

Briefing Sales and Investment

April 2018



Image: Ibis Beijing Sanyuan Hotel, Sanyuanqiao

SUMMARY

Government encouragement of the residential leasing market has prompted institutional investors to acquire quality serviced apartment projects with the intention of project conversion to enter the long-term rental apartment market.

■ Mainly due to the restrictive policies on commercial properties, the first-hand strata-title office and retail markets continued to decline in Q1/2018, with total transaction area falling by 10.1% and 77% quarter-on-quarter (QoQ) to 89,000 sq m and 46,000 sq m, respectively.

■ 10 en-bloc transactions were closed in Q1/2018, registering a total consideration of RMB5.3 billion.

■ Grade A office capital values registered an average of RMB79,600 per sq m at the end of Q1/2018, up 3.4% QoQ. Meanwhile, Grade A office gross reversionary yields tightened by 0.04 of a percentage point (ppt) to 5.23%.

■ A total of 24 land plots were transacted during Q1/2018, registering a total transaction volume of RMB57.3 billion, down 39.6% QoQ. 18 plots were positioned for residential usage and only two plots for commercial usage.

“While investors remained eager to acquire en bloc serviced apartments, hotel and retail assets, policy restrictions introduced more than a year ago have had a material impact on the volume of sales in the strata-title office and retail markets.” Jack Xiong, Savills Research & Consultancy

➔ **Market commentary**

The first-hand, strata-title office and retail market declined in Q1/2018, mainly due to restrictive policies and the off-peak sales season falling during the period. New supply in the strata-title office market reached 29,000 sq m during the quarter, down 86.3% QoQ. Total transaction area also declined by 10.1% QoQ to 89,000 sq m. By contrast, total consideration rose 40.4% QoQ to RMB2.95 billion.

The first-hand, strata-title retail market received 19,500 sq m of new supply in Q1/2018, down 85.4% QoQ. Total transaction area reached 46,300 sq m, down 77.2% QoQ. Total consideration registered RMB1.87 billion, down 69.2% QoQ.

The en-bloc investment market recorded stable performance in Q1/2018. A total of 10 deals were concluded for a total consideration of RMB5.3 billion. The majority of transacted assets were serviced apartments, hotel and retail projects.

The land market remained robust in Q1/2018, with 24 plots acquired for a consideration of RMB57.3 billion. 18 plots were designated or partially designated for residential projects, while only two plots were zoned for commercial usage.

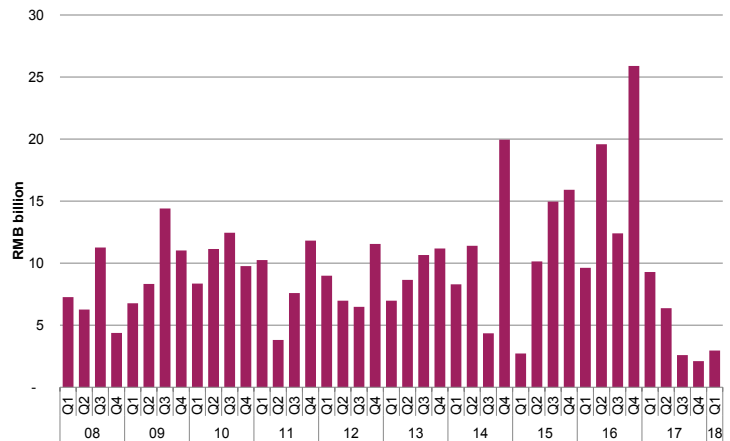
Office sector

All grades

The first-hand strata-title office market welcomed 29,000 sq m of new supply in Q1/2018, down a significant 86.3% QoQ and 76.9% year-on-year (YoY). Total transaction area reached 89,000 sq m during the quarter, down by 10.1% QoQ and 63.8% YoY.

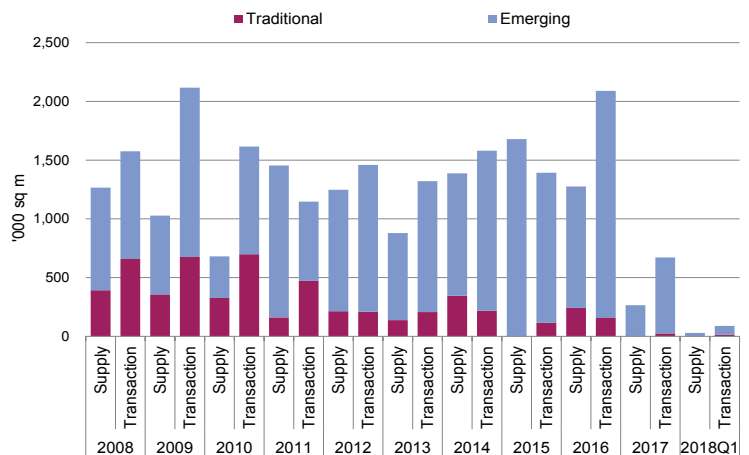
However, total consideration rebounded by 40.4% QoQ to RMB2.95 billion, although it was still down 68.2% YoY. Meanwhile, average transaction prices were up 56.8% QoQ and 13% YoY to RMB33,322 per sq m.

GRAPH 1 **First-hand, strata-title office sales, Q1/2008–Q1/2018**



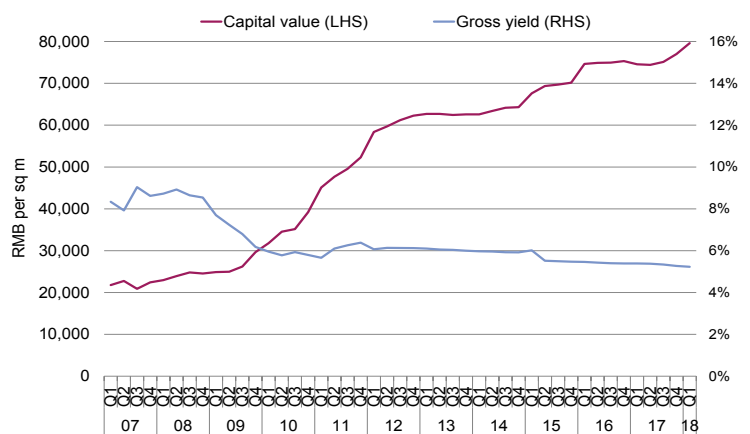
Source: Savills Research & Consultancy

GRAPH 2 **First-hand, strata-title office supply and transaction by area, 2008–Q1/2018**



Source: Savills Research & Consultancy

GRAPH 3 **Grade A capital values and yields, Q1/2007–Q1/2018**



Source: Savills Research & Consultancy

→ Transaction volumes continued to concentrate in districts such as Fengtai, Chaoyang and Shijingshan and some emerging areas including Pinggu, Fangshan and Changping during Q1/2018. In terms of transaction area, Pinggu district occupied the largest proportion, accounting for 24.5% of total transacted area. Meanwhile, Tongzhou district came in second place at 14%. In terms of total consideration, Xicheng and Fengtai districts took the lead, accounting for 35.4% and 25.3% of total consideration, respectively.

Grade A office market

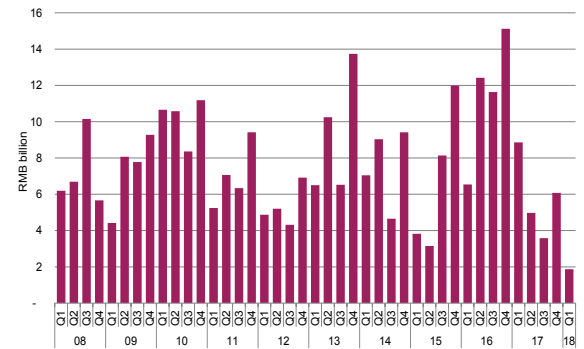
Sustained and steady investment demand for office assets has driven Grade A office capital values up 3.4% QoQ and 6.8% YoY to reach an average of RMB79,600 per sq m by the end of Q1/2018. Meanwhile, Grade A office gross reversory yields continued to tighten by 0.04 ppts to 5.23%.

Retail sector

New supply in the first-hand, strata-title retail market totalled 19,500 sq m during Q1/2018, down 85.4% QoQ and 42.5% YoY. Total

GRAPH 4

First-hand, strata-title retail sales, Q1/2008–Q1/2018



Source: Savills Research & Consultancy

TABLE 1

Major first-hand, strata-title office projects in Q1/2018

Project	Financial Street Yuetan Center 金融街月坛中心	Tunghsu International Center 东旭国际中心	Nobel Center 诺德中心
			
Location	Xicheng	Fengtai	Fengtai
Developer	Financial Street Holdings	Tunghsu Group	China Railway Nobel Real Estate
Transaction area (sq m)	14,995	13,323	2,154
Average Price (RMB/sq m)	69,693	40,895	46,793

Source: Savills Research & Consultancy

TABLE 2

Major strata-title retail projects in Q1/2018

Project	Fontainebleau Chateau 枫丹壹號	Chang'an Paradise Walk 长安天街	The Park 首开万科公园里
			
Location	Daxing	Mentougou	Tongzhou
Property type	Residential / Retail Podium	Strata-title Retail	Residential / Retail Podium
Developer	Poly / Sunac	Longfor Properties	Beijing Capital Development / Vanke
Transaction area (sq m)	4,291	3,660	1,788
Average Price (RMB/sq m)	49,935	58,817	51,435

Source: Savills Research & Consultancy

transaction area registered 46,300 sq m, down 77.2% QoQ and 75.1% YoY. Total consideration recorded RMB1.87 billion in the quarter, down 69.2% QoQ and 73.8% YoY. Average transaction prices registered RMB40,417 per sq m, up 35.2% QoQ and 48.6% YoY.

En-bloc investment market

The en-bloc investment market remained stable in Q1/2018. A total of 10 deals were concluded, recording a total consideration of RMB5.3 billion. The majority of transactions were concentrated in the serviced apartment, hotel and retail asset classes.

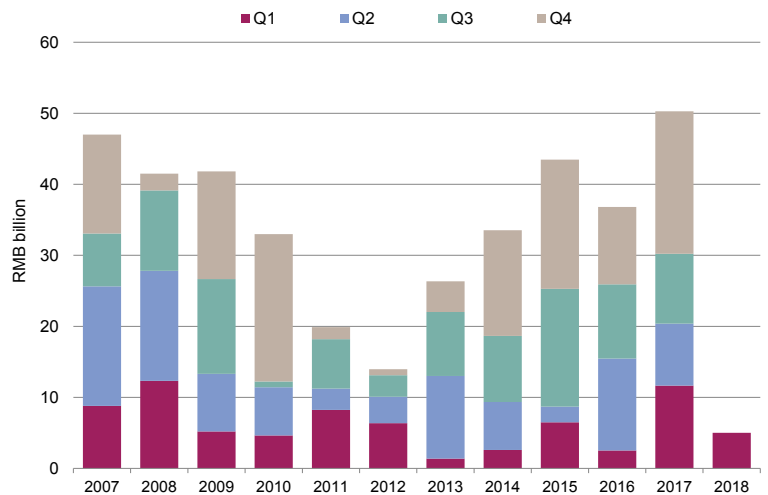
Moves by the government to encourage and cultivate the residential leasing market has prompted institutional investors to acquire quality serviced apartment projects with the objective of entering the long-term rental apartment market. Deals of the quarter included:

- Modern Land acquired two serviced apartments – Ai Lihua Premise and New York Premise, for a total consideration of RMB1.55 billion.
- Jingrui Holdings purchased 221 residential units in Cheng Yuan Building Tower A for a total consideration of RMB269 million.

Investors continued to acquire commercial assets with favourable investment potential such as hotels. Major transactions during the quarter included:

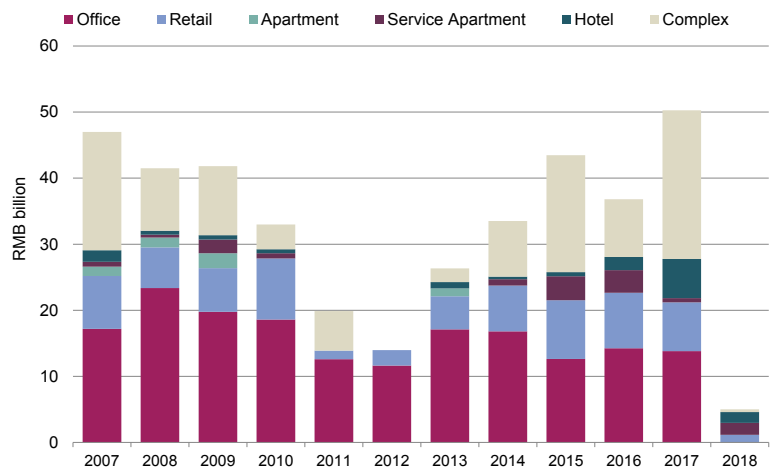
- A joint venture between China Lodging Group and TPG acquired two hotels – Novotel Beijing Sanyuan and Ibis Beijing Sanyuan for a total consideration of RMB1.18 billion.
- Ao Ya Hotel in Chaoyang district was acquired by domestic enterprise King Pattern Industrial Holding Group. The deal transacted for a total consideration of RMB440 million.

GRAPH 5 En-bloc investment volumes, 2007–Q1/2018



Source: Savills Research & Consultancy

GRAPH 6 En-bloc investment volumes by property type, 2007–Q1/2018



Source: Savills Research & Consultancy

Land market

In Q1/2018, 24 land plots were transacted, registering a combined consideration of RMB57.3 billion, down 39.6% QoQ although up 165% YoY. 18 of the new plots were designated or partially designated for residential usage – 11 of those plots were zoned for price-capped housing and the remaining seven plots were for joint-ownership housing projects.

Two commercial land plots were transacted during the quarter and

both were registered for commercial financial service usage. Beijing Capital Land acquired a plot in Pinggu district for RMB938 million and Financial Street Holdings purchased a plot in Mentougou district for RMB600 million.

Market outlook

It has been more than a year since the implementation of restrictive regulations on Beijing’s property market. As a result, transaction volumes in the strata-title sales

market have seen a significant reduction. Since the government has repeatedly stated its intention to stabilise the housing market through policy controls, it is estimated that transaction volumes in the strata-title office and retail markets will face

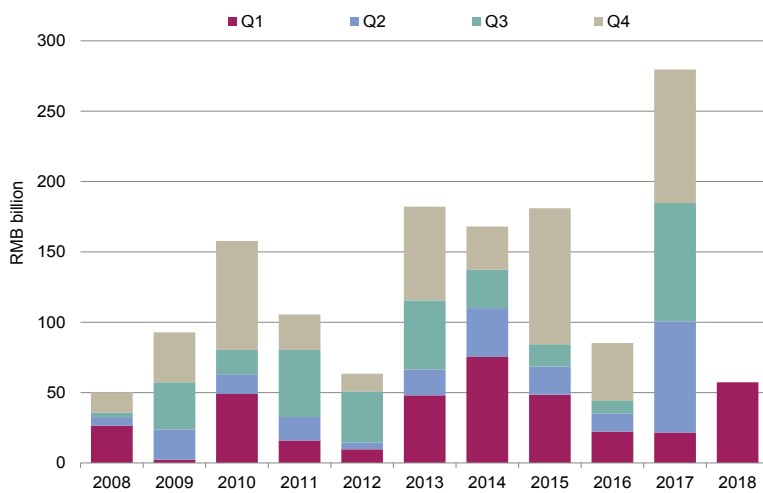
greater challenges rebounding in the remainder of 2018.

Recently, institutional investors have increasingly diversified their acquisition targets. Apart from traditional assets classes (office,

retail and hotel sectors), the market for serviced apartment and detached office towers in industrial parks has gained momentum. In addition to this, the impact from restrictive regulations and high land costs have seen some developers target mature assets which offer potential for value-add and, subsequently, greater asset appreciation and return on investment.

The land market is expected to stay robust in terms of supply and transactions in 2018. The residential land supply will increase and concentrate on joint-ownership housing and price-capped housing, as the government hopes to curb speculation and stabilise housing prices. In contrast, commercial land auctions are anticipated to be limited and the location of plots will be concentrated in the emerging and suburban areas, in line with Beijing's latest urban planning direction and general decentralisation trend. ■

GRAPH 7 Land transaction volumes, 2008–Q1/2018



Source: Savills Research & Consultancy

TABLE 3 Major En-bloc transactions, Q1/2018

Project	Ai Lihua Premise/New York Premise 爱丽华公寓/纽约客公寓	Cheng Yuan Building Tower A 程远大厦A栋	Novotel Beijing Sanyuan / Ibis Beijing Sanyuan 诺富特三元酒店/宜必思北京三元桥酒店	Ao Ya Hotel 奥亚酒店
Buyer	Modern Land	Jingrui Holdings	China Lodging Group / TPG	King Pattern Industrial Holding Group
Seller	Beijing Fornot Property Management	Beijing ChinRoot Jindao Commercial Management	Ascendas Hospitality Trust	Beijing C & W Electronics Group
Location	Haidian	Haidian	Chaoyang	Chaoyang
Purchased area (sq m)	70,000	9,699	32,586	11,371
Sales volume (million)	1,550	269	1,180	440
Unit price (RMB per sq m)	22,143	27,734	36,212	38,694

Source: Savills Research & Consultancy

TABLE 4
Major land transactions, Q1/2018

Plot	Location	Planned GFA (sq m)	Usage	Consideration (RMB billion)	Buyer
Chaoyang 2017 – 096	Chaoyang	99,433	Residential	6.1	Beijing Capital Land / Sino Ocean
Haidian 2017 – 100	Haidian	134,591	Residential	5.5	Gezhouba Real Estate
Changping 2017 – 103	Changping	299,579	Mixed Use	5.45	China Overseas
Mentougou 2017 – 117	Mentougou	272,690	Mixed Use	4.65	Long Tai Real Estate / PowerChina Real Estate
Daxing 2017 – 115	Daxing	119,142	Residential	3.28	China Overseas

Source: Savills Research & Consultancy

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