Savills World Research
Singapore

Briefing
Residential leasing

June 2017

Image: Echelon at Alexandra View

SUMMARY

Rents continued to trend lower despite strong showing in leasing transactions in Q1/2017.

- The job market in Singapore remains a matter of increasing concern as retrenchments and unemployment is trending up as the economy restructures. Meanwhile, the employment outlook continued to appear challenging as a majority of employers remained conservative in hiring.

- In spite of persistent weak market conditions, the first quarter of 2017 saw leasing activity of private residential properties island-wide soar to another quarterly high with 18,896 transactions. However, that could be due to a technicality.

- According to the URA's rental index, the overall rents for private residential properties continued to decline albeit at a slightly slower pace of 0.9% quarter-on-quarter (QoQ) in Q1/2017.

- The average monthly rent of high-end non-landed residential properties tracked by Savills slid 0.8% QoQ and 2.6% year-on-year (YoY) to S$4.09 per sq ft.

- The stock of vacant private residential units island-wide continued to fall for three consecutive quarters since Q3/2016. As of Q1/2017, the whole island has a total of 28,442 vacant units, 6.2% lower than the recent peak of 30,310 in Q2/2016. However, new completions for the rest of 2017 may keep the vacancy levels elevated.

"Stabilising leasing statistics belie weakness in the tenancy market but it would be a grave error to opine that prices will follow suit." Alan Cheong, Savills Research

MCI (P) No. 187/03/2016
Company Reg No. 198703410D

Market overview

The Singapore economy expanded 2.7% YoY in the January-to-March quarter, boosted largely by a resurgent manufacturing sector. On back of an improving global environment, the Ministry of Trade and Industry (MTI) announced that GDP growth in 2017 could be better than expected and surpass 2%.

However, the job market remains a matter of increasing concern as retrenchments and unemployment are trending up as the economy restructures. According to preliminary data, Singapore's overall unemployment rate rose 0.1 percentage point (ppt) QoQ to 2.3% as of the end of March 2017, the peak since Q4/2009. Layoffs fell from 5,440 in Q4/2016 to 4,800 in Q1/2017, still one of the highest numbers after the global financial crisis. Meanwhile, the employment outlook continued to appear challenging as a majority of employers remained conservative in hiring. Of 700 employers surveyed in the ManpowerGroup Employment Outlook Survey in March, only 13% expected to increase staffing levels while 5% anticipated a decrease, and 81% foresaw no change.

In spite of persistent weak market conditions, the first quarter of 2017 saw leasing activity of private residential properties island-wide soar to another quarterly high with 18,896 transactions, surpassing the historical five-year first-quarter average of 14,428. On a quarterly basis, leasing volume was also up by 7.3%. Putting aside seasonal factors, the growth of leasing transactions in the reviewed quarter could be technical as more leases are signed on shorter terms, such as six months to one year, compared with a typical two-year term in earlier years. That said, lease renewal could contribute substantially to the increase in rental transactions rather than fresh leases.

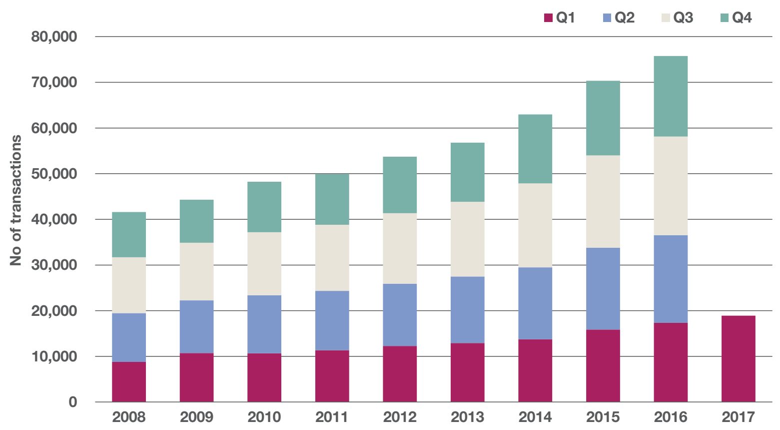
The leasing volume recorded QoQ increases in the island-wide landed property segment (5.2%), as well as non-landed private homes in the Core Central Region (CCR) (8.7%) and Rest of Central Region (RCR) (17.0%). In contrast, suburb condominiums in the Outside Central Region (OCR) saw volumes decline by 1.7% QoQ in Q1/2017. This was after a 9.5% drop in the last quarter of 2016. Increasing number of tenants are relocating to the mid-tier and high-end markets, encouraged by softening rents in those markets. A scenario of demand gravitating towards the prime districts may result as rents fall further in those areas. Meanwhile, a few newly completed condominium projects located in the city fringe, including Echelon at Alexandra View, Bartley Ridge on Mount Vernon Road and Sky Vue at Bishan Street 15, have attracted keen leasing interests from tenants due to their convenient locations next to the MRT stations and ample small-size units from which to choose. A total of 542 leasing transactions were signed in these three projects in the reviewed quarter, fuelling the rise of leasing activity in the RCR.

Rents

According to the URA's rental index, the overall rents for private residential properties continued to decline albeit at a slightly slower pace of 0.9% QoQ in Q1/2017. In the previous quarter, it registered a 1.0% drop. This marks the 14th

GRAPH 1

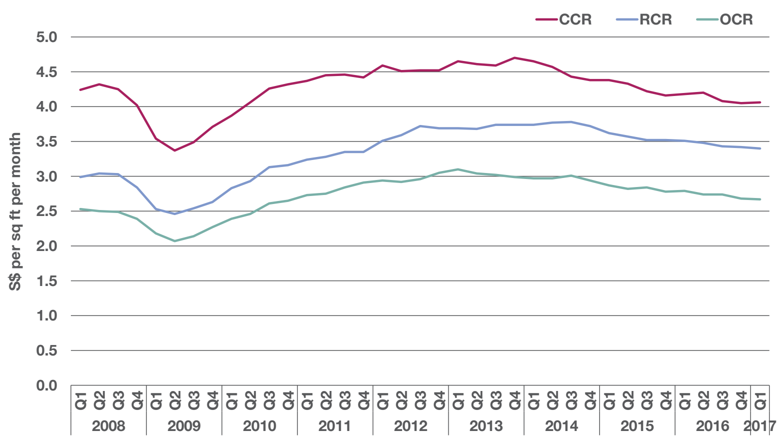
Leasing transaction volumes of private residential units, Q1/2008–Q1/2017



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

GRAPH 2

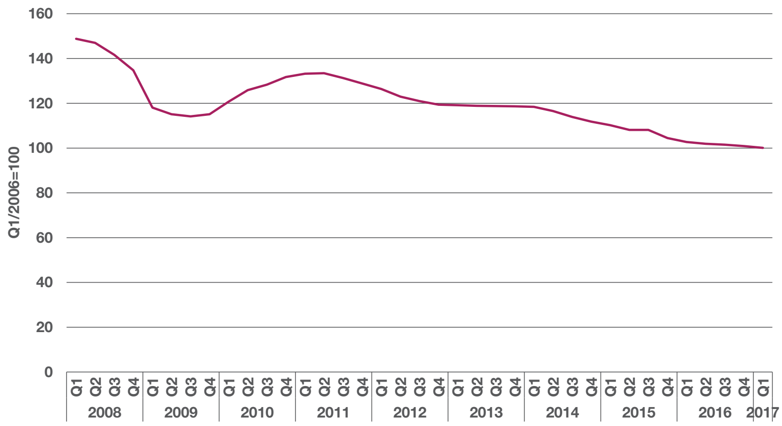
Median rents of non-landed residential properties by locality, Q1/2008–Q1/2017



Source: URA, Savills Research & Consultancy

GRAPH 3

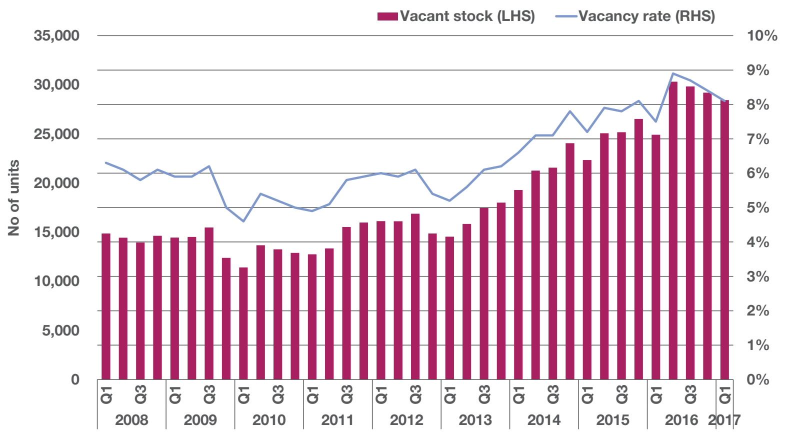
Savills high-end, non-landed residential rental index, Q1/2008–Q1/2017



Source: Savills Research & Consultancy

GRAPH 4

Vacant units and vacancy rates of private residential units, Q1/2008–Q1/2017



Source: URA, Savills Research & Consultancy

successive quarter that the index has slid since reaching a peak in Q3/2013. Similarly, for Savills basket of high-end non-landed residential properties, the average monthly rents recorded another quarterly drop of 0.8% QoQ to S$4.09 per sq ft in Q1/2017.

Based on the URA's data[1], the island-wide median monthly rents of landed properties stayed unchanged at S$2.18 per sq ft (psf) in Q1/2017 from one quarter ago. For non-landed private homes, the median rents were S$4.06 psf in the CCR, S$3.40 per sq ft in the RCR and S$2.67 psf in the OCR. Across all regions, the non-landed private properties' rental levels were almost flat compared with Q4/2016, with CCR inching up one cent while RCR and OCR dipped two cents and one cent, respectively. This finding may suggest that the rents are close to a floor as the rental gap between private non-landed homes, especially in the suburbs, and public housing units has narrowed significantly over the years. Unless there is a big drop in public housing unit rents, the rate of rental decline for private homes should start slowing over the next few quarters.

1 Downloaded from REALIS on 31 May 2017.

Stock and vacancy

The stock of vacant private residential units island-wide has continued to decrease for three consecutive quarters since Q3/2016. As of Q1/2017, the whole island has a total of 28,442 vacant units, 6.2% lower than the recent peak of 30,310 in Q2/2016. This has resulted in the island-wide vacancy rate decreasing 0.8 ppt from 8.9% as of end Q2/2016 to 8.1% by the end of Q1/2017.

The improvement seen in island-wide occupancy in the reviewed quarter mainly benefited from the good take-up in the RCR. The vacant stock in this sub-market decreased rapidly from 9,617 units in Q4/2016 to 8,466 units in Q1/2017. Some large RCR developments received their Temporary Occupation Permits (TOPs) since the second half of 2016, such as Sky Vue, Echelon, Bartley Ridge and Corals at Keppel Bay. Besides owner-occupying, the high leasing volume seen in these projects helped to increase the occupancy rates.

In the CCR, the number of vacant private residential units inched up on a QoQ basis by a minuscule 13 units in the reviewed quarter, while the vacancy rate remained unchanged at 9.6%. On the other hand, vacant stock in the OCR rose from 12,023 units in Q4/2016 to 12,432 units in Q1/2017, causing the vacancy rate to inch up 0.1 of a ppt to 7.2% by end of March 2017.

TABLE 1

Major private residential projects completed in Q1/2017

Project name	Location	Developer	Locality	Total no. of units
Eco	Bedok South Avenue 3	Eco Properties Pte Ltd	OCR	748
Lakeville	Jurong Lake Link	MCL Land (Prestige) Pte Ltd	OCR	696
Riverbank @ Fernvale	Fernvale Close	UOL Development (Sengkang) Pte Ltd	OCR	555
Kingsford. Hillview Peak	Hillview Rise	Kingsford Development Pte Ltd	OCR	512
The Crest	Prince Charles Crescent	Wingcrown Investment Pte Ltd	RCR	469
Vue 8 Residence	Pasir Ris Heights	Publique Realty (Pasir Ris) Pte Ltd	OCR	463
Jade Residences	Lew Lian Vale	Roxy Residential Pte Ltd	OCR	171
6 Derbyshire	Derbyshire Road	Fantasia (Novena) Pte Ltd	CCR	168

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

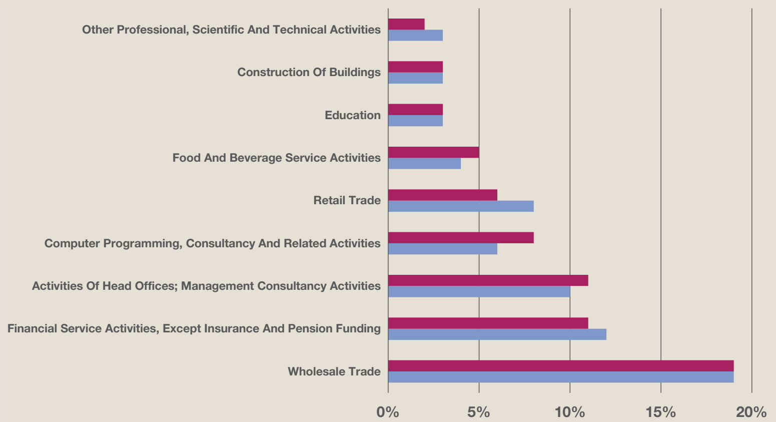
On the surface, it appears that there is some break in the clouds overhanging the leasing market for non-landed properties. However, it could it also be a mistake to use this to extrapolate future market conditions. As the leasing market is dependent on the state of the economy, the question of what could be the next major driver of the economy to supplant the mature banking industry has to be examined. However, in the short- to medium-term, there does not appear to be a satisfactory answer.

At present, when one is asked to describe the state of new business formation, most replies are likely to converge on start-ups, consulting firms and F&B establishments. As seen in graph 5, the industries that saw the greatest increase in business formation in 2016 over 2015 are those in the F&B, management consultancies and computing programming, consultancy and related activities areas.

On the ground, expansion of these industries is felt in terms of the number of new F&B set-ups and the explosion of co-working space operators here. However, even if these entities were to hire overseas nationals with the wherewithal to rent private residential units, they are likely going to be fewer in number than employees of MNCs in the manufacturing, banking and financial services sectors. Also, given the budgetary constraints of start-ups, salaries and accommodation allowances are expected to be lower than for a typical employee. In short, a significant part of the increase in new business activity is driven by concept rather than by strong balance sheets.

GRAPH 5

Business formation by major industries



Source: Hawksford Singapore, Savills Research & Consultancy

In the final analysis, we believe that the undercurrent in the employment market for overseas workers has not been fully reflected in leasing statistics. The increase in transaction volumes is likely due to the shifting of the norm from two-year terms to shorter ones. Also, the increase in volumes for the RCR can be attributed to new completions like Echelon and Sky Vue.

OUTLOOK (con't)

The prospects for the market

Looking at these projects alone, we may hazard a guess that many of the newly completed or non-landed projects in the pipeline are likely to vie for tenants in the market. The reason is that leasing statistics from projects like Echelon, Sky Vue and Bartley Ridge, completed in late 2016, were still registering lease transactions in the first quarter of 2017 approximately in the range of 22-38% of the total number of units in the developments. This could imply that a substantial number of owners of units in new developments are still out looking for tenants.

For the remainder of 2017, the pipeline supply of non-landed homes is 10,922 units. If 30% are looking for tenants, they should compete with the stock of existing developments that had signed a tenant merely six months ago. For landlords, this position is not enviable when businesses in the "old economy" continue to face disruptive factors and margin pressures. Rental budgets should therefore continue to face downward pressures. Thus any respite in the statistics on rents and vacancies may only be temporary.

Having said that, while vacancies and rents may continue to deteriorate, we believe that it is a grave error to use these as reasons to opine that prices will fall. The holding power of landlords cannot be underestimated because many of the projects completing this year and next were launched post-TDSR and consequently the system already would have screened through their creditworthiness. In short, with so many interventions in the private residential market, the correlation between offsetting rental returns to mortgage outgoings on prices has become tenuous.

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