MARKET IN MINUTES

Savills Research

Residential Leasing

savills

High-end rents begin to soften

Heightened economic uncertainties, a weaker labour market and deteriorating business sentiment continue to exert pressure on the leasing market.

- A total of 23,145 private homes island-wide were rented out in the July-September period, representing a 17.3% quarter-on-quarter (QoQ) growth. However, this was still 9.8% less than the 25,657 recorded in Q3/2022.

- From URA's statistics, the rental index of non-landed private residential properties rose at a much slower pace of 0.2% in Q3/2023, compared with the quarterly growth of 1.4% to 8.3% in the previous ten quarters since Q1/2021.

- The average monthly rent of high-end non-landed residential properties tracked by Savills dipped 0.6% QoQ in Q3/2023. This is the first rental decrease for this class of property after registering an accumulative increase of 51.9% over the last two and a half years.

- As new supply still significantly outpaced the corresponding net demand in the reviewed quarter, the overall vacancy rate for private homes increased by 2.1 percentage points (ppts) QoQ to 8.4% in Q3/2023.

- For 2024, we are forecasting a general rental decline of about 5% due to the large number of new completions this year and the strong economic headwinds. If rents decline enough, we should see vacancy levels start to ease next year as tenants who had moved out of single units to single room lettings to save money, return to sign leases for complete units. For 2023, given the strong showing in the first half of the year, non-landed rents are expected to rise 10% year-on-year (YoY).

> "Closer examination of the leasing data shows that rental declines are beginning to permeate through to more districts."
>
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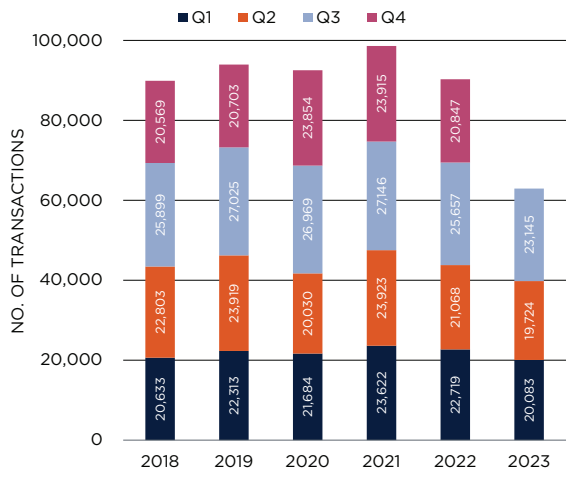
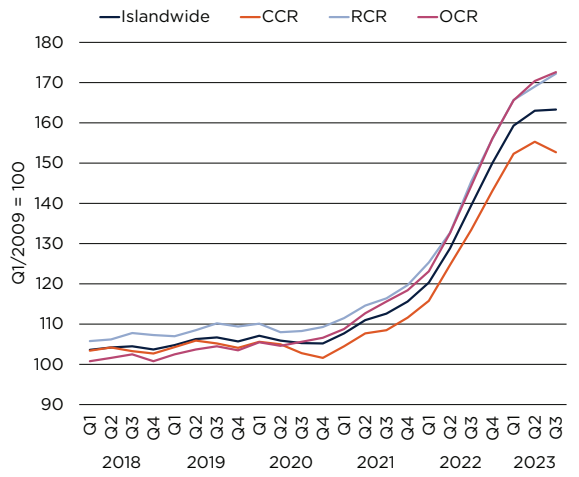
GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2018 to Q3/2023



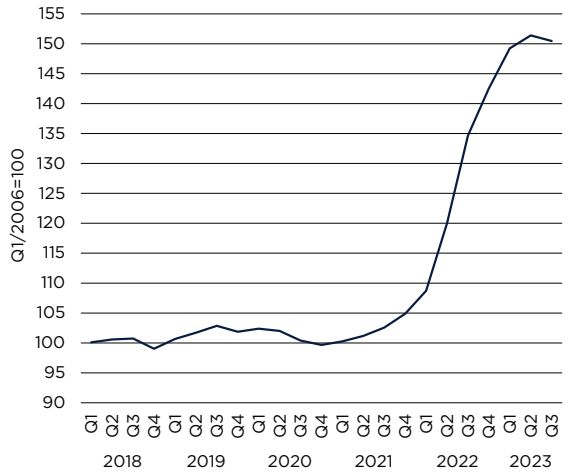
Source URA, Savills Research & Consultancy

GRAPH 2: Rental Indices of Non-landed Private Residential Properties, Q1/2018 to Q3/2023



Source URA, Savills Research & Consultancy

GRAPH 3: Savills High-end, Non-landed Residential Rental Index, Q1/2018 to Q3/2023



Source Savills Research & Consultancy

MARKET OVERVIEW

Following an annual 3.6% growth in 2022, Singapore's economic growth momentum in 2023 has slowed significantly as the gross domestic product (GDP) only expanded marginally in the first three quarters of the year. The near-term outlook is expected to remain tepid as export demand from key external economies is expected to remain weak. The Ministry of Trade and Industry has trimmed their GDP growth forecast for 2023 from the 0.5% to 2.5% range to 0.5% to 1.5%.

In conjunction with a weaker economic outlook, the job market registered higher retrenchments and consequently, higher unemployment rates as job creation in Q3/2023 slowed. From the latest labour market report by the Ministry of Manpower, business expectations also deteriorated in September 2023. The proportion of firms who indicated an intention to hire in the next three months fell from 58.2% in June to 42.8% in September. This was even lower than that in June 2020 during the COVID-19 pandemic.

As a result, elevated economic uncertainty, a weaker labour market and poorer business sentiment continued to weigh on foreign demand for private residential leasing. The completion of 15,883 private residential units in the first three quarters of 2023 also helped to reduce local leasing demand, as homebuyers, who rented homes in the interim, have begun to move into their new homes.

Going by the Urban Redevelopment Authority's (URA) statistics, a total of 23,145 private homes island-wide were rented out in the July-September period. Although a seasonal rebound was seen in Q3/2023 with a 17.3% QoQ growth, the leasing volume of private residential properties in the reviewed quarter was still 9.8% less than the 25,657 recorded in Q3/2022. This is also 12.8% lower than the average Q3 leasing volume in the last five years from 2018 to 2022. By market segments, the biggest YoY decrease was in Core Central Region (CCR) with 10.4%, followed by Rest of Central Region (RCR) with 10.1% and Outside Central Region (OCR) with 9.0%.

Except for D'Leedon which is always popular among tenants, the others on the list of top five non-landed projects with the highest leasing volume in Q3/2023 were, in the RCR, Kent Ridge Hill Residences, The Woodleigh Residences and Avenue South Residence and in the OCR, Riverfront Residences. As the large developments with a variety of unit types were completed in the quarters since Q1/2023, these were able to attract a steady stream of tenants and given their newness, could command a rental premium. Meanwhile, a check of leases signed year-to-date showed that 82.3% of the leasing transactions in the abovementioned four new projects were between 400 to 800 sq ft which are often one- and two-bedroom units. Owing to the fact that these are newly completed projects with new furnishings and facilities, it is therefore not surprising that the median rents achieved in them were relatively high and even surpassed many other well-known developments in the central location.

RENTS

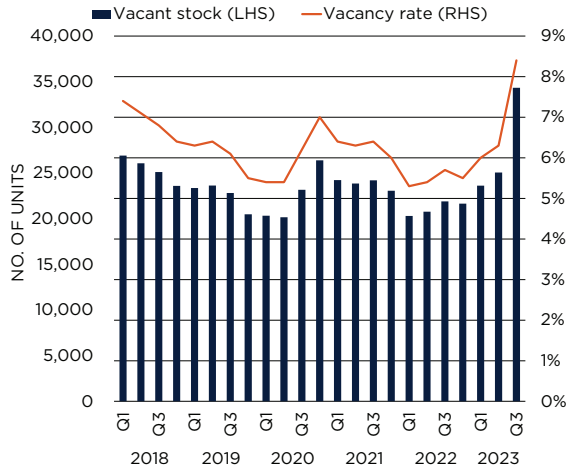
From the URA's statistics, the rental index of non-landed private residential properties rose at a much slower pace of 0.2% in Q3/2023. For the previous ten quarters starting Q1/2021, the quarterly growth rate ranged from 1.4% to 8.3%. By region, the rental growth of

TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q3/2023

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (S$ PSF/ MONTH)
Kent Ridge Hill Residences	5	South Buona Vista Road	154	6.57
The Woodleigh Residences	13	Bidadari Park Drive	147	6.87
Riverfront Residences	19	Hougang Avenue 7	146	5.81
Avenue South Residence	3	Silat Avenue	140	6.74
D'Leedon	10	Leedon Heights	139	5.57

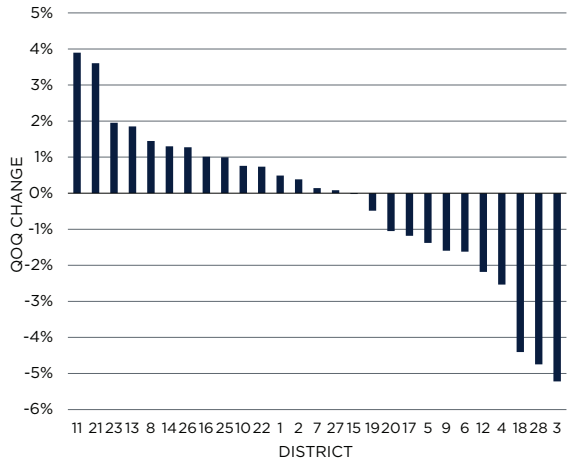
Source URA, Savills Research & Consultancy

GRAPH 4: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2018 to Q3/2023



Source URA, Savills Research & Consultancy

GRAPH 5: Non-Landed QoQ Rental Change by District, Q3/2023



Source URA, Savills Research & Consultancy

non-landed properties in the RCR and OCR also slowed from the last quarter, registering increases of 1.9% and 1.3% respectively in Q3. In contrast, rents of non-landed properties in the CCR declined by 1.7% QoQ, the first time since Q1/2021. It reconfirmed our view that rents have reached a plateau, particularly in the high-end market segment. This is the result of the confluence of events ranging from the uncertain economic outlook, high inflation, weakening labour market as well as the increased number of completed homes.

The average monthly rent of high-end non-landed residential properties tracked by Savills was S$6.16 per sq ft per month in Q3/2023, dipping 0.6% QoQ. This is also the first rental decrease for such properties, which have enjoyed an accumulated growth of 51.9% for the last two and a half years. A detailed check showed that 20 projects in the Savills basket showed a quarterly rental decline in Q3/2023, up from 15 in the previous quarter. By location, the River Valley and Downtown micro-markets experienced higher QoQ drop compared to other areas.

STOCK AND VACANCY

In Q3/2023, the private residential property market saw an addition of 8,517 newly completed units, coming mainly from a few large projects such as Treasure At Tampines (2,203 units), Normanton Park (1,862 units), The Florence Residences (1,410 units), Midwood (564 units), The M (522 units) and Dairy Farm Residences (460 units). This highest quarterly completion since Q1/2000 resulted in the island-wide stock of private residential units to increase a further 2.1% QoQ to 406,663 as of Q3/2023.

As new supply still significantly outpaced net demand in the reviewed quarter, the overall vacancy rate for private homes increased by 2.1 ppts QoQ to 8.4% in Q3/2023. By market segment, the rise in vacancy rate was witnessed across the board, with the OCR recording the highest increase of 2.7%, followed by the CCR and the RCR at 2.1% and 1.4%, respectively.

OUTLOOK

Although in Q3/2023 rental indices showed that overall, rents are still rising, we have been getting increasing feedback since July, that rents are transacting below peak Q1/2023 levels. This has been the frequent narration for the CCR and most parts of the RCR and OCR. We believe that the inflexion point for rents came sometime in August and is presently permeating through the island.

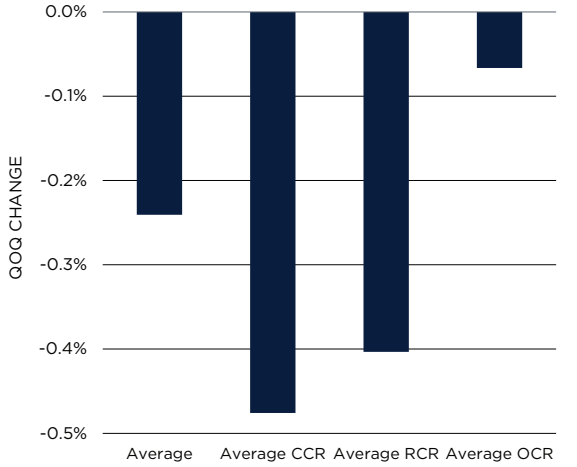
Evidence that not all rental districts are thriving is seen in Graph 5 where, after weeding out outliers (these are QoQ rental changes which equal or exceed two standard deviations), it shows that of the 27 districts with rental transactions recorded in Q3/2023, 15 were still rising on a QoQ basis while 11 registered a negative change. The average rental increase for the districts that showed rental growth in the third quarter was 1.3% while for those which fell, it was a negative 2.4%. (We are taking the average of the 25th, 50th and 75th percentile for 1-bedroom to 5-bedroom units for each district.)

TABLE 2: Major Private Residential Projects Completed, Q3/2023

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
Treasure At Tampines	Tampines Lane	Sim Lian (Treasure) Pte Ltd	OCR	2,203
Normanton Park	Normanton Park	Kingsford Huray Development Pte Ltd	RCR	1,862
The Florence Residences	Hougang Avenue 2	Florence Development Pte Ltd	OCR	1,410
Midwood	Hillview Rise	Hillview Rise Development Pte Ltd	OCR	564
The M	Middle Road	Wingcharm Investment Pte Ltd	CCR	522
Dairy Farm Residences	Dairy Farm Lane	UE Dairy Farm Pte Ltd	OCR	460
Kopar At Newton	Makeway Avenue	CEL Newton Pte Ltd	CCR	378
Parc Komo	Upper Changi Road North	CEL Real Estate Development Pte Ltd	OCR	276
Sky Everton	Everton Road	SL Capital (6) Pte Ltd	RCR	262

Source URA, Savills Research & Consultancy

GRAPH 6: Non-Landed QoQ Rental Change by Region, Q3/2023



Source URA, Savills Research & Consultancy

Graph 6 shows that of the three regions, the CCR registered the greatest rental QoQ decline of 0.48% while the RCR fell by 0.4% and the OCR by 0.07%. Owing to the lower rents for the latter, the significantly higher rents asked by landlords during rental reviews for developments in the CCR and RCR have pushed tenants to the OCR. Against this backstop, rents for mass market non-landed properties have remained resilient thus far.

For 2024, we are forecasting a general rental decline of about 5%. Two reasons account for this. One is the 17,000 new completions in 2023 with another 9,900 units expected next year. If landlords of the 2023 vintage of completed stock are willing to bend towards potential tenants asking rents, rents will likely decline but the positive side is that the vacant stock of this year's new completions should be soaked up within a quarter or so. Vacancies will then fall back to 7%+ levels. The 9,900 units expected next year would then be able to accommodate those who, because of the high rents, moved out of single private units to room lettings, to rent a unit. The other reason for the decline is external. With economic headwinds blowing in Europe and Asia, most multinational companies will be extremely cost conscious, and this will cascade down to the number of foreign workers they may wish to quarter in Singapore. For 2023, given the strong showing in the first half of the year, non-landed rents are expected to rise 10% YoY.