

7 Things to know Before Taking Part in an En Bloc Sale in Singapore

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INSIDE THIS ISSUE

1. Land Value, Location and Building Grade determine the asking price
2. Plot Ratio restrictions
3. BSD & DC can increase your Financial Obligation.
4. Parties to the Sale must get a Sign-off from a Traffic Consultant.
5. Cooling Measures
6. Qualifying Certificates.
7. Bulk Buyers

“FACTORS AFFECTING EN BLOC SALES IN SINGAPORE”

Getting Started

En Bloc or collective sales have become increasingly popular in Singapore. If you're considering participating in an En Bloc Sale, you need to be aware of a few key factors that can affect the outcome of your En Bloc Sale.

1. Land value, location and building grade determine the asking price

Every seller wishes to get a good value for the unit he/she sells. The same goes with commercial property En Bloc sale.

Typically, collective sales don't happen until the value of the land increases. But, the value of the land depends on its location and proximity to the Central Business District (CBD). Consider The Arcade at Raffles Place, which was recently put up for an en bloc sale at S\$780 million. The price was determined not just by the existing value of the land, but by the potential value it will bring in.

Additionally, the building grade - the infrastructure it offers, its proximity to amenities & public transport, its accessibility for occupants etc. - affect the asking price.

2. Plot Ratio restrictions can affect the value of the En Bloc

The Urban Development Authority (URA) has set restrictions which affect how much land can be used by a developer in Singapore while developing a building. These plot ratios determine how tall a building can be, how big each unit can be and how many units each building can have.

While it is uncommon, the URA can change these plot ratios either in an upward or downward direction. This can affect the value and potential of the En Bloc you invest in.

If the en bloc property is sitting on an underutilized plot, more units can be built, increasing the future value of your investment. However, if you invest in a commercial property which has already reached its plot limit, then you won't be able to obtain any gains on your new investment.



3. BSD & DC can increase your Financial Obligation during an En Bloc Sale.

Residential properties in Singapore are charged the Additional Buyers Stamp Duty (ABSD) for every unit purchased. However, commercial property investors don't have ABSD. Instead, they have to pay Buyer's Stamp Duty (BSD), which accounts for:

- 1% of the market value for First \$180,000
- 2% for Next \$180,000
- 3% for Remaining amount

If you were to later sell your shares of the en bloc property, you would need to pay a Seller's Stamp Duty (SSD) only if the En Bloc property was an industrial property, to the tune of:

- 15% of market value or sale price for the First year
- 10% for the Second year
- 5% for the Third year

In addition to this, all commercial property holders in Singapore need to pay a GST of 7% to the Singapore Government. Finally, you may need to foot developmental charges as well, if you're planning to increase your property value through planned development. If the En Bloc is a 99-year lease, you'll need to pay the Government to top-up the lease as well.

All of these charges can be exceedingly expensive for investors, especially if the current developer/seller/landowner is refusing to bring down the price of the En Bloc property.



4. Parties to the sale must get a sign-off from a traffic consultant before going forward with the sale.

Traffic is an ever-increasing problem in Singapore. This is exactly why the Government requires all parties to a collective sale, to first evaluate the impact their en bloc development will have on neighborhood traffic.

A qualified traffic consultant must be hired to conduct the Pre-Application Feasibility Study (PAFS) and check what the potential road congestion will be from the en bloc sale and subsequent developments. The idea is to create a “car-lite” property and reduce traffic congestion in the future.

Once the study is finished, the developer will be required to submit the report to the Land Transport Authority (LTA), who will then prescribe plot ratios to your en bloc. If the congestion is deemed too high, your plot ratios may be reduced significantly, bringing down the value of your investment.

5. Cooling measures can increase competition in Commercial En Bloc Sales.

In 2018, the Singapore Government implemented “cooling measures” to stabilize the residential property market, cool down sudden price hikes and stop rising mortgage rates. They did this by increasing the Additional Buyers Stamp Duty (ABSD) from 5% to 30% and reduced borrowing limit by 5%.

By December 2018, over 30 residential En Bloc sales failed as a result of the cooling measures and investor focus shifted from the residential En Bloc market to the commercial En Bloc market.

Multiple commercial En Bloc properties were sold at extraordinary prices. Take the Golden Wall Centre, which was sold at \$276.2 million.

Since then, the competition in the commercial collective sale market has heated up considerably. This could push sale prices up and may someday even prompt a tweaking in consent rules amongst policymakers.



6. Qualifying Certificates can lead to immense losses in the form of extension charges.

Qualifying Certificate (QC) is a mandatory requirement that “publicly-listed” and “foreign” developers in Singapore must obtain, before constructing a property. According to QC requirements, new development must be completed within five years. Additionally, all the units in the building must be sold within two years of completion. If the developer fails to do this, he/she forfeits 10% of the purchase value of the land. Additionally, there’s a 15% excess levy of ABSD, apart from the 30% already charged. An extension to the timeline can be obtained, but this can be very expensive:

First-year extension - 8% of the price of land

- Second-year extension - 16% of the price of land
- Third-year extension - 24% of the price of land

It’s very important to find out who’ll be developing the en bloc after the sale.

7. Bulk Buyers can affect the Final outcome of the Sale.

While a single investor owning a bulk of the units in an En Bloc property may not be so common today, it still does happen. Such a situation can pose a challenge to other property holders and buyers because the bulk/high-shareholding investor has greater power to dictate the outcome of the En Bloc sale.

High share value in an En Bloc property determines:

- The extent of voting rights the investor holds
- The amount to be paid as maintenance charges for the En Bloc property
- The percentage of sales proceeds the investor receives

If these values aren’t favorable to the holder of the property, he/she may refuse to put up his/her units for the En Bloc sale. A great property may either become ineligible for sale, or potential buyers may need to agree to difficult terms just to complete the En Bloc sale.

As a potential investor or participant to a commercial property En Bloc sale, be sure to keep these considerations in mind before you take the next step.

