Box B: Residential Rental Markets[1]

The strong increases in rents for residential properties over 2022 reflect exceptional tightness in the markets brought about by the COVID-19 disruptions. Rental pressures should ease given the relatively large supply of housing units that will be completed in 2023 and beyond.

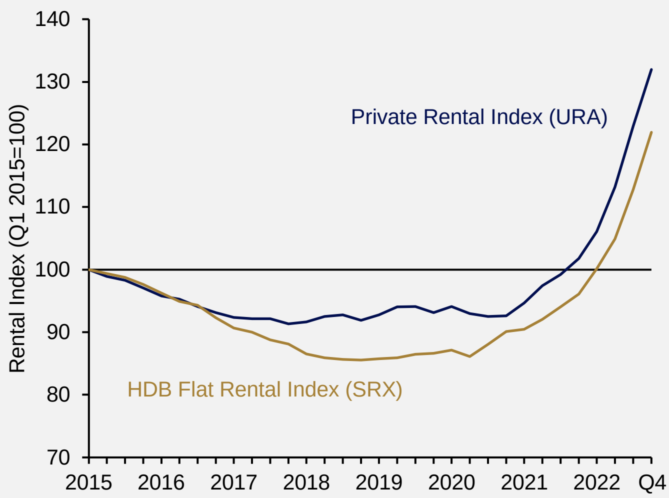
Introduction

This Box reviews the increases in rents for Housing Development Board (HDB) and private residential housing units since 2021, and assesses the outlook for the residential rental markets.

Increases in Residential Rents

HDB and private residential rents have risen sharply since 2021 by 38% and 43%, respectively,[2] after having stayed broadly stable in the preceding few years **(Chart B1)**. The sharp rise in HDB and private residential rents were broad-based **(Table B1 and Table B2)**. In the private housing market, rent increases were similar across market segments and housing types, with rents of landed private housing and non-landed private housing rising by 28.1% and 29.8% respectively in 2022. In the public residential market, rents of 5-room and 3-room HDB flats rose by 29.5% and 24.6% respectively in 2022.

Chart B1 Rental Cost Indices (Base Period = Q1 2015)



Source: Urban Redevelopment Authority (URA) and Singapore Real Estate Exchange (SRX)

[1] This Box Item was contributed by the Ministry of National Development (MND).

[2] These refer to the cumulative rise in rents in 2021 and 2022 based on URA's Private Rental Index and SRX's HDB Rental Index.

Table B1 Private Rental Cost Index Changes by Market Segment and Property Type (%)

Period	Overall	Non-Landed				Landed
		Overall	CCR	RCR	OCR	
2020	−0.6	−0.5	−2.4	−0.1	3.0	−2.7
2021	9.9	9.9	9.8	9.5	11.1	8.2
2022	29.7	29.8	28.2	30.3	31.8	28.1

Source: URA

Note: CCR, RCR and OCR refer to Core Central Region, Rest of Central Region, and Outside Central Region respectively.

Table B2 Public Rental Cost Index Changes by HDB Flat Type (%)

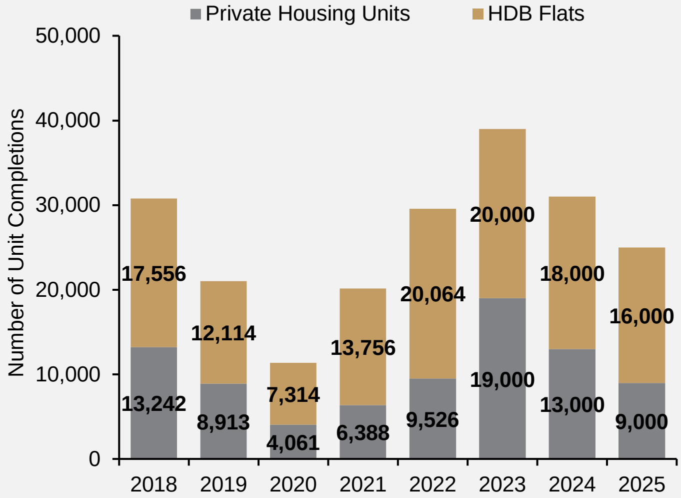
Period	Overall	3-Room	4-Room	5-Room	Executive
2020	4.1	3.3	5.3	3.5	3.5
2021	8.4	8.6	7.6	9.4	6.9
2022	27.6	24.6	28.2	29.5	31.0

Source: SRX

Assessment of Rent Increases in 2021–2022

The sharp increases in residential rents in 2021–2022 should be seen in the context of extremely tight supply conditions. During this period, the COVID-19 pandemic significantly disrupted activity in the construction industry, with unprecedented global supply chain disruptions and tightened border controls leading to shortages in foreign manpower and construction materials. The two-month circuit breaker in 2020, and the stringent safe management measures for the construction sector thereafter also affected the subsequent pace at which construction activity could resume. As a result, there were severe delays to the completion of private and public residential projects islandwide. The yearly average private and public residential unit completions in 2020–2022 was ~20,000 units, about 22% lower than the average of ~26,000 units per annum over 2018–2019 **(Chart B2)** and about 36% lower than the projected average of ~32,000 units per annum over 2023–2025.

Chart B2 Historical and Projected[3] Public and Private Residential Unit Completions



Source: URA and HDB

The supply crunch also coincided with strong demand for rental units in 2021 and 2022. While non-resident (NR) rental demand fell during the COVID-19 pandemic, there was strong demand from Singapore Citizens (SCs) and Singapore Permanent Residents (PRs) seeking temporary accommodation while awaiting the completion of their residential units. In 2021, private rental demand from SCs and PRs increased by ~7,000 units, compared to the average annual increase in SC and PR private rental demand of ~1,300 units in 2018 and 2019. This sharp increase outweighed the fall in NR private rental demand in 2021 of ~4,200 units. With the easing of border restrictions in 2022, this trend was reversed and NR rental demand recovered quickly. In 2022, the increase in private rental demand from SCs and PRs fell to ~700 units, while NR demand rebounded to an increase of ~2,300 units, similar to 2019. A similar trend was observed in the HDB rental market.

Other factors may have also contributed to the strong pace of market rent increases, including the continued robust employment and wage conditions.

Outlook for Residential Rental Markets

Supply-side pressures are easing as the construction industry recovers ground. As a whole, almost 40,000 residential units will be completed across the public and private housing markets in 2023, which is the highest number of annual completions since 2017. This pace of completion will continue over the next two years, with close to 100,000 public and private residential units in total coming on-stream over the period 2023 to 2025.

In the private residential market, 8,000 private residential units have been completed just in the last two quarters (including Executive Condominiums), which is double the average completions of around 2,000 units per quarter in 2021 and 2022. In the HDB Built-To-Order (BTO) market, more than 20,000 flats were completed in 2022, a 50% increase from 2021. HDB is also on track to complete another 20,000 flats in 2023, which is close to triple the 7,000 flats completed in 2020, during the pandemic. The Government has also further ramped up the supply of both public and private housing (i.e., HDB BTO launches and Government

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[3] Figures for 2020 to 2022 refer to housing units completed, while figures for 2023 to 2025 refer to the projected number of housing units to be completed.

Land Sales (GLS) programme) to cater to the housing needs of the population over the next few years.

There is also likely to be some moderation in rental demand. Looking forward, rental demand from SCs and PRs could abate as significant residential supply comes on-stream, and as they vacate their rental units to take up occupation of their completed owned units. Anecdotally, real estate agencies have indicated a decline in viewings for rental units and leasing enquiries since the start of 2023. Global economic uncertainties and slower growth may also further weigh on sentiments in the rental markets.

In sum, the upward momentum in the residential rental markets since 2021 was primarily due to an exceptional demand-supply imbalance brought about by the COVID-19 pandemic. Such market imbalances have already started to ease and will continue to do so progressively through this year, along with the significant housing supply coming on-stream and an expected moderation in rental demand. Accordingly, further residential rent increases should ease in the coming quarters.