Briefing
Residential leasing

May 2015

Image: Sculptura Ardmore, Ardmore Park

SUMMARY

Supply growth may have slowed at the start of the year, but this is not expected to last long.

- Island-wide leasing transactions grew 3.1% quarter-on-quarter (QoQ) and 13.5% year-on-year (YoY) to 15,229 deals with the Rest of Central Region (RCR) leading the growth.

- The Urban Redevelopment Authority (URA) island-wide rental index fell 1.8% in its sixth consecutive quarter of decline, with the biggest drop of 1.9% QoQ in the Core Central Region (CCR). Likewise, the average monthly rent of Savills basket of high-end non-landed homes fell 1.5% QoQ to S$4.51 per sq ft in Q1/2015.

- The current stock of private residential homes island-wide grew at a slower pace of 0.9% QoQ, but this is just a temporary hiatus as the supply for the remainder of 2015 is expected to exceed that for the same period in the preceding two years.

- In the CCR, the completion of large projects has placed pressure on rents as demand for the high-end segment has been weakening since 2013.

- Vacancy rates fell 0.6 of a percentage point (ppt) to 7.2% in Q1/2015, driven not by demand but mainly due to a slow down in new supply in the first quarter.

"A respite from the onslaught of supply coming on stream has provided temporary relief and a small drop in vacancy."
Alan Cheong, Savills Research

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Market overview

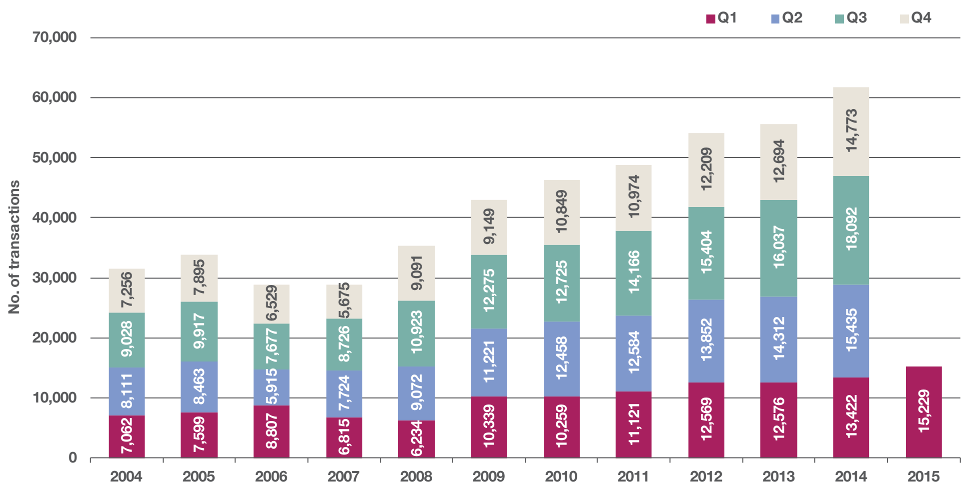
Singapore's economy got off to a slow start in Q1/2015, expanding only 2.6% YoY. Although this was an improvement relative to the preceding quarter, growth was still slower compared to the same period a year ago. Despite the continued weak performance of the manufacturing sector, the construction industry fared well enough to keep the overall economy from falling. The services sector also went up 3.8% YoY, an improvement from the 3.1% recorded in the previous quarter, but the finance and insurance sector grew at a much slower pace of 7.9% YoY compared to the 10.3% seen in Q4/2014.

The labour market remained tight with the unemployment rate having trended down to 1.8% in Q1/2015[1]. The Ministry of Manpower's preliminary report indicated that the lower layoff figure in major industries was the main reason behind this decline. However, overall employment only grew by 300 persons, a far cry from the 28,300 in Q1/2014, and the weakest recorded since Q2/2009. The miniscule growth is largely due to the slower retail, F&B and cleaning industries. This was also caused by the shortage of both foreign and local labour. A recent study by ECA International has ranked Singapore's expatriate pay packages as the seventh highest across Asia-Pacific in 2015, falling one rank from the preceding year. The ranking decline shows that companies are either allocating resources to other nations or tightening their belts, consequently leading to a slower hiring process. With the slightly less appealing pay package for employees on one hand and the rising operating cost for employers on the other, against the backdrop of the fair consideration framework, foreign labour growth may continue to wane.

1 Preliminary figures

GRAPH 1

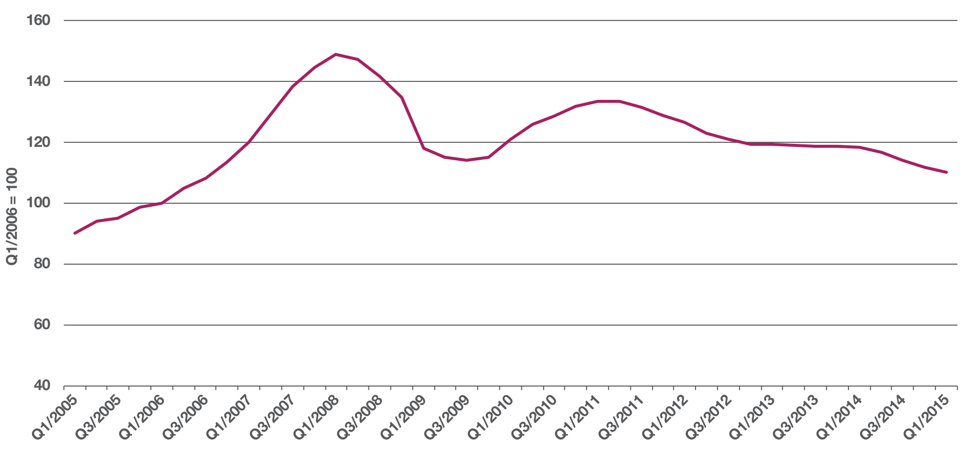
Transaction volumes, Q1/2004–Q1/2015



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

GRAPH 2

Savills high-end residential rental index, Q1/2005–Q1/2015



Source: Savills Research & Consultancy

Leasing demand

Despite the tighter employment market and slower economic expansion, the level of activity in the rental market grew 3.1% QoQ and 13.5% YoY in Q1/2015, in sharp contrast to the anaemic residential sales scene. With 15,229 leasing transactions recorded island-wide in the reviewed quarter, the CCR and RCR expanded 4.6% and 5.6% respectively, while the Outside Central Region (OCR) continued its quarterly decline of 0.9%. Nevertheless, YoY growth in the OCR was 19.1% which indicates that demand for the region is still strong.

Rents

The URA's rental index for non-landed private residential properties island-wide fell 1.8% in its sixth consecutive quarter of decline. Rents in all three regions fell in tandem, with the CCR leading the decline with a 1.9% QoQ drop, followed by the OCR and RCR at 1.8% and 1.6% respectively. Similarly, rents of Savills basket of high-end non-landed residential homes eased by 1.5% QoQ to S$4.51 per sq ft. We have observed in the current market that individual landlords have been more flexible in their rental expectations in an effort to secure a tenant expeditiously, unlike institutional or corporate landlords.

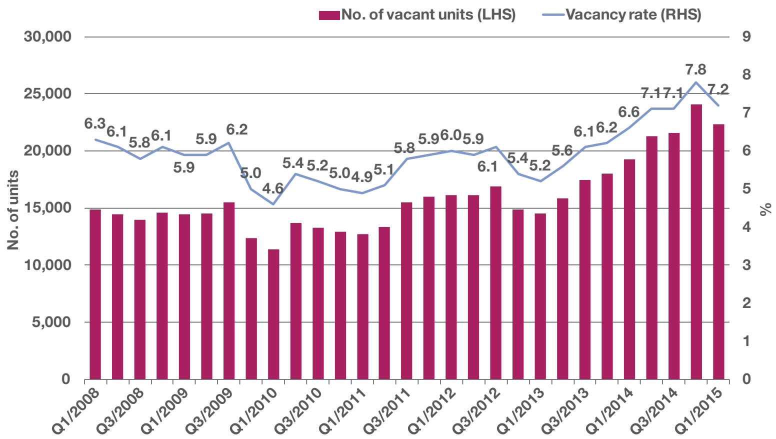
Stock and vacancy

In the first quarter, the current stock of private residential units increased at a slower pace of 0.9% QoQ to 311,635 units. This is in contrast to the 1.5% QoQ average growth seen in the preceding six quarters. However, the supply of new private homes should step up for the remainder of 2015. Official statistics show that 19,018 completed units are expected to come on-stream from Q2-Q4/2015. To understand the enormity of the situation, we look to Q2 to Q4 of both 2014 and 2013 for comparison. For these two periods, the supply for the remaining three quarters of their respective years was just 15,827 and 10,483. The new supply coming on-stream for the remainder of this year is 20% and 81% higher than the similar period of analysis for 2014 and 2013 respectively, presenting a great challenge for the leasing market to be able to absorb the new completions.

The leasing market in the CCR is becoming competitive as some larger projects have received the Temporary Occupation Permit (TOP) in Q1/2015. Among the more notable ones are OUE Twin Peaks, RV Residences and Stellar RV which together added 830 units to the previous quarter's stock. The completion of these large projects has placed further pressure on rents of other developments in the CCR. If we consider the 1,715 units at the recently-completed D'Leedon, a substantial part of which is still looking for tenants, the pressure is even greater. The situation is not helped on the demand side as companies have been reducing the rental budget for their expatriate staff. With crimped rental budgets, expatriates are beginning to venture out to the non-CCR areas which can offer a more spacious abode than prime locations, for the same rent. Although demand had been weak, occupancy improved marginally as vacancy rates of private homes slipped by 0.6 of a ppt to 7.2% from the previous quarter. Nevertheless, this still translates to 22,346 vacant residential units, a huge opportunity cost. The improvement in the occupancy is due more to the slower rate of completions rather than increasing demand. Unfortunately, as the pace of supply is expected to step up for the remainder of this year, the vacancy rate is likely to increase again.

GRAPH 3

Vacant units and vacancy rates of private homes, Q1/2008–Q1/2015



Source: URA, Savills Research & Consultancy

TABLE 1

Major projects completed in Q1/2015

S/No.	Project name	Location	Category	Total No. of units completed
1	Hedges Park Condominium	Flora Drive	OCR	501
2	OUE Twin Peaks	Leonie Hill Road	CCR	462
3	Woodhaven	Woodgrove Avenue	OCR	337
4	RV Residences	River Valley Road	CCR	248
5	Regent Residences	Serangoon Road	RCR	180
6	Cradels	Lorong Limau	RCR	125
7	Stellar RV	River Valley Road	CCR	120

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

Rents are expected to continue facing downward pressure as the supply of private residential properties this year is higher than the leasing demand can comfortably absorb. Although historically the transaction volume has been trending up and is likely to follow suit this year, budgetary constraints amongst expatriates or those whose employment contracts have been localised mean that the ball is now in the tenants' court.

It would not come as a surprise if the CCR ends up bearing the brunt of the rental decline as this sector had been geared for the deeper-pocketed expatriate. Certain suburban and city fringe areas on the other hand could still hold up well as expatriates, when faced with smaller rental allowances, may relocate from prime areas to more affordable homes in the city fringe or suburban areas which are just as adequately accessible and perhaps more spacious. Nevertheless, there is still this crème de la crème of senior management and business owners who are inelastic to rental increases and where uber high-end, luxury residential remains their only choice of residence. For this category of tenants, only a select number of developments in the Draycott, Claymore and Nassim areas would meet their needs and hence rents in these developments are unlikely to budge from their elevated levels.

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