savills

Briefing
Residential leasing

August 2013

Image: Coralis

SUMMARY

In the luxury market, most of the new supply is unsold units held by developers who cannot lease them out, thereby giving the market a temporary respite.

- Singapore's GDP showed an unexpected 3.8% year-on-year (YoY) growth or a seasonally-adjusted 15.5% quarter-on-quarter (QoQ) rise.
- Hiring prospects remained rosy, as Hudson's report of employment trends in Singapore showed a rising intention to increase headcounts.
- The leasing market continued to witness increasing demand, with the total number of leases signed in the second quarter reaching 13,522, a growth of 15.4% QoQ or 7.0% YoY.
- The island-wide vacancy rate of private residential units increased to 5.6% after two consecutive quarters of decline since Q3/2012. The number of vacant homes rose by 1,301 units and this is expected to increase further, as many more new homes will be completed soon.
- The average monthly rent of high-end condominiums tracked by Savills continued to soften for the eighth consecutive quarter, dipping by 0.2% QoQ to S$4.86 per sq ft per month.
- Going forward, rents for luxury market homes may remain stagnant until year's end as most of the new supply is unsold units held by developers who cannot lease them out. Rents for mass-market housing could hold up as demand drifts from the high-end and mid-tier markets.

"The greater leasing demand hints at more overseas nationals arriving in Singapore, but rents are not keeping up due to an imbalance in housing types versus needs." Alan Cheong, Savills Research

MIC(P) No. 081 / 04 / 2013
Company Reg No. 198703410D

Market overview

While economic growth the US and Japan is picking up momentum, China still faces many headwinds as it tries to stabilise its economy. Tepid growth in China would adversely affect Singapore's export and trade sectors. Most analysts had earlier speculated that there would be, at best, modest growth due to a poor showing in June's trading activity in the manufacturing sector. However, Singapore's GDP showed an unexpected 3.8% YoY growth or a seasonally-adjusted rise of 15.5% QoQ.

Likewise, the local residential leasing market encountered some restraints when the government implemented additional restrictions on overseas workers, especially in the service and finance sectors. Moreover, Mercer's 2013 Cost of Living survey revealed that Singapore moved up to be the second most expensive Asian city and the fifth most costly location worldwide, taking over Hong Kong's ranking in 2012. As many multinationals are facing financial problems back home, they have become more cost conscious. This has threatened to squeeze the pool of expatriates as well as their living budgets in Singapore. Nevertheless, given the government's efforts to maintain the city's competitive edge as an international meeting point, Singapore continues to uphold its trademark as one of the top destinations for talented expatriates.

Moreover, hiring prospects remained rosy, as Hudson's report of employment trends in Singapore showed a rising intention to increase headcounts. In the second and third quarters, 43.2% and 48.7% of employers intended to expand respectively, with the manufacturing sector leading the hiring demand.

Leasing demand

Despite some curbs on the issuance of employment passes, leasing demand continued to increase, with the total number of leases signed in the second quarter reaching 13,522, a growth of 15.4% QoQ or 7.0% YoY. Overall, leasing volumes in the first six months were resilient when 25,243 cases were recorded, marking a 5.4% increase as compared with the leasing volumes seen in the same period last year. Current demand for temporary homes was probably driven not only by an increasing number of overseas nationals who are here on a short-term project basis of between six months and a year, but also by the rising number of newly-wed couples waiting for their homes to be completed, as 27,936 marriages were registered in Singapore last year, a 50-year high since the 1960s.

Vacancy rates

The island-wide vacancy rate of private residential units increased to 5.6% after two consecutive quarters of decline since Q3/2012. This was largely attributed to a sudden surge in vacancy rates from 2.6% to 12.0% in the northern region, where the number of vacant condominiums rose significantly from 49 units to 869 units. This sudden inflation in the number of vacant units could result from many newly completed mass-market projects in the region in the past few months. Overall, in Q2/2013, the number of vacant homes rose by 1,301 units and this is expected to increase further, as wave after wave of new homes will soon be completed. According to the URA, 49,487 private residential units will be ready by 2015.

In the Core Central Region (CCR), 221 units at Marina Bay Suites and 210 units at Goodwood Residence were granted Temporary Occupation Permits by the end of Q2. As most of these units are unsold and developers are unable to lease them due to development regulations, the supply of lettable units is currently low. If developers do not transfer these unsold units to another investment company, a move which would be subject to hefty additional buyer's stamp duties (ABSD), or clear them in the open market through aggressive discounting, this should give a short-term respite to the rental market for units in the CCR.

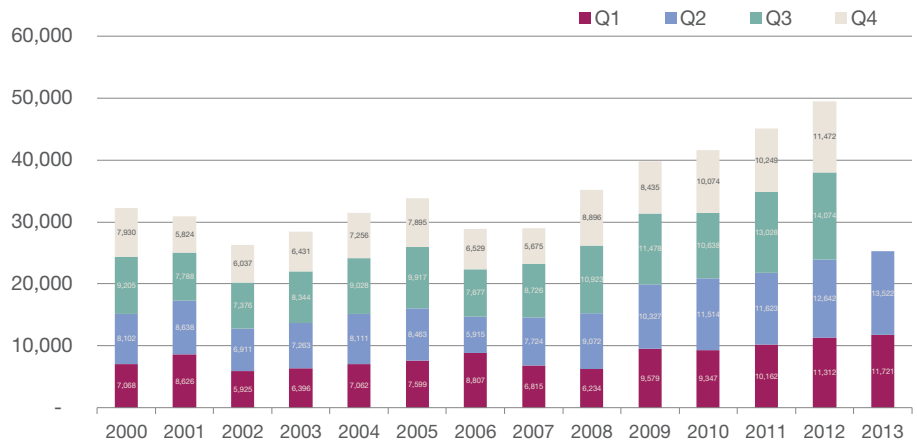
Rents

Based on the URA's quarterly data, the rental index of private residential units inched up marginally by 0.3%, registering a drop from the 0.8% growth recorded in the previous quarter. Island-wide median monthly rents were nearly flat with the median rent of non-landed private homes, excluding executive condominiums, inching up from S$3.81 per sq ft per month to S$3.82 per sq ft per month. On the other hand, the monthly median rent of landed houses slipped slightly from S$2.65 per sq ft to S$2.64 per sq ft.

The average monthly rent of high-end condominiums tracked by Savills continued to soften for the eighth consecutive quarter, dipping by 0.2% QoQ to S$4.86 per sq ft per month. The subdued leasing performance in luxury homes could be due to more intense competition resulting from oversupply in the high-end market, combined with big-budget tenants placing more constraints on accommodation expenses.

GRAPH 1

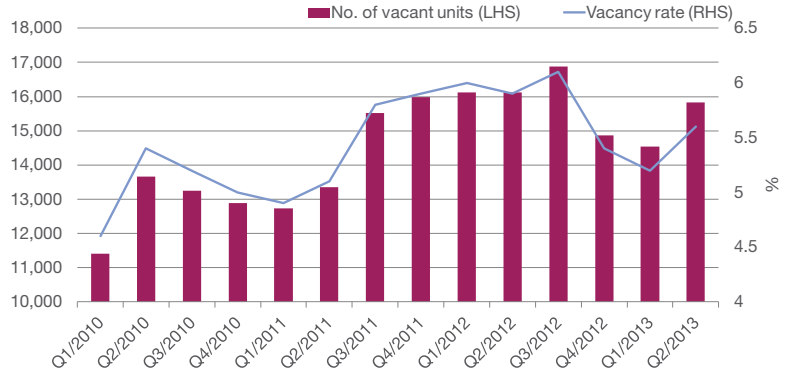
Transaction volumes, Q1/2000–Q2/2013



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy

GRAPH 2

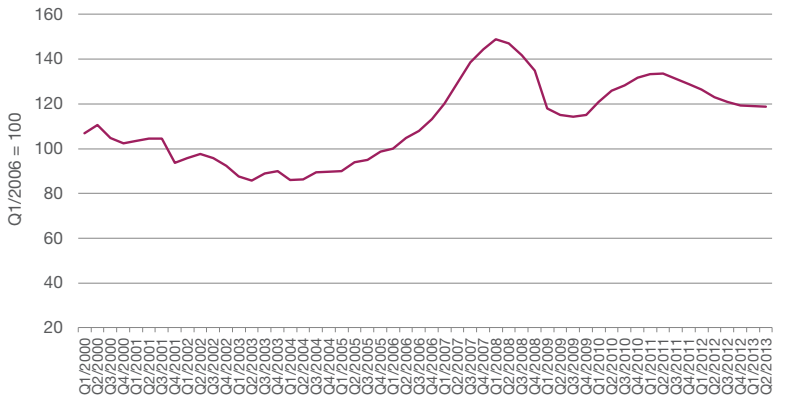
Vacant units and vacancy rates of private homes, Q1/2010–Q2/2013



Source: URA, Savills Research & Consultancy

GRAPH 3

Savills high-end rental index, Q1/2000–Q2/2013



Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

China should continue to face headwinds as it attempts to restructure the country and shift its focus to a more sustainable growth model led by domestic consumption. This will adversely affect Singapore, whose economy is quite dependant on trading activity, especially with China's market.

Nevertheless, market sentiment generally remained optimistic despite the economic uncertainties. Leasing demand is expected to retain its momentum and remain resilient until the end of the year, since job market prospects are positive. Lease renewal activity might become more active in the next few months when existing tenants want to take advantage of the increasing housing stock available and the areas of the island seeing softening rents. Going forward, rents for luxury homes may still see support until year's end because much of the completed stock is in the form of unsold units still in the hands of developers who cannot lease them out unless they pay ABSD by performing an asset sale to an investment holding company. Also, there is an increasing number of overseas nationals arriving on short-term assignments, paying slightly higher rents than those here on a longer term basis. For mass-market developments, rents could hold up as demand drifts from the high-end and mid-tier markets.

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