Leasing volumes hit an all-time high

Aside from seasonal factors, the active rental market was supported by a strong inflow of overseas professionals.

- The robust quarter-on-quarter (QoQ) growth in leasing volumes was led by the Core Central Region (CCR) rising by 18.4%.

- In terms of rents, the largest portion of rental units in Q3/2019 came from those leased at a monthly rate from S$2,000 to less than S$4,000, accounting for 62.7% of the total volume.

- The Urban Redevelopment Authority’s (URA) rental index of overall private residential properties recorded a marginal quarterly growth of 0.1% in Q3/2019.

- From Savills’s basket of high-end non-landed residential developments, monthly average rents continued trending up for a third straight quarter, rising by 1.1% QoQ in Q3/2019.

- At the end of Q3/2019, the vacancy rate of completed private residential properties island-wide improved by 0.3 of a percentage point (ppt) to 6.1%, the lowest in almost six years.

- The year 2020 may finally see rents rise convincingly by 3% to 5% year-on-year (YoY).

“The strong influx of overseas workers in the new economy and companies seeking to de-risk from single country concentration should spur rents in 2020.”

ALAN CHEONG, SAVILLS RESEARCH
MARKET OVERVIEW

From statistics released by the URA, the leasing market for private residential properties hit an all-time high in the third quarter of 2019. A total of 26,998 leases commenced across the island. This was 12.9% higher than the 23,921 recorded in the previous quarter and 4.2% higher than the 25,900 in the same period of last year. The robust QoQ growth in leasing volume was led by the OCR which saw leasing transactions rise by 18.4%, while in the Outside Central Region (OCR) and the Rest of Central Region (RCR) rents rose by 11.8% and 9.2%, respectively.

Besides the seasonal factors, the active rental market was supported by a strong inflow of foreign expatriates. The growth was witnessed across all industries, such as banking & financial institutions, technology, pharmaceuticals, consumer goods and services, and has also offset the outflow of some expatriates due to the uncertain business environment in recent quarters. From agents’ feedback, a significant portion of the expatriates are on project-based work and are here as singles or with just their spouse. Their monthly housing allowance is mainly in the range of S$4,000 to S$8,000 for those from the traditional economy firms, and below S$4,000 for many working for the tech companies and other disruptors (new economy).

An analysis of non-landed rental contracts signed island-wide for private residential properties from the URA showed that Lake Grande near the Lakeside MRT Station recorded the highest leasing volume of 221 transactions in Q3/2019. Since completion in May this year, a total of 304 units in the condominium had been rented out by September, accounting for 42.8% of the total leasing volume.

Of these, 143 out of its total 486 units were leased in Q3/2019, a slower pace of increase from the 1.3% rise recorded in the previous quarter. The main drag is landed houses as rents for this kind of property fell by 2.3% QoQ. On the other hand, the rental index for condominiums and private apartments continued to rise in Q3/2019, albeit at a slower rate of 0.4% QoQ. Although leasing demand remains healthy, increasing rents and shrinking housing budgets may limit further rental growth.

Amongst the basket of high-end non-landed residential developments tracked by Savills, due to variables such as location and age, the performance has been mixed. However, we notice that a higher percentage of these projects witnessed positive rental growth in the reviewed quarter backed by healthy demand and limited supply. Consequently, the average rents of properties taken from the Savills basket trended up for a third straight quarter, rising by 1.1% QoQ to S$4.21 per sq ft per month in Q3/2019.

RENTS

According to the URA’s statistics, the rental index of overall private residential properties recorded a marginal quarter-on-quarter growth of 0.1% in Q3/2019, a slower pace of increase from the 1.3% rise recorded in the previous quarter. The main drag is landed houses as rents for this kind of property fell by 2.3% QoQ. On the other hand, the rental index for condominiums and private apartments continued to rise in Q3/2019, albeit at a slower rate of 0.4% QoQ. Although leasing demand remains healthy, increasing rents and shrinking housing budgets may limit further rental growth.

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STOCK AND VACANCY

Completions of new private residential properties has remained low since the beginning of 2019 and fell further to 1,093 units in the third quarter. There were only two major projects which received their Temporary Occupation Permits (TOPs) in the reviewed quarter—the 305-unit Sturdee Residences at Beatty Road in the RCR and the 626-unit The Alps Residences at Tampines Street 86 in the OCR. As a result, available stock of private residential properties in both the RCR and the OCR edged up 0.1% QoQ. On the other hand, because of a lack of sizable project completions and the withdrawal of projects sold through the collective sales process, the stock of private residential properties in the CCR continued to shrink for five consecutive quarters (since Q3/2018) and dipped 0.2% QoQ in Q3/2019. Overall, stock across the island edged up 0.1% QoQ (278 units) to 372,085 units by the end of September.

At the end of Q3/2019, the vacant stock of island-wide completed private residential properties fell by 877 units to 22,819, while the vacancy rate improved by 0.3 of a ppt to 6.1% at the end of Q3/2019, the lowest in almost six years. As a total of 2,704 private residential units are expected to be completed in the last quarter, we expect the vacancy rate to inch up slightly by year’s end.

OUTLOOK

Going into the last quarter of the year, leasing activity is expected to slow down due to seasonal factors. However, there is no doubt that the full-year tally for leasing transactions of private residential units will set a record in 2019. Against the slowing economy, the strong momentum will continue in 2020, as companies continue to transfer staff to Singapore.

In our Q2/2018 Residential Leasing Briefing, we took the view that the rental cycle has entered a new phase. Data from the URA showed that from the start of Q2/2018 to date, although non-landed rents have risen 3.3%, many market watchers are not convinced that rents have turned the corner. We believe that 2020 will be the year when rents for non-landed private residential properties in the OCR and RCR will rise by a measure that is strong enough to convince the sceptics.

For the past seven quarters, trying to understand where rents are heading has been difficult. Explaining the market drivers has been even more daunting because our bottom-up approach to analysis shows different reasons behind each quarter’s rental performance.

The market in 2020 may be driven by the continuing expansion of the overseas workforce in both the new and old economies. The discord in Hong Kong also has companies and family offices initiating the process of planning for back-up locations to mitigate the risks of business discontinuity. However, we also believe that this factor should not be overblown because there are certain functions that Singapore cannot substitute Hong Kong for. Nevertheless, there should still be spill over demand from this front. For these reasons, we expect rents in 2019 to rise by 3% to 5% YoY.

TABLE 3: Factors Driving The Rental Market From 2018

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>FACTOR(S) DRIVING THE RENTAL MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/2018</td>
<td>Households displaced by collective sales</td>
</tr>
<tr>
<td>Q2/2018</td>
<td>Households displaced by collective sales</td>
</tr>
<tr>
<td>Q3/2018</td>
<td>Households displaced by collective sales</td>
</tr>
<tr>
<td>Q4/2018</td>
<td>Increased overseas workers in the TMT sector</td>
</tr>
<tr>
<td>Q1/2019</td>
<td>Increased overseas workers in the TMT sector and the move to smaller apartments due to more constrained rental budgets by foreigners in general</td>
</tr>
<tr>
<td>Q2/2019</td>
<td>New economy companies expanding with incoming overseas workers more than offsetting old economy departures</td>
</tr>
<tr>
<td>Q3/2019</td>
<td>Both new and old economy companies growing in increasing number of overseas workers who have lower rental budgets</td>
</tr>
<tr>
<td>Q4/2019F</td>
<td>New economy companies continuing to bring in overseas workers while old economy companies that have recently retrenched overseas workers backfill some selective positions with lower cost overseas workers</td>
</tr>
<tr>
<td>2020F</td>
<td>Established new economy companies and large unicorns continuing to expand their operations here and bring in more overseas workers. Some presence from the old economy companies will be felt as they execute their business continuity plans as a reaction to issues in HK</td>
</tr>
<tr>
<td>2021F</td>
<td>Supply side issues – most projects currently under construction will be completing from 2021 onwards, however, developers could not sell out the larger units by completion and hence effective supply (being legally able to house a person) is less than forecast</td>
</tr>
</tbody>
</table>

Source Savills Research & Consultancy