

Briefing Residential leasing

December 2015



Image: The Nautical, Jalan Senduduk

SUMMARY

Some landlords are reconfiguring their business model to stay relevant in the increasingly competitive market.

- Private residential leasing volume recorded a 12.9% quarter-on-quarter (QoQ) and 9.9% year-on-year (YoY) increase to 19,876 deals in Q3/2015.

- The average rent of Savills high-end, non-landed residential units stayed at S\$4.42 in the same quarter, while the Urban Redevelopment Authority's (URA) rental index slipped 0.7% QoQ island-wide.

- Vacancy rates of all private residential units remained at a high of 7.8% in Q3, as supply from the

Outside Central Region (OCR) continues to surge.

- Online platforms promoting short-term stays for travellers at residential units instead of hotels is expanding the traditional private residential leasing market, but regulatory risks exist for providers of such premises.

- Given the high amount of private residential supply in the pipeline, tenants will continue to hold the upper hand over landlords. That will be more strongly felt in the OCR.

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 "With the demand landscape evolving rapidly, landlords have to remain nimble and be realistic on rents to attract tenants."

Alan Cheong, Savills Research

➔ **Market overview**

The Ministry of Trade and Industry (MTI) reported that the Singapore economy grew 1.9% YoY in Q3/2015, slightly higher than the flash estimate of 1.4%. Although the economy avoided a technical recession, the manufacturing sector, being the mainstay of the economy, continues to decline, with a 6.2% YoY fall in Q3/2015, having recorded a 4.8% fall in the previous quarter. This sector has been the main drag of the economy. The overall growth was from the services producing industries, with wholesale & retail trade registering a strong 6.8% YoY growth.

Preliminary figures for the third quarter show that unemployment rates in Singapore remained unchanged at 2.0%. However, unemployment rose among residents and citizens amid the economic uncertainties. On the other hand, the overall employment figures rose by 16,400, slower than the 33,400 recorded in the same period last year. Hiring in the manufacturing industry declined for the fourth consecutive quarter, but overall employment numbers are supported by the services sector, which saw an increase of 17,000 personnel.

Leasing demand

Rental transactions continued to rise in the third quarter of 2015, posting a

12.9% QoQ and 9.9% YoY increase to 19,876 deals. Historically, rental activity is the highest in Q3 as tenants tend to secure their accommodation prior to the year-end festivities. That being said, the increasing popularity of one-year tenancies for residential units is likely to be the main reason for the rise in rental volume. This is because traditional leasing specialists are providing feedback that their business does not reflect the buoyancy that the leasing volumes suggest.

According to headhunters, it is tougher to get new employment approval in firms, as employers are generally more careful on the hiring front during these tough economic times. It was also noticed that some firms have begun downsizing their workforce or moving departments to cheaper overseas locations. As a result, hiring of foreign employees is expected to slow down further, thereby negatively impacting the residential leasing market.

Rents

URA figures on rents for non-landed private residential units fell 0.7% QoQ island-wide in Q3/2015. The OCR and Rest of Central Region (RCR) fell 1.1% and 0.8% respectively, while the Core Central Region (CCR) moderated by 0.4% QoQ. For the quarter in review, Savills basket of high-end, non-landed residential units remained at S\$4.42 per sq ft per month. This is a respite after registering seven consecutive quarters of decline. Rental rates are forecast to continue their downward trend in subsequent quarters, due not only to the increasing supply of newly-completed units but also demand slowing, especially from overseas nationals with families on expatriate packages.

Stock and vacancy

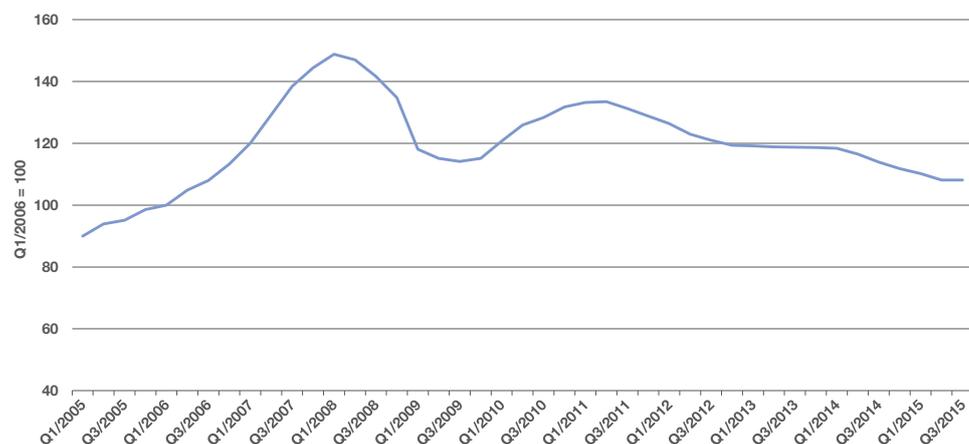
The total available stock of private residential units in Singapore rose 1.1% QoQ to 322,149 units in Q3/2015, slightly slower than the 2.2% growth seen in the preceding quarter. Vacancy rates declined 0.1 of a percentage point to 7.8%, the second highest in the past decade. The influx of large, newly-completed private residential projects

GRAPH 1 **Transaction volumes, Q1/2004–Q3/2015**



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

GRAPH 2 **Savills high-end residential rental index, Q1/2005–Q3/2015**

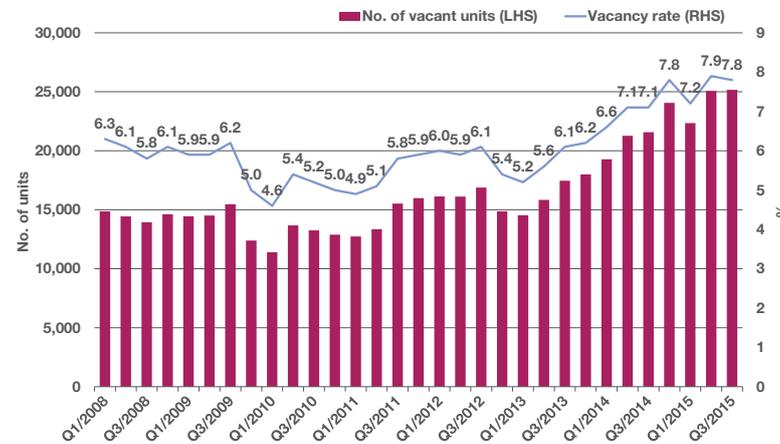


Source: Savills Research & Consultancy

continues to provide more options for individuals seeking homes to rent. This is especially so in the OCR. Coupled with the slowing economy, rents in the OCR are experiencing the greatest downward pressure.

Of late, online platforms such as Airbnb and HomeAway are having an evolutionary impact on the residential leasing landscape. These disruptive technologies enable landlords of private residences to acquire tenants for short-term stays at a level of service similar to that of serviced apartments. In this competitive leasing market, landlords may have to play a more active role in managing multiple tenants per residential unit, as compared to the traditional model where a unit is leased to a master tenant. With multiple tenants, there is an increased opportunity to secure rents that accrue to a higher amount compared to long-term leasing to a single master tenant. Another reason facilitating change in the rental market is competition from a slew of new completions which has empowered tenants during lease negotiations. Amongst these private

GRAPH 3
Vacant units and vacancy rates of private homes, Q1/2008–Q3/2015



Source: URA, Savills Research & Consultancy

residential landlords, they have the competitive edge in terms of pricing as compared to hotels, which for the first three quarters of 2015 are enjoying a healthy standard average occupancy rate of 85.0%¹ and are charging relatively high room rates. That being said, unclear government regulations on short-term private

¹ Flash estimates by Singapore Tourism Board as of 25 November 2015

residential leases make such a business model riskier. Discussions regarding the provision of clearer guidelines for short-term residential leasing are currently underway, and landlords may have better bargaining powers in the near future. ■

TABLE 1
Major projects completed in Q3/2015

S/No.	Project name	Location	Category	Total No. of units completed
1	Archipelago	Bedok Reservoir Road	OCR	577
2	The Nautical	Jalan Sendudok	OCR	435
3	Sea Esta	Pasir Ris Link	OCR	376
4	Skyline Residences	Telok Blangah Road	RCR	283
5	Seletar Park Residence	Seletar Road	OCR	276
6	Katong Regency	Tanjong Katong Road	RCR	244
7	The Seawind	Lorong M Telok Kurau	OCR	222

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

With the economy expected to grow approximately 2.0% for the year 2015 and 1.0% to 3.0% for 2016, employment of overseas nationals is likely to slow further. This is especially so for those engaged in the manufacturing sector. Hence, in this environment where there are a combination of factors, such as a slower incoming of overseas

nationals, reduced rental budgets, and increasing supply, landlords of residential properties will have to excogitate to draw in tenants. The rapid emergence of online platforms such as Airbnb may gradually reduce the availability of homes available for long-term rental purposes. This, however, is more likely to affect residential supply in the Central Region rather than the suburban

areas. For 2015, the average rent of high-end residential units tracked by Savills Singapore is slated to decline by 4.0% YoY.

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