Briefing
Residential leasing

June 2018

Image: River Valley

SUMMARY

Rents are beginning to rise as supply demand dynamics improve.

- The private residential leasing market had another buoyant quarter with 20,251 leases registered island-wide in the first quarter of 2018, 6.9% higher than a quarter ago.

- Co-living space - a business model of shared urban residences typically involving furnished apartments with communal kitchens and common spaces and an emphasis on amenities and community - has emerged in Singapore.

- The Urban Redevelopment Authority's (URA) rental index for overall private residential properties reversed course in Q1/2018 to notch a small increase of 0.3% quarter-on-quarter (QoQ).

- From Savills basket of high-end non-landed private residential units, rents posted a marginal increase of 0.6% QoQ in Q1/2018, after two successive quarters of decreases.

- The stock of completed private residential units continues to rise in Q1/2018, albeit at a slower rate of 0.4% QoQ to a total of 365,591 units.

- As of end March 2018, the overall vacancy rate of private residential units fell by 0.4 of a percentage point (ppt) against three months ago, partly due to limited new completions in the reviewed quarter.

- Given the rabid collective sales market, the situation where simultaneously, supply is reduced and replacement housing is created, may cause rents to rise 2% to 3% year-on-year (YoY) by end-2018.

"The collective sales process has done wonders to turn around the rental market by increasing demand and reducing supply."
Alan Cheong, Savills Research

MCI (P) No. 114/03/2018
Company Reg No. 198703410D

Market overview

The private residential leasing market achieved another buoyant quarter with 20,251[1] leases registered island-wide in the first quarter of 2018, 6.9% higher than a quarter ago, the same increase compared with the same period the previous year. For the rise in transaction volumes, other than seasonal and technical factors (the increase in the number of shorter lease terms, for example), we can attribute the change to factors such as increasing demand from owners and tenants who have been displaced from private residential projects that were successfully sold through collective sales in the last two years.

Broken down by housing sub-types, leasing deals for island-wide landed houses increased by 3.7% QoQ, while leasing transactions of condominiums and private apartments posted a higher growth of 7.1% QoQ, supported by board-based increases in all the market segments – up 5.3% in the Core Central Region (CCR), 10.3% in the Rest of Central Region (RCR), and 5.9% in the Outside Central Region (OCR).

According to data from the URA, the top five projects with the highest leasing deals signed in Q1/2018 were Sims Urban Oasis at Sims Drive, Duo Residences at Fraser Street, The Sail @ Marina Bay, Watertown at Punggol Central and Hillion Residences at Jelebu Road. Except for The Sail @ Marina Bay, the abovementioned projects were completed between Q2/2017 and Q4/2017.

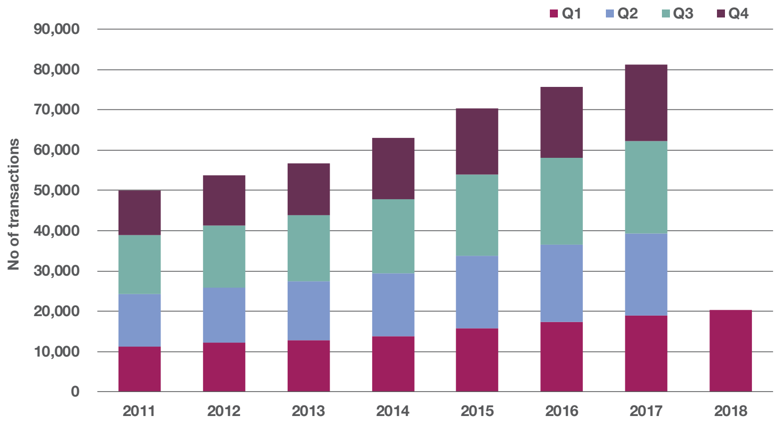
Leasing demand in newer developments, especially in desirable locations, has usually been strong. For example, Sims Urban Oasis has recorded 218 leasing deals since its Temporary Occupation Permit (TOP) in Q4/2017, accounting for 23.0% of its 1,024 units. Duo Residences, which has been in the top list for two consecutive quarters, has rented out 308 units, or 46.7% of the 660 units in the project, since its completion in Q2/2017.

Co-living space - a style of shared urban residence typically involving furnished apartments with communal kitchens and common spaces and an emphasis on amenities and community - has begun to take root in Singapore. Co-living has become attractive to young professionals, especially for millennials, due to its affordability, flexibility and convenience. Hmlet, a co-living company established in 2016, is operating about 50 apartments in locations such as Shenton Way, River Valley and Joo Chiat. It just announced the launch of its second co-living station in Newton, an entire 30,000 sq ft condominium block called Hmlet @ Sarkies. Separately, Chinese company Mamahome also launched its first co-living space, a 926-sq ft apartment at Alex Residences in Redhill, by offering rooms for rent on behalf of homeowners. It was reported that Mamahome plans to expand by another five to 10 units at Alex Residences and to hit 300 bedrooms by the end of 2018.

1 Based on data downloaded from URA's Realis on 6 June 2018

GRAPH 1

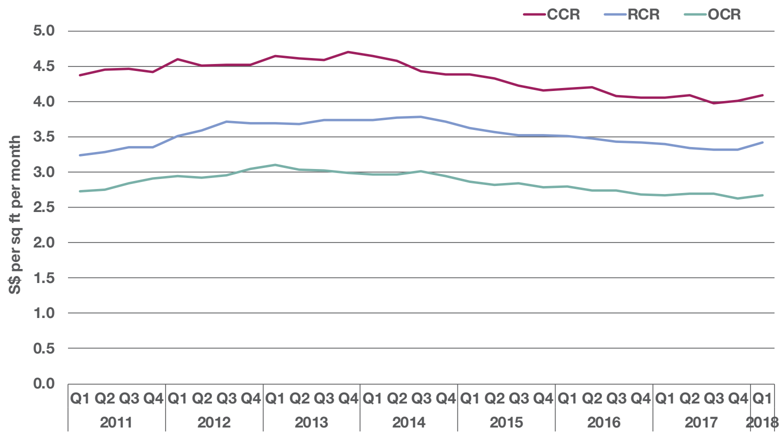
Leasing transaction volumes of private residential units, Q1/2011–Q1/2018



Source: Urban Redevelopment Authority, Savills Research & Consultancy

GRAPH 2

Median rents of non-landed residential properties by locality, Q1/2011–Q1/2018



Source: URA, Savills Research & Consultancy

Rents

The URA rental index for overall private residential properties reversed course in Q1/2018 and recorded a small QoQ increase of 0.3%. This was the first quarterly growth in the last four and a half years since Q4/2013 and was supported by the non-landed private residential properties in the CCR and OCR, which inched up by 0.6% and 0.7% QoQ respectively. In contrast, rents for non-landed units in the RCR dipped by 0.3% QoQ, while rents for landed houses island-wide remained unchanged.

The modest rental growth could be partly due to the feverish collective sales market. On the ground, our leasing specialist noticed that leasing demand from displaced residents in the developments which were sold collectively has increased. This is because both owner-occupiers and tenants in these projects have to find alternative housing after the properties sell. Rabid activity on the collective sales front has also caused the island-wide vacant stock of private residential properties to decrease from Q4/2017, as the buildings that were sold on a collective-sale basis are being torn down. All of these signs point to declining supply. Consequently, the merging of supply and demand has resulted in a mild rental recovery.

From Savills basket of high-end, non-landed private residential units, after two successive quarters of declines, rents posted a marginal increase of 0.6% QoQ in Q1/2018. Amid the frenzy of collective sales and limited new supply in the high-end market segment, the market has tightened up a bit and landlords are now in a better position to raise their asking rents; while tenants, especially in renewal cases, have to accept the higher rentals which are still lower than when they signed two years ago.

Stock and vacancy

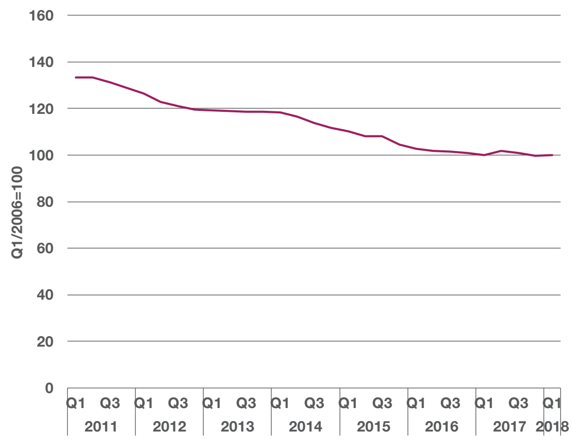
The stock of completed private residential units continues to rise in Q1/2018, albeit at a slower rate of 0.4% QoQ, to a total of 365,591 units. In the reviewed quarter, there were relatively limited new completions entering the market. The larger projects are Coco Palms at Pasir Ris Grove (489 out of total 944 units), 8 Saint Thomas at St. Thomas Walk (250 units) and landed development Victoria Park Villas (109 units). The latter two are both located in the CCR.

As of end March 2018, the overall vacancy rate of private residential units fell by 0.4 of a ppt over the previous quarter. Together with a 0.6% decline in Q4/2017, the vacancy rate has improved by 1.0 ppt to 7.4% over a six-month period. There were a total of 26,906 vacant private homes island-wide, a decrease of 3,230 from the recent peak in Q3/2017.

In individual sectors, private residential unit vacancy in both the RCR and OCR dropped, down by 0.2 of a ppt and 1.0 ppt, respectively, while the rate in the CCR rose by 0.4 of a ppt. On the supply side, limited new completions in the reviewed quarter are partly the cause for the improved occupancy in the RCR and OCR.

GRAPH 3

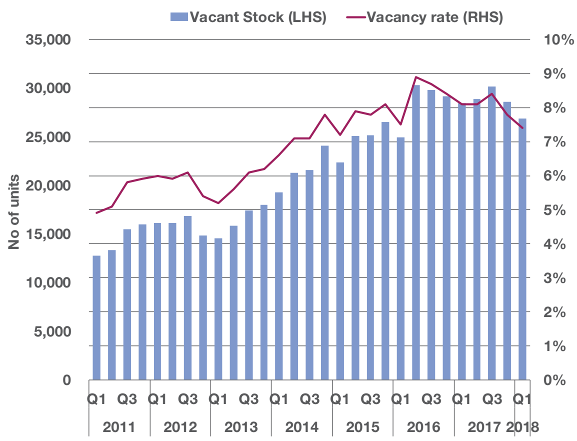
Savills high-end, non-landed residential rental index, Q1/2011 – Q1/2018



Source: Savills Research & Consultancy

GRAPH 4

Vacant units and vacancy rates of private residential units, Q1/2011–Q1/2018



Source: URA, Savills Research & Consultancy

TABLE 1

Major private residential projects completed in Q1/2018

Project name	Location	Developer	Locality	No. of units completed
Coco Palms	Pasir Ris Grove	Hong Realty Pte Ltd	OCR	489
8 Saint Thomas	St. Thomas Walk	Bukit Sembawang View Pte Ltd	CCR	250
Victoria Park Villas (landed)	Victoria Park Grove	Athens Residential Development Pte Ltd	CCR	109

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

In our previous leasing brief, we believed that it may still take a few more quarters before the rental market shows any convincing signs of recovery. While we still hold that general view, recent evidence on the ground suggests, however, that the inflexion point for rents across all segments - CCR, RCR and OCR - may be coming sooner than expected. The supercharged collective sales market is not showing signs of ending. Since 2016, over 7,000 units have been or will soon be displaced once the existing developments on the site are demolished. The rush by affected owner-occupiers and tenants to find replacement abodes has been, in our view, the main reason for the recent boost to leasing demand. The beauty of the collective sales mechanism is that it also depresses supply up to the medium term, starting from the time when the developer takes over the project for redevelopment to the completion of the new build some four years later. This creates a situation where, until the new developments are completed on the collective sales sites, there is simultaneously an upward and downward shift in the aggregate demand and supply curve for housing. This creates the conditions for rents to rise.

That this is our theoretical explanation of the market is supported by what our leasing specialists have been observing on the ground. For example, within the macrocosm of District 15, we are seeing that the displacement of a mere 36 occupiers in Nanak Mansion (collective sale) ignited a replacement frenzy in the district. Given that it is very difficult to replicate the size, layout and ambience of each unit displaced by collective sales, even a handful of units taken out by the process will trigger a feverish search for a comparable or suitable replacement.

In the prime districts, rents have most likely found their support levels. For larger units in the Draycott-Claymore area, they are settling in within the S$4.15 - S$4.50 per sq ft per month range. Although overseas nationals are still experiencing a rental budget squeeze, the lack of stock has not allowed the floor to break.

We believe that come Q2/2018 or latest Q3/2018, rents for all the three regions - CCR, RCR and OCR - should start to improve on the back of both the demand and supply curves shifting closer to each other due to the collective sales process. Overall rents may end the year 2-3% higher compared to Q4/2017.

Please contact us for further information

Savills Singapore

Christopher J Marriott
CEO
Southeast Asia
+65 6415 3888
cjmarriott@savills.asia

Jacqueline Wong
Executive Director
Residential Leasing and
The Private Office Sales
+65 6415 3878
jacqueline.wong@savills.com.sg

Savills Research

Alan Cheong
Senior Director
Singapore
+65 6415 3641
alan.cheong@savills.com.sg

Simon Smith
Senior Director
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk