

# Shoebox Units Prevail despite URA guideline on maximum number of dwelling units in private developments



“Given the tightened financing requirements and property cooling measures, developers are still inclined to incorporate more smaller-sized units in projects so as to appeal to a wider group of home seekers, investors or singles and small families still looking out for units with affordable lump-sum prices.”

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## URA guideline on Maximum Number of Dwelling Units in New Apartment and Condominium Developments, with effect from 4 November 2012

- The Urban Redevelopment Authority (URA) introduced a guideline in November 2012 stipulating the maximum number of dwelling units (DUs) for all new flats and condominium developments outside the Central Area (CA), based on the following formula:

### Maximum number of DUs per development $\leq$ (MP Allowable Gross Plot Ratio x Site Area) / 70 sqm

- The policy was developed to avoid a situation where shoebox units form a disproportionately large portion of housing stock in Singapore.
- The Government was aware of an increasing number of shoebox units being built in new housing projects, with these small units forming as high as 50 per cent to 80 per cent of the total number of units in some developments. URA had estimated that the stock of shoebox units was slated to increase more than fourfold from 2,400 units as at end 2011 to approximately 11,000 units by 2015. This trend raised concerns, particularly in the suburban areas, where larger households and families typically reside, and where the demand for shoebox units remains untested. URA purported, from public feedback, that while shoebox units appeal to some people from small households such as singles, couples without children and retirees, it may not meet the needs of larger households with more than two members, and are not conducive for couples to have children.
- The URA guideline applies only to private non-landed residential developments

located outside the CA and whose Provisional Permission (PP) is granted after 4 November 2012.

- This research analysis undertakes the definition of a shoebox unit to be units having sizes that are less than or equal to 47 square metres, which is the typical shoebox size referred to by the private sector. It is also observed that in most of the private residential developments, shoebox units are generally sized 47 square metres or smaller.

## Has the guideline been effective in reining in proliferation of shoebox units in developments?

- A total of 105 private residential developments were selected and analysed, with the following criteria:-

- 1) all projects located outside the Central Area (CA) comprising non-landed units (including projects with both strata landed units and non-landed units), **of which each project:**
- 2) consists of 100 units and above; **and**
- 3) the projects must either have PP or Written Permission (WP) dates that fall within the one-and-a-half-year period before November 2012 (i.e. the “pre-guideline period”) or have PP dates that fall within the one-and-a-half-year period after November 2012 (i.e. the “post-guideline period”). This would allow a comparison between the group of projects which received approvals for their development plans under the scenario where there was no guideline on the maximum number of DUs in the development (the former “pre-guideline” basket of projects), and the group of projects whose plans had to be subject to the

guideline (the latter “post-guideline” basket).

- Analyzing the total number of shoebox units based on the above-mentioned selected projects, the average proportion of shoebox units across developments has risen marginally from 12.3 per cent in the pre-guideline period to 12.4 per cent in the post-guideline period (see distribution of projects with varying proportions of shoebox units in Exhibit 1). As a result, 10.5 per cent of all units receiving PP in the pre-guideline period were shoebox units, but this rose to 13.9 per cent in the post-guideline period (see Exhibit 2).

- Further analyzing the proportion of shoebox units by planning regions, with the exclusion of The Hillford, it is observed that the percentages of shoebox units in the North and West Regions have fallen in the post-guideline period (see Exhibit 3). This decrease in proportion could be attributed to the anticipated lower demand for shoebox units in far-flung locations from well-heeled singles, couples and expatriates who generally prefer locations nearer to the city-centre, for convenience in commuting for work and accessibility to a wider range of leisure and entertainment amenities.

- On the other hand, the proportion of shoebox units rose the most (i.e. by 6.8 per cent) in the East Region during the post-guideline period. Such notable increase in the percentage of shoebox units is contributed by two large-scale projects; The Santorini (estimated proportion of shoebox units in development: 5.0 per cent) and The Glades (20.2 per cent).

### Guideline Lifted for The Hillford as Flexibility is Key to Retirement Housing Theme

- In the post-guideline period, it is noted that the development The Hillford contains a disproportionately large number of shoebox units (i.e. proportion of shoebox units  $\geq$  50%). Shoebox units made up approximately 84.3 per cent of the total number of units in the development.

- However, based on a confirmation with URA, the guideline does not apply to The Hillford as the site for the project was released by the URA with special conditions to facilitate the development of a private retirement housing product.

- With the exclusion of The Hillford, the average proportion of shoebox units across developments fell from 12.3 per cent in the pre-guideline period to 9.7 per cent in the post-guideline period, illustrating the effectiveness of the guideline in achieving its aim of regulating the proportion of shoebox units in developments.

### Increased Proportion of Shoebox Units despite Guideline, due to Higher Demand for Smaller Units

- This increase in the ratio of these “Mickey Mouse” units pre- and post-guideline demonstrates that the guideline did not serve to reduce the proportion of shoebox units in the private residential market

outside CA. However, the marked decrease in shoebox unit proportions at North and West Regions post-guideline is a tentative reflection of the guideline’s relative effectiveness to ensure that more larger-sized units are introduced for families who choose their homes in the suburbs.

- In establishing the guideline, URA would have been aware that the average sizes of units in most private residential developments typically exceeded 70 square metres.

- The guideline was probably developed in response to specific building plan proposals received, where the plans had shown to consist of a significantly large proportion of shoebox units to be built, which differed from most of the usual developments where

EXHIBIT 1

#### Distribution of Selected Private Non-Landed Residential Developments located outside the CA, by various proportions of Shoebox Units in each development\*

Period of Analysis	Total Number of Developments	Proportion of Shoebox Units in Development	Proportion of Total Developments
Pre-Guideline Period (Before November 2012)	77	0 - 10%	58.4%
		10 - 20%	16.9%
		20 - 30%	9.1%
		30 - 40%	7.8%
		40 - 50%	5.2%
		> 50 %	2.6%
Post-Guideline Period (After November 2012)	28	0 - 10%	46.4%
		10 - 20%	39.3%
		20 - 30%	7.1%
		30 - 40%	0.0%
		40 - 50%	3.6%
		> 50 %	3.6%

Source: Knight Frank Research

\* Top three percentage proportion ranges in the pre- and post-guideline are highlighted.

EXHIBIT 2

#### Total Number and Proportion of Shoebox Units in Selected Private Non-Landed Residential Developments situated outside the CA

Period of Analysis	Total Number of Shoebox Units in Selected Developments	Total Number of Units in Selected Developments	Island-wide Proportion of Shoebox Units in Selected Developments
Pre-Guideline Period (Before November 2012)	3,273	31,141	10.5%
Post-Guideline Period (After November 2012)	1,524	10,953	13.9%

Source: Knight Frank Research

shoebox units were developed in moderation. This implies that most of the existing building plans would actually not have been affected by the guideline, and with average sizes in the development exceeding 70 sq m.

- Gradually, however, as the market began to heat over 2012 and 2013, more potential buyers were looking to invest in the property market. Many investors with 'less deep pockets' began to take keen interest in shoebox units, which were more palatable in terms of price quantum affordability due to their smaller sizes.

- In view of this trend, many of the developers sought to increase the proportion of shoebox units in their development to take advantage of the buoyant property market demand and investor demand. Furthermore, shoebox units fetch higher unit prices.

- An analysis of the proportions of new sale caveats lodged for private non-landed residential units in the pre- and post-guideline periods indicates that the East Region saw the largest jump in the percentage of shoebox unit purchases (see Exhibit 5), which is in tandem with the region also having witnessed the largest increase in the proportion of shoebox units post-guideline.

- On the other hand, while there is a notable fall in the proportion of shoebox units in the West Region in the post-guideline period, the percentage of new sale shoebox unit caveats lodged has risen by a significant 4.1 per cent.

- Analyzing new sale caveats lodged for private non-landed residential units in the West Region in the post-guideline period, it is observed that close to half of the caveats lodged were for the highly-popular J Gateway (see Exhibit 5), which was launched in the same weekend just before the TDSR came into effect.

- With the TDSR restricting the potential investment outlay of homeowners and investors alike, shoebox units could hold a greater appeal to buyers with their lower overall price quantum.

- In light of the weaker property market where price remains the key consideration in property purchases, most developers are inclined to incorporate a larger proportion of these smaller-sized shoebox units in order to move units.

## EXHIBIT 3

### Total Number and Average Proportion of Shoebox Units (by Planning Region) in Selected Private Non-Landed Residential Developments (excluding The Hillford) located outside CA\*

Period	Planning Region	Total Number of Shoebox Units in Selected Developments	Total Number of Units in Selected Developments	Proportion of Shoebox Units	Change in Proportion of Shoebox Units
Pre-Guideline (Before November 2012)	Central Region*	1,076	6,560	16.4%	-
	East Region	529	8,063	6.6%	-
	North East Region	654	9,852	6.6%	-
	North Region	426	1,881	22.6%	-
	West Region	588	4,785	12.3%	-
Post-Guideline (After November 2012)	Central Region*	831	4,971	16.7%	0.3%
	East Region	177	1,323	13.4%	6.8%
	North East Region	275	2,866	9.6%	3.0%
	North Region	4	186	2.2%	-20.5%
	West Region	0	1,326	0.0%	-12.3%

Source: Knight Frank Research

\* Excludes Central Area and Southern Islands.

## EXHIBIT 4

### Total Number and Average Proportion of Shoebox Units (by Planning Region) in Selected Private Non-Landed Residential Developments (excluding The Hillford) located outside CA

Period of Analysis	Total Number of Shoebox Units in Selected Developments	Total Number of Units in Selected Developments	Average Proportion of Shoebox Units in Selected Developments	Island-wide Proportion of Shoebox Units in Selected Developments
Pre-Guideline Period (Before November 2012)	3,273	31,141	12.3%	10.5%
Post-Guideline Period (After November 2012)	1,287	10,672	9.7%	12.1%

Source: Knight Frank Research

## EXHIBIT 5

### Proportion of New Sale Caveats for Shoebox Units (by Planning Region) in Selected Private Non-Landed Residential Developments located outside CA\*

Planning Region	Proportion of New Sale Caveats Lodged for Shoebox Units		
	Pre-Guideline (May 2011 - Nov 2012)	Post-Guideline (Nov 2012 - Dec 2014)	Change in Proportion of Caveats Lodged
Central Region	31.0%	19.5%	-11.5%
East Region	8.1%	13.6%	5.5%
North East Region	10.7%	11.6%	0.9%
North Region	15.9%	5.5%	-10.4%
West Region	10.0%	14.1%	4.1%

Source: REALIS (based on data downloaded as at 11 January 2015), Knight Frank Research

\* The above analysis only takes into consideration caveats corresponding to a single-unit purchase.

\* The above analysis does not take into account caveats for shoebox units in the development The Hillford which is on a 60-year leasehold tenure.

### Analysis on Prices of Shoebox Units Pre-TDSR and Post-TDSR

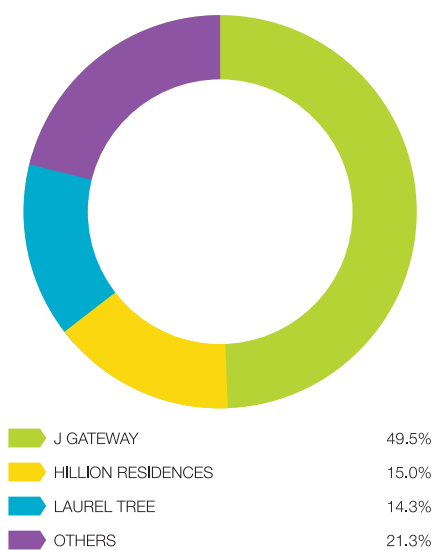
- An analysis of the number of caveats lodged for new sale shoebox units (outside the Central Area) from January 2012 to December 2014 (one-and-a-half-year period pre- and post-TDSR) by price range, demonstrates that there is a notable increase in the number of transactions in the price range of \$700,001 - \$900,000 (see Exhibit 6). On the other hand, the number of transactions exceeding \$1,100,000 were far and few post-TDSR.
- There was also a slight drop in the proportion of new sale shoebox transactions below \$1,000,000 in the post-TDSR period (see Exhibit 6).

### High Upcoming Supply of Shoebox Units outside Central Area by 2016

- 2,022 units, or 42.2 per cent of the total number of shoebox units (from the abovementioned selected developments that received PP between May 2011 and April 2014), are expected to be completed in 2016 (see Exhibit 7).

EXHIBIT 6

#### Proportion of New Sale Caveats for Shoebox Units (by Development) in Post-Guideline Period



Source: REALIS (based on data downloaded as at 11 January 2015), Knight Frank Research

\* The above analysis only takes into consideration caveats corresponding to a single-unit purchase.

\* The above analysis does not take into account caveats for shoebox units in the development The Hillford which is on a 60-year leasehold tenure.

### Conclusion and Outlook

- In view of tightened financing conditions with the TDSR ruling and existing property cooling measures, developers are likely to continue incorporating more smaller-sized units in developments so as to appeal to a wider group of home seekers, investors or singles and small families still looking out for units with affordable lump-sum prices. It is critical for developers, in this competitive sale market, to reach out to a wider market base of investors with varying needs and wants so as to achieve better sales results.
- Although the lower price quantum may

seem attractive, potential investors seeking to purchase shoebox apartments should take note of the likely softening in rents, with the influx of newly completed private homes within the next few years.

- Based on URA estimates as at 3Q 2014, the completion of an approximately 70,000 private residential units over the next four years is expected to put significant downward pressure on the overall leasing market. The overall vacancy rate for non-landed homes has also risen beyond 7 per cent in the third quarter of 2014. The wide availability of choice amid the large supply and the risk of rising

EXHIBIT 7

#### Price Distribution of New Sale Shoebox Units (Pre-TDSR and Post-TDSR periods)\*

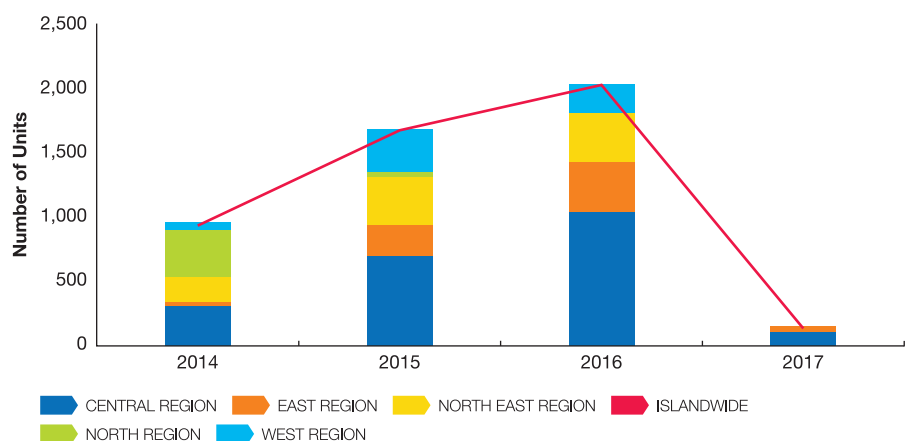
Transacted Price Range	Number of Transactions				
	Before June 2013	% of total transactions	After June 2013	% of total transactions	% change in number of transactions
\$300,000 - \$500,000	619	15.7%	144	8.4%	-76.7%
\$500,001 - \$700,000	2598	66.0%	736	42.7%	-71.7%
\$700,001 - \$900,000	521	13.2%	746	43.3%	43.2%
\$900,001 - \$1,100,000	156	4.0%	81	4.7%	-48.1%
\$1,100,001 - \$1,300,000	38	1.0%	17	0.9%	-55.3%
\$1,300,001 - \$1,500,000	1	0.0%	0	0.0%	-100.0%
<b>TOTAL</b>	<b>3933</b>	<b>88%</b>	<b>1724</b>	<b>86%</b>	<b>-</b>

Source: REALIS (based on data downloaded as at 21 December 2014), Knight Frank Research

\* The above analysis does not take into account caveats for shoebox units in the development The Hillford which is on a 60-year leasehold tenure.

EXHIBIT 8

#### Total Upcoming Supply and Distribution of Shoebox Units in Selected Private Non-Landed Residential Developments Located outside the CA (by Planning Region and Year of Completion)\*



Source: Knight Frank Research

\* Central Region excludes Central Area and Southern Islands.

vacancy level could exert pressure on rental yields of private residential properties, including shoebox units.

- Further, the demand for shoebox units is only beginning to come to light, with the bulk of shoebox units expected to be completed in 2015-2016. As purported by URA, it is indeed true that the small size of shoebox units pose limitations to the potential users of such homes, and investors of these “Mickey Mouse” units compete for a smaller pool of tenants.

- However, more prospective tenants, especially expatriates, have to contend with lower accommodation budgets in recent years. General market sentiment has been increasingly cautious with uneven economic growth across major economies, and employers are adopting a more measured approach in hiring. Faced with a confluence of tighter foreign worker policy and the rising attractiveness of Singapore as a work destination for expatriates, the jobs market for expatriates is anticipated to be tougher next year. With rental and location considerations, shoebox units in developments located in the city fringe areas could achieve higher take-up compared to larger units and shoebox units in suburbs.

*Extracts of this Research House View were published in The Business Times article “Measures to curb excessive shoebox units yield mixed impact: study” on 2 February 2015.*

## Notes on Research Methodology

- Shoebox units are defined as units with a total gross floor area (GFA) not exceeding 47 square metres or 506 square feet.

- A total of 105 private non-landed residential developments were selected and analysed, with the following criteria:

- 1) all projects located outside the Central Area (CA) which have non-landed units (including projects with both strata landed units and non-landed units), each of **which**

- 2) have 100 units and above; **and**

- 3) the Projects must either have PP or Written Permission (WP) dates that fall within the one-and-a-half-year period before November 2012 (i.e. the “pre-guideline period”) or have PP dates that fall within the one-and-a-half-year period after November 2012 (i.e. the “post-guideline period”). This would allow a comparison between the group of projects which received approvals for their development plans under the scenario where there was no guideline on the maximum number of DUs in the development (the former “pre-guideline” basket of projects), and the group of projects which plans had to be subject to the guideline (the latter “post-guideline” basket).

- Out of these 105 developments, 77 projects fall within the pre-guideline period, while 28 developments were classified under the post-guideline period.

- There were a total of 162 residential developments with less than 100 units having received PP between May 2011 and April 2014, comprising 7,502 units in total, which were not included in analysis.

This represents approximately 15.1 per cent of the total number of units in developments that received PP during this period.

- For projects falling within the pre-guideline period, there were a total of 3,273 shoebox units out of 31,141 units in the 77 projects receiving PP and/or WP in the pre-guideline period. On the other hand, for developments falling under the post-guideline period, we note that there were a total of 1,524 shoebox units out of 10,953 units in the 28 projects receiving PP in the post-guideline period.

- Based on our consultation with URA, other than The Hillford, the list of projects being awarded an exemption from the guideline is not definitive as at the date of this analysis.

- The expected year of completion for each project is estimated by adding three years (in-house estimate) to the year in which the WP is granted to the project.

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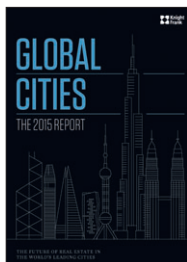
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