

Briefing Residential leasing

March 2016

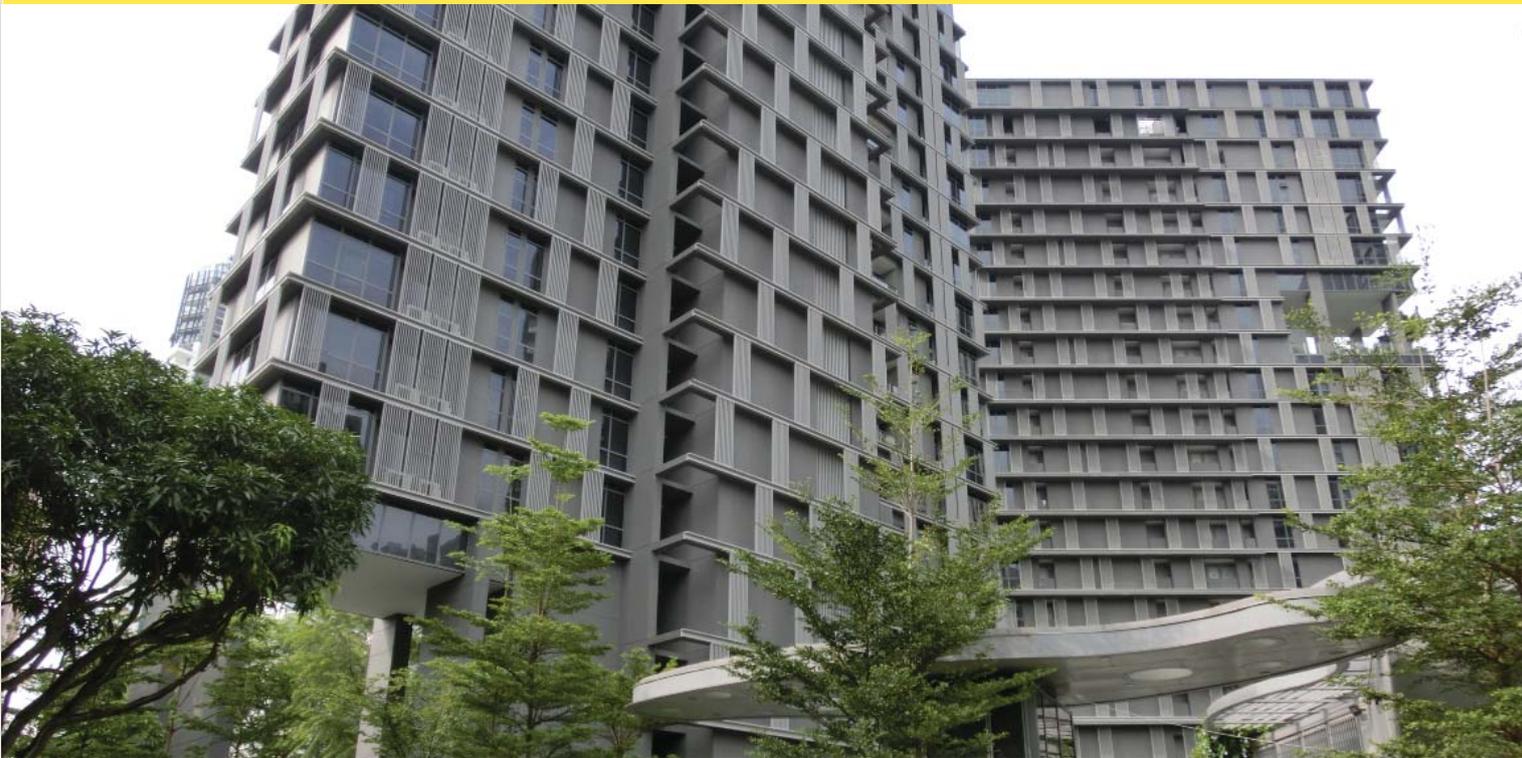


Image: Paterson Collection, Paterson Road

SUMMARY

Reduced rental budgets and increasing supply are fast reducing the cost of accommodation in Singapore.

- The economy grew at a moderate pace of 1.8% year-on-year (YoY), while employment growth for the whole of 2015 was at 0.9%, the lowest since 2003.
- Leasing transaction figures shrunk 18.9% quarter-on-quarter (QoQ) but rose 9.1% YoY to 16,120 deals in Q4.
- Island-wide, rents tracked by the Urban Redevelopment Authority (URA) fell in Q4/2015, while the Savills basket of high-end, non-

landed residential units fell 3.4% QoQ to S\$4.28 per sq ft per month.

- The increasing supply of newly completed private residential stocks lifted vacancy rates from 7.8% in Q3 to 8.1% in Q4.
- The tougher economic times and slower hiring rate will cause rental rates to continue to fall in 2016, with the greatest decline to be seen in the Outside Central Region (OCR) where supply is rising at a faster pace.

- 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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 “The increasing supply is creating opportunity for tenants.”

Alan Cheong, Savills Research

➔ **Market overview**

In Q4/2015, Singapore's economy continued to be weighed down by the manufacturing sector, which registered a 6.7% YoY contraction. This was the main factor that held back the overall economy which only showed a 1.8% YoY growth. For 2015, economic growth grew at a pace of 2.0% YoY, significantly slower than the 3.3% seen in 2014. The service sector was the best performer, growing 3.4% YoY, but still marginally slower than the 3.6% growth recorded in 2014.

For Q4/2015, Singapore's unemployment rate declined 0.1 of a

percentage point (ppt) QoQ to 1.9%. The total employment numbers grew for the third consecutive quarter, but at 16,100, it was still below the 40,700 seen in the same period in 2014. For 2015, the growth of total of employed individuals in Singapore was at 0.9%, the lowest since 2003, amid the foreign manpower tightening situation.

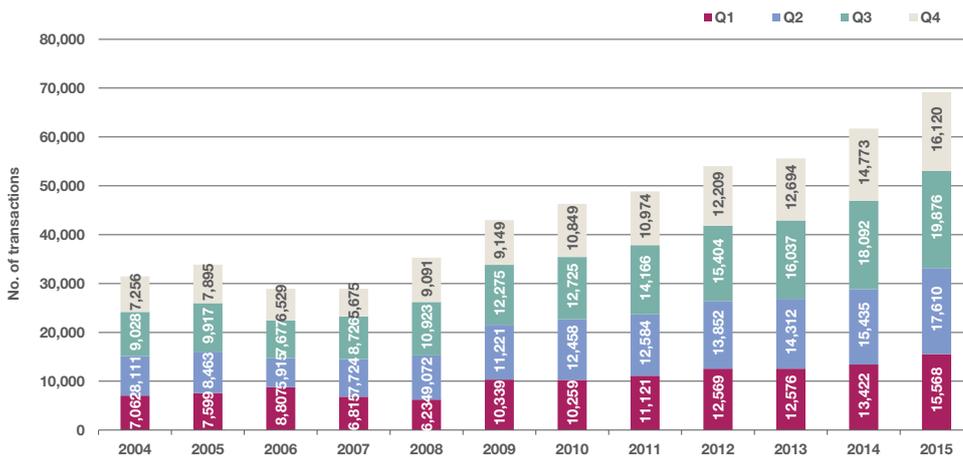
Leasing demand

A total of 16,120 rental deals were transacted in the final quarter of 2015, 18.9% lower QoQ but 9.1% higher YoY. Despite the yearly increase in transaction volumes amid the year-end festivities, many

of the deals were due to tenancy renewals and the signing of one-year tenancies. With a feeble economic showing and a moderation in the hiring of overseas nationals, cost control became an even greater priority. More companies are not taking on leases on behalf of their overseas nationals based here, instead giving them rental allowances, either because their term in Singapore is on a project basis, or they are exploiting the tenants' market; tenants are then signing only one-year tenancies. Amongst these two groups, most of these short-term leases are being signed by those who were previously renting another residential unit in Singapore, rather than overseas individuals or families that have just arrived in the Republic. The end result is that amidst the increasing supply of new homes onto the leasing market, competition is getting stronger among the landlords who are seeking to find tenants for their respective units.

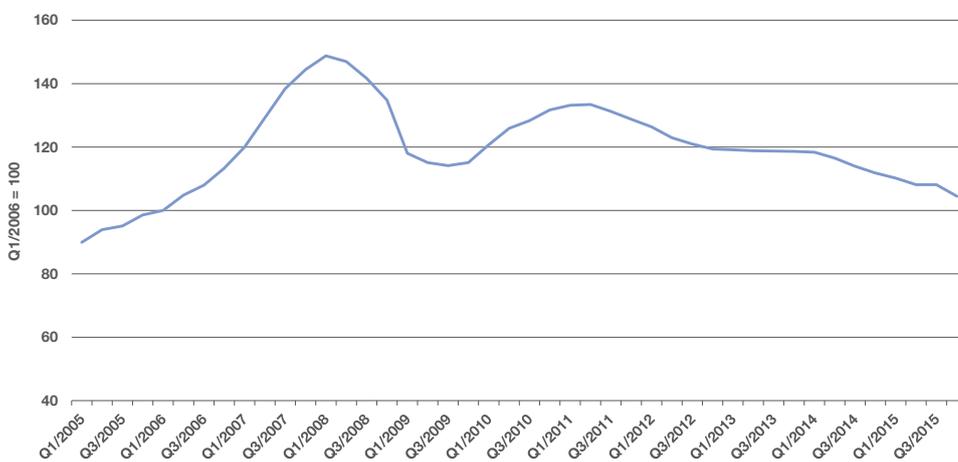
For the whole of 2015, there were 69,174 leasing transactions, 12.1% higher than the preceding year and setting a new record in terms of number of deals. In addition, all quarters have shown an increase from the same period in the previous year, which had already set the all-time high for 2014. The rental volume will be expected to continue its growth with the increasing popularity of the one-year leases.

GRAPH 1 Transaction volumes, Q1/2004–Q4/2015



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

GRAPH 2 Savills high-end residential rental index, Q1/2005–Q4/2015



Source: Savills Research & Consultancy

Rents

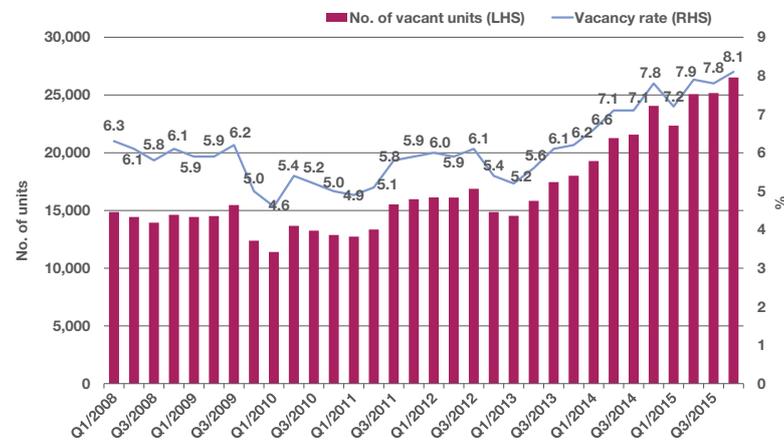
From statistics released by the URA, rents for non-landed private homes fell 1.1% QoQ in Q4/2015, the ninth consecutive quarterly decline. The decline was led by the Outside Central Region (OCR) which saw a 1.8% QoQ fall, followed by the Rest of Central Region (RCR) and Core Central Region (CCR) at 1.6% and 0.4% respectively. From Savills basket of luxury non-landed private residential units, rents fell more in Q4/2015, at 3.4% QoQ to S\$4.28 per sq ft per month. Relative to a year ago, rents tracked by Savills have fallen 6.6%, attributable to the slowing business of the oil and gas industries and the banking sector, causing overseas inbounds into

Singapore to ease and rental levels to fall.

Stock and vacancy

The stock of completed private residential units continues to rise strongly, increasing 1.6% QoQ (5,299 units) to a total of 327,448 units. However, net demand for private residential units was unable to match the net supply, causing the island-wide vacancy rate to go up from 7.8% in Q3 to 8.1% in Q4. For newly completed private residential units, tenancy renewals will be of concern, as tenants realise that they have a broader menu of homes to choose from and will require a significant discount in rental rates to offset their relocation cost. In addition, in the pursuit of cost controls and in the context of a slower economic environment, the inflow of overseas nationals on expatriate packages will slow even further. This should add pressure to units that are positioned for such occupiers. For the overall rental

GRAPH 3 Vacant units and vacancy rates of private homes, Q1/2008–Q4/2015



Source: URA, Savills Research & Consultancy

market, amongst the three regions, the suburban markets are likely to be more affected in the near-term as the upcoming supply of private residential units is increasing the most. For the luxury market, it is

not the supply that is of concern but the reduced budgets and number of those on expatriate packages that weigh on the market. ■

TABLE 1 Major projects completed in Q4/2015

S/No.	Project name	Location	Category	Total no. of units completed
1	euHabitat	Jalan Eunus	OCR	748
2	Ripple Bay	Pasir Ris Link	OCR	679
3	River Isles	Edgedale Plains	OCR	610
4	Parc Olympia	Flora Drive	OCR	486
5	The Palette	Pasir Ris Grove	OCR	467

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

For 2016, Singapore's economy is expecting a modest 1.0% to 3.0% growth, with employment opportunities under reductive pressures. The Ministry of Manpower also noted that sectors such as the manufacturing, particularly the marine sector, will still face lower labour demands this year. Those in the commodities and financial industries are also currently facing strenuous times. Hence, on the residential leasing front, these issues will trickle through and rents are expected to continue to decline in 2016. The OCR is expected to lead the fall, as the increasing number of completions there should cause the supply and demand gap to widen more than the other geographical segments. The tightening budget

for expatriate packages will also persuade more overseas nationals who were previously living in the CCR to relocate to the RCR, due to the more affordable rental rates and its relative proximity to the CBD. However, rents in the CCR are expected to come off the least as landlords of prime properties tend

to have stronger holding power and in general are more prepared to wait for tenants who are willing to come closer to their asking rents. For the overall rental market, we have noticed that some landlords have also begun to convert their long-term residential tenancy businesses to those similar to the Airbnb model.

TABLE 2
Rental forecast 2016F and 2017F

	2016F	2017F
CCR	0% to -3%	0%
RCR	-2% to -5%	0%
OCR	-5% to -10%	0% to -2%

Source: Savills Research & Consultancy

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