

# Briefing **Residential leasing**

May 2015



Image: Stanford Residences Jing'an

# **SUMMARY**

The residential leasing market has generally softened over the last 12 months as a result of weaker demand and lower housing budgets.

- Three new serviced apartment projects, Ascott Hengshan and Aroma Garden Serviced Suites by Lanson Place, and Stanford Residences, were launched in Q1/2015, adding 90 units, 79 units and 113 units to the market, respectively.
- Overall residential rents rose 0.3% quarter-on-quarter (QoQ) in Q1/2015 to an average of RMB179.1 per sq m per month, down 0.3% year-on-year (YoY). City-wide occupancy rates rose 0.5 of a percentage point (ppt) QoQ to 89.1%, and fell 0.1 of a ppt YoY.
- Overall serviced apartment rents rose 0.3% QoQ to RMB222.2 per sq m per month, but remain unchanged YoY. City-

- wide serviced apartment occupancy rates rose 0.3 of a ppt QoQ to 87.2%, down 0.1 of a ppt YoY.
- The strata-title apartment market showed a city-wide decrease in rents this guarter, falling 0.2% QoQ to 159.3, up 0.8% YoY. City-wide occupancy rates fell 0.4 of a ppt QoQ to 88.3%, up 1.1 ppts
- Overall villa rents rose 0.3% QoQ to RMB155.1 per sq m per month, but witnessed a decrease of 0.4% YoY. While city-wide villa occupancy rates saw an increase of 0.6 of a ppt QoQ to 92.7%, they still remain down 0.5 of a ppt YoY.

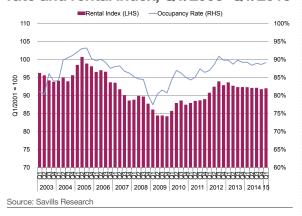
"International serviced apartment operators continue to aggressively expand China-wide but are slowing their development plans in the majority of the mature first-tier cities."

James Macdonald, Savills Research

### Market overview

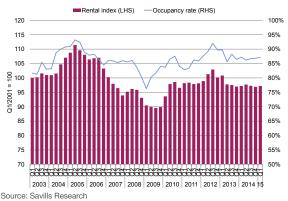
Slower growth in China and healthier overseas economies, leading to more opportunities in home markets, has prompted many long-term residents to return home and fewer expatriates to relocate to Shanghai amid air pollution concerns. Slowing economic growth in Shanghai and other first-tier cities, as well as growing business opportunities in second-tier cities, have led to a trend in expatriates now accepting secondments in other parts of China. This shift in relocation patterns is likely to slow demand in the market while also diversifying secondment length and tenant profiles. This expansion in other regions of China is likely to continue as operational costs rise in large first-tier cities, such as Shanghai, at a time where companies are looking to curb costs and defend profit margins. As a result, sluggish demand from expatriates in the residential leasing market is expected to continue.

Residential leasing market occupancy rate and rental index, Q1/2003–Q1/2015



GRAPH 2

# Serviced apartment occupancy rate and rental index, Q1/2003–Q1/2015



Overall residential rents rose 0.3% in Q1/2015 to an average of RMB179.1 per sq m per month, down 0.3% YoY. City-wide occupancy rates rose 0.5 of a ppt QoQ, and fell 0.1 of a ppt YoY to 89.1%.

# Serviced apartment market overview<sup>1</sup>

Three new serviced apartments were launched in Q1/2015 after being delayed from Q4/2014. Ascott Hengshan, located in the Xuhui district, added 90 units to the market and is the second serviced apartment complex under the Ascott name in operation in Shanghai, the other being Ascott Huaihai launched in 2010. Aroma Garden Serviced Suites by Lanson Place, located in the Huangpu district, added 79 units to the market and is the third project managed by Lanson Place to open in Shanghai after the original in Xintiandi in 2005 and a second in Jinqiao in 2009. Stanford Residence, located in the Jing'an district, added 113 units to the market and is the first serviced apartment complex managed by Stanford Hotels International, a hospitality arm under the K. Wah Group, in Shanghai.

Despite the three new serviced apartments on the market this quarter, the rest of the year is expected to remain relatively quiet in terms of new supply, allowing it to continue absorbing current stock in the market. International serviced apartment operators continue to be aggressive in terms of expansion China-wide but are slowing their development plans in the majority of the mature first-tier cities. This trend is expected to continue with the exception of a few projects in emerging areas near new schemes outlined by the government, such as the Hongqiao Transportation Hub.

Overall serviced apartment rents rose 0.3% QoQ to RMB222.2 per sq m per month, down 0.3% YoY. Citywide serviced apartment occupancy rates rose 0.3 of a ppt QoQ to 87.2%, down 0.1 of a ppt YoY. Puxi serviced apartment occupancy rates rose 1.0 ppts QoQ while Pudong serviced apartment occupancy rates fell 0.3 of a ppt QoQ to 87.2% and 87.0% respectively.

#### Villa market overview

The continued tightening of housing budgets in MNCs looking to curb costs has had the most impact on the villa market. While monthly housing allowances have changed dramatically over the last few years, villa rents have not. This, coupled with continued concerns over air pollution, food safety and rising education costs, as well as fewer instances of trailing families, has led to demand slowing on the market as indicated by a YoY decrease in occupancy rates.

The Hongqiao district saw rapid growth in the 1990s to become the first villa market hot spot. While experiencing limited new supply over the last five years, the abundance of international schools in the area continues to attract demand from expatriate families. Overall rents in the area remained unchanged at RMB193.1 per sq m per month, down 0.9% YoY. Area-wide occupancy rates fell 0.8 of a ppt QoQ, up 0.1 of a ppt YoY.

Overall villa rents rose 0.3% QoQ to RMB155.1 per sq m per month, but witnessed a decrease of 0.4% YoY. While city-wide villa occupancy rates saw an increase of 0.6 of a ppt QoQ to 92.7%, they still remain down 0.5 of a ppt YoY.

# Strata-title apartment market overview

Compared with serviced apartments, the strata-title apartment market is generally more flexible regarding lease terms. Thus, departing tenants of the villa market may prefer to choose a strata-title apartment rather than serviced apartments. Families leaving the villa market and wanting to stay in traditional villa areas due to the surrounding infrastructure and school system, such as Jinqiao and Hongqiao, now have the option of better strata-title apartments.

City-wide, strata-title apartment rents fell 0.2% QoQ, however, the overall trend for strata-title apartments remains up 0.8% YoY to an average of RMB159.3 per sq m per month. City-wide occupancy rates fell 0.4 of a ppt QoQ to 88.6%, but remain up 1.1 ppts YoY.

<sup>1</sup> Rents quoted are only for stays at or longer than one year.  $\,$ 

The apartment market, including strata, luxury and serviced apartments, showed a city-wide increase in rents this quarter rising 0.2% QoQ, up 0.4% YoY. City-wide occupancy rates saw an increase of 0.5 of a ppt QoQ and remain up 0.4 of a ppt YoY

#### Market news

#### AmCham Business report - cause for tentative optimism

The American Chamber of Commerce in Shanghai released their annual China Business Report in April, including a survey of American companies' business sentiment for China.

One of the main highlights was the fact that most US companies are remaining optimistic and are increasing focus on the Chinese market, with 29% reporting China as their number one global investment priority. In addition, 95% of those surveyed are planning to maintain or increase the amount of investment in the market

While the increase in American company investments does not necessarily correspond to an increase in secondments or housing budgets, it remains encouraging and could provide more opportunities for new expatriates, local employees and returning Chinese secondees.

#### **China Garden Serviced Apartment** sells for RMB340 million

China Garden Serviced Apartment located in Gubei was sold in Q1/2015 to Shanghai Zhongchengjian Asset Management Ltd. for a total consideration of RMB340 million. The project is slated to remain a serviced apartment with only ownership changing; the serviced apartment operated is expected to be the same.

#### Market outlook

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 newlydeveloped Sunland project in the Waigaogiao Free Trade Zone. Continued concerns over food safety and air quality may mean slowed demand from MNCs throughout the rest of the year. However, an increase in domestic demand may go some way to compensating for this slowing demand

A continuation of many trends is expected on the market with many MNCs keeping their cost control measures in place with tighter housing budgets and shorter-term secondments.

Growing demand on the short- to mid-term stay market may stem from an increase in both domestic and international in-country relocation with more employees relocating around China on a project basis.

TABLE 1

## Selected strata-title apartment, serviced apartment and villa transactions, Q1/2015

Project name	Туре	Area	Gross unit size (sq m)	Unit price (RMB per month)	Transaction Date	Lease term (months)
IFC Residence	Serviced apartment	Lujiazui	123	38,800	Jan	12
Shimao Riviera Garden	Strata-title apartment	Lujiazui	331	35,500	Jan	12
Green Villa	Villa	Jinqiao	260	48,000	Feb	12
Skyline Mansion	Strata-title apartment	Lujiazui	302	48,000	Mar	12
Fraser Residence	Serviced apartment	Xintiandi	129	30,000	Mar	12

Source: Savills Research

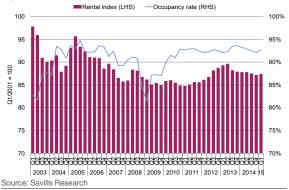
# Strata-title apartment, serviced apartment and villa indicators, Q1/2015

	Rent (R	MB per sq m p	per month)	Occupancy (%)		
	Q1/2015	QoQ change (%)	YoY change (%)	Q1/2015	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	222.2	+0.3	=0.0	87.2	+0.3	-0.1
Strata-title apartments	159.3	-0.2	+0.8	88.3	-0.4	+1.1
Villas	155.1	+0.3	-0.4	92.7	+0.6	-0.5

Source: Savills Research

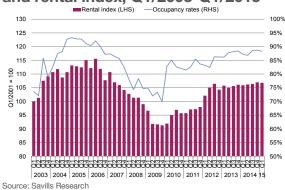
GRAPH 3

## Villa occupancy rate and rental index, Q1/2003-Q1/2015



GRAPH 4

# Strata-title apartment occupancy rate and rental index, Q1/2003-Q1/2015



# **Project focus**

# Stanford Residences

Stanford Residences, located in the Jing'an district, KWIH's first serviced apartment project in Shanghai, is strategically located within the Group's luxurious residential project Grand Summit. Offering mainly three-bedroom and three-bedroom with study room from 227 to 275 sq m, as well as 280 sq m duplexes and 473 to 526 sq m penthouses, the project added 113 units to the market. While enjoying the unparalleled five-star services of the facilities, the project is also within close proximity to several renowned commercial and retail hubs.

### TABLE 3

#### **Stanford Residences**

Location	Lane 1999 Xinzha Road		
Owner	K. Wah International Holdings Limited		
Operator	Stanford Hotels International		
No. of buildings	1		
No. of units	113		
Transport links	- 35 minutes' drive to Hongqiao Airport - 55 minutes' drive to Pudong International Airport - 10 minutes' walk to the nearest Metro station (Jing'an Temple, line 2)		
Handover date	Q1/2015		



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.

# Please contact us for further information

## Savills Research



James Macdonald
Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

# Savills Residential Leasing



Liza Wu Associate Director +8621 6391 5251 liza.wu@savills.com.cn

## Savills Residence



Neil Harvey Director +8621 6391 6688 neil.harvey@savills.com.cn

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