

# Briefing Residential leasing

April 2015



Image: Lanson Place, CBD, Chaoyang district

## SUMMARY

Slowing demand from expatriate families has seen a drop in activity in both the high-end villa and serviced apartment markets. However, demand appears to have been absorbed by the Grade A apartment market, with both occupancy rates and rents up this quarter.

■ No new projects were launched in any of the three sectors of the high-end leasing market in Q1/2015.

■ City-wide high-end villa and serviced apartment occupancy rates fell quarter-on-quarter (QoQ) 0.9 and 1.0 percentage points (ppts) to 86.8% and 83.8%, respectively. Grade A apartment occupancy rates grew by 0.2 of a ppt QoQ to 92%.

■ Reflecting the slowing and shifting demands of expatriates, high-end villas and serviced apartment rents fell 0.1% and 0.6% QoQ to RMB121.6 per sq m

per month and RMB203.8 per sq m per month, respectively. Meanwhile, Grade A apartment rents experienced growth of 0.2% QoQ to RMB142.4 per sq m per month.

■ Tightening housing budgets from multinational corporations for expatriates will likely see city-wide average rents face downward pressure while the average vacancy rates are expected to increase over the coming year, given units in projects located in non-prime markets are proving difficult to digest due to limited demand in the short term.

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 “Serviced apartment supply in core areas is expected to continue to be restricted. As a result, the decentralisation trend of the market is expected to continue.” Joan Wang, Savills Research  
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➔ **Leasing market overview**

Beijing's high-end residential leasing market remained calm in the first quarter of 2015. Demand continued to be suppressed due to concerns over air pollution and tightened multinational corporation (MNC) housing budgets. Family units, in particular, continued to show weak demand for the traditionally popular residences of high-end villas and serviced apartments, with both occupancy rates and rents experiencing declines this quarter. On the other hand, Grade A apartments have shown a slight pick-up in activity. Overall, the market has remained largely stable.

**Serviced apartment market**

No new projects were launched in the serviced apartment market in Q1/2015. While there were no new launches, serviced apartments net take-up fell to -60 units in Q1/2015, largely a result of the traditional slow season marked by the Chinese New Year period. As a result, occupancy rates for overall serviced apartments were down 1.0 ppt to 83.8%, while luxury serviced apartments increased marginally by 0.1 of a ppt to 87.2% QoQ.

Given the relatively weak demand, rental growth has been largely suppressed in the market. As a result, overall serviced apartment rents remained stable at RMB203.8 per sq m per month in Q1/2015. Luxury serviced apartment rents also remained largely stable, up 0.2% QoQ to an average of RMB245.8 per sq m per month, albeit up 2.0% year-on-year (YoY).

**Grade A apartment market**

As expatriates, particularly family units, shifted demand away from serviced apartments and high-end villas due to their higher accommodation cost, the Grade A apartment market experienced a small spike in activity in the first quarter. As a result, city-wide overall occupancy rates increased 0.2 ppts QoQ to 92.0% in Q1/2015, while luxury Grade A apartment occupancy rates increased to 90.3%, up 0.1 ppt QoQ.

However, with landlords eager to attract tenants, rents remained largely stable this quarter. As a result, overall Grade A apartment rents recorded an average of RMB142.4 per sq m per month, up 0.2% QoQ, while luxury Grade A apartment remained

unchanged from last quarter at RMB163.2 per sq m per month.

**High-end villa market**

Strong public concern over air pollution, particularly from family units, has resulted in slowing demand for high-end villas, with high-end and luxury villa rents falling 0.1% and 0.5% QoQ to RMB121.6 per sq m and RMB149.4 per sq m, respectively.

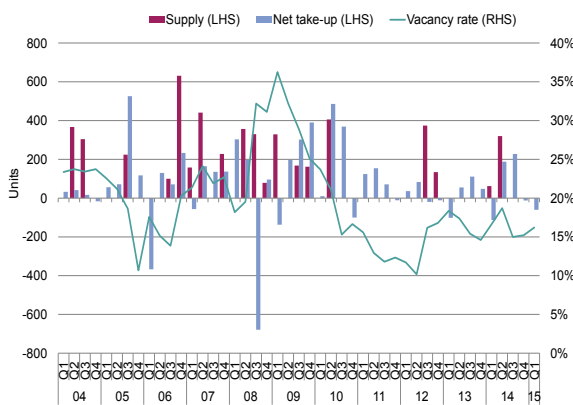
Meanwhile, the traditional slow season marked by the Chinese New Year period has seen a drop in leasing demand for the high-end villa market. As a result, occupancy rates for high-end villas fell 0.9% QoQ to 86.8% and luxury villas witnessed a decline of 0.9% QoQ to 88.7%.

**Leasing market outlook**

Serviced apartment supply in core areas is expected to continue to be restricted over the next three years. Like that of the office market, the decentralisation trend of the market is expected to continue. Potential new hotspots include the Daxing and Shunyi districts, with future supply appearing to be heavily concentrated in these areas. Wangjing, with its rapidly developing business atmosphere is also likely to be an area of interest to developers; one project is already in the pipeline, with Somerset Wangling scheduled to launch later this year.

Tightening housing budgets from MNCs for expatriates will likely see city-wide average rents face downward pressure while the average vacancy rates are expected to increase over the coming year, given units in projects located in non-prime markets are proving difficult to digest due to limited demand in the short term. ■

GRAPH 1 **Serviced apartment supply, take-up and vacancy rates, Q1/2004–Q1/2015**



Source: Savills Research & Consultancy

GRAPH 2 **Serviced apartment rental indices, Q1/2004–Q1/2015**



Source: Savills Research & Consultancy

TABLE 1 Residential leasing market overview, Q1/2015

		Rent (RMB per sq m per month)	QoQ change (%)	Occupancy rate (%)	QoQ change (%)
High-end	Serviced apartment	203.8	0.0	83.8	-1.0
	Grade A apartment	142.4	0.2	92.0	0.2
	Villa	121.6	-0.1	86.8	-0.9
Luxury	Serviced apartment	245.8	0.2	87.2	0.1
	Grade A apartment	163.2	0.0	90.3	1.0
	Villa	149.4	-0.5	88.7	-0.9

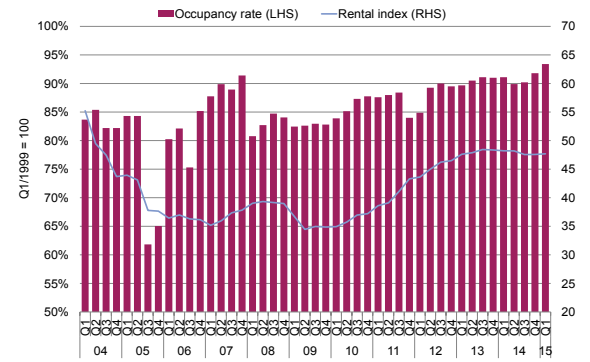
Source: Savills Research & Consultancy

TABLE 2 Future supply, 2015

Project name	Property type	Type	Location	No. of units
Somerset Wangjing (盛捷远洋望京服务公寓)	Serviced apartment	New supply	Wangjing	187
Shama BCS (莎玛BCS北京)	Serviced apartment	New supply	Central Villa D.	123

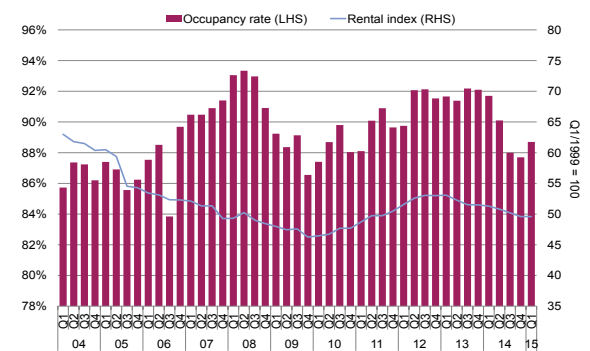
Source: Savills Research

GRAPH 3 Grade A apartment rental index and occupancy rates, Q1/2004-Q1/2015



Source: Savills Research & Consultancy

GRAPH 4 High-end villa rental index and occupancy rates, Q1/2004-Q1/2015



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

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