savills

Briefing
Residential leasing

February 2015

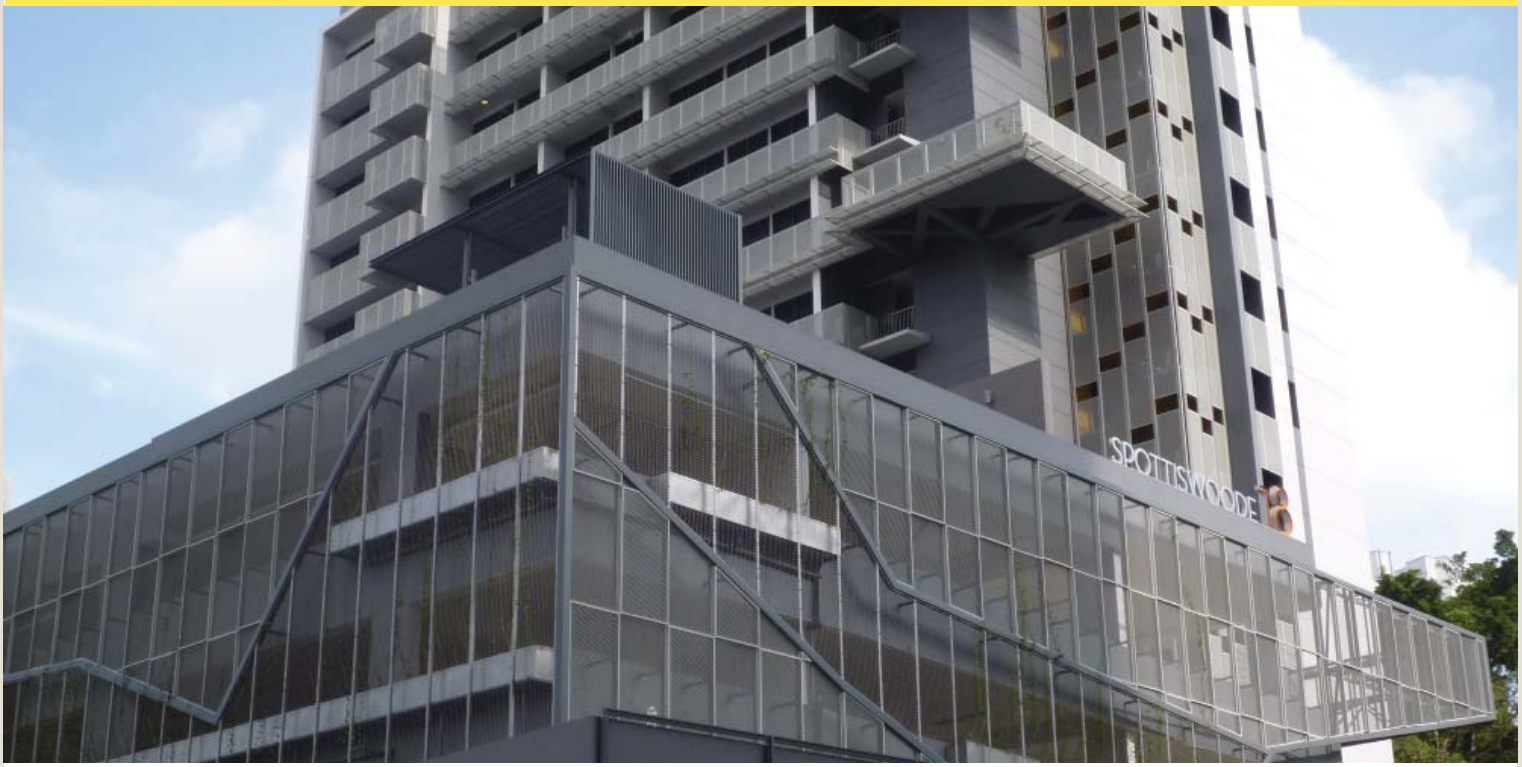

Image: Spottiswoode 18, Spottiswoode Park Road

SUMMARY

Leasing demand is moving away from conventional locations and accommodation types.

- The leasing market was buoyant in 2014, with a total of 61,447 transactions island-wide, surging 10.6% year-on-year (YoY).

- Leasing volumes increased across all regions in 2014, with the biggest boost seen in Outside Central Region (OCR) with 15.1%, followed closely by Rest of Central Region (RCR) with 14.9% while Core Central Region (CCR) trailed behind with a small increase of 4.7%.

- According to the Urban Redevelopment Authority (URA) statistics for 4th Quarter 2014, the rental index of private residential homes island-wide continued to slide for a fifth consecutive quarter, easing by 1.0%. Similarly, the average monthly rent of high-end condominiums tracked by Savills persisted in its decline, falling 1.9% quarter-on-quarter (QoQ) and 5.8% YoY to S$4.57 per sq ft in Q4/2014.

- In Q4/2014, the total number of vacant homes island-wide stood at 24,062, reflecting a vacancy of 7.8%. The vacancy rate has been climbing as the rate of occupation has not kept pace with the completion of new private residential units.

- Leasing demand in 2015 is expected to favour smaller homes, HDB flats and even individual rooms in both private and public developments as corporate belt-tightening and organisational revamps may result in fewer family arrivals.

"The abundant supply situation does not mean rents will cave in as employment remains high and interest rates are still low relative to the norm."
Alan Cheong, Savills Research

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Market overview

2014 was a year of slow growth for Singapore. According to preliminary estimates, the final quarter saw the economy expand just 1.5%, down considerably from the 2.8% in the preceding quarter. The full year's growth rate is expected to be 2.8%, significantly lower than the 3.9% achieved in 2013.

The Ministry of Manpower's Employment Situation 2014 report revealed that the labour market remained tight in the last three months of 2014. The unemployment rate in December fell to 1.9% from the 2.0% three months earlier. An estimated 39,600 was hired in Q4/2014, an 18.5% jump over the previous quarter but 2.5% lower than the same period last year. Overall, the employment growth for 2014 has declined 5.3% YoY. The growth in 2014 was driven mainly by local employment as foreign employment continued to be challenging with the current strict regulations on hiring overseas nationals.

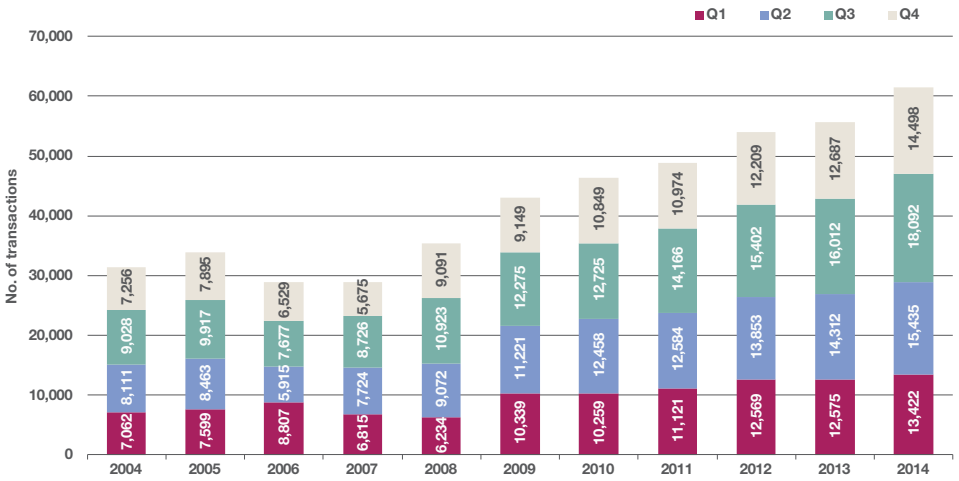
Leasing demand

Like the sluggish residential sales market, the leasing market was also slack in Q4/2014. The leasing volume of private residential properties[1] registered a drop of 19.9% QoQ, from 18,092 transactions[2] in Q3/2014 to 14,498 transactions. This is not surprising as it is a seasonal phenomenon that the last quarter historically registers the lowest number of leasing transactions for the year. Foreign nationals have traditionally preferred to complete their relocation in Q3, before the year-end holiday period. Having said that, Q4/2014 compares well against the 12,687 leases recorded over the same period last year, an increase of 14.3%.

For the whole of 2014, the leasing market was buoyant with a total of 61,447 transactions island-wide, the highest in the last ten years. It topped 2013's 55,586 transactions by 10.6%, significantly higher than the 2.9% gain achieved in 2013. 2014's increase in leasing volume was experienced across all regions. The biggest boost was seen in OCR with 15.1%, followed closely by RCR with 14.9% while CCR trailed behind with a small increase of 4.7%. The strong numbers in RCR and OCR are an indication of a shift in focus away from CCR – an outcome of smaller housing budgets and the decentralisation of Singapore's offices to the suburbs. These regions offer comparatively cheaper accommodation that is closer to suburban workplaces, thereby minimising travel time.

GRAPH 1

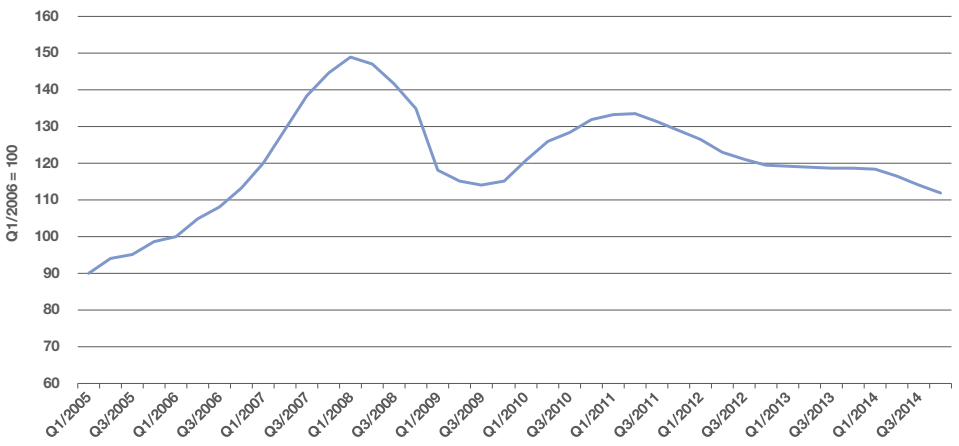
Transaction volumes, Q1/2004–Q4/2014



Source: URA, Savills Research & Consultancy

GRAPH 2

Savills high-end residential rental index, Q1/2005–Q4/2014



Source: Savills Research & Consultancy

Rents

According to the URA statistics for 4th Quarter 2014, the rental index of private residential homes island-wide continued to slide for a fifth consecutive quarter, easing by 1.0%. As at the end of 2014, private rents declined 3.0% from a year ago.

Non-landed private homes across all market segments registered a smaller drop of 2.6%. Rents of non-landed homes in CCR fell by the widest margin, slipping by 3.7%, followed by OCR rents, which weakened by 2.5%. Rents in RCR fared better, inching down by only 0.2%. RCR

1 Excluding Executive Condominiums (ECs)
2 Downloaded from REALIS on 28 January 2015

has been the most resilient to the current island-wide decline in rents, mainly due to its proximity to the city and its relatively affordable housing. With shrinking housing budgets, RCR is increasingly posing more of a competition to CCR, which has traditionally been the preferred location for expatriates.

The average monthly rent of high-end condominiums tracked by Savills also persisted in its decline, falling 1.9% QoQ and 5.8% YoY to S$4.57 per sq ft in Q4/2014. The pressure on rents of high-end luxurious condominiums in the CCR will continue as long as housing allowances face more constraints amid the current gloomy global economic conditions.

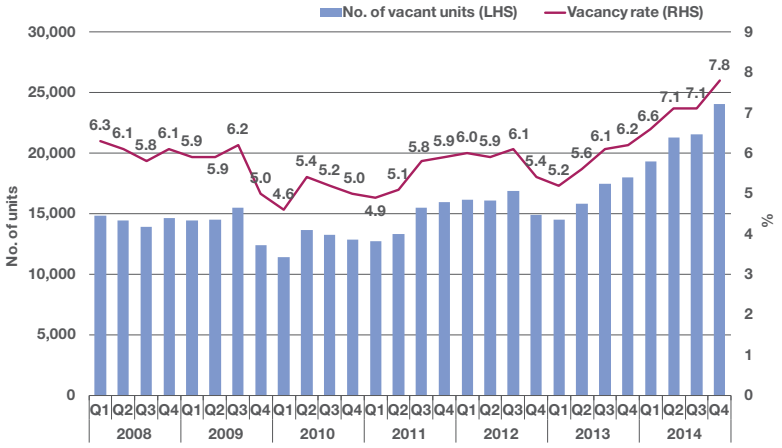
Stock and vacancy

The reviewed quarter saw the completion of 6,304 private homes, while the total increase for the full year was 19,444 units. This brings the total available private homes to 308,814 units across the island. One major project completed in the last quarter of 2014 was d'Leedon at Leedon Heights, comprising a total of 1,715 units.

Despite healthy leasing demand in 2014, the vacancy rate of private residential units continued to climb. According to URA statistics, the total number of vacant homes island-wide at the end of Q4/2014 stood at 24,062, an increase of 11.6% QoQ and a significant jump of 33.7% YoY. Out of 308,814 available private homes in the market, the 24,062 vacant units amounted to a vacancy rate of 7.8% in Q4/2014, a slight increase of 0.7 of a percentage point from the previous quarter. The vacancy rate has been climbing as the rate of occupation has not kept pace with the completion of new private residential units. With a large incoming supply of new homes in 2015 and 2016, 21,359 and 20,919 homes respectively, the vacancy rate is likely to continue its upward trend.

GRAPH 3

Vacant units and vacancy rates of private homes, Q1/2008–Q4/2014



Source: URA, Savills Research & Consultancy

TABLE 1

Major projects completed in Q4/2014

S/No.	Project name	Location	Category	Total No. of units completed
1	d'Leedon	Leedon Heights	CCR	1,715
2	Seastrand	Pasir Ris Link	OCR	473
3	Parc Vera	Hougang Street 32	OCR	452
4	Terrasse	Terrasse Lane	OCR	414
5	The Miltonia Residences	Miltonia Close	OCR	410
6	SkySuites@Anson	Enggor Street	CCR	360
7	The Tennery	Woodlands Road	OCR	338

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

More downward pressure in rents is expected given the slew of new completions over the next two years and the shrinking budgets of overseas nationals working here. Corporate belt-tightening and organisational revamps may result in fewer family-unit arrivals. This will increase the leasing demand for smaller homes, HDB flats and perhaps, even individual rooms in private and public developments in 2015. Rents across all segments of the market are expected to soften as bargaining power will lie in the hands of tenants. The supply of units being completed this year and in 2016 will ensure tenants have no shortage of choice while landlords will have to compete harder for the diminishing supply of foreign nationals moving here for work. The high-end, luxury market will remain acutely strained as housing allowances are continually trimmed. Smaller housing budgets as well as the decentralisation of offices to the suburbs will shift the focus of the leasing market away from CCR to RCR and even OCR as expatriates seek accommodation nearer their workplaces. Nevertheless, homes in CCR will continue to remain the jewel of Singapore's leasing market.

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