

DEMAND GRAVITATED TOWARDS PROJECTS WITH STRONG FUNDAMENTALS, WHILE SHOPHOUSES REGAINED THEIR SHINE

- **Strata-Titled Offices:** Transaction activity was largely driven by the solid sales performance at Woods Square.
- **Strata-Titled Retail:** Lack of new launches and muted sentiment on retail demand contributed to lower market performance.
- **Shophouses:** Renewed interest saw demand spilled over to districts outside of CBD, as total transaction value almost doubled.

EXHIBIT 1

Overview of Caveats lodged and Transaction Value for Strata-Titled Offices, Strata-Titled Retail, and Shophouses

	Strata Offices	Strata Retail	Shophouses
H1 2016	New Sale : 32 Sub Sale : 2 Resale : 83 Total Caveats : 121 Transaction Value: S\$409.8 mil	New Sale: 82 Sub Sale: 4 Resale : 61 Total Caveats: 147 Transaction Value: S\$333.1 mil	Total Caveats: 36 Transaction Value: S\$230.1 mil
H2 2016	New Sale : 55 Sub Sale : 2 Resale : 85 Total Caveats: 142 Transaction Value: S\$455.4 mil 11% change	New Sale: 11 Sub Sale : 2 Resale : 66 Total Caveats : 79 Transaction Value: S\$241.3 mil -28% change	Total Caveats: 52 Transaction Value: S\$424.6 mil 85% change

Source: REALIS (as at 11 January 2017), Knight Frank Research



MARY SAI
Executive Director & Head,
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“With Singapore’s sound economic fundamentals and stable business environment, commercial properties are expected to remain under the radar of both investors and owner-occupiers as they continue their search for properties with long-term capital appreciation.”

STRATA OFFICE SECTOR

Strata-titled (“Strata”) office market receives timely boost from successful launch of Woods Square

- Transaction volume of strata office units rose 17.4% in H2 2016 from H1 2016. Total transaction value correspondingly increased 11.1% to \$455.4m. (Exhibit 1)
- New sale transaction volume was boosted by the commendable sales performance of Woods Square. Based on caveats lodged, the mixed-development accounted for more than half (54.6%) of the total 54 caveats lodged for new sale strata office units in H2 2016, with an average selling price of \$1,852 per square feet (“psf”).
- With Woodlands earmarked as the next regional centre and a key commercial cluster in the North region, the remaining available units of Woods Square are expected to be relatively well received by buyers who are keen to partake in the long-term growth story of the area.

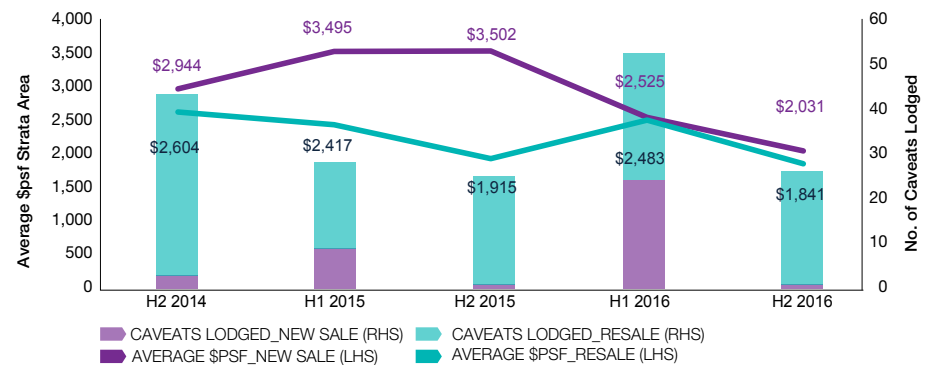
Resale leasehold market captured bulk of activity as prices across the board trended downwards

FREEHOLD STRATA OFFICE

- Average prices of resale freehold units island-wide declined 25.8% to \$1,841 psf in H2 2016 from half-year ago. With close to one-third of caveats lodged belonging to large-sized office units (i.e. above 1,000 sq ft), the lower psf prices of these units have dragged down average prices. (Exhibit 2)
- Demand in the new sale market was lacklustre, with only one caveat lodged; a 63 square metre unit at freehold development Hexacube was transacted at \$2,031 psf.

EXHIBIT 2

Caveats Lodged and Average Prices of Freehold Strata Office Units



Source: REALIS (as at 11 January 2017), Knight Frank Research

*Freehold refers to properties with freehold tenure or tenure of more than 900 years.

**Subsale transactions are not shown.

LEASEHOLD STRATA OFFICE

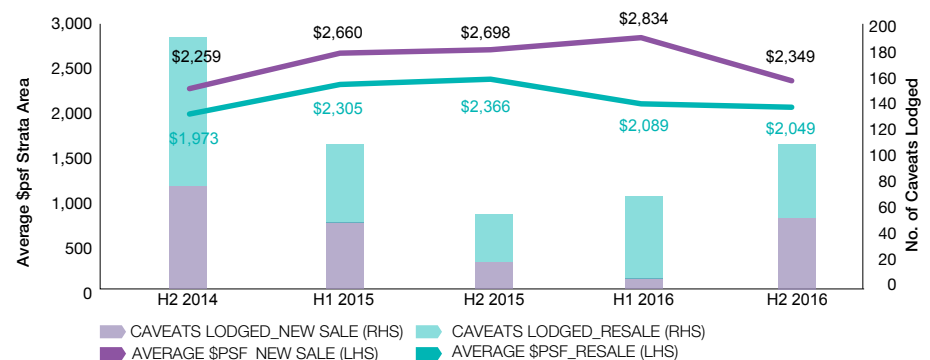
- Although transaction volume of new sale leasehold units jumped from 8 caveats lodged in H1 2016 to 54 caveats in H2 2016, average price fell 17.1% to \$2,349 psf over the same period. (Exhibit 3)
- Similarly, transaction volume in the resale leasehold segment inched higher from 55 caveats lodged in H1 2016 to 60 caveats in the second half of the year. Despite a more active market, average price softened for the second consecutive half-year period, declining 1.9% to \$2,049 psf.
- Nevertheless, average prices of projects in central locations and with MRT connectivity remained resilient. For example, caveats of The Central strata office transactions indicated an average price of \$2,530 psf in H2 2016, reflecting a marked increase of 4.7%

BUYER PROFILE AND PRICE QUANTUM

- Companies remained the top purchasers of office units, contributing to about three in every four office transactions in H2 2016. This reflects a sharp increase from the corresponding period a year ago, in which companies contributed 62.3% of total office transactions. This trend is expected to continue, as investors look towards capitalizing on the benefits of buying commercial properties via incorporating a company, including exemption from the Goods & Service Tax (GST).
- The imposition of the Total Debt Servicing Ratio (TDSR) ruling in June 2013 has resulted in buyers being more price quantum sensitive. Amid the stricter financing environment, the proportion of office transactions below S\$1 million rose for the fifth consecutive half-year period, making up 35.9% of total transactions in H2 2016 (Exhibit 4).

EXHIBIT 3

Caveats Lodged and Average Prices of Leasehold Strata Office Units

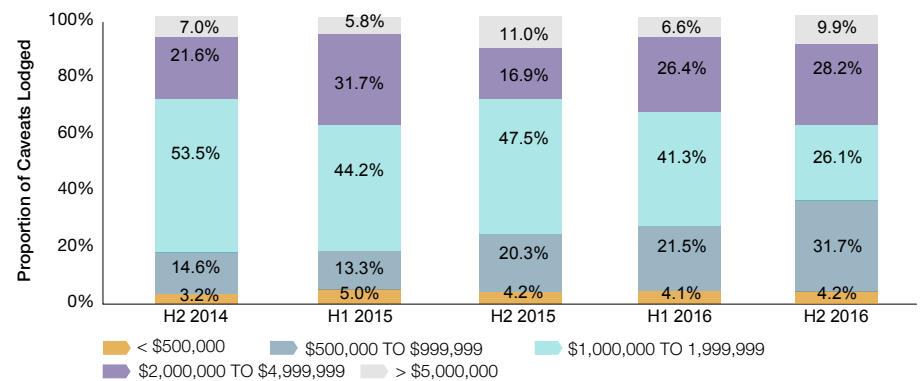


Source: REALIS (as at 11 January 2017), Knight Frank Research

*Leasehold refers to properties with 99 years lease tenure. **Subsale transactions are not shown.

EXHIBIT 4

Office Transactions by price quantum, by proportion (%)



Source: REALIS (as at 11 January 2017), Knight Frank Research

OUTLOOK

- The strata office market could see a pick-up in buying activity in 2017, as investors look to invest in available units at current lower prices and ride on an anticipated recovery in the leasing market in 2018 and beyond.
- However, amid the uncertain business environment and likely US Fed interest rate hikes, buying sentiment is expected to take on a more cautious tone. A price quantum of less than \$1 million is expected to remain the sweet-spot pricing for most investors.
- Transaction volume in H1 2017 is likely to mirror that of H1 2016, with about 110 – 130 units projected to change hands.

STRATA-TITLED RETAIL SECTOR

Lack of new launches dragged down transaction value of strata retail units

- The number of caveats lodged fell by half in H2 2016 compared to H1 2016. With limited new launches, the new sale market led the slowdown, as the number of caveats lodged in H2 2016 fell 86.6% from the preceding half-year.
- New sales activity in H1 2016 was mainly contributed by the launch of freehold development Centrium Square, which accounted for more than half of the 82 new sales caveats lodged in the first half of the year.

Bulk-sale props up demand in resale freehold market, while new sale leasehold transaction volume hit new-low for the last four years

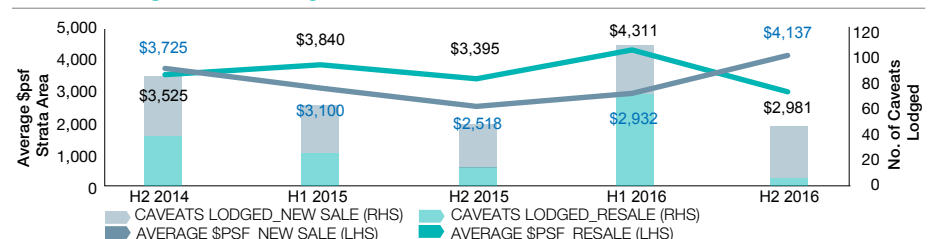
FREEHOLD STRATA RETAIL

- While the transaction volume for resale freehold strata retail units remained fairly stable in H2 2016 compared to H1 2016, average price ballooned 41.1% to \$4,137 psf over the same period (Exhibit 5)

The spike in average price is mainly contributed by a flurry of purchases at Holland Road Shopping Centre. A total of 9 caveats were lodged for the freehold retail development, with a single bulk-buyer deal concluded for seven strata units on the ground-floor of the development at an average price of \$4,976 psf. Buying interest towards the development is unlikely to waver, as investors look to stake a claim in this landmark development in Holland Village.

EXHIBIT 5

Caveats Lodged and Average Prices of Freehold Strata Retail Units



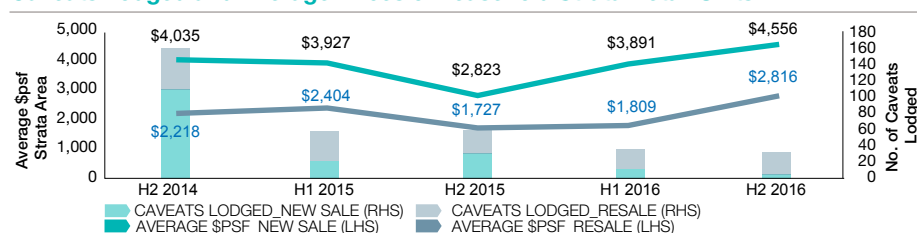
Source: REALIS (as at 11 January 2017), Knight Frank Research

LEASEHOLD STRATA RETAIL

- With limited new launches, the number of caveats lodged for new sale leasehold strata retail units fell 58.3% to 5 caveats in H2 2016 compared to H1 2016. This also marked a new low in transaction activity since H2 2012, during which only two caveats were lodged (Exhibit 6)
- Despite a quieter market, average prices rose 17.1% to \$4,556 psf in H2 2016, reflecting a second consecutive period of increase. This uptick in average price is supported by the sales of three ground-floor units in mixed-development City Gate, commanding an average price of \$4,482 psf.
- Demand for resale leasehold strata retail units rose 12.5% to 27 caveats in H2 2016, with average price increasing 55.7% to \$2,816 over the same period.

EXHIBIT 6

Caveats Lodged and Average Prices of Leasehold Strata Retail Units



Source: REALIS (as at 11 January 2017), Knight Frank Research

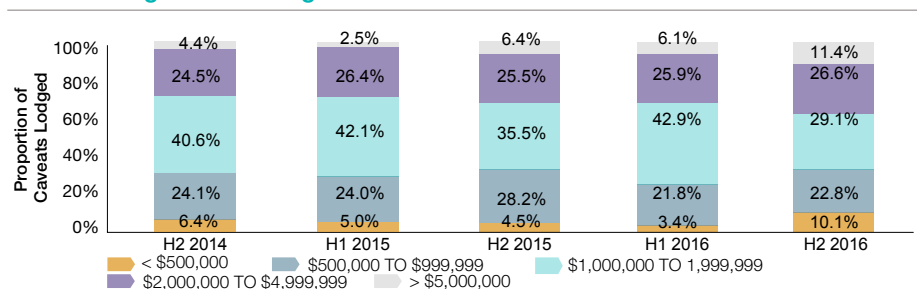
*Leasehold refers to properties with 99 years lease tenure. **Subsale transactions are not shown.

BUYER PROFILE AND PRICE QUANTUM

- Companies retained their lead as the top buyer of retail units, contributing about half of the total retail units transacted in H2 2016. The proportion of Foreigner buyers also rose to 11.4% in H2 2016 compared to 5.4% in H1 2016, which marked the lowest proportion since H2 2012.
- Against the backdrop of a tightened financing environment, buyers in the strata retail market remained price quantum sensitive, with the proportion of transactions below S\$1 million increasing to 32.9% of total transaction volume in H2 2016 (Exhibit 7).

EXHIBIT 7

Caveats Lodged and Average Prices of Freehold Strata Retail Units



Source: REALIS (as at 11 January 2017), Knight Frank Research

OUTLOOK

- The overall retail industry continues to face significant headwinds on several fronts; persistent labour woes, continued threat of e-commerce and weakening consumer sentiment. These challenges are expected to exert further pressure on occupancy, as some recently-completed strata-titled developments continue their struggle in filling up empty spaces.
- In light of the bleak retail market outlook and impending supply glut, potential buyers of strata-titled retail properties are expected to be more prudent in selection.
- Nevertheless, centrally-located strata retail properties with freehold tenure will remain well in demand. Perennial favourites located in the city-centre such as Far East Plaza and Lucky Plaza are expected to see sustained buying interest.
- Total transaction volume for H1 2017 is projected to range from 130 units to 150 units.

SHOPHOUSES

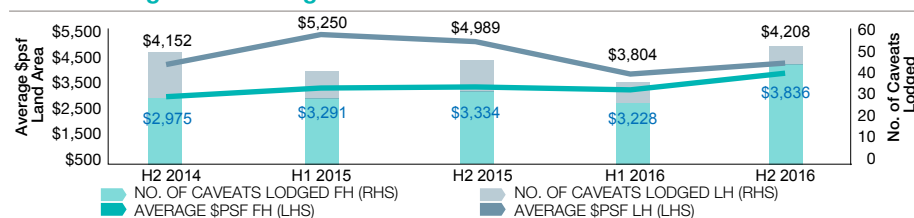
- Demand for shophouses picked up in H2 2016 to 52 caveats from 36 caveats in H1 2016. This also marks the highest number of caveats lodged since H1 2013. In tandem, the total transaction value almost doubled over the same period to hit S\$424.6 million in H2 2016.
- Freehold shophouses regained popularity, as transaction volume and average price both rebounded in H2 2016. However, demand for leasehold shophouses continued to soften, with only 8 caveats lodged in H2 2016 compared to 9 caveats in H1 2016 (Exhibit 8)
- Average price for freehold shophouses increased to S\$3,836 psf in H2 2016, reaching its highest level since H2 2013.
- While shophouses in Districts 1 (Raffles Place, Cecil, Marina, People's Park) and 8 (Little India) remained popular among buyers, District 15 (Katong, Joo Chiat, Amber Road) overtook District 2 (Anson, Tanjong Pagar) as the top-three most sought-after districts in H2 2016 (Exhibit 9)
- In terms of buyers' profile, companies continue to lead the purchase of shophouses, contributing to two out of every three caveats lodged in H2 2016.

OUTLOOK

- In spite of the opaque economic environment and an uncertain investment climate, shophouses are likely to remain highly sought-after by investors, especially high net-worth individuals and boutique funds.
- The relative scarcity, finite supply and conservation status appeal of shophouse properties offer investors capital upside potential in the long-term.
- As competition for well-located shophouses gathers pace, investors are likely to look beyond the traditional CBD district to heritage-rich areas such as Little India and Joo Chiat.

EXHIBIT 8

Caveats Lodged and Average Prices of Leasehold Strata Retail Units

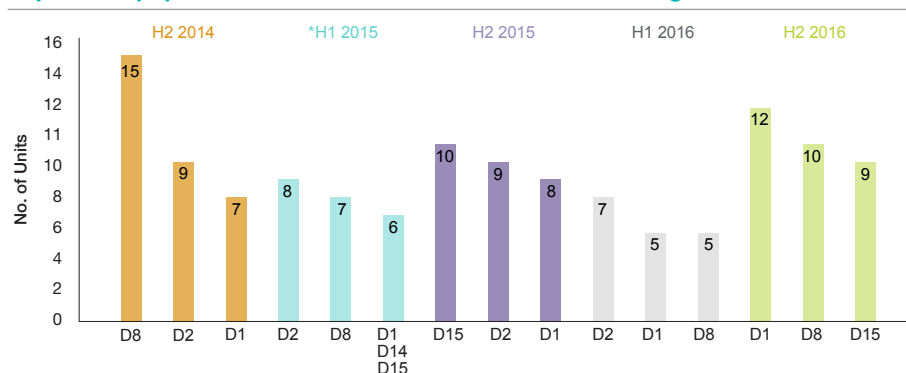


Source: REALIS (as at 11 January 2017), Knight Frank Research

*Leasehold refers to properties with 99 years lease tenure. **Subsale transactions are not shown.

EXHIBIT 9

Top 3 most popular districts based on number of caveats lodged



Source: REALIS (as at 11 January 2017), Knight Frank Research

*Districts 1, 14 and 15 each had 6 caveats lodged

**Subsale transactions are not shown.

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