

SHOPHOUSE

SINGAPORE'S ARCHITECTURAL GEM

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Shophouses are now more costly to own than ever due to its ever rising capital values. On average, the median price of shophouses has risen by nearly 20% annually over the last 10 years and now stands at a historical high of \$4,111 psf.

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Median Price

Once a humble compound, shophouses are now a much sought-after investment, judging from the trend in recent years.

Shophouses have also become more costly to purchase than ever. Median transaction price soared to \$4,111 psf in 1Q14, an increase of 24.2% y-o-y and is now at its highest ever in history. In absolute price, the median transaction price is \$4.2m in 1Q14.

Table 1: Median Transaction Price of Shophouses in 1Q13 and 1Q14

Period	Median \$m	Median \$psf
1Q13	5.7	3,310
1Q14	4.2	4,111
%yoy	-26.3%	24.2%

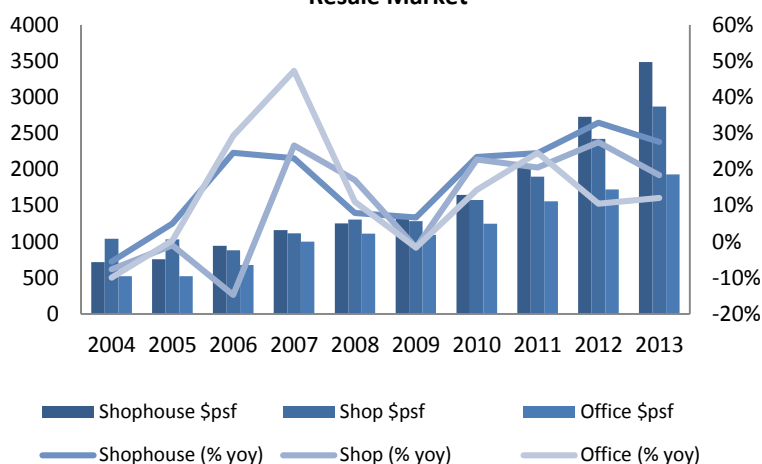
Source: URA, Square Foot Research

Table 2: Median Transaction Price of Shophouses

Year	Median \$m	Median \$psf
2004	0.95	720
2005	1.01	756
2006	1.31	942
2007	1.58	1,160
2008	1.80	1,252
2009	1.70	1,336
2010	2.20	1,650
2011	2.95	2,054
2012	3.63	2,730
2013	4.75	3,484

Source: URA, Square Foot Research

Figure 1: Median Price of Commercial Properties in the Resale Market



Source: URA, Square Foot Research

Median transaction price of shophouses rose 5 times over the period from 2004 to 2013 (Table 2). On average, prices grew by 20% annually during the same period, making it the best-performing commercial properties in terms of capital appreciation (Figure 1).

The Unique Charm

The hype over shophouses is not unfounded. Shophouses are usually well-located in central region, with excellent frontage, and offer greater flexibility in terms of allowed use as opposed to the rigidity of other types of commercial properties.

In contrast to shops and office units, which are largely (more than 99%) strata-titled, most shophouses on the other hand, are land-titled. In addition, 85% of shophouses that

changed hands since 1995 are freehold (Table 3), whereas the other types of commercial properties had much lower proportions.

Table 3a: Percentage of land-titled commercial properties sold since 1995

Type of Ownership	Office	Shop	Shop House
Land	55	11	3,705
Total	8,098	11,136	4,394
%	0.7%	0.1%	84.3%

Source: URA, Square Foot Research

Table 3b: Percentage of freehold commercial properties sold since 1995

Tenure	Office	Shop	Shop House
Freehold	2,649	5,969	2,661
Total*	8,097	11,132	3,111
%	32.7%	53.6%	85.5%

Source: URA, Square Foot Research

*Excludes transactions with unknown tenure

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Shophouses hold great intrinsic value serving as an embodiment of Singapore's historical and cultural heritage, forming the main bulk of Singapore's gazetted conservation buildings, and are sought after for their scarcity and dearth in supply.

In view of the Land Acquisition Act where the government has the right to acquire land compulsorily for public development projects such as in the case of constructing new MRT lines, shophouses located in conservation areas may have the added advantage of being protected from such redevelopments.

Sales

After the introduction of the Total Debt Servicing Ratio

Table 4a: Sales Volume and Value of Shophouses in 2012 and 2013

Year	1H		2H	
	Volume (#)	Value (\$)	Volume (#)	Value (\$)
2012	145	734.78	145	649.24
2013	146	896.50	59	346.51
% yoy	0.7%	22.0%	-59.3%	-46.6%

Source: URA, Square Foot Research

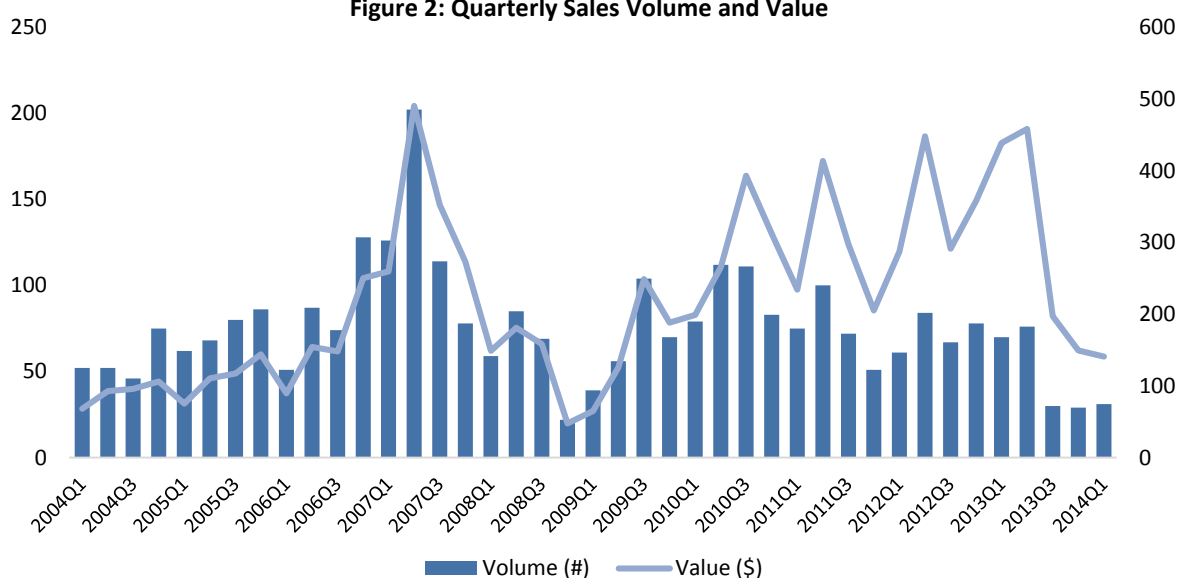
Table 4b: Quarterly Sales of Shophouses from 1Q13 to 1Q14

Quarter	Volume (#)	% qoq	Value (\$m)	% qoq
1Q13	70	-	438.54	-
2Q13	76	8.6%	457.97	4.4%
3Q13	30	-60.5%	197.17	-56.9%
4Q13	29	-3.3%	149.34	-24.3%
1Q14	31	6.9%	140.84	-5.7%

(TDSR) in June 2013, sales dropped by 60.5% immediately in the following quarter to 30 transactions, and have since remained at that level. Sales value however, continued the down trend, suggesting that the TDSR has affected the

higher-value segment more. In fact, 1Q14 saw the lowest sales value since 3Q09 (Figure 2) and can be attributed to a drastic drop in transactions above \$10m (Figure 3).

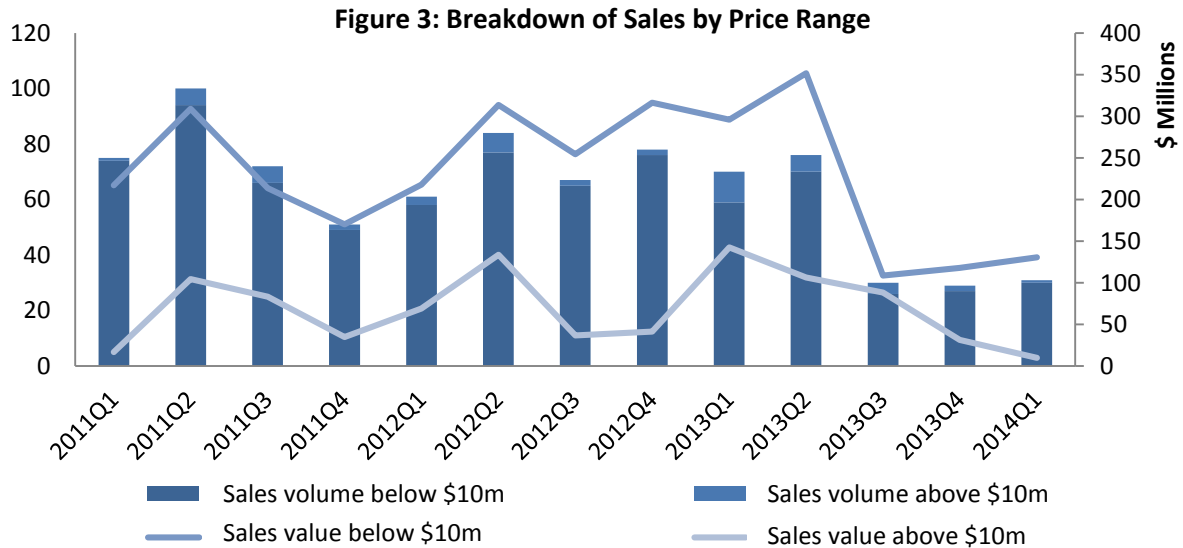
Figure 2: Quarterly Sales Volume and Value



Source: URA, Square Foot Research

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Source: URA, Square Foot Research

Rental Yield

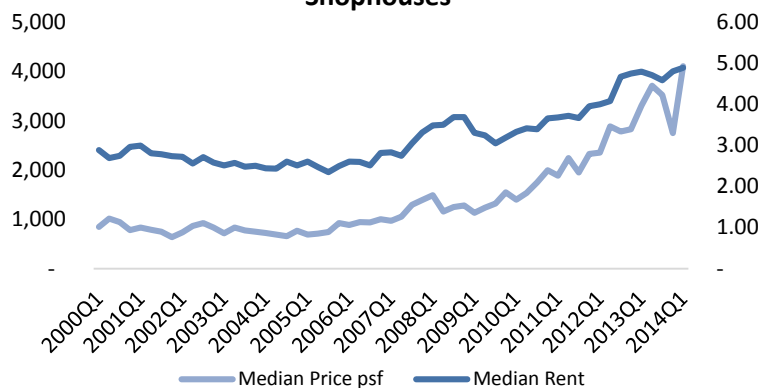
Rental yield for shophouses has been on a down trend. Over the period from 1Q07 to 1Q14, capital values rose by more than 4 times while overall rents increased by only 72.8%. The rental yield compression does not appear to be slowing down as capital values are still on the rise despite the implementation of TDSR, which only slowed down sales volume.

Table 5: Price and Rental Comparison of Shophouses in 1Q07 and 1Q14

Period	Price \$ psf	Rent \$ psf pm
1Q07	968	2.83
1Q14	4,111	4.89
% Change	324.7%	72.8%

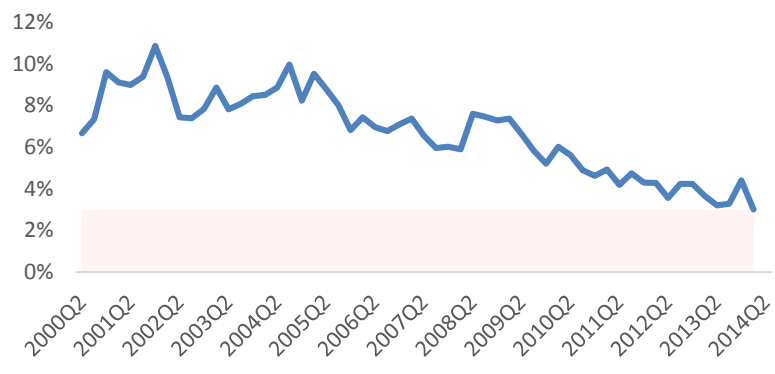
Source: URA, Square Foot Research

Figure 4: Median Transaction Price and Rental of Shophouses



Source: URA, Square Foot Research

Figure 5: Estimated Rental Yield



Source: URA, Square Foot Research

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Profitability

The number of unprofitable transactions has also declined over the years and has remained below 5% since 2010 (Figure 6).

Total gross profits from resale transactions peaked in 2013 with \$358m, a 25% increase y-o-y, although the number of profitable transactions is actually lower by 25%, suggesting that the profit per transaction rose significantly due to the increased capital value over the year.

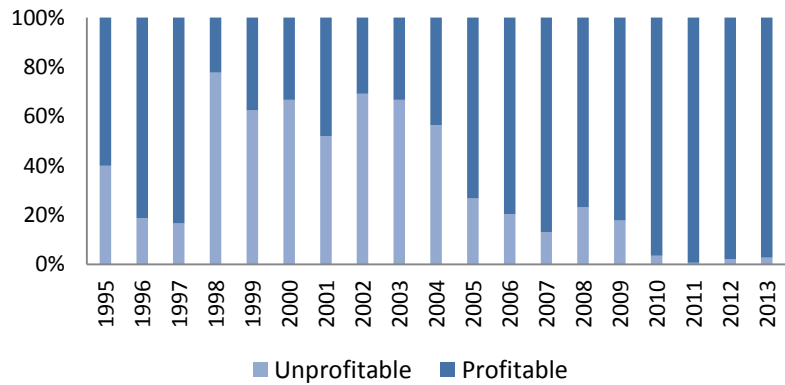
72.9% of the profits generated in 2013 came from first half of the year, before the TDSR was implemented.

Potential Risk

Should the government roll out cooling measures for the commercial property sector, such as introducing the Seller's Stamp Duty (currently imposed on residential and industrial properties) the poor rental yield will be a huge drawback.

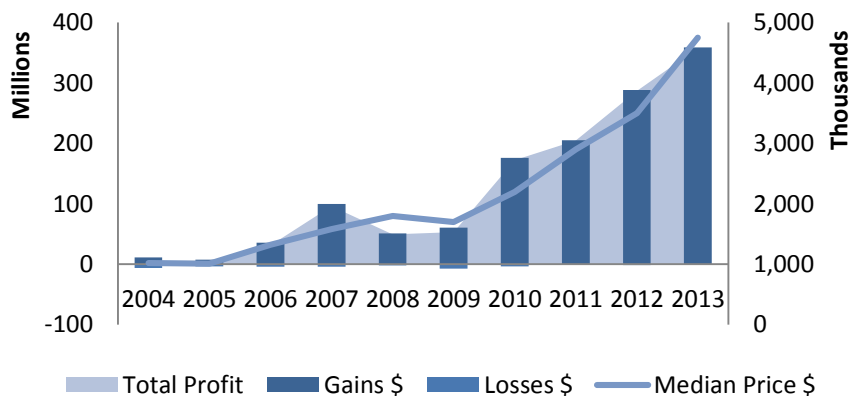
In addition, the TDSR has brought down sales volume, especially those above \$10m, which may result in more volatile capital values.

Figure 6: Percentage of Profitable Transactions



Source: URA, Square Foot Research

Figure 7: Gross Profits from Shophouse Transactions and Median Transaction Price



Source: URA, Square Foot Research

RECENT TRANSACTIONS

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Contract Date	Street	Tenure	Area	Type of Area	Price (\$)	Price (\$psf)
28 Apr 14	East Coast Road	Freehold	2,540	Land	6,800,000	2,673
21 Apr 14	Desker Road	99 Yrs From 1995	1,227	Land	3,500,000	2,855
16 Apr 14	Lorong 15 Geylang	Freehold	2,303	Land	3,250,000	1,408
15 Apr 14	Sims Avenue	Freehold	1,378	Land	1,950,000	1,411
11 Apr 14	Joo Chiat Road	Freehold	915	Land	3,500,000	3,839
10 Apr 14	Stanley Street	Freehold	2,702	Land	16,000,000	5,922
8 Apr 14	Opal Crescent	Freehold	1,550	Land	2,750,000	1,770
7 Apr 14	Dunlop Street	999 Yrs From 1877	797	Land	2,900,000	3,641
28 Mar 14	Syed Alwi Road	Freehold	872	Land	3,800,000	4,342
25 Mar 14	Serangoon Garden Way	999 Yrs From 1957	1,507	Land	5,550,000	3,693
21 Mar 14	Balestier Road	99 Yrs From 1960	1,787	Land	2,100,000	1,177
18 Mar 14	Duxton Road	99 Yrs From 1989	1,119	Land	5,900,000	5,270
17 Mar 14	Tanjong Katong Road	Freehold	1,464	Strata	1,980,000	1,353
15 Mar 14	Bali Lane	999 Yrs From 1833	721	Land	4,450,000	6,217
14 Mar 14	Pasir Panjang Road	Freehold	786	Strata	2,600,000	3,309
12 Mar 14	Serangoon Road	Freehold	1,292	Land	2,800,000	2,171
12 Mar 14	South Bridge Road	999 Yrs From 1831	1,453	Land	6,500,000	4,460
7 Mar 14	Teo Hong Road	Freehold	1,464	Strata	3,750,000	2,562
7 Mar 14	Jalan Besar	Freehold	1,948	Land	8,000,000	4,111
6 Mar 14	Upper Serangoon Road	Freehold	1,173	Land	3,200,000	2,722
4 Mar 14	Arab Street	999 Yrs From 1827	753	Land	4,500,000	5,972
3 Mar 14	Killiney Road	Freehold	1,249	Land	5,000,000	3,998
3 Mar 14	Arab Street	999 Yrs From 1828	807	Land	4,160,000	5,132
28 Feb 14	Serangoon Road	99 Yrs From 1995	1,410	Land	6,800,000	4,826
28 Feb 14	Sembawang Road	Freehold	2,110	Strata	2,680,000	1,270
18 Feb 14	Serangoon Road	Freehold	1,851	Land	4,500,000	2,432
11 Feb 14	Serangoon Road	Freehold	1,313	Land	6,030,000	4,611
7 Feb 14	Serangoon Road	Freehold	1,636	Land	4,980,000	3,042
4 Feb 14	Geylang Road	Freehold	1,141	Land	4,000,000	3,509
29 Jan 14	Upper Paya Lebar Road	Freehold	1,862	Land	1,320,000	708
20 Jan 14	King George'S Avenue	Freehold	2,282	Strata	3,300,000	1,446
16 Jan 14	Tras Street	99 Yrs From 1995	1,615	Land	10,100,000	6,247
16 Jan 14	Kalidasa Avenue	999 Yrs From 1885	1,625	Strata	1,600,000	984
13 Jan 14	Beach Road	Freehold	1,399	Land	4,900,000	3,499
13 Jan 14	Joo Chiat Road	Freehold	2,153	Strata	2,288,000	1,063
10 Jan 14	Brighton Crescent	Freehold	1,604	Land	4,000,000	2,491
10 Jan 14	Joo Chiat Road	Freehold	1,410	Strata	2,500,000	1,773
9 Jan 14	Tanjong Pagar Road	99 Yrs From 1992	1,324	Land	8,350,000	6,327
8 Jan 14	Duxton Hill	99 Yrs From 1988	1,259	Land	9,200,000	7,336

Source: URA, Square Foot Research

APPENDIX

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