SHOEBOX UNITS

Good buy or just hype?

Popular with young professionals, they can be profitable, but let the buyer beware

Jessica Cheam
Housing Correspondent

There is no denying the rising popularity of shoebox apartments, or "mickey mouse" flats, in Singapore in recent years.

Sales of these tiny apartments – typically 500 sq ft or less – have increased more than six times, from 300 units in 2008 to 1,900 last year.

As a percentage of new private home sales, shoebox homes accounted for 6 per cent of new private home sales in 2008, and doubled to 12 per cent last year.

Industry analysts say these apartments are particularly popular with young singles and expatriate professionals, due to their location.

Another key reason is the healthy rental yields of about 3 to 4 per cent, depending on the property, should the buyer look to rent out the property.

They also point to prices of shoebox units, which have outpaced other types of homes as buyers consider the overall price rather than the per sq ft (psf) price, allowing property developers to charge higher prices in psf terms.

National Development Minister Khaw Boon Wan has sounded the alarm, however, citing analysts who wonder if these buyers "know what they are in for".

"You're not going to flip these for a profit," one analyst said.

Some observers have called for the Government to ban such units, but Mr Khaw has said he does not want to "second-guess the market".

"For now, what is important is for potential buyers to weigh the benefits and risks carefully," he wrote in his blog.

So are shoeboxes indeed good investment buys?

Well, it depends on when you sell it, it seems. And of course, location.

According to a new report by local property consultancy Ascendant, shoebox units are generally "profitable", but it does not mean all sellers do well from the sale of such units.

Based on the firm's research, believed to be the first in-depth study here on this segment, one key finding was that shoebox units were significantly more profitable as sub-sale transactions – that is, sold before completion – than as a resale once the project is finished.

Flipping, or a sub-sale, takes place when a buyer purchases a new apartment, then resells it before construction is complete.

The company conducted its study by analysing all the caveats lodged on shoebox units, informa-

tion which is accessible through the Urban Redevelopment Authority's Reals online system.

A total of 3,780 caveats – of units 46 sq m, or 495 sq ft, or smaller – from January 1998 to December 2018 were studied.

There are two assumptions: The caveats are accurate and any data error or omission on the website will not significantly impact the findings.

Ascendant Assets director Getty Goh, who led the report's team, noted that one common strategy of "speculators" is to buy units with the intention of flipping, saying which, some will proceed to secure tenants and sell their units when market conditions are suitable.

The firm's analysis found that there was a significantly higher percentage of money-making sub-sale deals than completed deals.

This, however, could be because the bulk of shoebox units are still uncompleted, noted Mr Ku Swee Yong, chief executive of International Property Advisor.

By 2014, the total number of completed units will increase from 1,100 to 3,000, based on known plans.

Some other findings:

- There are psychological price ceilings on resale and sub-sale shoebox units.

They are: $1 million or $2,000 psf for resale units, and $1.5 million or $2,500 psf for sub-sale units.

- Experts say this is because shoebox units appeal to a segment of buyers who have limited funds yet want to buy into the market. As the asking price increases, this pool of buyers becomes smaller.

- Also, buyers who have a budget of $1 million or more have a wider range of properties to choose from, including homes with more usable space for the same price.

- Only shoebox units sold by developers were able to get the top absolute and psf prices.

Ascendant's Mr Goh said this could be because developers were able to offer progressive payment schemes for units in the past, and

Continued on >>Page 42

Loyang, Changi most profitable locations

From Page 41

the flexibility that allows investors to flip their units when they buy. As a development comes closer to completion, these conditions become increasingly irrelevant. It explains why completed units have a significantly lower number of transactions as well as profitable deals as compared to sub-sale units, he said.

Another analysis can be done in a year or so to ascertain if this trend continues as units mature in the market, he added.

Resale shoebox units tend to be more profitable at locations that have a demand for short-term housing. The report showed, surprisingly, District 17 (Loyang, Changi) coming in as top location, although Mr Goh said this could be due to the low number of transactions in that area (see graphic).

Next was District 20 (Sengkang, Ang Mo Kio) followed by District 8 (Jurong East), District 1 (Raffles Place, Chinatown), and District 2 (Amber, Tampines). These areas attract tenants looking for short-term housing, especially for its proximity to business centres or enclaves of people from various ethnic groups.

Mr Goh said it was curious that even though District 15 (Katong, Joo Chiat) saw the most transactions, it did not have high percentages of profitable deals. This could be due to the saturation of the market there, where buyers are split for choice, he added.

Looking ahead

Mr Goh noted that the number of profitable sub-sale and resale deals of shoebox units is expected to come down this year due to the stricter lending and selling conditions imposed by the most recent round of cooling measures.

The measures included a hefty sellers’ stamp duty if a property is sold within four years of purchase, and tighter financing rules.

Already, resale prices of shoebox apartments slipped 1.9 per cent in September after rising 2.5 per cent in August, according to the National University of Singapore’s Singapore Residencial Price Index (SRPI).

International Property Adviser’s Mr Ku estimates that by 2013 as much as 32 per cent of completions of new private homes outside the city centre will be shoebox units.

There will be much competition for rental or resale deals, he noted. Also, Mr Ku said buyers often do not appreciate how small these units are, especially after factoring in the bomb shelter, bay window and plaster boxes.

“Many investors may find the rental return is not what they expect, especially if they are in suburban locations where you can get bigger space for the same money,” he added.

SLP International research head Nicholas Mak said that in the past, investors found such units attractive as they were able to flip the properties. But given the heavy stamp duties imposed now, owners would likely sell only when units are completed.

Based on the research, it seems shoebox apartments are more short-term investment assets where earlier owners make the largest profit, he said.

“I could be like a game of passing the parcel. The last person who holds the parcel, when the music stops, is the loser. As a long-term investment asset, there are some question marks,” he said.

Details Wee Group director Chris Koh has a more sanguine view. He believes there will still be strong demand for such units.

“Trends are cyclical in this industry. People can afford it and you can rent it out to foreigners who are used to small units in the city,” he said.

Whatever the merits of the various arguments, a besotted contemplation of shoebox units would probably do well to heed the words of Mr Khaw: “Go in with eyes open.”