Briefing
Residential leasing

November 2014

Image: Ascott, CBD, Chaoyang district

SUMMARY

Suppressed demand resulting from the tightening of housing budgets in multinational companies saw the high-end villa market occupancy rates decline. However, the tenants were absorbed by the other two sectors.

- No new projects were launched in any of the three sectors of the high-end leasing market in Q3/2014.
- Serviced apartment and Grade A apartment occupancy rates rebounded in the third quarter, up 3.7 and 0.3 percentage points (ppts) to 85% and 90.2% respectively. However, the high-end villa market witnessed a decline with occupancy rates falling 2.1 ppts to 88%.
- Serviced apartment, Grade A apartment and high-end villa rents fell 0.5%, 1.3% and 1.2% quarter-on-quarter (QoQ) to RMB205.1, RMB141.8 and RMB123.1 per sq m per month respectively in Q3/2014.
- The market is expected to become more decentralised in the coming years, as both serviced apartment and Grade A apartment new leasable supply will be rather limited within the Fourth Ring Road area.
- The pressures of tightened housing budgets and weak demand from expatriate families in the short-term should see both high-end residential rents and occupancy rates of each submarket face downward pressure.

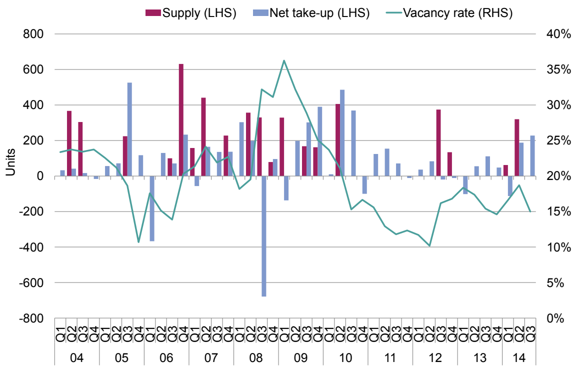
"With developers and operators looking to expand their market share, the market is expected to become more decentralised in the coming years, as projects move to target opportunities in non-prime locations." Joan Wang, Savills Research

Leasing market overview

The high-end residential leasing market remained relatively cool in the third quarter. Continued concerns over air pollution combined with tightened housing allowances from multinational corporations (MNCs), saw demand from expatriates remain weak. Reflecting this, rental values fell across all three sectors of both the high-end residential and luxury leasing markets. The high-end villa sector, traditionally popular with expatriates, experienced a drop in occupancy rates. However, the tenants were absorbed by the other two sectors, with serviced apartment and Grade A apartment occupancy rates both rebounding this quarter.

GRAPH 1

Serviced apartment supply, take-up and vacancy rates, Q1/2004–Q3/2014



Source: Savills Research & Consultancy

GRAPH 2

Serviced apartment rental indices, Q1/2004–Q3/2014

Source: Savills Research & Consultancy

TABLE 1

Residential leasing market overview, Q3/2014

		Rent (RMB per sq m per month)	QoQ change (%)	Occupancy rate (%)	QoQ change (%)
High-end	Serviced apartment	205.1	-0.5	85.0	+3.7
	Grade A apartment	141.8	-1.3	90.2	+0.3
	Villa	123.1	-1.2	88.0	-2.1
Luxury	Serviced apartment	245.8	-0.2	89.5	+1.3
	Grade A apartment	162.5	-1.2	89.3	+1.8
	Villa	151.0	-1.7	90.3	-3.0

Source: Savills Research & Consultancy

Serviced apartment market

No new projects were launched in the serviced apartment market in the third quarter. While there were no new launches, serviced apartment net take-up reached 228 units in Q3/2014; this can be largely attributed to strong demand for short-term leasing. Demand stemmed from seasonal changes, which included the rotation of staff in foreign embassies and new international and domestic experts hired by universities. Meanwhile, tenants who left the high-end villa market due to tightened housing allowances instead chose to take up a lease in a serviced apartment. As a result, overall and luxury serviced apartment occupancy rates increased by 3.7 ppts and 1.3 ppts to 85% and 89.5% respectively.

With demand remaining sluggish in the third quarter, many serviced apartments offered price concessions in an effort to boost occupancy rates. As a result, the serviced apartment market witnessed a moderate decline in rent in Q3/2014. Overall serviced apartment rents fell 0.5% QoQ to an average of RMB205.1 per sq m per month, down 0.04% year-on-year (YoY). Luxury serviced apartment rents were also down by 0.2% QoQ to an average of RMB245.8 per sq m per month, although up 4.2% YoY.

Grade A apartment market

Similar to the serviced apartment market, the Grade A apartment market also benefited from absorbing departing tenants of the villa market, with city-wide overall and luxury Grade A apartment occupancy rates increasing by 0.3 and 1.8 ppts respectively to 90.2% and 89.3% in Q3/2014.

Despite half the projects in the market maintaining stable rents this quarter, a concentration of projects in the prime CBD location witnessed a decline. As a result, overall Grade A apartment rents fell1.3% QoQ to an average of RMB141.8 per sq m per month, down 1.8% YoY, while luxury Grade A apartment rents fell 1.2% to RMB162.5 per sq m per month, down 2.8% YoY.

High-end villa market

Continued concerns about air sollution, along with tightening housing budgets, has seen a drop in demand from expatriates for high-end villas. With typical tenants generally consisting of families, eagerness to reside in a cleaner environment has seen a shift of tenant families repatriating or exploring growing business opportunities in second-tier cities. In the case of an assignee remaining in Beijing alone, a preference for smaller units such as serviced apartments and Grade A apartments can be seen. As a result, both high-end villa occupancy rates and rents have declined this quarter.

High-end and luxury villa rents fell by 1.2% and 1.7% QoQ to RMB123.1 and RMB151.0 per sq m per month respectively, while overall occupancy rates of high-end villas fell 2.1 ppts to 88% and luxury villa occupancy rates increased by 3 ppts to 90.3%.

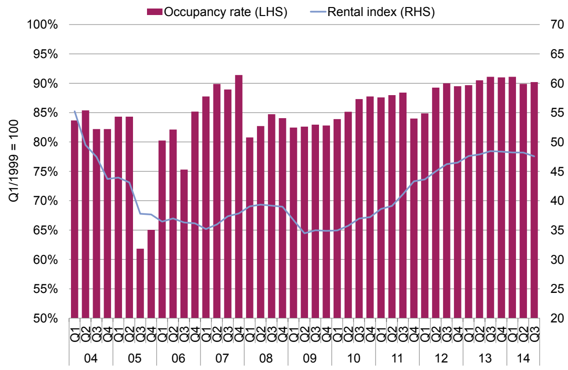
Leasing market outlook

Given the finite space within the Fourth Ring Road, new leasable supply of Grade A apartment and serviced apartments in this area will continue to be rather limited. With developers and operators looking to expand their market share, we expect the market to become more decentralised in the coming years, as projects move to target opportunities in non-prime locations. Activity can already been seen in areas such as the Daxing district, with its burgeoning business environment, and Shunyi, which has been largely popular with the expatriate community. Projects in the pipeline see Sharma BCS looking to launch a project in Shunyi in 2015, and Ascott scheduled to open projects in both Shunyi and Daxing in 2017.

Whilst supply continues to be limited, the pressures of weak demand from expatriate families, coupled with the tightening of housing budgets, should see high-end residential rents and occupancy rates across each submarket face downward pressure in the short term.

GRAPH 3

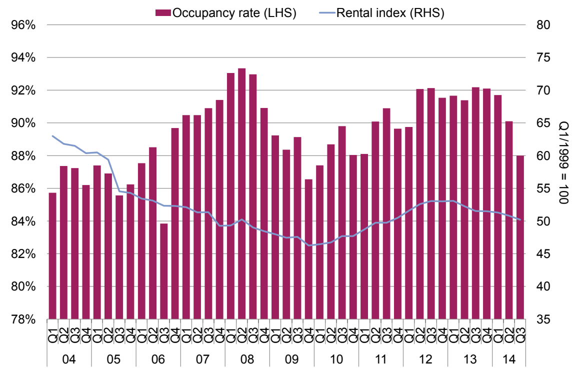
Grade A apartment rental index and occupancy rates, Q1/2004–Q3/2014



Source:Savills Research & Consultancy

GRAPH 4

High-end villa rental index and occupancy rates, Q1/2004–Q3/2014



Source: Savills Research & Consultancy

Please contact us for further information

Savills Research

James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Savills Project & Development Consultancy

Joan Wang
Director
+8610 5925 2042
joan.wang@savills.com.cn

Savills Residential Leasing

Anthony McQuade
Senior Director
+8610 5925 2002
anthony.mcquade@savills.com.cn

Andrew Woo
Associate Director
+8610 5925 2025
andrew.woo@savills.com.cn