

# Briefing Residential leasing

November 2015

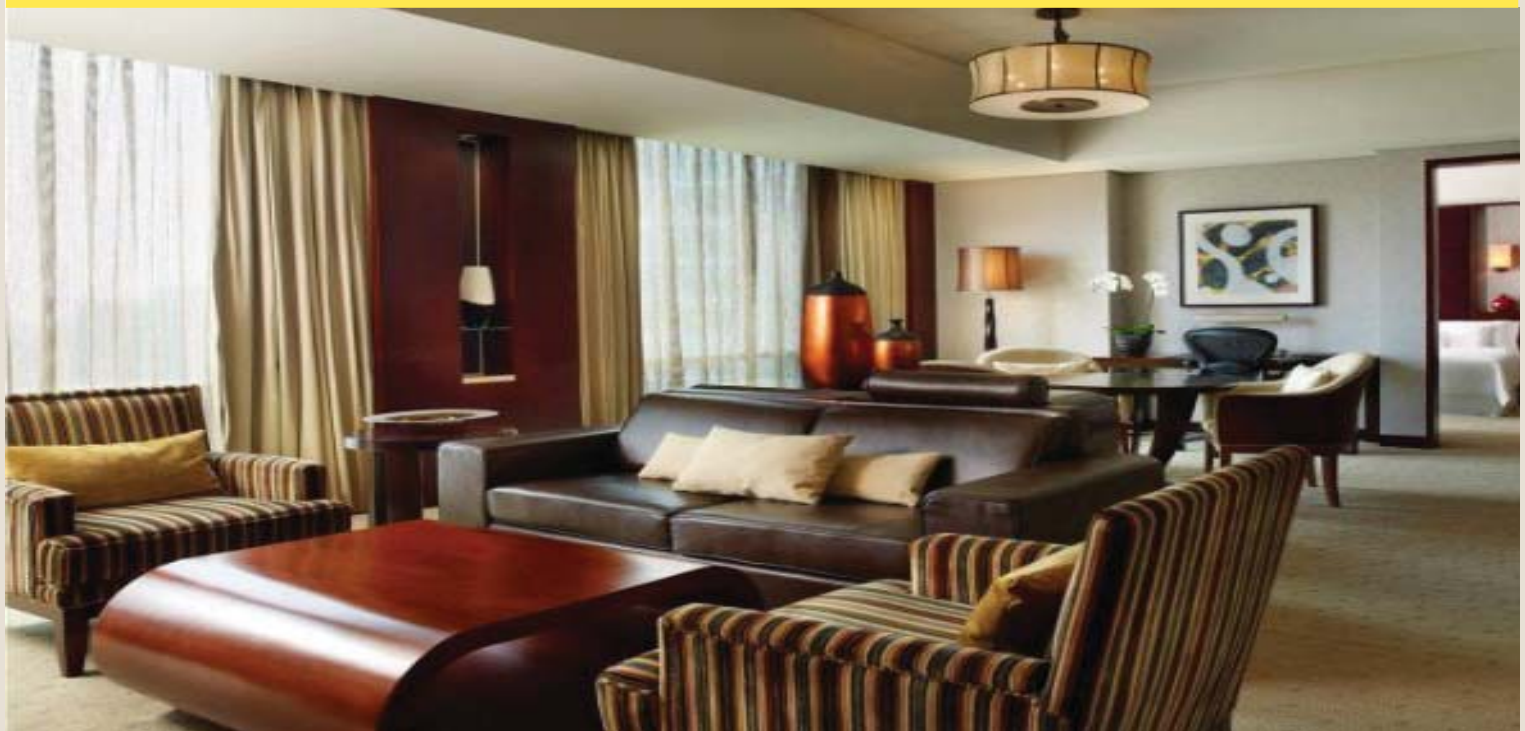


Image: Westin Serviced Apartment, BFS, Xicheng district

## SUMMARY

Shifting demand continues to see the Grade A apartment market outperform both the serviced apartment and high-end villa sectors. Grade A apartment rents and occupancy rates both increased in Q3/2015.

■ No new projects were launched in any of the three sectors of the high-end leasing market in Q3/2015, marking the fifth consecutive quarter of no supply.

■ City-wide high-end villa and serviced apartment occupancy rates both fell 0.1 of a percentage point (ppt) quarter-on-quarter (QoQ) to 86.3% and 83.2%, respectively. Meanwhile, Grade A apartment occupancy rates grew 0.2 of a ppt QoQ to 92.4%.

■ Reflecting the slowing and shifting demands of expatriates, high-end villas and serviced apartment rents fell 0.6% and 0.2% QoQ to

RMB120.4 and RMB202.4 per sq m per month, respectively. Meanwhile, Grade A apartment rents continued to marginally grow, up 0.1% QoQ to RMB143.0 per sq m per month.

■ Despite limited new supply in core areas, tightening housing budgets from multinational corporations (MNCs) for expatriates will likely see serviced apartment rents continue to witness downward pressure. Vacancy rates are expected to increase over the coming months, as units in projects located in non-prime markets are expected to experience difficulties in being digested by the market in the face of weakening demand.

“Despite limited new supply in core areas, tightening housing budgets from multinational corporations for expatriates will likely see serviced apartment rents continue to witness downward pressure.”

Jack Xiong, Savills Research

➔ **Leasing market overview**

The high-end residential leasing market remained relatively cool during the third quarter. Continued concerns over air pollution combined with tightened housing allowances from MNCs saw demand from expatriates, particularly family units, remain weak. This was reflected in traditionally popular residences of family units – serviced apartments and high-end villas – both experiencing declines in rental values and occupancy rates during the period. On the other hand, Grade A apartments have shown a slight pick-up in activity, with rental and occupancy rates both increasing by the end of Q3/2015.

**Serviced apartment market**

No new projects were launched onto the serviced apartment market in the third quarter of 2015. While there was no new supply, after consecutive negative quarter results the serviced

apartment net take-up reached -7 units in Q3/2015. As a result, overall and luxury serviced apartment occupancy rates declined 0.1 of a ppt and 0.5 of a ppt to 83.2% and 85.5% respectively.

With the market generally looking largely pessimistic, many serviced apartments continued to offer rental discounts in order to close deals. As a result, overall and luxury serviced apartment rents both dropped 0.2% QoQ to RMB202.4 and RMB244.0 per sq m per month by the end of Q3/2015.

**Grade A apartment market**

As demand from expatriates, particularly family units, shifted away from serviced apartments and high-end villas due to their higher accommodation cost, the Grade A apartment market continued to outperform the other sectors. As a result, city-wide overall occupancy

rates increased 0.2 of a ppt QoQ to 92.4%, while luxury Grade A apartment occupancy rates remained stable at 90.7%.

Although a trend of demand moving towards Grade A apartments is becoming evident, the general slowing of the economy has seen landlords continue to remain cautious in terms of rental hikes. As a result, overall and luxury Grade A apartment rental growth was mild, up 0.1% and 0.2% QoQ to RMB143.0 and RMB163.7 per sq m per month, respectively.

**High-end villa market**

Strong public concern over air pollution, particularly from family units, has resulted in sluggish demand for high-end villas. This, combined with narrowing budgets from MNCs, has seen high-end villa occupancy rates decline slightly, down 0.1 of a ppt to 86.3% by the end of the period. The luxury villa market also remained largely inactive, with occupancy rates stabilising at 88.1%

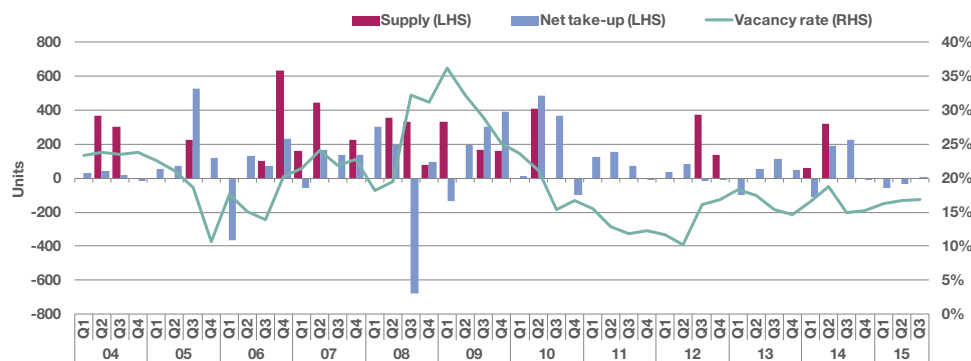
High-end villa rents fell 0.6% QoQ to RMB120.4 per sq m per month. Meanwhile, luxury villa rents posted a mild increase, up 0.6% to RMB148.2 per sq m per month.

**Leasing market outlook**

The last quarter of 2015 will see the market receive its first new supply after five consecutive dry quarters. While three new projects are scheduled to be launched onto the market, supply will remain largely limited in core areas, as the majority of stock will enter non-prime locations. Core areas will see Oakwood Residence at Damei Central Plaza (奥克伍德服务式公寓 - 达美中心) located in Chaoyang Park area enter the market. Meanwhile, non-prime areas are expected to welcome Somerset Wangjing (盛捷远洋望京服务公寓) located in Wangjing area and Shama BCS (莎玛BCS北京) located in Central Villa area in Shunyi district to the market.

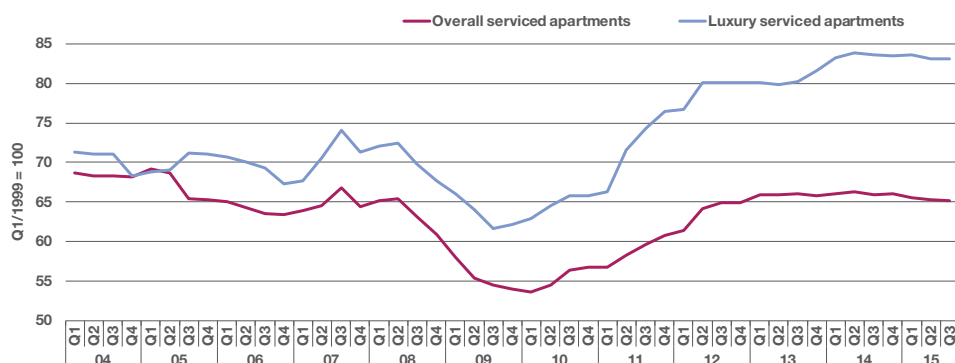
Despite limited new supply in core areas, tightening housing budgets from MNCs for expatriates will likely see serviced apartment rents continue to witness downward pressure. Vacancy rates are expected to increase over the coming months, as units in projects located in non-prime markets are expected to experience difficulties being digested by the market in the face of weakening demand. ■

GRAPH 1 **Serviced apartment supply, take-up and vacancy rates, Q1/2004–Q3/2015**



Source: Savills Research & Consultancy

GRAPH 2 **Serviced apartment rental indices, Q1/2004–Q3/2015**



Source: Savills Research & Consultancy

TABLE 1 Residential leasing market overview, Q3/2015

		Rent (RMB per sq m per month)	QoQ change (%)	Occupancy rate (%)	QoQ change (%)
High-end	Serviced apartment	202.4	-0.2	83.2	-0.1
	Grade A apartment	143.0	+0.1	92.4	+0.2
	Villa	120.4	-0.6	86.3	-0.1
Luxury	Serviced apartment	244.0	+0.1	85.5	-0.5
	Grade A apartment	163.7	+0.2	90.7	-
	Villa	148.2	+0.6	88.1	-

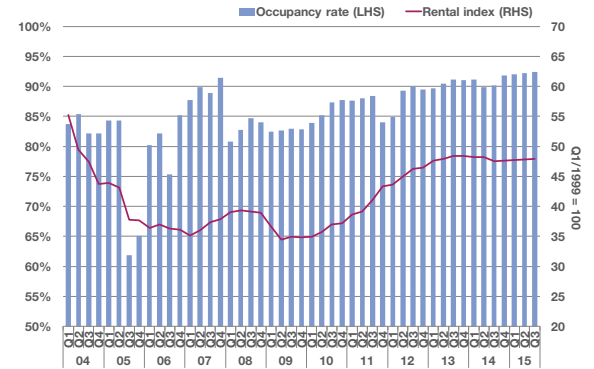
Source: Savills Research & Consultancy

TABLE 2 Future supply, Q4/2015

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	123
Oakwood Residence at Damei Central Plaza (奥克伍德服务式公寓 - 达美中心)	Serviced apartment	New supply	Chaoyang Park	TBC

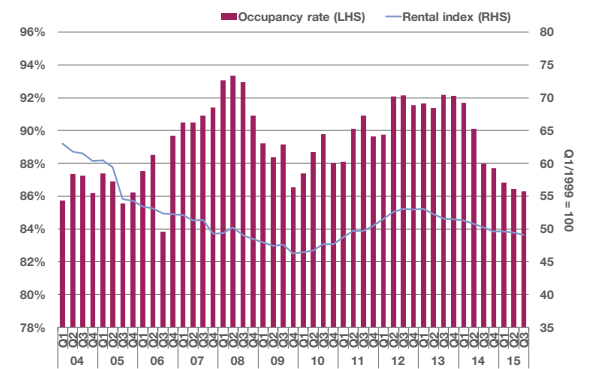
Source: Savills Research & Consultancy

GRAPH 3 Grade A apartment rental index and occupancy rates, Q1/2004-Q3/2015



Source: Savills Research & Consultancy

GRAPH 4 High-end villa rental index and occupancy rates, Q1/2004-Q3/2015



Source: Savills Research & Consultancy

## Please contact us for further information

### Savills Research



**James Macdonald**  
 Director, China  
 +8621 6391 6688  
[james.macdonald@savills.com.cn](mailto:james.macdonald@savills.com.cn)

### Savills Project & Development Consultancy



**Jack Xiong**  
 Director  
 +8610 5925 2042  
[jack.xiong@savills.com.cn](mailto:jack.xiong@savills.com.cn)

### Savills Agency



**Anthony McQuade**  
 Senior Director  
 +8610 5925 2002  
[anthony.mcquade@savills.com.cn](mailto:anthony.mcquade@savills.com.cn)



**Stella Meng**  
 Senior Manager  
 +8610 5925 2025  
[stella.meng@savills.com.cn](mailto:stella.meng@savills.com.cn)

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