

# Briefing Residential leasing

November 2015



Image: Upper Riverside, Pudong

## SUMMARY

Increasing market maturity, rising demand from the local market and improved accommodation offerings have supported the rise in demand for the strata-title apartment market, pushing up occupancy rates to historic highs.

- No new serviced apartments entered the market in Q3/2015, with the next supply, Green Court Place, expected to launch in Q4/2015.
- Two serviced apartment projects were sold in the third quarter, namely Lanson Place Jinlin Tiandi and American Homes.
- Overall residential leasing market rents increased 0.1% quarter-on-quarter (QoQ) to RMB179.5 per sq m per month, down 0.1% year-on-year (YoY), while vacancy rates fell 1.8 percentage points (ppts) QoQ to 9.2%, down 1.8 ppts YoY.
- Serviced apartment rents fell 0.5% QoQ to an average of RMB217.6 per

sq m per month, down 0.3% YoY, while vacancy rates fell 1.6 ppts QoQ to 10.2%, down 2.7 ppts YoY.

- Strata-title apartment rents increased 2.2% in Q3/2015, to RMB169.1 per sq m per month, up 1.0% YoY, while vacancy rates fell 2.9 ppts QoQ to 10.3%, down 1.3 ppts YoY.

- Villa rents fell 0.5% QoQ to an average of RMB150.5 per sq m per month, down 0.5% YoY, while vacancy rates declined 1.3 ppts QoQ to 6.4%, down 0.3 of a ppt YoY.

- Although international operators are continuing to expand aggressively in the China market as a whole, the

Shanghai market is expected to witness a relatively quiet couple of years, due to secondment location diversification.

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 “Investment interest in the serviced apartment sector picked up in the third quarter as a result of the stronger sales market, potentially causing a reduction of serviced apartment stock.” James Macdonald, Savills Research  
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➔ **Market overview**

No new serviced apartment projects entered the market in the third quarter of 2015, allowing the market to continue to absorb current stock levels.

Two investment deals were concluded in the third quarter – the sale of American Homes in the Changning district to Landsea Green Properties, and the disposal of Lanson Place Jinlin Tiandi in the Huangpu district to Zhongrong.

Ascott announced they would be opening two new serviced apartments in Shanghai under the Citadines brand: a 142-unit Citadines Jinxiu Shanghai located in Pudong, and a 154-unit Citadines Putuo Shanghai, both of which are scheduled to open in 2019.

**Overall residential market**

Overall residential rents rose 0.1% QoQ in Q3/2015, to an average of RMB179.5 per sq m per month, down 0.1% YoY. City-wide vacancy rates fell 1.8 ppts, both QoQ and YoY, to 9.2%.

Despite a decrease in vacancy rates in Q3/2015, as a result of the start of the school year, demand from families has generally declined, with expat housing budgets tightening in the face of slower economic growth. Employers typically are also now only offering financial assistance to expats for their accommodation needs, while employees are now facing increasing expenses, such as paying children’s school fees by themselves. As a result, smaller leasing units – studios and one-bedroom units – are in higher demand, which has led to an increase in rent in a number of projects which mainly comprise smaller-sized units.

The apartment market, including strata and serviced apartments, showed a city-wide increase in rents this quarter of 0.6% QoQ, up 0.2% YoY. City-wide vacancy rates saw a decline of 1.9 ppt QoQ to 10.2%, down 2.3 ppts YoY.

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

No new serviced apartments were launched onto the market in Q3/2015, allowing for current vacant units to be absorbed. With leasing activity recovering on the back of renewed demand, vacancy rates for serviced apartments fell in Q3/2015. However, the Shanghai market is expected to witness a relatively quiet couple of years, as international operators continue to expand aggressively in the overall China market, as a result of secondment location diversification

Overall serviced apartment rents fell 0.5% QoQ to RMB217.6 per sq m per month, down 0.3% YoY. City-wide serviced apartment vacancy rates fell 1.6 ppts QoQ to 10.2%, down 2.7 ppts YoY.

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

Pudong serviced apartments have outperformed their peers on the other side of the river so far this year. Vacancy rates have fallen 3.2 ppts year-to-date (YTD), with a number of projects fully occupied. A portion of the increased demand is believed to have come from several companies bringing over overseas expertise on a project basis, such as Disney, requiring a significant number of units to house these temporary, project-based workers in a hassle-free environment.

**Investment market**

**Shanghai American Homes (虹桥绿苑)**  
Shanghai American Homes was acquired by Landsea Green Properties from Angelo Gordon in July 2015, for a total consideration of RMB540 million, with an average price of RMB34,200 per sq m. The 75-unit project has a total GFA of around 15,800 sq m and is located at 770 Qingxi Road in the Changning district.

**Lanson Place Jinlin Tiandi (逸兰-锦麟天地服务式公寓)**  
Lanson Place Jinlin Tiandi was acquired by Zhongrong in September 2015 for a total consideration of RMB920 million, equating to RMB46,200 per sq m. The project has a total GFA of 19,900 sq m and is located at 168 Xingye Road in the Xintiandi area.

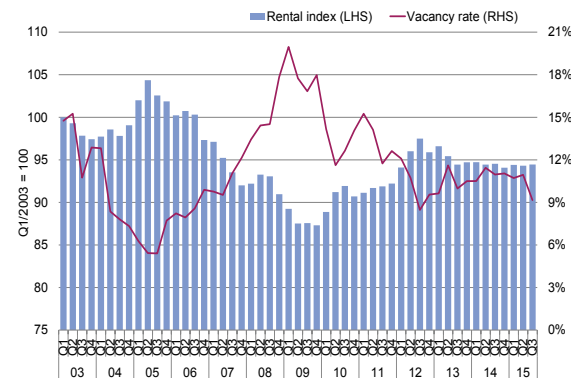
Primarily as a result of the hot Shanghai residential sales market, and comparatively calm residential leasing performance, the market has seen a number of serviced apartments sold and repositioned for the strata-title market.

**Strata-title apartment market overview**

Strata-title apartment rents increased 2.2% QoQ to an average of RMB169.1 per sq m per month, up 1.0% YoY. City-wide strata-title apartment vacancy rates fell 2.9 ppts QoQ to 10.3%, down 1.3 ppts YoY.

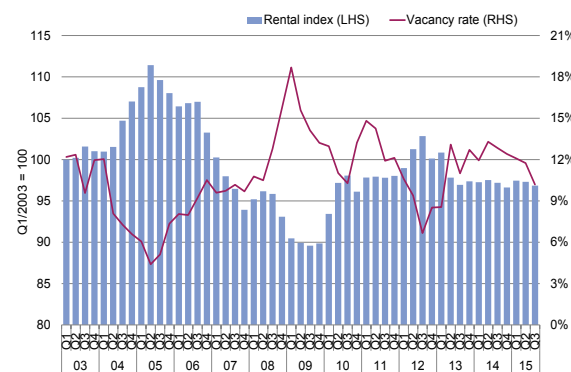
Strata-title apartment demand has increased significantly over the last five years, allowing vacancy rates to fall steadily to their lowest level since 2007. Emerging demand from the

GRAPH 1 **Residential leasing market rental index and vacancy rate, Q1/2003–Q3/2015**



Source: Savills Research

GRAPH 2 **Serviced apartment rental index and vacancy rate, Q1/2003–Q3/2015**



Source: Savills Research

→ domestic market and the availability of larger, more affordable strata-title units has diversified tenant profiles and placed increasing pressure on those serviced apartments targeting the mid- to long-term lease market.

Another emerging trend that coincides with the increase in domestic demand has been individuals unable to get on the property ladder turning to the strata-title apartment market. This trend is

expected to continue as numerous non-local individuals continue to migrate to the city each year for work.

### Villa market overview

Villa rents fell 0.5% QoQ to an average of RMB150.5 per sq m per month, down 0.5% YoY, while city-wide villa vacancy rates saw a decrease of 1.3 ppts QoQ to 6.4%, down 0.3 of a ppt YoY.

Due to the seasonality of the villa market, the third quarter was active in terms of leases signed and expiring. This can be attributed to families who follow the school year for repatriation and relocation.

### Market outlook

In addition to the upcoming new serviced apartment, Green Court Place, expected to launch in December 2015, three brand new projects are scheduled to launch in

TABLE 1  
**En-bloc deals, Q3/2015**

	American Homes	Lanson Place – Jinlin Tiandi
Property type	Serviced apartment	Serviced apartment
District	Changning	Huangpu
Above-ground GFA (sq m)	15,787	19,910
Price (RMB million)	540	920
Unit price (RMB psm)	34,200	46,200
Vendor	Angelo Gordon	Morgan Stanley
Purchaser	Landsea	Zhongrong
Transaction date	July 2015	September 2015

Source: Savills Research

TABLE 2  
**Strata-title apartment, serviced apartment and villa indicators, Q3/2015**

	Rent (RMB per sq m per month)			Occupancy (%)		
	Q3/2015	QoQ change (%)	YoY change (%)	Q3/2015	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	217.6	-0.5	-0.3	10.2	-1.6	-2.7
Strata-title apartments	169.1	+2.2	+1.0	10.3	-2.9	-1.3
Villas	150.5	-0.5	-0.5	6.4	-1.3	-0.3

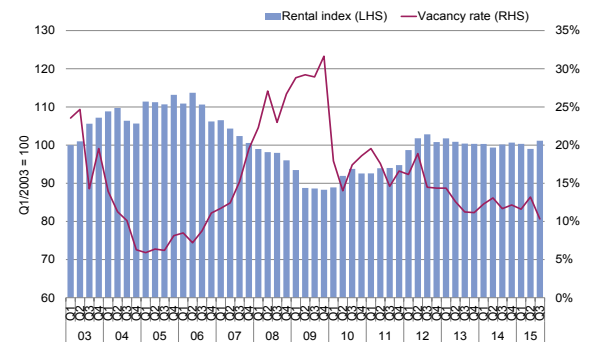
Source: Savills Research

TABLE 3  
**Selected strata-title apartment, serviced apartment and villa transactions, Q3/2015**

Project name	Type	Area	Gross unit size (sq m)	Unit price (RMB per month)	Transaction Date
Times Square	Serviced apartment	Huaihai Road (M)	239	61,000	July
Shimao Riviera Garden	Strata-title apartment	Lujiazui	303	45,000	July
Contemporary Spirit Villas	Villa	Xinzhuang	333	38,000	Aug
Fortune Residence	Strata-title apartment	Lujiazui	335	60,000	Sept
Fraser Suites Top Glory	Serviced apartment	Lujiazui	247	53,000	Sept

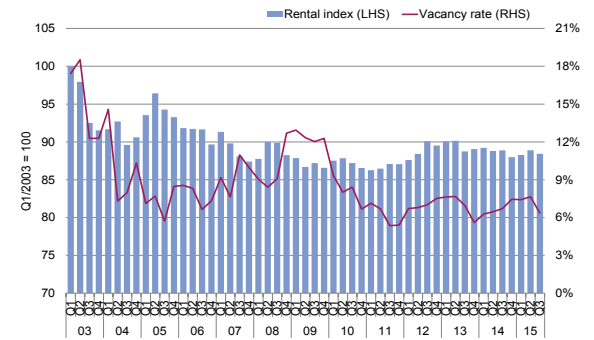
Source: Savills Research

GRAPH 3  
**Strata-title apartment rental index and vacancy rate, Q1/2003-Q3/2015**



Source: Savills Research

GRAPH 4  
**Villa rental index and vacancy rate, Q1/2003-Q3/2015**



Source: Savills Research

the next year, including the 342-unit Somerset Sunland Shanghai, as well as two projects by Lanson Place: the 196-unit Sunland Serviced Suites and the 186-unit Yongye Residences. The establishment of the Shanghai (Pilot) Free Trade Zone (SPFTZ) in 2013, and the development of Sunland community just to the west, have garnered significant attention, with the expectation of a significant upgrade to the commercial environment.

The recent buoyant occupancy rate performance of a number

of apartments augurs well for future rental growth, though a slower economy will mean that HR departments will remain in tight control of expat housing budgets. Demand from domestic entrepreneurs with larger housing budgets will continue to increase their footprints in the city, while foreign demand is expected to see lackluster growth despite continued market dominance.

With a mature living atmosphere and abundant surrounding facilities, the

leasing market in certain areas, such as Gubei, are likely to remain flat, with steady demand from renewal tenants while having limited space for rent increases due to older projects and limited housing budgets by target clients. ■

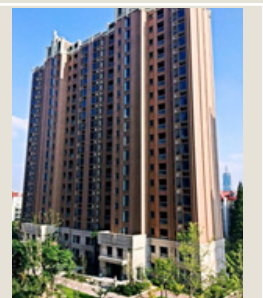
## Project focus

### Green Court Place

Located in the Jinqiao area in the Pudong district, Green Court Place is just one minute's walk from Jinqiao Road metro station (line 6), providing easy accessibility to key business and retail areas. Green Court Place consists of four residential buildings which are expected to be handed over in Q4/2015, offering 482 two- to three-bedroom units. An exclusive gym is also provided for tenants. The current asking rents range from RMB22,000 to RMB35,000 per month.

TABLE 4  
**Green Court Place**

Location	567 Zaozhuang Road, Pudong
Owner & Operator	Jinqiao Group
No. of units	482
Transport links	35 minutes' drive to Pudong Airport 1 minutes' walk to Jinqiao Road metro station (line 6)
Handover date	Q4/2015



Source: Savills China Research

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