

# Briefing Residential leasing

December 2012

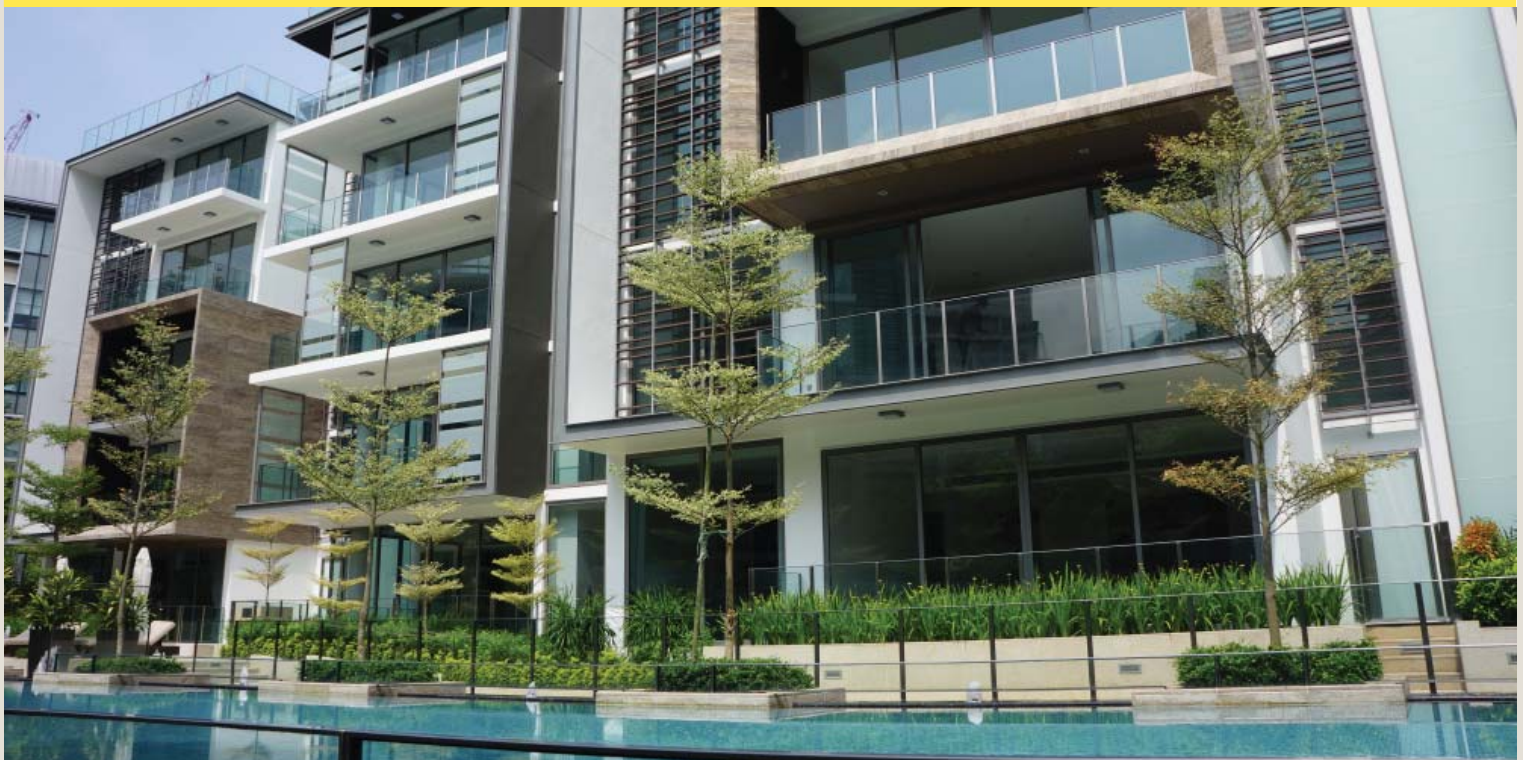


Image: Sage

## SUMMARY

Tenants are being backed into smaller units.

- Singapore's GDP is estimated to be around 1.5% for 2012 and between 1.0% and 3.0% for 2013.
- The total number of leasing transactions in the first ten months of this year has reached 42,139.
- The full year could see another record number of leasing deals.
- The increasing number of vacant units flags risks for the rental market.
- Median rents for all condominiums (condos) in Singapore reached a new high of S\$3.75 per sq ft per month in October.
- The full year's transaction value in 2012 is poised to surpass the record set last year.
- The average monthly rent of high-end non-landed residential properties tracked by Savills fell for the sixth consecutive quarter in Q4.
- Leasing volume is expected to flat-line next year, with some correction in luxury rents to below S\$5 per sq ft per month. Mass market rents are expected to remain firm.

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 "Constrained rental budgets have led tenants to search for smaller homes, either singularly or sharing, driving up rents on a per sq ft basis." Alan Cheong, Savills Research  
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➔ **Market overview**

The ongoing fiscal austerity and bank deleveraging have kept economies in the eurozone sluggish. The sovereign debt crisis has affected Southeast Asian economies like Singapore, which posted a smaller increase in Q3 GDP growth. According to preliminary estimates released by the Ministry of Trade and Industry (MTI), Singapore showed a slower growth of 0.3% year-on-year (YoY), significantly lower than the 2.5% increase in the preceding quarter.

The slowdown was mainly due to tepid external demand in the manufacturing and wholesale trade sectors. The finance and insurance sector has also contracted, with a decline in insurance and forex trading activity last

quarter. If weakness in the externally-oriented sectors continues to persist, Singapore's economic growth may dip below its forecast of 1.5% for 2012. The MTI has also given a conservative forecast of 1.0% to 3.0% for 2013.

Although the global economy continues to be shrouded with uncertainties, hiring prospects in Singapore remain rosy in Q4. A recent job survey conducted by JobsCentral has shown that at least two in three employers are keen to hire new employees before the year ends. This is corroborated by another report by consultancy firm AsiaBiz Services which revealed that at least 67% of employers, especially small and medium enterprises, intend to create new positions in Q4. In addition, the

more stringent immigration policies have increased hiring opportunities for locals.

**Leasing demand**

The residential leasing market is set to end 2012 on a high note. Leasing demand has remained buoyant for the past few months on the back of high employment and stable economic growth. The total number of leases in the first ten months of this year has reached 42,139. This is just short of 2,923 leases from the record high of 45,062 in 2011. As November and December historically see an average of around 3,000 leasing deals for each month, the full year's leasing volume is expected to hit around 48,000 transactions, another stellar year.

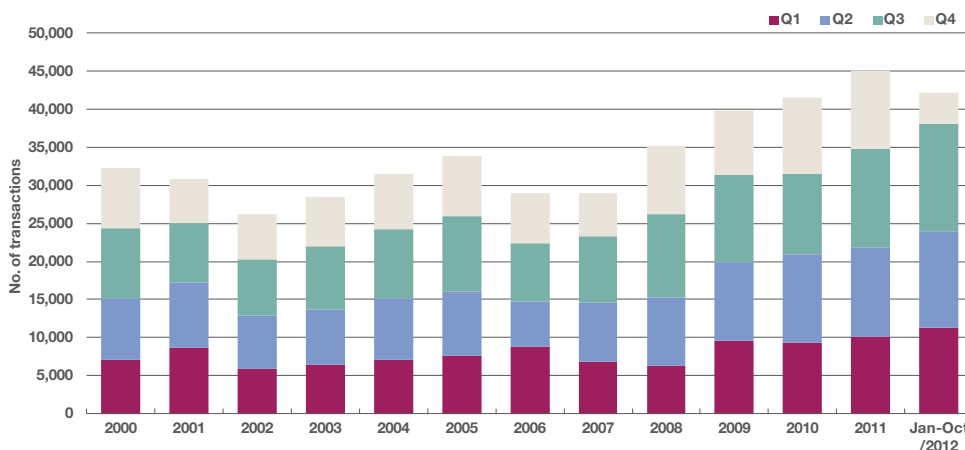
The number of condo leases has reached 37,886 in the first ten months of this year, slightly lower than the full year's transactions of 40,222 in 2011. Similarly, house leases climbed to 4,253 transactions in the first ten months of 2012, coming just below the 4,840 transactions for the full year of 2011. The total number of leases for condos and houses is poised to record new highs by the end of the year.

**An increasing number of vacant units**

With more homes completed over the past year, the market has seen a significant rise in vacant units island-wide. From the trough in Q1/2011, the number of vacant units has increased by 32% from 12,740 to 16,877 units in Q3/2012, pushing the vacancy rate up from 4.9% to 6.1% over the same period. As of Q3 this year, the number of vacant condos stands at 14,198 units and vacant houses at 2,679 units.

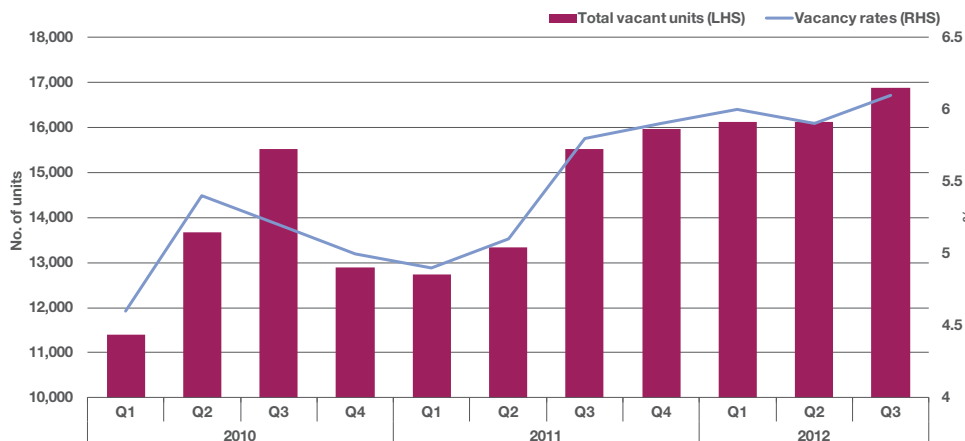
The vacancy rate in the Central region was 7.9% in Q3/2012, above the five-year average of 7.5%. Similarly, the vacancy rates in the eastern and western regions of Singapore were 4.5% and 4.0% in Q3, higher than the 3.5% and 3.6% five-year averages respectively. The vacancy rate increases are in tandem with a surge in condo completions in these areas. Some major completions over the past year include Caspian (712 units) and Mi Casa (457 units) in the west; and Double Bay Residences (646 units), Waterfront Waves (405 units) and Optima (297 units) in the east. The completions in the Central region include Reflections (1,129 units), Floridian (336 units), The Trizon (289

GRAPH 1 **Transaction volume, 2000–Jan to Oct 2012**



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

GRAPH 2 **Vacant units and vacancy rates of private homes, Q1/2010–Q3/2012**



Source: URA, Savills Research & Consultancy

units), Parvis (248 units), Viva (235 units) and The Wharf (186 units).

The number of vacant units is set to increase in the months ahead as an avalanche of new homes will be completed within the next two years. According to URA data, 91,869 new homes will be released to the market in the next five years, more than half of which have been sold. The growing supply of new homes poses a significant risk to investors who have bought private homes for rental investment, particularly if interest rates should rise.

Although it has been reported that many new homes were bought for owner occupation, the emergence of shadow spaces when owners relocate into their new premises may prove to be an additional challenge for both the leasing and sales markets. If demand from population growth does not rise in tandem and interest rates start to rise, a significant rental correction cannot be discounted. The likelihood of an interest-rate spike is, however, small for the moment.

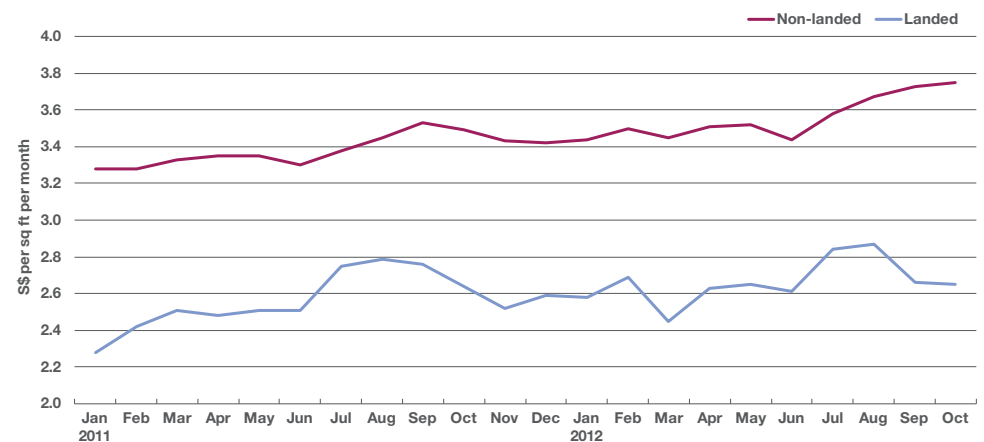
### Rents

Based on data released by the URA, island-wide median rents for condos and apartments (excluding executive condominiums) reached a new high of S\$3.75 per sq ft per month in October. This translates to a 0.5% month-on-month (MoM) and 7% YoY increase. Median rents for houses on the other hand slipped 0.4% MoM in October to S\$2.65 per sq ft per month.

The total value of all leasing transactions for the first ten months of this year reached S\$208 million, surpassing the yearly totals for the period from 2000 to 2010. With contributions from the final two months of the year, the total transaction value in 2012 is poised to surpass the S\$218 million record set in 2011.

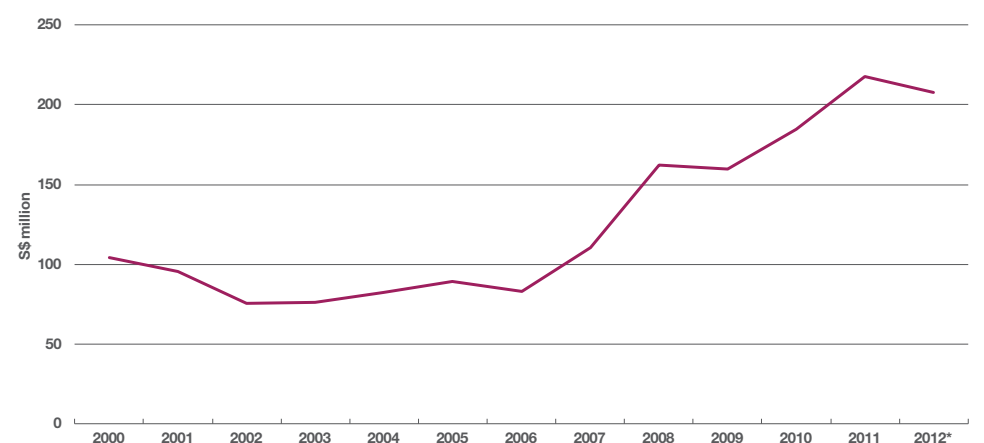
The rental market for luxury homes softened for the sixth consecutive quarter. Rents of high-end condos tracked by Savills showed a 1.4% quarter-on-quarter dip to S\$4.88 per sq ft per month in Q4. On a YoY basis, prime rents fell by 7.4% from S\$5.27 per sq ft per month in Q4/2011. The fall could be due to more intense competition from an increased supply of high-end completions over the past few months and a lesser number of big-budget tenants who are concurrently facing rental budget constraints. ■

GRAPH 3 Median rents of private homes, Jan 2011–Oct 2012



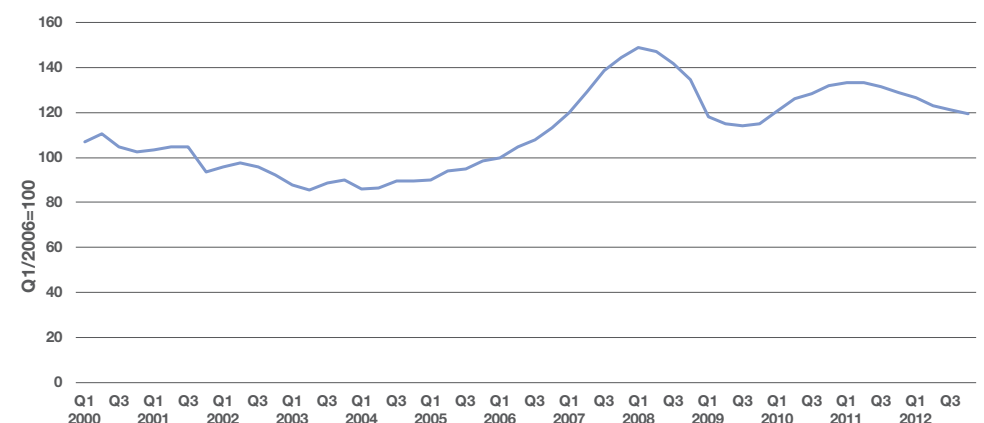
Source: URA, Savills Research & Consultancy

GRAPH 4 Total value of all leasing transactions, 2000–2012



Source: URA, Savills Research & Consultancy  
\*up to Oct 2012

GRAPH 5 Savills high-end rental index, Q1/2000–Q4/2012



Source: Savills Research & Consultancy

# OUTLOOK

## The prospects for the market

The ongoing sovereign debt crisis in the eurozone and fiscal fears in the US have mired the two major continents in low or negative growth. Asia is therefore left as the only high-growth region and is attracting many from developing countries to seek employment. Buoyed by strong domestic consumption and active intra-Asia trading, the region may possibly continue to be insulated against the full impact of any impending crisis from the west.

This is further supported by China's economy, which may see a rebound with a pick-up

in public spending and incremental reforms with its recent leadership change. Being one of Asia's main growth powerhouses, the possible turn-around of China's economy may potentially lift markets across Asia next year.

Despite the more stringent immigration policies put in place to limit the number of foreign workers seeking employment here, organisations will continue to place more cross-border assignments here and seek top-level executives from overseas to broaden their current talent pool. Current expats who came two years ago are also likely to renew their leases, possibly for a longer term next year. All these factors

may continue to provide a steady level of leasing support for 2013, with demand possibly flat-lining in the first half of next year. The full year of 2013 could see total leasing transactions hovering between 47,000 and 49,000 leases.

However, many new entrants may have limited rental budgets. Coupled with the increasing supply of completed luxury homes, high-end rental rates could correct 5% to 10% to below S\$5 per sq ft per month in 2013. Rents for mass-market homes may still hold up well next year as they fall within the tight rental budgets of the new entrants.

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