

# PROPNEX RESEARCH Q1 2023

## SHOPHOUSE RESEARCH REPORT

### Key Highlights

- The commercial shophouse market started the year on a quiet note in Q1 2023, with 28 caveated transactions (valued at a combined \$282 million) amidst limited availability of shophouses put up for sale, and rising borrowing costs.
- The rental market for shophouses remained brisk as the tourism industry staged a recovery post-pandemic. Nearly 900 rental contracts worth \$9.5 million were signed in Q1 2023. Shophouse median rentals in Q1 grew to \$5.98 psf per month amid the tight occupancy rates in the shophouse sector.
- Shophouse prices and rentals are poised to remain resilient in 2023 given the limited stock and healthy demand. With economic uncertainties growing, the shophouse sector will likely remain popular as investors seek safe haven assets.



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# Q1 2023 Shophouse Property Report

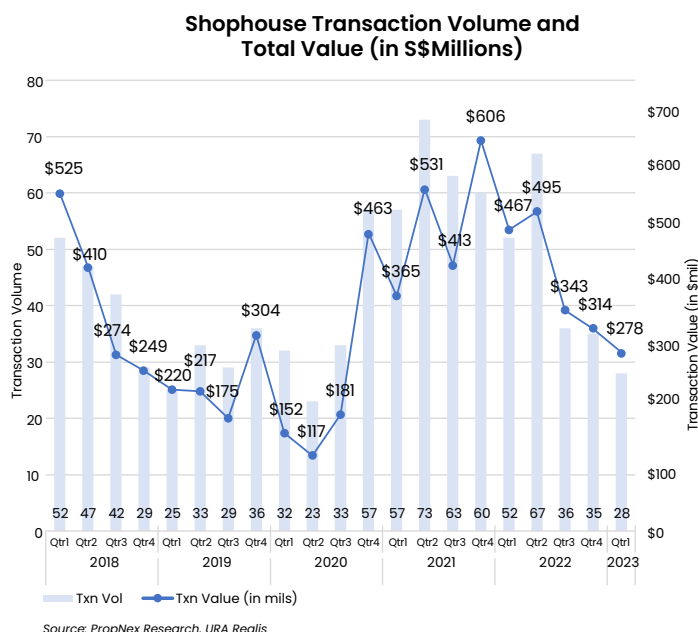
## Overview

Commercial shophouse sales continued to moderate in Q1 2023 amidst cautious investment sentiment brought about by the persistently high interest rates. According to caveat data, 28 shophouses were sold during quarter – the lowest quarterly sales volume since 23 shophouse properties were transacted in Q2 2020, where pandemic-induced restrictions affected sales activity. Freehold shophouses made up a lion's share of the Q1 2023 sales volume, and District 8 once again saw the most transactions on a quarterly basis, albeit the sales momentum has eased substantially from a year ago.

Despite the slowing sales volume, average transacted prices stayed resilient in Q1 2023, as the stock available for sale is limited. Commercial shophouses remain on the radar of investors, including family offices, funds and high net worth individuals. However, the firm prices and rising interest rates are expected to weigh on shophouse sales this year.

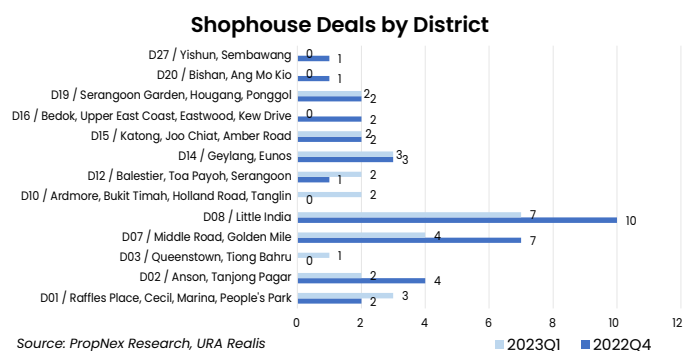
## Sales Transactions in Q1 2023

- Based on caveats lodged, there were 28 shophouse transactions in Q1 2023, easing from the 35 deals in Q4 2022. Most of the transactions done during the quarter were in the fringe areas such as Districts 7 and 8.
- Year-on-year, the volume of transactions in Q1 is down by 46% from the 52 deals in Q1 2022.
- The transaction value of deals in Q1 stood at \$278 million, which is a 11.7% drop from the previous quarter. This is the lowest quarterly tally of the sales value since Q3 2020 where \$181 million worth of transactions were done. Year-on-year, the value of transactions in Q1 is down by 40.6% from \$467 million in Q1 2022.



## Transaction Hotspots in Q1 2023

- Of the 28 shophouse transactions in Q1 2023, District 8 (Little India, Jalan Besar) posted the highest sales at 7 units. In terms of transaction value, District 8 also led the pack, achieving nearly \$113 million worth of sales in Q – accounting for 41% of total sales value in Q1.
- Sales volume in fringe districts are expected to remain elevated, due to more units available for sale and their more affordable entry prices. Meanwhile, transaction activity in the prime districts (D1 & D2) remain limited due to the thinner supply of shophouses available for sale.



## Top 5 Shophouse Transactions in Q1 2023

- Based on caveats lodged, the top deal of the quarter was the sale of six adjoining freehold shophouses along Serangoon Road for \$62.5 million in January – a deal brokered by PropNex.
- The portfolio of shophouses sits on a site spanning over 9,000 sq ft, and is currently zoned for commercial use with a gross plot ratio of 3.0, under the URA Master Plan 2019.
- The plot can potentially be redeveloped into a 6-storey commercial building offering a gross floor area (GFA) of 27,125 sq ft. The sale price of \$62.5 million translates to \$2,304 psf per plot ratio (psf ppr) based on the potential GFA of 27,125 sq ft, noted PropNex's Head of Investment and Collective Sales Tracy Goh.
- The six 2-storey shophouses in District 8 are fully-leased to an Eating House and F&B operators on the ground floor, while the space on the second level is fully-leased to a public entertainment operator.

Table 1: Top 5 Shophouse transactions in Q1 2023

Location	Sale Date	Postal District	Transacted Price (\$)	Area (SQFT)	Unit Price (\$ PSF on land area)	Tenure
32X - 33X SERANGOON ROAD	19 Jan 2023	8	62,500,000	9,042	6,912	Freehold
19X,19X KITCHENER ROAD	1 Feb 2023	8	18,200,000	2,745	6,631	Freehold
23X SOUTH BRIDGE ROAD	25 Jan 2023	1	15,200,000	1,487	10,225	Freehold
3X,4X SOUTH BRIDGE ROAD	30 Jan 2023	1	13,580,000	2,624	5,175	99 yrs
26X HOLLAND AVENUE	23 Mar 2023	10	12,700,000	1,504	8,446	Freehold

Source: PropNex Research, URA Realis

## Shophouse Prices

- In terms of unit price on land area (\$psf), the growth was uneven across districts in Q1 compared to Q4, partly due to the thin volume of caveated transactions. Market observations also suggest that a number of deals, particularly those in the prime districts of D1 and D2, were not caveated. A good portion of these non-caveated deals were purchases made by foreigners and entities.
- The average transacted unit price on land area\* of freehold and 999-year leasehold shophouses fell by 20% QOQ and nearly 14% QOQ in D1/D2 and D14/D15 respectively in Q1 2023. Meanwhile, that of D7/D8 grew by about 8% QOQ in Q1 2023, while freehold and 999-year leasehold shophouses in the rest of Singapore saw an 84.3% QOQ average price growth.
- 99-year leasehold shophouses in D1/D2 saw the average unit price on land area in Q1 2023 fall by 16% QOQ, while prices in D7/D8 grew strongly by nearly 26%. There were no caveated deals for 99-year leasehold shophouses in D14/D15 and the rest of Singapore during Q1.

**Table 2: Average unit prices of shophouses by tenure and district**

Unit Price (\$ PSF) on land area*	Quarter / Year	D1 & D2 Raffles Place, Tanjong Pagar	D7 & D8 Little India, Golden Mile	D14 & D15 Geylang, Joochiat, East Coast	Rest of Singapore (RCR, OCR)
99-year leasehold	1Q 2022	\$7,747	\$3,538	No transactions recorded	No transactions recorded
	4Q 2022	\$7,945	\$3,707	No transactions recorded	No transactions recorded
	1Q 2023	\$6,644	\$4,660	No transactions recorded	No transactions recorded
	% QOQ change	-16.4%	25.7%	NA	NA
	% YOY change	-14.2%	31.7%	NA	NA
Freehold & 999-year leasehold	1Q 2022	\$12,327	\$5,430	\$2,748	\$2,585
	4Q 2022	\$11,978	\$6,199	\$4,152	\$2,386
	1Q 2023	\$9,633	\$6,686	\$3,583	\$4,396
	% QOQ change	-19.6%	7.9%	-13.7%	84.3%
	% YOY change	-21.9%	23.1%	30.4%	70.1%

Source: PropNex Research, URA Realis

\*Average unit price is based on land area. Transacted prices tend to be higher when they are based on gross floor area (which varies depending on the number of storeys in the shophouse property).

- Based on caveats lodged, of the 28 shophouses sold in Q1 2023, more than 80% or 23 deals were priced above \$5 million.

**Table 3: Price range on shophouses sold by quarter**

Price Range	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Under \$2.5 million	4	4	0	1	0
\$2.5 million to < \$5 million	18	19	11	9	5
\$5 million to < \$10 million	17	30	20	17	15
Above \$10 million	13	14	5	8	8
<b>Total</b>	<b>52</b>	<b>67</b>	<b>36</b>	<b>35</b>	<b>28</b>

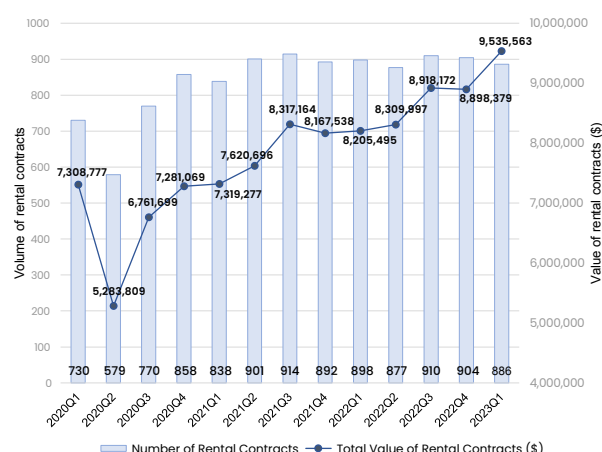
Source: PropNex Research, URA Realis

## Rents

- In Q1 2023, rental activity in the shophouse sector remained brisk amidst tourism recovery, with 886 rental contracts signed – slightly down from 904 contracts posted in Q4 2022.
- Total rent values in Q1 stood at \$9.54 million, a record high for quarterly value of contracts signed in the shophouse leasing market.

- Shophouse rentals continued to climb steadily in Q1 2023, with median rentals at \$5.98 psf per month – slightly up from the \$5.89 psf per month in Q4 2022
- Shophouse rentals are expected to rise further in 2023 despite economic headwinds, as demand from occupiers remain steadfast, supported by the tourism industry, and limited availability of shophouse space for rent.

**Shophouse Leasing Transactions and Contract Value**



Source: PropNex Research, URA Realis

## Market Outlook

Investment interest in commercial shophouses continues to be keen as global investors take flight to safe haven assets amidst the economic uncertainties. However, escalating interest rates will likely temper sales activity, as investors review the impact of high borrowing costs and firm prices on net yield. In the Budget 2023 speech, the government announced higher top marginal Buyer's Stamp Duty (BSD) rates for commercial property. Investment demand for shophouses is not expected to slow as the additional tax is marginal for most investors.

Amid the heightened cautiousness in the market, tourism recovery will be supportive of the shophouse segment, particularly for properties near tourist hotspots e.g. in Little India and Arab Street. According to the Singapore Tourism Board (STB), visitor arrivals hit 2.9 million in Q1 2023 – which is already at 46% of the 6.3 million arrivals for the whole of 2022. Barring unexpected circumstances, the STB has said it expects tourism activity to recover to pre-pandemic levels by 2024; astute investors may hunt for suitable shophouse buying opportunities, with a view to ride on future growth.

Meanwhile, Singapore's retail sales rose more than expected, rising by 3.9% MOM and 12.7% YOY in February, with the food and beverage segment seeing robust YOY growth. The recovery in the MICE industry, as well as leisure and business travel bode well for in-person services such as F&B, and will benefit shophouse business operators. To this end, shophouse leasing demand is projected to remain stable with some upside potential for rentals.

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