Rents climb with transactions increasing

The leasing market revived with increased demand from both expatriates returning to Singapore after the 2018 year-end festivals and occupants displaced by collective sales developments.

- Despite the slower economy growth, the level of activity in the rental market grew 8.3% year-on-year (YoY) to 22,115 leasing transactions island-wide in Q1/2019.

- Although leases of two- and three-bedroom units continued to dominate the market, the percentage of one-bedroom flats amongst total leasing transactions has been trending up in the last two years and stood at 21.5% in Q1/2019, the highest level since Q1/2017.

- Rents of island-wide private residential properties rose 1.0% quarter-on-quarter (QoQ) in the first quarter of 2019, according to the latest statistics from the Urban Redevelopment Authority (URA).

- In a similar vein, average rents for the Savills basket of high-end, non-landed private residential projects increased 1.6% QoQ in the January-to-March quarter.

- At the end of Q1/2019, the overall vacancy rate of completed private residential units dipped to 6.3%, while island-wide vacant stock stood at 23,357 units.

- In spite of the current unfavourable macro-economic environment, the rental market for private residential properties is expected to hold firm, underpinned by low completion volumes until 2020, low vacancy levels and a shift towards smaller homes which carry a higher S$ per sq ft (psf) rent.

“Unfavourable economic conditions are counterintuitively supporting rental indices as tenants fall back to renting smaller units which carry a higher S$ per sq ft rent.”

ALAN CHEONG, SAVILLS RESEARCH
MARKET OVERVIEW

Singapore’s economy got off to a slow start in Q1/2019, expanding only 1.2% YoY. While the construction sector recorded its first quarter of YoY growth after ten consecutive quarters of decline, the overall growth of goods-producing industries was offset by the contraction of the manufacturing sector. In addition, the services sector grew steadily at the same pace of 1.7% YoY as the preceding quarter, but slower than the 4.4% recorded in the same period last year.

Despite the slower economy growth, the level of activity in the rental market grew 8.6% QoQ and 8.3% YoY to 22,115 units leasing transactions commenced island-wide in Q1/2019. The market revived due to increasing demand from both expatriates returning to Singapore after the 2018 year-end festivals and occupants displaced by collective sales developments, where buildings are being torn down for redevelopment. Geographically, the Rest of Central Region (RCR) recorded the strongest growth of 14.2% QoQ, followed by the Outside Central Region (OCR) and Core Central Region (CCR) expanding 6.1% QoQ and 5.4% QoQ, respectively.

In Q1/2019, the most popular projects among tenants were The Poiz Residences at Potong Pasir, The Sail @ Marina Bay, D’Leedon at Leedon Heights, Echelon at Redhill, and Sims Urban Oasis at Sims Drive. Altogether, these sites contributed a total of 820 leasing transactions.

In a check of the URA’s data on leasing contracts for non-landed private residential properties, we observed that the percentage of leases for one-bedroom units has been declining in the last two years. Although leases of two- and three-bedroom units continue to dominate the market, leases for one-bedroom flats accounted for 21.5% of total leasing transactions in Q1/2019, the highest since Q1/2017. This trend is expected to continue in the future given the ample supply of one-bedroom units and shrinking housing allowances/budgets for expatriates.

RENTS

From the latest statistics released by the URA, rents of island-wide private residential properties rose 1.3% QoQ in the first quarter of 2019, reversing a 1.6% fall in the previous quarter. Rents for landed homes edge up 0.3% QoQ, while those for non-landed units were up by 1.1%. Rental growth in the reviewed quarter could be supported by several factors: the increase in leasing activity, which bounced back after the seasonal hump in Q4 last year; the limited number of new completions since last year; and a shift towards smaller-sized units that carry a higher S$ psf rent.

In a similar vein, rents in more than half of the high-end, non-landed private residential projects tracked by Savills experienced some growth. As a result, average rents of the Savills basket increased 1.6% QoQ in the January-to-March quarter, compared with the 1.7% drop in the preceding quarter. As of Q1/2019, average monthly rents stood at S$4.12 psf, 0.6% higher than the same period last year.

STOCK AND VACANCY

The total available stock of private residential units (excluding executive condominiums) in Singapore edged up 0.3% QoQ or 953 units to 370,944 in Q1/2019. There were only two major completions in the reviewed quarter—the 1,390-unit High Park Residences at Fernvale Road and the 505-unit The Clement Canopy at Clementi Avenue 1. As both projects are in the OCR, they pushed up the completed stock levels in this market segment. However, the increase was dampened somewhat by the withdrawal of some older stock for redevelopment after those sites underwent successful collective sales processes. In

<table>
<thead>
<tr>
<th>PROJECT NAME</th>
<th>POSTAL DISTRICT</th>
<th>LOCATION</th>
<th>NUMBER OF LEASING TRANSACTIONS</th>
<th>MEDIAN RENT (S$ PSF/MONTH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Poiz Residences</td>
<td>13</td>
<td>Meyappa Chettiar Road</td>
<td>239</td>
<td>4.46</td>
</tr>
<tr>
<td>The Sail @ Marina Bay</td>
<td>1</td>
<td>Marina Boulevard</td>
<td>163</td>
<td>4.91</td>
</tr>
<tr>
<td>D’Leedon</td>
<td>10</td>
<td>Leedon Heights</td>
<td>146</td>
<td>3.91</td>
</tr>
<tr>
<td>Echelon</td>
<td>3</td>
<td>Alexandra View</td>
<td>141</td>
<td>4.40</td>
</tr>
<tr>
<td>Sims Urban Oasis</td>
<td>14</td>
<td>Sims Drive</td>
<td>131</td>
<td>4.13</td>
</tr>
</tbody>
</table>

1 Based on data downloaded from URA’s Realsis on 17 Jun 2019.
comparison, with a dearth of big new completions, stock levels in both CCR and RCR contracted.

Island-wide, the vacancy rate of completed private residential units dipped to 6.3% at the end of Q1/2019, down a notch from 6.4% recorded in the previous quarter. Overall, vacant stock has fallen for six consecutive quarters and stood at 23,357 units by quarter end.

OUTLOOK

The current economic growth outlook has weakened further, mainly due to the ongoing US-China tit-for-tat tariff wars. The International Monetary Fund has downgraded its global growth projection again to 3.3% in April, from 3.5% in January. For Singapore, the Ministry of Trade and Industry has lowered the 2019 GDP growth forecast to “1.5 to 2.5%” in May from the previous range of “1.5 to 3.5%”. In the latest Monetary Authority of Singapore’s quarterly survey, private-sector economists have also further trimmed their 2019 GDP growth forecast to 2.1%.

Such uncertainty about global growth is causing decision makers to turn cautious about business expansion and hiring levels. Although the labour market in Singapore remained healthy in the first quarter of 2019, with the seasonally adjusted overall unemployment rate remaining unchanged at 2.2% in March, it was noted that layoffs rose to 3,230 in Q1/2019, from 2,510 in the previous quarter. Most of those who were retrenched were professionals, managers, executives and technicians (PMETs). In the meanwhile, job vacancies also dropped for the first time in two years, leading economists to believe that this marks a turn in the employment cycle, with the labour market turning soft.

In spite of an unfavourable macro-economic environment, the rental market for private residential properties is expected to hold firm, underpinned by low completion volumes until 2020 and falling vacancies which have dropped to their lowest level since Q1/2014. The weak economic climate is counterintuitively supporting rents on a S$ psf basis because as rental budgets continue to shrink, many overseas workers are foregoing the frills and falling back on basic accommodation needs. This trend may lead to a greater number of leases for small-sized units, from one-bedroom and studio apartments to just renting a room in a multi-room apartment. Although the rental quantum is low for these small-unit homes, the S$ psf measure is high, thereby supporting rental indices which are usually computed on the same basis. This means that on the ground, the rental market will be more active for smaller quantum-sized deals. It also means that, for units with multiple bedrooms, unless landlords are willing to let them out room by room, they may find it much more difficult to get their properties tenanted. And should the unit be leased to a single tenant, the absolute rent will have to come off significantly from the previous lease. In general though, should interest rates remain where they are or even start to decline again, landlords’ holding power may return to offset the dour employment and economic climate and overcome downside pressures. In other words, rental indices may even rise!