

Briefing Residential leasing

May 2014



Image: The Interlace

SUMMARY

Growth in leasing volumes in Q1/2014 was mainly led by increasing rental demand in the city fringe areas.

■ Singapore's economy remained resilient, growing by 4.9% year-on-year (YoY) in Q1/2014. Meanwhile, the employment situation remained tight.

■ Despite the anticipated shrinking pool of overseas nationals in Singapore, leasing demand in the private residential market has not shown signs of waning. Rental volumes island-wide increased by 4.0% YoY to 13,077 transactions, 37.0% of which were in the city fringe areas.

■ The overall rental index of private residential properties continued to

ease 0.7% quarter-on-quarter (QoQ) in Q1/2014. In a similar vein, the average monthly rent of high-end condominiums tracked by Savills slipped 0.2% to S\$4.84 per sq ft.

■ The vacancy rate climbed to 6.6% from 6.2% in the previous quarter, which translated to 19,284 vacant private residential units across the island.

■ Looking ahead, the forecast robust rise in Singapore's economy should help to support the pace of growth in residential leasing demand. On the other hand, rents may not

break through, either remaining flat or softening island-wide.

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 "A stalemate has developed wherein increasing new supply and tighter rental budgets face off against an improving economy." Alan Cheong, Savills Research

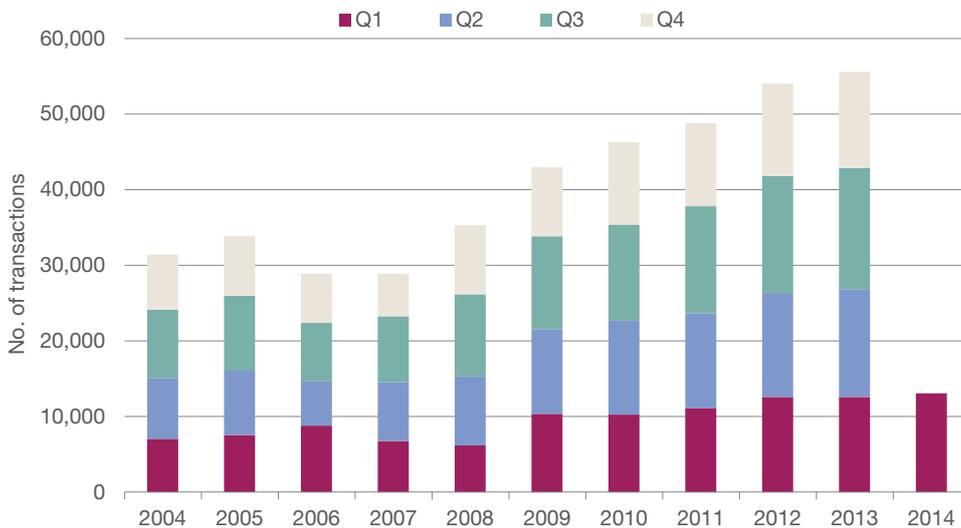
➔ **Market overview**

In the first quarter of 2014, Singapore's economy remained resilient, growing by 4.9% YoY. This is similar to the expansion rate achieved in the fourth quarter of 2013. While the manufacturing sector led the growth, increasing at a rapid 9.8% YoY and higher than the 7.0% increase in the previous quarter, growth in the finance and insurance sector slowed to 5.4%, falling from the expansion of 10.5% in Q4/2013. This was attributed to rising uncertainties and declining sentiment within the sector.

Meanwhile, the employment situation in Singapore remained tight. According to the Ministry of Manpower's preliminary report, unemployment was still relatively low despite the rise in the overall seasonally adjusted unemployment rate to 2.1% in Q1/2014 from 1.8% in the previous quarter. Moreover, new job creation was slower than that in Q4/2013. Total employment grew by 24,900, the majority of which was accounted for by the services sector. Although the job market is not as rosy as before, employment prospects in Singapore are still

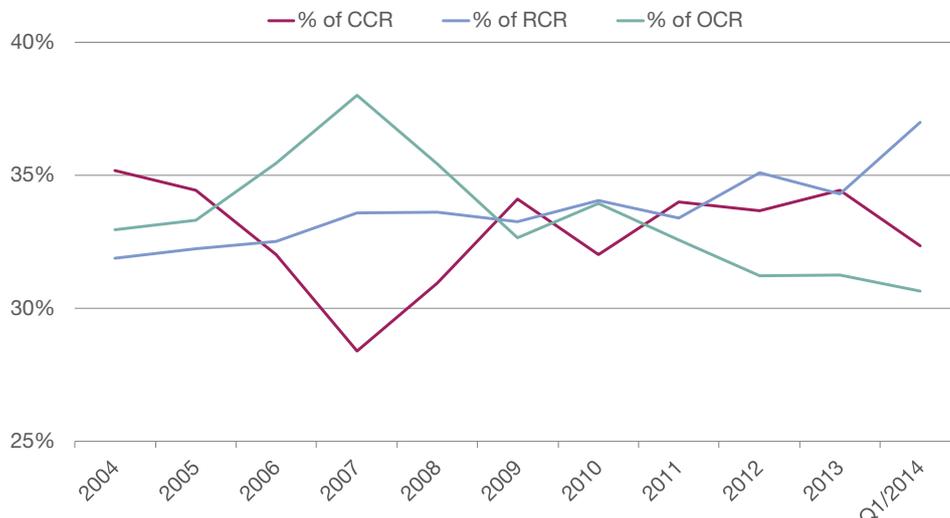
perceived to be resilient. About 54% of the employers surveyed in the Salary & Employment Forecast 2014 by Michael Page expected steady hiring activity in the market, while 34% anticipated that it would be either stronger or slightly stronger compared with that in the last 12 months. The report also pointed out that hiring demand would be driven mostly by finance and accounting professionals. Roles such as tax specialists, business analysts, financial controllers and internal auditors would be at the top of the demand list.

GRAPH 1 **Transaction volumes, Q1/2004–Q1/2014**



Source: URA, Savills Research & Consultancy

GRAPH 2 **Rental volumes by market segment, 2004–Q1/2014**



Source: URA, Savills Research & Consultancy

Leasing demand

Despite the anticipated shrinking pool of overseas nationals in Singapore, leasing demand in the private residential market has not shown signs of waning. According to the Urban Redevelopment Authority (URA), a total of 13,077 leases of private residential homes, excluding executive condominiums, were inked island-wide in the first three months of 2014. This translates to an annual growth of 4.0%. Savills analysis of the leasing caveats¹ showed that the increase in rental volumes during the reviewed quarter was mainly led by a strong surge of 11.2% YoY in the Rest of Central Region (RCR). On the other hand, leasing transactions in the Core Central Region (CCR) slid 1.1%, while those in the Outside of Central Region (OCR) inched up marginally by 1.5%.

In terms of private residential leasing demand by market segment, Savills noted that the yearly proportion of rental transactions in the city fringe areas, or the RCR, has steadily increased and surpassed those in the CCR and OCR since 2012. In Q1/2014, rental demand in the RCR reached its highest level since 2004, making up 37.0% (or 4,839 leases) of the total rental transactions island-wide and higher than the 30.6% and 32.4% in the OCR and CCR respectively.

It is believed that by balancing the tighter rental budgets of expatriates

¹ Downloaded from REALIS on 19 May 2014.

in Singapore with accessibility factors, residential properties in the city fringe areas are more appealing than those in other locations. These housing options likely fit better to their current budgets, yet still remain conveniently accessible from the city area. Tenants these days are also offered a wider variety of locations in the RCR to pick from, as there is an increasing number of newly completed developments.

For the whole of 2013, more than 2,500 private residential units were completed at a number of major projects in the RCR, such as Ascentia Sky on Alexandra View, Waterbank at Dakota on Dakota Crescent, The Interlace on Depot Road, Spottiswoode Residences on Spottiswoode Park Road and Vista Residences on Jalan Datoh, among others.

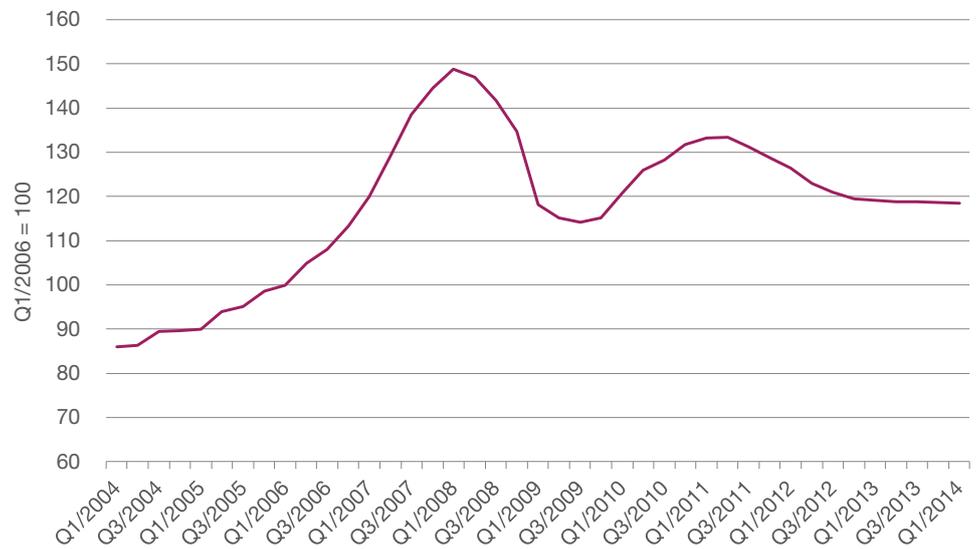
Rents

According to the URA, following the drop of 0.5% in the previous quarter, the overall rental index of private residential properties continued to ease 0.7% in the quarter. Only rents of non-landed residential properties in the RCR inched up 0.3% QoQ, while those in the CCR and OCR declined 0.6% and 0.8% respectively. More pressure on residential rents is expected in 2014, especially in the high-end market, as expatriates' housing allowances continue to be trimmed and there is an increasing number of newly completed high-end projects entering the market for lease. The average monthly rent of high-end condominiums tracked by Savills continued its downward trend since mid-2011, with average monthly rents dipping 0.2% to S\$4.84 per sq ft in the reviewed quarter.

Stock and vacancy rates

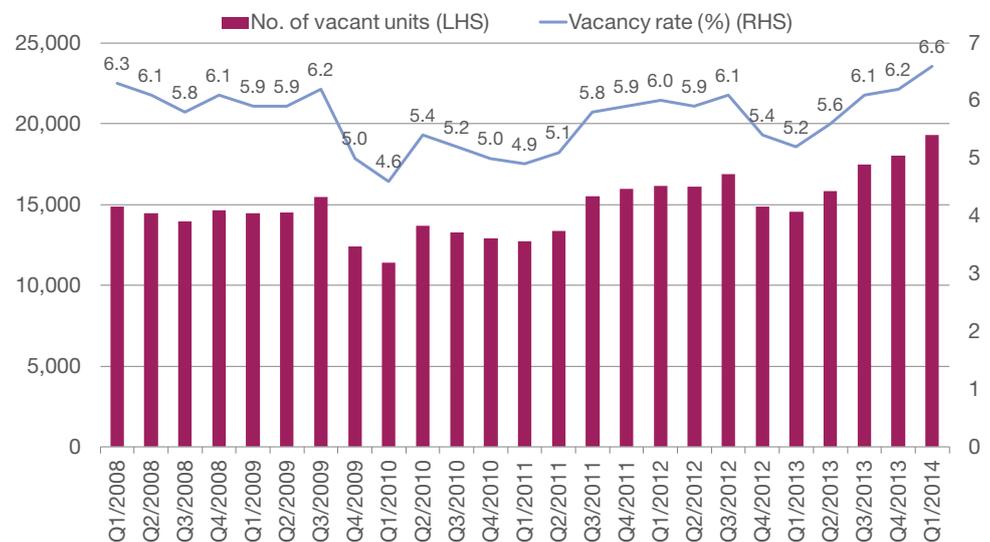
As of Q1/2014, there were 19,284 vacant units out of the current 293,283 available private homes across the island. In the reviewed quarter, the vacancy rate was 6.6%, representing an increase of 0.4 of a percentage point from the

GRAPH 3 Savills high-end residential rental index, Q1/2004–Q1/2014



Source: Savills Research & Consultancy

GRAPH 4 Vacant units and vacancy rates of private homes, Q1/2008–Q1/2014



Source: URA, Savills Research & Consultancy

6.2% in the previous quarter. The increase was mainly due to the spike from 3.4% to 6.1% in the East region, whereas vacancy rates either remained flat or declined in the other regions. Most of the major projects completed in the reviewed quarter are located in city fringe or suburban areas, such as Waterview on Tampines Avenue 1 (696 units), Vacanza @ East on Lengkong Tujoh

(473 units), The Shore Residences on Amber Road (408 units), Concourse Skyline on Beach Road (360 units) and Centro Residences on Ang Mo Kio Avenue 8 (329 units). Meanwhile, the latest high-end projects added to the market comprise Suites at Orchard on Handy Road (118 units) and Loft @ Nathan on Nathan Road (121 units). ■

OUTLOOK

The prospects for the market

The Ministry of Trade and Industry expects a modest improvement in global economic conditions due to the gradual recovery of the US and eurozone. In tandem with this, Singapore's economy would be

able to sustain its growth, which is forecast at 2.0% to 4.0% this year. Looking ahead, the anticipated robust rise in Singapore's economy should help to support the pace of growth in private residential leasing demand. However, rents could

remain flat or soften island-wide due to increasing supply and the tighter rental budgets of overseas nationals.

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