Residential Leasing

Two new projects enter market

New serviced apartments provide relief to a market short of supply.

- Ascott Beijing officially closed its doors on 1 March 2019. Meanwhile, the launches of two new serviced apartment projects during the quarter saw total market stock increase to 8,377 units.

- Grand Hyatt Beijing Apartments launched in East Chang’ an Avenue district, contributing 77 units to the serviced apartment market.

- Youtha Suites located in Lufthansa district commenced trial operations in Q1/2019, contributing 141 units of new supply to the serviced apartment market.

- Yosemite Phase IV made its debut in the high-end villa market in Shunyi district, contributing 120 units of new supply.

- The city-wide occupancy rate of serviced apartments decreased by 3.3 percentage points (pps) quarter-on-quarter (QoQ) to 86.9%, though this was only down by 2 pps year-on-year (YoY).

- City-wide serviced apartment average rent reached RMB255.53 per sq m per month, up by 0.4% QoQ and 7.7% YoY.

- High-end apartment average rent registered RMB172.2 per sq m per month, a 0.1% QoQ decline, though this was up 4.5% YoY.

- High-end villa average rent declined by 0.2% QoQ to RMB307.7 per sq m per month, though this was up 6.5% YoY.

“While some residential developers have begun to expand their footprint in the long-term serviced apartment market, the sector as a whole remains in an exploratory phase.”

VINCENT LI, SAVILLS RESEARCH & CONSULTANCY
SUPPLY AND TAKE UP
The closure of Ascott Beijing on 1 March 2019 saw 162 serviced apartment units removed from the market. However, two new projects launched during Q1/2019—Grand Hyatt Beijing Apartments in East Chang’an Avenue and Youtha Suites in Lufthansa. While the new project openings contributed 218 units of serviced apartments to the market, the closure of Ascott Beijing resulted in total stock increasing to only 8,377 units by the end of Q1/2019.

Employees from the automotive and manufacturing sectors, and particularly from multinational companies, remain the key demand drivers for long-term tenancy agreements. In general, demand from international and domestic clients remained balanced. The majority of tenants are families and, consequently, demand for two-to-three bedroom apartments has been high.

RENT AND OCCUPANCY RATES
Due to the new supply and flat demand, the serviced apartment average occupancy rate declined by 3.3 ppts QoQ and 2 ppts YoY to 86.9%. Meanwhile, average rent registered a growth of 0.4% QoQ and 7.7% YoY to RMB255.52 per sq m per month.

Stable leasing demand in the high-end apartment market caused rent and occupancy to remain relatively stable throughout Q1/2019. The average occupancy rate increased slightly by 0.3 of a ppt to 93%, while average rent was down 0.1% QoQ to RMB172.2 per sq m per month, though this was up 4.5% YoY.

New supply in the high-end villa market pulled down the average occupancy rate by 2.4 ppts QoQ to 87%. Meanwhile, average rent also posted a marginal decline, down 0.2% QoQ to RMB130.7 per sq m per month, though this was up 6.5% YoY.

MARKET OUTLOOK
Due to limited land supply, it is anticipated that project conversions will become one of the major sources of serviced apartment supply in future. In addition, a growing number of residential developers will focus on building their high-quality, long-term apartment brands and models as they look to cater to mainstream tenants. Projects of similar quality and specifications to the recently-launched Youtha Suites by China Resources can be expected in the future.

The economic slowdown, new supply and a shift in demand will put the serviced apartment market under some pressure in 2019. Serviced apartment operators will need to adjust their rental strategies in order to ensure healthy occupancy levels in their projects and, as a result, it is anticipated that average rent will experience limited growth in 2019.

Source: Savills Research

<table>
<thead>
<tr>
<th>TABLE 1: New Supply Of Serviced Apartments, Q1/2019</th>
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<tbody>
<tr>
<td>PROJECT NAME</td>
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</tr>
<tr>
<td>Youtha Suites</td>
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<tr>
<td>Grand Hyatt Beijing Apartment</td>
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