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Rents have turned the corner

Recovery is being driven by the strong performance of rents in both the Rest of Central Region (RCR) and the Outside Central Region (OCR).

- With Q3 traditionally being a busier quarter due to seasonal factors, the leasing volume of island-wide private residential properties (excluding executive condominiums) surged 24.4% quarter-on-quarter (QoQ) to 25,731. The QoQ growth was observed across various property types and market segments.

- After three consecutive quarters of decline, the URA's rental index for non-landed private homes saw its first uptick in the third quarter of 2024, rising by 0.5% QoQ.

- Rents for high-end non-landed private residential projects tracked by Savills continued to decline by 0.9% QoQ in Q3/2024.

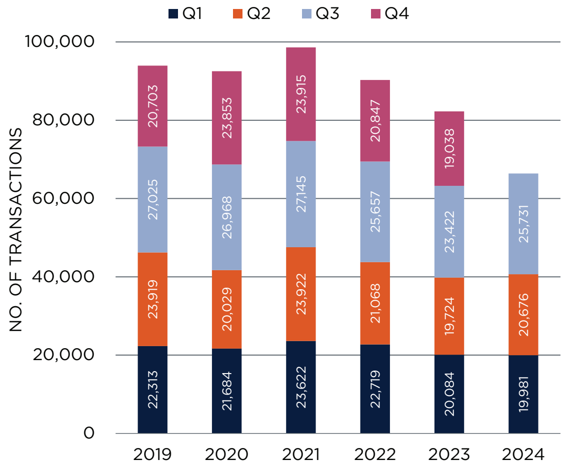
- Island-wide, the stock of completed private residential units increased slightly by 0.6% QoQ, reaching 414,671 units by Q3/2024. On the other hand, the vacant stock grew at a faster pace, rising by 18.8% QoQ (or 4,720 units) over the same period.

- While companies continue to cost cut by reducing headcount, this will in turn lead to fewer hiring of Employment Pass (EP) personnel, however, landlords are now paying higher property taxes and this may lend some measure of support to the rental market. Also, inflationary pressure is driving up conservancy charges, giving landlords another reason not to give in to low ball rental offers. We had anticipated an end to the slide in rents towards the end of the year. However, given the fact that it came early in Q3/2024 we now amend our forecast of a 5.0% year-on-year (YoY) decline in rents to a 2.5% drop. For 2025, rents are expected to drift sideways as businesses face headwinds and continue to watch their labour costs.

"Although rents have inflected, the recovery may face resistance as companies rein in rental allowances and foreign headcounts."

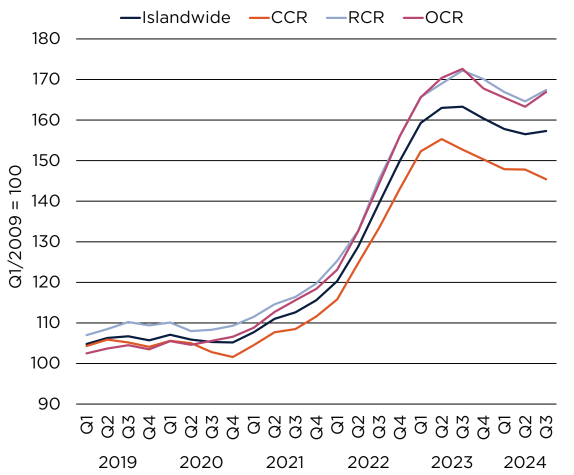
ALAN CHEONG, SAVILLS RESEARCH

GRAPH 1: Leasing Transaction Volumes of Private Residential Units, 2019 to Q3/2024



Source URA, Savills Research & Consultancy

GRAPH 2: Rental Indices of Non-landed Private Residential Properties, Q1/2019 to Q3/2024



Source URA, Savills Research & Consultancy

MARKET OVERVIEW

With Q3 traditionally being a busier quarter due to seasonal factors, such as the school year and corporate relocation cycles, and lease expiries and renewals, the island-wide leasing volume of private residential properties (excluding ECs) surged 24.4% QoQ to 25,731. Also, the number of rental contracts was 9.9% higher than the 23,422 recorded in the same period of 2023. The QoQ growth in Q3/2024 was observed across various property types and market segments. The number of landed rental contracts surged by 46.0% QoQ to 1,610, while that for non-landed residential properties rose by 23.2% QoQ to 24,121. A further breakdown in the non-landed residential property segment revealed that the quarterly growth was led by the RCR, where leasing transactions increased by 25.2%, followed by the Core Central Region (CCR) at 23.5% and the OCR at 21.2%. Overall, the robust growth for lease volume in the reviewed quarter continued to be primarily driven by more upgrading their accommodations. This was fuelled by more palatable rents and an ample supply of units from new completions. Also, with the rents having fallen for the four prior quarters, more tenants have begun to look for one to two-bedroom units, instead of sharing a larger unit with others.

The latest statistics on Singapore's population and the labour market reaffirm our view mentioned in earlier briefings: demand in Singapore's private residential leasing market, particularly in the mid- and high-end sectors, remains relatively weak. First, Singapore's total population increased by 2.0% YoY to 6.04 million as of June 2024. This growth was mainly driven by the rise in the non-resident population, which expanded by 5.0% from 1.77 million in June 2023 to 1.86 million in June 2024. However, it is worth noting that the increase was largely contributed to the growth in Work Permit Holders (WPHs) and Migrant Domestic Workers. Furthermore, based on the labour market's advance estimates, like in Q2/2024, most of the non-resident employment increase in Q3/2024 came from WPHs in non-PMET roles, such as those working in the Construction, Manufacturing, and Administrative and Support Services sectors. These WPHs tend to be housed in workers accommodation and public housing units. Moving forward, amidst challenging business conditions, as companies continue to reduce headcounts as part of cost-cutting efforts, a decrease in new EP and S Pass holders (the higher income foreign workers) is expected and would likely result in lower demand from new foreign tenants, particularly for mid and high-end private residential properties.

Based on rental contracts for non-landed private residential properties, the top five projects by leasing volume in Q3/2024 were Stirling Residences, Park Colonial and Normanton Park in the RCR, along with The Sail @ Marina Bay and Marina One Residences in the CCR. Together, these projects recorded a total of 834 rental contracts, with 83.6% involving one and two-bedroom units. One-bedroom units were more popular in the CCR, accounting for 47.4% of leasing volumes in The Sail @ Marina Bay and 56.5% in Marina One Residences. On the other hand, two-bedroom units were the most rented in the three RCR projects, comprising 60.6% of transactions in Stirling Residences, 48.6% in Park Colonial and 42.0% in Normanton Park.

RENTS

After three consecutive quarters of decline, the URA's rental index for island-wide non-landed private homes saw its first uptick in the third quarter of 2024, rising 0.5% QoQ. This recovery was driven by the strong performance of rents in both the RCR and the OCR, which posted 1.7% and 2.2% QoQ growth, respectively. A resurgence in demand in these two market segments, mainly due to seasonal factors and a shift from public housing units to entry level condominiums driven by a surge in new supply in 2023 and

TABLE 1: Non-landed Private Residential Projects with Most Leasing Transactions, Q3/2024

PROJECT NAME	POSTAL DISTRICT	LOCATION	NUMBER OF LEASING TRANSACTIONS	MEDIAN RENT (S$ PSF/MONTH)
Stirling Residences	3	Stirling Road	253	6.93
The Sail @ Marina Bay	1	Marina Boulevard	151	6.74
Marina One Residences	1	Marina Way	150	6.58
Park Colonial	13	Woodleigh Lane	142	6.73
Normanton Park	5	Normanton Park	138	6.09

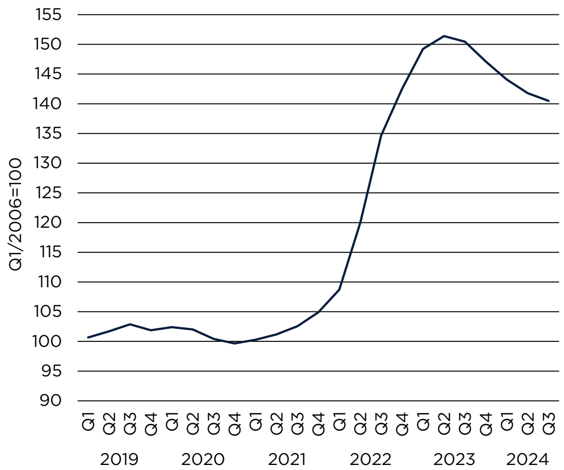
Source URA, Savills Research & Consultancy

TABLE 2: Major Private Residential Projects Completed, Q3/2024

PROJECT NAME	LOCATION	DEVELOPER	LOCALITY	NO. OF UNITS
One Pearl Bank	Pearl Bank	Areca Investment Pte Ltd	RCR	774
Forett At Bukit Timah	Toh Tuck Road	Qingjian Perennial (Bukit Timah) Pte Ltd	RCR	633
One Holland Village Residences	Holland Village Way	Commons Residential Pte Ltd	CCR	551
The Reef At King's Dock	Harbourfront Avenue	Harbourfront Three Pte Ltd	RCR	429
The Avenir	River Valley Close	Carmel Development Pte Ltd	CCR	376

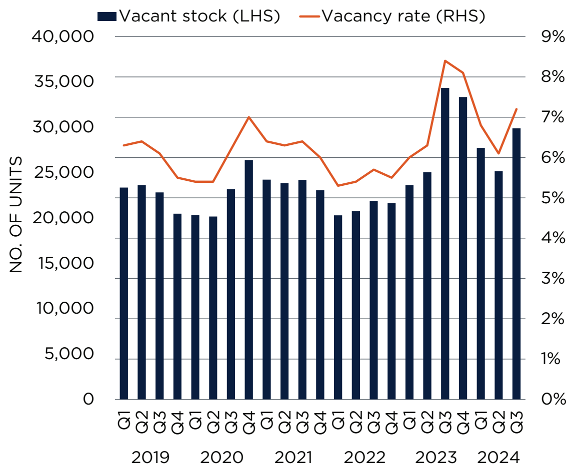
Source URA, Savills Research & Consultancy

GRAPH 3: Savills High-end, Non-landed Residential Rental Index, Q1/2019 to Q3/2024



Source Savills Research & Consultancy

GRAPH 4: Vacant Stock and Vacancy Rates of Private Residential Units, Q1/2019 to Q3/2024



Source URA, Savills Research & Consultancy

more reasonable rents, may have caused the increase. In contrast, the CCR lagged with a 1.6% QoQ rental decline, marking its fifth consecutive quarter of decreases. This decline was largely consistent across units with varying numbers of bedrooms. Given the global economic uncertainty and the relatively limited pool of professional expatriates with substantial housing allowances, this suggests that the CCR still lacks the fundamental conditions for rental growth in the near term.

Similarly, rents for high-end non-landed private residential projects tracked by Savills continued to decline by 0.9% QoQ in Q3/2024. Combined with the contractions recorded since Q3/2023, average monthly high-end rents have dropped by a cumulative 7.2% from the last peak in Q2/2023 to S$5.75 per sq ft in Q3/2024.

STOCK AND VACANCY

The completion of private residential properties (excluding ECs) accelerated in the third quarter of 2024, with 3,253 units obtaining their Temporary Occupation Permits (TOPs). Most of this new supply came from several large projects in both the CCR and RCR, including One Pearl Bank (774 units), Forett At Bukit Timah (633 units), One Holland Village Residences (551 units), The Reef At King's Dock (429 units) and The Avenir (376 units).

The island-wide stock of completed private residential units increased slightly by 0.6% QoQ, reaching 414,671 units by Q3/2024. On the other hand, the vacant stock grew at a faster pace, rising by 18.8% QoQ (or 4,720 units) during the same period. Due to substantial completions in the reviewed quarter, the RCR experienced the largest QoQ growth in vacant stock at 41.3%, followed by the CCR at 21.2% and the OCR at 0.8%. This led to a quarterly increase of 1.1 percentage points (ppts) in the island-wide vacancy rate, which rose from 6.1% in Q2/2024 to 7.2% in Q3/2024, reversing the declines observed in the previous three quarters.

OUTLOOK

We believe that the overhang in supply arising from the 19,968 private residential units (excluding ECs) which were completed in 2023 have been largely purged from the system. In Q1/2024, only 241 units were completed. This greatly helped the market absorb the overhang in the previous two quarters when 8,517 units and 4,085 units were completed in Q3 and Q4/2023 respectively. The completion numbers in Q2/2024 were also low, at 1,882 units, further helping to ease the indigestion from the supply in 2023. For 2024, about 9,100 units could be completed and this rapid climbdown is probably the main reason for the turnaround in rents.

Although rents have turned the corner, we believe that the upside will be capped by several factors, chief amongst which is the climb back up to 3,000+ per quarter unit completions. This will increase the competition level for potential tenants. Also, when EP holders found private apartment rents beyond their budget in late-2022 to end-2023, they sought out co-living, room rentals or HDB flats. With private rents having softened most may already have moved to personal private unit leases. The demand from this group may start to ease in the coming quarters. Lastly, as more companies are moving their shared services offshore, the demand from foreigners working in this sector of the economy is expected to weaken.

While companies continue to cost cut by reducing staff numbers, this will in turn lead to fewer hiring of EP personnel, however, landlords are now paying higher property taxes and this may lend some support to the rental market. Also, inflationary pressure is driving up conservancy charges, giving landlords another reason not to give in to low ball rental offers. We had anticipated an end to the slide in rents towards the end of the year. However, given the fact that it came early in Q3/2024 we now amend our forecast of a 5.0% YoY decline in rents to a 2.5% drop. For 2025, rents are expected to drift sideways as businesses face headwinds and continue to watch labour costs.