Briefing
Residential leasing

September 2018

Image: D'Leedon at Leedon Heights

SUMMARY

Rents posted growth amid falling vacancy.

- Leasing activity of private residential homes, excluding executive condominiums (ECs), soared to another quarterly high with 22,421 leasing transactions, up by 10.7% quarter-on-quarter (QoQ) and 10.2% year-on-year (YoY).

- In view of the growing stock of small-sized units in non-landed projects at affordable rents, more single tenants or couples are opting to rent a one-bedroom flat rather than co-tenanting a bigger flat with others, especially in the suburban area.

- After a marginal increase of 0.3% QoQ in the first quarter, the latest statistics from the URA showed that the overall rental index for private residential properties rose by 1.0% QoQ in Q2/2018, signalling that the rental market is stabilising.

- Average monthly rents of high-end, non-landed residential properties tracked by Savills climbed for the second consecutive quarter by 0.5% QoQ to S$4.11 per sq ft.

- The limited new supply, coupled with strong leasing demand, has caused island-wide vacancy levels of private homes to decline for three straight quarters to 7.1% in Q2/2018.

- We forecast rents to rise 2-3% YoY for 2018.

> "Rents have entered a new leasing cycle and it will take more than a trade war to reverse this upward trend."
> Alan Cheong, Savills Research

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

Market overview

The reviewed quarter saw leasing activity of private residential homes (excluding ECs) soar to another quarterly high with 22,421[1] leasing transactions, surpassing the five-year second quarter average of 17,555. Volume was up 10.7% on a QoQ basis, and up 10.2% when compared with the same period last year.

Year-to-date, there were a total of 42,671 leasing transactions. This represents an 8.8% increase compared with the same period last year. At this rate, it is likely that leasing volume will surpass last year's level to break new highs.

Island-wide, leasing volume for landed houses recorded a quarterly growth of 11.5%, while for condominiums and private apartments, leasing transactions in the Rest of Central Region (RCR) posted the highest increase of 13.8% QoQ, followed by 9.2% in the Core Central Region (CCR) and 9.0% in the Outside Central Region (OCR).

The strong momentum in leasing activity could be attributed to the following: 1) the increasing trend of tenants signing shorter-term leases; for example, those on one year or less tenures, compared with the two-year sign-ons that were common a decade ago; 2) increasing demand from displaced owners and tenants in private residential projects that were successfully sold through collective sales in the last two years; and 3) more single tenants or couples opting to rent a one-bedroom flat rather than co-letting a multiple room unit. The first and third reasons are finding traction due to the growing stock of small-sized units in non-landed projects with affordable rents, especially in the suburban area.

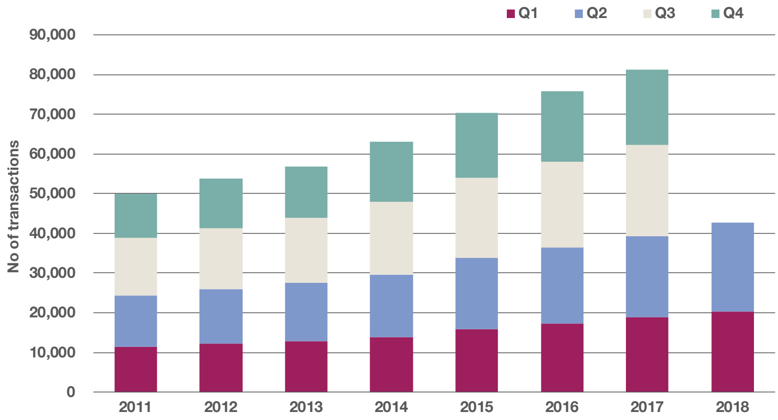
Based on data released by the URA, the top five private non-landed residential projects with the highest leasing deals in Q2/2018 were Watertown at Punggol Central, Commonwealth Towers at Commonwealth Avenue, V on Shenton at Shenton Way, The Sail @ Marina Bay and D'Leedon at Leedon Heights. For the 829[2] rental contracts in these five developments signed in the reviewed quarter, the majority, or 52.2%, of the

1 Based on data downloaded from URA's Realis on 31 August 2018

2 Based on data downloaded from URA's Realis on 31 August 2018

GRAPH 1

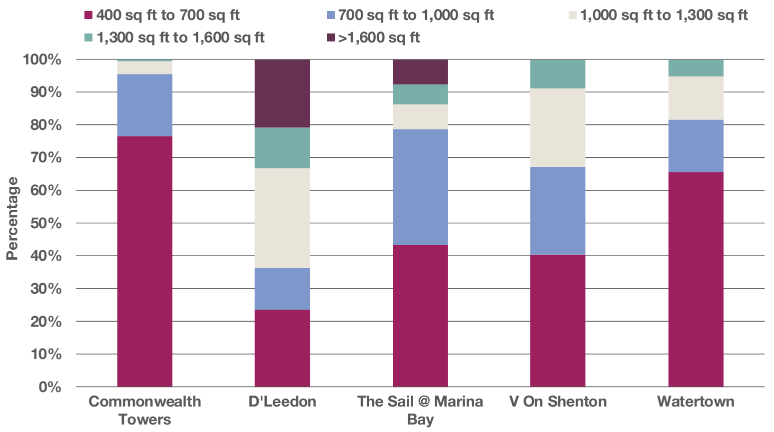
Leasing transaction volumes of private residential units, Q1/2011 – Q2/2018



Source: URA, Savills Research & Consultancy

GRAPH 2

Percentage of leasing deals by unit size in selected projects, Q2/2018



Source: URA, Savills Research & Consultancy

units fell within the range of 400 sq ft to 700 sq ft (mostly one-bedroom flats). The one-bedroom flats were the most popular units in Commonwealth Towers and Watertown with 76.6% and 65.5% of lease transactions falling within this category, respectively. This empirical evidence gave rise to our third point mentioned above.

Rents

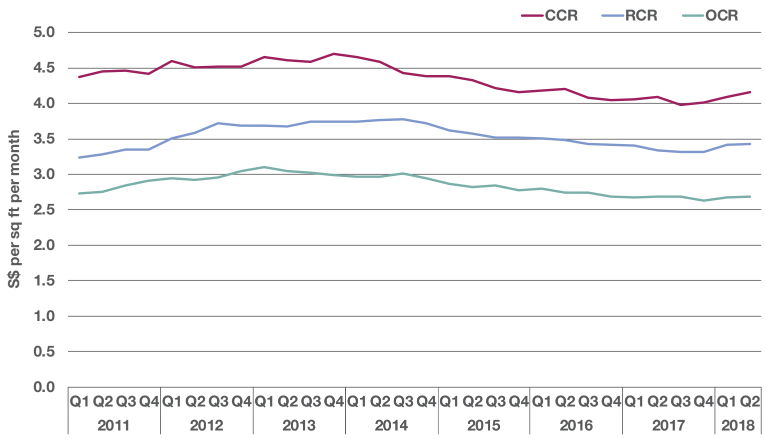
The latest statistics from the URA showed that the overall rental index for private residential properties rose by 1.0% QoQ in Q2/2018, after a marginal increase of 0.3% a quarter ago, signalling stabilization in the rental market. Nevertheless, private home rents are still some 12.0% below their previous peak in Q3/2013.

Landed properties, where rents in the first quarter remained unchanged on a QoQ basis, this time led the way by rising 3.6% QoQ in Q2/2018. Rents of non-landed properties inched up marginally by 0.6% QoQ, slightly faster than the 0.3% increase in the previous quarter. Across the region, non-landed home rents posted better growth in the reviewed quarter, with CCR, RCR and OCR all recording rises of 0.8%, 0.4% and 0.8% QoQ, respectively.

Average monthly rents of high-end, non-landed residential properties tracked by Savills climbed for the second consecutive quarter, increasing 0.5% QoQ to S$4.11 per sq ft in Q2/2018. Since the start of the year, the stock of private residential

GRAPH 3

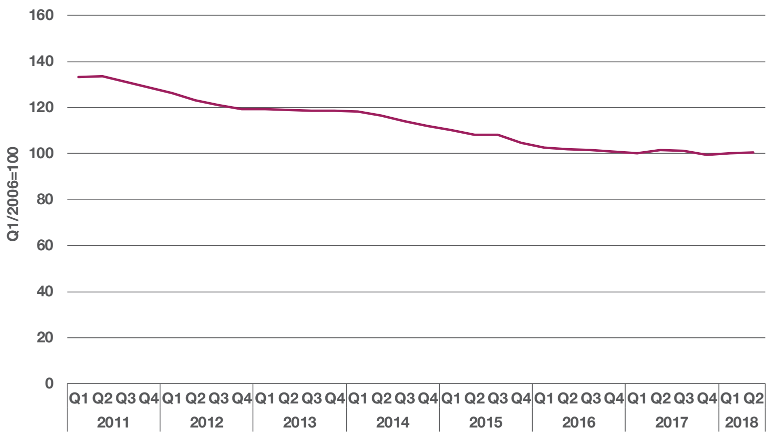
Median rents of non-landed residential properties by locality, Q1/2011 – Q2/2018



Source: URA, Savills Research & Consultancy

GRAPH 4

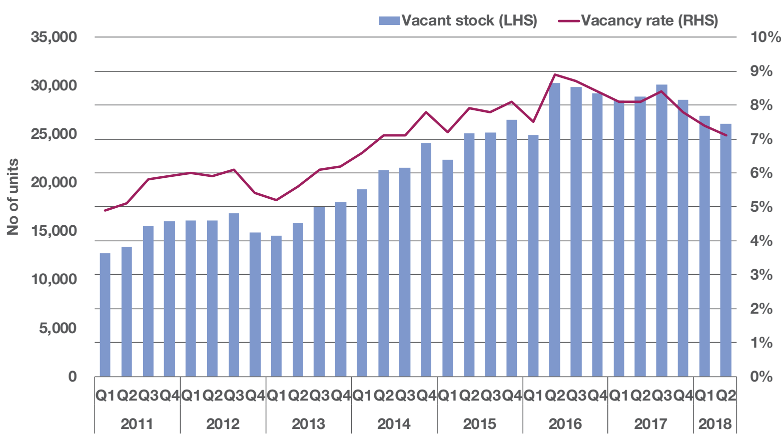
Savills high-end, non-landed residential rental index, Q1/2011 – Q2/2018



Source: Savills Research & Consultancy

GRAPH 5

Vacant units and vacancy rates of private residential units, Q1/2011 – Q2/2018



Source: URA, Savills Research & Consultancy

properties in the CCR has increased by only 960 units, and for the remainder of 2018, only 60 units are expected to be completed. The limited supply in the high-end segment, together with the removal of supply due to the physical demolition of projects that have been sold en bloc, are likely to cause rents in the high-end segment to continue their upward trend in the near term.

Stock and vacancy

In Q2/2018, 1,327 units of private homes were completed. This is considered a low number. Major completions included Coco Palms at Pasir Ris Grove (455 out of total 944 units), Trilive at Tampines Road (222 units) and landed development Belgravia Villas at Belgravia Drive (118 units). All three of these projects are in the OCR.

Combined with the 1,977 completions in Q1, only 3,304 new units were added to the physical stock in the first half of 2018, down 59.4% from 1H/2017 and 60.3% from 2H/2017. Consequently, the stock of completed private residential units increased only marginally by 0.3% QoQ to 366,743 as of end June 2018. Limited new supply, coupled with strong leasing demand, caused the vacancy rate among island-wide completed private homes to improve for the third straight quarter since Q4/2017, falling to 7.1% in Q2/2018. The vacant stock also decreased by some 840 units from a quarter ago and stood at 26,064 as of end June, comprising 3,673 landed houses and 22,391 condominiums and private apartments.

TABLE 1

Major private residential projects completed in Q2/2018

Project name	Location	Developer	Locality	No. of units completed
Coco Palms	Pasir Ris Grove	Hong Realty Pte Ltd	OCR	455
Trilive	Tampines Road	RH Tampines Pte Ltd	OCR	222
Belgravia Villas (landed)	Belgravia Drive	Fairview Developments Pte Ltd	OCR	118

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

The revised Additional Buyer's Stamp Duty (ABSD) implemented on 6 July 2018 is expected to put a dampener on the number of collective sales transactions in the coming six months. This should ease the problem of reduced supply in the leasing market, which was caused by this factor. As a result, the continued downward shift in the physical supply curve should halt, at least for now. On the demand side, some potential buyers who have been displaced by their own collective sales may adopt a "wait-and-see" approach to reacquiring another property and turn to leasing instead. This is because rental yields are currently at levels that, for those who think rationally, make renting more worthwhile than purchasing. However, we believe that most punters, including buyers in general, are not driven by such rational thinking and would still rather purchase at least a replacement unit and deploy their remaining collective sales' proceeds to acquire another property for investment.

In our Q1/2018 leasing brief, we mentioned that it may take a few more quarters before rents firm up their upward trend line. One quarter has passed since our previous report and rather than wait for more evidence that this is so, we will make a judgement call that rents have already begun rising in the new market cycle. Conventional arguments would have it that the 6,340 units coming into the market for H2/2018 and 7,218 units in 2019 will clash headlong with the possibility of a trade war and cause rents to plummet. However, we do not think that this much-circulated news and other reports like our tepid economic growth will derail rental increases for this year. After all, in 2017, there was a net increase of 16,049 non-landed units, yet vacancies fell from 9.5% in Q4/2016 to 8.7% in Q4/2017. To accommodate the improving vacancy, rents only fell by between 1% and 2.9% in the CCR, RCR and OCR. This shows a rather elastic leasing market that, when rents are lowered marginally, leasing demand picks up substantially. With this and next year's completions halving from 2017's levels, it will take a shock to the system to reverse this new rental trendline. We maintain our forecast of 2-3% growth for the whole of 2018.

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