

# Briefing Residential leasing

April 2018



Image: China World Apartments, CBD

## SUMMARY

No new serviced apartments entered the market in Q1/2018 while China World Apartments closed temporarily to undergo renovations. The limited availability of stock saw average rents continue to edge up.

- No new serviced apartment projects launched in Q1/2018. Meanwhile, the temporary closure of China World Apartments in the CBD for refurbishment in March saw the total serviced apartment stock decline to 8,219 units.

- A limited availability of serviced apartments saw the city-wide occupancy rate increase by 1.4 percentage points (ppts) quarter-on-quarter (QoQ) to 88.9% by the end of Q1/2018, up 2.4 ppts year-on-year (YoY).

- Serviced apartment average rents registered a growth of 0.2% QoQ to RMB233.0 per sq m per month in Q1/2018, up by 6.2% YoY.

- Strong demand from domestic tenants saw high-end apartment rents increase by 1.4% QoQ and 4.5% YoY to RMB164.2 per sq m per month by the end of Q1/2018.

- Demand in the villa leasing market remained stable and stemmed mainly from contract renewals. As a result, high-end villa average rents grew 0.2% QoQ to RMB122.5, up by 2.3% YoY.

“Limited supply and strong leasing demand place Beijing’s serviced apartment market in a position to achieve further rental appreciation. As a result, it remains one of the most attractive markets for both apartment operators and investors.” Jack Xiong, Savills Research & Consultancy

→ **Serviced apartment market**

The serviced apartment market received no new projects in Q1/2018. China World Apartments, located in the CBD, closed for renovations in March with the intention of relaunching in 2019. Total serviced apartment stock stood at 8,219 units by the end of Q1/2018.

A number of serviced apartments in the CBD, namely Ascott and Fraser apartments, saw occupancy rates increase as they absorbed tenants relocating from China World Apartments. However, some tenants with lower housing budgets and larger space requirements found it challenging to find suitable alternatives in the precinct and chose to relocate to other high-end apartments in the area, such as Yintai Park Hyatt.

A limited availability of serviced apartment units saw the city-wide occupancy rate increase by 1.4 ppts QoQ and 2.4 ppts YoY to 88.9% by the end of Q1/2018. Serviced apartment average rents registered a growth of 0.2% QoQ to RMB233.0 per sq m per month, up by 6.2% YoY.

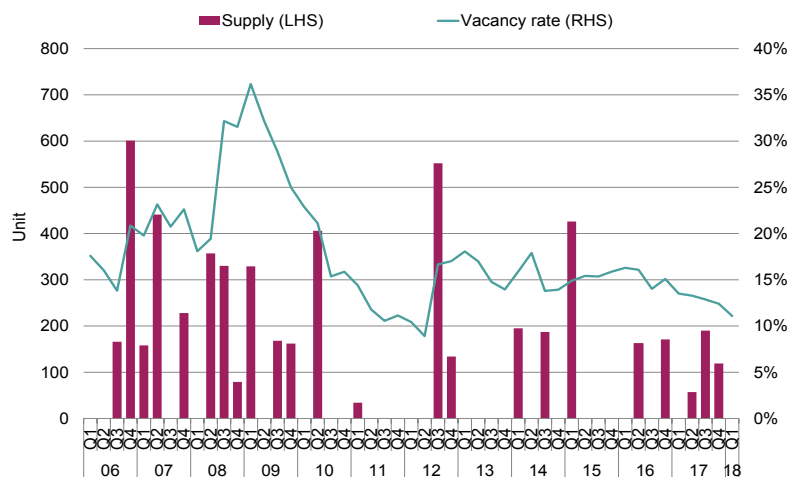
Limited supply and strong leasing demand place Beijing's serviced apartment market in a position to achieve further rental appreciation. As a result, it remains one of the most attractive markets for both apartment operators and investors. Thailand based ONYX Hospitality Group announced a strategic partnership with domestic developer Sincere Land in January. The agreement will see the two co-develop Shama Serviced Apartments in Beijing, Shanghai and other first-tier cities as well as in major second-tier cities.

**High-end residential leasing market rents**

Strong demand from domestic tenants pushed high-end apartment average rents up 1.4% QoQ and 4.5% YoY to RMB164.2 per sq m per month.

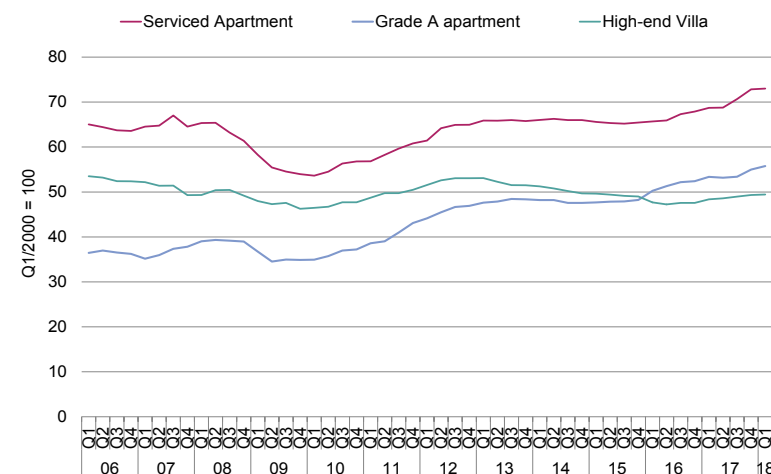
Leasing demand in the villa market remained stable and stemmed mainly from renewal activity. High-end villa average rents registered a growth of 0.2% QoQ to RMB122.5, up by 2.3% YoY.

GRAPH 1 **Serviced apartment supply and vacancy rates, Q1/2006–Q1/2018**



Source: Savills Research & Consultancy

GRAPH 2 **High-end residential leasing market rental index, Q1/2006–Q1/2018**



Source: Savills Research & Consultancy

**Long-term leasing apartments**

A recent spate of favourable government policies has encouraged the rapid development of Beijing's long-term apartment rental market. Not only are an increasing number of developers beginning to enter the market, but financial institutions and tech giants are also showing increased interest in investing in the sector's leading operators.

Jingrui Holdings purchased 221 apartment units in Cheng Yuan Building Tower A in Zhongguancun (ZGC) precinct for a total

consideration of RMB269 million in January.

Ziroom, the leasing apartment brand under Lianjia, received RMB4 billion in its Series A funding round led by Warburg Pincus, Sequoia Capital China and Tencent in January. The level of capital interest is a promising sign for the leasing market.

Operator cash flow issues have prompted increased experimentation and innovation as companies seek to finance projects. For example, Jingrui Holdings acquired Sanquan Apartments last year for a total

consideration of RMB643 million, and have recently securitised the asset through rolling out a Commercial Mortgage Backed Securities (CMBS) product in March 2018. Asset securitisation is expected to play an increasingly prominent role in the future of this market.

**Market outlook**

Kaisa Apartments in the CBD is scheduled to launch nearly 100 serviced apartment units in the market in Q2/2018.

Landlords of serviced apartment projects in East Chang’an Avenue are under increasing pressure because some companies intend to relocate their offices to the CBD as more options look set to open with the upcoming CBD Core Plot Area. It is rumoured that landlords are actively looking for tenants in anticipation of a mass relocation. Meanwhile, China World Apartments in the CBD is expected to benefit as companies and employees start to relocate to the precinct to both work and reside.

While the long-term rental apartment market is a key component of Beijing’s residential leasing market, the sector remains at an early stage of development and its profit model remains unclear. Going forward, the government will be rolling out more favourable policies to ensure the healthy and sustainable development of the market. ■

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