

Business as usual

Demand for commercial and shophouse properties could see stable growth as investors seek value



Alice Tan
Director and Head of
Consultancy & Research Knight Frank



BRIGHT SPOT

The upside factors for commercial properties will continue to prompt market interest. Shophouses are still fairly resilient in terms of price performance and transactional activity



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COMMERCIAL property has emerged as one of the sought-after property assets among institutions, private players and wealthy individuals. According to *Knight Frank Wealth Report Attitudes Survey 2016*, 57 per cent of Singapore private banker respondents selected the Republic as the most popular country of choice for commercial property investment over the past decade.

Yet, in recent quarters, demand for commercial property has been intricately linked to the local economy, the job market, property supply situation and related policies. With Singapore's economy experiencing slow growth and a contraction of 4.1 per cent on a quarter-on-quarter seasonally-adjusted basis in Q3 2016, commercial property prices and rentals have hit new lows with waning space take-up.

Based on the Urban Redevelopment Authority (URA) Office Space Price and Rental Indices, office prices in the Central Region declined by 2.5 per cent in Q3 2016 compared to the last peak in Q2 2015, and rentals fell by 13.2 per cent in Q3 2016, compared to Q1 2015.

Similarly in the Central Area, the URA Retail Space Price Index posted a 7.2 per cent decrease in Q3 2016 from Q1 2015, and the Rental Index saw a decline of 12.0 per cent in Q3 2016 from its last peak in Q4 2014. Coupled

with the influx of new office and retail completions for the past year, the vacancy level of offices island-wide inched up to 10.4 per cent in Q3 2016, while retail spaces saw vacancy rate rise to 8.4 per cent for the same quarter.

The weakness in office and retail property prices, rentals and occupancy has impacted the demand for strata commercial and shophouse properties, albeit not drastically.

Comparing the first six months in 2016 versus the second half of 2015, the total transaction value of strata-titled offices and shophouse properties have trended lower by 18 per cent and 23 per cent respectively, while transaction value of strata-titled retail properties saw a sharp increase by 67 per cent for the same period.

Against the backdrop of lacklustre economic growth and higher caution towards property investment, what are the underlying trends for Singapore strata commercial and shophouse properties? Should potential buyers still consider investing in these property segments?

Strata-titled offices

The influx of new office completions by 2.8 million square feet (3.5 per cent growth from Q3 2014 to Q3 2016) to reach 82.5 million sq ft and the shift in bargaining power towards tenants has resulted in rental falls and reduced demand for strata-titled offices. New sale strata-titled office properties saw an 8.7 per cent decline from H1 2016 to an average

\$2,384 per square foot (psf) in the July-October 2016 period, while resale properties averaged \$1,735 psf, a steeper decline of 22.1 per cent over the same period.

Despite the softening of the strata-titled office market, the flurry of big-ticket office property purchases this year spells market confidence in the long-term prospects of Singapore office property. The successful sale of Asia Square Tower 1 at \$3.4 billion (or about \$2,700 psf Net Lettable Area) to Qatar Investment Authority and Indonesian tycoon Tahir's purchases of two office freehold properties – Straits Trading Building (\$560 million, \$3,520 psf) and 110 Robinson Road (\$45.1 million, \$3,169 psf) – have set the pace in terms of office investment opportunities in Singapore.

There has since been fairly consistent interest in freehold strata-titled office properties in the second half of 2016. Although prices of freehold strata-titled offices fell by 28.4 per cent to average \$1,800 psf in the July-October 2016 period compared with H1 2016, majority of the transactions are resale in Central Area – Downtown Core and Orchard; as well as city fringe locations such as Novena, Kallang and Bukit Timah. Some of the well-located freehold resale strata-titled office units were transacted above \$2,500 psf.

With a finite supply of freehold and longer lease tenure strata-titled offices and underlying demand from both local and foreign

companies, prices in this segment are poised to hold steady or register moderate growth in the year ahead.

Strata-titled retail

A challenging retail landscape beset with labour woes, the onslaught of e-commerce and lower retail sales performance have reduced demand for strata-titled retail properties noticeably, particularly in the second half of this year. Prices of new sale strata-titled retail properties fell by 11.5 per cent from H1 2016 to an average of \$3,768 psf in the July-October 2016 period, while resale properties saw a significant 48.4 per cent price increase to \$3,527 psf over the same period.

Higher-priced freehold resale transactions in Orchard and Bukit Timah areas partly contributed to the price recovery. Prospective investors are increasingly discerning when investing in strata-titled retail property in light of the lacklustre retail market outlook, picking mainly longer lease tenure types sited within high resident catchment and traffic footfall locations.

Shophouses

Regarded as a "collectible property" with its rarity, conservation element appeal and limited supply, shophouses remained fairly resilient in terms of price performance and transactional activity. Despite the compressed rental yields, limitations of high conservation construction costs and higher

commitments in the upkeep of the property, interest in shophouses remain relatively active.

Prices of shophouses increased by 10.4 per cent from H1 2016 to average \$3,695 psf in the July-October 2016 period. The total transaction value of freehold shophouses rose appreciably by 66.7 per cent over the same period to reach \$294.6 million with an average price of \$3,724 psf, while leasehold shophouse average prices declined modestly by 7.3 per cent to \$3,526 psf. Buyers have shown stronger interest in shophouses located in Outram, Rochor, Novena and Singapore River areas, with some companies exploring redevelopment opportunities.

Long-term perspective

As prospective investors mull over the short-term economic headwinds, the upside factors for commercial property will continue to elicit interest. Commercial property purchases remain unscathed from the property cooling measures (especially Additional Buyer's Stamp Duty, Seller's Stamp Duty) that apply to residential and industrial properties, a favourable consideration for foreign individuals and companies.

Looking ahead, the prospect of stronger stimulus measures from the government to spur the economy could help augment a pro-business environment and safe haven status for Singapore, set against an uncertain global world order. **W**

Total transaction value and volume			
Period	Total transaction value (\$m)	No of transactions	Average price (\$ psf)
Strata-titled office			
H1 2013	\$1,333	531	\$2,217
H2 2013	\$734	203	\$2,256
H1 2014	\$1,137	332	\$2,224
H2 2014	\$542	185	\$2,330
H1 2015	\$326	120	\$2,528
H2 2015	\$501	119	\$2,396
H1 2016	\$410	121	\$2,437
Jul-Oct 2016	\$258	107	\$1,970
Strata-titled retail			
H1 2013	\$1,181	692	\$3,888
H2 2013	\$1,162	494	\$3,798
H1 2014	\$456	226	\$3,555
H2 2014	\$463	249	\$3,490
H1 2015	\$204	121	\$3,185
H2 2015	\$200	107	\$2,763
H1 2016	\$333	147	\$3,295
Jul-Oct 2016	\$183	64	\$3,557
Shophouses			
H1 2013	\$881	132	\$3,841
H2 2013	\$316	49	\$3,942
H1 2014	\$251	45	\$3,491
H2 2014	\$310	49	\$3,463
H1 2015	\$312	41	\$3,853
H2 2015	\$300	47	\$3,846
H1 2016	\$230	36	\$3,346
Jul-Oct 2016	\$342	40	\$3,695

Source: REALIS (based on data as at Nov 15, 2016), Knight Frank Research