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A GREENER SINGAPORE: PROPTECH, TAX INCENTIVES CRUCIAL 1

A greener Singapore: Proptech, tax incentives crucial

Making the nation greener, more sustainable hinges on both the state and the private sector.

MUCH has been said about environmental sustainability, with banning drinking straws just the latest hot topic. But much less attention has been paid to the role real estate plays in driving the sustainability of a country, one which is aligned with the government's vision of a smart nation in which citizens live meaningful and fulfilled lives, enabled seamlessly by green technology.

Singapore's real estate community has been slow to adopt innovation in property technologies ("proptech") aimed at making buildings greener. This can be attributed to lack of awareness and some developers being not technologically-savvy. Some property owners are reluctant to change the way things are done, or are simply not ready to make such significant capital investments. There is also a lack of available sustainability solutions for new developments, as well as for retrofitting old buildings to adapt to local conditions.

The sustainable buildings agenda is currently being driven almost entirely by the government. Singapore's green building movement, launched in 2005, has a target of making at least 80 per cent of buildings green by 2030. The country is considered a global sustainability leader in building construction, with its Green Mark Scheme adopted in 71 cities.

For Singapore to achieve its green building targets, policy measures and market interventions that could create demand for sustainable buildings will be key considerations. Such measures need to target both developers and occupiers of commercial, retail, residential and institutional buildings.

However, until there exists a direct correlation between a building's sustainability and its occupancy, rent and valuation, greening of buildings will remain a top-down agenda.

To create a market-driven agenda, the government needs to incentivise the private sector for players to step up to the plate. This would then allow the government to gradually shift its role from prescription to setting up and monitoring of sustainability standards.

Singapore can approach this agenda from four different ways.

SUPPORT GREEN LOANS AND MORTGAGES

Firstly, the government can do more to spur the debt and equity capital markets to support green loans and mortgages.

Already, Singapore banks are actively exploring green loans for developers and asset managers.

Added measures from the government could take the form of a 5 per cent concessionary tax rate for financial institutions on interest income from loans for the acquisition and development of green residential and commercial properties. A tax exemption could also be extended to income derived from green bonds.

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CREATE SUPPLY AND DEMAND

Secondly, more can be done to stimulate supply and demand for green buildings.

The government can consider offering a 200 per cent tax deduction on financing costs and 30 per cent property tax rebate for green property owners.

Furthermore, to create a market premium for green buildings, a 50 per cent tax exemption on gains by developers from sale of green buildings, both commercial and residential, along with a 50 per cent rebate on stamp duty on conveyancing of green properties could be considered.

GST rebates for green residential developments and an exemption of GST on the import of green-related equipment and raw materials will also help to alleviate operating costs.

To promote green adoption, owners of green buildings should also be allowed to claim commercial building allowances on capital expenditure which would otherwise not qualify for capital allowances.

To create the necessary demand for green buildings, a 250 per cent tax deduction on rental paid by tenants of green properties can also be considered to enhance their attractiveness.

ENCOURAGE EXISTING PROPERTY OWNERS TO TURN GREEN

Thirdly, the government can step up efforts to encourage existing property owners to turn green by giving a 200 per cent tax allowance on capital expenditure on green initiatives in addition to normal capital allowances and tax deductions.

To sweeten green adoption, a 50 per cent reduction in tax payable on rental income derived from buildings that undergo green renovation and retrofitting, and a 50 per cent property tax rebate for three years following a building being certified green should also be extended to such property owners.

Direct grants and extension of commercial building allowances to owners that retrofit existing properties into green buildings will also help to enhance the traction to go green.

ENCOURAGE ADOPTION OF PROPTech

Fourthly, the private sector should also be incentivised to adopt proptech to drive greater efficiency and sustainability.

As an example, private players can use augmented and virtual reality to enable architects to optimise green design and enhance a building's sustainability on cloud-based platforms, or use 3D printing to make design and construction more energy-efficient.

They can also explore building materials like bricks made from waste, windows that convert light into electricity, and building management systems incorporating artificial intelligence and drones to enhance energy saving, ventilation and fire safety.

Grants and assistance to co-fund 50 per cent of research and development work on proprietary technologies related to proptech solutions and a concessionary tax rate of 5 per cent on income derived from businesses for proptech solutions for green buildings will both go a long way to jumpstart the development of proptech.

In addition, to drive proptech take-up, the development of new or enhanced proptech solutions should also be included as a pre-approved activity under the research and development tax incentive scheme, where a 250 per cent tax deduction on qualifying costs such as staff and outsourcing can be claimed.

To conclude, the success of a greener, more sustainable real estate sector in Singapore depends not only on government initiatives but also on the private sector and society. At a time when the real estate sector seeks to reposition itself to stay relevant, a concerted focus in these four areas would certainly accelerate its transformation and make green buildings the defining feature of a smart and sustainable nation.

The writer is head of tax and real estate, KPMG in Singapore. The views expressed are his own.

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