The rise and rise of shoebox units

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LAST week, the Government announced new rules to cap the supply of so-called "shoebox" units — tiny residential units — in the market. The move suggests some discomfort with the proliferation of such units in recent years. The Government projects an increase in the number of shoebox apartments from the current 2,400 to 15,000 by 2030.

But why has this sub-sector of the housing market boomed? And what are the issues that arise if more such units are built?

The recent mushrooming of shoebox apartments has raised some concerns about the liveability and sustainability of such apartments, which generally refer to units having a gross floor area of less than 50 sq m. Are shoebox units inhumane? This article does not intend to debate the question of what should be a socially "optimal" housing size for the average person or family.

But we examine some possible factors influencing the recent increase in the number of shoebox apartments:

Our discussion focuses on the supply, demand and demographic-related factors that affect the shoebox apartment market.

What impact do shoebox apartments have on other owners in similar projects? What potential spill-over effects will a rising trend of shoebox apartments have on the property market?

Rising land costs and shoebox developments

PROPERTY is made up of two components — land and building structure. In most parts of the world, supply of land is typically inclusive. In Singapore, land is largely state-owned; land is sold for development through the Government's tender exercises.

In a competitive market, bidding by a large number of developers in a tender process will drive up land prices to a level that distorts profit margins of developers. When land prices increase, developers will have to increase property prices in order to earn profits. If the marginal costs of construction for large units and for small units are not significantly different, developers adopting the "shoebox" time-to-market strategy will build apartments with large floor areas.

However, if shoebox units were to be built, developers will have to find more buyers to purchase the units to be built on land with the same permitted density. Shoebox units are priced at a premium on a per unit and floor basis. Absolute prices of shoebox units are smaller relative to large apartment units. The price differential strategy is usually found in markets with segmented demand. Who buy shoebox units? Are they for investment or owner occupation?

Shoebox units are usually built on land located near the city centre, where per square foot prices of the land are high.

Kents, comprising mostly executive workers in the Central Business District, will choose to live in shoebox units on the city fringes.

Attractive rental yields drive strong investor demand for shoebox units, especially those located near the city areas prone to rent rises.

The new Additional Buyer's Stamp Duty that significantly increases transaction costs for high-end residential properties could channel some cash-constrained, speculative demand to the shoebox market.

Younger couples, who have limited equity to make down-payments, may opt for an additional potential segment of the shoebox market. This includes the "sandwiched" class of buyers, who are ineligible for subsidised public housing but want to buy on their own.

Demographic changes and consumption preference

CHANGES to population demographics in Singapore due to an ageing society, low fertility, dwindling family size and increase in foreign population have caused shifts in preferences for housing types. With high housing prices, the purchase of apartments with large floor space is no longer a necessity for many households.

Older households, whose houses have appreciated in value, will seek the opportunity to cash out their housing wealth. Empty-nest household members are also downsizing to smaller apartments when their children are grown up and form their own families.

Younger households, who are "squatters" constrained as they embark on their new careers, are likely to choose shoebox apartments due to appreciation in housing prices.

Possible implications

DO SHOEBOX apartments cause inefficient use of land resources? In a competitive market, high land costs are likely to eliminate inefficiency, in the economic sense, in land use.

It is, however, difficult for the market to resolve the social "optimal" issue in terms of minimum floor space for the shoebox units.

Stories of large families squeezing into a small house in Klang are common in the old days.

Thus, the issue of living space is a complex and subjective one, driven by differing factors and circumstances.

What potential impact do shoebox apartments have on condominium living and boosting prices? By sub-dividing space enveloped within buildings, 50 sq m, small-