MARKET IN MINUTES
Savills Research

Residential Leasing

savills

Rents and leasing volume continued to increase

An island-wide total of 23,875 units commenced their leases in the second quarter of 2019. This represents a quarterly growth of 7.0% and a record for all second quarters before.

- By location, Q2's leasing volume rose across the board, with Outside Central Region (OCR) posting the largest increase of 9.3% quarter-on-quarter (QoQ).
- Demand from foreigners working in Singapore remained stable and was led by employees from pharmaceutical, food & beverage and tech companies.
- Local movement by owners and tenants in residential projects that were sold successfully through collective sales continued to contribute a substantial portion of leasing demand in recent quarters.
- Latest statistics by the Urban Redevelopment of Authority (URA) showed that island-wide rents rose another 1.3% QoQ in Q2, supported mostly by rental growth for non-landed residential units.
- In Q2, average rents of high-end non-landed properties tracked by Savills also increased 1.0% QoQ.
- The overall vacancy rate of completed private residential units edged up to 6.4% at the end of Q2/2019.

"Contrary to market perception, rents are rising and have been trending up since early 2018."

ALAN CHEONG, SAVILLS RESEARCH

Savills team

Please contact us for further information

SINGAPORE

Marcus Loo
CEO, Singapore
+65 6415 3893
marcus.loo@savills.com.sg

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

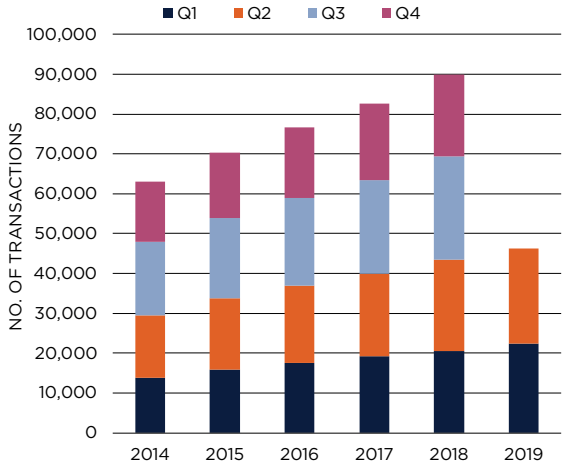
RESEARCH

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

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

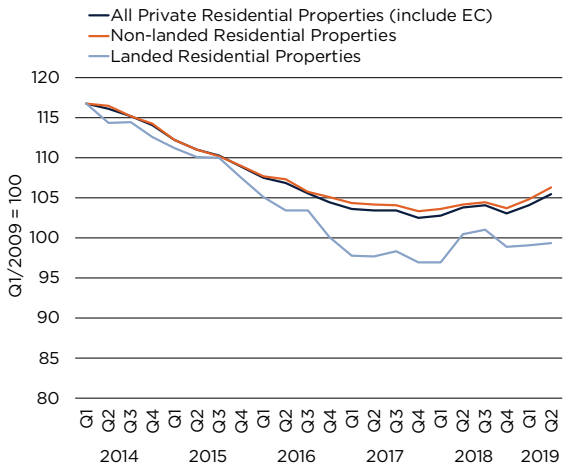
MCI (P) No. 047/03/2019
Company Reg No. 198703410D

GRAPH 1: Leasing Transaction Volumes Of Private Residential Units, Q1/2014 to Q2/2019



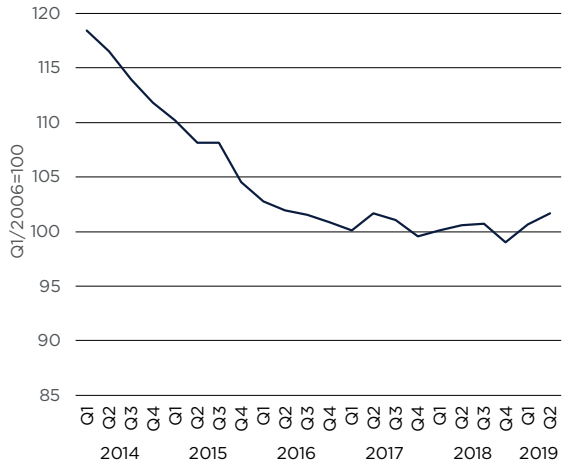
Source URA, Savills Research & Consultancy

GRAPH 2: Rental Indices Of Private Residential Properties, Q1/2014 to Q2/2019



Source URA, Savills Research & Consultancy

GRAPH 3: Savills High-End, Non-Landed Residential Rental Index, Q1/2014 to Q2/2019



Source Savills Research & Consultancy

MARKET OVERVIEW

The rental market for private residential properties continued trending up. Based on data from the URA, an island-wide total of 23,875[1] units commenced their leases in the second quarter of 2019. This represents a quarterly growth of 7.0% from 22,317 in the previous quarter, and a record for all second quarters before. By location, Q2's leasing volume rose across the board, with OCR posting the largest increase of 9.3% QoQ, followed by the Core Central Region (CCR) with 7.9% QoQ growth and the Rest of Central Region (RCR) up 3.7% QoQ.

Demand from foreigners working in Singapore remained stable and was led by employees from pharmaceutical, food & beverage and tech companies. However, amid ongoing global economic uncertainties, expatriate tenants were unsure about their tenures in Singapore and some were choosing to sign shorter leases. These can range from six months to one year. The majority of tenants are still taking up traditional two-year leasing contracts, but over the past two years, lease turnover for some developments has been greater than the number of units in those developments, suggesting that more tenants are either breaking their leases or signing for shorter terms. A decade ago, the norm was for a tenant to sign a two-year lease. In addition, expatriate housing allowances have shrunk even further compared with a year ago, so some tenants have had to break current leases and relocate to cheaper locations. In the meantime, local movement by owners and tenants in residential projects that were sold successfully through collective sales continued to contribute a substantial portion of leasing demand in recent quarters. High prices of private residential properties, together with the tepid market sentiment since July 2018 because of the adjusted property cooling measures, have caused some owners to postpone purchasing replacement homes and to lease temporarily.

For non-landed private residential projects, D'Leedon at Leedon Heights and The Sail @ Marina Bay remained popular developments by tenants. These two developments came in first and second in terms of the number of units rented out in Q2/2019 with 194 and 190 contracts recorded, respectively. North Park Residences appeared in the top list for the first time and ranked third with 157 leases in the reviewed quarter. As part of the integrated development Northpoint Link, the 920-unit residential project has a direct link connecting the Yishun MRT station and the bus interchange via Northpoint Shopping Centre. Supported by convenience and accessibility, a total of 202 units (or 22.0% of total units) have found tenants since its completion in the last quarter of 2018. Among these, nearly 40% of units are small-sized, ranging from 400 sq ft to 600 sq ft.

RENTS

The high volume of leasing transactions, limited new completions, and low vacant stock have dovetailed to perk up rental growth. According to the URA's latest statistics, island-wide rents of private residential units rose another 1.3% QoQ in Q2/2019, after a 1.0% increase in the preceding quarter. The growth was supported mostly by non-landed units, which saw a 1.4% QoQ increase in rents. By region, rentals of such properties in the CCR, RCR and OCR registered quarterly increases of 1.5%, 1.4% and 1.2%, respectively.

The monthly rent of high-end non-landed residential properties tracked by Savills averaged at S$4.16 per sq ft (psf) in Q2/2019, rising 1.0% QoQ. On a year-on-year (YoY) basis, prime rents have increased 1.1% from S$4.11 psf compared to the same period in 2018.

STOCK AND VACANCY

The island-wide stock of completed private residential properties continued increasing, but at a slower pace. There were new additions of just 863 units in Q2/2019, compared with

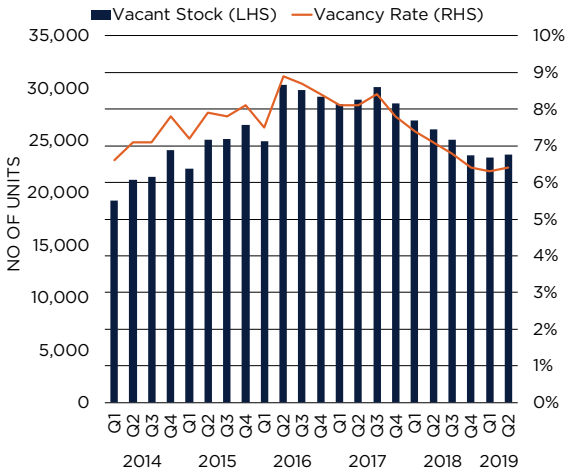
1 Based on data downloaded on August 26, 2019.

TABLE 1: Non-Landed Private Residential Projects With Highest Leasing Transactions, Q2/2019

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (S$ PSF/ MONTH)
D'Leedon	10	Leedon Heights	194	3.73
The Sail @ Marina Bay	1	Marina Boulevard	190	5.08
North Park Residences	27	Yishun Central 1	158	3.57
Eco	16	Bedok South Avenue 3	154	3.16
J Gateway	22	Gateway Drive	146	4.45

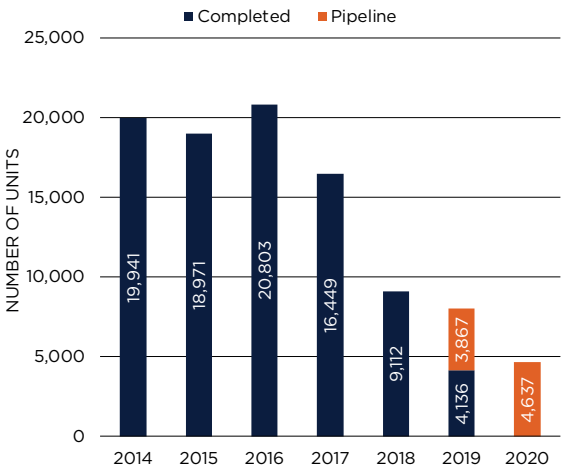
Source URA, Savills Research & Consultancy

GRAPH 4: Vacant Stock And Vacancy Rates Of Private Residential Units, Q1/2014 to Q2/2019



Source URA, Savills Research & Consultancy

GRAPH 5: Completed Of Private Residential Units, 2014 to 2020



Source URA, Savills Research & Consultancy

TABLE 3: Rental Forecast For Non-Landed Private Residential Properties

MARKET SEGMENT	2019F	2020F
CCR	0% to 3%	0% to 2%
RCR	0% to 3%	0% to 2%
OCR	0% to 3%	0% to 2%

Source Savills Research & Consultancy

TABLE 2: Major Private Residential Projects Completed, Q2/2019

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS COMPLETED
Botanique at Bartley	UpperPaya Lebar Road	UOL Development (Bartley) Pte Ltd	OCR	797
LakeGrande	Jurong Lake Link	MCL Land (Vantage) Pte Ltd	OCR	710

Source URA, Savills Research & Consultancy

the 953 recorded in the preceding quarter. The slower pace of new stock entering the market is due to the lack of completions of sizable projects and the withdrawal of en-bloc projects for redevelopment.

By location, only two major suburban projects received their Temporary Occupation Permits (TOPs) in the reviewed quarter—the 797-unit Botanique at Bartley at Upper Paya Lebar Road and the 710-unit LakeGrande at Jurong Lake Link. As these two projects are in the OCR, the stock in this segment of the market rose by 0.8% QoQ to 184,540 units. By contrast, the available stock in the CCR shrank by 0.5% QoQ to 81,858 units, a fourth straight quarter of declines, while the RCR also experienced a modest quarterly drop of 0.2% and ended with 105,409 units.

The overall vacancy rate of completed private residential units edged up 0.1 of a percentage point (ppt) to 6.4% at the end of Q2/2019, reversing an accumulated 2.1% fall over the last six consecutive quarters. Vacant stock increased by 279 units or 1.2% QoQ to 23,636 units by quarter end. Both the CCR and the OCR saw increases of vacancy rates and vacant stock in the quarter. The CCR's rise was caused by owner and tenant relocations from those collective sales projects that are going to be torn down; in the OCR, the time lag for units in newly completed projects to be occupied by home buyers or let-out has caused the vacancy rate and vacant stock to increase.

OUTLOOK

In Q2/2019, Singapore's economy recorded its slowest growth rate of 0.1% QoQ in a decade due to the worsening global economy and trade-related issues. The government has again reduced its GDP growth forecast, to zero to 1% for 2019, down from its previous range of 1.5 to 2.5%. In addition, the job market outlook and hiring intentions from most companies here could potentially be less optimistic in the near term.

As shown in Graph 5, the number of units expected to be completed in the second half of 2019 is 3,867. Together with the 4,136 completed in 1H/2019, the tally for the full year will be 8,003, which will be 12.2% less than the 9,112 recorded for the whole of 2018. The latter was already the lowest figure of the last five years. New completions will drop further in 2020 with only 4,637 units expected. In addition, Savills estimates that, during the same period, around 1,500 units in projects that were sold successfully through collective sales will be removed from the overall stock to make way for new developments. Therefore, the stock of completed private residential units will increase by some 7,000 units by end 2020 or 1.9% from the 371,807 units recorded at end of Q2/2019. Therefore, we maintain the view that the leasing market for private residential properties will stay positive by 2020, supported by low completion volumes and low vacancies.

The market has been holding onto a multi-year belief that rents are soft and still trending down. However, unbeknownst to many, rents have been trending up since the start of 2018. This turnaround would mean that, similar to prices increasing, the market is at odds with the economy and the spate of retrenchments in the finance sector. Also, we believe that the rise in leasing transactions can only be partially explained by the increasing practice of signing short-term leases. There are two other possible reasons to explain the rising number of lease transactions over the years. One is that, since August 2013, newly minted Singapore permanent residents must wait for three years before they can acquire an HDB resale flat, thereby pushing this group to rent. The second is that the new economy could be drawing in overseas workers to more than offset the number that are departing Singapore, often working in the old economy.

Although Singapore is well placed to benefit from the expansion of the new economy (i.e. companies in the internet, multi-media and artificial intelligence sectors, to name some), the region is also on alert to attract the same players that are already in Singapore or coming here. With job mobility high, we would expect more tenants to break leases or take on shorter ones. Regional competition in the new economy sectors is only going to increase. It will take another one to two years, however, before the infrastructure investments made by these new economy companies in these countries are completed. Only then will we see how this growth will affect the flow of overseas workers here. Until that time, rents are expected to rise as more skilled overseas workers arrive and requests for transfers from North Asia to Singapore continue. Table 3 shows our rental forecast for non-landed private residential properties.