

The Star Sector at Auctions – Shops/Shophouses

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The auction market in 2008 is likely to see a decline in sale value by approximately 25% to S\$300 million. Amid moderation in market activity across most property sectors this year, the shops/shophouses sector is, however, likely to experience an increase in activities at auctions. Will they be the stars at auctions in the Year of the Rat?

The Singapore's property market had a stellar performance in 2007, with most sectors experiencing overall growth and price increases during the year. Auction activities, being a barometer of market confidence, also experienced a similar growth trend.

The buoyant market has propelled the total auction sale value to a record high of S\$407.43 million in 2007, the highest achieved in eight years and a shade below the sale figure achieved in 1999 when the market was recovering from the Asian Financial Crisis.

The high sale value seen for the auction market is attributed to an extremely vibrant residential market seen in the first half of 2007 where sales were largely dominated by high-end residential condominiums and old apartments with en bloc potential. The other sectors which had also contributed to this remarkable result were shop/shophouse and development sites/land.

Recent years also saw an increasing trend of property owners utilizing auctions as a mode of sale to dispose their property. In fact, the number of property owners opting to sell their properties through auction has been doubling every year since 2005. Last year, the number of properties put up by owners reached a 10-year high, chalking up a total of 810 properties and the total value achieved was S\$264.71 million as compared to S\$129.54 million seen for 2006.

The reason for this popularity lies in the transparency of auction sale, which assures sellers of achieving a good price for their properties. Not only do individual owners favour

such sale mode, but companies who wish to divest their properties or embark on a property portfolio re-organization are also jumping onto the auction bandwagon.

The auction market in 2008 is likely to see a decline in sale value by approximately 25% to S\$300 million, as we expect fewer numbers of high end home and old apartment with en bloc potential to be put under the hammer. However, those sectors that have yet to experience a sharp price growth are likely to experience an increase in activities this year. One such sector would be commercial properties like shop/shophouse units.

Similar to other types of properties, shops/shophouses are assets which can work as a hedge against inflation, enabling investors to benefit when the capital value appreciates in times of rising prices. For owner occupiers, such units act as a hedge against rental increase.

According to URA statistics, the residential sector experienced a price increase of 31.2% in 2007, but the retail sector has only achieved 13.2%.

In 2007, a total of 527 shop/shophouse units were put up for sale via auction by both individual owners and companies. A total of S\$78.06 million worth of shop/shophouse units were sold under the hammer as compared to only S\$28.75 million achieved in 2006. This is an increase of 172%!

The sale value of shops/shophouses is expected to moderate to S\$50 million this year due to the overall cautious buying mood in the market.

With the expected slowdown for the property market this year coupled with the current lacklustre residential market as a result of the onset of the US sub-prime mortgage debacle and the spike in development charge rates, amongst others, savvy investors could consider turning their attention to strata title shops, private shophouses or HDB shops/shophouses.

Similar to other types of properties, shops/shophouses are assets which can work as a hedge against inflation, enabling investors to benefit when the capital value appreciates in times of rising prices. Additionally, for owner occupiers, the shop/shophouse unit acts as a hedge against rental increase. By purchasing a shop/shophouse unit, these owner occupiers are typically converting their monthly rent to mortgage payment, which could turn out to be a much lower amount. Auction sale is a good avenue to source out shops/shophouses

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that are affordable, strategically located, limited in supply and/or have attractive yield as well as those with en bloc potential. Here are examples of what were transacted at auctions.

PRICE AFFORDABILITY

Many strata title shops were successfully transacted at auctions at affordable prices; many of which were below S\$500,000. Such price range is considered a bargain, particularly when some of them are located right in the heart of town or beside future MRT stations.

For instance, two strata title shops at Excelsior Hotel and Shopping Centre located at Coleman Street, near to the City Hall MRT station, were sold for S\$318,000 and S\$340,000, respectively. Additionally, several shop units at Grandlink Square, which are near to the future Paya Lebar MRT interchange, were sold at prices ranging from S\$51,000 to S\$226,000.



There are also many attractive picks of HDB shophouses put up for sale by mortgagees at auctions and such properties are usually attractively priced. These shophouses consist of a shop space on the ground level and living quarters, often a three-room flat, on the upper level.

With the recent high cash over valuation prices for HDB flats, HDB shophouses that are priced between S\$600,000 and S\$700,000 were some attractive offers that were seen at auctions. Some successful transactions include HDB shophouses located in Chai Chee and Bedok North Avenue 1, which were sold for S\$640,000 and S\$700,000, respectively.

STRATEGIC LOCATION

Investors and business owners see shop/shophouse units as an alternative to alleviate the current supply crunch situation in the office market. Shophouse units located near or within the Central Business District are in high demand and they are usually near to MRT stations.

For instance, a three-storey shophouse unit with dual frontage at Stanley Street was sold for S\$4.21 million last year. Other similar properties include shophouse units located at Outram Park and South Bridge Road, which were successfully auctioned off at S\$2.73 million and S\$2.6 million, respectively.

HDB shops/shophouses that are located in high pedestrian traffic areas like the town centre and MRT station as well as bus interchange are in demand and have the ability to fetch record prices at auction. For example, a shop unit at Heartland Mall in Hougang was sold for S\$8.5 million, while another shophouse unit at Upper Changi Road, which is situated beside an upcoming mall and near the Bedok bus interchange and MRT, was sold for S\$7 million at an auction last year.

Similarly, a HDB shop at North Bridge Road was sold for S\$528,000 last year, while a shop at Crawford Lane, which is located opposite the future hotel site at Victoria Street was sold for S\$495,000 this year.

LIMITED SUPPLY

There are limited number of strata titled shop units available in the market as the majority of the shopping centres in Singapore are owned by REITs – including CapitalMall Trust, Frasers Centrepoint Trust and Macquarie MEAG Prime REIT.

Whereas, for new developments like the ICON at Tanjong Pagar, the developer would usually hold on to the commercial component for lease instead of selling the individual units.

Conservation shophouses are a popular buy with investors due to their limited supply and architectural characteristics. Last year, a three-storey conservation shophouse located in the Kampong Glam Conservation Area and near to the MRT

station was sold for S\$2 million and a shophouse at Prinsep Street, opposite the future Singapore Art school, was sold at auction for S\$3.78 million.

ATTRACTIVE YIELD

One compelling reason why investors are keen on shop/shophouse units is because in general, such properties can generate a yield of 4-6%. The yield attained from such investment exceeds the paltry interest rate of fixed deposits which currently sits at less than two per cent.

EN BLOC POTENTIAL

Shop/shophouse units that are located within old developments usually attract keen bidding at auctions. Investors would have explored the possibility of such old developments being engaged in a future en bloc sale.

Last year, two shop units in Katong Plaza, which had en bloc potential, were successfully auctioned off for S\$225,000 and S\$325,000, respectively.

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