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Savills World Research
Shanghai

Briefing
Residential leasing

February 2014

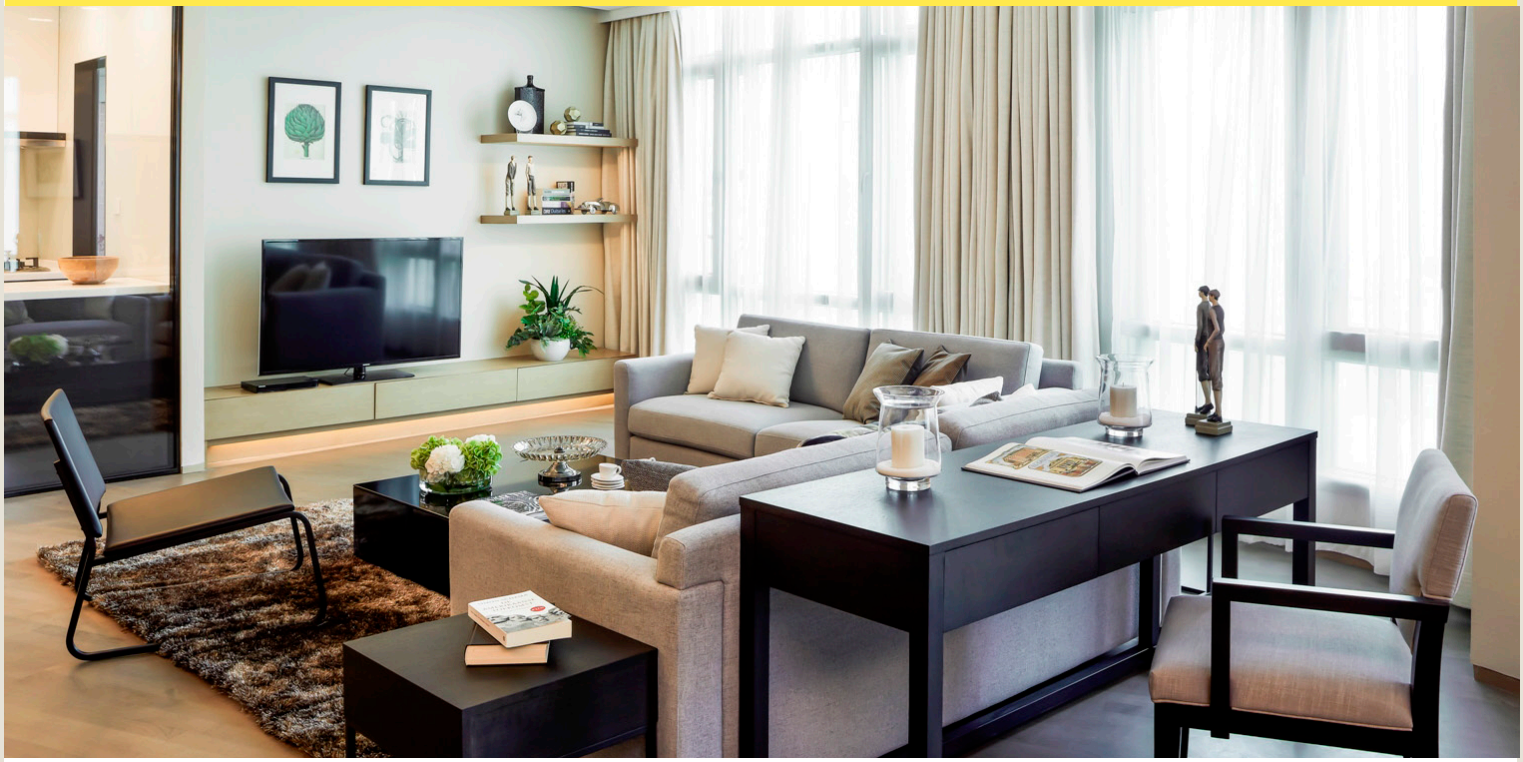


Image: Times Square Apartments

SUMMARY

The villa market has remained relatively stable this quarter with rents rising minimally and city-wide villa occupancy rates increasing, despite the end of the year being considered a quiet period.

- Times Square Apartments on Huaihai Road re-opened in early Q4/2013, returning 131 units to the serviced apartment market.
- Lanson Place Jinlin Tiandi (Xintiandi) began floor-by-floor renovations in late Q1/2013 and finished all renovation works on its 106 units in Q4/2013.
- One new project, The Grand Pujian Residence, had its soft opening in Q4/2013, adding 115 serviced apartments to the market. Units are expected to be available from January 2014.
- Overall residential rents rose 0.1% in Q4/2013 to an average of RMB181.9 per sq m per month, down 0.5% year-n-year (YoY). City-wide occupancy rates fell 0.6 of a percentage point (ppt) quarter-on-quarter (QoQ), down 0.4 of a ppt YoY to 89.4%.
- Overall villa rents rose 0.1% QoQ to RMB157.7 per sq m per month, with occupancy rates up by 1.1 ppts QoQ to 94.6%. Pudong villas saw a rise of 0.2% in rents, but remain 0.7% down YoY at RMB151.2 per sq m per month.
- Serviced apartment rents were down 0.2% QoQ to RMB220.0 per sq m per month, and occupancy rates dropped 1.8 ppts QoQ to an average of 86.9%, down 2.8 ppts YoY.

"Slower economic development is likely to translate into slower business growth and a limited increase in demand for the residential leasing market."

James Macdonald, Savills Research

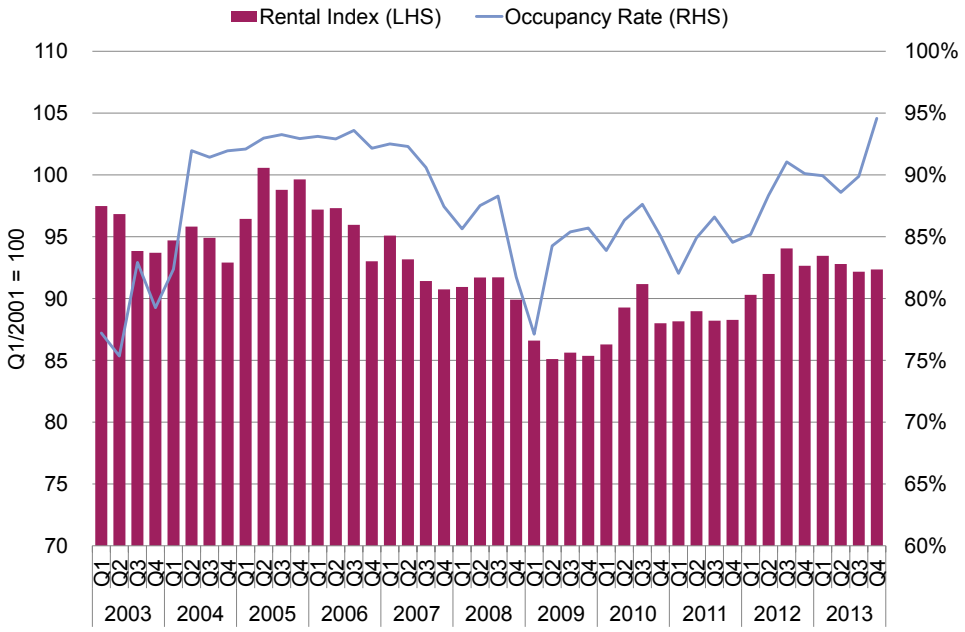
Market overview

As demand slowed from multinational corporations (MNCs), the residential leasing market saw only three new projects enter the market this year compared with five in 2012, four in 2011 and a record total of eight in 2010. Although the market is currently still absorbing the new stock from 2012, rental and occupancy rates for the first half of 2013 remained stable.

Overall residential rents rose by 0.1% QoQ but remain down 0.5% YoY at RMB181.9 per sq m. City-wide occupancy rates fell 0.6 of a ppt QoQ and are down 0.4 of a ppt YoY at 89.4%. The end of the year and the beginning of the quiet season has seen occupancy rates decrease from the previous quarter as tenants leave for the holidays and all schools are closed for a month of holidays.

GRAPH 1

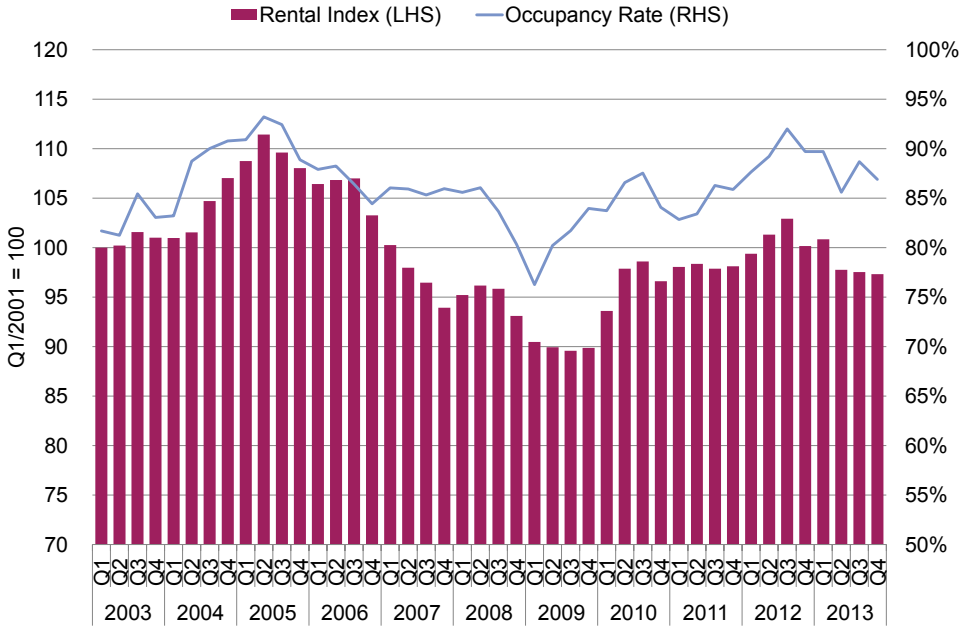
Residential leasing market occupancy rate and rental index, Q1/2003–Q4/2013



Source: Savills Research

GRAPH 2

Serviced apartment occupancy rate and rental index, Q1/2003–Q4/2013



Source: Savills Research

Policy overview

The new visa regulations implemented in 2H/2013 resulted in the postponement of some secondments:

- Change in the application procedure resulting in longer processing times; and

- New visa classifications (including key classifications Z, D, L and X, among others).

When the policies came into effect, there were concerns as to whether visas would be harder to obtain and the screening process would be more rigorous. No such problems arose after the implementation, thus the return to normal processing of initiations of new assignees.

For the renewal of residence permits the wait time has actually been reduced with the new regulations. Previously, renewals would require a passport being at the entry and exit bureau for a period of one week. Now, however, the applications can be submitted online for processing and applicants are only required to hand the passport in for one hour on the day of approval for the stamp.

Serviced apartment market overview[1]

Longer term assignments tend to be less frequent towards the end of the year with many secondees arriving only for periods of less than six months or on a project basis. This has prompted several serviced apartment projects to focus on shorter term leases, with many now also offering daily rates in an effort to boost occupancy by capitalising on such demand from MNCs. Promotions through the end of the year are also helping to maintain occupancy during what is known to be a relatively quiet period due to Christmas and Chinese New Year.

1 Rents quoted are only for stays of longer than one year, and as such, actual transacted rents may be lower leases of short- and mid-term stays of less than 12 months.

Several projects in Puxi recorded a decrease in occupancy rates in Q4/2013, with numerous projects dropping to 80%. This may be why Puxi serviced apartment occupancy rates fell 3.5 ppts QoQ to 85%. Pudong serviced apartment occupancy rates, however, remained relatively stable with an increase of 0.1 of a ppt QoQ to 89.1%. One project in the area had a relatively high increase, with Kerry Parkside recording occupancy rates of around 90%, a 5-ppt increase on last quarter's figure.

City-wide serviced apartment rents recorded a decrease of 0.2% QoQ and were down 2.8% YoY to an average of RMB220.0 per sq m per month. Occupancy rates were down 1.8 ppts QoQ and remain down 2.8 ppts YoY at 86.9% city-wide. While Pudong serviced apartment occupancy rates rose 0.1 of a ppt QoQ to 89.1%, Puxi serviced apartment occupancy rates fell 3.4 ppts to 85.0%.

Area performance

Nanjing Road

Serviced apartments on Nanjing Road typically have higher than average rents due to their centralised location and accessibility to both Puxi and Pudong's CBD. Despite the attractive location and a recently completed full renovation, Shanghai Centre is still recording a vacancy rate above the market average, signalling that demand is relatively weak in the area.

JW Executive Serviced Apartments has been rumoured to be starting renovation, but as of Q4/2013 there has been no progress or schedule released.

Jing'an Kerry Centre is a mixed-use project recently completed on Nanjing Road (W) with three office buildings and 86,000 sq m of retail space. Office occupancy rates are already relatively high and are expected to increase further. Retail occupancy rates are also high at 95.5%. With the project's increasing popularity, the complex may provide a boost in demand for the area. Kerry Residence is also part of this complex and recorded relatively high occupancy rates in Q4/2013.

Occupancy rates in Nanjing Road reflect this weak demand and Q4/2013 saw rates falling 3.3 ppts QoQ and 0.7 of a ppt YoY, while rents remained relatively stable, albeit high, at RMB269.3 per sq m per month, up 0.1% QoQ.

TABLE 1

Selected strata-title apartment, serviced apartment and villa transactions, Q4/2013

Project name	Type	District	Gross unit size (sq m)	Unit price (RMB per month)	Lease start	Lease term (months)
Yanlord Town	Strata-title apartment	Pudong	223	35,000	Oct	12
Green Villa	Villa	Pudong	316	55,000	Oct	12
Grand Gateway	Serviced apartment	Xuhui	146	22,500	Nov	12
Vizcaya	Villa	Pudong	450	64,000	Nov	12
IFC Residence	Serviced apartment	Pudong	123	36,000	Dec	12

Source: Savills Research

TABLE 2

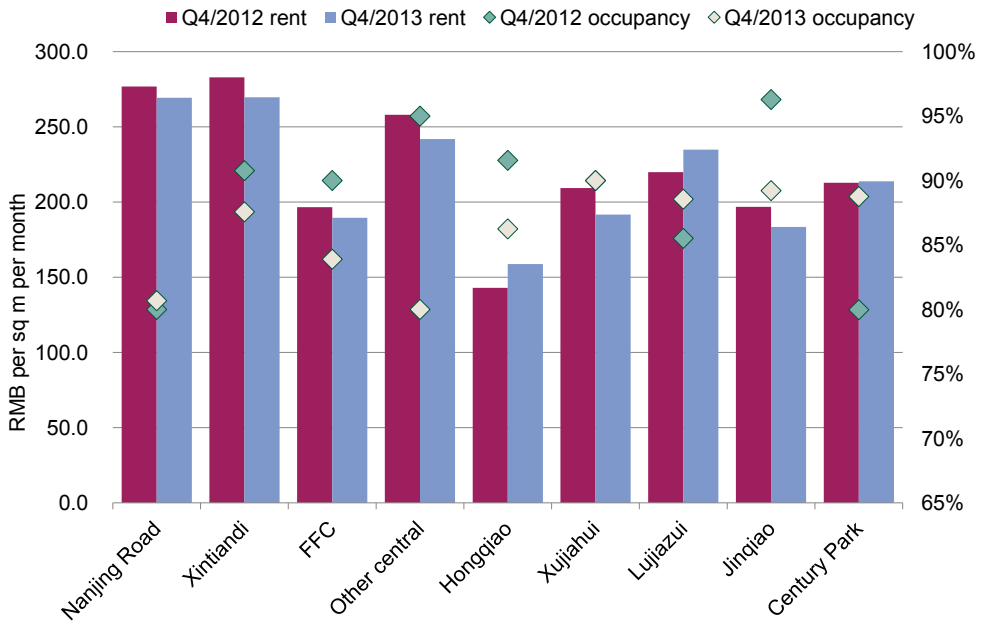
Strata-title apartment, serviced apartment and villa indicators, Q4/2013

	Rent (RMB per sq m per month)			Occupancy (%)		
	Q4/2013	QoQ change (%)	YoY change (%)	Q4/2013	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	220.0	-0.2	-2.8	86.9	-1.8	-2.8
Strata-title apartments	167.4	0.3	1.5	88.4	+0.2	+2.2
Villas	157.7	0.1	-0.1	94.6	+1.1	+2.1

Source: Savills Research

GRAPH 3

Serviced apartment rent and occupancy rate by area, Q4/2012 vs Q4/2013



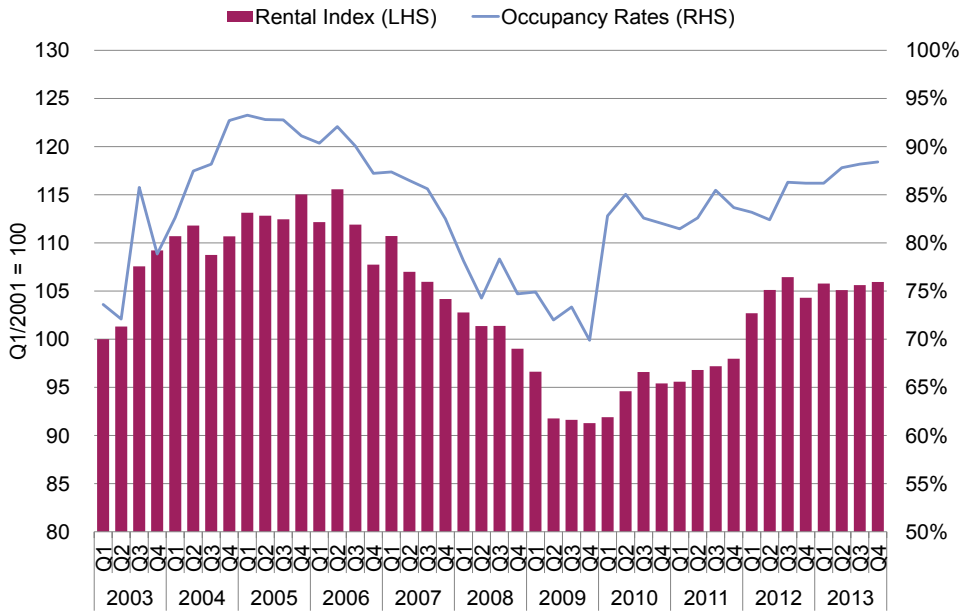
Source: Savills Research

Strata-title apartment market overview

The strata-title apartment leasing market witnessed constant interest from MNC assignees in 2013, while continuing to compete for predominately long-term leases with serviced apartments. The standard of service now offered and the quality of the buildings at strata-title projects has risen in recent years and has begun to appeal more to secondees coming to China, with certain people opting for larger units. While strata-title projects are competing for the long-term leases, serviced apartments continue to diversify their tenant base by including mid- and short-term types of stays and some even offering daily rates.

GRAPH 4

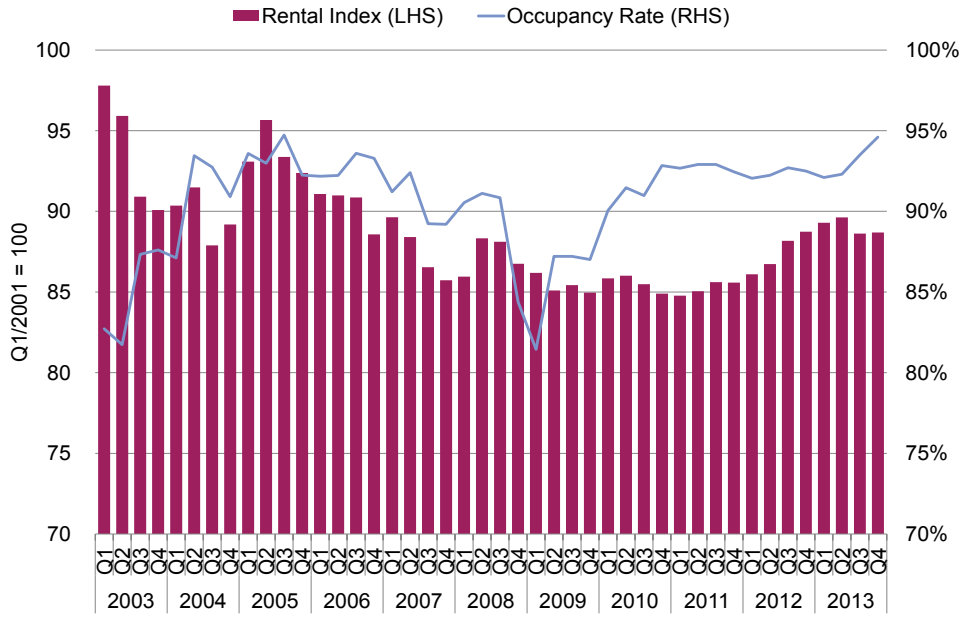
Strata-title occupancy rate and rental index, Q1/2003–Q4/2013



Source: Savills Research

GRAPH 5

Villa occupancy rate and rental index, Q1/2003–Q4/2013



Source: Savills Research

The owner of Shama Xintiandi recently announced that they would be selling their serviced apartment units and converting to strata title. Sales started in November and so far 40 units have been sold from a total of 102 units. Units sold will still have Shama property management services for the next two years.

City-wide strata-title apartment rents recorded an increase of 0.3% QoQ and were up 1.6% YoY to an average of RMB167.4 per sq m per month. Occupancy rates were up 0.2 of a ppt QoQ and remain up 2.2 ppts YoY at 88.4% city-wide.

Villa market overview

Q3/2013 was slower than usual this year as many secondments were postponed due to several factors, with the majority being related to the visa policy changes. This created a build-up of demand, which explains why we have seen a slight increase in activity spilling over into Q4/2013, a normally quiet period.

The overall villa market remained stable through Q4/2013, with rents only rising 0.1% QoQ and falling 0.1% YoY to RMB157.7 per sq m per month. Occupancy rates saw growth of 1.1 ppts QoQ and 2.1 ppts YoY to 94.6%.

Market outlook

The much anticipated ICC residence from Hong Kong developer Sun Hung Kai Properties (the owner of the IFC complex in Pudong) is expected to open in Q1/2014 after being postponed from Q3/2013. Adding 64 units to the serviced apartment market, the project will be attached to IAPM mall and ICC office buildings located on Huaihai Middle Road in Huangpu district.

Chinese New Year and Christmas fell close together this year so flat demand from MNCs in Q4/2013 is expected to spill over to next year.

Forecasts have shows that growth in China is slowing and foreign direct investmentmay follow that trend, which could mean that less headquarters and new MNCs will be opening up in Shanghai. This could possibly influence demand for serviced apartments and affect the residential leasing market as a whole in the long run.

Project focus

Shanghai Times Square Apartments

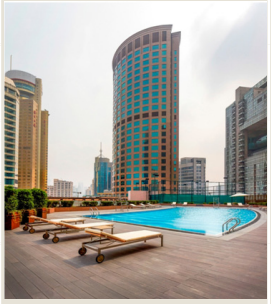
Shanghai Times Square Apartments was handed over in Q4/2013 after two years of full-scale renovation by owner Wharf Holdings, returning 131 units to the serviced apartment market. The project is located in the heart of the CBD on Huaihai Middle Road with easy access to the financial district in Lujiazui, Pudong. The project consists of one-, two- and three-bedroom apartment units and features multi-lingual reception, security, an outdoor swimming pool, outdoor tennis courts and a fully equipped fitness centre.

Units range from 96 sq m to 239 sq m and rents range from RMB24,000 to RMB 60,000 per month in the soft launch period. The project offers spacious rooms and tastefully decorated apartments, as well as the "Home Companion" concept, which comprises management staff which have received special training to ensure residents' satisfaction.

TABLE 3

Shanghai Times Square Apartments

Location	111 Huaihai Middle Road, Lu Wan
Developer	Wharf Estates China Ltd
Operator	Wharf Estates China Ltd
No. of buildings	1
No. of units	131
Transport links	15 minutes' drive to Lujiazui 5 minutes' walk to the nearest Metro station (South Huangpi Road Lu, line 1, Dashijie, line 8)
Launch date	Q4/2013 (relaunch)



Source: Savills China Research

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.

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