

# Briefing Residential leasing

November 2013



Image: Ardmore Residence

## SUMMARY

Transaction volumes surged to new highs in Q3, yet the rental market faces a bumpy road ahead when the overseas workforce is further tightened next year.

■ Singapore's economy remained firm in the third quarter, recording a 5.1% year-on-year (YoY) growth on top of a tighter job market.

■ The Fair Consideration Framework (FCF), which will take effect from 1 August 2014, introduced by the Ministry of Manpower in September will affect the number of overseas professionals working in Singapore.

■ Private residential leasing volumes surged to 15,083 cases in Q3, or an 11.6% quarter-on-quarter (QoQ) growth, leading to a total of 40,319 leases inked in the first three quarters, marking a 6.0% YoY jump.

■ The island-wide vacancy rate climbed to 6.1%, reflecting a total of 17,459 vacant private residential units at the end of Q3.

■ The average monthly rent of high-end condominiums tracked by Savills remained flat at S\$4.86 per sq ft.

■ Supported by the improving economies across the globe and a healthy job market in Singapore, the residential leasing market is expected to remain resilient with rents holding up until the end of the year. However, the rental market is gradually turning to favour tenants due to tighter overseas hiring and immigration

policies, and the steady supply of new housing stock in the pipeline.

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 "The rental market is hitting turbulence as more completions stack up and tighter controls on the overseas labour workforce are implemented." Alan Cheong, Savills Research  
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➔ **Market overview**

According to advance estimates, Singapore's GDP shrank modestly by 1.0% QoQ. However, on a yearly basis, the economy witnessed an expansion of 5.1%. The overall business sentiment stayed positive, while the job market remained tight with the seasonally adjusted unemployment rate falling to 1.8% in September, an improvement from Q2's 2.1%. Despite many headwinds in the manufacturing and trading sectors, Singapore is heading for a steady recovery, and has retained its competitive edge as the most business-friendly country for the eighth time in the World Bank's annual ranking this year.

However, the number of overseas professionals working in Singapore will be cut when the Ministry of Manpower's FCF takes effect from 1 August 2014. The new framework requires every company with more than 25 employees to advertise its job positions on a new government-sponsored jobs bank, prior to the submission of a new Employment Pass (EP) application. This applies strictly to jobs that have fixed monthly salaries of less than S\$12,000. It is foreseen that from the start of next year, the number of overseas nationals in Singapore will decline further, as EP holders will soon face more difficulties in getting

approvals on both fresh and renewed applications.

At the same time, the expatriate community in Singapore suffered deeper bites from the lower level of job security and rising living costs. It was recently revealed in the Expat Explorer Survey 2013 by HSBC that Singapore lost its top spot, which it had held for the past two years, and is now ranked the third most attractive place for expatriates, after China and Germany respectively. Although a yearly comparison of the survey results is not accurate due to changes in the methodology, this finding sends an early signal of a faltering interest from overseas nationals seeking relocation to Singapore.

**Leasing demand**

In contrast to the mixed signals in the residential sales market, the rental market witnessed a buoyant performance in the third quarter when private residential<sup>1</sup> leasing volumes registered a new record of 15,083 cases, an 11.6% QoQ increase, leading to a total of 40,319 leases inked in the first nine months, 6.0% higher than last year's 38,023 leases recorded over a similar period.

As the FCF will come in force in August 2014, employers may

<sup>1</sup> Excluding executive condominiums.

expedite their applications for new EP holders. Leasing demand for staff accommodation or short-term rentals could increase over the next six months, as a new influx of overseas nationals move their plans forward to relocate here before both the job market and immigration policies tighten further. It is expected that the residential leasing market will continue to flourish in the fourth quarter of this year with volumes hovering around 11,000 transactions, similar to that in Q4/2012.

**Vacancy rates**

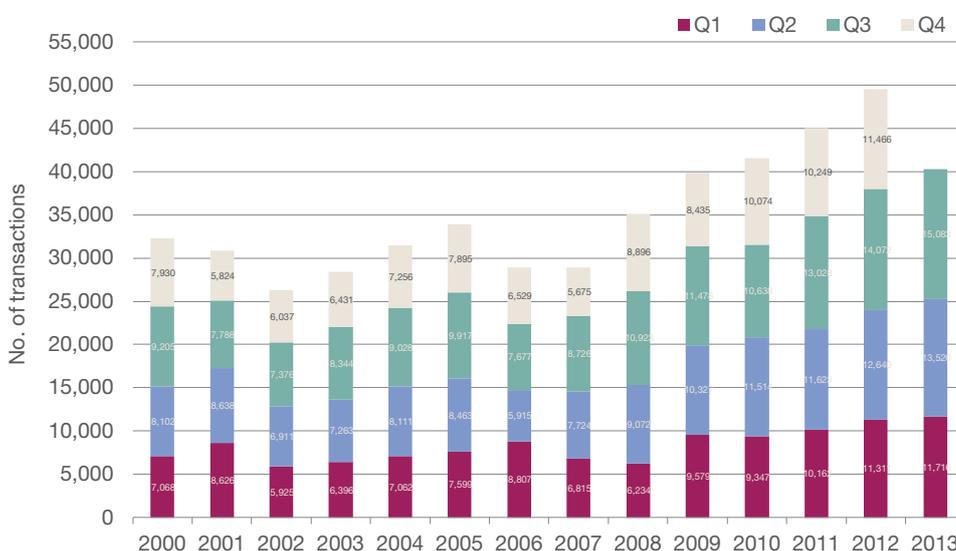
Despite the strong leasing demand, the vacancy rate of private residential units climbed to 6.1% from 5.6% in the previous quarter. This reflected a total of 17,459 vacant private homes island-wide, a significant jump of 10.3% QoQ from 15,833 units in Q2/2013.

In Q3/2013, a handful of major projects, mainly located outside the city area, such as The Interlace on Depot Road (1,040 units), Tree House on Chestnut Avenue (429 units) and Cape Royale at Sentosa Island (302 units), received their Temporary Occupancy Permits (TOPs). In addition, about 6,305 and 19,302 residential units in the pipeline are scheduled for completion by 2013 and 2014 respectively. As leasing demand might ease off next year, the new housing stock may not be adsorbed as quickly, and thus, the number of vacant private homes is expected to increase further.

**Rents**

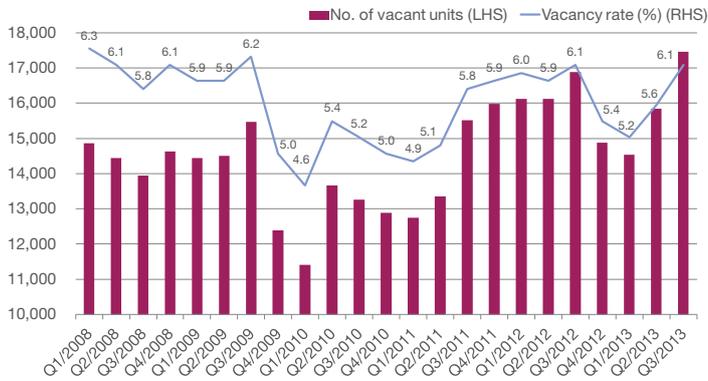
According to the URA, the island-wide rental index of private residential properties registered a modest increase of 0.2% in the third quarter, lower than the 0.3% growth recorded in the previous quarter. In a similar vein, the average monthly rent of high-end condominiums tracked by Savills remained flat at S\$4.86 per sq ft. Rents in the high-end and luxury segments could face more pressure due to the lukewarm demand for such homes during the year-end festive season, as well as competition from new supply, particularly from the recently completed Ardmore Residence on Ardmore Park (58 units). ■

GRAPH 1 **Transaction volumes, Q1/2000–Q3/2013**



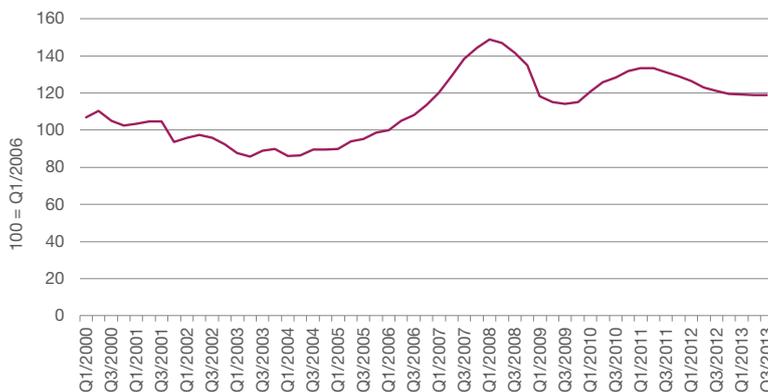
Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy

**GRAPH 2**  
**Vacant units and vacancy rates of private homes, Q1/2010–Q3/2013**



Source: URA, Savills Research & Consultancy

**GRAPH 3**  
**Savills high-end rental index, Q1/2000–Q3/2013**



Source: Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

Supported by improving economies across the globe and a healthy job market in Singapore, the residential leasing market is expected to retain its momentum and remain resilient over the next six months. However, the rental market is gradually turning to favour tenants due to stricter overseas hiring and immigration policies, coupled with the anticipated steady stream of completed housing stock. In the fourth quarter, leasing demand may remain as healthy as the same period last year. Island-wide rents should not see any significant corrections, as landlords still have the holding power and supply is still manageable. Going forward, a longer turnaround time per transaction is expected, given that tenants can afford to be selective in choosing from a greater variety of rental units available.

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