Singapore – November 2022

MARKET IN MINUTES

Savills Research

Residential Leasing

savills



Surge in rents with robust demand

The flow of foreigners into Singapore for higher order jobs, locals seeking temporary replacement homes amid construction delays, coupled with slow growth in new supply, has led to a strong rebound in rents and leasing volumes.

- After three consecutive quarters of decline, the leasing volume of private residential properties rebounded in Q3/2022, expanding 20.5% QoQ to 25,382 transactions. This was the largest quarterly increase since Q3/2020 when leasing transactions rose by 34.6%. However, the number of rental contracts was still 6.5% lower on a YoY basis.

- Due to robust leasing demand and tight supply of residential homes, the URA rental index for all private residential properties recorded the largest QoQ increase of 8.6% in Q3/2022, since Q3/2007 when it rose by 11.4%. This was the eighth consecutive quarter of increase. Rents of both landed and non-landed properties increased in the quarter hitting record levels since the index was first published in Q4/1998.

- Monthly rents for high-end non-landed private residential projects tracked by Savills continued to rise for a seventh consecutive quarter, up by 13.1% QoQ to S$5.41 psf in Q3/2022, the highest since Q2/2011 when average rents were recorded at S$5.46 psf.

- With growth of available stock outpacing the growth of occupied stock, vacancy rates of private residential properties inched up 0.3 of a percentage point (ppt) QoQ to 5.7% in Q3/2022. This was the second consecutive quarter of increase. Vacancy rates of landed homes rose for the first time since Q3/2021 by 0.5 of a ppt to 5.2%. Similarly, vacancy rates of non-landed homes rose by a smaller 0.2 of a ppt to 5.8% in the quarter.

- Looking into 2023, the supply crunch in the rental market may ease and vacancy numbers may rise. However, with pervasive inflation, this may still cause rents to rise by 5% YoY, albeit at a much lower rate than the 25% YoY increase expected for 2022.

"Rent increases may slow in 2023 as demand moderates and new supply comes online."

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RESEARCH

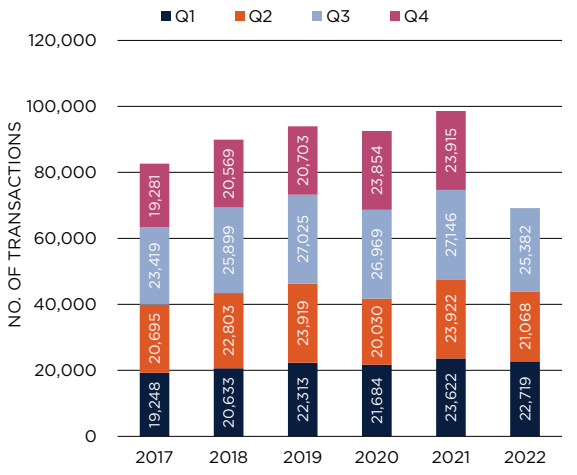
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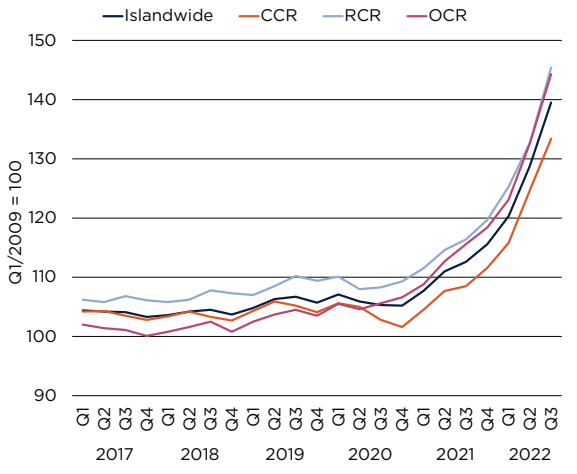
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GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2017 to Q3/2022



Source URA, Savills Research & Consultancy

GRAPH 2: Rental Indices of Non-landed Private Residential Properties, Q1/2017 to Q3/2022



Source URA, Savills Research & Consultancy

MARKET OVERVIEW

After three consecutive quarters of decline in the leasing volume of private homes, the number of rental contracts rebounded in Q3/2022, rising by 20.5% QoQ to 25,382 transactions. This was the largest quarterly increase since Q3/2020 when rental transactions rose 34.6% QoQ. Despite the quarterly growth in the quarter, it was still 6.5% lower than the same period a year ago. The increase in leasing volume was largely attributed to a 47.6% surge in rental volume of landed homes, increasing from 1,228 transactions in Q2/2022 to 1,812 transactions in Q3/2022. For non-landed homes, there was also a sharp QoQ increase of 18.8% to 23,570 transactions, with all three market segments registering double-digit quarterly growth. The largest increase was observed in Rest of Central Region (RCR) which recorded a 23.5% QoQ to 8,280 transactions. This was attributed to the increase in residential stock in the area due to completion of few larger developments. In the Core Central Region (CCR) and Outside Central Region (OCR), transactions rose 18.0% and 15.2% QoQ to 6,918 and 8,372 respectively. The surge in leasing volume of residential homes came with the return of foreign students and expatriates, as border restrictions and social distancing measures eased, coupled by locals seeking for temporary replacement homes with delays in completion of new homes.

Out of the top five non-landed projects with the highest leasing volume, the top two projects were both located in RCR and were newly completed. Projects in fringe areas have been increasingly popular with tenants given their proximity to amenities such as F&B outlets, retail malls and parks, while maintaining accessibility thanks to being close to MRT stations. As these are newly completed developments, the fittings and amenities are still in pristine condition. As such, the rents they can fetch are comparable to those in the CCR. Park Colonial and Stirling Residences are some of these newly completed developments in the RCR.

The remaining three projects in the top five list are in the CCR. While Marina One Residences and The Sail @ Marina Bay have a high proportion of 1-bedroom and 2-bedroom units transacted (against total leasing volume of the development), it was a different story for D'Leedon where a large percentage, or 40%, of its leasing transactions were for 3-bedroom units. This may indicate that the development is favored by families due to its proximity to renowned local primary schools such as Nanyang Primary School (within 1km), Henry Park Primary School and Raffles Girls' Primary School (both within 1km to 2km). It was observed that median rents across these three projects have rose in the quarter as well.

RENTS

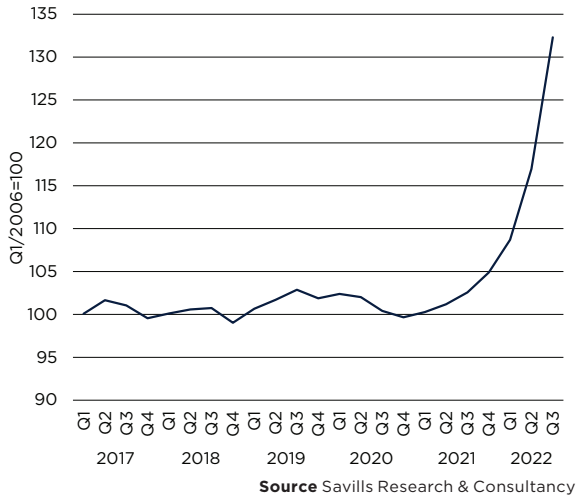
Owing to the surge in leasing demand arising from the easing of border restrictions and locals in search of a temporary abode while they wait for the completion of their homes, the URA rental index for all private residential properties recorded a QoQ growth of 8.6% in Q3/2022. This was the highest increase since Q3/2007 when it rose 11.4%. This was the eighth consecutive quarter of increase. Rents of both landed and non-landed properties recorded quarterly increases in Q3/2022, with landed homes surging 10.9% and non-landed homes increasing by 8.3%. For landed homes, the 10.9% growth and index of 121.1 was the highest ever since the URA first released data in Q4/1998. The surge in rents of landed homes may be due to the influx of expatriate families or high net worths. For non-landed properties, the largest increase in rents

TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q3/2022

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (S$ PSF/MONTH)
Stirling Residences	3	Stirling Road	378	6.93
Park Colonial	13	Woodleigh Lane	184	6.53
D'Leedon	10	Leedon Heights	155	5.04
The Sail @ Marina Bay	1	Marina Boulevard	145	6.24
Marina One Residences	1	Marina Way	136	6.64

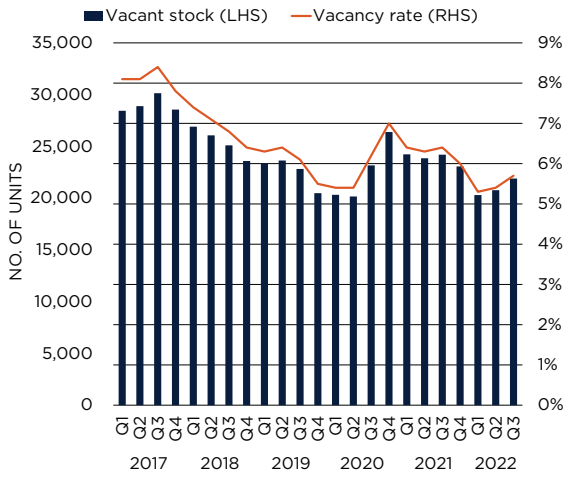
Source URA, Savills Research & Consultancy

GRAPH 3: Savills High-end, Non-landed Residential Rental Index, Q1/2017 to Q3/2022



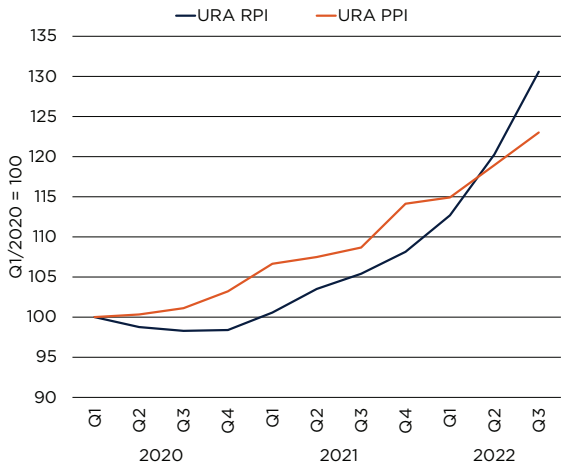
Source Savills Research & Consultancy

GRAPH 4: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2017 to Q3/2022



Source URA, Savills Research & Consultancy

GRAPH 5: URA Rental Price Index (RPI) vs URA PPI, Q1/2020 to Q3/2022



Source URA, Savills Research & Consultancy

was observed in RCR (9.6%), followed by OCR (8.8%) and CCR (7%). Like that of landed homes, the rental index for these categories was also the highest since the start of the URA time series in Q4/1998. The strong rental demand for homes has led to a continuing escalation of residential rents and for many, high rents in the CCR may have exceeded their budgets, resulting in relocations to either the RCR or OCR. The interest rate hikes that are ongoing have also led to landlords increasing rents as their mortgage repayments are expected to increase concurrently.

The hike in rents was also observed in the luxury projects in Savills' basket. Monthly rents for high-end non-landed private residential projects tracked by Savills rose for a seventh consecutive quarter, rising by 13.1% QoQ to S$5.41 psf in Q3/2022, the highest since Q2/2011 when rents were recorded at S$5.46 psf. The robust demand for homes as more high net-worth foreigners entering Singapore, alongside the lack of significant completions and larger floor areas of these homes, resulted in hikes in rents in the prime areas.

STOCK AND VACANCY

In Q3/2022, 1,602 private residential units obtained their TOPs, which was 59.7% lower than the 2,682 units completed in the previous quarter. The new completions in the quarter were mainly from Parc Esta (931 units) and The Jovell (428 units). With the addition of the new completions, the islandwide stock of private residential properties rose by 0.4% QoQ to 386,953 units as at Q3/2022. While there was a marginal decline of 0.1% in available stock in CCR, there were quarterly growth in both RCR and OCR, particularly in RCR with a 0.9% increase. This was due to the completion of Parc Esta, a large 1,399 unit condominium.

As the growth of available stock outpaced the growth of occupied stock, vacancy rate of private residential properties rose by a larger 0.3 of a ppt QoQ to 5.7% in Q3/2022, compared to the 0.1 of a ppt in Q2/2022. This was the second consecutive quarter of increase. While vacancy rate of both landed and non-landed homes expanded in the quarter, the vacancy rate of landed homes increased by a larger 0.5 of a ppt to 5.2%, which was its first quarterly increase since Q3/2021. On the other hand, vacancy rate of non-landed residential units rose 0.2 of a ppt QoQ to 5.8%. Across the three market segments, CCR was, once again, the only market segment that saw a decline in vacancy rate in Q3/2022. The vacancy rate of private homes in CCR declined for the fourth consecutive quarter by a smaller 0.1 of a ppt to 7.3%, while vacancy rates in RCR and OCR continued to increase for the second consecutive quarter by 0.7 of a ppt and 0.2 of a ppt to 7.3% and 4.0% respectively. For CCR, the decline was due to a low new supply while demand remained high due to more C-suits expatriates and high net worth individuals renting. On the other hand, the larger increase in vacancy rate in RCR may be due to the completion of larger projects in recent quarters such as Stirling Residences (with over 1,000 units) in Q2/2022 and Parc Esta in Q3/2022.

OUTLOOK

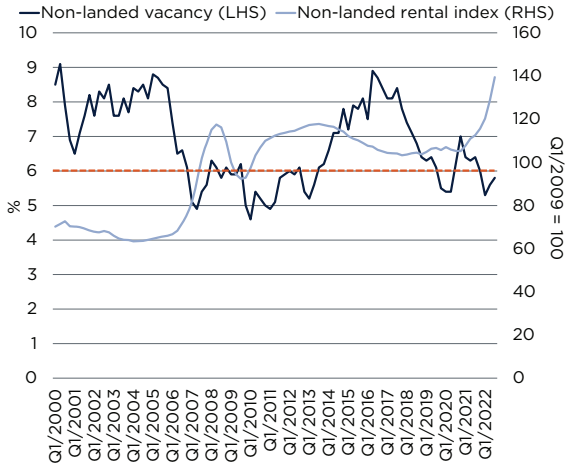
Amongst the major real estate sectors here, because of rapidly rising rents, the residential sector is the only one that is registering significant yield expansion in 2022. This is even though prices, as measured by the URA private property price index (PPI), have risen 7.8% year-to-date (YTD).

TABLE 2: Major Private Residential Projects Completed, Q3/2022

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
Parc Esta	Sims Avenue	MCL Land (Everbright) Pte Ltd	RCR	931
The Jovell	Flora Drive	Tripartite Developers Pte Ltd	OCR	428

Source URA, Savills Research & Consultancy

GRAPH 6: Vacancy Rate of Non-landed Private Homes vs Rents, Q1/2000 to Q3/2022



Source URA, Savills Research & Consultancy

The positive thing about rising rents is that they reduce the interest rate risks which, if yields had not improved, would have led to some investors not being able to match their rising mortgage payments with the rental income. Consequently, the confidence in the hypothesis that rising interest rates would lead to fire sales has been reduced. The residual risk is the state of employment of the mortgagors who are owner occupiers.

The negative side of this development is that rents are now at a level that is beginning to deter industries which require foreign expertise to be based here over a longer term. Aside from obtaining employment passes, given that rents have been marked up significantly, the remuneration and rental budget allocated for such foreign expertise is insufficient to provide for reasonably sized accommodation. Some have resorted to engaging foreigners on a project basis, moving out once the job is done. Some foreigners have delayed the moves over. However, all this is likely to encourage companies to seek long term solutions in the form of offshoring some job functions. This is possible because the adoption of technology now allows better work collaboration across continents.

The rental market is expected to remain tight over the remainder of 2022 (even with 3,619 units completing). However, come 2023, when 18,234 new private residential units are completed, the tight rental market may begin to ease. Much of the rental demand for private (and public) homes in 2H/2020, when movement restrictions were lifted, were from millennials who moved out of their multi-generational families to find privacy to work from home, and those who were forced to rent as the pandemic delayed the completion of their new houses. For those on standard 2-year leases, the tide of renewals is beginning and will swell in 2023. However, the new rents which landlords are asking are turning the millennials off. Also, as the backlog of pandemic induced construction delays begins to clear up, the second group is also not expected to renew. On top of this, softer global economic conditions may moderate demand from foreigners. Based on historical correlations, 2023 will be a crucial year to see if rents will correct because of the confluence of these cycles.

With the new supply coming online and demand moderating, it may be that in 2023, we may see the vacancy rate of non-landed private homes rise past 6% and this may give tenants a greater degree of freedom. Nevertheless, the past has shown that rents tend to be sticky at levels previously set and, short of shocks to the system, such as during the Global Financial Crisis of 2008/9, the adjustment down is not symmetrical with the up move (Please refer to Graph 6.) For 2023, the situation is complicated by the inflation pandemic and thus, rents may still increase. For 2022, we believe that the URA's private residential rental index may rise 25% YoY. For 2023, we are forecasting a 5% YoY increase.