Singapore – December 2021

MARKET IN MINUTES
Savills Research

Residential Leasing

Leasing demand remains strong

As demand continues to build, rents in the private residential market are likely to increase further.

- Compared to the 1.3% quarter-on-quarter (QoQ) growth in the previous quarter, the leasing volume of private residential units in Q3/2021 rose by an even larger 13.3% QoQ increase to 27,101 transactions.
- Out of the top five non-landed projects which registered the most leasing transactions in the quarter, there was a good mix of projects from all three market segments. While projects close to the Central Business District (CBD) continue to enjoy high demand, developments in the suburban areas with good connectivity and a wide range of amenities were also favoured by tenants.
- As completions remained low amid construction delays, private home rents continued their upward trajectory with a 1.8% increase in the Urban Development Authority (URA) rental index for all private residential properties, largely attributable to a 4.7% growth in rents of landed homes.
- For high-end non-landed private residential projects tracked by Savills, rents extended their increase by 1.4% QoQ to S$4.20 psf per month.
- With net supply exceeding net demand for private residential homes, vacancy rates of all private residential units inched up slightly by 0.1 percentage points (ppts) QoQ to 6.4% in Q3.
- For 2022, the pandemic induced rental housing squeeze is unlikely to be resolved soon and we expect rents to rise 0% to 2% year-on-year (YoY) with those in the S$2,500 to S$4,000 range experiencing the greatest upside pressure.

"Non-economic factors born out of the pandemic are overpowering fundamentals to pressure rents higher."

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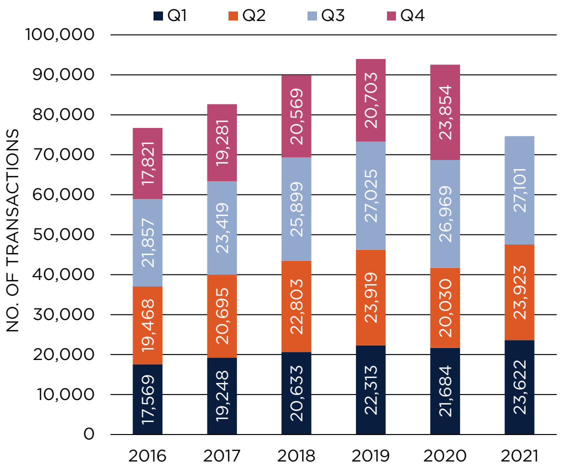
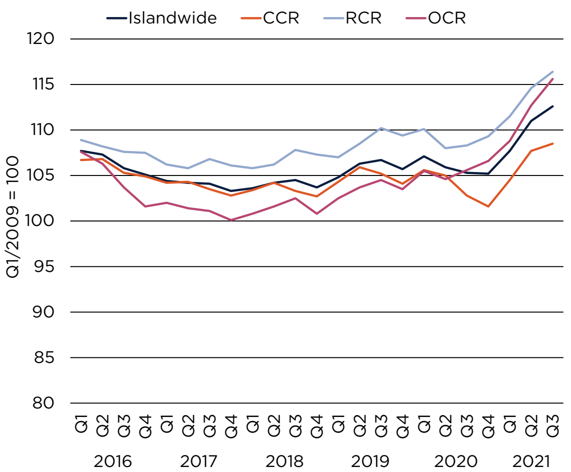
GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2016 to Q3/2021



Source URA, Savills Research & Consultancy

GRAPH 2: Rental Indices of Non-landed Private Residential Properties, Q1/2016 to Q3/2021



Source URA, Savills Research & Consultancy

MARKET OVERVIEW

For Q3/2021, the demand for the private residential leasing market continued to increase with volumes rising for a second consecutive quarter. Following a 1.3% QoQ rise in Q2/2021, the leasing volume of private residential units in the quarter in review grew by a much greater 13.3% QoQ to 27,101 transactions. Compared to the same period a year ago, it was 0.5% higher. The increase in leasing volume can be attributed to demand from Singaporeans who returned from overseas to ride out the pandemic as well as those awaiting completion of new homes while facing construction delays. Domestic demand also came from those who choose to have their own space as working-from-home (WFH) is expected to become part of permanent hybrid working arrangements for some companies, or those who returned from overseas with the gradual easing of border measures.

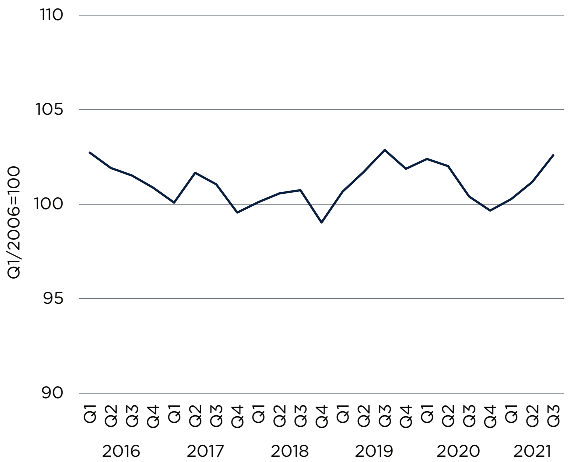
The growth in leasing volume was observed for both landed and non-landed properties, with the landed homes segment recording a larger 38.3% QoQ increase to 1,924 transactions while leasing transactions of non-landed homes rose 11.7% from 22,532 transactions in Q2/2021 to 25,177 transactions in Q3/2021. The demand for landed homes may have come from locals or ultra-high-net-worth individuals (UHWNs) that prefer larger living spaces, particularly post-Covid. For non-landed homes, rental transactions expanded across all three market segments, with the largest QoQ growth of 12.4% in the Rest of Central Region (RCR) which had earlier seen three consecutive quarters of decline. Leasing volumes in the Core Central Region (CCR) and Rest of Central Region (RCR) increased 11.9% and 11.1% QoQ to 7,638 and 9,261 transactions respectively in the quarter.

Out of the top five non-landed projects with the highest number of leasing transactions in Q3/2021, there was a good mix from the three market segments. In the quarter, the bulk of the rental transactions in these top five projects were two-bedroom units (36.2%), followed by three- and one-bedroom units comprising 27.6% and 26.5% respectively. The higher proportion of larger unit types such as three-bedroom units may be attributed to tenants requiring larger spaces with more family members spending more time at home due to the pandemic. Location wise, apart from projects that are in close proximity to the CBD which are popular with tenants, developments in the OCR that are near amenities and have good transport connectivity continue to enjoy rental premium. This is seen for J Gateway with median rental comparable to that of The Sail @ Marina Bay. This may be due to its positive locational attributes with a large array of amenities and connectivity.

RENTS

Due to lower number of completions and construction delays, private home rents continued their upward trend, albeit at a moderated pace. In Q3/2021, the URA rental index for all private residential properties registered a QoQ increase of 1.8%, moderating from the 2.9% increase in the previous quarter. The rental growth in Q3 was lifted by a 4.7% increase in rents of landed properties. Rents for non-landed properties grew 1.4%. For the non-landed homes, the increase in rents was observed across all market segments, with those in the OCR recording the largest growth of 2.6%. This may be due to leasing demand from HDB upgraders that have sold their homes amid the rising HDB resale prices and are seeking for temporary accommodation while sourcing for new homes or those, who

GRAPH 3: Savills High-end, Non-landed Residential Rental Index, Q1/2016 to Q3/2021



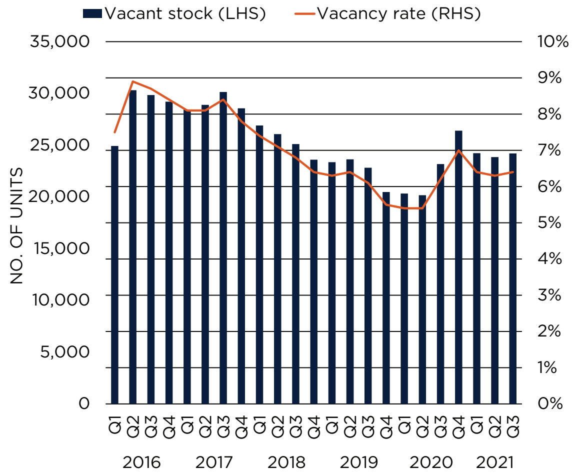
Source Savills Research & Consultancy

TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q3/2021

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (S$ PSF/ MONTH)
D'Leedon	10	Leedon Heights	189	4.09
The Sail @ Marina Bay	1	Marina Boulevard	181	4.90
Lake Grande	22	Jurong Lake Link	142	4.22
Reflections at Keppel Bay	4	Keppel Bay View	136	4.31
J Gateway	22	Gateway Drive	127	4.74

Source URA, Savills Research & Consultancy

GRAPH 4: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2016 to Q3/2021



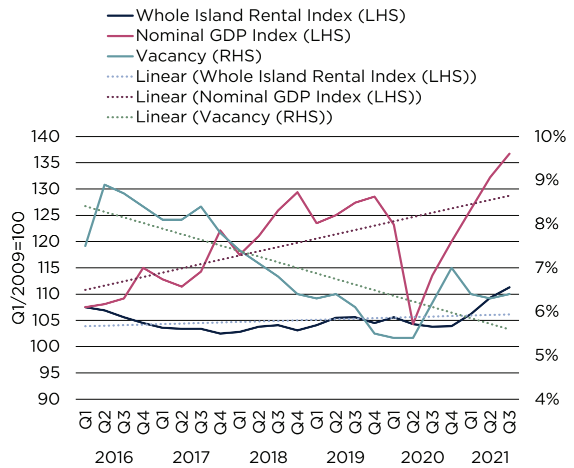
Source URA, Savills Research & Consultancy

TABLE 2: Major Private Residential Projects Completed, Q3/2021

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
The Verandah Residences	Pasir Panjang Road	Oxley Amber Pte Ltd	RCR	170
Jui Residences	Serangoon Road	Tiara Land Pte Ltd	RCR	117
Uptown @ Farrer	Perumal Road	Perumal Development Pte Ltd	RCR	116

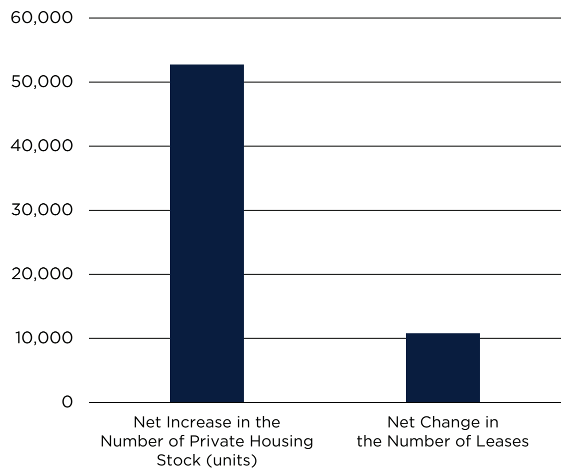
Source URA, Savills Research & Consultancy

GRAPH 5: Vacancy Rates, Rents and Nominal GDP, Q1/2016 to Q3/2021



Source URA, Singstat, Savills Research & Consultancy

GRAPH 6: Net Change in Private Residential Stock and Leasing Transaction Volumes, Q1/2016 to Q3/2021



Source URA, Singstat, Savills Research & Consultancy

because of the avoidance of payment of the Additional Buyer's Stamp Duty (ABSD) when buying a second residential property, sold their physical abode and moved to rental accommodation whilst awaiting the completion of their new private unit purchase amid construction delays. These groups of people may choose to rent spaces in the OCR that are more economical options. Rents of non-landed homes in the CCR and RCR expanded by 0.7% and 1.6% QoQ respectively.

Similarly, monthly rents for high-end non-landed private residential projects tracked by Savills rose for the third consecutive quarter by 1.4% QoQ to S$4.20 psf in Q3/2021, a larger growth than the 0.9% in Q2. With the easing of restriction measures and reopening of borders, we note a rise in the inflow of foreigners competing with Singaporeans for rental properties.

STOCK AND VACANCY

In Q3/2021, 540 private residential units obtained their Temporary Occupation Permits (TOPs), leading to a marginal QoQ growth of 0.2% in private residential stock to 380,187 units. Since Q3/2020, this was the other time that new completions came in below 1,000 units when 570 units obtained TOPs in that quarter. Bulk of the new completions in the quarter was in the RCR, coming from major projects such as The Verandah Residences, Jui Residences and Uptown @ Farrer. For Uptown @ Farrer, apart from the residential units, the mixed-use development also consists of 240 serviced apartment units called lyf Farrer Park Singapore.

As the net supply exceeded the net demand of private residential units, the vacancy rate inched up slightly by 0.1 ppts QoQ to 6.4% in Q3/2021, after two consecutive quarters of decline. The slight increase in vacancy rate of all private residential units was lifted by a 0.2-ppt growth in vacancy rate of landed homes to 5.0%. Vacancy rate of non-landed homes remained unchanged at 6.7%. Across the market segments, the largest growth in vacancy rate was registered for the RCR, increasing 0.9 ppts on a QoQ basis from 5.6% in Q2/2021 to 6.5% in Q3/2021, after three consecutive quarters of decline. This may be attributed to the larger number of completions in the quarter in the RCR. Similarly, vacancy rate in the CCR recorded a marginal increase of 0.1 ppt for the second consecutive quarter to 6.7%. On the other hand, with lower number of completions and strong take-up, vacancy rate in the OCR declined further to 4.8% in Q3/2021 from 5.2% in Q2.

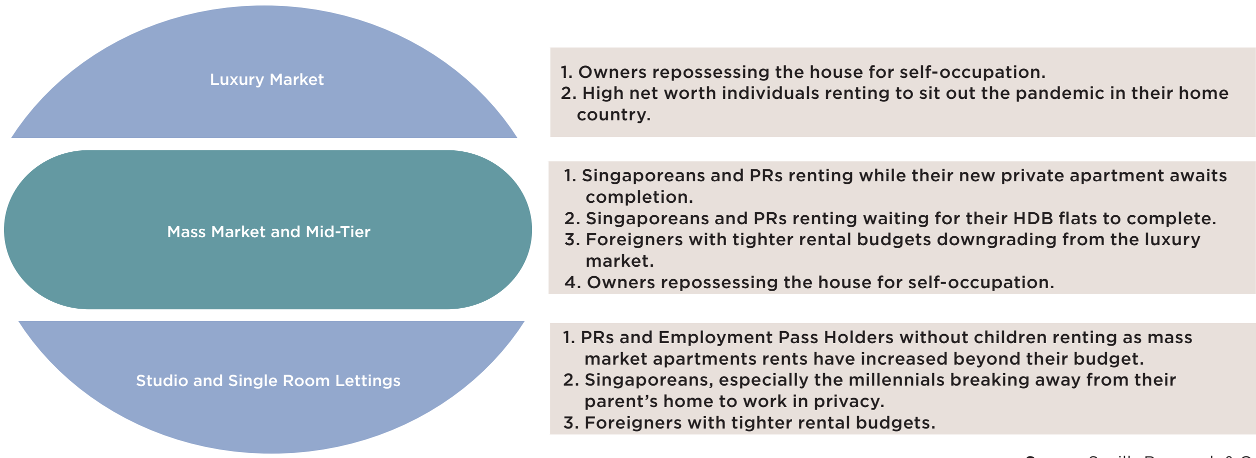
OUTLOOK

The behaviour of the rental market for private residential properties cannot be simply collapsed to an attribution to one or two factors. Instead, the market is constantly being bombarded by a host of internal and external events whose impact on the market vary in significance over time. Graph 5 shows why the rudimentary causality of vacancy being negatively to rents becomes insignificant. For the period Q1/2016 to Q3/2021, while vacancy rates were declining noticeably, then going by economic logic, rents should rise. However, it flatlined. It was only in the period from Q4/2020 to Q3/2021 that rising rents turned the rental trendline slightly up. For the same period, something stranger was happening. Rents rose while vacancy rates also rose. Also, over the same period, rents did not respond to Nominal GDP, hinting that there must be a hidden variable that is causing this breakdown.

After sitting through several focal discussions with leasing agents, we are beginning to piece together an explanation for the market in the past 5 years. Graph 6 shows that while the net number of leasing transactions has gone up, the net increase in our private housing stock has risen by almost five times. The bizarre behaviour of vacancy rates falling yet rents remaining in a slumber could be explained by the possibility that most new completions were taken up by owner occupiers. However, concurrently, the remaining number of units looking for tenants also increased with newly completed units having difficulties in finding tenants. We believe that the underlying demand/supply relation to rents did not breakdown, but as there are no statistics on the actual number of private residential units held for investment, the overall vacancy rate could not give a good reading of the state of health of the rental market (as the majority of the units were owner occupied).

But for the period Q4/2020 to Q3/2021, the explanation as to why rents increased while vacancy rates increased becomes convoluted. As the pandemic dragged on, demand for rental units started to change. Graph 7 shows a handwavy hamburger pictorial of the dynamics of the leasing market today. It explains why there is a squeeze on the number of rental units and this is causing a strong upward rental push which began in Q3/2021 and may persist till travel restrictions ease further and economic activity overseas returns to a level close to before the pandemic. For 2022, we do not expect a quick resolution regarding delays in the construction process. This and the tidal wave of millennials moving out of their parents' premises to seek privacy as they WFH will also spur rental demand (Please refer to Table 3). Rents in 2022 are expected to rise in a range of 0% to 2% with those in the S$2,500 to S$4,000 rental bracket experiencing the greatest pressure. For 2021, some apartments in this range had already seen rents rise between 10% to 15% YoY.

GRAPH 7: The Various Demand Drivers of Private Residential Housing



Source Savills Research & Consultancy

TABLE 3: Demand Drivers and Their Impact on Rents for 2022

DEMAND DRIVER	OUTLOOK FOR 2022
Overseas nationals	When travel restrictions start easing past a point, those holding up in the country (and who still have not landed a job) will exit while those from the growth sectors will come in greater numbers (versus 2021 figures). On balance, this driver will be neutral because inflows and outflows may net off.
Returning Singaporeans and Permanent Residents who repossessed their homes for owner occupation during the pandemic	Once border restrictions overseas ease and global economic conditions vastly improve, we may see an exodus of this group out, thereby relieving some rental pressure off the market.
Demographics	This is the new growth driver for leasing accommodation here and could spawn a decade long trend. This is particularly so for the millennials whose preference for the experiential will spur demand for leasing. Also, because of the WFH edict, millennials who need to find privacy and have the wherewithal to do so will continue fuelling demand for single room and studio lettings. Demand from divorcees is also a source but not as great as those from the millennial sub-group.
Private Residential Construction Delay	Owing to the imposed ABSD levied on those buying their second and subsequent residential property, those who purchased newly launched properties will have to sell their property to avoid paying ABSD. While waiting for their new homes to complete, the housing solution for them is to rent. However, the pandemic induced delays to the construction pro-cess means that this group will have to rent longer. This should continue to be a feature of leasing mar-ket because the ABSD for Singaporeans buying their second homes have been raised on 16th December 2021 to 17% and few would wish to fork out that additional amount. This means more upgraders will be selling when they buy another private residential property.
BTO Delay	Once the logjam in the construction pipeline is cleared, demand from this group will start to taper. However, this does not appear to be going to be resolved anytime soon and should continue to support the rental market.
Overall	The rental market will revert to normalcy when global infection numbers and other infection metrics harmonize. We expect rents to continue rising strongly. Our forecast for full year rents in 2021 to stay within +2% and -1%, depending on housing type. For 2022, we believe rents would rise by +2% and 0% with those in the S$2,500 to S$4,000 bracket feeling the greatest upside pressure.

Source Savills Research & Consultancy