Briefing
Residential leasing

September 2015

Image: Bedok Residences, Bedok North Drive

SUMMARY

The rental market continues to moderate, but demand from foreigners on local terms is proping up rents in the suburbs.

■ Leasing volume in Singapore grew 10.9% quarter-on-quarter (QoQ) to 17,262 transactions in Q2/2015, with the Outside Central Region (OCR) spearheading growth.

■ In Q2/2015, rental rates of non-landed high-end residential units tracked by Savills have fallen 1.9% QoQ to S$4.42 per sq ft, while the Urban Redevelopment Authority's (URA) rental index eased 1.1% across the island.

■ Supply of private residential homes resumed its surge in Q2 by growing 2.2% QoQ. This is due to the OCR recording a growth of 124.0% QoQ, the highest since its peak in Q3/2014.

■ Notwithstanding record leasing volumes, the vacancy rate crept up 0.7 of a percentage point (ppt) to a nine-year high of 7.9%. This indicates that demand has not kept pace with the number of completions entering the market.

■ With new completions outpacing demand for the near to medium term, it should remain a tenants' market.

"With a slew of new completions coming at a time of reduced rental budgets, it will remain a tenants' market for the near to medium term."
Alan Cheong, Savills Research

MCI (P) No. 038/04/2015
Company Reg No. 198703410D

Market overview

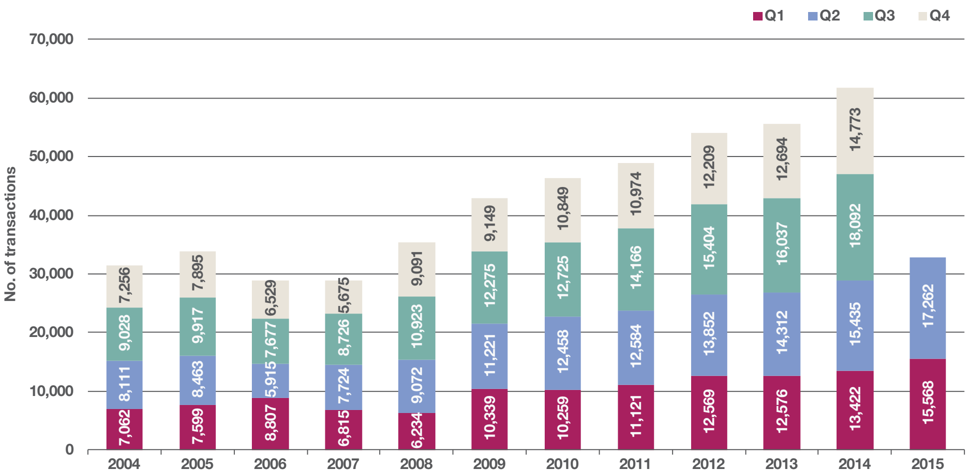
The lag in the manufacturing sector continues to plague Singapore's economy, which only managed a 1.8% year-on-year (YoY) growth. Apart from the 4.9% YoY decline in the manufacturing industry, the accommodation and food, as well as the transportation and services sectors, caused the drag in the economy. The finance and insurance sector and the wholesale and retail trade segment remain the main drivers of the economy, together contributing approximately 94.0% of the economic growth.

Unemployment remained low despite a marginal increase to 2.0% in Q2/2015[1]. Overall employment did an about-turn from a contraction of 6,100 persons in Q1 to a 15,700-person growth in Q2/2015, mainly due to the significant increase in the construction and service sector. Except for the services sector, redundancy levels also improved as only 3,100 workers were laid off. Even though employment rates remained healthy, the government's efforts in tightening the influx of foreign manpower, shrinking expatriate budgets and the sluggish overall employment growth relative to the previous year have culminated in dampening the residential leasing market.

1 Preliminary figures

GRAPH 1

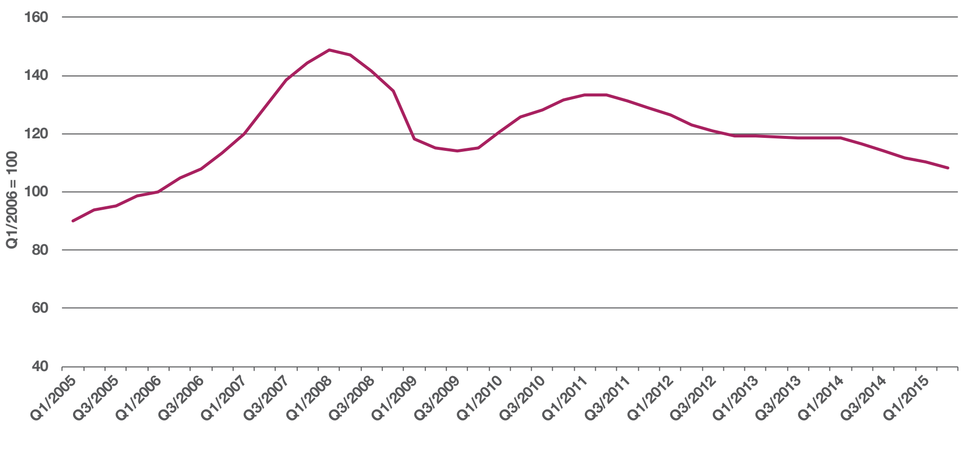
Transaction volumes, Q1/2004 – Q2/2015



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

GRAPH 2

Savills high-end residential rental index, Q1/2005 – Q2/2015



Source: Savills Research & Consultancy

Leasing demand

Leasing volume continued to grow 10.9% QoQ and 11.8% YoY to 17,262 deals in Q2/2015. Geographically, the OCR recorded the strongest growth of 13.7% QoQ to 5,672 units. We observed that the underlying reason for the sustained increase in transaction volume is that one-year tenancies are becoming more commonplace than the standard two-year leases. As a result, the level of activity alone does not reflect the strength of the market.

Another observation is that while the present challenging business conditions have crimped expatriate budgets and consequently the housing demand from such personnel, demand from foreigners not on expatriate packages has held steady and could potentially grow going forward.

Rents

According to the URA, rental rates of non-landed private residential units continued to fall island-wide by 1.1% in Q2/2015, with the Core Central Region (CCR) leading with a drop of 1.3% QoQ. Rest of Central Region (RCR) and Outside Central Region (OCR) declined 1.1% and 1.0% respectively. Rents of high-end non-landed residential units tracked by Savills also fell 1.9% QoQ in the same quarter to S$4.42 per sq ft per month. The softening rentals and rising competition among landlords have tipped the market in favour of tenants. This in turn could have been a factor leading to the increased transaction volume in Q2/2015.

Stock and vacancy

After the unexpected slowdown in completion of new private residential projects in the first quarter of this year, the supply of private homes continued to increase by 2.2% QoQ in Q2/2015 to 318,524 units. The main contributor to the surge in new supply is the OCR where the net supply increased by 5,643 units in the said quarter, 124.0% higher than its previous quarterly peak in Q3/2014. The six largest completed projects in Q2/2015 are located in the heartlands where competition for tenants is expected to intensify as more developments are completed in the coming quarters.

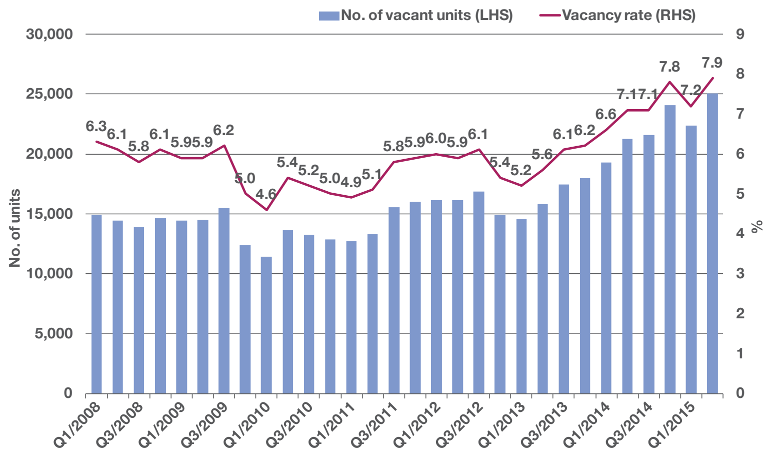
The greater number of new completions invariably raised vacancy rates by 0.7 of a percentage point from the preceding quarter to a nine-year high of 7.9%. This is despite the high leasing transaction volume and the optimism in the demand from overseas nationals. Thus, demand continues to play catch up with the growing supply of new homes, adding to landlords' woes in their search for tenants.

Outlook

The ongoing injection of new stock is placing further downward pressure on rents as leasing demand from expatriates is still weak. Owing to business challenges and increased compliance costs faced by companies, the leasing landscape is evolving, with fewer tenants on expatriate packages and increasingly more overseas tenants employed on local terms. The bright spot is that demand from the latter group remains strong as Singapore continues to offer ample job opportunities for them. This new landscape will benefit landlords of units in the fringe and suburban regions where such demand is targeted. At the other end of the spectrum, however, the supply of new units continues to balloon over the remainder of 2015 and 2016. Therefore, although demand is increasing, new supply continues to outrun take-up, exerting pressure on rents for the near to medium term.

GRAPH 3

Vacant units and vacancy rates of private homes, Q1/2008–Q2/2015



Source: URA, Savills Research & Consultancy

TABLE 1

Major projects completed in Q2/2015

S/No.	Project name	Location	Category	Total No. of units completed
1	A Treasure Trove	Punggol Walk	OCR	882
2	Bartley Residences	Lorong How Sun	OCR	702
3	The Luxurie	Compassvale Road	OCR	622
4	Riversound Residence	Sengkang East Avenue	OCR	590
5	Bedok Residences	Bedok North Drive	OCR	583
6	Waterfront Isle	Bedok Reservoir Road	OCR	561
7	Leedon Residences	Leedon Heights	CCR	381

Source: URA, Savills Research & Consultancy

Please contact us for further information

Savills Singapore

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

Jacqueline Wong
Senior Director
Residential Leasing
+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