

# SINGAPORE RESEARCH COMMERCIAL SALES



## H2 2018 COMMERCIAL SALES MARKET SNAPSHOT

### OFFICE



Total office sales amounted to S\$848.3 mil in 2018, about 8.5% higher than in 2017. Notwithstanding, sales volume in strata-titled offices declined by 36.9% to S\$328.4 million in H2 2018 from S\$520.0 million in H1 2018 due to mismatch of expectations between buyers and sellers.

### RETAIL



The total strata retail sales rose to S\$378.0 million in 2018 from S\$327.3 million in 2017. The increase in retail sales were supported by demand from opportunistic buyers seeking units in older commercial developments with en bloc redevelopment potential. Notwithstanding, investment sales of retail units appeared to face downward pressure, easing by 4.7% to S\$184.5 million H2 2018 from S\$193.5 million in H1 2018.

### SHOPHOUSE



Sales of shophouse declined to S\$473.7 million in H2 2018 after reaching \$890.8 million in H1. While demand remains keen, the higher asking prices have slowed sales.

## SLOWER SALES IN STRATA COMMERCIAL PROPERTIES DUE TO HIGHER ASKING PRICES IN H2 2018



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“Opportunistic purchases of units within developments of en bloc potential helped support sales of strata offices and retail units. Shop houses, separately, remain in demand. With higher asking prices, prospective buyers need to explore new concepts to increase yield.”

### EXHIBIT 1

#### Caveats Lodged and Transaction Value for Strata-Titled Offices, Strata-Titled Retail, and Shophouses

	Strata Offices	Strata Retail	Shophouses
<b>H1 2018</b>	New Sale : 10 Sub Sale : 1 Resale : 167 Total Caveats : 178  Transaction Value: S\$520.0 mil	New Sale: 12 Sub Sale: 1 Resale : 123 Total Caveats: 136  Transaction Value: S\$193.5 mil	Total Caveats: 86  Transaction Value: S\$890.8 mil
<b>H2 2018</b>	New Sale : 12 Sub Sale : 0 Resale : 130 Total Caveats : 142  Transaction Value: S\$328.4 mil (-36.9% change)	New Sale: 6 Sub Sale : 0 Resale : 100 Total Caveats : 106  Transaction Value: S\$184.5 mil (-4.7% change)	Total Caveats: 63  Transaction Value: S\$473.7 mil (-46.8% change)

Source: REALIS (as at 11 Jan 2019), Knight Frank Research

## STRATA OFFICE SECTOR

The sales volume for strata office units dropped in H2 2018 after reaching S\$520.0 million in H1 2018.

- The value of the strata office units transacted went down by about 36.9% to S\$328.4 million in H2 2018. Notwithstanding, the spike in strata-titled office sales in H1 2018 helped pushed total sales in 2018 to reach S\$848.3 million in 2018 from S\$782.2 million in 2017.
- Some strata office units in H2 2018 sold were in developments that were at some stage of selling the building en bloc. These buildings include Shenton House (3 caveats), People's Park Centre (2 caveats), and International Plaza (25 caveats). Most of these units were transacted below S\$2.0 million.
- There were 142 caveats lodged in H2 2018, fewer than the 178 caveats lodged in H1 2018. Overall, the 320 caveats lodged in 2018 were a shade lower than the 339 caveats lodged in 2017. Despite the slower sales, it is premature to conclude that sales will start trending downwards with the office market looking optimistic. Office rents are projected to increase in 2019.

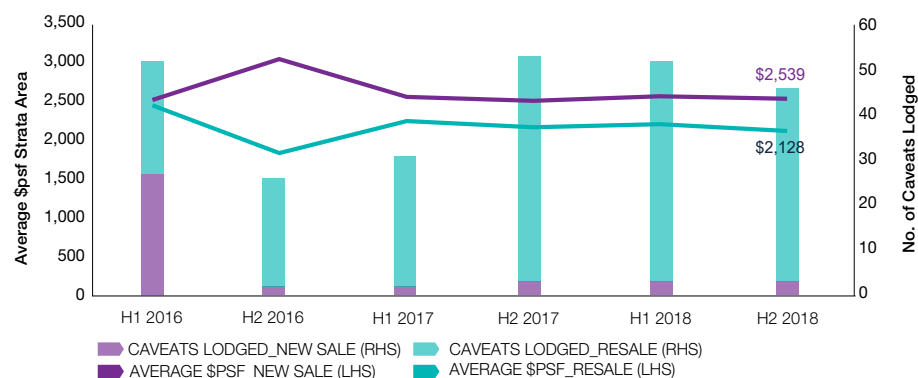
## FREEHOLD STRATA OFFICE

The value of freehold strata offices transacted in 2018 exceeded S\$194.4 million in 2017, although sales started to ease in H2 2018. Average unit prices of freehold strata offices also eased.

- Total value of transactions of freehold strata offices in 2018 rose to S\$272.2 million from S\$194.4 million in 2017. However, total sales of freehold strata offices declined to S\$103.7 million in H2 2018 from S\$168.5 million in H1 2018.
- The average unit price for freehold strata offices was about S\$2,178 per sq ft in H1 2018, slightly lower than S\$2,209 per sq ft in H2 2018.
- The number of caveats lodged for freehold strata units priced between S\$2.0 million and S\$5.0 million more than doubled to 13 in H2 2018 from 6 in H1 2018.

### EXHIBIT 2

#### Caveats Lodged and Average Prices of Freehold Strata Office Units



Source: REALIS (as at 11 Jan 2019), Knight Frank Research

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

\*\*Subsale transactions are not shown.

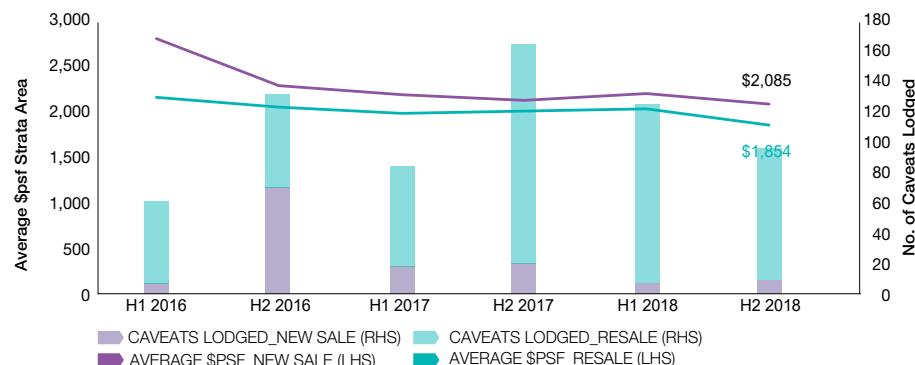
## LEASEHOLD STRATA OFFICE

The number of leasehold strata offices transactions continue to diminish.

- The number of leasehold strata offices transacted fell to 96 caveats in H2 2018 from 126 caveats in H1 2018. For the whole of 2018, there were 222 caveats lodged for leasehold office strata units, lower than 255 caveats lodged in 2017.
- The transaction value of leasehold strata offices transacted in 2018 eased by 2.0% to S\$576.1 million, with sales declining in H2 2018. The value of leasehold offices transacted H2 2018 was S\$224.7 million, lower than the S\$351.5 million transacted in H1 2018.
- There were fewer leasehold strata office units transacted that was in S\$500,000 to S\$2.0 million bracket in H2. The number of leasehold strata offices transacted within the S\$500,000 to S\$1.0million bracket went down to 20 in H2 2018 from 34 in H1. Likewise, the number of leasehold strata offices transacted between \$1.0 million and \$2.0 million declined by 20 caveats to 34 caveats lodged in H2 2018.

EXHIBIT 3

**Caveats Lodged and Average Prices of Leasehold Strata Office Units**



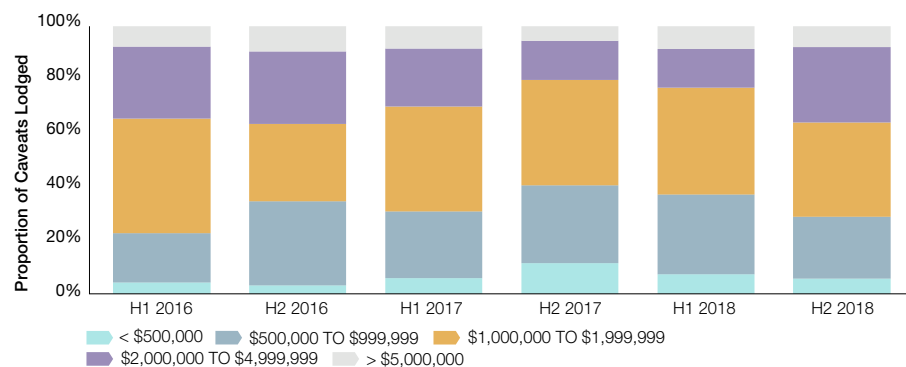
**Source:** REALIS (as at 11 Jan 2019), Knight Frank Research  
 \*Leasehold refers to properties with 99-year leasehold tenure.  
 \*\*Subsale transactions are not shown.

**BUYER PROFILE AND PRICE QUANTUM**

- The proportion of companies purchasing strata offices went up from 60.8% in H1 2018 to 70.0% in H2 2018. With office rents going up at a faster pace than interest rates, companies may be induced to purchase office to hedge the uptrend in office rents. Separately, the proportion of Singaporean purchases fell from 30.7% in H1 to 19.3% in H2 2018.
- In 2018, there were proportionately more strata offices transacted between S\$2.0 million and S\$5.0 million, accounting for 20.6% of the number of caveats lodged.

EXHIBIT 4

**Office Transactions by Price Quantum, by Proportion (%)**



**Source:** REALIS (as at 11 Jan 2019), Knight Frank Research

**OUTLOOK**

- The continued uptrend in office rents, together with limited supply of strata offices, will likely raise asking prices, leading to slower sales.
- Sales of smaller office units in developments that have potential for en bloc sale are likely to diminish, as some existing owners are holding out for en bloc gains.
- The expected increase in interest rates and uncertain external environment may also discourage sales among some companies and investors. However, investors seeking for wealth preservation or companies seeking to hedge against the uptrend in rents are likely to remain undeterred.

## STRATA-TITLED RETAIL SECTOR

The number of strata retail transactions went up to 242 caveats in 2018 from 211 caveats in 2017. There was a strong pick up in resale activity.

- Sales of strata retail units amounted to S\$378.0 million in 2018, increasing from S\$327.3 million in 2017. The momentum eased in H2 2018 as sales declined by 4.7% to S\$184.5 million from S\$193.5 million in H1 2018. Interest in freehold retail units helped cushion the drop.
- There were fewer new sales of strata title retail units in H2 2018; the new sales mainly emanated from retail spaces within new private residential developments.

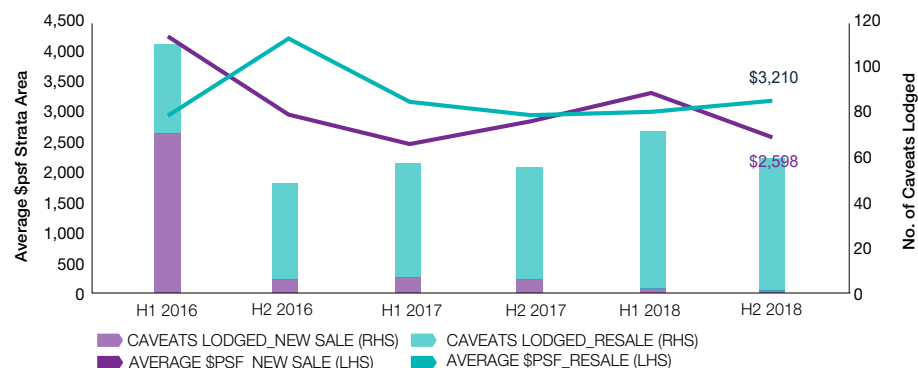
## FREEHOLD STRATA RETAIL

Sales value of freehold strata retail units rose in H2

- Sales of freehold strata retail units rose to S\$127.3 million in H2 2018 from S\$124.8 million in H1. The sales momentum continued in H2 2018 as there was keen interest in older projects, such as Golden Mile Tower, Far East Plaza and Far East Shopping Centre. The increased interest in the older projects boosted total sales of freehold strata retail units by 63.8% to S\$252.1 million in 2018.
- Notable freehold strata retail transactions in H2 2018 included the sale of Level 3 unit at Orchard Towers (S\$13.2 million, or S\$4,380 psf) and the Level 1 unit at 8 Rodyk (S\$8.8 million, S\$3,464 psf).
- The proportion of units transacted below S\$2.0 million decreased from 73.6% in H1 to 66.7% in H2, as there were fewer units available for opportunistic buys.

EXHIBIT 5

Caveats Lodged and Average Prices of Freehold Strata Retail Units



Source: REALIS (as at 11 Jan 2019), Knight Frank Research

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

\*\*Subsale transactions are not shown.

## LEASEHOLD STRATA RETAIL

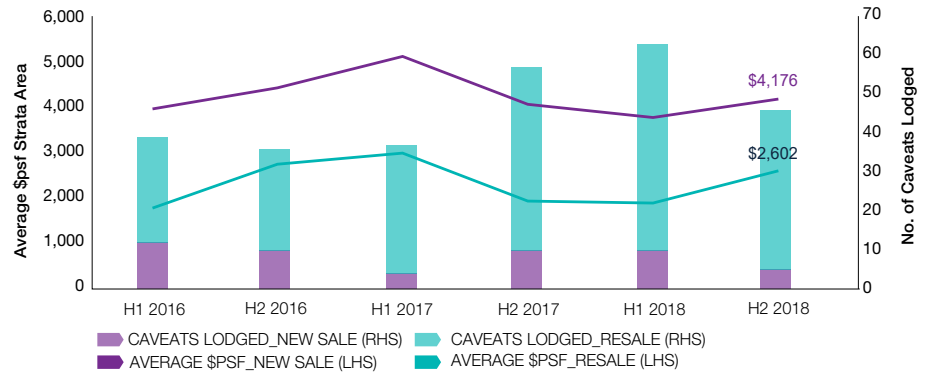
There were more leasehold strata retail shops transacted in 2018, but they are of smaller price quantum.

- The number of strata units transacted in 2018 rose to 242 units from 211 units in 2017. However, sales of the leasehold strata-titled units declined to S\$125.9 million in 2018 from S\$173.4 million in 2017. The momentum is likely to slow down, as total number of transactions declined by 15.8% in H2 2018.
- About 58.7% of the properties transacted in H2 2018 were below S\$1.0 million. Most of the properties transacted were in older projects such as Cuppage Plaza and Golden Mile Tower.



EXHIBIT 6

**Caveats Lodged and Average Prices of Leasehold Strata Retail Units**



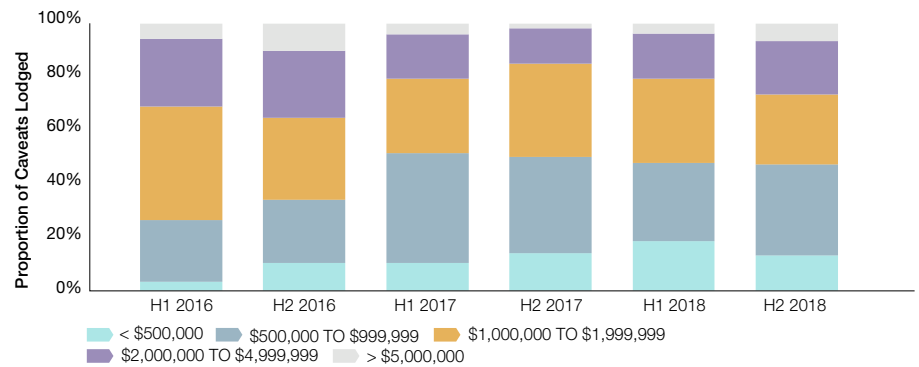
**Source:** REALIS (as at 11 Jan 2019), Knight Frank Research  
 \*Leasehold refers to properties with 99-year lease tenure.  
 \*\*Subsale transactions are not shown.

**BUYER PROFILE AND PRICE QUANTUM**

- In H2 2018, the proportion of Singaporean buyers accounted for 49.1% of buyers, exceeding that of Company. Retailers may find the strata malls less appealing than the malls managed by a single landlord.
- The proportion of retail properties transacted below S\$1.0 million have stayed largely unchanged from 2017, easing slightly to 47.5% in 2018 from 50.7% in 2017.
- While there is keen interest in the smaller retail units, the mismatch in expectations between buyers and sellers led to fewer sales of units of smaller quantum.

EXHIBIT 7

**Retail Transactions by Price Quantum, by Proportion (%)**



**Source:** REALIS (as at 11 Jan 2019), Knight Frank Research

**OUTLOOK**

- There were fewer transactions of strata retail units in H2 2018. The mismatched expectations and the challenging retail landscape attributed to the slower sales.
- The strata retail sales were supported by opportunistic purchases of units of developments that have en bloc potential. These units were usually transacted below S\$1.0 million.
- Moving forward, we expect units that are available at low quantum in projects undergoing en bloc will diminish. In addition, the challenging retail landscape, coupled with rising interest rates, may discourage retailers to buy for their own use. There is also little incentive for them to own, given that retail rents are expected to remain subdued.
- Centrally-located freehold strata retail projects are likely to appeal to investors.

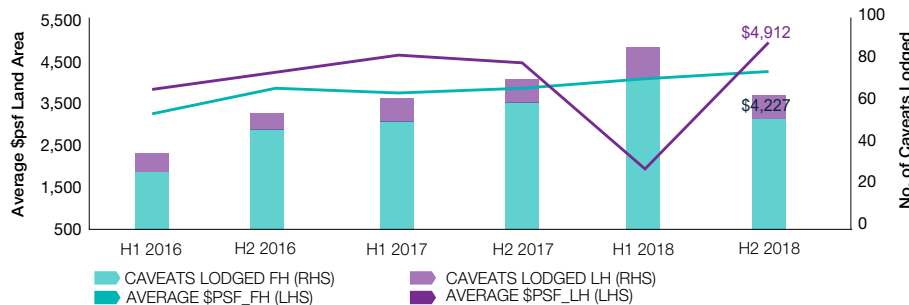
## SHOPHOUSE

There was an increase in shophouse sales in 2018, boosted by sales in H1 2018. However, sales in H2 2018 slowed as prices of shophouses appreciate.

- The value of shophouses transacted in 2018 reached S\$1.4 billion, which was at a historic high. The last peak was in 2012 at S\$1.30 billion. Notwithstanding, sales of shophouses declined from historic high of S\$890.8 million in H1 2018 to S\$473.8 million in H2 due to higher price expectations from sellers.
- Notable transactions included the shophouses at 33 Liang Seah Street (S\$29.0 million), 40/41 Duxton Hill (S\$24.8 million), 64 Club Street (S\$21.8 million), 33-37 Tras Street (S\$21.2 million) and 21 Boon Tat Street (S\$16.5 million).
- Companies accounted for 128 shophouse transactions of the 209 transactions lodged in 2018. Adjoining shophouses that can be converted to hotels or are existing boutique hotels appeal to investors, given the optimistic outlook of the hospitality sector.
- Additionally, the shophouses are attractive to investors as they offer much upside for price appreciation. For instance, the shophouses in District 8 transacted in H2 2018 have an average compounded annual growth rate (CAGR) of 7.7%. The owners who sold their shophouses in Outram and Singapore River planning areas enjoyed a CAGR of 10% per annum over about 4 years.
- Among the districts, Districts 8 (Little India) and District 14 (Eunos, Geylang and Paya Lebar) recorded more transactions in H2 2018. District 8 has been a popular location among Singaporeans and tourists for cyber cafes, budget hotels and shops selling Indian delicacies and food specialties.

EXHIBIT 8

### Caveats Lodged and Average Land Prices of Shophouses



Source: REALIS (as at 11 Jan 2019), Knight Frank Research

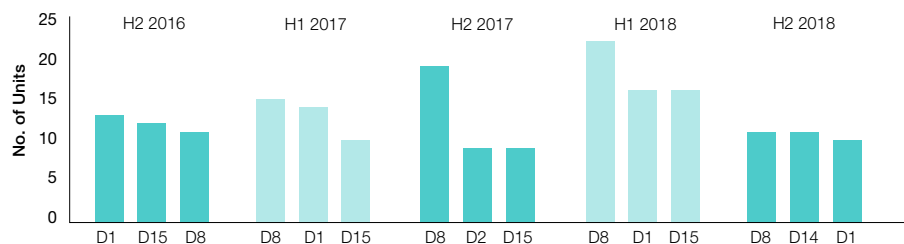
\*Freehold refers to properties with freehold tenure or tenure of more than 900 years.

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\*\*\*Subsale transactions are not shown.

EXHIBIT 9

### Top 3 Most Popular Districts Based on Number of Caveats Lodged



Source: REALIS (as at 11 Jan 2019), Knight Frank Research

\*Subsale transactions are not shown.

## OUTLOOK

- Shophouses will remain one of the most highly sought-after asset, especially among investors keen to operate boutique hotels. Notwithstanding, shophouse sales are likely to decline due to mismatch of expectations between buyers and sellers.
- We expect more shophouse transactions in Districts 8 and 14, as the quantum required is lower for entry-level investors.

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