

Briefing Residential leasing

March 2017



Image: Tanjong Pagar

SUMMARY

The slow economy and a slew of new completions has weighed down rents, with island-wide vacancy levels hitting 8.4%, well above the 5.5% which we consider healthy.

- The last three months of 2016 saw 17,598 leases being signed, representing a fall of 18.5% quarter-on-quarter (QoQ), but an increase of 7.8% year-on-year (YoY).

- Based on data released by the Urban Redevelopment Authority (URA), island-wide, non-landed residential rents fell 0.7% QoQ and 3.6% YoY in Q4/2016. The Savills basket of luxury, non-landed private residential rents fell by 0.6% QoQ to S\$4.13 per sq ft per month. On an annual basis, this represents a 3.4% decline.

- Notwithstanding the record number of leases signed, because of an even greater increase in the supply of completed housing units, the vacancy rate of private residential units continued to rise to its highest level of 8.4% in 2016, up 0.3 of a percentage point (ppt) YoY.

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“Although the annual new supply of homes is expected to fall sharply from 2017 onwards, there is a lot of slack in the leasing market and rents may stabilise only towards the end of this year.” Alan Cheong, Savills Research

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→ **Leasing demand**

There were 17,598 leases signed in the last three months of the year, which typically experiences a slowdown in leasing demand. On a QoQ basis, this was a fall of 18.5%, but on a YoY basis, it represented an increase of 7.8%. Similarly, in Q4/2016, condo rentals fell 17.2% QoQ to 16,398 units, but this was still 8.1% higher than the same period last year.

For the whole of 2016, total leasing volume increased 7.7% YoY to 75,754 contracts, hitting a new high and surpassing the previous year's record by 5,425 units. However, the rate of growth was lower than 2015 (+11.7%) and 2014 (+10.9%) as it was weighed down by the luxury segment, which declined 3.3% over the year.

Rents

Based on data released by the URA, island-wide, non-landed residential rents fell 0.7% QoQ or 3.6% YoY in Q4/2016. The suburban market posted the largest contraction of 2.0% QoQ, followed by the city area and city fringe of 0.4% and 0.1% respectively. Historically, island-wide, non-landed rents in Q4/2016 have fallen 10.8% from its peak in Q3/2013. However, while rents fell, the total value of leasing transactions accumulated for each year between 2013 and 2015 still showed YoY growth. For 2016, although demand remained robust, the growth in leasing value stagnated, with the value of leases transacted at S\$266.6 million.

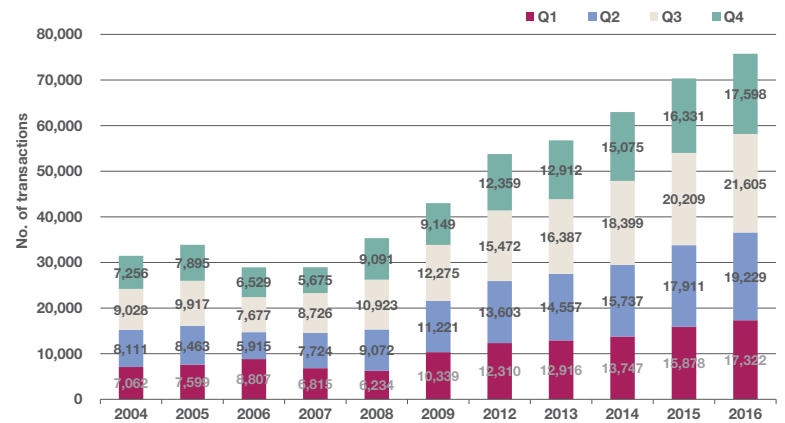
In Q4/2016, the Savills basket of luxury, non-landed private residential rents fell by 0.6% QoQ to S\$4.13 per sq ft per month. On an annual basis, this represents a 3.4% decline and a deceleration from the 6.1% contraction in the previous quarter.

Stock & vacancy

With the completion of 4,448 homes in Q4, by the end of 2016, the island-wide stock of private residential homes stood at 348,080 units. Out of the total stock, 29,197 units are vacant, 10.1% more than the previous year. In 2016, 20,803 units of homes were completed, surpassing 2014's record, and a 10.1% increase over 2015.

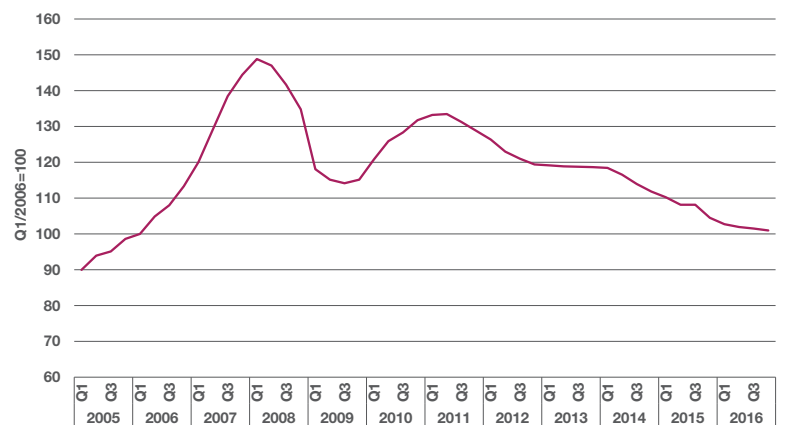
With rents falling, the competition for tenants in the high-end leasing market continues to build-up as several new

GRAPH 1 **Transaction volumes, 2004-Q4/2016**



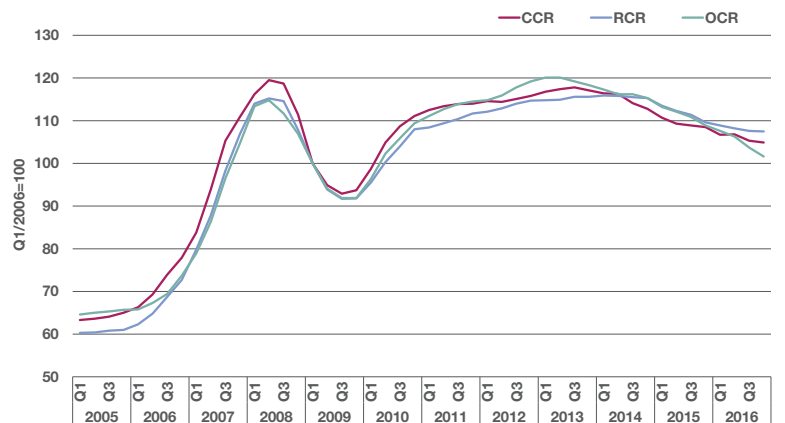
Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy

GRAPH 2 **Savills high-end residential rental index, 2005-Q4/2016**



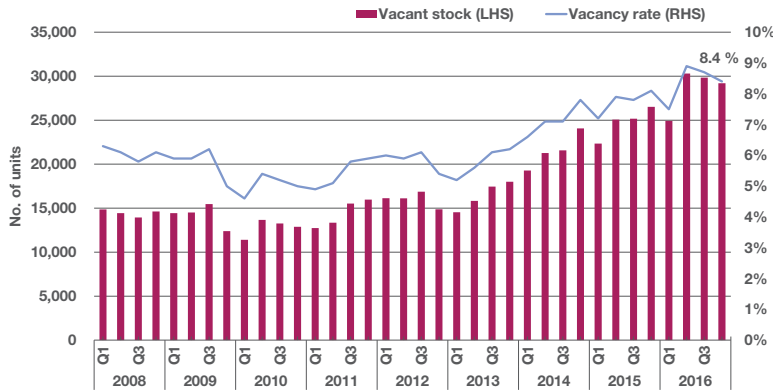
Source: URA, Savills Research & Consultancy

GRAPH 3 **Non-landed residential rental index, 2005-Q4/2016**



Source: URA, Savills Research & Consultancy

GRAPH 4
Vacant units & vacancy rates of private homes, 2008–Q4/2016



Source: URA, Savills Research & Consultancy

TABLE 1
Major projects completed in Q4/2016

Project name	Location	Category	Estimated no. of units
Bartley Ridge	Mount Vernon Road	RCR	868
J Gateway	Gateway Drive	OCR	738
The Glades	Bedok Rise	OCR	726
Cairnhill Nine	Cairnhill Road	CCR	268
The Scotts Tower	Scotts Road	CCR	231
South Beach Residences	Beach Road	CCR	190
KAP Residences	King Albert Park	RCR	142

Source: Savills Research & Consultancy

projects were completed. In Q4/2016, 1,099 homes were completed in the Core Central Region. Among them is the 106-unit Pollen & Bleu condominium in District 10, where leasing volume in 2016 has fallen 9.1% YoY. On the other hand, in the Downtown Core where supply is more limited, the 190-unit South Beach Residences may likely see rental demand coming through.

Despite improving leasing demand, the vacancy rate of private residential units continued to rise and reached 8.4% in Q4/2016, up 0.3 of a ppt YoY. For both the high-end and mid-tier segments, the vacancy rates were similar, at 9.6%.

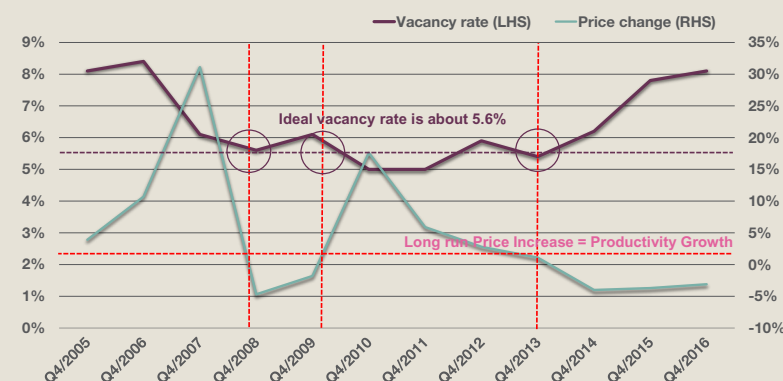
However, compared to 2015, the latter segment saw vacancy rates increase more, by 3.6 pts YoY. The situation for the mid-tier segment may soon stabilise as the number of homes slated for completion in 2017 and 2018 falls from approximately 6,165 units in 2016, to 2,821 (2017) and 3,722 (2018). Island-wide, the situation should also start to come out of a dive as the completion of new private homes is coming down to 14,826 and 9,521 homes in 2017 and 2018, respectively. This is a significant climb down from the 20,803 units that were completed in 2016. ■

OUTLOOK

The prospects for the market

From 1 January 2017, the government has raised the salary qualifying criteria for EP applications from greater than or equal to S\$3,300 to S\$3,600. These changes serve to keep pace with rising local wages and maintain the quality of Singapore's foreign workforce by moderating the number of foreigners who can qualify for EP. Nevertheless, despite the higher salary hurdle for EP passes, the momentum for leasing demand in 2016 is expected to be maintained in 2017 as overseas workers continue to flow in. For existing EP holders whose passes expire before 30 June 2017, they are able

GRAPH 3
Finding the ideal vacancy rate



Source: Savills Research & Consultancy

OUTLOOK (con't)

The prospects for the market

to renew, for a duration of one year, based on the old EP criteria.

The changing demographics of overseas workers, evolving from those who come here with a family unit, to increasingly those who are single or a couple without kids means that rental budgets will be reduced. Although the completion of additional homes from 2017 onwards is expected to fall off significantly, the fact remains that the rental market still has quite a lot

of slack with vacancy levels well above the acceptable level of about 5.5% - 5.6%.

Therefore, even though the supply fundamentals continue to improve over time, rents may still face downside pressures for much of this year and it may only be towards the end of 2017 that some semblance of stability returns to the market.

In the meantime, the key performance indicator for landlords should ideally

be one based on relative peer performance and opportunity cost rather than benchmarking the new sign-on rent against the previous contracted one. By opportunity cost, we mean the excess revenue over the course of a typical lease that could be earned if the unit is rented out at realistic rates rather than leaving it uncontracted for an uncertain period of time due to unrealistically high asking rents.

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