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Spotlight Shoebox units – Is small smart or is bigger better?

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Spotlight

Shoebox units – Is small smart or is bigger better?



Although shoebox units are often treated with some wariness by planners, this contemporary phenomenon offers a much needed solution to the problem of affordable city-centre living.

The rise of the shoebox unit

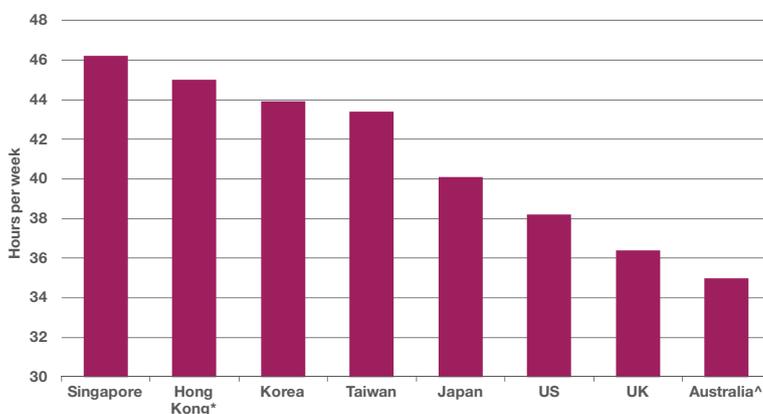
We note a rising trend in many cities towards smaller apartments, not just a bit smaller either, but much smaller. This new generation of small units is emerging in world cities across the globe, but is distinct from the shoebox units of the past. In Singapore, 300-sq ft units are being developed in quite substantial numbers, while in Hong Kong, 250-sq ft to 300-sq ft apartments are becoming more common in central locations. Tokyo has long had a reputation for compact quarters and apartments of 200 sq ft to 350 sq ft are the mainstream in the single-occupier rental market. Some older projects even offer units of 80 sq ft. In London, studios as small as 250 sq ft have been available in areas such as Bloomsbury since the 1930s but now specialist developers are starting to build expertly designed units at this size.

What is driving this market?

Shoebox units tend to evoke images of squalid 19th century European slums or even Hong Kong's notorious caged homes. The reality is very different, as this type of apartment is more commonly occupied by young, single urban professionals or childless couples prepared to sacrifice space for the convenience of city-centre living. Even the term 'shoebox unit' (coined in Singapore) is rather emotive ('boutique unit'? – the hotels got away with it).

Far from being cramped, modern designers have been particularly creative in this market segment (and layouts are crucial). Improvements in domestic appliances have also helped to transform space needs with the advent of flat-screen TVs, laptop computers, electronic books, and so on, eliminating many storage

GRAPH 1
Average weekly working hours, 2011



Source: Source: Census and Statistics Department, Ministry of Manpower, Statistics Korea, DGBAS, Australian Bureau of Statistics, Statistics Bureau of Japan, Bureau of Labor Statistics, Eurostat, Savills Research & Consultancy

*Refers to median weekly hours of work; ^Calculated as the 12-month average of total monthly hours worked/total employed persons.

SUMMARY

- Past associations with cramped tenements are being swept away by this new concept as expertly designed units in city centres catering to young urban professionals begin to catch on.

- Technological advances in the home have transformed space needs while the 24/7 social infrastructure of most modern cities has lessened the number of hours typically spent at home.

- City-centre living reduces reliance on overburdened transport networks and suits the longer working hours of today's young professional but higher costs have traditionally precluded this option.

- While shoebox units may command higher per sq ft values, lump-sum affordability is greatly improved, ensuring buyers of a liquid market with plenty of room for growth.

- Town planners have generally accepted the concept, however, we note a general reluctance to see it flourish beyond the urban core.

- In Hong Kong, quality and location usually take precedence over size when choosing a place to live and the shoebox concept is therefore proving ideal.

- The challenge of urban renewal in the city's older districts is longstanding as cramped sites often limit redevelopment potential – a problem which shoebox units can help to overcome.

- In Australia, banks remain reluctant to lend to buyers of such a product, effectively limiting its development, although demand is there.

- With house- or flat-sharing relatively uncommon in Japanese society, there is plenty of demand for small units from students and young professionals in Tokyo.

- In Singapore, where the term was coined, significantly higher per sq ft values are luring investors into the market for shoebox units and sales have been buoyant.

- In London the term 'shoebox' has pejorative connotations, but some developers are pioneering the small-apartment market with success – even advocating them as a solution to the capital's housing shortage.

- While this is still very much a niche market in the UK, the appeal of small units to young, childless, working people should ensure the much wider adoption of this affordable alternative to the mainstream.

→ requirements, while under-floor heating releases wall space for furniture.

As economies have undergone a structural shift from manufacturing to services, economic activity has become increasingly concentrated in core locations, putting a strain on often overburdened transport networks. The need for convenience, often as a result of longer working hours (particularly true of global financial markets) has also helped to bolster the popularity of living close to work.

This shift has been made much easier by steadily improving 24/7 social infrastructure, allowing a level of convenience only dreamt of by parents and grandparents. Twenty-four hour convenience stores, take-away services, lifestyle coffee shops to relax in and vast air-conditioned shopping malls, as well as the array of bars and restaurants on offer in the heart of any city, have all lessened our reliance on the home as a place to dwell.

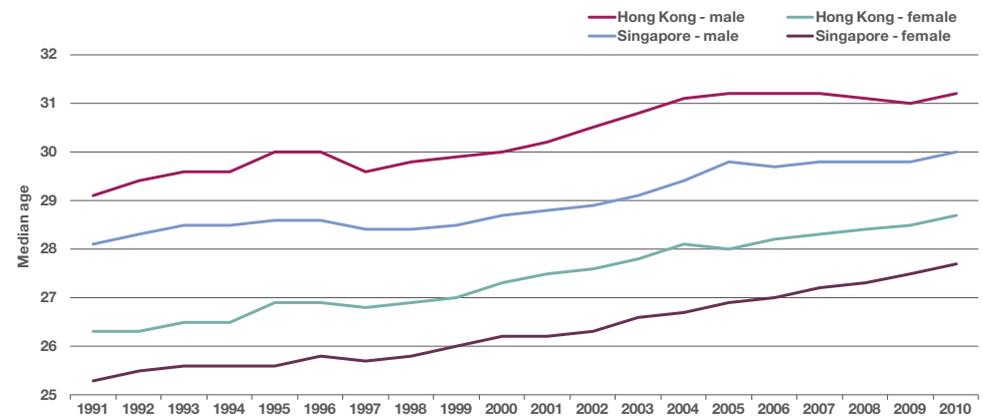
But there are other longer term demographic trends which are underpinning demand for much smaller apartments. More people choose to live alone, couples are getting married later in life and more are choosing to remain childless. Such changes are doubtless down to longer life expectancies, the huge cost of raising a family, as well as different social expectations. This demographic is not looking for the comfort of the suburbs. Not yet anyway.

Another factor is the cost of accommodation which has risen dramatically over recent decades, well ahead of wage growth, and while small shoebox units may command high per sq ft values, lump sums are smaller and more affordable. Buyers are also reassured that they are entering a liquid market place with plenty of room for growth.

Hong Kong

In Hong Kong, demand for shoebox units has risen over the past few years. An increasing number of expatriate executives from multinational companies and young professionals, such as lawyers, bankers and accountants, are seeking homes near their place of work, as well as major retail and entertainment areas. They place more importance on the quality

GRAPH 2 Median age of first marriage in Hong Kong and Singapore, 1991–2010



Source: Census and Statistics Department, Department of Statistics Singapore, Savills Research & Consultancy

GRAPH 3 Number of domestic households by family size in Hong Kong, 2001–2010



Source: Census and Statistics Department, Savills Research & Consultancy

GRAPH 4 Number of domestic households by family size in Singapore, 2001–2010



Source: Department of Statistics Singapore, Savills Research & Consultancy

→ and location of the building than the size of the flat, and shoebox units, alongside serviced apartments, meet this demand profile.

Shoebox units in Hong Kong are also called ‘boutique luxury residences’ as many of the shoebox projects are located in traditional luxury residential areas such as Mid-Levels Central and Mid-Levels West. These areas are popular for their short commutes to Central – Hong Kong’s CBD – a journey of less than 30 minutes, making use of numerous public transport options, or even on foot. After work, shoebox residents can enjoy the nightlife and shopping in and around Central, ensuring that the concept is popular with young

professionals who tend to work long hours.

Besides location, shoebox units in Hong Kong are defined as flats sized between 250 sq ft and 350 sq ft of saleable area, priced at over HK\$20,000 (US\$2,579.6) per sq ft of saleable area. The units are designed and laid-out to a high standard, aimed at capturing young urban professionals who can afford the high rents in return for convenience and a work/life balance. Currently, shoebox units can only be found on Hong Kong Island.

Other than strong demand, government policy has also acted as a catalyst for the growth

of shoebox units. The HKSAR Government is actively promoting urban redevelopment; a number of residential buildings aged over 50 years old and with unused plot ratio have been redeveloped into new flats. However, these old buildings are usually single-block developments and hence the site area, as well as the maximum floor area per unit for the new developments is limited. For developers who prefer build-to-sell over build-to-let, they often opt to develop these old sites into shoebox units instead of serviced apartments.

Hong Kong developers have launched a few shoebox projects in Mid-Levels Central, Mid-Levels West and Wanchai, and have received →

Case study (Hong Kong)

SOHO 38

Facts

- Twenty-six-storey luxury residential tower completed in August 2008 by Kerry Properties.
- Seventy-five small units, including shoebox units (Unit B), and a penthouse.
- Located close to the Soho area of Hong Kong and is a five-minute walk from Central, the city’s financial centre.
- Convenient access to transportation and shops.
- All apartments are fully fitted with the best appliances, promoting digital living technology.

- Comprehensive concierge services tailored for business people (eg. flight and restaurant booking, dine-in room service and maid services).

- Equipped with a clubhouse located on the podium.

Findings

- The shoebox studio is designed to target young, single urban professionals with modern designs and advanced appliances.
- On average, shoebox units (Unit B) have a higher price per sq ft than larger unit types.
- Shoebox units have more potential buyers as the lump-sum price of the unit is lower.

GRAPH 5 Floor plan



Source: Kerry Properties

TABLE 1 Layout plan

Unit	Gross area (sq ft)	Saleable area (sq ft)	Efficiency rate (%)	Type	Average price at launch (per saleable area)
A	708	506	71.5	2 bedrooms	HK\$22,453/US\$2,896
B	400	275	68.8	Studio	HK\$25,628/US\$3,305.1
C	690	490	71	2 bedrooms	HK\$21,048/US\$2,714.8

Source: Savills Research & Consultancy

→ positive responses. Aside from end users who work nearby, investors are also interested in this kind of property because of the relatively desirable rental yields of 3%, compared with other luxury residential properties in the same areas, which generate yields of less than 3%.

In addition to higher yields, shoebbox units also have the potential for value appreciation, as most of them are located in prime residential areas where new supply is limited. As a result, international funds are now developing shoebboxes in Hong Kong, such as private equity fund Phoenix Property Investors developing and selling Gramercy, 38 Caine Road, Mid-Levels West, where 296-sq ft units are selling for HK\$24,993 (US\$3,223.6) to HK\$27,703 (US\$3,573.1) per sq ft net.

Since Q1/2008, there have been a total of 192 shoebbox unit sales transactions, only six of which were secondary transactions. This illustrates the relative inactivity of the shoebbox secondary market, as most buyers are end users and long-term investors.

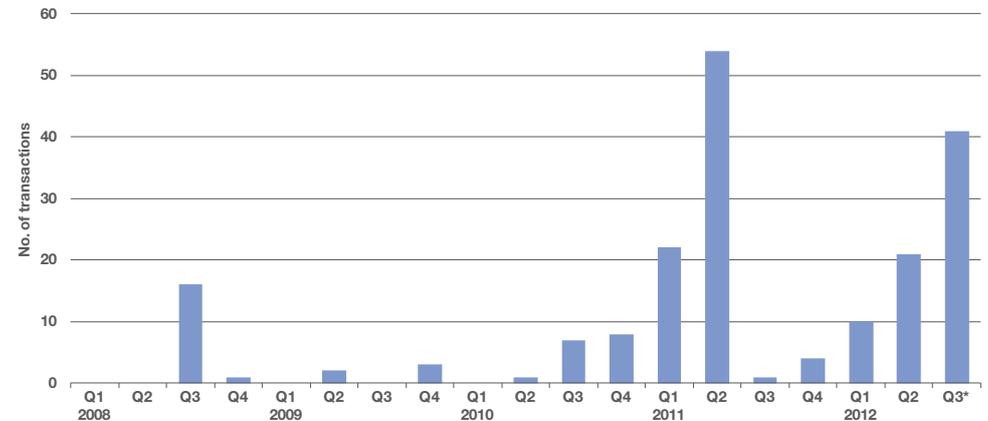
Looking ahead, the popularity of shoebbox units is set to rise, given the amount of supply from redevelopment in the old urban districts and growing demand for this type of living. We see this as a win-win situation for end users and society as a whole as it feeds demand and creates an incentive for investors and developers to redevelop old urban districts in Hong Kong.

Australia

Banks in Australia typically prefer to finance units of more than 500 sq ft, as the unit acts as security for the loan. This precludes individual ownership of these types of units for the very people who would want to occupy them. However, there is a definite trend towards smaller and smaller units as a way to shift affordable property onto the market.

Queensland has the right climate for these very small units, to which generous outside areas (balconies or courtyards) can be added, without falling foul of the GFA restrictions. Many more small-unit developments

GRAPH 6 **Transaction volumes of shoebbox units in Hong Kong, Q1/2008–Q3/2012***



Source: EPRC
* As of 12 September 2012.

are expected on the market, in an effort to combat diminishing affordability, and eventually banks may have to review their stance on financing small studios and one-bedroom apartments.

Japan

With house- or flat-sharing relatively uncommon in Japanese culture, students and young professionals create strong demand for compact studio and one-bedroom apartments. Targeting the lower end of the rental market, units in Tokyo range from extremely cramped studios of less than 100 sq ft, up to units of around 200 sq ft. These are predominantly found in low-rise wooden apartment buildings owned by local individuals or businesses.

The mainstay of the single-occupier rental market are studio and one-bedroom units of between 200 sq ft and 350 sq ft. Convenience is key to their success and such properties are commonly situated less than a five-minute walk from the nearest train station, with good access to major commercial hubs. Many units in this size range are located within modern mid- to high-rise reinforced concrete apartment blocks, and while tenant turnover can be reasonably frequent (standard leases are two years) occupancy rates remain high.

Reflecting strong demand, achievable rents per sq ft for compact single-

occupier units are, on average, higher than larger two-bedroom or family-type units. Consequently, property owners are generally real estate companies or institutional investors purchasing en-bulk, or private investors seeking stable yield returns.

Given the high costs involved in owner occupation, Japanese professionals generally wait until after marriage to purchase a property for their own use. The majority of apartments for sale tend to be located in more peripheral locations, where lower land prices can provide more space for less money and the environment is better suited for raising children, including access to parks and schools. Like the rental market, units under 350 sq ft are often located in sought-after locations with convenient access to public transport. Pricing per sq ft is therefore, again, on average higher than units in the larger 350 sq ft to 900 sq ft size band.

Singapore

In Singapore, the definition of a shoebbox unit is confined to size. The Minister of National Development blogged that it is an apartment of less than 500 sq ft; however, there are others who believe that it should include units of up to 700 sq ft. The Urban Redevelopment Authority (URA), in its latest planning guidelines computing the maximum number of dwelling units on development land, uses 753 sq ft, but did not say →

→ explicitly that this refers to shoebox units. For the purposes of this report, the definition of a shoebox unit will be taken to mean units of less than 500 sq ft.

Shoebox units started to take root in the latter half of the last decade. The completed apartments currently hitting the leasing market were those marketed in 2007 and 2008. Even then, the numbers launched and sold over these two years totalled only about 500. By 2010, these units became popular, with new sales hitting a high of about 1,700 units before petering out at 665 units in 2011. With the URA stepping in to restrict the maximum number of dwelling units on development plans approved on or after 4 November 2012, the age of the shoebox unit is over for non-core central regions (CCR) of Singapore. Henceforth, only the CCR, which encompasses prime residential districts 1, 2, 4, 9, 10 and 11, will be permitted shoebox units so we can expect the supply and sales of such units to decline from now on.

Graph 7 shows that new shoebox unit sales were healthy over the first half of 2012, with take-up averaging 803 units per quarter.

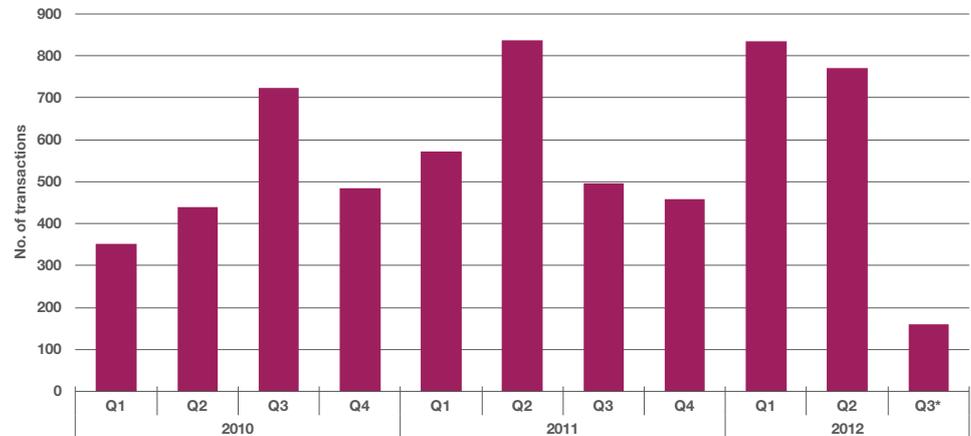
Shoebox prices are presently commanding a 33.5% premium over all non-landed property values, and are currently transacting at about S\$1,547 (US\$1,259.9) per sq ft versus S\$1,159 (US\$943.9) per sq ft for all non-landed properties.

Rent wise, shoebox units also command a significantly higher rate on a dollar per sq ft basis. The average rent of a shoebox unit is currently above S\$6.5 (US\$5.3) per sq ft per month. This represents a significant premium to larger units. For example, for units that are between 501 sq ft and 1,500 sq ft, rents are fetching, on average, S\$4.2 (US\$3.4) per sq ft per month, 35% below shoebox unit rates.

London

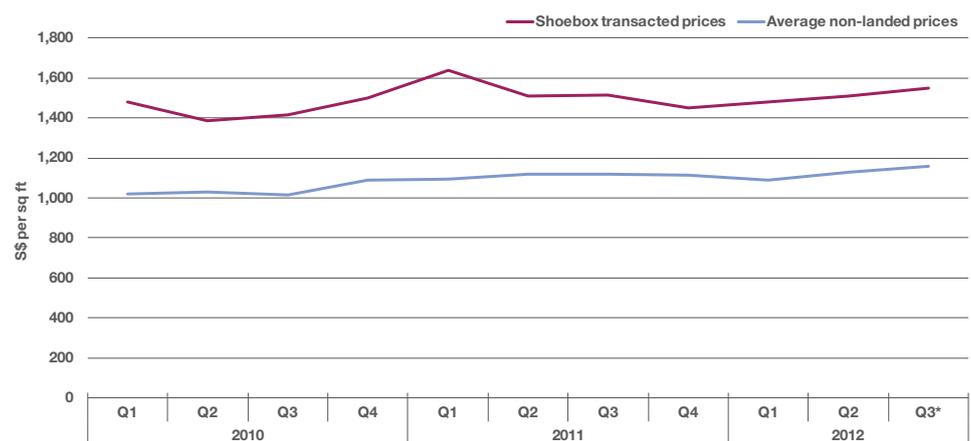
In the UK, the term ‘shoebox apartment’ has negative connotations, evoking the small flats that filled the high-density apartment schemes built in volume prior to the housing market downturn of 2008. Indeed, the Royal

GRAPH 7
Transaction volumes of shoebox units in Singapore, Q1/2010–Q3/2012*



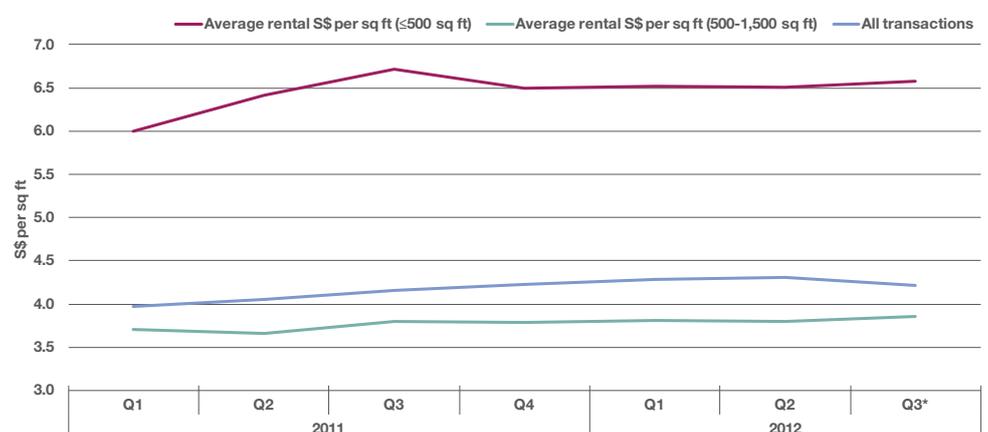
Source: Savills Research & Consultancy, SRX
* As of 5 September 2012.

GRAPH 8
Prices of shoebox units in Singapore, Q1/2010–Q3/2012*



Source: Savills Research & Consultancy, SRX
* As of 5 September 2012.

GRAPH 9
Rents of shoebox units in Singapore, Q1/2011–Q3/2012*



Source: Savills Research & Consultancy, SRX
* As of 5 September 2012.

→ Institute of British Architects recently termed speculative housebuilder output ‘shameful shoeboxes’.

There is no direct equivalent in London to the Hong Kong or Singapore shoebox model, however a developer called Pocket Living has pioneered the small-apartment market, with a view to providing affordable homes to first-time buyers wishing to own property in a central location.

Pocket Living units are spacious by the standards of shoebox units in Hong Kong and Singapore, offering one-bedroom apartments of between 380 sq ft and 480 sq ft, while their studio flats are nearer the 250-sq ft to 300-sq ft mark. Pocket Living has advocated smaller sized apartments for childless singles and couples as an affordable solution to London’s housing shortage and won planning permissions in this way. Their solution is one firmly rooted in the market (it is not allocated) and relies on appealing to prospective buyers. They therefore focus on an extremely high level of design, storage and specification which vastly ameliorates the lack of square footage. It is no accident that one of their architects is Japanese and brings the design and space efficiency principles learnt in the more mature Far East markets.

Pocket Living targets occupiers who are priced-out of centrally-located private housing of larger sizes, and who are not eligible for social housing. Schemes are in locations within a 30-minute commute from central London, and within a ten-minute walk of a train or tube station. Buyers are typically singles and couples working in both the public and private sector. There are income thresholds in place at the time of purchase, and restrictions are sometime placed on sale and sub-lettings. In Pocket Living’s Westminster scheme, for example, all sales (and future sales) of flats must be approved by the Council, and sold to a qualified buyer, at not more than 80% of market value.

While these developments have proved extremely popular with buyers, this type of scheme remains a niche in London. Pocket Living has completed

Case study (Singapore)

Alexis@Alexandra

Facts

- Six-storey condominium development completed in April 2012.
- Two-hundred and ninety-three units, including shoebox units and a penthouse.
- Located within 6 km by road from the financial district.
- Convenient access to the MRT (Commonwealth Station) and shops/eateries.
- Longest skypool in town at 75-m long.

- Other amenities include Jacuzzi, steam bath, spa pool, gymnasium and playground.

Findings

- The shoebox studio is designed to target young, single urban professionals with modern designs and advanced appliances.
- On average, the shoebox units (Type A2 – see floor plan below) are valued at a higher price per sq ft than larger unit types.
- Shoebox units have more potential buyers as the lump-sum price of the unit is lower.

TABLE 2

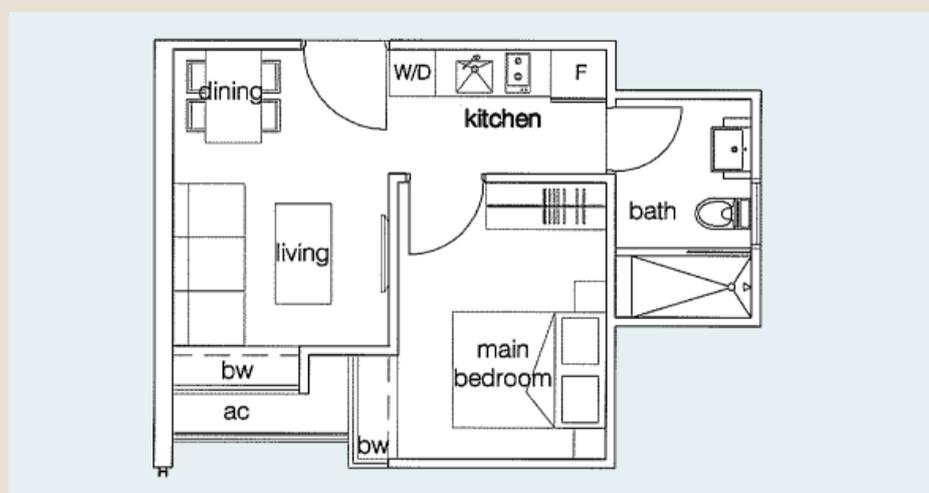
Layout plan

Unit	Saleable area (sq ft)	Type	Average price at launch (per saleable area)
A	388–527	1 bedroom	S\$1,150/US\$936.6
B	474–765	1 bedroom + study	S\$1,050/US\$855.2
C	527–1,033	2 bedrooms	S\$1,080/US\$879.6

Source: Savills Research & Consultancy

GRAPH 10

Floor plan



Source: EC Prime

→ around 200 units across half a dozen schemes to date, and remains the only player in its field. Developments of single-tenure, small-unit, high-density blocks of flats are not favoured by UK planning authorities. To work, these schemes need local authority buy-in, and usually achieve this by being promoted as a form of intermediate housing with associated restrictions on ownership and sale.

Pocket Living’s shoebox product is a rare one in London and a response to the need for affordable, intermediate housing, not an open market housing. While well-designed, it is

not a prime product as it is in Asia. In central London, it is larger units that command a £ per square foot premium so London’s ‘pockets’ are located further from the city centre (and further from public transport hubs) than shoeboxes in Asia. The Pocket Living model cannot be replicated in prime areas of London, where studios and small flats sell at a discount to larger units on a square foot basis, unless they are part of an affordable housing strategy for planning purposes.

Our analysis of housing supply in London suggests that the biggest

shortfalls are in the ‘mainstream’ markets which are more affordable to ordinary working Londoners. There is enough demand, particularly from young, childless, working people to more than justify a substantial increase in the supply of small units, alongside more substantial ones. The ‘shoebox’ epithet has the potential to be reclaimed in London. It is an historic legacy to see small apartments as unhealthily cramped and cynically produced for maximum profit; some pioneer developers have shown that they can be both desirably exquisite – and affordable. ■

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