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Savills World Research
Shanghai

Briefing
Residential leasing

November 2016

Image: Stanford Residences, Jing'An

SUMMARY

Landlords adjusted rents slightly downwards in Q3/2016, as vacancy rates recorded a slight uptick.

- One new serviced apartment project launched onto the market in Q3/2016, One Sunland Serviced Suites by Lanson Place, with 188 units.
- Vacancy rates increased across the board in Q3/2016. The most notable increase was seen in the serviced apartment market, which saw vacancy rates increase 3.3 percentage points (ppts) quarter-on-quarter (QoQ) to 12.3%.
- The strata-title apartment market saw vacancy rates increase 0.7 of a ppt QoQ to 12.1%, a lower rate than the serviced apartment sector for the first time since Q1/2015.
- Villa vacancy rates were up 1.3 ppts to 6.3%, and for the first time this year villa rents saw a decrease, down 0.7% QoQ to RMB152.0 per sq m per month.
- Serviced apartment rents were also down slightly 0.6% to RMB229.3 per sq m per month, however still up 4.4% year-on-year (YoY). Strata-title apartment rents were up slightly, 0.5% QoQ to an average of RMB176.1 per sq m per month.

"With time to absorb current stock, the market has a chance to stabilise vacancy rates before receiving several new projects in 2017." James Macdonald, Savills Research

Market overview

One new serviced apartment project launched in Q3/2016, the 188-unit One Sunland Serviced Suites by Lanson Place.

As we start to enter the slow season towards the end of the year, the market took stock of recent rental gains and vacancy rates ticked up, checking landlords' confidence levels. Vacancy rates increased by 2.1 ppts QoQ to 10.5%, up 1.4 ppts YoY, while rents dropped 0.4% QoQ to an average of RMB186.4 per sq m per month, still up 3.2% YoY.

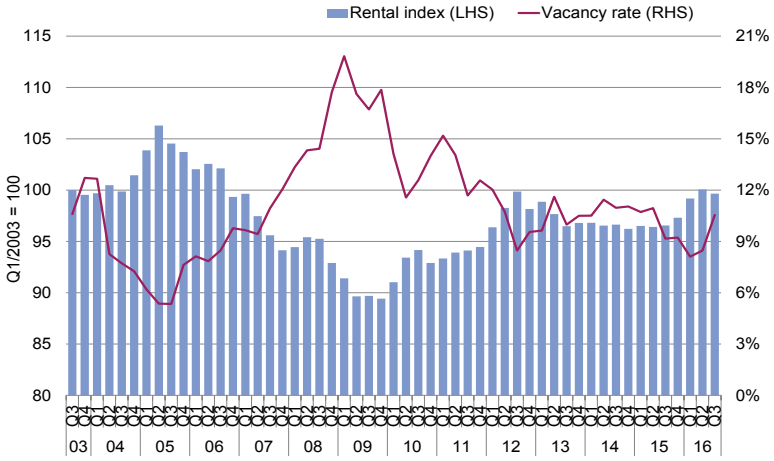
Both serviced apartments and, for the first time this year, villas, saw a decrease in rents in Q3/2016. Serviced apartment rents fell 0.6% QoQ to an average of RMB229.3 per sq m per month; however, they still remain up 4.4% YoY, while villa rents fell 0.7% QoQ to RMB152.0 per sq m per month, up 0.2% YoY.

Rental overview

Strata-title apartments experienced a slight increase in rents in Q3/2016, rising 0.5% to an average of RMB176.1 per sq m per month, up 6.5% YoY. This strata-title market performance correlates to a certain extent with the state of the residential sales market, with stronger price growth leading landlords to institute rental increments to maintain some semblance of the rental yield. The rental performance is also dependant on the unit and varies on how well it has been maintained.

GRAPH 1

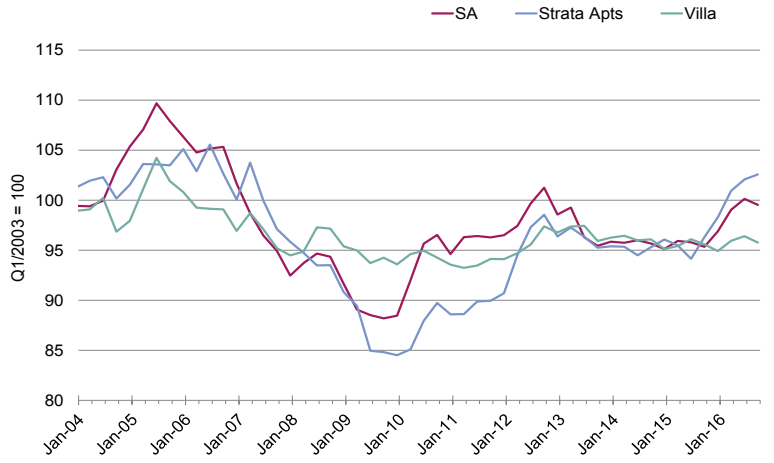
Residential leasing market rental index and vacancy rate (Q3/2003 – Q3/2016)



Source: Savills Research

GRAPH 2

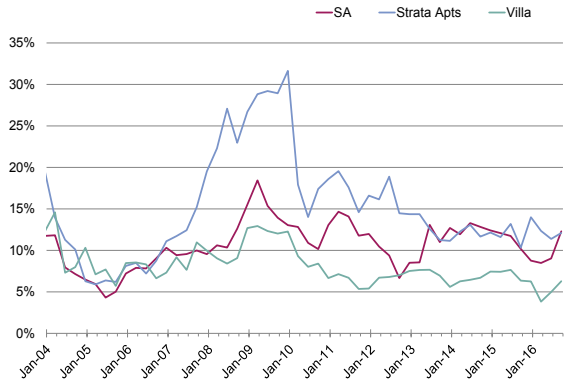
Residential leasing market rental index, 2004 – Q3/2016



Source: Savills Research

GRAPH 3

Residential market vacancy rate, 2004 – Q3/2016



Source: Savills Research

Vacancy rate overview

Vacancy rates increased across the board in Q3/2016. The most notable increase was seen in the serviced apartment market which saw an increase of 3.3 ppts QoQ to 12.3%.

The completion of the Shanghai Disney Resort in June this year also saw a number of apartments back on the market this quarter, due to the repatriation of employees who were seconded to Shanghai for the construction, set-up and launch.

As the corporate world in Shanghai continues to grow in size, the rationalisation of housing requirements is a natural consequence. Corporate housing takes on different forms; it may be an entire residential tower that has either been developed or acquired by the company, it may be a long lease on an entire residential tower, or it may also be longer-term leases or preferential group leases in a specific tower or accommodation service provider. As employees rotate out of their current placement they are replaced by another member of staff; the exception to this is more project-based work where seconded workforces may swell in size during the project period then diminish once the project is finished. This can

have a notable impact on certain submarkets and even city-wide vacancy rates if the scale of the project is sizeable enough.

Developers have kept a relatively adaptable policy when it comes to the residential sector as market conditions continue to evolve at a rapid rate. Developers who have seen a significant sell-down in residential assets in the last year have slowed the rate of sales either by delaying launches or converting projects originally designed for the sales market into for-lease residential. As the cost of land continues to rise, and new residential development opportunities in the city centre decline, developers and investors may seek to retain assets for longer going forwards.

Market news

Contemporary Art Villas and Contemporary Splendour Villas

The equity interest in two villa projects in Minhang, Contemporary Art Villas (116,308 sq m) and

Contemporary Splendour Villas (120,512 sq m), was sold by Shanghai Qiyao Property Development to Shanghai Industrial Urban Development for RMB2.35 billion. Shanghai Industrial Urban Development plans to sell the units off on the strata-title market.

Upper Riverside

Upper Riverside was acquired by Jingrui Holdings from Nan Fung International & Wing Tai Property in July for a total consideration of RMB1.4 billion, an average price of RMB72,500 per sq m. The project has a total above-ground GFA of approximately 19,300 sq m and is located at 1288 Puming Road in Pudong.

Starway Parkview South Station Hotel

Located on Baise Road, south of the Shanghai Indoor Stadium, a 70% equity stake in this 56-room hotel has been purchased by Pamfleet, a Hong Kong real estate investment house, from Hong Kong-listed

TABLE 1

Strata-title apartment, serviced apartment and villa indicators, Q3/2016

	Rent (RMB per sq m per month)			Vacancy (%)		
	Q3/2016	QoQ change (%)	YoY change (%)	Q3/2016	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	229.3	-0.6	+4.4	12.3	+3.3	-2.1
Strata-title apartments	176.1	+0.5	+6.5	12.1	+0.7	+1.8
Villas	152.0	-0.7	+0.2	6.3	+1.3	-0.1
Overall	186.4	-0.4	+3.2	10.5	+2.1	+1.4

Source: Savills Research

TABLE 2

Selected strata-title apartment, serviced apartment and villa transactions, Q3/2016

Project name	Type	Area	Gross unit size (sq m)	Unit price (RMB per month)	Transaction date
Kerry Residence	Serviced apartment	Jing'an	145	45,000	Jul
Green Court	Serviced apartment	Jinqiao	297	42,800	Aug
Elite Residence	Serviced apartment	Changning	87	20,000	Aug
Shimao Riviera	Strata-title apartment	Lujiazui	237	33,000	Aug
Vizcaya Villas	Villa	Jinqiao	435	53,000	Sep
Jinlin Tiandi	Strata-title apartment	Xintiandi	237	49,000	Sep

Source: Savills Research

Deson Development International for RMB57.4 million. Pamfleet plans to convert the building for use as a co-living space, in addition to increasing the number of rooms.

Co-living is a relatively new concept and part of the shared economy ecosystem that is rapidly emerging. There are a number of co-living models. However, they all work off the same premise – a shared living space. These projects are a cost-effective option for many young professionals who are unable to get a foot onto the property ladder. Co-living projects range from student housing (Campus Hong Kong), alternative holiday accommodations (Roam, Bali) and large, self-contained condominiums with a community of over 500 tenants (The Collective, London).

Not only do the target markets differ between co-living and traditional serviced apartment projects, but so do the intangible benefits. Where co-living projects may offer select or very basic services based on a limited employee to tenant ratio, traditional serviced apartments will offer tenants a wide range of services delivered by a larger, more experienced and professional team. Co-living projects often attract low- to mid-level white collar workers and can be used as a cost-effect temporary residence during the week, whereas traditional serviced apartments are attractive to upper management looking for a fully-serviced residence during their employment in the city.

China implements new unified work permit pilot scheme

On 9 September 2016, the State Administration of Foreign Experts Affairs (SAFEA) announced that the existing Foreign Expert Permit and Alien Employment License will be merged into a single permit.

SAFEA has introduced a points-based, three-tiered classification system for foreign workers. Points will be awarded based on educational background, salary level, age, time spent working in China and Chinese language level. Before the new foreign work permit is rolled out nationwide on 1 April 2017, the government will test the system by implementing a pilot scheme in select regions from 1 October 2016. Beijing, Shanghai, Tianjin, Anhui, Guangdong, Hebei, Shandong, Sichuan, Ningxia and potentially other regions will be included in the pilot programme.

Market outlook

No new serviced apartments are expected to launch in Q4/2016, leaving the market to absorb current stock levels before the expected launch of a number of new serviced apartments in 2017.

Increasing competition from non-traditional residential landlords and new developments could see a reduction in demand for older, less-well-managed developments. The continuing popularity of purchasing serviced apartment projects for sale on the strata-title market could assist in the upgrading of projects, particularly older ones.

With first-tier cities starting to implement population caps, this could mean nearby cities with a good transportation hub could accommodate the population overflow. Shanghai currently has a permanent population of 24.5 million, and has been capped at 25 million; nearby Suzhou, accessible by fast train and rumoured to be joining the Shanghai metro network, would be a viable option to accommodate potential overflow.

TABLE 3

Serviced apartment supply forecast, 2017E

Project name	District	Area	No. of unit	Operator	Operator
Capella Residences Shanghai	Puxi	Xuhui	Q1/2017	40	Capella Hotel Group
Da Zhong Li (Taikoo Hui)	Puxi	Jing'an	2H/2017	200	Swire
Qiantan 39-01	Pudong	Qiantan	2H/2017	212	Lujiazui Group
Savills Residence	Pudong	Waigaoqiao	Q3/2017	200	Savills
Shama Caojiadu	Puxi	Putuo	2H/2017	168	Shama
Somerset Sunland	Pudong	Waigaoqiao	Q3/2017	342	Ascott
Stanford Residence Xuhui	Puxi	Xuhui	Q2/2017	119	Stanford Hotels Management

Source: Savills Research

Project focus

One Sunland Serviced Suites

Located in Pudong's Waigaoqiao area, One Sunland Serviced Suites is a new serviced apartment project managed by Lanson Place. The project is five minutes' walk to Zhouhai Road metro station (Line 6) and Harrow International School, and five minutes' drive from the Waigaoqiao Free Trade Zone.

One Sunland Serviced Suites comprises three buildings offering 188 units, from studios to three-bedrooms (49-228 sq m). Asking rents are estimated to range from RMB11,500 to RMB40,000 per month.

TABLE 4

One Sunland Serviced Suites

Location	No 1, Lane 433 Qi Fan Road, Pudong New District
Owner	Shanghai Heng Mao Land
Operator	Lanson Place
No. of units	188
Transport links	- 30 minutes' drive to Pudong Airport - 50 minutes' drive to Hongqiao Airport - 5 minutes' drive to Waigaoqiao Free Trade Zone - 30 minutes' drive to Lujiazui Financial district - 5 minutes' walk to Zhouhai Road metro station (line 6)
Handover date	Q3/2016

Source: Savills China Research

Please contact us for further information

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