

Briefing Residential leasing

August 2014



Image: Suites at Orchard, Handy Road

SUMMARY

The leasing volume has again reached a new high as rents continue to slide further.

- Singapore's economy grew by 2.4% year-on-year (YoY) in the second quarter of 2014, slower than the 4.8% achieved in Q1.
- The labour market remained tight with the overall seasonally adjusted unemployment rate stabilizing at 2.0% in June 2014. However, employment growth was at the lowest level in four years with 22,000 new jobs in Q2.
- The rental market was active in Q2/2014 with leasing volume of private residential properties reaching a high of 15,053 transactions, translating to a quarterly increase of 12.2%.
- The rental index of private residential homes island-wide continued to slide for a straight third quarter, easing by 0.6%. Similarly, the average monthly rent of high-end condominiums tracked by Savills slipped 1.6% to S\$4.77 per sq ft.
- Despite the strong leasing demand in Q2/2014, the vacancy rate of private residential units climbed to 7.1%, reflecting a total of 21,268 vacant private homes island-wide, or a significant jump of 10.3% quarter-on-quarter (QoQ).
- Leasing demand should stay resilient. Rents however, will remain soft across all segments of the market.
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"The market faces increasing challenges as more supply enters the market over the next 2 years and owners' resistance to lower tendered rents starts to crumble."
Alan Cheong, Savills Research
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➔ **Market overview**

Singapore's economy grew by 2.4% (YoY) in the second quarter of 2014, based on the Economic Survey of Singapore released by the Ministry of Trade and Industry (MTI). This was slower than the 4.8% achieved in Q1. The manufacturing sector was the main drag on growth, expanding by a mere 1.5% (YoY) in Q2, down from the breakneck 9.9% (YoY) expansion of the previous quarter. There was also a slowdown in the service sector where growth registered 2.6% YoY compared with the 3.9% achieved in the first three months. The main driver of economic growth in the quarter under review was the finance and insurance sector.

The labour market remained tight in the second quarter with the overall seasonally adjusted unemployment rate stabilizing at 2.0%. However, employment growth fell in the second quarter to its lowest level in four years. New jobs totalled 22,000 in Q2, a dip of 22.3% from the 28,300 in Q1 and 34.7% from the 33,700 a year ago. The services sector continued to generate the majority of new work while a contraction was seen in the manufacturing sector. The slower growth of new jobs came as no surprise as the government continues to try and lower dependence on foreign workers. In addition there is also the on-going restructuring of the economy to increase productivity which has the side effect of lower manpower requirements.

Although job creation slowed in Q2, employment prospects in Singapore in the next half year appear upbeat. Hudson's report of employment trends in Singapore posted a rising intention to increase headcount, reversing the downward trend of recent quarters. 47.3% of employers have plans to raise headcount over the next six months, an increase (7.9 percentage points) over the last quarter. The banking and financial services sector showed the strongest hiring intention. This affirms Singapore's position as a regional financial hub, and hence an attractive destination for more overseas nationals.

Moreover, according to a report by Janus Corporate Solutions, Singapore continues to appeal to foreign investors and enterprises. Of the 18,689 new businesses set up in Q2, 31.0% had foreign shareholders. Even as Singapore continues to attract overseas nationals, in a cost of living survey conducted by ECA International, the city-state was ranked ninth most expensive city for expatriates within the Asia-Pacific region and globally at 31, two spots behind Hong Kong.

Leasing demand

The rental market was active in Q2/2014. According to the Urban Redevelopment Authority (URA), the leasing volume of private residential properties¹ reached a high of 15,053 transactions², registering a quarterly

¹ Excluding Executive Condominiums (ECs)
² Downloaded from REALIS on 8 Aug 2014

increase of 12.2% or a 5.2% growth YoY. With that, a total of 28,464 leases were inked island-wide in the first six months, compared with the 26,887 leases recorded over the same period last year, an increase of 5.9%.

This is despite the earlier anticipation of a shrinking pool of overseas nationals in Singapore following the tightening of immigration polices. A possible reason for the healthy leasing demand could be the influx of foreigners who brought forward their plans to relocate here, fearing more moves to tighten immigration. In addition, employers might have also made a last dash to expedite their applications for employment pass holders before the Fair Consideration Framework (FCF) comes into force in the third quarter.

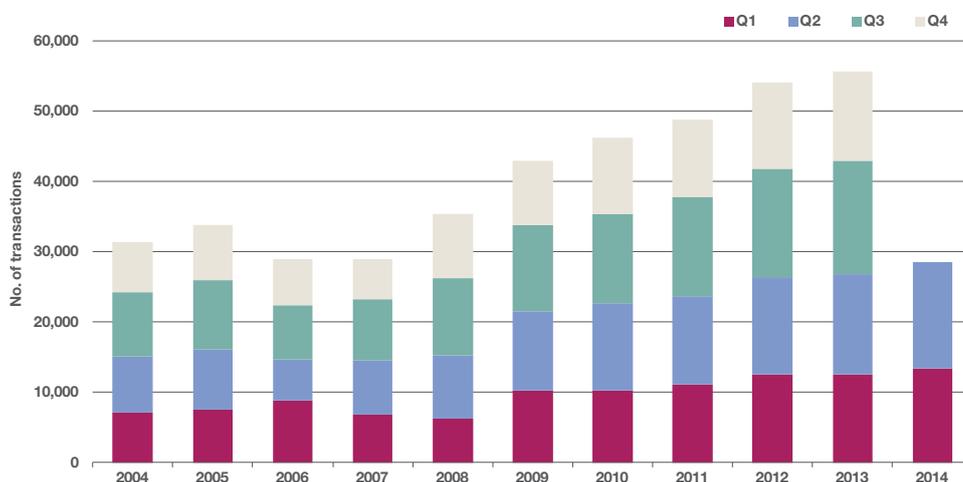
Rents

According to URA statistics for Q2/2014 the rental index of private residential homes island-wide continued to slide for a straight third quarter, easing by 0.6%. Rents of non-landed residential properties across all market segments headed southwards. In both CCR and RCR, rents slipped marginally by 0.1% while OCR saw a larger dip of 0.9%. Similarly, the average monthly rent of high-end condominiums tracked by Savills fell 1.6% QoQ to S\$4.77 per sq ft. This downward pressure is likely a result of the intense competition created by an increased supply of newly-completed developments in the central area and a reduced pool of big-budget tenants as housing budgets are shrinking.

Stock and vacancy

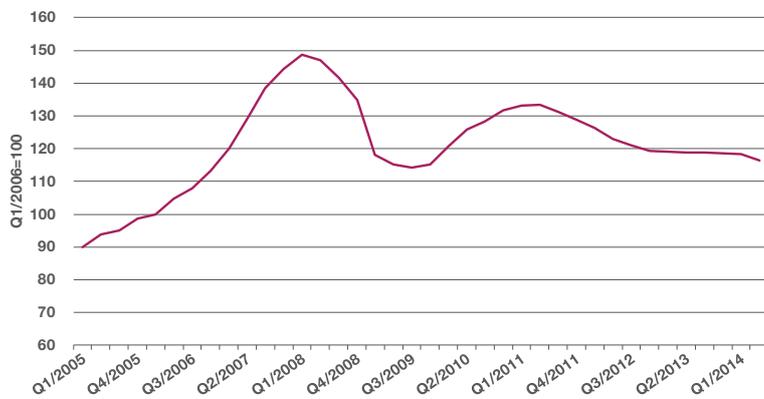
At the end of Q2/2014, there were 297,998 available private homes across the island, an increase of 1.6% from the 293,283 units at the end of March. The major projects completed in the reviewed quarter are mostly located in the suburban areas, such as The Lakefront Residences on Lakeside Drive (629 units), Foresque Residences on Petir Road (496 units), Waterfront Gold on Bedok Reservoir Road (361 units) and The Greenwich on Seletar Road (319 units). The central areas saw the completion of Silversea on Marine Parade Road (383 units), Sophia Residences on Sophia Road (272 units) and Cyan on

GRAPH 1 **Transaction volumes, Q1/2004 – Q2/2014**



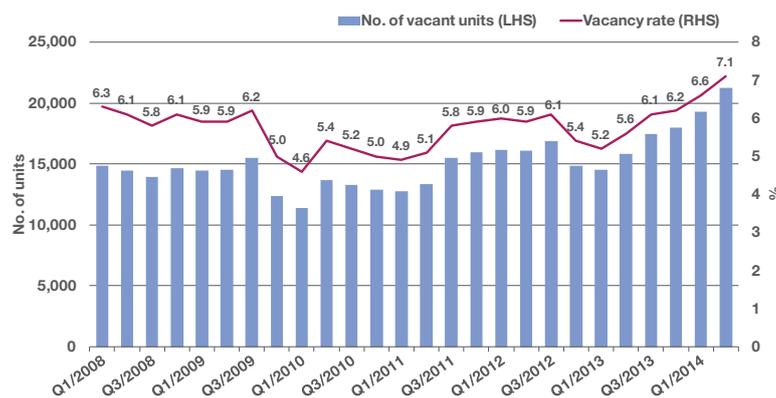
Source: URA, Savills Research & Consultancy

GRAPH 2
Savills high-end residential rental index, Q1/2004 – Q2/2014



Source: Savills Research & Consultancy

GRAPH 3
Vacant units and vacancy rates of private homes, Q1/2008–Q2/2014



Source: URA, Savills Research & Consultancy

Keng Chin Road (278 units). Despite the strong leasing demand in Q2/2014, the vacancy rate of private residential units climbed to 7.1% from 6.6% in the previous quarter. This reflected a total of 21,268 vacant private homes island-wide, a significant jump of 10.3% QoQ from 19,284 units in Q1/2014. ■

OUTLOOK

The prospects for the market

Despite escalating geopolitical tensions and ongoing woes from economic restructuring, Singapore's economy is forecast to achieve a full year growth of between 2.5 and 3.5% in 2014. Growth in the second half of the year will likely be led by externally-oriented sectors such as finance and insurance. As the government strives to maintain its competitive edge as an international meeting point, Singapore will continue to uphold its ranking as one of the top destinations for overseas nationals. Therefore, leasing volume is unlikely to wane and demand remain resilient. Rents however, will remain soft across all segments of the market as the increasing housing stock will shift bargaining power in favour of tenants. In addition, the island-wide vacancy rate will also increase with the impending new supply. Some 8,066 new private residential units are expected to be completed by the end of 2014. This could possibly drive the island-wide vacancy rate up to double digits before the year ends.

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