

Residential Leasing



Rents reach a plateau

Global economic headwinds and high rents remained the main reasons behind the contraction of leasing activity over the second quarter.

- A total of 19,699 leases were signed island-wide in Q2/2023, representing a decline of 1.9% quarter-on-quarter (QoQ) and 6.5% year-on-year (YoY).
- In the past two years, there has been a steady increase in the market share of leasing contracts for non-landed homes with monthly rents in the S\$4,000 to S\$8,000 range.
- The quarterly growth of URA's island-wide rental index in Q2/2023 was much smaller than in the previous five consecutive quarters. For the quarter in review, the index rose 2.8%, slowing from the 7.2% recorded in Q1/2023. Rental increases slowed across both property type and market segment.
- The average monthly rent of high-end non-landed residential projects in Savills' basket increased by 6.2% in the first half of 2023 over Q4/2022, in sharp contrast to the 35.9% growth for the whole of 2022.
- By the end of Q2/2023, the island-wide stock of private residential units rose 1.1% QoQ to 398,289, while the overall vacancy rate for such properties increased for a second straight quarter by 30 basis points to 6.3%.
- Most of the rental increase in 2023 is probably behind us. With rents now at cruising altitude, for the rest of the year, we may get to see them maintain this level. But with challenging economic conditions ahead and with increasing new supply, some negative bias is expected.

“Rents have stabilised at a high ‘cruising altitude’. However, how they perform over the second half will depend on economic factors and if there is a further influx from Hong Kong.”

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RESEARCH

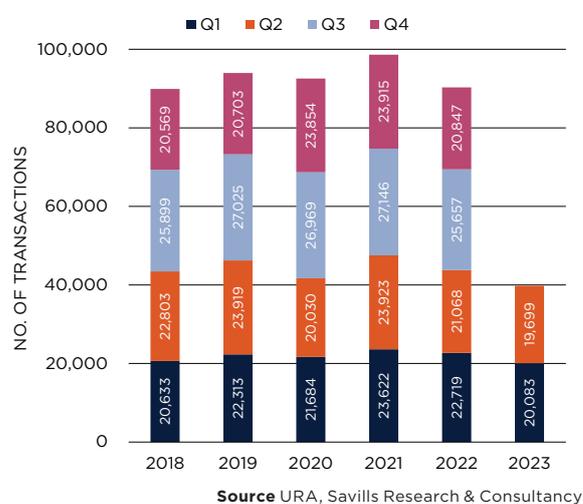
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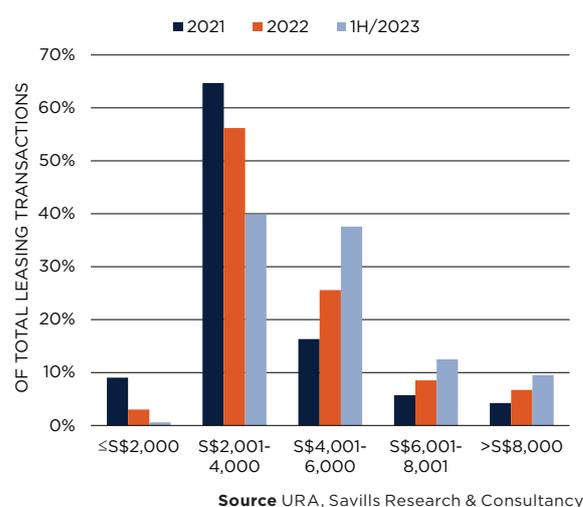
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GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2018 to Q2/2023



GRAPH 2: Percentage of Leasing Volume for Non-Landed Homes by Monthly Rents, 2020 to 1H/2023



MARKET OVERVIEW

Based on the Urban Redevelopment Authority’s Realis, a total of 19,699 leases were signed island-wide in Q2/2023, representing a decline of 1.9% QoQ and 6.5% YoY. Leasing volume of landed homes fell by 8.1% QoQ to 1,089 transactions in Q2/2023. For non-landed condominiums and apartments, the largest decline in rental transactions was in Rest of Central Region (RCR), with a 2.8% QoQ decrease to 6,485 transactions in the quarter, followed by Outside Central Region (OCR) decreasing by 2.4% QoQ to 6,583 deals. In contrast, the leasing volume of non-landed homes in Core Central Region (CCR) increased by 1.1% QoQ to 5,542 transactions.

Global economic headwinds and the persistence of high rents remained the main reasons behind the contraction of leasing activity in the reviewed quarter. Labour market conditions have softened over the last two quarters, in tandem with the moderation in economic growth due to global uncertainties. This has resulted in either a rescheduling of arrivals by expatriates or businesses putting on the hiring brakes for expats as cost savings and revenue generation have become priorities. At the same time, leasing demand from homebuyers, who rented homes in the interim while waiting for their new homes to be completed, could also shrink significantly with the completion of 7,366 private residential units in the first half of 2023.

The top five non-landed projects with the highest leasing volume in Q2/2023 were The Sail @ Marina Bay at Marina Boulevard, D’Leedon at Leedon Heights, Jadescape at Shunfu Road, Marina One Residences at Marina Way and J Gateway at Gateway

Drive. Leases for D’Leedon were well balanced amongst the one-, two- and three-bedroom units, while the rental volume by unit type in the other four projects were mainly for one- and two-bedroom units. Compared with the previous quarter, the median rent in Jadescape recorded the highest decline of 3.5%, followed by J Gateway and The Sail @ Marina Bay falling by 1.3% and 0.8%, respectively. On the other hand, the median rent in Marina One Residences remained flat, while that in D’Leedon still edged up 0.3% QoQ underpinned by the pull of being within 1km to Nanyang Primary School and the array of facilities have been a draw for multinational tenants.

In the past two years, there has been a steady increase in the market share of leasing contracts for non-landed homes with monthly rents above S\$4,000, especially those in the range of S\$4,001 to S\$8,000. As shown in Graph 2, the proportion of transactions for monthly rents between S\$4,001 to S\$6,000 surged from 16.3% in 2021 to 37.6% in 1H/2023, while that for monthly rents from S\$6,001 to S\$8,000 also increased from 5.7% in 2021 to 12.5% in 1H/2023. Consequently, the market share of leases with rents no more than S\$4,000 per month declined over the same period, falling substantially by 33.3 percentage points (ppts) from 73.7% in 2021 to 40.4% in 1H/2023. A reason for this changing profile is that because rents have escalated sharply in the past two years, tenants have to move up to higher rental band.

RENTS

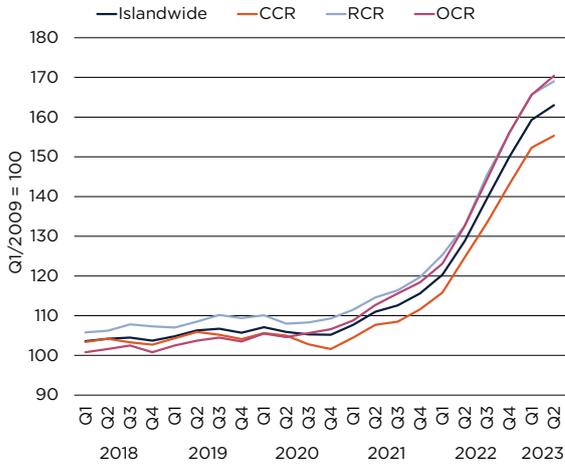
Despite declining leasing volume, the URA’s overall rental index for non-landed private residential properties continued its upward trajectory, rising 2.3% in Q2/2023

TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q2/2023

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (\$\$ PSF/MONTH)
The Sail @ Marina Bay	1	Marina Boulevard	132	7.20
D’Leedon	10	Leedon Heights	110	5.77
Jadescape	20	Shunfu Road	100	6.64
Marina One Residences	1	Marina Way	99	7.37
J Gateway	22	Gateway Drive	97	6.97

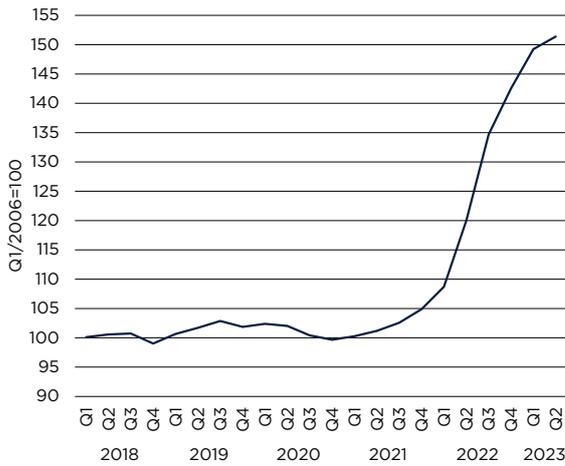
Source URA, Savills Research & Consultancy

GRAPH 3: Rental Indices of Non-landed Private Residential Properties, Q1/2018 to Q2/2023



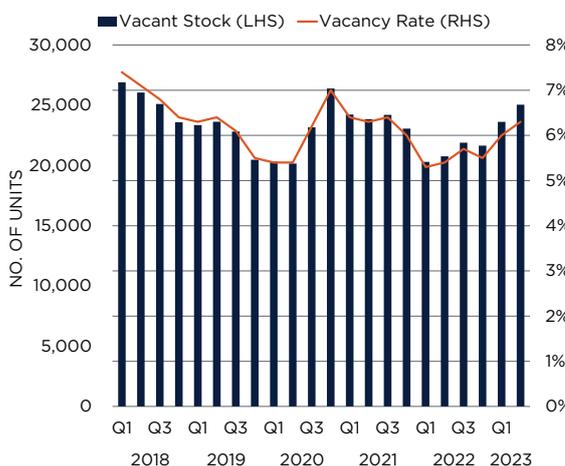
Source URA, Savills Research & Consultancy

GRAPH 4: Savills High-end, Non-landed Residential Rental Index, Q1/2018 to Q2/2023



Source Savills Research & Consultancy

GRAPH 5: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2018 to Q2/2023



Source URA, Savills Research & Consultancy

over the previous quarter. In Q1/2023, the QoQ increase was 6.2%. By location, rents of non-landed homes in OCR recorded a slightly higher growth of 2.9% QoQ in the quarter, followed by CCR and RCR both up by 2.0% QoQ.

The rate at which rents were rising is finally starting to slow across both property type and market segment. Economic uncertainty and inflation, which is shrinking the budgets of tenants, are prompting many to downgrade to more affordable locations, smaller units or share an apartment with others. In view of lower demand, increasing supply and a longer time to let out a unit, landlords have little choice but to accept rents at levels which are less than what they had initially expected. Consequently, with a further release of new supply, there is optimism that we may see a return toward pre-pandemic market behaviour norms and that the astronomical rental gains of the past two years will be behind us.

In a similar vein, the average monthly rent of high-end non-landed residential projects in Savills’ basket continued to rise by 1.5% QoQ to S\$6.19 per sq ft (psf) in Q2/2023, slower than the 4.7% growth in the previous quarter. Over the first half of 2023, the rents have only increased by an accumulated 6.2%, in sharp contrast to the 35.9% growth for the whole of 2022.

STOCK AND VACANCY

In Q2/2023, 4,401 private residential units received their Temporary Occupation Permits (TOP). This comprised 4,297 non-landed units and 104 landed units. Following the 4,423 units that received their TOP in Q4 last year, this is the second highest

completion number in a quarter after the pandemic ended. Major new completions include Riverfront Residences (1,472 units), Affinity At Serangoon (1,052 units) and The Woodleigh Residences (667 units). These big projects were in OCR and RCR.

By the end of Q2/2023, the island-wide stock of private residential units rose 1.1% QoQ to 398,289 units, while the overall vacancy rate for such properties increased for the second straight quarter by 0.3 of a ppt to 6.3%. The rise in vacancy rate was caused by a 0.4% increase in the non-landed homes segment. In contrast, the vacancy of landed homes remained unchanged in the quarter.

Due to the large number of completed units in Q2, the vacancy rate of private residential properties in the OCR rose 1.3 ppts QoQ to 4.6%, reversing the declines for the past two quarters. The high-end market segment or the CCR also experienced a QoQ increase in vacancy, albeit at a much small rate of 0.2%. On the other hand, vacancy rate of private homes in the RCR registered a quarterly decline in the quarter by 1.3 ppts to 7.9% in Q2/2023. This could be attributed to the relatively lower number of completions and better take-up in the quarter.

OUTLOOK

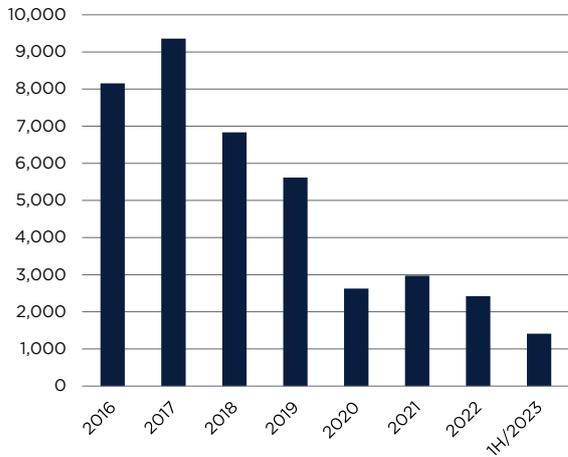
After a torrid pace of rental increase in 2022 and Q1/2023, the rate of change in rents is starting to slow. Challenging economic conditions and the crunch hitting the tech and social media sectors have often been cited as the main causes of slowing rental demand. On the supply side, the expected completion of close to 18,000 units of private residential homes is also reducing pressure in the tenancy market.

TABLE 2: Major Private Residential Projects Completed, Q2/2023

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
Riverfront Residences	Hougang Avenue 7	Rio Casa Venture Pte Ltd	OCR	1,472
Affinity At Serangoon	Serangoon North Avenue 1	Oxley Serangoon Pte Ltd	OCR	1,052
The Woodleigh Residences	Bidadari Park Drive	The Woodleigh Residences Pte Ltd	RCR	667
Urban Treasures	Jalan Eunus	Fragrance Treasures Pte Ltd	OCR	237
Cuscaden Reserve	Cuscaden Road	Cuscaden Homes Pte Ltd	CCR	192
Haus On Handy	Handy Road	CDL Regulus Pte Ltd	CCR	188
Boulevard 88	Orchard Boulevard	Granmil Holdings Pte Ltd	CCR	154

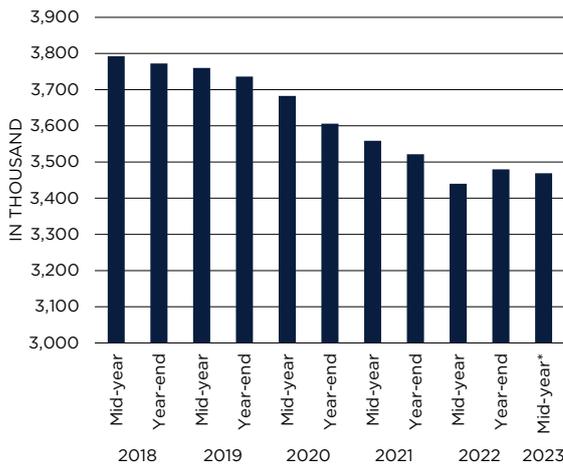
Source URA, Savills Research & Consultancy

GRAPH 6: Approvals under the General Employment Policy (Monthly Salary ≥HKD80,000), 2016 to 1H/2023



Source IMM Hong Kong, Savills Research & Consultancy

GRAPH 7: Population of Hong Kong (0 to 44 year age groups), 2018 to mid-2023



Source Census and Statistics Department Hong Kong, Savills Research & Consultancy
*Preliminary

However, what is often not discussed is the Hong Kong factor. Since the removal of mandatory quarantine for arrivals in September 2022 and then the opening of borders with China in early January 2023, some who have moved to Singapore have relocated back. While that may generally be the case, their numbers may not be that high. The number of visas issued in Hong Kong for those with a monthly income of HKD80,000 and more did not rise significantly in 1H/2023. (Please refer to Graph 6) Separately, we are sensing that another wave of Hong Kong based expatriates, albeit small, are either relocating or starting to relocate to Singapore. Above that, the population in Hong Kong of those aged from birth to 44 years of age has declined from 3.79 million in mid-2018 to 3.47 million in mid-2023. (Please refer to Graph 7) As more Hong Kong nationals leave, some are expected to come here. While no statistics are available, we believe that in the absence of any strong global economic recovery, Hong Kong will be the determining factor behind future rental performance.

In the meantime, we believe that rents have generally reached cruising altitude. The overall rental market is likely to stay at this level with some negative bias along until the end of the year. The reason for that slight bias is that the market will likely discover a level of inelasticity about 5% below where rents are now. For certain CCR non-landed projects, we may experience rental volatility because of some inflow from Hong Kong expatriates who hold positions a rung below the C-suite level. These have a sizeable rental budget. Native Hong Kong

nationals are more cost conscious and could accept smaller apartment sizes and even single room lettings. For this, the new supply this year in the OCR and RCR will be able to meet their needs. Therefore, most of the rental increase in 2023 is probably behind us and we may get to see rents maintain at current levels for different locations and different unit types from the remainder of this year.