

Briefing Residential leasing

October 2012

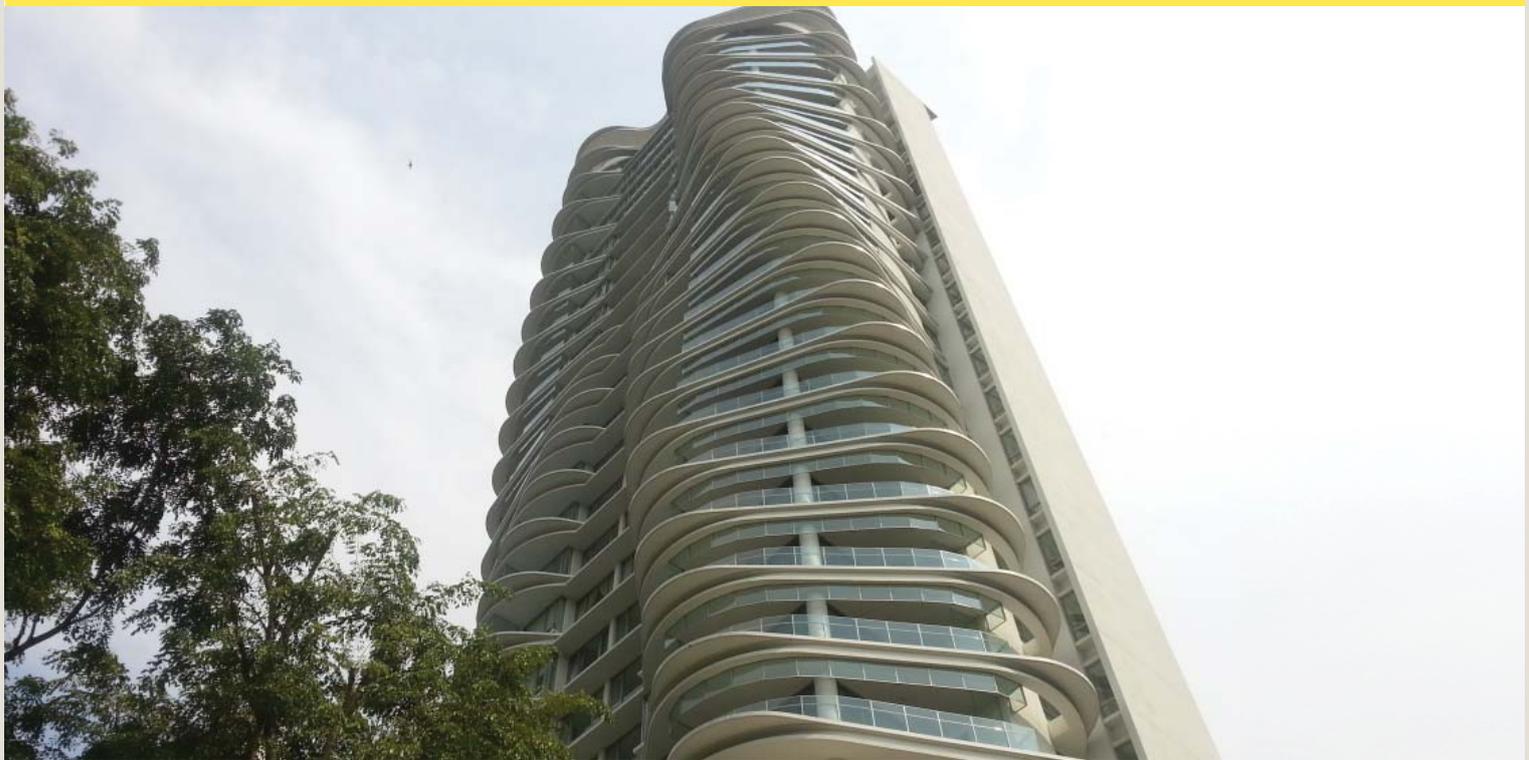


Image: Ferrell Residences

SUMMARY

Leasing volume holding firm in the face of a weak economy.

■ Singapore is expected to benefit from the wave of liquidity flowing in from the latest round of quantitative easing (QE3).

■ The domestic economy looks less rosy as Singapore's GDP growth forecast for this year is trimmed to 2.4%.

■ The leasing market continued its stellar performance with a fresh record of 5,006 leases inked in August.

■ The total number of transactions hit a high of 32,938 leases in the first eight months of this year, surpassing

the whole-year totals of 2000 through to 2004, and 2006 and 2007.

■ Median rents for all condominiums (condos) and houses in Singapore reached record highs of S\$3.67 per sq ft per month and S\$2.86 per sq ft per month respectively, in August.

■ Due to an increased luxury condo supply and trimmed rental budgets, high-end rents tracked by Savills fell for a fifth consecutive quarter.

■ The total value of all leasing transactions hit a new high of S\$26.5 million in August.

■ Leasing volume is expected to fall by about 10% to 15% quarter-on-quarter (QoQ) in Q4 on the back of the tightening foreign employment policies and the traditional low season.

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 “With more constrained rental budgets, tenants are opting for more compact living, driving up rents on a dollar per sq ft basis.”

Alan Cheong, Savills Research

➔ **Market overview**

Many investors are waiting to ride on the wave of fresh liquidity flowing in from QE3 in the US. To resuscitate the economy, the US Federal Reserve intends to pump US\$40 billion per month into their economy until a more sustainable job growth has been attained. The potential gains are likely to head east to Asian cities like Singapore where the high investment returns are deemed favourable. With a low interest-rate environment, the liquidity is likely to find its way into the real estate market where many are seeking high-yielding properties in the mid- to high-end segments.

Meanwhile, the macro-economic fundamentals remain weak for Singapore, as export growth has been falling with no significant revival

of new orders. Singapore's factory output unexpectedly shrank in August by 2.2% year-on-year (YoY), largely weighed down by lower demand for electronic exports and transport engineering output. With a technical recession looming on the horizon, economists are expecting GDP to shrink by 1% to 2% in Q3, trimming Singapore's GDP growth forecast for the year to 2.4%.

Despite the weakening economy, more jobs were created in the second quarter of this year with a 28% QoQ jump to 31,700. The seasonally-adjusted unemployment rate slipped to 2% in June with layoffs falling to as low as 2,210 workers. The majority of the jobs were created in the services sector, with many being low-wage, mid-level foreign workers. However,

with more tightening policies on foreign worker dependencies, hiring expectations are likely to contract in the coming months.

Leasing demand

Owing to strong leasing support from a steady flow of employment pass (EP) holders, the rental market in Singapore has built-up steam again with transactions hitting fresh highs of 5,006 leases in August. This represents a rise of 6% month-on-month (MoM) and 12% YoY, surpassing the previous record of 4,752 leases in July 2011 by 5%. Together with the 4,717 leasing deals done in July 2012, the total number of transactions hit a record 32,938 leases in the first eight months of this year, outdoing the whole-year leases of 2007, 2006, and 2000 through to 2004.

Condo rentals in Singapore remained robust, rising 6% MoM and 13% YoY to 4,480 units in August, resulting in another record high. House rentals were equally strong at 526 units in August, rising 6% MoM and YoY.

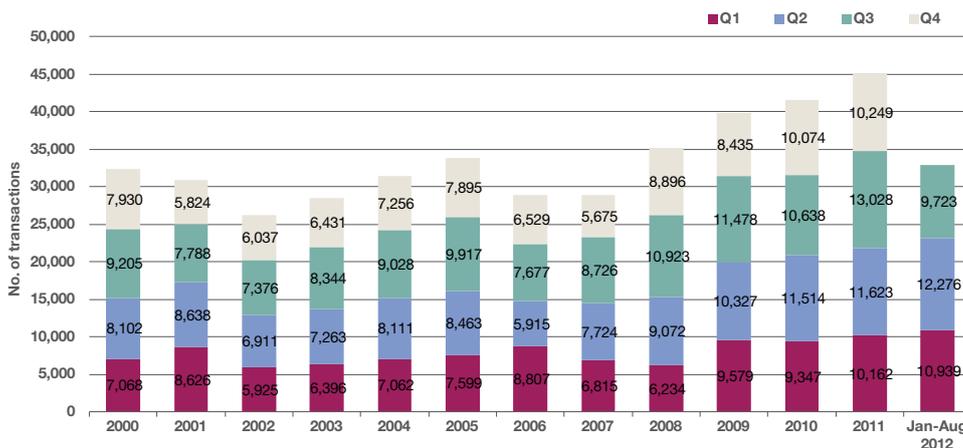
Rents

Based on data released by the Urban Redevelopment Authority (URA), island-wide median rents for condos, excluding executive condominiums, reached a record S\$3.67 per sq ft per month in August, higher by 2% MoM and 6% YoY. Similarly, the island-wide median rents for houses in Singapore reached a new high of S\$2.86 per sq ft per month, up 2% MoM and 3% YoY.

As a result, the total value of all leasing transactions in August sky-rocketed to S\$26.5 million. Together with the first seven months of this year, the total value thus far has reached S\$163.5 million, a 9% YoY increase, surpassing the yearly totals for the period from 2000 to 2009.

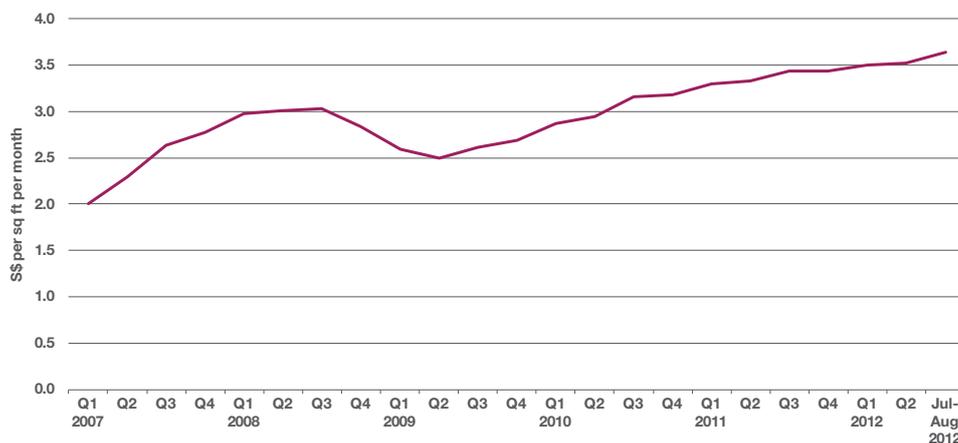
The rental market for luxury homes has, however, shown some softening. Rents of high-end non-landed residential properties tracked by Savills showed a five-quarter consecutive fall. The average monthly rent dipped to S\$4.95 per sq ft per month in Q3/2012, sliding 2% QoQ. On a YoY basis, prime rents fell by 8% from S\$5.37 per sq ft per month in Q3/2011. The fall could be due to more intense competition from an increased supply of high-end completions over the past few months. As many as 4,000 luxury condos have been completed over the past year. ■

GRAPH 1 Transaction volume, 2000–Jan to Aug 2012



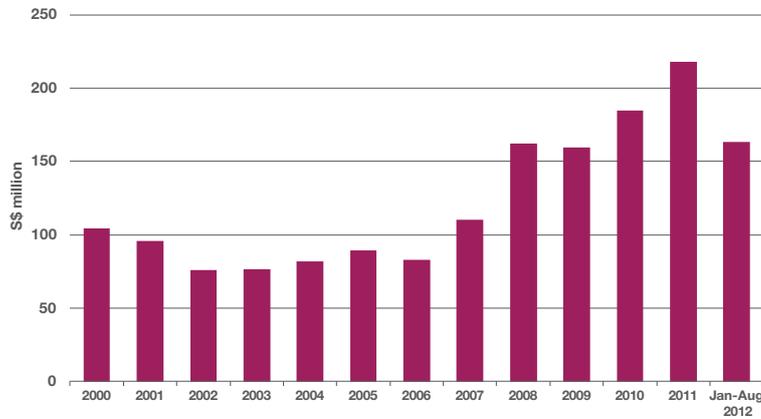
Source: URA, Savills Research & Consultancy

GRAPH 2 Median rents of non-landed residential homes, Q1/2007–Jan to Aug 2012



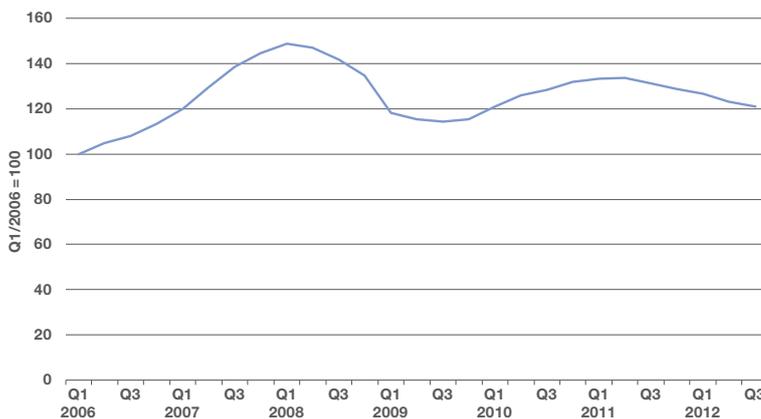
Source: URA, Savills Research & Consultancy

GRAPH 3
Rental value of all properties, 2000–Jan to Aug 2012



Source: URA, Savills Research & Consultancy

GRAPH 3
Savills high-end rental index, Q1/2006–Q3/2012



Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

As of December 2011, Singapore's population grew to 5.31 million with a record 1.23 million foreign workers. Concerted efforts to wean companies from over-dependency on foreign labour resulted in the number of EP holders dipping from 175,400 in 2011 to 174,700 in the first half of this year. The number of EP holders is expected to fall further as tighter job requirements and higher minimum salaries kick-in.

A reduction in EP holders in a traditional lull period could adversely impact the leasing demand in Q4. The number of leasing transactions is therefore expected to fall by about 10% to 15%. However, rental rates are expected to increase as efforts in finding cheaper accommodation would force more to look towards either renting smaller format homes or sharing mid-size homes, effectively driving up rents on a dollar per sq ft basis.

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