

Residential Leasing

savills



Rents continue on the upward trajectory

Although rental contracts of private residential properties have trended downwards for three consecutive quarters, rents have not been affected and on the contrary, have risen strongly.

- The leasing volume of private residential properties declined for the third consecutive quarter by 8.7% to 20,751 transactions in Q2/2022. On a year-on-year (YoY) basis, the number of rental contracts also decreased 13.3%. The rental volume of both landed and non-landed homes contracted on a quarter-on-quarter (QoQ) basis, with that of non-landed homes recording a larger decline.
- Among the top five non-landed projects with the most leasing transactions in the quarter, only two of the projects are in the Core Central Region (CCR), while the remaining are in the Rest of Central Region (RCR) and Outside Central Region (OCR). Most of the units that are let out are the smaller one- and two-bedroom units.
- Due to strong rental demand and completions remaining tight due to construction delays, the URA rental index for private residential properties rose for the seventh consecutive quarter, and by a larger 6.7% QoQ in Q2/2022. This is the largest QoQ increase since Q4/2007 when rents increased 6.8%. Rents of both landed and non-landed properties increased in the quarter.
- Monthly rents for high-end non-landed private residential projects tracked by Savills increased for the sixth consecutive quarter at a faster 7.6% QoQ to S\$4.79 psf in Q2/2022, the highest since Q1/2014 when rents reached S\$4.84 psf.
- With more residential units completed, the vacant stock rose 2.3% QoQ to 20,765 units in the quarter and this caused a slight increase of 0.1 of a percentage point (ppt) in the vacancy rate to 5.4%, reversing two consecutive quarters of decline.
- Nevertheless, for 2022, we believe that with rents having already gone up 11.7% in 1H/2022, we revise our forecast from 10% - 15% to a 15% - 20% YoY change. For 2023, rental increases are likely to continue with a 5% YoY rise.

“Although the central scenario is for rents to continue barrelling up, global recessionary conditions could dampen the super bull cycle.”

ALAN CHEONG, SAVILLS RESEARCH

Savills team

Please contact us for further information

SINGAPORE

Marcus Loo
CEO, Singapore
+65 6415 3893
marcus.loo@savills.com.sg

Jacqueline Wong
Executive Director
Residential Leasing and
The Private Office Sales
+65 6415 3878
jacqueline.wong@savills.com.sg

RESEARCH

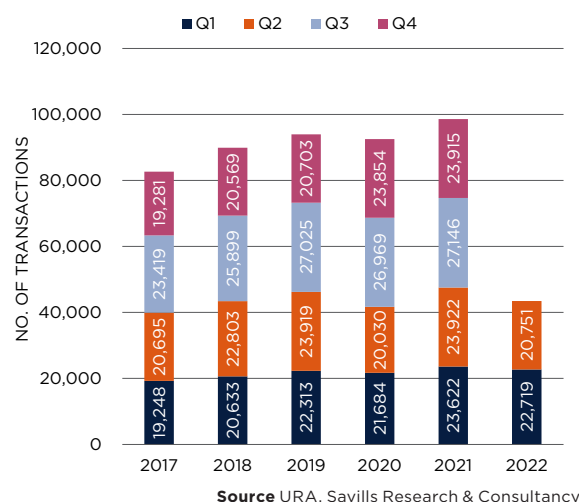
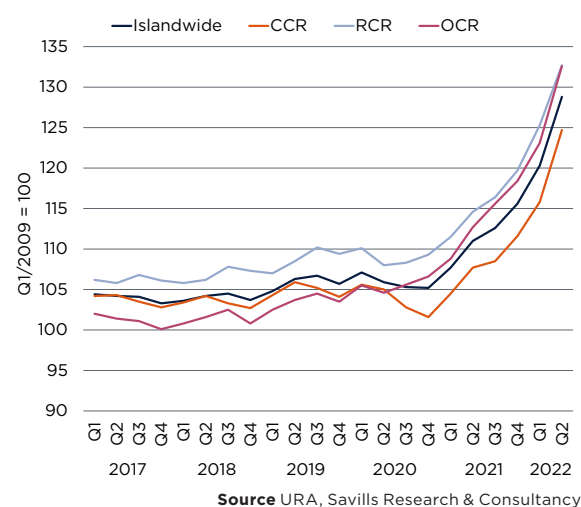
Alan Cheong
Executive Director
Singapore
+65 6415 3641
alan.cheong@savills.com.sg

Simon Smith
Regional Head of
Research & Consultancy
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

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GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2017 to Q2/2022**GRAPH 2: Rental Indices of Non-landed Private Residential Properties, Q1/2017 to Q2/2022****MARKET OVERVIEW**

In Q2/2022, the leasing volume of private residential properties continued falling by 8.7% QoQ for the third consecutive quarter to 20,751 transactions. This was a larger decrease compared to the 5.0% decline in Q1/2022. On a YoY basis, rental contracts also fell 13.3%. The contraction in leasing volume does not imply slower rental demand but may be due to limited completions as the residential market continues to be affected by construction delays. The rental volume of both landed and non-landed homes recorded quarterly declines in Q2/2022, with a larger fall for non-landed homes. Rental transactions of non-landed homes fell 8.7% QoQ to 19,545 transactions, the first quarter where the rental volume fell below 20,000 since Q2/2020 when there were 18,771 transactions. The leasing volume of non-landed homes fell across all three market segments, particularly for Core Central Region (CCR) which declined 13.3% QoQ to 5,780 transactions. In the quarter, the rental transactions in Rest of Central Region (RCR) and Outside Central Region (OCR) declined 6.2% and 7.1% on a QoQ basis to 6,598 and 7,167 transactions respectively. The lower contraction in rental contracts in the city-fringe and suburban areas, as compared to that in the prime districts, may be due to relatively more available stock meeting demand. Sharply higher rents have pushed tenants to look for cheaper accommodation by moving to less prime locations. Similarly, the limited pool of rentable landed homes caused leasing volume to contract 7.7% QoQ from 1,306 transactions in Q1/2022 to 1,206 transactions in Q2/2022, the lowest since 1,146 transactions were recorded for Q4/2019.

In contrast to the previous quarters whereby developments in the CCR recorded the greatest number of rental contracts, in the quarter in review, only two of the top

five non-landed projects with the highest number of leasing transactions were in the CCR. Out of these five non-landed projects, the majority of the units that were let out were the smaller one- and two-bedroom units. While projects in the CCR remained popular with expatriates, the popular projects in RCR and OCR that were let out are imbued with advantages as such being near MRT stations, near commercial amenities or international schools and newly completed. For instance, the newly completed Park Colonial recorded the second highest number of rental transactions in the quarter. It is within walking distance to the Stamford American School and is also a stone's throw from the Woodleigh MRT station. This station is only one stop away from Serangoon MRT interchange which is linked to NEX, a 634,700 sq ft net lettable area retail mall. Over 80% of the rental contracts in the project as at Q2/2022 were for the one- and two-bedroom units, which may be occupied by locals that move out in search of privacy or foreigners that are sourcing for less costly options amid the rising rents. The median rent for Park Colonial exceeded some of the projects in the CCR like The Sail @ Marina Bay and Marina One Residences. This is likely due to the smaller unit sizes of the homes that were rented out.

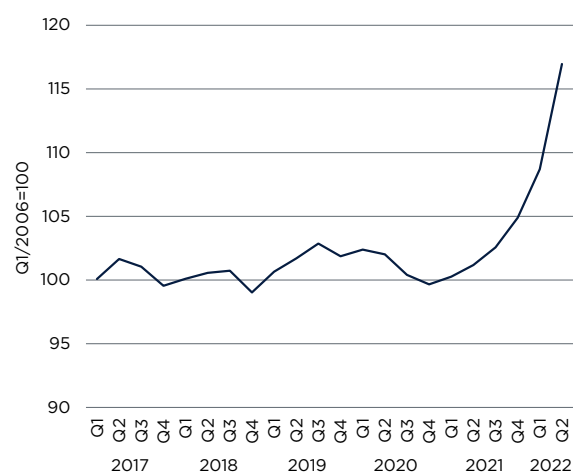
RENTS

The URA rental index for all private residential properties surged 6.7% QoQ, the largest quarterly increase since Q4/2007 when rents increased 6.8%. This was the seventh consecutive quarter of increase. Rents of both landed and non-landed properties recorded growth, with that of non-landed properties registering a larger 7.1% expansion compared to 3.2% for landed

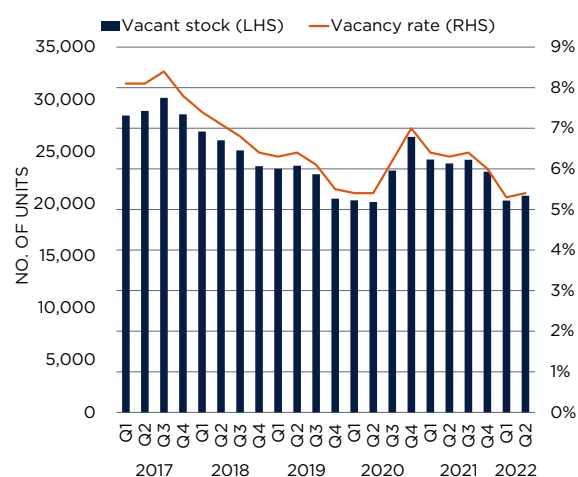
TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q2/2022

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (\$ PSF/MONTH)
The Sail @ Marina Bay	1	Marina Boulevard	171	5.81
Park Colonial	13	Woodleigh Lane	145	6.46
Marina One Residences	1	Marina Way	109	6.19
Watertown	19	Punggol Central	105	4.31
euHabitat	14	Jalan Eunus	98	3.99

Source URA, Savills Research & Consultancy

GRAPH 3: Savills High-end, Non-landed Residential Rental Index, Q1/2017 to Q2/2022

Source Savills Research & Consultancy

GRAPH 4: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2017 to Q2/2022

Source URA, Savills Research & Consultancy

properties. For non-landed properties, this was the largest QoQ growth since Q3/2007 when rents rose 11.9% QoQ. Across market segments, non-landed home rents in the CCR and OCR grew the fastest at 7.7% each. Similarly, rents of non-landed homes in the RCR rose 5.9% QoQ.

In a similar light, the monthly rents for high-end non-landed private residential projects tracked by Savills continued to rise for the sixth consecutive quarter. This time it grew at a faster rate of 7.6% QoQ to reach S\$4.79 psf in Q2/2022, the highest level since Q1/2014 when rents were at S\$4.84 psf. As there is a lack of significant completions in the prime areas, landlords could have their way dictating rents.

STOCK AND VACANCY

In Q2/2022, 2,682 private residential units obtained their Temporary Occupation Permits (TOPs). This more than tripled the 819 completions recorded in Q1/2022. The bulk of the new completions in the quarter came from Stirling Residences (1,259 units), Whistler Grand (716 units), Parc Botannia (another 357 units) and The Hyde (117 units). With the new completions, the islandwide stock of private residential properties grew by 0.7% QoQ to 385,529 units as at Q2/2022.

With a significantly larger number of completions in the quarter, the vacant stock expanded 2.3% QoQ to 20,765 units, a reversal from the previous two consecutive quarters of decline. The increase was mainly attributed to a 2.8% increase in vacant stock of non-landed units. As the vacant stock increased, the vacancy rate of private residential properties inched up marginally by 0.1 of a ppt to 5.4%, a reversal from the two consecutive quarters of decline. While the vacancy rate of landed

homes remained unchanged at 4.7% for the second consecutive quarter, vacancy rate of non-landed homes rose 0.2 of a ppt to 5.6%. This was the first quarterly increase since Q4/2020 when vacancy rate increased by 1.0 ppts. Across the three market segments, the CCR was the only market segment with a decline in vacancy rate in Q2/2022. The vacancy rate of private homes in CCR fell for the third consecutive quarter by 0.7 of a ppt to 7.4%, while vacancy rates in the RCR and OCR rose 0.5 of a ppt and 0.2 of a ppt to 6.6% and 3.8% respectively. The larger increase in vacancy rate in the RCR may be due to the completion of the mega project, Stirling Residences, which has over 1,000 units. For the OCR, the increase came after four consecutive quarters of decline, which may also be attributed to significant completions in the quarter.

OUTLOOK

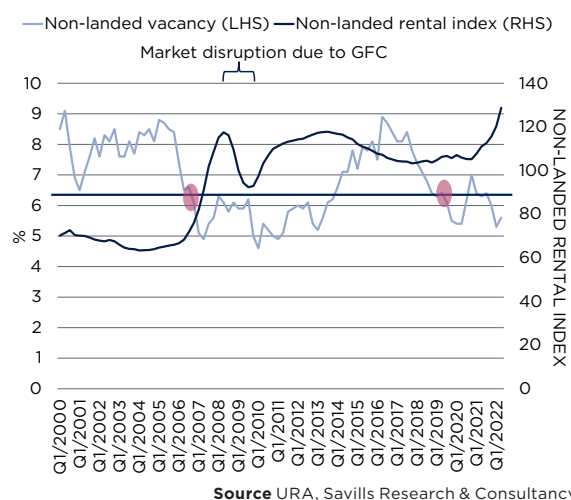
Although the rent increase continues unabated for the private residential market, it is likely to be masking several risks regarding its future longevity. The decline in leasing transactions is however not the direct link to the risks. Rather, looking at the causes for the drop and by observing what has been going in the market could reveal more. The limited inventory of rentable stock is masking the ability to measure demand. In our Q1/2022 leasing briefing, we highlighted that the estimated natural vacancy rate for non-landed private homes is about 6%. Rents begun galloping in Q4/2021 when the vacancy rate hit 6%. Even though the vacancy level rose in Q2/2022, it is still at 5.6%, below the natural rate. (Please refer to Graph 5.)

Why then did leasing volume fall? The significant drop in leasing volume in the

TABLE 2: Major Private Residential Projects Completed, Q2/2022

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
Stirling Residences	Stirling Road	LN Development (Stirling) Pte Ltd	RCR	1,259
Whistler Grand	West Coast Vale	CDL Pegasus Pte Ltd	OCR	716
Parc Botannia	Fernvale Street	Fernvale Green Pte Ltd	OCR	357
The Hyde	Balmoral Road	Aurum Land Pte Ltd	CCR	117

Source URA, Savills Research & Consultancy

GRAPH 5: Non-landed Vacancy and Non-landed Rental Index QoQ Change, Q1/2000 to Q2/2022

CCR was due to the paucity of suitable accommodation for well-heeled expatriates. Consequently, without their preferred accommodation, some have rescheduled their relocation here or temporarily living in serviced apartments/hotels while their families are in wait overseas. This is still playing out in Q3/2022. The relative slower decline in transaction volume in the mid and mass market segments is signalling that those with budgets that could, in 2021, rent an apartment in the CCR are now living farther afield from the central locations. From the top down, this has a pneumatic effect on forcing up rents across the rental chain. However, stocks are also limited in those regions, but not in such short supply as those in the luxury range.

This flow through will sequentially shift those with lower budget to move down the accommodation hierarchy. Ultimately, for those who wish to live in a singularly leased private accommodation, many end up in co-living or room lettings. Unfortunately, the leasing volume of this type of housing is not captured by real estate statistics providers. In short, the net demand for housing is hard to gauge when vacancy rates fall below 6%.

The risk to the leasing market is exactly that which made it what it is today, namely a super-heated market caused by a confluence of factors arising out of the pandemic and the cooling measures (please refer to our Q4/2021 and Q1/2022 Residential Leasing briefing). With the G7 countries facing

recession pressures, the technology sector sharply correcting from over exuberance and funding for new enterprises drying up, if rents continue to escalate at 10% to 15% per annum into 2023, it runs the risk of turning away tenants in that work as economic value adders here. Although the rate of increase in 2022 is at this juncture unlikely to carry over to 2023, the conditions for it to continue are there, especially the domestically driven demand factor. This is coming from locals who are upgrading to private homes. However, before buying a new home, they will need to sell their current one and fall back to renting to avoid paying the Additional Buyer's Stamp Duty (ABSD) that is leviable on those that have more than one house. The 17% ABSD for the new purchase, even if it is refundable (after the buyer sells his/her first home), is too great a sum for many to come up. Meanwhile, when recessionary conditions set in, high rents could motivate to companies reconsider reducing the number of foreign workers and those who are already here may apply for relocation to work remotely from global resort hubs or return home. If there is a synching of decisions on various fronts that lead to a reduction of demand, rents can take a hard hit.

Nevertheless, for 2022, we believe that with rents having already gone up by 11.7% in the first half of the year, we revise our forecast from 10% - 15% to a 15% - 20% YoY change. For 2023, rental increases are likely to continue with a 5% YoY rise.