

# Residential Leasing



## No new serviced apartment supply

Demand for serviced apartments remained stable in Q3/2019, while high-end projects saw decent absorption.

- No new serviced apartment projects launched during the quarter. Total market stock remained unchanged at 8,377 units.
- Due to stable demand, the citywide serviced apartment occupancy rate increased by 0.3 of a percentage point (ppt) quarter-on-quarter (QoQ) to 88.5%, although the overall rate was down 1.9 ppts year-on-year (YoY).
- Citywide serviced apartment average rent reached RMB254.93 per sq m per month, up by 0.2% QoQ and 0.8% YoY.
- High-end apartment average rent registered RMB172.3 per sq m per month, marking a 0.4% QoQ and 0.6% YoY increase.
- High-end villa average rent decreased by 0.2% QoQ, although it was up by 1.2% YoY to RMB131.6 per sq m per month.
- Youtha Suites in Lufthansa district performed strongly and achieved 100% occupancy during the quarter.
- The second phase of Orientino Executive Apartments will contribute 225 new units to the serviced apartment market in Q4/2019.
- The refurbishment of China World Apartments is anticipated to be finalised in the first quarter of 2020; 407 units will enter the market upon completion.

“The occupancy rate in the serviced apartment market increased slightly, with projects offering prime locations and high-level management displaying a heightened ability to attract and retain tenants.”

VINCENT LI, SAVILLS RESEARCH

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### CENTRAL MANAGEMENT

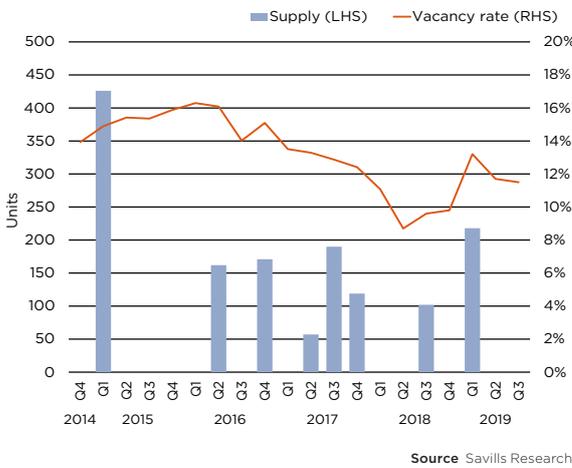
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### RESIDENTIAL LEASING

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**GRAPH 1: Serviced Apartment Supply And Vacancy Rate, Q4/2014 to Q3/2019**



**GRAPH 2: High-End Residential Leasing Market Rental Index, Q4/2014 to Q3/2019**



**SUPPLY AND TAKE UP**

No new serviced apartment projects were launched during Q3/2019, and, as a result, total market stock remained unchanged at 8,377 units.

Youtha Suites, developed and managed by China Resources Land, exhibited the market’s standout performance and achieved 100% occupancy during Q3/2019. Located in Lufthansa district, the project boasts easy accessibility to Beijing Capital International Airport, Wangjing and Lize, and has been particularly popular with employees from the automotive sector who continue to account for the highest proportion of tenant mix in the project.

The overall serviced apartment market has seen an increase in demand from domestic tenants. Employees from the automotive and manufacturing sectors, particularly from multinational companies (MNCs), continue to be the main demand drivers for long-term tenancy agreements. One- to two-bedroom apartments are the most sought after units in the residential leasing market, as they fill the strong demand requirement from individuals and small family units.

**RENT AND OCCUPANCY RATES**

Due to stable demand and a lack of new supply, the citywide serviced apartment occupancy rate increased by 0.3 of a ppt QoQ to 88.5%, though the overall rate was down by 1.9 ppts YoY. Meanwhile, serviced apartment average rent reached RMB254.93 per sq m per month, up by 0.2% QoQ and 0.8% YoY.

In the high-end apartment market, despite stable demand, average rent and occupancy levels remained relatively flat on a quarterly basis. The average occupancy rate increased by only 0.1% QoQ to 93.8%. Meanwhile, average rent edged up by 0.4% QoQ and 0.6% YoY to RMB172.3 per sq m per month. Tenant composition in the high-end apartment market is dominated by domestic renters from the pharmaceutical and automotive sectors, in

addition to embassy and consulate staff.

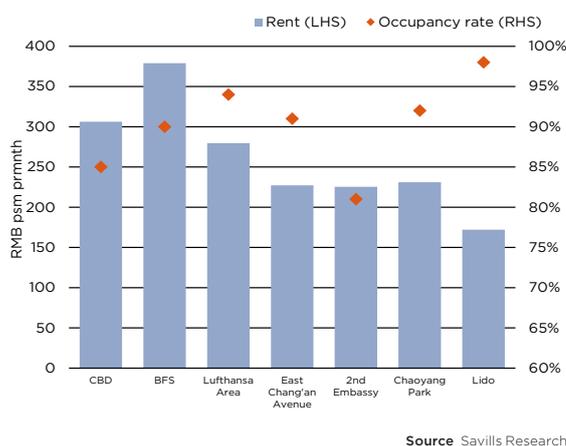
The high-end villa market continued to offer limited supply, as no new supply entered the market during the quarter. As a result, the average occupancy rate edged up by 0.7% QoQ to 88.3%. Average rent decreased slightly by 0.2% QoQ, though this was up 1.2% YoY to RMB131.6 per sq m per month. The majority of tenant demand stems from domestic clients with high expectations, and, consequently, landlords have had to concentrate on delivering top-class facilities and superior interior and exterior decorations if they wish to stand out from competitors. Yosemite Phase IV located in Shunyi district is expected to bring 100 units to the high-end villa market early next year and is anticipated to be well-received by the market.

**MARKET OUTLOOK**

Two projects are expected to enter the serviced market in the coming two quarters—Orientino Executive Apartments is forecast to deliver 225 units in Q4/2019, while the refurbishment of China World Apartments is set to contribute 407 units in Q1/2020. Despite stable demand in the market, the collective impact of 634 units of new supply over the next half-year is expected to cause a slight short-term decline in the overall occupancy rate.

For a limited supply of serviced apartment units, a shift to the high-end apartment long-term leasing market has emerged as a viable alternative for seconded employees of MNCs, and, as a result, this sector recorded reasonable absorption levels in Q3/2019. Rapid expansion in the long-term leasing sector has led to a strong divergence in performance by players, with both bankruptcies and IPOs occurring in the previous quarters. It is anticipated that developers will continue to focus on this sector in the future and that strong operations management and financing capability will continue to drive the best operators ahead of the competition.

**GRAPH 3: Submarket Rents And Occupancy Rates, Q3/2019**



**TABLE 1: Future Supply Of Serviced Apartments, Q4/2019**

PROJECT NAME	LOCATION	NO. OF UNITS
Orientino Executive Apartment Beijing	CBD	225

Source: Savills Research