MARKET IN MINUTES
Savills Research

Residential Leasing

Rental increases to continue in 2023

Due to a limited number of completions at the beginning of 2022, together with the arrival of more foreign workers, private residential rents rose strongly across the board in Q4/2022.

- Following a rebound in the previous quarter, the number of rental contracts of private residential properties declined 18.9% quarter-on-quarter (QoQ) to 20,817 transactions in Q4/2022. For the whole of 2022, the leasing volume fell 8.5% on a year-on-year (YoY) basis to 90,261 transactions.
- As incremental demand for private homes continued outpacing new supply, the URA rental index for all private residential properties registered a ninth consecutive quarter of increase, albeit at a slightly moderated pace of 7.4% in Q4/2022, in comparison to the 8.6% in Q3/2022. Rents of both landed and non-landed properties recorded quarterly growth of 6.3% and 7.5% respectively.
- On a similar note, monthly rents for high-end non-landed private residential projects tracked by Savills continued rising for an eighth consecutive quarter, increasing 5.8% QoQ to S$5.83 psf in Q4/2022. This rent was the highest since Q2/2008 when the average rent was at S$6.01 psf.
- Despite the highest number of private residential units obtaining Temporary Occupation Permits (TOPs) in Q4/2022 since Q4/2018, the vacancy rate of private residential properties fell 0.2 of a percentage point (ppt) to 5.5%. The vacancy rate of non-landed homes fell 0.2 of a ppt to 5.6%, while that of landed homes inched up marginally by 0.1 of a ppt to 5.3%.
- Our forecast for non-landed private property rents in 2023 remains at 5% to 10% for the mid-tier and mass market segment, driven by an influx of overseas professionals while luxury apartments may see a rise of 10% to 15%, propelled by foreign high net worth individual demand.

"The economic slowdown is unlikely to derail the inflow of foreigners and although more supply will come online this year, rents will continue to rise, albeit at a lower rate than last year."

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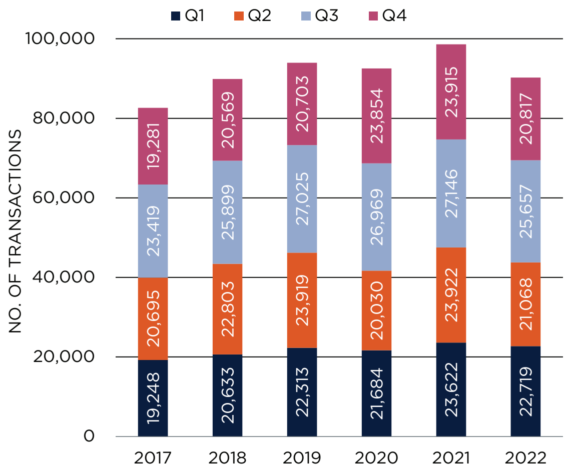
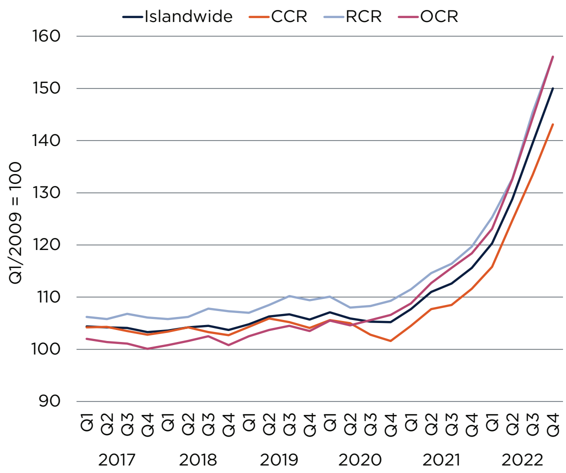
GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2017 to 2022



Source URA, Savills Research & Consultancy

GRAPH 2: Rental Indices of Non-landed Private Residential Properties, Q1/2017 to Q4/2022



Source URA, Savills Research & Consultancy

MARKET OVERVIEW

Following a rebound in private residential leasing volume in the previous quarter, the number of rental contracts fell 18.9% QoQ to 20,817 transactions. This was the largest quarterly decline since Q4/2019 when rental transactions decreased 23.4%. Apart from the year-end holidays and festive season, the decline in rental volume may also be attributed to tenants having concluded leases in the previous quarters and the possibility that high rents are causing foreigners to defer their move here. On a YoY basis, rental transactions in Q4/2022 fell 13.0%. The drop in leasing volume was largely contributed by a 34.4% QoQ decrease in the number of rental contracts of landed homes. Similarly, rental volume of non-landed homes recorded a 17.7% decline QoQ, with double-digit decreases registered across the three market segments. On a YoY basis, leasing volume of non-landed homes declined across the three market segments, with the number of rental contracts recording double-digit decreases in Core Central Region (CCR) and Outside Central Region (OCR) while in Rest of Central Region they fell by 5.2%. As such, for the whole of 2022, the leasing volume of private residential properties amounted to 90,261 transactions, 8.5% lower than the 98,606 transactions concluded in 2021, when there was a growth in rental transactions with the reopening of the economy since the outbreak of the COVID-19 pandemic. The number of rental contracts in both landed and non-landed segments decreased in 2022, by 6.7% and 8.6% YoY to 5,562 and 84,699 transactions respectively. Out of the non-landed leasing transactions across the market segments, the decline was the smallest in RCR (-4.7%), followed by OCR (-10.3%) and CCR (-10.7%). The smaller fall in the number of rental contracts in RCR may be due to the larger number of developments completed in RCR in the year, resulting in more leasing transactions as compared to the two other market segments.

Out of the top five non-landed projects with the highest leasing volume, there were two projects located in RCR. One is Parc Esta, which obtained temporary occupation permits in both Q3/2022 and Q4/2022, while the other RCR project is City Square Residences. Both projects are within a short walking distance to MRT stations and amenities, and therefore sought after by tenants. If the project is new, like Parc Esta, rents they could fetch can be comparable to those in the CCR. This was evident for Parc Esta, with median rents for the development comparable to the older Marina One Residences and higher than The Sail @ Marina Bay, both of which are in the CCR.

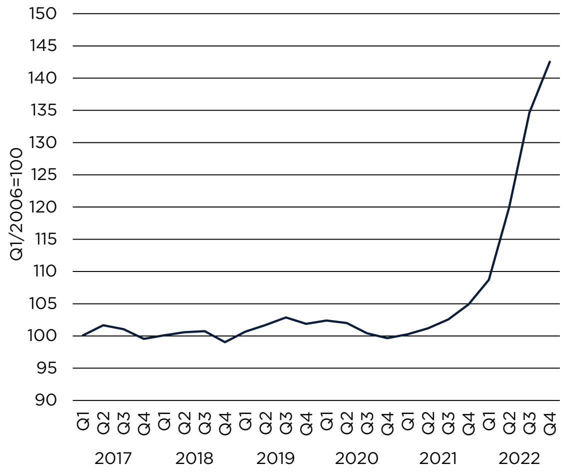
The three remaining projects in the top five list are in the CCR. Most of the leasing transactions for Marina One Residences and The Sail @ Marina Bay are for the smaller one- and two-bedroom units, as these projects in the heart/near to the Central Business District (CBD) are more favoured by workers/expatriates working nearby. The locational attributes are more targeted at such workers who want to be near to their workplaces and may not appeal as much to families who prefer proximity to schools and amenities. On the other hand, there have been more rental contracts concluded for the larger three-bedroom units in D'Leedon (compared with the total leasing volume of the project). Apart from being close to renowned schools, it is near Farrer Park MRT station, as well as amenities such as the Botanic Gardens, Holland Village and Orchard Road.

TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q4/2022

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (S$ PSF/MONTH)
Parc Esta	14	Sims Avenue	280	7.43
The Sail @ Marina Bay	1	Marina Boulevard	144	6.76
Marina One Residences	1	Marina Way	121	7.21
D'Leedon	10	Leedon Heights	115	5.35
City Square Residences	8	Kitchener Link	89	5.11

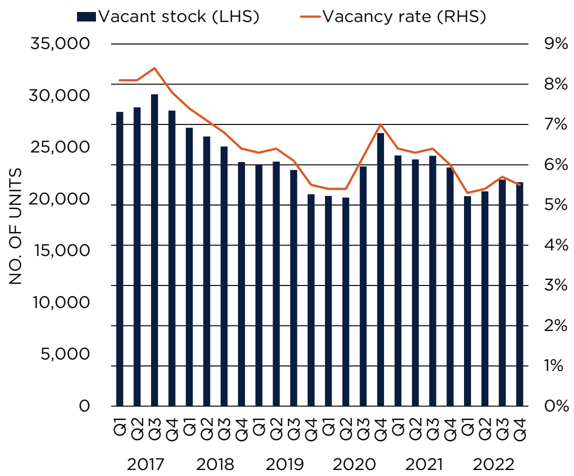
Source URA, Savills Research & Consultancy

GRAPH 3: Savills High-end, Non-landed Residential Rental Index, Q1/2017 to Q4/2022



Source Savills Research & Consultancy

GRAPH 4: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2017 to Q4/2022



Source URA, Savills Research & Consultancy

RENTS

With demand for private homes outpacing the supply of homes, the URA rental index for all private residential properties recorded a ninth consecutive quarter of increase. Rents increased at a slightly moderated pace of 7.4% QoQ in Q4/2022 compared to the 8.6% QoQ in Q3/2022. Rents of both landed and non-landed homes registered QoQ growth in the quarter, but the rate of increase for the latter was smaller. After a 10.9% increase in the previous quarter, rents of landed homes rose 6.3% QoQ in Q4/2022. Similarly, those for non-landed homes grew 7.5% QoQ after a 8.3% rise in Q3/2022. Across the market segments, only homes in CCR recorded a higher QoQ growth in Q4, increasing 7.3%, more than the 7.0% in Q3. Rents of homes in RCR and OCR rose 7.3% and 8.2% QoQ, lower than the 9.6% and 8.8% recorded respectively in the previous quarter. For the whole of 2022, the URA rental index for all private residential properties surged 29.7% YoY, the highest since 2007 when rents spiked 41.2%. This round, the rental increase was caused by several factors. One was the limited number of completions at the start of the year. The other was the entry of more foreigners. The increasing number of viewings and the ease of letting, then built into the psyche of landlords who cast their asking rents further north.

The upward trend in rents was also observed in the luxury projects in Savills' basket. The monthly rents for high-end non-landed private residential projects tracked by Savills grew for an eighth consecutive quarter, increasing 5.8% QoQ to S$5.83 psf in Q4/2022, the highest since Q2/2008 when rents reached S$6.01 psf. For the whole of 2022, monthly rents of luxury non-landed projects tracked by Savills surged 35.9% YoY, the largest yearly growth since the data was collected from 2005. The strong leasing demand for homes as more high net-worth foreigners enter Singapore, and the lack of available stock and new completions of homes with larger floor areas, culminated in the strength of the rental market for luxury homes.

STOCK AND VACANCY

In Q4/2022, 4,423 private residential units obtained their TOPs, the highest completions in a quarter since Q4/2018 when 4,720 units were completed. This was largely attributed to the completion of Jadescape, a 1,206-unit project and The Tre Ver, a 729-unit project, both located in the RCR. With new completions in the final quarter, the stock of private residential properties islandwide rose 1.1% QoQ to 391,198 units in Q4/2022, a much larger increase compared to the 0.4% in Q3/2022. As the completions in the quarter were mainly located in the RCR, the stock in this region increased by 2.9% QoQ, following a 0.9% increase in the previous quarter. The stock of private residential properties in the CCR and OCR grew 0.7% and 0.2% on a QoQ basis respectively.

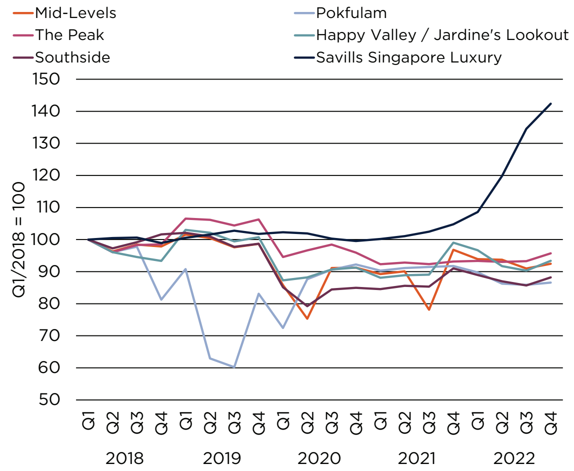
Despite the large increase in completions in Q4/2022, the vacancy rate of private residential properties fell, reversing the increase for the past two quarters. For the quarter in review, it declined 0.2 of a ppt to 5.5%. For non-landed properties, there was a 0.2 of a ppt decline in vacancy rate to 5.6%. On the other hand, the vacancy rate of landed homes continued to increase for the second consecutive quarter by 0.1 of a ppt to 5.3% in the quarter. Out of the market segments, the RCR was the only market segment that

TABLE 2: Major Private Residential Projects Completed, Q4/2022

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
Jadescape	Shunfu Road	Qingjian Realty (Marymount) Pte Ltd	RCR	1,206
The Tre Ver	Potong Pasir Avenue 1	UVD (Projects) Pte Ltd	RCR	729
Fourth Avenue Residences	Fourth Avenue	Valleypoint Investments Pte Ltd	CCR	476
Parc Esta	Sims Avenue	MCL Land (Everbright) Pte Ltd	RCR	468
Daintree Residence	Toh Tuck Road	Setia (Bukit Timah) Pte Ltd	RCR	327
The Antares	Mattar Road	FSKH Development Pte Ltd	RCR	265
The Gazania	How Sun Drive	Singhaiyi Huajiang Sun Pte Ltd	OCR	250
Mayfair Modern	Rifle Range Road	Citrine Property Pte Ltd	RCR	171

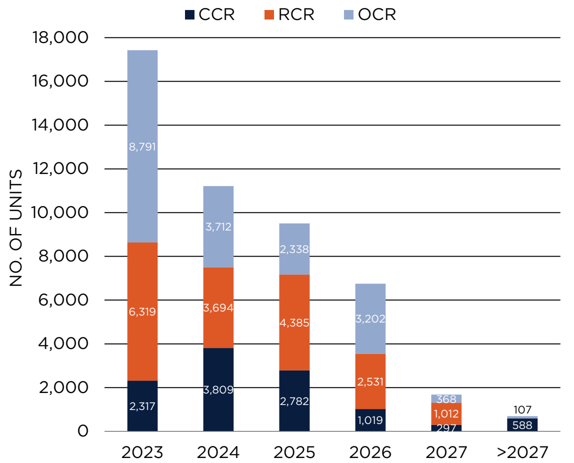
Source URA, Savills Research & Consultancy

GRAPH 5: Luxury Non-landed Rental Indices for Hong Kong and Singapore, Q1/2018 to Q4/2022



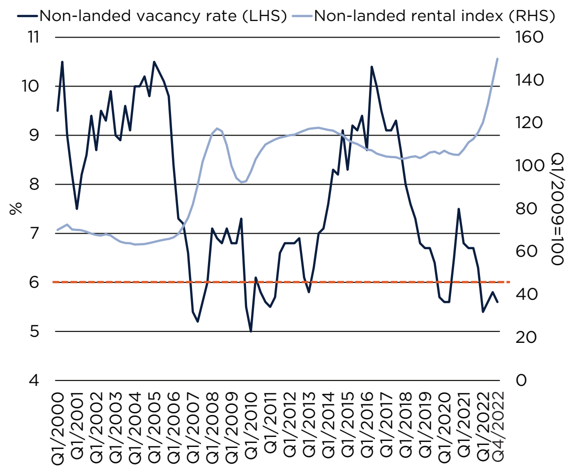
Source URA, Savills Research & Consultancy

GRAPH 6: Future Private Residential Completions 2023 to >2027



Source URA, Savills Research & Consultancy

GRAPH 7: Vacancy Rate of Non-landed Private Homes vs Rents, Q1/2000 to Q4/2022



Source URA, Savills Research & Consultancy

recorded an increase in vacancy rate. The vacancy rate of private residential properties in the RCR rose for the third consecutive quarter by 0.6 of a ppt to 7.9% in Q4/2022 due to the large number of completed units over the past few quarters. This was the largest vacancy rate since Q3/2018 when it amounted to 8.1%. On the other hand, vacancy rate of private homes in both the CCR and the OCR registered quarterly declines in the quarter by 0.4 of a ppt to 6.9% and 3.6% respectively in Q4/2022. For the CCR, this was the fifth consecutive quarter of decline, while OCR recorded the first decrease after two consecutive quarters of increase. This was attributed to the relatively lower number of completions in these market segments and strong leasing demand.

OUTLOOK

The private residential leasing market had a super bull run in 2022. With only 9,000 units completed in the year, surging demand collided with a slowly rising stock of rental accommodation. The question now is whether this will be carried over to 2023. Our belief is that it can, but at a lower rate of increase. Now that economic challenges are biting and the tech industry is deep in the throes of restructuring, the rate of rental increase is expected to moderate. There may be a chance that it may fall towards 2H/2023, but any decline may be shallow and may not be able to erase the gains made in 1H/2023.

It is difficult to compare apartment rents in a like-for-like fashion between Hong Kong and Singapore. Chief amongst which is the subjectivity of which area in Hong Kong corresponds to an equivalent area in Singapore. However, when we build an index of luxury apartment rents between various locations in Hong Kong and compare them to Savills Singapore basket of luxury non-landed properties (unlike Hong Kong, owing to the different rental dynamics, in Singapore, we do not break down by location), Singapore's rents have accelerated substantially. (Please refer to Graph 5.)

Relief is expected to come only from 2H/2023 when the slowing economy and the fallout in the tech sector starts to work its way through the demand side of the rental market. On the supply side, about 18,000 new private residential units, most of which are non-landed, are expected to be completed this year. Together they should help to reduce the rental pressure. However, even if rents were to correct, it could be mild and not likely to retrace in any significant manner the rise which has taken place since 2021. (Please refer to Graph 6.)

However, this global economic slowdown is not a textbook downturn where there persists higher unemployment, wage stagnation and low inflation. This time, at least in Singapore, it is still generating jobs, albeit at a slower rate, with wage growth and inflation still at heightened levels. The labour market is still healthy and while companies may look towards shedding overheads and experimental product/service lines, they are still on a selective lookout for skilled workers to boost their profitable business segments or beef up their technology services/security. This means that while the inflow of foreign professionals will not be as strong as in 2022, it will remain positive. Graph 6 hints that when in Q4/2022, despite GDP slowing to 2.2% YoY from 4.0% in the previous quarter, the vacancy levels fell to 5.6% from 5.8% in Q3/2022. Thus, our non-landed vacancy level is still below 6%, what we estimate to be the normal rate.

With the 30% Additional Buyer's Stamp Duty (ABSD) rate levied on foreign buyers of private residential properties, ultra-high net worth individuals will add their weight of money to the high-end rental market. Counting in the demand for foreign workers to serve the ageing population, there will be a squeeze on the mid-tier private residential rental segment. The fallout from this is that the upgrader buying market for private residential properties may slow because to avoid paying ABSD for owning a second home, buyers of properties under construction may have to rent. But as rents are now at record levels, the cumulative cost of rental paid waiting for the new property to complete would mean that the effective purchase price (we believe that 2023 will set a new baseline of S$2,000 psf) for mass market property prices is much higher.

All said, our forecast for non-landed private property rents in 2023 remains at 5% to 10% for the mid-tier and mass market segment while luxury apartments may see a rise of 10% to 15%, driven by individual foreign high net worth demand.