Savills World Research Shanghai



Briefing Residential leasing

February 2015



Image: Tomson Riviera

SUMMARY

Leading internationally-branded serviced apartment operators continued to pursue aggressive expansion in both first- and second-tier cities towards the end of 2014.

No new projects were launched onto the market in Q4/2014, as two serviced apartments – Ascott Hengshan and Aroma Garden Serviced Suites (Lanson Place Luxiangyuan) – postponed their launch dates to early 2015.

Overall residential rents fell 0.4% in Q4/2014, to an average of RMB178.1 per sq m per month, down 0.6% yearon-year (YoY). City-wide occupancy rates fell 0.3 of a percentage point (ppt) quarter-on-quarter (QoQ) to 88.6%, and remain down 0.6 of a ppt YoY. ■ Overall serviced apartment rents fell 0.4% QoQ to RMB217.6 per sq m per month, down 0.1% YoY. City-wide serviced apartment occupancy rates rose 0.1 of a ppt QoQ to 86.8%, up 0.4 ppts YoY.

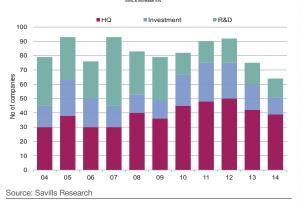
Overall villa rents fell 0.4% QoQ to RMB154.9 per sq m per month, down 0.8% YoY, while city-wide villa occupancy rates fell 0.4 of a ppt QoQ to 93.4%, down 1.5 ppts YoY. "Companies operating within the service sector continue to favour Shanghai and other first-tier cities as their point of operation, resulting in a heightened demand for luxury, centrally-located serviced apartments from the mainland Chinese demographic." James Macdonald, Savills Research

Market overview

Towards the end of the year a dip in the percentage of longer-term assignments was recorded as more secondees arrived for periods of less than six months or on a project-byproject basis. This trend indicates a shift in the structure of secondments from the more traditional two- to three-year contracts towards shorterterm assignments of less than a year. This increasing number of shortterm tenants is likely to accentuate seasonal fluctuations in occupancy. However, this is less prevalent due to the anomaly of this year's Chinese New Year holiday falling a month and a half after New Year holidays. This has driven several serviced apartment projects to focus on shorter-term leases, as well as daily rates in a select few, in an effort to boost occupancy by capitalising on this demand. Promotions through the end of the year are expected to help maintain occupancy rates during the quiet period.

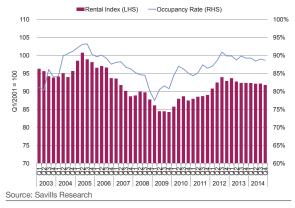
GRAPH 1





GRAPH 2

Increase in the number of MNC's in Shanghai, 2004-2014



As economic growth rates stabilise, multinational companies (MNCs), especially those in manufacturing industries, continue to expand into second-tier cities where operating and labour costs remain considerably lower. Most. however. continue to develop their regional headquarters in first-tier cities. Despite the continued recovery of the economic environment, MNCs remain prudent in terms of personnel and expansion costs, which has led to the localisation of their workforce. This, in turn, has increased demand in the overall residential leasing market from domestic tenants.

Companies operating within the service sector continue to favour Shanghai and other first-tier cities as their point of entry into China. 2014 saw 39 new regional headquarters established in Shanghai, along with 12 investment companies and 13 R&D centres. According to data published by the Shanghai Statistics Bureau, over a third of the total headquarters located in Shanghai serve as Asia Pacific headquarters.

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Serviced apartment market overview¹

No new serviced apartments were launched in Q4/2014, allowing the market to continue absorbing some of the excess space within new projects launched during the last three years. With the increasing prevalence of local hires within MNCs. demand from domestic tenants is compensating for the continued slowing in demand from expatriates. As a result, many serviced apartment and luxury apartment projects in traditionally popular areas are recording almost equal numbers of both domestic and expatriate tenants.

Top internationally-branded serviced apartment operators continue to pursue aggressive expansion in both first- and second-tier cities towards the end of 2014 and into 2015. Ascott, Lanson, Savills Residence and several others have new projects slated for release 1 Rents quoted are only for stays at or longer than one year. onto the China market in 2015, with many other projects in the pipeline over the next few years. This indicates that serviced apartment operators and landlords are still bullish about the market and that demand continues to outweigh supply in many cities around China, particularly second-tier cities receiving an influx of cost-conscious MNCs.

Overall serviced apartment rents fell 0.4% QoQ to RMB217.6 per sq m per month, down 0.1% YoY. City-wide serviced apartment occupancy rates rose 0.1 of a ppt QoQ to 86.8%, up 0.4 of a ppt YoY. Both Puxi and Pudong serviced apartment occupancy rates rose 0.1 of a ppt and 0.3 of a ppt QoQ to 86.2% and 87.4% respectively.

Strata-title apartment market overview

The strata-title apartment leasing market has witnessed steady growth in demand and rent over the course of 2014 and is expected to continue to be the submarket witnessing the strongest growth in 2015. Units on the strata-title market tend to be more economical for cost-conscious MNCs whose housing budgets remain lower than the level seen in previous years. Given that the standard of apartments and landlords now available and the quality of the buildings in projects has risen in recent years, and has begun to appeal more to secondees coming to China, this is a trend that is expected to continue next year.

City-wide strata-title apartment rents rose 0.5% QoQ, leading the overall trend for strata-title apartments to remain up 0.8% YoY to an average of RMB159.7 per sq m per month. Citywide occupancy rates rose 0.1 of a ppt QoQ to 88.6%, up 0.3 ppts YoY.

The overall apartment market, including strata, luxury and serviced apartments, showed a city-wide increase in rents this quarter, rising 0.1% QoQ, up 0.1% YoY. Citywide occupancy rates remained unchanged QoQ, yet up 0.1 of a ppt YoY.

Villa market overview

Traditional villa areas suffered as families continue to express concern over education fees, standards of living and rising pollution levels leading to a prolonged dip in → rental levels and occupancy rates on the overall villa market. Many expatriates are opting to return to Shanghai for shorter secondments and are therefore signing shorter leases or choosing to repatriate their families, reducing the need for larger units. However, with the expected emergence of the Hongqiao Transportation Hub increasing commercial presence in the area, Hongqiao may see a boost in demand over the next few years.

The Jinqiao district, having developed rapidly over the last few years, is now considered to be the hot spot of the villa market. The abundance of international schools in the area has allowed it to become a major hub for foreign nationals and their families residing in China. Overall rents in the area showed a slight decrease of 0.2% QoQ to RMB157.8 per sq m per month, down 1.8% YoY. Occupancy rates, however, continue on an upward trend with an increase of 0.7 of a ppt QoQ and 1.5 ppts YoY. This indicates that the area continues to attract new demand from long-term secondees.

Overall villa rents fell 0.4% QoQ to RMB154.9 per sq m per month, down 0.8% YoY. City-wide villa occupancy rates fell 0.4 of a ppt QoQ to 93.4%, down 1.5 ppts YoY.

Market news

New visa requirements for shortterm workers coming to China It November saw the Ministry of Human Resources and Social Security (MHRSS), Ministry of Foreign Affairs, Ministry of Public Security and Ministry of Culture jointly release new visa regulations for short-term workers. The changes are as follows:

Workers travelling to China for research, training, filming and other situations identified by MHRSS for 90 days or less would need to apply for Z visas, and those staying longer than 30 days would also need to obtain residence permits. Unlike Z visas issued to those taking up employment and working long-term, these are not renewable upon expiry.
The new regulations also clarify appropriate visa types for other short-term arrangements in China for 90 days or less. The M visa would

TABLE 1

Selected strata-title apartment, serviced apartment and villa transactions, Q4/2014

Project name	Туре	Area	Gross unit size (sq m)	Unit price (RMB per month)	Transaction Date	Lease term (months)
Lanson Place	Serviced apartment	Jinqiao	165	45,000	Nov	12
Shimao Riviera Garden	Strata-title apartment	Lujiazui	208	33,350	Oct	12
Lakeside Villa	Villa	Huqingping	374	37,400	Nov	12
8 Park Avenue	Strata-title apartment	Jing'an	145	24,000	Nov	12
IFC Residence	Serviced apartment	Lujiazui	95	28,000	Dec	12

Source: Savills Research

TABLE 2

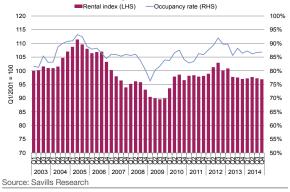
Strata-title apartment, serviced apartment and villa indicators, Q4/2014

Rent (RI	MB per sq m p	per month)	Occupancy (%)		
Q4/2014	QoQ change (%)	YoY change (%)	Q4/2014	QoQ change (ppts)	YoY change (ppts)
217.6	-0.4	-0.1	86.8	+0.1	+0.4
159.7	+0.5	+0.8	88.6	+0.1	+0.3
154.9	-0.4	-0.8	92.1	-0.4	-1.5
	Q4/2014 217.6 159.7	Q4/2014 QoQ change (%) 217.6 -0.4 159.7 +0.5	Q4/2014 change (%) change (%) 217.6 -0.4 -0.1 159.7 +0.5 +0.8	Q4/2014 QoQ change (%) YoY change (%) Q4/2014 217.6 -0.4 -0.1 86.8 159.7 +0.5 +0.8 88.6	Q4/2014 QoQ change (%) YoY change (%) Q4/2014 QoQ change (ppts) 217.6 -0.4 -0.1 86.8 +0.1 159.7 +0.5 +0.8 88.6 +0.1

be granted to those in China for the purpose of commercial and trade activities while the F visa would be granted to those entering the country for the purpose of exchange and visits.

The purpose of the new regulations was to address uncertainties and difficulties face by MNCs bringing short-term workers into China who are unsure of the type of visa that should be applied for. The notice came into effect on January 1, 2015.

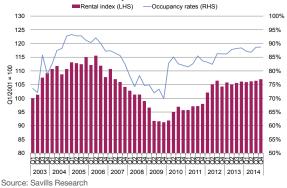
Serviced apartment occupancy rate and rental index, Q1/2003–Q4/2014



GRAPH 4

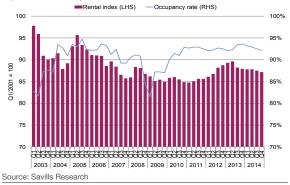
GRAPH 3

Strata-title apartment occupancy rate and rental index, Q1/2003-Q4/2014



GRAPH 5

Villa occupancy rate and rental index, Q1/2003-Q4/2014



Market outlook

Two new, internationally-branded serviced apartments – 79-unit Aroma Garden Serviced Suites managed by Lanson Place in Huangpu district and 90-unit Ascott Hengshan in Xuhui district – are expected to be launched in 2015 after being delayed, adding 169 units to the serviced apartment market. English independent school Harrow is also expected to open a campus in Shanghai. August 2015 will see the first pupils admitted, those being the Pre-Prep age group (Years 1-5). The school is situated in the newly developed Sunland project in the Waigaoqiao Free Trade Zone.

The leasing market is expected to see a continuation of many of the trends already being played out, including, among others, cost control by MNCs with regards to expatriate housing budgets and shorter-term secondment periods.

Looking forward, demand is expected to remain stable with an increase from domestic tenants compensating for slowing demand from MNC expatriates.

Project focus

Aroma Garden Serviced Suites (Lanson Place Luxiangyuan)

Aroma Garden Serviced Suites, located close to one of Shanghai's most prominent commercial districts – the Huaihai Road central business district – will be developed in two phases, comprising primarily high-end residential units and supporting commercial facilities. Lanson Place will be responsible for the management of the project's Serviced Residences, which will offer 79 serviced apartment units of between 60 sq m and 300 sq m, a gym and a breakfast lounge.

TABLE 3 Aroma Garden Serviced Suites (Lanson Place Luxiangyuan)



Definition: Unless otherwise stated, rents refer to one-year rents of 150-sq m two-bedroom units in the mid-zone of residential towers unless unavailable, in which case the standard unit size for the development is used.

Please contact us for further information

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