Savills World Research
Singapore

Briefing
Residential leasing

December 2018

Image: J Gateway on Gateway Drive

SUMMARY

The private residential leasing market enjoyed another strong pickup in activity.

- In Q3/2018, the island-wide leasing volume rose 13.5% quarter-on-quarter (QoQ).
- The active leasing market was partly supported by the demand from displaced owners and tenants from private residential developments that have been sold through the collective sales process in the last two years.
- The 6 July cooling measures have, in the short term, reigned in potential buyers' home purchases and generated additional leasing demand instead.
- The URA's rental index of all private residential properties registered a modest increase of 0.3% QoQ in Q3, lower than the 1.0% growth recorded in the previous quarter.
- Average monthly rents of high-end, non-landed residential properties continued an upward trend in Q3, albeit at a lower rate of 0.3% QoQ, and stood at S$4.13 per sq ft.
- We believe that the rental market in 2019 will perform counterintuitively and rise 1%-3%. The about turn in global economic optimism may reduce foreign tenant demand, but it should be offset by occupants who have been displaced by collective sales.

"Although the macro picture has deteriorated, the latest cooling measures interacting with displaced collective sales occupants is creating demand for rental housing."
Alan Cheong, Savills Research

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

Market overview

In the third quarter of 2018, the private residential leasing market experienced another burst of activity. Island-wide leasing volume rose 13.5% QoQ with 25,657[1] transactions recorded in the quarter. Among these, 1,911 landed homes were rented, up 33.4% QoQ, while for condominiums and private apartments, leasing transactions increased 12.2% QoQ to 23,746.

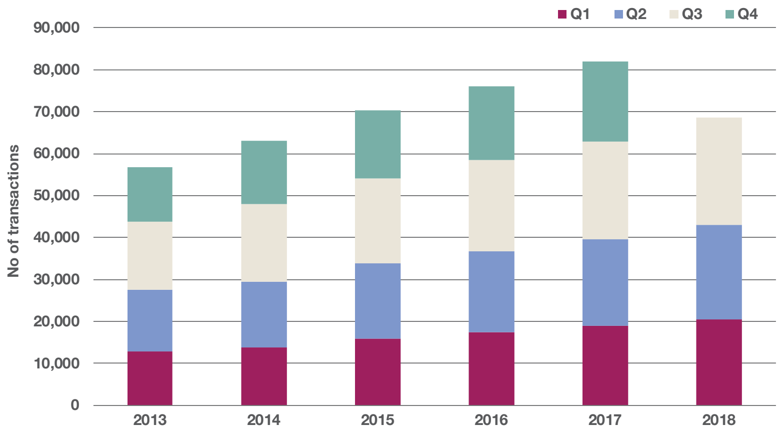
The active leasing market was supported not only by seasonal factors but also by demand from displaced owners and tenants in private residential projects that have been sold in the last two years through the collective sales process. In addition, the 6 July cooling measures, specifically the increased Additional Buyer's Stamp Duty (ABSD) rate and lower loan-to-value (LTV) limits, have reigned in potential buyers' home purchases in the short term. As a result, leasing demand has increased.

A check of data released by the Urban Redevelopment Authority (URA) showed that Commonwealth Towers at Commonwealth Avenue saw the highest leasing volume of 205 transactions in Q3/2018. This was followed by well-known projects popular with tenants, including The Sail @ Marina Bay, D'Leedon at Leedon Heights, City Square Residences at Kitchener Link, and Reflections At Keppel Bay, which contributed 158, 151, 138 and 128 deals, respectively.

1 Based on data downloaded from URA's Realis on 10 December 2018.

GRAPH 1

Leasing transaction volumes of private residential units, Q1/2013 – Q3/2018



Source: URA, Savills Research & Consultancy

Other projects, completed from Q4/2017 to Q2/2018 and with easy accessibility to the Mass Rapid Transit, also enjoyed high leasing volume. These included Sophia Hill at Mount Sophia, Highline Residences at Kim Tian Road, Coco Palms at Pasir Ris Grove and Marina One Residences at Marina Bay. Since the grant of its Temporary Occupation Permit in Q1/2018, Coco Palms has recorded 204 leasing deals, representing 21.6% of its total 944 units. For a mass market project that was considered mainly for owner-occupied purposes, this percentage is higher than expected and is predicted to rise further in the coming few quarters as more units are progressively rented out.

Rents

In Q3/2018, the URA's rental index of all private residential properties registered a modest QoQ gain of 0.3%. This is slower than the 1.0% growth recorded in the previous quarter. Rental growth for both landed homes and non-landed units moderated from a quarter ago to 0.5% QoQ and 0.3% QoQ, respectively.

In a similar vein, based on Savills basket, average monthly rent of high-end, non-landed residential properties continued its upward trend in Q3, albeit at a lower rate of 0.3% QoQ, and stood at S$4.13 per sq ft.

TABLE 1

Non-landed private residential projects with highest leasing transactions, Q3/2018

Project name	Postal district	Location	Number of leasing transactions	Median rent (S$ psf/month)
Commonwealth Towers	3	Commonwealth Avenue	205	4.65
The Sail @ Marina Bay	1	Marina Boulevard	158	4.99
D'Leedon	10	Leedon Heights	151	3.91
City Square Residences	8	Kitchener Link	138	3.56
Reflections At Keppel Bay	4	Keppel Bat View	128	4.18

Source: URA, Savills Research & Consultancy

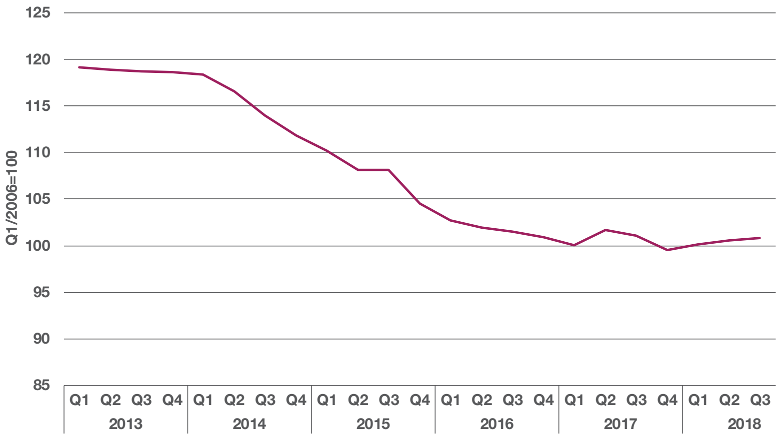
GRAPH 2

Rental indices of private residential properties, Q1/2013 – Q3/2018

Source: URA, Savills Research & Consultancy

GRAPH 3

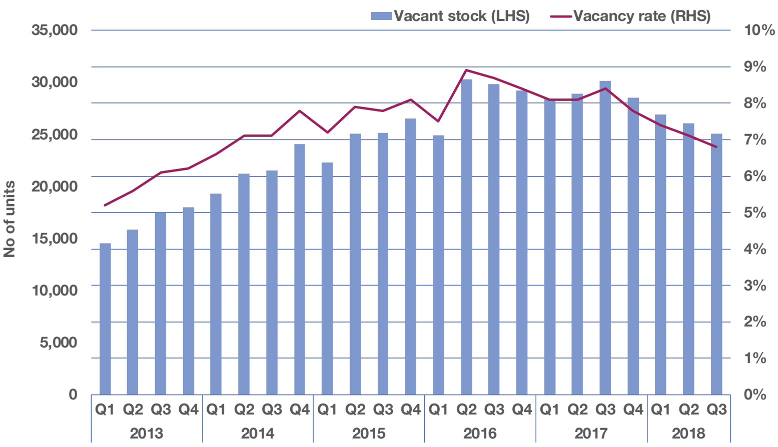
Savills high-end, non-landed residential rental index, Q1/2013 – Q3/2018



Source: Savills Research & Consultancy

GRAPH 4

Vacant units and vacancy rates of private residential units, Q1/2013 – Q3/2018



Source: URA, Savills Research & Consultancy

TABLE 2

Major private residential projects completed, Q3/2018

Project name	Location	Developer	Locality	No of units completed
Thomson Impressions	Lorong Puntong	NS Property (Thomson) Pte Ltd	RCR	288
TRE Residences	Geylang East Avenue 1	SL-GV-MCC Pte Ltd	RCR	250
The Wisteria	Yishun Ring Road	Northern Resi Pte Ltd	OCR	216
Kallang Riverside	Kampong Bugis	The Singapore-Johore Express Pte Ltd	RCR	212

Source: URA, Savills Research & Consultancy

Although HSBC's latest annual Expat Explorer Survey, released on 10 October, shows that Singapore has remained the best country for expatriates to live and work for four consecutive years since 2015, expatriate housing packages have been shrinking in recent years. This has put some downward pressures on further rental growth.

Stock and vacancy

The supply of newly-completed private homes remained low. In Q3/2018, only 1,088 new units were added to the stock of completed houses. Most of the new projects are in the RCR, such as Thomson Impressions at Lorong Puntong (288 units), TRE Residences at Geylang East Avenue 1 (250 units), and Kallang Riverside at Kampong Bugis (212 units).

As of end September, the vacancy rate for island-wide private residential properties slid to 6.8% from 7.1% in the previous quarter and 8.4% in Q3/2017, a level not seen since Q2/2014. Compared with the previous quarter, the vacant stock of landed houses and non-landed units fell by 0.8% and 4.2%, respectively.

In total, 25,105 private homes were unoccupied as of end Q3, the fourth successive quarter of decline. A further easing of vacant stock is expected in the near term, supported by limited new completions and the withdrawal of units from collective sales sites done since the second half of 2016.

OUTLOOK

The prospects for the market

According to the latest population statistics, the number of non-residents in Singapore totalled 1.64 million in June 2018. This population group showed a marginal drop of 0.1% year-on-year (YoY), following a yearly decline of 1.6% in 2017. In the last six months, with the sudden about turn in economic optimism, key global institutions now face greater downside risks to global growth. If one believes this conventional wisdom, then demand from overseas nationals for housing in Singapore should decline so long as decision makers in multinational companies continue to hold such pessimistic views.

For market observers who are marrying the negative macro picture to the 9,100 units of private residential properties expected to be completed in 2019, the rental market will be soft next year. We believe that even if next year's global economy were to perform worse than 2018, softening demand from the expatriate population should be offset by increasing demand from both citizens and permanent residents, including displaced owners and tenants from en-bloc sales projects. The revised ABSD rate implemented on 6 July has motivated potential buyers to adopt a "wait-and-see" approach to reacquiring properties and turn to leasing instead.

However, owners who have been displaced by their own collective sales are now facing difficulties in finding units similar in size to the large flats they previously owned, since newer developments consist mainly of relatively small units, such as one- and two-bedders. Therefore, the market has become a landlords' market due to a lack of suitably-sized stock. This situation in part supports our view that rents will continue to firm up in the next few quarters. For the Savills basket of non-residential properties, we project rents to remain bound to increases of 1% to 3% for 2019.

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