** Business costs can be reduced by allowing property investment holding companies to carry forward losses; allowing interest income from the deposit of surplus funds to be offset against rental losses; extending building allowances to hotel developments for tax assessment purposes, similar to industrial buildings; and allowing interest income earned to be offset from the project development costs. Developers should also be allowed to carry back losses on an annual basis after Temporary Occupational Permit (TOP) is issued, instead of only after all units are sold. There should also be a clearer definition of the nature of gains (i.e. whether trading or capital) from the disposal of properties for greater tax certainty.

SECTOR-SPECIFIC RECOMMENDATIONS

A) Industrial Sector

9. For industrial land, Singapore's competitors are international. Singapore land has commanded a premium compared to other locations and this can be attributed to factors such as a stable political and business environment and good infrastructure. To further enhance

Singapore's competitiveness, the LWG makes the following recommendations:

- a. **Price industrial land competitively.** Recognising that the competition for manufacturing locations is international, it is important for JTC to consider international prices when it sets prices, to make sure Singapore is not out of line with its competitors. This is only sustainable if the State sells land to JTC at internationally competitive prices. The Government also needs to ensure that sufficient industrial land is supplied to the market so that prices are not pushed up as a result of short-term land shortages.
- b. **Adopt a Pay-as-you-use concept wherever feasible.** Land users should be allowed to pay for only the extent of land rights (e.g. GFA, "white" uses and tenure) needed, instead of the maximum development potential of the land, or a land tenure that is in excess of their requirements. Additional rights can be purchased as and when required. This will help lower land costs and avoid tying down valuable capital resources unnecessarily.
- c. **Adopt a more responsive market-based approach for industrial rental policy.** With the shorter and less predictable business cycles in today's world, JTC should review the automatic escalation feature of its rental revision schemes and adopt a more market responsive approach.

10. These recommendations should be viewed together with those on land tenure flexibility and transport-led infrastructure, as a package to improve Singapore's industrial land competitiveness.

B) Services Sector

11. In this sector, Singapore's competitors are other global cities competing with us in areas such as financial services, health care and education. Our commercial and retail occupation costs do not appear to be out of line when compared to such cities. To further enhance Singapore's competitiveness, the LWG makes the following recommendations:

- a. **Support the development of a large integrated Business Financial Centre (BFC) for strategic reasons.** Within the GLS quantum, a master developer should have

the flexibility to plan, design and phase the development of the project to match rapidly changing global needs. To help ensure the success of the BFC, the payment scheme should be flexible, and commitment sought from several suitable anchor tenants, before it is developed. The Government should also take a more proactive approach in managing the possible impact of decanting of existing companies within the CBD.

- b. **Adopt a more competitive land pricing framework for the exportable services sector.** To help position Singapore as a services hub, world class health and educational institutions should be encouraged to operate from Singapore. To facilitate their locating into Singapore, these institutions should be charged land costs comparable to what local public institutions pay, instead of prohibitive large upfront land premiums based on full commercial rates.

C) Residential Sector

12. Residential property costs can have a significant impact on economic competitiveness as housing costs affect the wage levels workers demand. In the Singapore context, 86% of the population lives in HDB flats. Hence, public housing policy has substantial social policy and economic competitiveness dimensions. The LWG suggests:

- a. **Reviewing and rescoping the HDB's role in Public Housing.** Today, HDB has a wide-ranging role and performs a variety of functions in the provision of public housing. They include serving as the public housing authority (e.g. estate planning and policy formulation), developer (e.g. construction, allocation and sale of flats), building consultant (e.g. architectural design and engineering services), financier (e.g. provision of mortgage loans) and lessor (e.g. administration of lease). Where the private sector is able to perform those parts of the value chain, without compromising the achievement of social policy objectives, the HDB should review its role. Rescoping the role the HDB plays creates more competitive space for the private sector and makes increased use of market forces to achieve more efficient outcomes. In the longer term, a more robust residential sector may develop,

with the Government coming under less pressure to intervene in the market, by virtue of its rescoped role. A judicious balance should be struck between the social objectives of promoting a high homeownership policy and the economic implications of doing so.

- b. **Use of a reverse tender mechanism in public housing development.** This is one area where the private sector can perform part of the public housing value chain without compromising social objectives. In the reverse tender mechanism, the Government specifies the maximum selling price for a flat, as well as some basic parameters governing the features of the flat. The contractors/developers bid for the right to build and sell the flats at no more than the pre-determined price. As the land and the flats are owned by the successful contractor/developer in the interim before they are sold, it is the private sector that bears the market risk, not the Government. This approach increases the competitive space for the private sector; injects more market flexibility and responsiveness in setting public housing supply and increases the variety of designs of HDB flats.
- c. **Review the continued relevance of the Executive Condominium Scheme.** The EC scheme was intended to assist young Singaporeans to fulfil their aspirations of owning private residential property, and was introduced at a time when private property prices were spiralling out of reach of many young Singaporeans. However, it created a separate sandwich housing class and added complexity into the housing market. With current market prices of low-end private property close to prices of new high-end HDB flats, the continued relevance of the scheme comes into question. Alternatives to achieving the objective of enhancing private homeownership, without the distortive effects of a separate housing class, should be explored. Possible alternatives would be to make available the EC subsidy directly to those purchasing private property or to review the eligibility of such families for the normal HDB flats.
- d. **Relax flat subletting rules.** HDB flat subletting rules should be relaxed, to offer a wider range of affordable housing options to different categories of income earners. It also affords a means of monetising the assets for those

whose most significant asset is a property, hence helping to address the asset-rich cash-poor phenomenon.

13. **The Government should also undertake a fundamental review of the homeownership policy.** This study should examine the optimal mix of home ownership and rental, given their effects on areas such as entrepreneurial risk appetite, rate of family formation and having a more tangible stake in the nation's success. It should also examine the homeownership policy's effects on the extent of consumption of public housing, and whether it is optimal, taking into account wider considerations like adequacy of funds for retirement, upward social mobility and fostering a mindset of less reliance on Government intervention.

REVIEW OF SPECIFIC RULES, REGULATIONS AND PRACTICES.

14. To maintain a flexible environment to allow market forces to work more effectively, the LWG suggests the following:

- a. **Expedite review of the Land Titles (Strata) Act (LT(S)A).** The Government should expedite the review of the LT(S)A in order to facilitate the development of mixed-used developments such as the proposed BFC.
- b. **Review the Planning Act.** The Planning Act should be reviewed to allow for longer tenancies (beyond 14 years) without requiring subdivision. This will better meet the emerging trend towards longer tenancies.
- c. **Remove the Single Purpose Company (SPC) requirement for the development of GLS sites.** Instead of imposing the requirement for the setting up of a SPC (with its attendant tax effects) to develop a GLS site, the successful tenderer should be allowed to decide on the optimal structure through which to manage the project.
- d. **Change Controller of Housing (COH) regulations.** COH regulations should be changed to give private housing developers more flexibility and, at the same time, to give private property buyers more information to support their purchase decisions.
- e. **Review requirements for Qualifying Certificates (QC).** The Government should review the relevance of the QC

requirement for companies undertaking residential property development in Singapore.

- f. **Review procedures and guidelines used by the Street and Buildings Names and Advisory Committee (SABNAC).** The SABNAC should review its processes for granting of approvals for names of developments, with a view to speeding it up, especially in situations where the initial application is rejected.
- g. **Grant more GFA exemptions to encourage the provision of communal areas for residential developments and common areas for commercial developments.** This can improve the quality and desirability of the living and working environment.
- h. **Provide incentives for developers to provide connectivity between buildings and public amenities.** With more linkages to transport nodes the attractiveness of the development is enhanced and there is overall benefit to commuters. As developers have to bear the cost of constructing these linkages, incentives e.g. waiver of TOL fees could be provided to reduce the financial burden.
- i. **Allow approved decanted floor space within existing commercial buildings to be converted to civic and community uses.** Demand for the different types of space change over time. Where owners are allowed to decant the office space and use the 'freed-up floor space quantum' to add retail space somewhere else within the same premises, instead of demolishing the decanted space, it could be released for compatible non-profit civic & community uses, subject to planning considerations and stringent evaluation of the impact of the additional floor space.

CONCLUSION

15. As land is a platform for other economic activities, these recommendations are also interrelated with the wider economy e.g. deepening of capital markets should be seen in the context of wider efforts to develop Singapore's financial services sector. Other recommendations have implications on each other. For example, putting vacant State properties to interim use should be seen in the context of a mechanism to regulate overall supply of land. Hence, the

implementation of these recommendations should be carefully sequenced and co-ordinated, taking into account the implications on the wider economy.

16. In addition and more fundamentally, minimising the role of Government means that the private sector and the general public will have to change to a paradigm where they have to take on more responsibility and bear the risks of their own decisions.

Table of Recommendations

	Role of Government
1	The Government should minimise participation in markets where there are no developmental, strategic or socio-political considerations.
2	The Government should develop a single mechanism to regulate the supply of land and property into the market.
3	In managing the land regulatory framework, the Government should take into consideration the cumulative, economy-wide impact of policies on effective land supply.
	Cross-sectoral Measures to Enhance International Competitiveness
	A) Value Creation
4	Facilitate strategic developments by advancing transportation infrastructure.
5	Prioritise the sale of MRT sites in the GLS programme.
6	Broaden and deepen capital markets.
7	Explore new ways of selling land.
8	Widen the initiative to put vacant State properties and land to interim use.
	B) Cost Reduction
9	Inject flexibility in Singapore's land tenure system to match user needs.
10	Charge a time-based enhancement levy for businesses on temporary planning permission.
11	Review of property-related tax regime.
	Sector-specific Recommendations
	A) Industrial Sector
12	Price industrial land competitively
13	Adopt a Pay-as-you-use concept wherever feasible.
14	Adopt a more responsive market-based approach for industrial rental policy.
	B) Services Sector
15	Support the development of a large integrated Business Financial Centre (BFC) for strategic reasons.
16	Adopt a more competitive land pricing framework for the

	exportable services sector.
C)	Residential Sector
17	Reviewing and rescoping the HDB's role in public housing.
18	Use a reverse tender approach in public housing
19	Review the continued relevance of the Executive Condominium Scheme
20	Relax HDB flat subletting rules
21	The Government should undertake a fundamental review of the homeownership policy.
	Review of Specific Rules, Regulations and Practices
22	Expedite review of the Land Titles (Strata) Act (LT(S)A)
23	Review of the Planning Act to facilitate longer tenancies
24	Remove the Single Purpose Company (SPC) requirement for the development of GLS sites.
25	Change of Controller of Housing regulations.
26	Review requirement for Qualifying Certificates (QC).
27	Review procedures and guidelines used by the Street and Buildings Names and Advisory Committee (SABNAC).
28	Grant more GFA exemptions to encourage the provision of communal areas for residential developments and common areas for commercial developments.
29	Provide incentives for developers to provide connectivity between buildings and public amenities.
30	Allow approved decanted floor space within existing commercial buildings to be converted to civic and community uses.

PART 1: INTRODUCTION

Aim

1. The Land Work Group (LWG)'s aim is to review and suggest improvements to optimise the use of scarce land resources, in support of Singapore's overall economic strategy.

The land system today

2. Singapore's land system is characterised by a policy of 'deliberate urbanisation', where land use is closely managed according to a well-defined set of national development objectives. The Concept Plan is Singapore's long-term strategic land use plan. It maps out the broad island-wide development directions and strategies for the entire island and ensures that sufficient land is available for the various uses for the next 40 to 50 years. (Table 1 at the end of the report shows the proportion of land used for the different purposes and the latest (2001) Concept Plan land use targets.)

3. To effect specific policy objectives, the Government has relied on the establishment of major 'action agencies'. Examples are JTC for the development of industrial land, HDB for public housing and new town development, and URA for urban planning and facilitating development. These agencies are under the control of separate parent ministries, to ensure that the specific policy intentions of the Government are effectively realised. This approach has facilitated rapid economic and social development and has resulted in an administrative infrastructure that allows the Government a wide range of options to effect its developmental role.

4. As the largest landowner, the Government is also able to provide some market stability by influencing land supply. Government agencies such as JTC and HDB own about 89% of the industrial land stock in the market, while HDB has developed 81% of the residential housing stock.

5. In parallel, the private sector participates in the Government Land Sales (GLS) programme and in the development industry in all sectors of land use. The private sector provides an added degree of responsiveness to changing market conditions, complementing the more strategic focus of Government agencies.

Challenges ahead

6. The international environment is one of increased globalisation and competition. Competition will intensify with the greater integration of newer players such as China and India, with their abundant natural resources and cheaper labour into the world economy.

7. Land is used, in one way or another, across the whole range of economic activities. Its competitiveness as a factor input is embedded within the overall competitiveness of Singapore's economy. Hence, land policies can have a wide-ranging impact on Singapore's competitiveness.

8. Looking ahead, the challenge is to build on the strengths of the existing land system, while making modifications to better position Singapore for the future.

Structure of the report

9. The rest of the report presents the recommendations from the broadest to the most specific:

- a. Part 2 addresses the role Government should play and contains 3 recommendations.
- b. Part 3 contains cross-sectoral recommendations that enhance international competitiveness, by creating value (5 recommendations) and reducing costs (3 recommendations).
- c. Part 4 contains sector-specific recommendations. Recommendations for the industrial sector (3), services sector (2) and residential sector (5) are made, after their international competitiveness situation is analysed.
- d. Part 5 contains specific rules, regulations and practices to be reviewed in order to maintain a flexible environment that allows market forces to work more effectively.
- e. Part 6 concludes the report.

PART 2: ROLE OF GOVERNMENT

10. The land sector is one of public-private sector partnership. The Government provides a more strategic orientation, while the private sector provides an added degree of responsiveness to changing market conditions. The Government affects the market by:

- a. Intervening directly through its land-related action agencies (e.g. HDB, JTC, URA and SLA).
- b. Influencing land supply, as the largest supplier of land in Singapore, releasing land through the Government Land Sales (GLS) programme.
- c. Managing the land regulatory framework, which include policies affecting land pricing and the efficiency of the market.

11. In all its roles, Government land use decisions should be **undertaken with an economic overlay**. This recognises the economic trade-offs inherent in land use decisions, as land is a scarce economic resource with competing uses.

A) Direct intervention

Recommendation 1: The Government should minimise participation in markets where there are no developmental, strategic or socio-political considerations.

12. In principle, the LWG supports allowing the private sector as much leeway as possible to respond to changing market circumstances. Minimising the role of Government reduces the crowding out of the private sector, and increases the available competitive space. This in turn encourages more competitive pricing, more variety and better product offerings to end-users. The increased competitive space should also help private sector players develop their capabilities to better meet market needs.

13. The property market has matured with Singapore's development, and has become more able to undertake complex projects. The

Government should identify market segments which are already efficient, and where there are no overriding strategic or social political considerations, and withdraw from these markets in a phased manner. In these efficient markets, the Government should focus on improving the private sector's operating environment. This would include roles such as facilitating the flow of information, developing industry standards, encouraging training, ensuring fair market practice, etc.

14. Even in the development of newer and therefore less efficient markets, the Government should try to catalyse private sector development instead of participating directly. In this respect, the committee endorses the approach taken for the One-North project. Here, JTC took on the role of master developer but only intends to jump-start the project by developing the first few buildings, i.e. Biopolis and Technopolis. It is intended that the private sector develops the bulk (80% or more) of the project.

15. However, there will be some strategic projects where a catalyst's role will not be sufficient, because of high costs and/or risks e.g. Jurong Island, which leverages on the interconnectivity of the firms on the island. Here, the Government should not be constrained in taking on a pioneering role. Similarly, if the markets eventually mature, the private sector can increasingly be given more space. For example, private sector developers have now adopted stack-up factories pioneered by JTC. If the market matures further, JTC can progressively withdraw from the market. Underground spaces are another area that the Government can study if it needs to play a pioneering role.

B) Land supplier

16. In this role, the Government can afford some market stability through influencing the amount of land released. The Government can:

- a. Co-ordinate land release initiatives across Government agencies so that they are consistent.
- b. Take a holistic macro-level perspective in formulating policies that may impact on the actual quantum of land being made available e.g. through policy changes in land use or en-bloc redevelopment.

17. There are 2 recommendations under this grouping:

Recommendation 2: Government should develop a single mechanism to regulate the supply of land and property into the market.

18. MND has been responsible for co-ordinating the GLS programme for private housing and commercial development. Increasingly, more Government agencies have taken on development or property market initiatives that would impact the property market, e.g. JTC's development of One-North and SLA's leasing of vacant State land and properties. Even some of the recommendations in this report, e.g. sequencing of release of land around MRT stations can have an impact on land supply.

19. There is a need to ensure that the release of land and properties from the various Government agencies is co-ordinated and controlled. The quantum of supply should also be constantly reviewed and monitored to be responsive to market developments. This supply should be made known to the market in advance to allow the market to make adjustments accordingly.

Recommendation 3: In managing the land regulatory framework, the Government should take into consideration the cumulative, economy-wide impact of policies on effective land supply.

20. While more policy flexibility is often positive from an issue-specific perspective, taken together, such flexibility can have a significant unintended cumulative impact. Examples of some individually sound policies that add flexibility are:

- a. White site zoning scheme, which introduces flexibility in the allowable types of use for specific land sites. This introduces flexibility in the supply of land within the allowable land use types.
- b. Policies facilitating enbloc sales. This introduces flexibility in increasing the residential land supply from the private sector, by making it easier to redevelop existing estates.
- c. Reserve list facility of selling land via the GLS. This introduces flexibility by allowing market forces to trigger the available supply of land for sale.
- d. Making more State land and buildings available for interim use by the market. By doing so, property users have a

greater flexibility in the range of property offerings available to choose from, increasing available supply to the market for those uses.

21. A transient outcome of the market exercising such supply flexibility is the over or under correction as it moves to establish its equilibrium. Such effects may persist over a period of a few years, as the system establishes its equilibrium and could be significant relative to the annual demand for land. The recommendation is for existing land policies to be reviewed and monitored with a view of striking a judicious balance between flexibility and stability at the individual policy level and at the economy-wide level.

C) Regulator: Creating a level playing field environment that is flexible and pro-business

22. In administering the regulatory framework, the Government has an impact on the extent of responsiveness market players have in reacting to changing market conditions. Market forces should be allowed to work efficiently and with minimal distortion, wherever possible. This leverages on the market mechanism as a means of optimal resource allocation.

23. The Government should keep its rules and regulations to a minimum. Of the rules and regulations that are necessary, there should be a disciplined framework (such as sunset clauses) to constantly and systematically review their relevance to give the market the flexibility of a greater range of responses to changing circumstances. The Government should also review regulatory requirements and tax treatment that are uniquely applied to property development. In principle, property development should be treated like any other business. Recommendations on specific rules, regulations and practices to be reviewed are addressed in Part 5.

24. **More fundamentally, a paradigm where there are fewer controls will also mean that the private sector and the general public will have to take on more responsibility and bear the risks of their own decisions.**

PART 3: CROSS-SECTORAL RECOMMENDATIONS TO ENHANCE INTERNATIONAL COMPETITIVENESS

25. International competitiveness of land is a function of its value added. Hence, competitiveness can be improved by enhancing land's ability to create value as well as reducing its costs. While cost will always be an important consideration, the optimal strategy for an economy seeking to deliver an increasing standard of living cannot be merely to match the lowest possible cost producer for all items. By being able to deliver greater value such as through having a skilled workforce, pro-business regulatory environment, stable political-social environment and efficient public infrastructure, Singapore can command a premium as an attractive investment location. This dual approach of creating value and reducing costs, instead of focussing narrowly on the latter, is needed to sustain an increasing standard of living for Singaporeans.

26. In this part of the report, cross-sectoral recommendations to enhance the international competitiveness of land are grouped under:

- a. value creation; and
- b. cost reduction

A) Value Creation

27. In order to grasp the value creating possibilities of land, it should be viewed **as an industry in its own right** and as a critical partner to the Government to realise value from land resources. The land and land-related sector consists of property and landowners, property users, developers, contractors, engineers, architects and finance institutions. It contributes about 17%¹ of Singapore's GDP with minimal overseas leakage of value created as the major players are domestic companies. Total investment in housing in the last 10 years alone was about \$119 bn.

¹ This is composed of: (a) Construction (both residential and non-residential): 5.8%, (b) Real estate activities, including letting of privately owned homes: 6.5% (c) Architectural and engineering services: 1.0% (d) Imputed rent of owner-occupied dwellings: 3.5%
Source: Singapore Department of Statistics.

28. Value can be created from land by enhancing its value creating capabilities or by unlocking value in land assets. The recommendations are:

Recommendation 4: Facilitate strategic developments by advancing transportation infrastructure.

29. The sooner strategic developments such as One-North, Jurong Island, Tuas and the proposed Business Financial Centre (BFC) are fully utilised, the greater their contribution to the wider economy. Factoring in the earlier realisation of the economic contributions from such strategic developments, there are sound reasons to make transportation infrastructure investments earlier than presently.

30. This recommendation is consistent with the Government's strategy of providing infrastructure for industry ahead of immediate need. This strategy has been effective in catalysing industrial development. For example, Jurong Island was reclaimed before there were commitments from chemical companies to locate there. Ready-built facilities are also developed by JTC in anticipation of demand, to allow industrialists to start up quickly once the decision to locate in Singapore is made. The recommendation addresses a critical supporting infrastructure that is missing today, which is the provision of affordable and accessible public transport to employees of companies located in strategic developments.

31. Presently, investments in transport infrastructure (e.g. rail or bus) are made when there is sufficient passenger volume to cover operating costs. In the interim, employers have difficulty attracting workers because of longer commuting distances and higher transportation costs. The problem is especially serious in places such as Tuas and Jurong Island. Moreover, with a peakish travelling pattern, public transport operators do not find it commercially viable to operate services to such areas on their own accord. Consequently, employers divert resources away from core activities to provide private transport services (e.g. chartered buses), adding to costs. This operating environment diminishes the strategic development's attractiveness to investors, delaying the full realisation of its economic potential.

32. Making transport infrastructure investments earlier will catalyse the attractiveness of these areas to workers, companies and foreign investors. It also assists in the efforts of intensifying land use in outlying areas. For example, many plots in Tuas have a plot ratio of 2.5 but this level of intensification will not be achievable unless more labour-intensive industries are willing to site in Tuas.

33. While the mode of the transport infrastructure to be made (e.g. rail or bus) is best determined by the transport authority, it should be viable eventually, under realistic assumptions of future ridership. In addition, the Government could consider offering incentives, for a limited period, to public transport operators to operate during the initial loss-making years.

Recommendation 5: Prioritise the sale of MRT sites in the GLS programme.

34. Wherever possible, the Government should continue to prioritise the sale of MRT sites as part of the GLS programme. In cases where a MRT station is located under a parcel of vacant State land, there are advantages of selling such sites for concurrent development with the construction of the MRT station. Such integrated developments can yield the following benefits:

- a. efficiency gains resulting in lower costs as both the developer and LTA could work out a mutually acceptable support structure & urban design, and avoid duplicative or abortive services;
- b. increase the utilisation of the MRT line.

35. The Government should co-ordinate the supply of land within the GLS to reap the maximum benefit from the sequencing of the release of such sites, without creating a situation of oversupply and adversely affecting the property market.

36. For sites that cannot be sold in tandem with the development of the MRT stations, judicious loading provisions should be made to safeguard the flexibility to build over the station in future. This can be in the form of pre-loading a common column grid as appropriate or a transferred slab structure, designed based on market feedback.

Recommendation 6: Broaden and deepen capital markets.

37. Singapore's capital markets for real-estate should be broadened and deepened, supporting the development of real estate securitisation and other real estate based financial instruments that can be used to unlock value from what are essentially illiquid assets today. Measures should be taken to develop an active property fund market in Singapore,

similar to the highly successful Real Estate Investment Trust (REIT) and Listed Property Trust (LPT) markets in the US and Australia.

38. There are several major benefits of real estate securitisation. First, it provides a vehicle to convert illiquid property assets into marketable securities. Second, institutional participation in the Singapore property market will increase with the growth of more real estate based financial instruments. One benefit might be a greater industry focus on asset yields and rental income, instead of capital growth, contributing to a more stable market in real estate investment. Third, the development of the 'S-REIT' market will encourage the inflow of foreign funds, helping to promote Singapore as a regional financial and services hub. Fourth, it is an investment vehicle that tends to be less volatile compared to pure equity investments, while providing a relatively constant stream of income. As the population ages, there will be an increasing demand for such a higher yield, long term instrument.

39. To facilitate the establishment and development of the REIT market in Singapore, the LWG recommends refinements to existing guidelines and tax treatments for property trusts:

- a. Gearing Limit: The existing MAS maximum gearing limit of 25% of deposited property value for REITs is too restrictive and impedes the flexibility of trusts to fund growth and acquisition through the use of debt, and limits management flexibility to optimise capital structure. This is not in line with REIT markets in the US, Australia and Japan. In the Australian market on which our REITs are largely modelled, stock exchange listing rules stipulate a maximum cap of 60% gearing. In practice, most trusts maintain their gearing at 30%-40%, a level which the market considers comfortable. It is recommended that the gearing limit for REITs should be raised to and capped at 35% in the first instance.
- b. Tax Transparency and Withholding Tax: Currently, tax transparency for REITs only extends to tax residents who are Singapore citizens or Singapore registered companies, i.e. such qualifying Singapore tax residents will receive distribution from the trust's income free of tax. This makes our REITs less attractive to potential investors who do not qualify, including Singapore permanent residents. Withholding tax on REIT's distribution yields also significantly reduces their effective yields and makes them less attractive to foreign investors. It is recommended that withholding tax be lifted for foreign

investors and tax transparency be extended to non-Singapore citizens and Singapore PRs who are tax residents in Singapore.

40. In the longer term, Singapore can be positioned as a major centre for the listing and management of Asian or regional REITs, with its spin-offs of increased investment fund flows and employment opportunities.

Recommendation 7: Explore new ways of selling land.

41. Presently, lands are transacted and paid for upfront, based on a fixed bundle of land rights. Options are innovative ways of selling land as the buyer is only required to pay for a certain required bundle of rights upfront. An option is an arrangement where the buyer of the option has the right, but not the obligation to purchase an asset at some time in the future, at a price determined presently.

42. Options contracts offer the following advantages:

- a. increased flexibility in the payment of land premium and phasing of the development;
- b. better risk management for the buyer; and
- c. greater control by the developer over its cashflow.

43. The LWG supports exploring innovative approaches of selling land which can bring value to the economy, such as in the New Downtown site for the proposed BFC, for which the Government is already considering the options approach. Where applied, these innovations should be consistent with the GLS system, and should facilitate the optimal utilisation of scarce land resources.

Recommendation 8: Widen the initiative to put vacant State properties and land to interim use.

44. Vacant State properties and land not required for development in the short term should be let out to encourage innovative uses or to meet demand not adequately met by the market. This can help meet social objectives as well as realise a better return on State assets.

45. The Government should ensure that these properties are for appropriate use and tenure. For example, vacant lands within or near housing estates could be put to sports, recreational or community uses

to add more life and vitality to the area and to encourage greater community bonding. If the vacant buildings are well-served by transportation networks and relatively easy to convert with minor adaptations, they could become alternative low-cost premises for entrepreneurs to set up or experiment with new businesses.

46. The release of interim State properties and land should be cognisant of market demand and supply conditions. The overall supply of State properties for interim use should be publicised and made known to the market in advance. The release of interim State properties and land should be carefully managed and co-ordinated within the commercial Government Land Sales Programme.

B) Cost Reduction

47. The other dimension of enhancing competitiveness is to reduce costs. Cost is a function of many factors such as rules and regulations, construction costs and pricing policies. Costs can be reduced by reviewing policies that directly impact the cost of land use and land prices, as well as those that indirectly add to costs, by imposing rigidities and limiting the flexibility of market participants to respond to market forces. The recommendations are:

Recommendation 9: Inject flexibility in Singapore's land tenure system to match user needs.

48. Tenures of land leases should be more flexible to meet the needs of different land users. Specifically, there is scope to introduce shorter land leases as an additional option, without altering the long-established concept and system of land ownership. This would reduce the start-up costs for land users, in particular businesses. In fact, shorter leases have already been introduced by JTC for industrial developments. The Committee recommends that the Government consider offering shorter leases for sale of State land for development in other sectors.

49. In conjunction with shorter leases, there should also be greater transparency in the current policies pertaining to the extension/renewal of leases. This would provide more certainty and enable current owners of leasehold properties to make informed decisions of whether to upgrade or redevelop their properties.

50. The LWG recognises that it will take time for the interplay of market forces and many players to establish the true value of such land with shorter leaseholds.

Recommendation 10: Charge a time-based enhancement levy for businesses on temporary planning permission.

51. The cost of doing business should be lowered by allowing entrepreneurs to pay a time-based levy instead of the full development charge (DC) upfront.

52. Currently, when planning permission is granted for intensifying and/or changing of land use, full development charge will be collected as an upfront payment upon the grant of the permission. The full development charge poses a major hurdle to entrepreneurs who want to try out new business ideas.

53. To reduce the upfront costs and risks to entrepreneurs, an alternative approach of granting temporary planning permission for the change of use can be introduced. The entrepreneur does not pay for the full DC upfront, but only a prorated levy tied to the length of the temporary permission. He can subsequently be given the option of switching to permanent permission by paying the difference between the full development charge amount and the levy, when business circumstances are more certain. Some situations where the levy would come in useful are the conversion of existing business park uses to white commercial or the setting up of outdoor refreshment areas.

Recommendation 11: Review property-related tax regime.

54. It is suggested that property-related taxes be reviewed with the intention of reducing business costs. Specific proposals are to:

- a. allow property investment holding companies to carry forward their losses. As rental income earned is subject to income tax, it therefore appears equitable to allow losses to be carried forward. The rationale for this recommendation is that property investment holding companies are in the business of earning rental income and management of their properties. They should not be treated differently from other businesses, which are allowed to carry forward losses.

- b. allow annual adjustment of tax after Temporary Occupational Permit (TOP) is issued, if developers sustain losses in the sale of their units. Currently, direct expenses incurred after TOP are only allowed to be carried back for tax adjustment after all the units have been sold. To provide relief for developers, especially in down market conditions where many units are sold at a loss and where sales are slow, losses should be allowed to be carried back on an annual basis after TOP, rather than waiting until all the units are sold.
- c. extend annual building allowance for hotel developments in the assessment of income tax. Currently, annual building allowance is only given to industrial buildings. With the increasing emphasis on the service sector, and given that hotels, like industrial developments, are “built for operation”, similar annual building allowances should be extended to hotel developments.
- d. allow interest income earned to be offset against the project’s development costs. Interest income arises from surplus funds which cannot be withdrawn for loan payments or utilised for eligible expenses or put to use in other investments. This interest income should be allowed to be offset against the interest expenses of the development project, with tax payable together with the rest of taxes on the development profits.
- e. allow interest income from deposits of surplus funds to be offset from rental losses. Currently, property owners are taxed separately on the interest income derived from the deposits of surplus funds. They should be allowed to offset rental losses against the interest income of the surplus funds.
- f. impose a clearer definition of the nature of gains from the disposal of properties. One possible approach could be to specify a definitive cut-off year in order to determine whether gains are capital in nature or not. Gains from the disposal of properties that were held beyond such a cut-off period could be treated as capital gains. For gains from property held for less than this cut-off period, the onus can be placed on the owner to establish whether they were capital in nature. Such a policy would be more transparent and would improve business certainty.

PART 4: SECTOR-SPECIFIC RECOMMENDATIONS TO IMPROVE INTERNATIONAL COMPETITIVENESS

55. In this part of the report, for each land use sector (industrial, services and residential), the existing international competitiveness situation is reviewed, and recommendations presented.

56. In theory, the competitiveness of factor inputs like land should be evaluated on the basis of its value-added, and not costs alone. This recognises that these are not end-use commodities per se, but are factors of production, which yield value when combined with other factor inputs. However, international data on value-added measures of land are scarce. Measures based on cost alone are more common. Even on a cost basis alone, international comparisons of land and property prices are difficult. Adjustments should be made for differences in size, location, type and quality of building stock, market practice and regulatory environment (e.g. tenurial and tax regime, extent of subsidies etc.). Notwithstanding these significant caveats, studies by private sector consultants suggest that there are differences in the relative competitiveness of Singapore land for the different land use groups. For example, as a reflection of our land scarcity, industrial land prices in Singapore are at a premium, compared to our competitors.

A) Industrial Sector

Significance of the manufacturing sector

57. The manufacturing sector was a key component of Singapore's GDP growth in 2001 (22.1% of GDP) and accounted for 55% of total exports and 19% of its workforce. Moving forward, it will remain a key pillar for our economy. The multiplier effects that manufacturing generates such as trade financing and logistics are significant.

58. According to the EDB Annual Census of Manufacturing Activities 2000, (an EDB survey of manufacturers), land/building rentals constitute only about 2% of total local business costs. Local business costs include Singapore wages, rentals, legal fees etc, but exclude the cost of raw materials sourced from overseas and other inputs that would cost the same regardless of whether the industrialist invested in Singapore or elsewhere. Notwithstanding this, land cost is a relevant competitive factor because Singapore's relatively higher land price usually sticks out

prominently when potential investors compare us against other competing locations, with some even offering free land. Moreover, investors tend to see land price as a government controllable item, and hence a factor input that is negotiable.

International comparison of industrial land prices

59. In choosing a manufacturing location, internationally mobile MNCs compare Singapore land prices with competing locations. Industrial land cost is an important consideration in choosing an investment location. As a city-state, Singapore is at a disadvantage when competing with countries that have a large hinterland outside city areas. For example, Venture manufacturing's production facilities servicing the Singapore Hewlett Packard's needs have moved to Johor Bahru, with its relatively lower cost structure.

60. In order to retain a viable manufacturing sector in Singapore, industrial land prices cannot be too far out of line with competitor locations. EDB has assessed from its interactions with investors that China, Malaysia, Thailand, Taiwan and Ireland are our strongest competitors for investments in the key sectors of electronics, pharmaceuticals and petrochemicals.

61. In a special study commissioned by the Ministry of Trade and Industry and the Ministry of Law, the findings showed that Singapore industrial land prices are on the high end (See Table 2 at end of report).

62. Companies have also shared with EDB that Singapore's industrial land prices are relatively costly compared to the land costs they face for other sites overseas². This is despite the fact that Singapore's industrial land prices have declined some 30% to 40% over the last few years, whereas our competitors on average have experienced an increase of about 20% during this period.

63. It should be noted that while the data in Table 2 captures industrial land costs only, Singapore's overall competitiveness also depends on other attributes such as value-added products and services, flexibility and efficiency in land use. Hence, we need to monitor on a **total cost** basis. However, Singapore's industrial land prices cannot be too far out of line with competitor locations.

² EDB has received feedback from a chemical company that it would have to pay more for land in Singapore than in Malaysia (4.4 times more), Suzhou (2.6 times), and Korea (1.3 times). Similarly an engineering company has told EDB it would have to pay 2.2 times more in Singapore than an alternative site in Shanghai it was considering.

Recommendations

64. To further enhance Singapore's competitiveness, the LWG suggests:

Recommendation 12: Price industrial land competitively

65. Investors obtain industrial land either through private developers or through allocation by JTC. Private developers obtain their land through the GLS programme, where prices are determined by competitive tender. JTC purchases land from the State, and prices are based on domestic market evidence (including GLS tender prices).

66. Industrial land is a factor of production in the value creation process, just like capital and labour. Its value is not as an end product for consumption or investment, but in the provision of space from which economic values can be generated. As the end products of the value creation process have to compete internationally, it follows that the price of the factor inputs, including land, should be internationally competitive as well.

67. As the majority of investors are JTC lessees, it is important for JTC to consider international prices when it sets prices, to make sure Singapore is not out of line with its competitors. This is only sustainable if the State sells land to JTC at internationally competitive prices. In addition, the Government needs to ensure that sufficient industrial land is supplied to the market, so that prices are not pushed up as a result of short-term land shortages.

Recommendation 13: Adopt a Pay-as-you-use concept wherever feasible.

68. Land users should be allowed to pay for only the extent of land rights (e.g. GFA and tenure) needed, instead of the maximum development potential of the land, or a land tenure that is in excess of their requirements. Additional rights can be purchased as and when required. This will avoid tying down valuable capital resources unnecessarily and help keep land costs down by not pricing into the land a capital appreciation element.

69. As industrialists need to compete internationally, the Pay-As-You-Use concept allows them to pay for additional development rights as and when they expand; instead of full upfront payment for the maximum development potential of the site at the point of alienation. The recommendation could also apply to new zoning concepts such as Business Park-White. The land could be priced fully at Business Park use in the first instance. Investors should only pay for "White" uses when needed, and for the specific use instead of the highest use (e.g. If the final White use is residential, premium for Residential rather than the higher Commercial rate should be applied). This will help investors better manage risk and provide a better mix of buildings for Business Park-White sites.

70. Similarly, the length of leases for industrial land should match the needs of the end-users and should not be excessive. This is to minimise the opportunities for capital speculation, which will inflate the cost of such land. Doing so would allow companies to focus their capital on core business activities and help to lower the land premium hurdle to entrepreneurs who want to try out new business ideas.

Recommendation 14: Adopt a more responsive market-based approach for industrial rental policy.

71. As JTC owns about 80% of the industrial land stock in Singapore, its rental policy plays a big role in determining Singapore's competitiveness in attracting foreign investments. For new leases, JTC offers the lessee a choice of (a) market adjustment scheme with an escalation cap of 5.5% per annum or (b) fixed increase scheme of 4% per annum over the lease tenure.

72. The options under the rental schemes recognise the need to trade-off between market responsiveness and long-term certainty for industries. Under the market adjustment scheme, there is less certainty as rentals are adjusted annually to JTC's published rental rates, subject to a maximum increase of 5.5% in any one exercise. Under the fixed increase scheme, there is more certainty as a lessee will have his rent increased by 4% every year over the lease tenure regardless of the prevailing JTC published rental rates.

73. The fixed increase scheme was introduced by JTC in 1999 in response to customers' feedback that they preferred certainty in rentals for long-term business planning and to manage rental costs over the lease tenure. This may no longer be a relevant option with shorter and less predictable business cycles in today's world. The LWG

recommends that JTC reviews the automatic escalation feature, and revises the scheme to regularly mark rentals back to prevailing market rates.

Conclusion

74. Singapore's industrial land prices must remain internationally competitive. The premium that Singapore can command because of its good infrastructure, political stability and conducive business and regulatory regime will narrow as globally mobile investors have the choice of investing in lower-cost countries like China, which are fast opening up with improved capabilities and infrastructure.

75. These recommendations should be viewed together with those on land tenure flexibility and transport-led infrastructure, as a package to improve Singapore's industrial land competitiveness.

B) Services Sector

Significance of services sector

76. Over the years, the services sector has assumed a greater importance to Singapore's economy. The share of services in Singapore's GDP has risen from 61% in 1986 to 67% in 2001³. The importance of services will increase, with the initiative to position Singapore as a regional hub for areas such as education, healthcare, financial services, legal services, tourism, logistics and ICT. This means that factor inputs (e.g. commercial land) for the services sector must be competitive globally as well.

International comparisons of commercial property rents and prices

77. The available data suggests that relative to the situation for industrial land, Singapore is in a better competitive position. In part, this is because our competitors are mostly cities and are therefore subject to similar pricing pressures as Singapore.

78. The CB Richard Ellis Jul 2002 Report ranks Singapore 39th among major world cities in terms of occupation costs of office space. (see Table 3). For prime retail rental space, Cushman and Wakefield's report in June 2001 places Singapore as the 11th costliest prime retail

³ Source: Singapore Department of Statistics

location. (See Table 4). A study of the cross time data also suggests that the competitiveness position has not shifted significantly over the last 5 years.

Recommendations

79. To further enhance Singapore's competitiveness, the LWG suggests:

Recommendation 15: Support the development of a large integrated Business Financial Centre (BFC) for strategic reasons.

80. The Government has proposed to strengthen Singapore's position as a financial hub with the release of a site in the New Downtown for a large integrated business and financial centre development. Despite the current over supply situation in the commercial market segment, the LWG supports the development of the proposed BFC to better meet the specific needs of business and financial tenants. Global business and financial players are attracted to locate in well-integrated, state-of-the-art developments that are purpose-built for their needs. Examples of Asian financial cities with large integrated developments are Hong Kong and Shanghai. A BFC will provide financial institutions and companies a wider choice of developments to house their activities in Singapore.

81. The LWG suggests several factors that should be considered in order to help make the project a success:

- a. Given the relatively large scale of the project, it is critical that the master developer be given sufficient flexibility to plan, design and develop the project in phases to match the rapidly changing needs of global business.
- b. In order to afford the developer more flexibility in phasing the development and to increase the attractiveness of the project, the payment scheme should be more flexible, instead of the usual 100% upfront payment of the GLS process.
- c. To ensure its success, commitment should be sought from several suitable anchor tenants, before it is developed.
- d. In selecting the site for the project, factors such as attractiveness of the site to financial institutions and MNCs, scope for multi-directional expansion and the potential for enhancement in land value via the comprehensive

development of the waterfront around the Marina Bay area should also be considered.

- e. The Government should ensure that the supply of space from the project is part of the supply from the GLS programme, carefully co-ordinating the supply of commercial space from all sources in subsequent years to prevent oversupply.
- f. As some existing companies might decant out of the existing CBD into the project, the Government should encourage the upgrading or redevelopment of buildings in the existing CBD, through comprehensive planning and providing incentives, if needed. To better manage the possible impact of decanting, the Government can consider taking a more proactive approach.

Recommendation 16: Adopt a more competitive land pricing framework for the exportable services sector.

82. To help position Singapore as a services hub, world class health and educational institutions should be encouraged to operate from Singapore. Such institutions would find it difficult to invest in Singapore if they have to pay full commercial rates and large upfront land premiums for their development. A fair principle could be for such world class institutions to pay prices comparable to what the equivalent local public institutions would pay. For example, foreign universities and research and development institutes could be offered land at rates similar to what local institutions would pay.

Conclusion

83. Singapore's relatively low services sector productivity⁴ is perhaps anecdotal evidence that on a total cost basis, the position in reality might not be as sanguine as suggested initially by the cost data presented earlier. Looking forward, as Singapore repositions itself as a regional services hub, competitiveness of services sector factor inputs must improve. Land for services growth areas should be priced competitively, in order to support their development.

⁴ Singapore was ranked 23rd in services productivity in the World Competitiveness Yearbook 2002. In 1997, Singapore was ranked 11th.

C) Residential Sector

Significance of residential sector

84. Residential property costs can have a significant impact on economic competitiveness as housing costs affect the wage levels workers demand. Separately, as Singapore repositions itself as a services hub, there will be a concomitant increase in competition for the human capital resources to deliver these services. Hence, quality of life and residential land competitiveness considerations also affect our global competitiveness. In this area, Singapore's competitors are global cities that are also seeking to attract talents.

International comparisons of apartment rentals and affordability of housing

85. Economist Intelligence Unit (EIU) conducts a Worldwide Cost of Living Survey. According to their latest survey (2002), rentals in Singapore are more affordable than most major cities such as New York, Tokyo, Hong Kong, London and Paris (see Table 5). This is consistent with the data published by Colliers International on the Asia Pacific region, which cites Tokyo and Hong Kong as more expensive than Singapore (see Table 6). A study of the cross time data also suggests that the competitiveness position has not shifted significantly over time.

86. It is difficult to make rigorous international comparisons of the affordability of housing, due to factors such as quality of housing, as well as extent of subsidised public housing available. UN Habitat published an international comparison of city House-Price-to-Income indicators⁵ in 1998 (the most recently available comprehensive study). This data is used to indicate affordability and accessibility of housing and includes all housing types. The data is not ranked, but Singapore compares favourably against many other cities (see Table 7), possibly because of our high proportion of public housing.

Recommendations

87. In the Singapore context, 86% of the population lives in HDB flats. Hence, public housing policy has substantial social policy and economic competitiveness dimensions and should be examined more closely.

⁵ HPI measures the ratio of median house price to median annual income. The median-priced house in the urban area is that house which has 50% of the houses priced below it, and 50% of the houses priced above it. It includes all housing, both new and old, and both formal and informal. Household income is defined as the gross income from all sources where information is available. Income in-kind includes consumption of agricultural produce which might have been sold.

88. The genesis of the public housing programme was to provide proper housing for the majority of Singaporeans. The public housing programme has contributed to high homeownership levels in Singapore. Homeownership provides Singaporeans with a tangible stake in Singapore and her future growth. Over time, it has also helped Singaporeans to realise some of their housing upgrading aspirations. In addition, the public housing programme also helps to meet the social objectives of community bonding and facilitate social cohesion by building communities.

Economic implications of current policy

89. The dominant role played by the Government in the housing sector may have undesirable and complex inter-related consequences. The Government is placed in the position of trying to co-ordinate demand and supply for HDB flats, and hence bears the risk of mismatches between supply and demand; and carries the costs of unsold flats in its inventory. Policies intended to encourage homeownership and upgrading of housing cause demand for housing to be at a level higher than would otherwise be the case. As the price of new HDB flats is often perceived as a referral price for other housing segments, the pricing policy for new HDB flats can impact the prices of other property segments as well.

90. Given the difficulties inherent in a high degree of Government involvement in the direct provision of housing, it would appear that there is scope to review the extent and nature of Government intervention in the public housing sector. The LWG recognises that there is a concurrent review of the public housing sector led by MND, and offers the following suggestions:

Recommendation 17: Reviewing and rescoping the HDB's role in public housing.

91. Today, HDB has a wide-ranging role and performs a variety of functions in the provision of public housing. These include serving as the public housing authority (e.g. estate planning and policy formulation), developer (e.g. construction, allocation and sale of flats), building consultant (e.g. architectural design and engineering services), financier (e.g. provision of mortgage loans) and lessor (e.g. administration of lease). Where the private sector is able to perform those parts of the value chain, without compromising the achievement of social policy objectives, the HDB should review its role. Rescoping the role the HDB plays creates more competitive space for the private

sector and makes increased use of market forces to achieve more efficient outcomes. In the longer term, a more robust residential sector may develop, with the Government coming under less pressure to intervene in the market, by virtue of its rescoped role. A judicious balance should be struck between the social objectives of promoting high homeownership and the economic implications of doing so.

Recommendation 18: Use of a reverse tender mechanism in public housing development.

92. The public housing sector offers scope to review direct Government participation, without compromising social objectives. For the past few decades, the Government has been providing public housing to promote home ownership in Singapore. Given the success of this programme, it is timely for the Government to re-consider its existing role in the residential market and for the private sector to play a larger role.

93. The Government could study the feasibility of using a reverse tender mechanism to engage private sector involvement in the provision of public housing. In the reverse tender mechanism, the Government specifies the maximum selling price for a flat, as well as some basic parameters governing the features of the flat. The contractors/developers bid for the right to build and sell the flats at no more than that pre-determined price. As the land and the flats are owned by the successful contractor/developer in the interim before they are sold, it is the private sector that bears the market risk, not the Government.

94. This approach has several benefits, compared to the current one. By opening up the tender in this manner, it

- a. Increases the competitive market space available for the private sector;
- b. allows more private sector players to develop skills such as pricing and marketing. This will help them stand in better stead should they wish to compete internationally subsequently;
- c. injects more market flexibility and responsiveness in determining the supply of public housing. For example, if the initial determination of the maximum selling price by the Government is inappropriate, this will quickly show up in the lack of bids in the reverse tender. Hence, more information

can be made available and the pricing decision reviewed before resources are committed.

- d. Increases the variety of designs for HDB flats.

Recommendation 19: Review the continued relevance of the Executive Condominium Scheme.

95. The EC scheme was intended to assist young Singaporeans fulfil their aspirations of owning private residential property, and was introduced at a time when private property prices were spiralling out of reach for many young Singaporeans. However, it created a separate sandwich housing class and added complexity into the housing market. With current market prices of low-end private property close to prices of new high-end HDB flats, the continued relevance of the scheme comes into question. Alternatives to achieving the objective of enhancing private homeownership, without the distortive effects of a separate housing class, should be explored. Possible alternatives would be to make available the EC subsidy directly to those purchasing private property or to review the eligibility of such families for the normal HDB flats.

Recommendation 20: Relax flat subletting rules.

96. The rules governing the whole subletting of HDB flats should be relaxed. The recent measures to allow HDB flat buyers who bought their resale flats with bank loans and without any CPF housing grant to sublet their whole flat is a move in the right direction. Currently, a first time HDB flat buyer can already sell off his HDB flat after the minimum occupation period of 5 years and retain the housing subsidy implicit in the price of the HDB flat. However, he would still be unable to sublet his whole flat. Prima facie, this suggests that there may be scope to liberalise the conditions for renting out HDB flats so that a less incongruous outcome is reached.

97. There are several benefits of relaxing HDB subletting rules. First, as the economy is restructured, there will be an increasing proportion of workers who are on contract employment, entrepreneurs without a steady income stream and a spectrum of young couples, foreign professionals, managers, and executives seeking flexible and affordable accommodation. Second, rental HDB flats can also be a useful housing option for some categories of foreign talents. Allowing a rental market to

develop for HDB flats will be a move in the right direction to meet the needs of this growing class of workers in the coming years. Third, doing so also provides a means of monetising the assets for those whose most significant asset is a property, hence helping to address the asset-rich cash-poor phenomenon.

98. As with other public housing policies, there are social considerations impinging on the decision (e.g. whether it would be more socially desirable to have a greater proportion of homeowners instead of more families renting homes). However, if one is prepared to experiment, the controls can be relaxed gradually while the impact is monitored.

Recommendation 21: The Government should also undertake a fundamental review of the homeownership policy.

99. The review should examine the optimal mix of homeownership and rental, given their effects on areas such as entrepreneurial risk appetite, rate of family formation and having a more tangible stake in the nation's success. It should also examine the homeownership policy's effects on the extent of public housing consumption, and whether it is optimal, taking into account wider considerations like adequacy of funds for retirement, upward social mobility and fostering of a mindset of less reliance on Government intervention.

Conclusion

100. These recommendations are interrelated and should be viewed as a package. R17 articulates the broad philosophical approach, while R18 and R19 are examples of specific means of implementation. R20 provides a viable alternative form of accommodation for those that do not wish to become homeowners. R21 asks that the wider implications and backdrop against which these recommendations are to be implemented should also be studied.

PART 5: REVIEW OF SPECIFIC RULES, REGULATIONS AND PRACTICES.

101. This part of the report addresses specific rules, regulations and practices to be reviewed, in order to maintain a flexible environment to allow market forces to work more effectively. The recommendations are:

Recommendation 22: Expedite review of the Land Titles (Strata) Act (LT(S)A).

102. Under the LT(S)A, a subsidiary proprietor owns the strata unit and a share of the common property. This share is represented by a “share value” based on the size of the strata unit and the type of use (e.g. residential, office or commercial). The share value would also determine his voting rights and maintenance contributions for the common property. Although this system works well for single use developments, it has presented operational problems in mix use developments. For example, the unit owners of a development with an office tower block and retail space at the podium floors have limited control over how the maintenance contribution should be used. Owners of the office units have to contribute to the maintenance of common areas, like escalators or public toilets in the shopping podium although they have no interest in these areas. The unit owners would prefer not to be involved in making decisions for common areas for which they have no interest.

103. In view of the increasing demand for mix use buildings and to enable more equitable sharing of maintenance costs, the LWG recommends that the Government expedite the review of the LT(S)A to facilitate the development of mixed-use developments e.g. the BFC.

104. On a separate point, today, under the LT(S)A, an owner who owns multiple units retains proportionate voting rights in the Management Corporation but has only one vote on the Management Council. The intent of the law is to protect the minority owners. However, this could be circumscribed if the multiple-unit owner incorporates multiple companies and splits the units owned across the companies so that he could have more votes on the Council.

105. The key issue is the governance of the actions of the chairman and members of the Management Council. The LWG is of the view that the Government should relook at the effectiveness of existing representation limits, and institute more direct safeguards to prevent the abuse of the powers by the Management Council.

Recommendation 23: Review of the Planning Act to allow for longer tenancies without requiring subdivision.

106. The Planning Act should be reviewed to allow for longer tenancies (beyond 14 years) without requiring subdivision. This will better meet the emerging trend towards longer tenancies.

107. The Planning Act requires building owners who want to grant long leases (beyond 14 years) to obtain subdivision approval, which causes the building to be registered as a strata development under the LT(S)A. The building owner will then be subjected to the requirements and procedures imposed under the LT(S)A. The intent of this stipulation is to prevent creation of very long leases without having such developments come under the framework of the LT(S)A, which might result in maintenance problems of the development.

108. There are, however, situations where a building owner retains the ownership of the entire building and only lets out certain parts of the building to a few users, e.g. banks and corporate users, who usually prefer longer tenancies without registering their interest under the LT(S)A. For them, it is cumbersome to set up a Management Corporation (MC) and be subject to the rules and procedures that cover the running of MCs under Part IV of the LT(S)A. In such situations, maintenance is not an issue because the building owner is prepared to retain responsibility for the maintenance of the development.

109. To allow building owners more flexibility to manage their buildings which may be tenanted out for long leases, the LWG proposes that this requirement under the Planning Act be reviewed.

Recommendation 24: Remove the Single Purpose Company (SPC) requirement for the development of GLS sites.

110. Successful tenderers of Government Land Sales sites are required to incorporate a Single Purpose Company (SPC) to undertake the development of the site. As a separate legal entity, SPC will be able to begin the development on a clean slate with no previous liabilities; and will also legally insulate the development project from the other business risks of the successful tenderer. However, the setting up and operation of such an entity incurs additional costs. A number of the tax implications discussed earlier are also because of such a requirement.

111. Rather than imposing such a requirement, the LWG suggests allowing the successful tenderer to decide whether or not to set up a SPC to develop the land parcel, as he should be in the best position to decide on the optimal manner to manage the project.

Recommendation 25: Change Controller of Housing (COH) regulations.

112. COH regulations should be changed to give private housing developers more flexibility and, at the same time, provide private property buyers more information to support their purchase decisions.

113. Currently, private housing developers are required to apply for a license prior to construction. In addition, first-time developers are given “no-sale” licences that prohibit them from selling their development before the Temporary Occupation Permit (TOP) is obtained. Current policy also requires developers to seek the Controller of Housing’s approval before they can amend the Standard Option Form and the Sales & Purchase Agreement.

114. It is proposed that private developers be allowed to apply for a licence only when they wish to sell uncompleted housing units. In addition, sales licences should also be granted to first-time developers, hence removing a market entry barrier for first-time developers. It is also proposed that developers be allowed some flexibility to amend selected portions of the Standard Option Form and Sales & Purchase Agreement without having to seek the Controller of Housing’s approval.

115. In addition, in order that the public may have more information to make better buying decisions, it is recommended that developers make available to potential purchasers basic information like developers’ track records and amendments to prescribed forms.

Recommendation 26: Review requirement for Qualifying Certificates (QC) for public listed companies.

116. Foreign companies undertaking residential property development in Singapore are subject to QC conditions, e.g. to obtain Written Permission / Temporary Occupation Permit within a certain timeframe, provide a Banker’s Guarantee, undertake that there will be no change to the shareholdings without the Controller of Housing’s consent, etc. For historical reasons, some companies are exempted from applying for QCs. While the QC was intended to prevent speculation and hoarding

of private residential land or properties, it is proposed that the requirement for and conditions of the QC be reviewed and modified to ensure their continuing relevance.

Recommendation 27: Review procedures and guidelines used by the Street and Buildings Names and Advisory Committee (SABNAC).

117. Presently, names of developments are approved by the SABNAC. If the name is not approved, the launch of sale of the project may be delayed and additional costs incurred. The SABNAC should review its processes for granting of approvals, with a view to speeding it up, especially in situations where the initial application is rejected.

118. Currently, applications to the SABANC are submitted manually and most applications can take a month or more to be processed. One model that could perhaps be followed is that of the Registry of Companies (ROC), which has re-engineered its approvals process for names of companies. The ROC's allows electronic applications and if the proposed company name does not conflict with a list of existing ones or words, approval can be granted within a day.

Recommendation 28: Grant more GFA exemptions to encourage the provision of communal areas for residential developments and common areas for commercial developments.

119. This can improve the quality and desirability of the living and working environment. Within the allowable plot ratio stipulated in the Master Plan, developers and architects have the flexibility to respond to market demands and to determine the optimal provision of communal spaces and common areas. Currently, all covered areas, including strata units, lift lobbies or common corridors, are computed as Gross Floor Area (GFA), while certain communal areas like sky terraces at intermediate levels and covered linkways are exempted from GFA.

120. The recommendation is for the Government to exempt communal and common areas from GFA computation to encourage their provision. For example, due to various market forces, the current trend in residential development is to maximise design efficiency or saleable strata areas, resulting in a general lack of open communal landscape areas that could improve our living environment. To encourage

generous provision of open communal spaces that are enjoyed by residents while creating opportunities for greenery and neighbourly interactions, GFA exemptions of covered open communal areas, covered communal sky bridge/corridor area, and other incidental covered open areas could be considered.

Recommendation 29: Provide incentives for developers to provide connectivity between buildings and public amenities.

121. To facilitate pedestrian connectivity between buildings, developers are often encouraged to provide covered walkways or underground links. These links could connect two buildings or connect a building to a bus-stop or MRT station. Such links are currently exempted from gross floor area computation.

122. More could be done to facilitate the provision of such connections especially if the connection sits on State land. As developers would have to bear the cost of constructing the structures, incentives such as waiver of TOL fees could be provided to reduce the financial burden. With this approach, we will be able to incentivise more developers to come forth to provide linkages to transport nodes so that there is overall benefit to commuters and enhance the attractiveness of the development.

Recommendation 30: Allow approved decanted floor space within existing commercial buildings to be converted to civic and community uses.

123. Demand for the different types of space change over time. Where the owner is allowed to decant, say, the office space and use the 'freed-up floor space quantum' to add retail space somewhere else within the same premises, instead of demolishing the decanted space, it could be released for compatible non-profit civic & community uses. Such conversion would of course be allowed on a very selective basis and under stringent circumstances, taking into account planning considerations and the impact of the additional bulk.

PART 6: CONCLUSION

124. Land is a platform for other economic activities, and hence these recommendations are also interrelated with the wider economy. For example, the deepening of capital markets should be seen in the context of wider efforts to develop Singapore's financial services sector. Other recommendations have implications on each other. For example, putting vacant State properties to interim use should be seen in the context of a single mechanism to regulate overall supply of land. **Hence, the implementation of these recommendations should be carefully sequenced and co-ordinated, taking into account the implications on the wider economy.**

125. In addition and more fundamentally, **minimising the role of Government means that the private sector and the general public will have to change to a paradigm where they have to take on more responsibility and bear the risks of their own decisions.**

Table 1: Land use by categories

Type of Use	Land use in Yr 2000 (% of total area)	2001 Concept Plan Land Use targets (% of total area)
Housing	15	19
Industry and Commerce	14	19
Recreation and Community e.g. Parks, Sports and Recreation, Water Catchment, Schools and Community uses	17	23
Infrastructure e.g. Airport & Seaport, Transport, Utilities, Telecoms	17	21
Others Special Use, Undeveloped land	37	18
Total Land Area	100	100

Source: URA

Table 2: Comparison of Prepared Industrial Land Prices (2001) by Locations

Country	Industrial Estate, City	Industrial Use	S\$ psm (Freehold Rate)
Singapore	Woodlands	Light Industry/ Electronics	523 to 850
Taiwan	Hsinchu SBIP	Electronics	744
Singapore	Jurong Island	General Industry/ Petrochemical	408
Singapore	Tuas View	General Industry/ BioMedical	353 to 415
Ireland	CityWest, Dublin	Electronics	339
China	Waiqaoqiao FTZ, Shanghai	Electronics	222
China	Jinqiao EPZ, Shanghai	Electronics	197
China	Zhangjiang HTP, Shanghai	Biomedical	186
Taiwan	Tainan SBIP	Electronics	185
Malaysia	Bayan Lepas IP, Penang	Electronics	159
Philippines	Laguna Technopark	Electronics	157
Ireland	Ringaskiddy, Cork	BioMedical	121
Malaysia	Kulim HTP, Kedah	Petrochemical	92
China	Guangzhou ETDZ	Electronics	72
Thailand	Rojana IP, Ayutthaya	Electronics	70
China	Tianjing Xiqing EDA	Electronics	70
China	Dalian ETDZ	Petrochemical	67
Thailand	Eastern Seaboard IE, Rayong	Electronics	53
China	Tianjing ETDA	Electronics	41

1. The sites were carefully selected to be directly comparable with industrial land available in Singapore in terms of quality. The prices are for prepared industrial land i.e. vacant industrial land with infrastructure such as road access, water supply, electricity supply, telephone service and levelled ground. All prices have been normalised to freehold rates as the majority of the overseas locations have freehold tenures. The Singapore land prices are computed based on the successful tendered price in the 2Q 2000 GLS programme as well as JTC's upfront payment prices.

2. The majority of JTC lessees are on a rental scheme. This is a more capital efficient approach, in contrast with overseas locations where the more usual practice is to pay for the land upfront.

Table 3: Comparison of Global Office Occupancy Costs⁶ (2002)

Rank	City	US\$ psm p.a.
1	London (West End)	1,600
2	Tokyo (inner Central)	1,470
5	Paris	900
7	Hong Kong	660
8	New York Midtown Manhattan	640
11	Dublin	620
13	Frankfurt	610
15	Zurich	600
19	Seoul	550
27	Taipei	473
31	Beijing	450
36	Sydney	410
39	Singapore	400
66	Melbourne	298
70	Shanghai (Puxi)	285
150	Kuala Lumpur	143

Table 4: Comparison of Global Retail Rentals in (2001)⁷

Rank	City	US\$ psm p.a.
1	New York (57 th Street)	7,500
2	Hong Kong (Causeway Bay)	5,600
3	Paris (Champs Elysees)	5,300
4	Sydney (Pitt Street Mall)	4,100
5	London (Oxford Street)	4,100
6	Moscow (Manezhnaya Square)	3,000
7	Zurich (Bahnhofstrasse)	2,800
8	Athens (Ermou Tsakalof)	2,400
9	Tokyo (The Ginza)	2,300
10	Munich (Kaufingerstrabe)	2,200
11	Singapore (Orchard Road)	2,000
12	Seoul (Myungdong)	1,900
13	Beijing (Wanfujing)	1,800
14	Dublin (Grafton Street)	1,800
16	Kuala Lumpur (Suria KLCC)	1,500
43	Bangkok (City Centre)	560

⁶ CBRE Global Market Rents Jul 2002. Compares total occupancy costs or 'gross' rents, which includes virtually all costs of occupancy, including management, property taxes and basic ongoing building maintenance, and is quoted for a 1,000 sqm unit in a Class A building in a prime location.

⁷ Main Streets Across the World Report in June 2001. Compares the top rents in 221 locations in 43 countries, for a standard prime unit in each location that is commensurate with international retailer requirements, although the nature and size of such units will vary from market to market.

Table 5: Comparison of Global Apartment Rentals⁸ (2002)

Rank	City	Rental per month	Rental in US\$ p.a.
1	New York	US\$3,500	42,000
2	Tokyo	400,000 yen	40,080
3	Hong Kong	HK\$20,000	30,720
4	San Francisco	US\$2,200	26,400
5	London	1,400 pounds	26,160
6	Paris	1,350 Euros	16,080
7	Singapore	S\$2,200	15,120
8	Zurich	1,850 swiss franc	15,000
9	Moscow	24,820 Rouble	9,480
10	Brussels	630 Euro	7,500

Table 6: Comparison of Prime Apartment Rents in Asia Pacific Region⁹ (1Q2002)

Rank	City	US\$ psm p.a.
1	Hong Kong	800
2	Beijing	470
3	Tokyo	440
4	Mumbai	370
5	Sydney	310
6	Singapore	210
7	Shanghai	210

Table 7: UN Comparison of Global House Price to Income (HPI) Indicator (1998)

City	HPI indicator
Basel, Switzerland	12.3
Amsterdam	7.8
Stockholm	6.0
Seoul	5.7
Tokyo	5.6
London	4.7
Belfast	3.6
Singapore	3.1
New York	2.7

⁸ EIU Worldwide cost of living survey (2002). Compares monthly rent of mid-priced one-bed furnished apartments.

⁹ Colliers International Comparison of Apartment Rents in Asia Pacific Region (1Q2002). Compares highest rent of prime centrally located 3-bedroom apartments.

Annex A: Composition of the Sub-Committee

Mr Tharman Shanmugaratnam (Chairman)	Senior Minister of State Trade & Industry and Education
Mr Cheng Wai Keung	Chairman and Managing Director Wing Tai Holdings Ltd
Mr Chia Wee Boon	Managing Director Hewlett Packard Singapore Pte Ltd
Mr Michael Dee	Managing Director Morgan Stanley Dean Witter Asia (Singapore) Pte Ltd
Mr Koh Boon Hwee	Chairman Singapore Airlines Ltd
Mr Stephen Lee	President Singapore National Employer's Federation And Chairman Committee of Singapore Business Federation
Dr Lee Tsao Yuan	Executive Director Skills Development Centre Pte Ltd
Mr J R Ong	Executive Director First Engineering Ltd
Mr Peter Ong	Permanent Secretary Ministry of Transport
Mr Peter Seah	Chief Executive Officer Singapore Technologies
Ms Lim Kwee Enn	Chief Executive Officer Knowledge Engineering Pte Ltd
Ms Teo Swee Lian	Assistant Managing Director Monetary Authority of Singapore
Ms Jeanette Wong	Senior Country Officer JP Morgan Chase Bank
Mdm Halimah Yacob	Assistant Secretary-General National Trades Union Congress

Mr Matthias Yao	Senior Minister of State Prime Minister Office and Deputy Secretary-General National Trades Union Congress
Mr Robert Yap	Chief Executive Officer and Managing Director YCH Group Pte Ltd

Resource Persons

Dr Paul Cheung	Chief Statistician Department of Statistics
Mr Heng Swee Keat	Permanent Secretary Ministry of Trade & Industry
Dr Khor Hoe Ee	Assistant Managing Director Monetary Authority of Singapore
Mr Liew Heng San	Permanent Secretary Ministry of Law
Mr Moses Lee	Permanent Secretary Ministry of Health
Mr Ravi Menon	Executive Director Monetary Authority of Singapore
Prof Tan Kong Yam	Chief Economist Ministry of Trade and Industry
BG (NS) Tan Yong Soon	Chief Executive Officer Urban Redevelopment Authority
Ms Yong Ying-I	Permanent Secretary Ministry of Manpower

Annex B: Composition of Working Group on Land

Mr Cheng Wai Keung (Chairman)	Chairman & Managing Director Wing Tai Holdings Ltd
Dr Steven Choo (Deputy Chairman)	Senior Vice President (Research & Direct Investment) CapitaLand Ltd
Mr Chia Wee Boon	Vice President (Customer Support, HP Services, Asia Pacific) Hewlett Packard Asia Pacific Ltd
Dr Han Cheng Fong	Deputy Chairman Centrepont Properties Ltd and Managing Director Fraser & Neave Ltd
Dr Amy Khor	Director (Investment Sales) Knight Frank Pte Ltd
Mr Koh Boon Hwee	Chairman Singapore Airlines Ltd
Mr Tan Kee Yong	Chief Executive Singapore Land Authority
BG (NS) Tan Yong Soon	Chief Executive Officer Urban Redevelopment Authority
Mr Stan G Tebbe	Regional Director ExxonMobil Chemical Asia Pacific
Mr Regi Wong Shaw Seng	General Secretary Air-Transport Executive Staff Union
Mr Robert Yap	Chief Executive Officer & Managing Director YCH Group Pte Ltd

Annex C: Secretariat for the Working Group on Land

Mr Derrick Wan Yew Meng
Deputy Director (Land Policy), MinLaw

Mr Lim Eng Hwee
Director (Physical Planning), URA

Mr Cheang Tick Kei
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Mr Gerald Chiu
Deputy Director (Resource), MTI

Ms Ng Guat Hong
Assistant Head (Resource Development - Policy), EDB

Mr Phua Hooi Boon
Assistant Director (Strategic Planning), MND

Mr Allister Winston Yong
Branch Head (Land Sales Public), SLA