

Hot demand for strata commercial space

BY **CECILIA CHOW**
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The successful launch of Pavillion Square by listed property company Pollux Properties on March 23 saw all units snapped up by balloting, with the highest price achieved reportedly S\$10,798 (RM26,466) psf for a 118 sq ft unit. The buyers were said to be mainly local investors.

Other developers have wasted no time in rolling out their mixed-use projects. Fragrance Group's Novena Regency, launched on April 13, is a redevelopment of the former Novena Ville that the developer had purchased en bloc for S\$131.5 million last May. The new mixed-use project will contain 45 strata-titled shops and 55 apartments.

The freehold strata-titled shops and F&B units at Novena Regency will have premium frontage along the main thoroughfare of Thomson Road, with the sizes of shops and F&B units starting from 161 sq ft and 624 sq ft respectively. The apartments will be predominantly one- and two-bedroom units measuring 452 sq ft and 538 sq ft respectively. Novena Regency is located in prime District 11, across the road from Novena Church, and is within a short walking distance of the Novena MRT station, with accessibility to malls such as United Square, Velocity and Square 2, as well as Novena Medical Centre, Tan Tock Seng Hospital and Mount Elizabeth Novena Hospital and Specialist Centre.

Another highly anticipated mixed-use development is The Midtown and Midtown Residences, a redevelopment of the former Hougang Plaza, which listed developer Oxley Holdings purchased from CapitaMall Trust for S\$119.1 million last year. The project will be redeveloped into a 99-year leasehold project with 160 residential units, comprising one- to four-bedroom penthouses, with sizes starting from 452 sq ft. The indicative price is S\$1,500 to S\$1,600 psf.

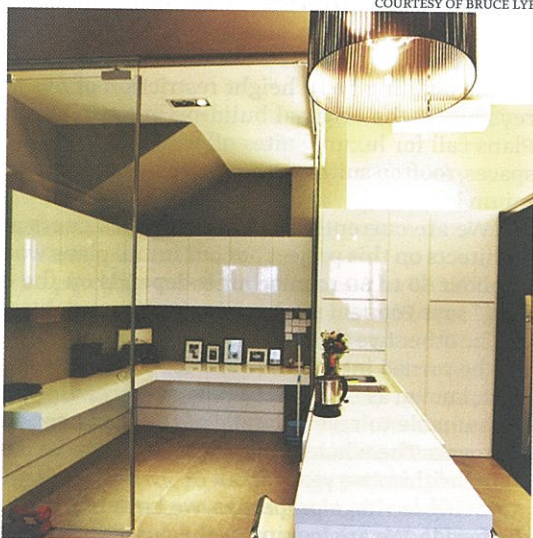
There will also be 107 commercial units at The Midtown, comprising a mix of shops with sizes from 323 sq ft, F&B outlets from 710 sq ft, and a supermarket of 3,300 sq ft. According to marketing agents, indicative prices are S\$4,600 psf for the shops, and S\$5,500 to S\$6,000 psf for the F&B units. The project is located within walking distance of the Hougang MRT station, and the marketing agent is Huttons Asia. According to sources, the project could be rolled out in the third week of April.

Last month, the government announced a new guideline for new commercial and mixed-use developments to have an average size of at least 50 sq m, or 538 sq ft for retail units.

"Many investors read that as a sign that the government would introduce more measures in the commercial sector, perhaps seller's stamp duty [SSD] like



Above: Commercial SoHo units at The Modules on Joo Chiat Road recently hit S\$1,900 psf



Right: The interior of a 527 sq ft commercial SoHo unit at The Modules

what it introduced for strata-titled industrial units on Jan 12," says a property agent. "So, they see this as a window of opportunity to buy shop units before more measures kick in."

Thus, there has been a surge in interest in the purchase of units in new projects that are unaffected by the new guideline for average unit sizes. "The small units are usually the first to go, given the absolute price, which is affordable," says Mary Sai, executive director of investments (commercial sales) at Knight Frank. "If you have S\$2 million today and you do not want to buy a residential unit, what else can you buy?"

Based on the new average unit size of at least 538 sq ft, developers will have to include more 500 to 600 sq ft strata retail units in their projects. If prices are in the S\$8,000 psf range for good locations, it works out to at least S\$4 million to S\$4.8 million. "The mom-and-pop investors can't afford to enter at these price levels, and some people may consider buying shophouses instead at these absolute prices," says a property consultant.

Most of the investors who are buying strata commercial units today have swung over from the residential and even industrial sectors to avoid the additional buyer's stamp duty (ABSD) and SSD, especially with the latest round of government measures that took effect on Jan 12.

It is not just new strata-titled commercial or mixed-use projects that are benefiting from this diversion of capital, but commercial SoHo units are also seeing a revival in interest in recent months, according to Bruce Lye, managing partner of SRI5000, a division of elite agents under SLP International.

Lye is marketing units at The Modules at 387 Joo Chiat Road, a boutique commercial SoHo project

with just 48 units. Developed by a construction company turned property developer, Shining Holdings, the project was completed in 2010. The developer is holding on to some units for rental income. The most recent transaction at The Modules was that of a 527 sq ft unit on the ground floor overlooking the swimming pool. It was sold recently for about S\$1.03 million (S\$1,960 psf), the highest price achieved in the project so far. The sale is brokered by Lye's SRI5000. The seller had purchased the unit last April for S\$805,000 and spent another S\$60,000 renovating and fitting it out before selling it. The unit has been leased at S\$3,500 a month, or a 4% yield based on the most recent purchase price.

When the project was launched in 2006/07, prices ranged from S\$566 to S\$929 psf, with most units sold in the S\$800-to-S\$900-psf range, according to caveats lodged with URA Realis. Many have since changed hands two or three times in the resale market, with the latest prices at S\$1,800 to S\$1,900 psf, according to Lye. "This shows that prices have more than doubled since its launch," he adds.

The commercial SoHo units have attracted interest not just from local investors, but foreigners and permanent residents as well. Foreigners interested in such units come from a wide spectrum, from mainland Chinese to Russians, Malaysians, Japanese and Vietnamese. "These are people who are now looking at options beyond residential, given the recent measures on Jan 12, and they are now looking at bite-size strata commercial spaces in the S\$1 million-to-S\$2 million range," says Lye.

Another commercial SoHo development in the Joo Chiat area is 78-unit SoHo Life at Joo Chiat by World Class Land. The project was fully sold when it was launched in 2010, and is located within a conservation shophouse area on Joo Chiat Road. SRI5000's Lye is marketing several units in the newly completed development. Units in SoHo Life are mainly compact units measuring 344 to 549 sq ft.

A 448 sq ft unit on the fifth floor has a price tag of S\$780,000 and asking rent of S\$2,600 a month, which translates into a rental yield of 4%. A 344 sq ft unit on the second level is on the market for S\$650,000 and has just been leased at a monthly rental rate of about S\$2,400. "These SoHo units have bite-size absolute prices, which are attractive to HDB upgraders and investors alike, given the 4% yield," Lye says. "And units in both The Modules and SoHo Life at Joo Chiat are freehold, which is very rare among commercial SoHo projects."

With prices of commercial space at current lofty levels, owners of strata-titled commercial units with large floor plates also see an opportunity to put them on the market, adds Knight Frank's Sai.

A strata-titled office unit taking up the entire 20th floor of Suntec City Tower 2 recently changed hands for S\$33 million (S\$2,750 psf), according to a caveat lodged in March with URA Realis. The 99-year leasehold strata office units in Suntec City are also sought after by both business occupiers and investors because of its location.

At Samsung Hub, four units have been sold since late last year. Most recently, a 6,092 sq ft unit on the 13th floor of the 30-storey office tower was sold just last month for S\$19.2 million, or S\$3,150 psf. The deal was brokered by CBRE, which is also marketing a 13,110 sq ft unit on the 14th level, which takes up the entire floor. The indicative price for the unit was S\$43.3 million, or S\$3,400 psf, and the expressions of interest closed on March 28. "Interest is strong, with potential buyers being a good mix of end-users and investors," says Jeremy Lake, executive director of investment properties at CBRE.

Such transactions have a chain reaction, says Knight Frank's Sai. "It is precisely because of these kinds of prices achieved by large strata-titled office space and even new launches of strata-titled office space at prices above S\$3,000 psf that shophouse owners in the CBD area, such as Telok Ayer, Amoy Street and Stanley Street, have raised their price expectations. Shophouses with a floor area of 3,000 sq ft now have asking prices of S\$7.5 million," she adds. "This has led to a bit of price distortion in the market." ■

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