BUILD STRONG RESILIENCE IN THE REAL ESTATE AND CONSTRUCTION SECTOR AMIDST THE CHALLENGING OUTLOOK

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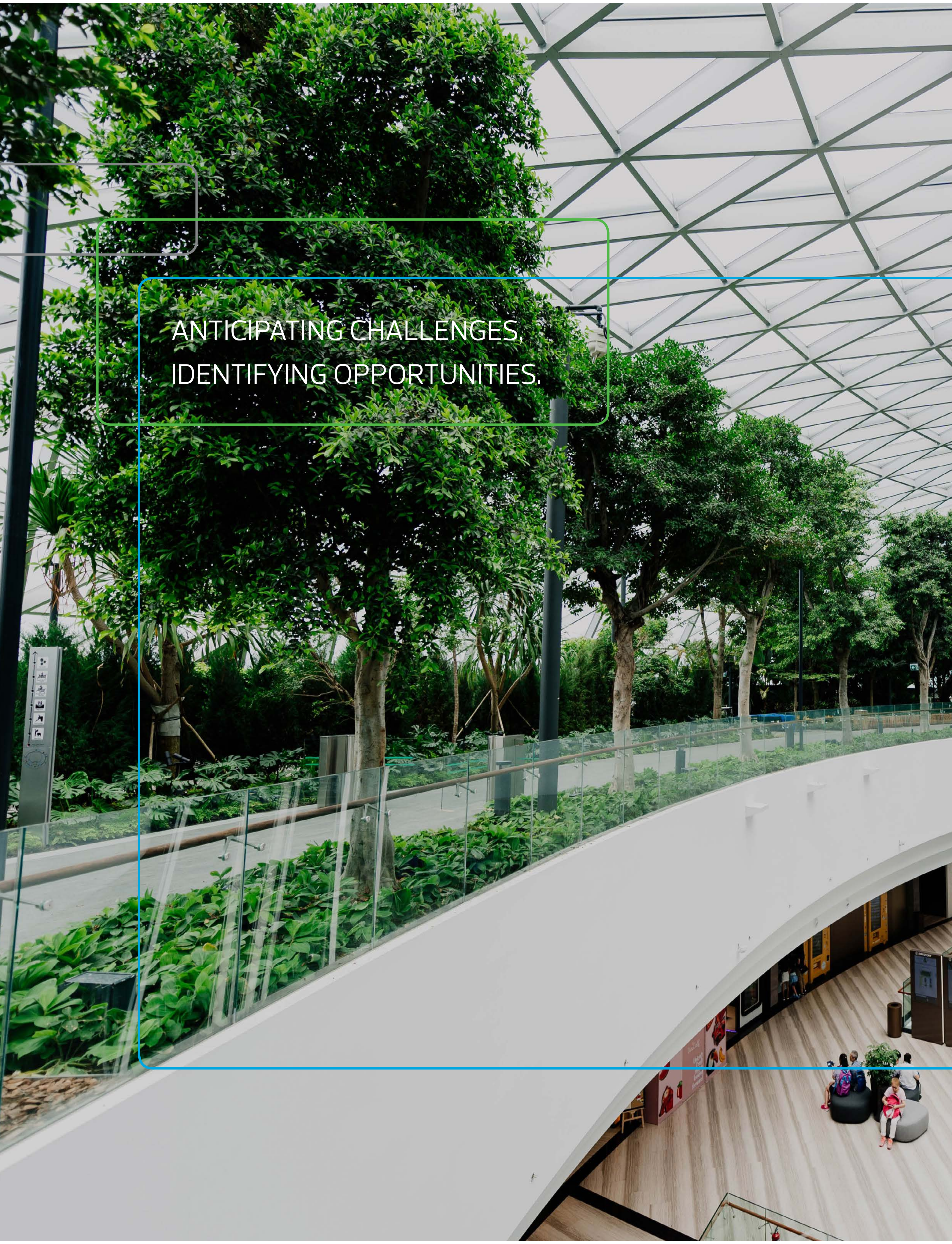


ANTICIPATING CHALLENGES, IDENTIFYING OPPORTUNITIES.

Many investors expected a more positive outlook until the untimely arrival of the coronavirus ("COVID-19"). Economists predict that this downturn could be more severe than the 2008 Global Financial Crisis. Closer to home, Singapore's economy has contracted by 2.2 per cent in the first quarter of 2020.

The COVID-19 pandemic has forced multiple jurisdictions to go into lockdown, and has invariably impacted real estate and construction ("REC") related activities in Singapore, especially with the extension of the Circuit Breaker till 1 June 2020. Despite this challenging outlook, we believe that there are measures businesses in this sector can take to stay resilient.

Prominent real estate players are more than willing to share how they are strategising to emerge stronger in a post COVID-19 world.

PART I : CHALLENGES IN THE REAL ESTATE AND CONSTRUCTION SECTOR

(A) MACROECONOMIC SENTIMENTS

The sharp fall in Singapore's Gross Domestic Product ("GDP") in Q1 of 2020 has also triggered weaker business sentiments which affected all players in the real estate ecosystem.

Property owners in the industrial and commercial sectors are facing pressure in renewing leases, whilst tenants are worrying about fulfilling rental obligations. Builders and contractors are experiencing project delays due to project stoppages, causing uncertainties in project scheduling and collections.

Slowing imports of building materials (e.g. steel, concrete, pre-cast units) are resulting in project delays whilst limited supply is pushing up prices. Portfolio investors are also not spared as viability of their investments and ability to make timely payments on interest and principal are important considerations.

(B) SUPPLY-AND-DEMAND SHOCK

We are facing an unprecedented supply-and-demand shock. This is impacting commercial leasing, as tenants mull over options such as flexible work arrangements and explore alternative telecommuting measures. This demand-and-supply shock also extends to the buying sentiments of properties in the corporate and residential spaces. Increased social distancing measures have also affected foot fall in retail malls. The impact on tourism and hospitality sector is clearly felt.

(C) FINANCING AND DEBT SERVICING CHALLENGES

Financing and a company's ability to take on responsible level of gearing is an inherent part of a business. Financing terms, covenants and interest rates costs are, therefore, key concerns when seeking funding for expansion or simply to meet working capital demands. The COVID-19 pandemic has shaken the confidence of the global stock markets and forced financial institutions to cast a keener eye on non-performing loans. As such, real estate companies have started to relook at their facilities and debt obligations. Whilst banks are offering deferment of repayments and more attractive loan facilities, these provide only temporary relief.

(D) THE MANPOWER CONUNDRUM

The Circuit Breaker measures have triggered a restriction of movement in dormitories and stop-work order at project sites and places of business that are not considered essential. The real estate sector is highly dependent on the foreign workforce and these restrictions are now causing project delays and, potentially, contract cancellations. Businesses faced with manpower challenges are also being forced to take measures to save jobs and provide financial security for employees. A post COVID-19 world does not promise immediate relief to these issues as it is also widely expected that social distancing and workplace health and safety measures will likely impact workforce productivity and cost.

PART II: GOVERNMENT SOLIDARITY FUNDING IS AVAILABLE

The Government of Singapore has drawn on national reserves through several rounds of budgetary measures. To support this, the COVID-19 (Temporary Measures) Act was passed on 7 April 2020. This aims to help relieve individuals and businesses from meeting qualifying contractual obligations including leases, construction contracts, loan facilities and hire-purchase agreements.

In a property leasing scenario, a moratorium might be applied to the property owner on taking actions against the arising tenancy default (for a fixed duration). Landlords would also be restricted from taking actions, such as court arbitration, distress claims, exercising securities and exercising forfeiture rights. In the similar vein, those in the engineering and construction segments could make use of these measures to invoke moratoriums on contractual claims such as performance bonds, court arbitrations and adjudications.

Below is a summary of government support schemes for businesses in the real estate and construction industry to tide over the current challenges:

Cash Support

1. Job Support Scheme
2. Solidarity Payment
3. Self Employed Person ("SEP") Income Relief Scheme
4. Extension of Permissible Period for Distribution of Taxable Income for Real Estate Investment Trusts ("REITs")

Credit Support

1. Temporary Bridging Loan Programme
2. Enterprise Financing Scheme – SME Capital Working Loan
3. Loan Insurance Scheme
4. Increased Aggregate Gearing Ratio

Cost Reduction Support

1. Foreign Worker Levy Rebate
2. Enhanced Wage Credit Scheme
3. Property and Corporate Income Tax Rebate
4. Rental Waivers on Government Properties
5. Enhanced Adapt and Grow Initiative (Workforce Singapore)

PART III: FOUR STEPS TO BUILD BUSINESS RESILIENCE IN A CRISIS

(A) MANAGE BREAKEVEN POINT AND COSTS

The concept of a breakeven point and how it helps to better manage costs is important, especially during a crisis. A breakeven point is the "magic number" that allows a business owner to determine the bare minimum to generate in order to cover fixed overheads. Companies should look at making adjustments to factors that can change the breakeven point so that more financial leeway is available to prioritise the better use of funds and resources.

Companies need to scrutinise earnings forecasts and start exploring "what if" scenarios using Sensitivity Analysis. A simple way of assessing this is by estimating the number of months the company's finance can withstand their overheads without receiving any project proceeds, service revenues or even contract incomes.

In order to reduce the breakeven point, a company should either reduce the burden of high overheads and fixed costs , reduce the variable cost component by looking at how to improve productivity (for instance) or to charge a higher per unit fee (through value adding or bundling strategies).

i. Lowering fixed costs

An example of lowering fixed costs is reducing office related expenses such as leases, office utilities, fixed component of payroll or even disposing non-core assets (which need to be constantly financed).

ii. Lowering variable costs

An example of lowering variable costs could be exploring alternative sourcing for building materials, variable maintenance expenditures and variable ancillary charges which are sales or top line driven. Business owners should also be making decisions on which projects to prioritise, and putting more emphasis on projects or contracts that (when secured) provide healthier gross profit margins.

(B) MANAGE LOAN AND BANKING FACILITIES

Companies need to take stock of banking relationships and loan facilities. This is important as sustained lifelines of financing are critical in surviving the crisis. Development project financing, construction cost financing and financing for equipment and properties are the more common banking facilities undertaken in this market segment.

Businesses should match financing objectives with corresponding loan tenures. Other measures to take include negotiating lower rates and assessing asset valuations which may impact properties serving as debt collateral. Once businesses are able to prioritise repayment schedules into short- and long-term tranches, plans can then be laid out on how to deploy cash flows to meet these obligations.

(C) MANAGE COLLECTIONS AND CASH FLOWS

As the saying goes: "In a crisis, cash is king". Businesses must study cash flow impact in conjunction with breakeven analysis and financing analysis. A slowdown in collections and debt exposure is inevitable during a crisis, hence complementing this with best-and-worst-case scenarios will help paint a more realistic cash flow position.

Businesses should analyse the financial health of top customers and explore taking on formal credit recovery measures for higher risk accounts. As preventative steps, credit scoring, a tighter credit assessment and better due diligence will help reduce collectability risks in the future. Suppliers should also not be ignored as businesses need to engage and negotiate with their supply chain to design flexible repayment schemes, and manage payment levels to minimise further cash flow disruption.

(D) UTILISE AVAILABLE TOOLS

Knowledge is invaluable during this period. RSM Singapore's Real Estate and Construction Industry Vertical has made available a complimentary toolkit for businesses to better visualise the measure explained above. The resource tool kit is available at this link: www.RSM.global/Singapore/COVID-19-Survival-DIY-Toolkit

Our toolkit includes:

- Income Projections Comparisons
- Cash Conservation Tools – Customer Analysis, AR Collections, Suppliers Analysis
- Credit Analysis Tools – Relevant Government Schemes, Banking Facilities Analysis
- Cost Reduction Tools – Job-Saving Kit, JSS/WCS/ Operating Expense Calculators
- Business Opportunities Analysis and New Capabilities Development Framework

PART IV: INSIGHTS FROM OUR CLIENTS AND ASSOCIATES ON HOW TO THEY HAVE ADDRESSED THE COVID-19 CRISIS

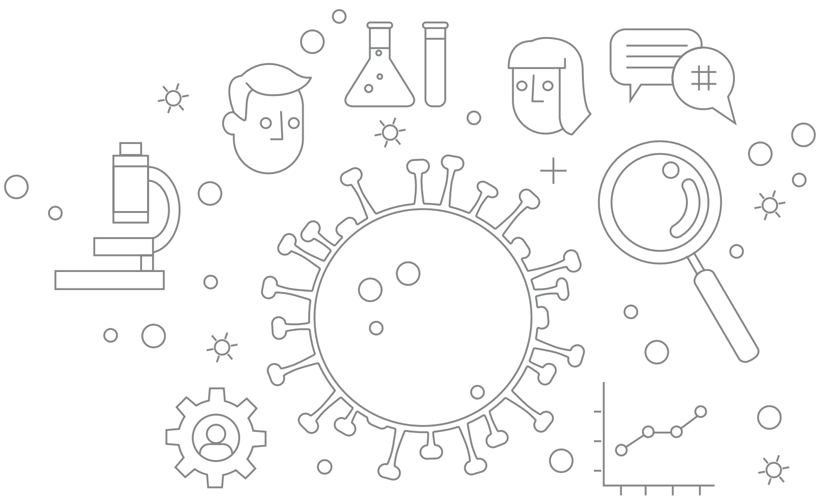
We are honoured to have some of our valued clients and business associates share their views on the future developments of this crisis, its impact on the sector and proactive steps they too have taken to emerge more resilient in a post COVID-19 world:

The evolving COVID-19 pandemic is viewed as one of the most significant 'Black Swan' events since the Great Depression. Unprecedented measures taken in various communities to reduce mobility and density at workplaces, schools and public places have changed the way we work, live, learn and play during this peak period of pandemic containment. Relationships between the public and private sectors, landlords and tenants, employers and staff, teachers and students, and amongst families and friends are evolving as we grapple with uncertainty to cope with the outbreak.

The accelerated discovery of new ways of working and partnering together will change how we utilise real estate in the future. Business models for property sectors that are dependent on transient customers would need to incorporate higher flexibility and creativity, such as in terms of marketing, operations and leasing, with a goal of risk sharing. On the other hand, property sectors that offer essential goods and services ought to be more regulated, such as setting requirements by authorities to ensure minimum standards are delivered by property developers and operators for the wellbeing of occupants.

Partnership models that are centred by virtues of trust, versatility and win-win mandates for all parties will be ever more important in a new world order of unpredictability. From these foundations, business partnerships that are also collaborations, able to pre-empt changes and be pro-active to reach out to the authorities with new solutions will stand out from the crowd. For real estate leaders, embracing every member, be they employees and business partners, with true grace and the spirit of excellence and cooperation are valuable goals that will enhance resilience amongst the stewards of the built environment.

Ms Alice Tan, Senior Director (Research & Consulting),
Edmund Tie & Company (SEA) Pte Ltd



We at APAC Realty realise that COVID-19 will undoubtedly change the way we work as a real estate agency and service provider. At the company level, we have been preparing for this by taking investments in the digitalisation of workflow as priority. This means building into our daily processes e-invoicing, e-payments and e-authorisation processes. With a more streamlined and efficient workflow we aim to improve productivity, turnaround and this creates more visibility in the certainty of our cash flows and credit management.

For our agents, technology tools such as virtual tours, 360 degree viewing capabilities, have been deployed to help complement physical viewings. We are confident that such activities will return after the COVID-19 pandemic ceases. You can never substitute physical interaction because nothing beats the in-person experience. But technology and tools will be able to narrow down options and aide in better customer information sharing and selection.

Mr Poh Chee Yong, CFO, APAC Realty

Given the current COVID-19 crisis, there is much uncertainty as to how wide-spread this will be and how long the outbreak will last. It is important to take pre-emptive and precautionary measures over safety, liquidity and resources of the company to ensure that risks are managed and contained.

We have focused on liquidity and cash flow management actively since the outbreak and we have implemented cost-cutting measures and engaged our bankers actively for their support on a continual basis.

On the operational side of things, when dormitories announced rising worker infections in early April 2020, we quickly relocated some of our essential services workers to alternative staff quarters. This ensured business continuity at the work sites. When the circuit breaker was imposed on 7 April and all activities had to be suspended, we gave assurance to our workers on salaries and our continued commitment to their welfare. This is important as it will provide a sense of security and belonging to our workforce.

Keong Hong has also been collaborating with consultants and our clients on advance planning for alternative accommodation, social distancing and work site segregation. This will allow a swift restart once the circuit breaker is lifted. We can then be assured that we are poised to catch up on work schedules without compromising the safety of our team.

Mr Tan Kah Ghee, CFO, Keong Hong Holdings

Sasseur REIT has an initial portfolio of four outlet malls strategically located in fast-growing cities in China, namely Chongqing, Bishan, Hefei and Kunming. The first case of COVID-19 was reported in Wuhan in December 2019, but the severity of the outbreak was only felt in 2020. At the start of the year, the Chinese government had already implemented a few movement restrictions and was considering more as the infection became more widespread.

Sasseur REIT's Sponsor, Sasseur Cayman Holding Limited, made the proactive decision in late January to implement a temporary closure of the 11 outlet malls it owned, which included the four under Sasseur REIT's portfolio. In addition, health and safety measures were implemented at each mall and office location to prevent infection among the workforce. As a result, the Sponsor and Sasseur REIT by extension have been fortunate to report zero cases of infection of staff and mall tenants to date.

While the malls were closed, Sasseur REIT's Manager, Sasseur Asset Management Pte Ltd, intensified its online presence on its sales and social media platforms to keep VIP members and other customers engaged and excited for the reopening of the outlet malls. This course of action also helped Sasseur REIT generate vital data on the shifts in preference, lifestyle and needs of its customers, which better enabled the outlet malls and its tenants to prepare for the reopening.

After obtaining approvals from the relevant local authorities, the four outlet malls under Sasseur REIT's portfolio were progressively reopened in early March. The online marketing and engagement had paid off, as the combined sales from the four outlet malls on the day of reopening were extremely encouraging, comparatively higher by 129 per cent to the corresponding dates in 2019. We recently also witnessed strong first-day sales during its annual Spring Sales period in April. Combined first-day sales recorded for the four outlet malls located in Chongqing, Bishan, Hefei and Kunming were RMB 47.2 million, 411 per cent higher than the first-day reopening sales registered in March.

The outlet malls have implemented health and safety standards since resuming operations in March; all customers, tenants and employees are required to wear face masks and undergo temperature screening when entering the malls. Each mall has sufficient stock of face masks and disinfectants, and cleaning and sanitising of facilities and public areas have also been stepped up as well.

Sasseur REIT's outlet malls have long attracted shoppers for its wide and diverse range of off-season branded goods at affordable prices. In addition, the unique lifestyle offerings which cater to all demographics of the family unit have brought customers back time and time again. The outlet business is one retail segment in China that has not seen a falloff in buying interest .

Mr. Anthony Ang, CEO, Sasseur Asset Management

LOOKING AHEAD

A post COVID-19 world will certainly bring about different sets of challenges and constraints, and fuel new business opportunities. While hindsight is often perfect, the quality of foresight sets apart true survivors and leaders post crisis. We at RSM Singapore hope that the insights provided here will serve both as a source of useful reflection and motivation for the REC sector to continually strive at building stronger resilience for the future.

Disclaimer

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