

Q3 2023 SHOPHOUSE RESEARCH REPORT

Key Highlights

- The commercial shophouse market slowed down in Q3 2023, with 38 caveated transactions (valued at a combined \$350.8 million) after a brief rebound in Q2.
- The rental market for shophouses moderated after relatively strong performance in the past year. Shophouse median rentals slipped to \$5.97 psf per month in Q3. Meanwhile, shophouse leasing activity remained resilient, there were 926 rental contracts worth \$9.2 million signed in Q3 2023.
- Shophouse prices are poised to remain resilient in the final quarter of 2023, given their limited stock and stable interest amongst investors and foreigners, in the light of the revised ABSD rates for residential properties for these buyers. Shophouses may also be seen as more defensive assets amidst macroeconomic uncertainties.



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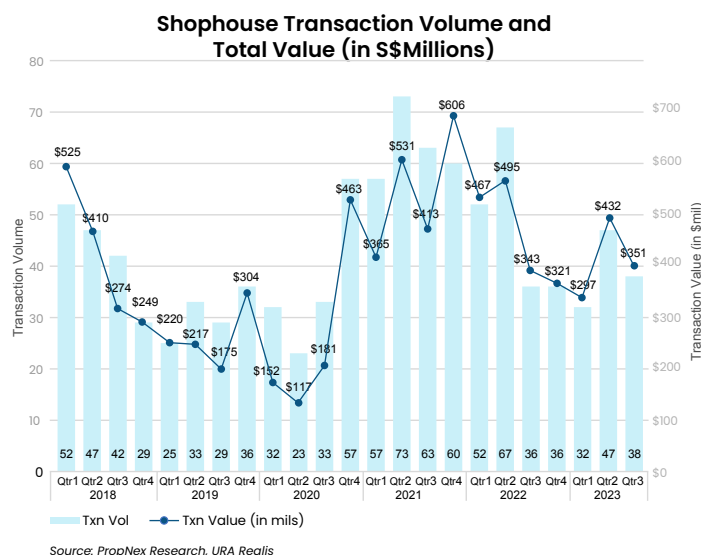
SHOPHOUSE PROPERTY REPORT Q3 2023

Overview

After picking up in Q2, shophouse sales pulled back slightly in Q3 2023, coming off a high base in the second quarter where the tightening of the additional buyer's stamp duty (ABSD) rates for residential property purchase likely diverted some foreigners and investors to the shophouse segment. In addition, the overall property market sentiment has also softened going into the second half of the year amidst macroeconomic uncertainties. Meanwhile, some market observers also suggested that the slower sales could perhaps be due in part to more stringent checks and due diligence conducted by parties involved in deals, in view of the anti-money laundering blitz in August. Despite the dip in sales in Q3, the shophouse market is expected to remain fairly resilient, given their tight supply as well as recovery in the tourism sector.

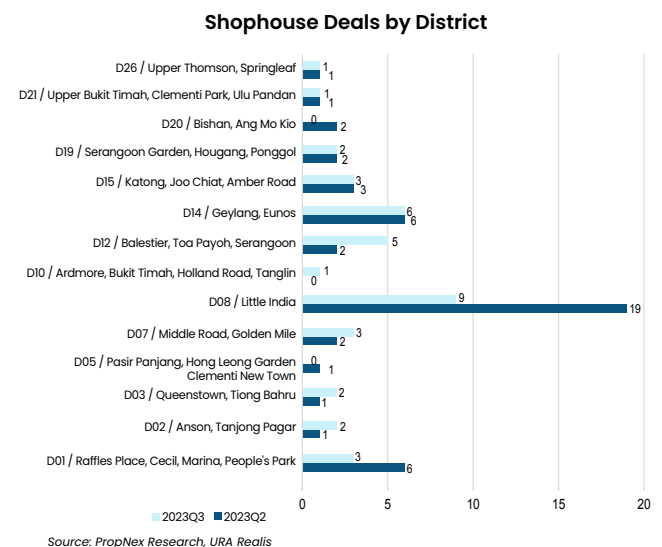
Sales Transactions in Q3 2023

- Based on caveats lodged, there were 38 shophouse transactions in Q3 2023, a 19% QOQ drop from the 47 deals in Q2 2023. Most of the transactions done during the quarter were in the fringe areas such as Districts 8 and 14.
- Year-on-year, the volume of shophouse transactions in Q3 was up by 5.6% from the 36 deals in Q3 2022.
- In terms of transaction value, the deals done in Q3 stood at \$350.8 million, marking a 19% decline from the previous quarter. Year-on-year, the value of transactions in Q3 rose slightly by 2.3% from \$343 million in Q3 2022.
- In the first nine months of 2023, the shophouse market has recorded 117 deals worth nearly \$1.1 billion, a pullback from the same period last year (9M 2022) which achieved 155 deals worth \$1.3 billion. The shophouse market in 2023 looks on track to underperform the stellar sales achieved in 2022 and 2021.



Transactions

- Of the 38 shophouse transactions in Q3 2023, District 8 (Little India, Jalan Besar) posted the highest sales at 9 units. In terms of transaction value, District 8 also led the pack, achieving more than \$84.5 million worth of sales in Q3.
- This was followed by District 14 (Geylang, Eunos) and District 12 (Balestier, Toa Payoh, Serangoon) with 6 and 5 shophouse deals respectively. Market observers noted that the caveats for a number of deals done in the prime districts of Districts 1 and 2 in Q3 2023 were not lodged.



Top 5 Shophouse Transactions in Q3 2023

- Based on URA caveats, the top transaction of the quarter was the sale of a three-storey shophouse along Cheong Chin Nam Road for \$41 million in September. The freehold commercial building in the Beauty World area, along the popular stretch of restaurants and eateries in Cheong Chin Nam Road is presently occupied by a religious society and a childcare operator.
- The second top deal of the quarter was for a row of three adjoining 2-storey freehold shophouses along Jalan Besar, which were sold in September for \$38.5 million. The shophouses sit on a site spanning over 6,300 sq ft, and enjoy dual road frontage. The shophouses in District 8 are leased to an F&B operator on the ground floor.

Table 1: Top 5 Shophouse transactions in Q3 2023

Location	Sale Date	Postal District	Transacted Price (\$)	Area (SQFT)	Unit Price (\$ PSF) on land area	Tenure
2X CHEONG CHIN NAM ROAD	25-Sep-23	21	41,000,000	11,947	3,432	Freehold
20X - 20X JALAN BESAR	27-Sep-23	8	38,500,000	6,378	6,037	Freehold
X, X, X ANN SIANG ROAD	14-Jul-23	1	32,000,000	1,446	22,136	999 yrs
12X TANJONG PAGAR ROAD	18-Aug-23	2	16,200,000	1,683	9,623	99 yrs
4X MOSQUE STREET	1-Aug-23	1	15,600,000	1,251	12,472	Freehold

Source: PropNex Research, URA Realis

Shophouse Prices

- In terms of unit price on land area (\$psf), the growth in shophouse values continue to be uneven across districts in Q3, partly due to the fluctuating sales volume. The average transacted unit price on land area* of freehold and 999-year leasehold shophouses grew by 7.3% QOQ and by 3.2% QOQ in D7/D8 and the rest of Singapore respectively. Meanwhile, prices of D1/D2 and D14/D15 fell by 13.2% and 39.4% QOQ respectively.
- 99-year leasehold shophouses in D1/D2 saw the average unit price on land area in Q3 rise by 3.9% QOQ, while prices in D7/D8 grew strongly by 12% QOQ. Prices of 99-year leasehold shophouses in the rest of Singapore declined by 12.8% QOQ.

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	3Q 2022	\$6,644	\$4,660	No transactions recorded	No transactions recorded
	2Q 2023	\$9,262	\$4,516	No transactions recorded	\$774
	3Q 2023	\$9,623	\$5,059	\$1,264	\$675
	QOQ % change	3.9%	12.0%	NA	-12.8%
	YOY % change	44.8%	8.6%	NA	NA
Freehold & 999-year leasehold	3Q 2022	\$9,633	\$6,062	\$3,477	\$4,566
	2Q 2023	\$16,519	\$5,292	\$3,916	\$3,864
	3Q 2023	\$14,333	\$5,679	\$2,375	\$3,988
	QOQ % change	-13.2%	7.3%	-39.4%	3.2%
	YOY % change	48.8%	-6.3%	-31.7%	-12.7%

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 38 shophouses sold in Q3 2023, about 58% or 22 deals were priced above \$5 million, while the remainder 43% or 16 deals were priced below \$5 million.

Table 3: Price range on shophouses sold by quarter

Price Range	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Under \$2.5 million	0	1	0	2	4
\$2.5 million to < \$5 million	11	9	8	11	12
\$5 million to < \$10 million	20	18	16	22	12
Above \$10 million	5	8	8	12	10
Total	36	36	32	47	38

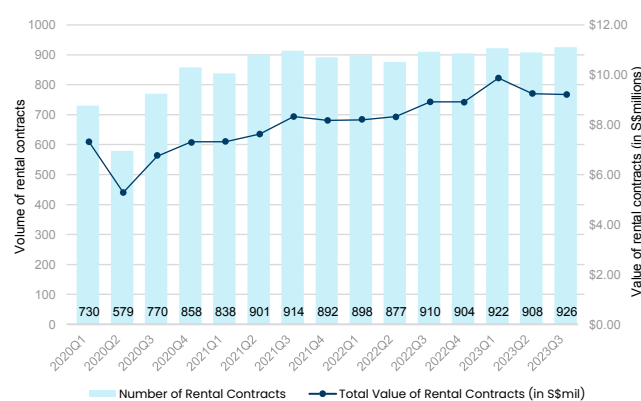
Source: PropNex Research, URA Realis

Rents

- Shophouse rentals showed some signs of slowing down after median rentals climbed to a record high in Q2 2023. According to caveats lodged, median rents of shophouses rose for seven straight quarters from Q4 2021, buoyed by post-Covid optimism and the recovery in the tourism sector. After peaking at \$6.21 psf per month in Q2, shophouse median rentals eased by 3.9% QOQ to \$5.97 psf per month in Q3.
- According to market observers, there has been limited availability of shophouse space for lease, particularly for ground floor space in prime areas. Despite this, leasing activity in the past quarter remained healthy.

- In Q3, 926 rental contracts valued at \$9.2 million were signed – slightly outperforming the 908 contracts worth \$9.25 million inked in Q2 2023.
- In the first nine months of 2023, the shophouse leasing market recorded 2,756 transactions worth \$28.3 million, surpassing the same period last year (9M 2022) which achieved 2,685 transactions valued at \$25.4 million.
- In the full-year 2023, the shophouse leasing market is expected to meet or possibly surpass 2022's performance of 3,589 deals worth \$34 million.

Shophouse Leasing Transactions and Contract Value (in S\$mil)



Source: PropNex Research, URA Realis

Market Outlook

Following the relatively strong shophouse sales in 2021 and 2022 – with 253 and 191 deals respectively – it is likely that transaction volume in 2023 will underperform that of the last two years. While buying interest remains, some investors are bidding their time in view of the limited selection of choice shophouses available for sale, as well as firm prices arising from the healthy growth in the shophouse sector in recent years.

In addition, it is possible that the flight-to-safety mindset among investors which was rampant following the pandemic outbreak in the past years has waned slightly. Shophouses, owing to their limited stock and heritage value have been seen by many investors as a type of safe-haven asset. Given their scarcity and ability to better retain value over time, the shophouse investment sales market should remain fairly resilient – supported by occupiers looking to acquire space for business operations post-pandemic, and investors looking to add a defensive asset to their portfolio.

Meanwhile, the shophouse leasing market activity may moderate slightly amidst higher rentals and the more cautious sentiment, as economic growth outlook remains muted. However, the ongoing tourism recovery and the growth in the services sector will bode well for occupiers, including F&B, retail, and accommodation businesses – many of which operate out of shophouses.

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