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Savills World Research
Shanghai

Briefing
Residential leasing

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Image: Four Seasons Place, Pudong

SUMMARY

Demand remains strong in the strata-title and villa market, pushing up rents despite a slowing economy.

- No new serviced apartments were launched in Q4/2016, with the next supply expected in Q2/2017.
- The traditionally quiet fourth quarter saw serviced apartment vacancy rates increase 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ) to 11.2%, up 2.9% year-on-year (YoY) while strata-title apartments increased 0.4 of a ppt QoQ to 12.5%, down 1.5 ppts YoY.
- Serviced apartment and strata-title apartment rents fell by 0.5% and 0.1% QoQ respectively, in response to increasing vacancy rates. However, serviced apartment monthly rents remained up 2.3% YoY at RMB230.6 per sq m and strata-title apartments were up 4.3% YoY to RMB180.9 per sq m.
- Villa vacancy rates fell 1.8 ppts QoQ and YoY to 4.5%, while villa monthly rents increased 0.2% QoQ to RMB154.3 per sq m, up 1.1% YoY.

"Demand in the strata-title apartment market is picking up, with vacancy rates edging down and rents seeing a marked increase year-on-year." James Macdonald, Savills Research

Market overview

No new serviced apartments were launched in Q4/2016, with the next supply expected in Q2/2017, namely the 40-unit Capella Residences and the 119-unit Stanford Residence Xuhui.

In 2016, the high-end serviced apartment market saw four new projects launched onto the market, adding 685 units; six serviced apartment projects were removed from the leasing market, resulting in a deduction of 734 units, bringing the total stock of tracked leasing units to 8,591.

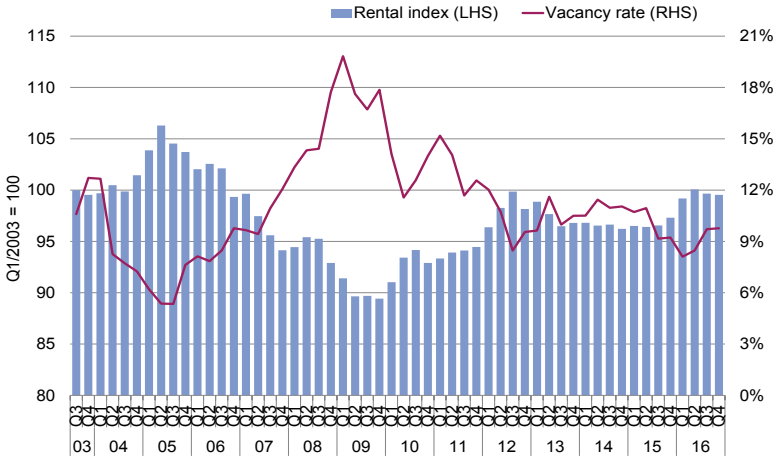
The villa market only saw the launch of one project, adding 236 units to the market, with no projects removed, bringing the total stock of tracked units to 2,851.

Despite a strong start to the year with record low vacancy rates and strong growth in rents, the second half of 2016 proved to be more disappointing, with vacancy rates once again creeping up and rents once again moderating.

The end of the year, the traditional quiet season, saw average rents edging down 0.1% QoQ to RMB189.9 per sq m per month, but remaining up 2.3% YoY. Vacancy rates on the other hand increased 0.1 of a ppt QoQ to 9.8%, up 0.8 of a ppt YoY.

GRAPH 1

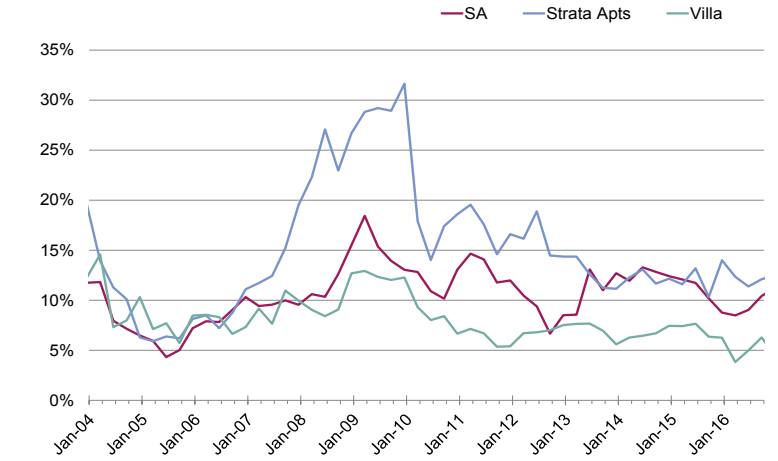
Residential leasing market rental index and vacancy rate, Q3/2003 – Q4/2016



Source: Savills Research

GRAPH 2

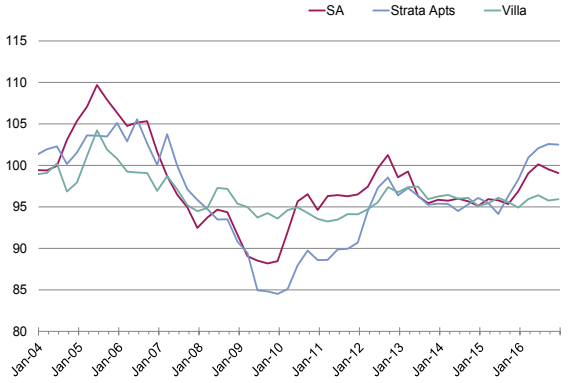
Residential leasing market rental index, 2004 – Q4/2016



Source: Savills Research

GRAPH 3

Residential leasing market rental index, 2004 – Q4/2016



Source: Savills Research

Supported greatly by the strong first half of the year, rents performed well across all markets on a YoY basis. Serviced apartment rents are up 2.3% to RMB230.6 per sq m per month; villa rents up 1.1% to RMB154.3 per sq m per month; and strata-title apartment rents recorded the largest increase of 4.3% to RMB180.9 per sq m per month.

Vacancy rate overview

Pudong villas continue to be popular amongst expats and a growing number of local Chinese, resulting in Pudong villa vacancy rates sitting below average at 3.6%, down 2.5 ppts QoQ and 3.2 ppts YoY. Puxi villas, although still performing well within the context of the greater residential leasing market, have vacancy rates well above those in Pudong, at 5.5%, down just 0.9 of a ppt QoQ and 0.3 of a ppt YoY.

Evolution of accommodation offerings

The lines between strata-title apartments, serviced apartments and hotels have continued to blur in the China market over the last few years. More and more serviced apartment operators have been offering short-term stays as long as their license allow it; these units typically target

business travellers rather than the long-term seconded expat family. Serviced apartments are also starting to target more local travellers and residents.

The market has become more crowded of late with the entrance of brands such as Airbnb and Tujia. Airbnb, America's second most valuable start-up, has been measured and steady in their entry into the China market, instead focusing on Chinese travellers in overseas markets by partnering with Alipay and Tencent. The gap in the local market was quickly filled by Tujia which, based on the concept of a peer-to-peer online market place and a homestay network, has taken it one step further, partnering with Ascott to create the Tujia Somerset serviced apartment brand aimed at Chinese middle class travellers. The increased brand exposure in China will also help Ascott and the Somerset brand capture some of the ever increasing overseas trips they are fast becoming well-known for. While some properties may attempt to introduce components of each, hoping to capture a wider market and diversify revenue streams, they will need to be careful not to lose a sense of identity and community. For example, properties targetting more short-stay travellers may not have the sense of community or long-term comforts as those which are usually aimed more at long-stay residents.

At the same time, the increase in secondary landlords, select residences and the introduction of co-living spaces has inundated the market with a full range of options at different price points and service levels. Tenants, given the wider variety of offerings, may find it more difficult to make the most suitable choice of property that caters to their specific set of needs, and may find it even more useful to engage an experienced agent who is well-versed in the local market offerings.

Rental overview

Pudong serviced apartment rents, although down 0.3% in the fourth quarter to RMB221.6 per sq m per month, remained up 5.8% YoY. On the other side of the river in Puxi, although rents remain higher in general, at RMB234.3 per sq m per month, were down 0.5% in the final quarter and up only 0.8% YoY.

The rapid rise in residential prices in 2015-6, combined with cooling measures including an increase in down payment requirements, has made it increasingly difficult for locals to get on the property ladder. Instead, many are having to turn to the leasing market to meet their short-term accommodation needs while saving up for the down payment for their first place. Many of the individuals in this situation are likely to be from the younger generation and will likely consider accommodation options within the strata-title market, select service

TABLE 1

Serviced apartment, strata-title apartment and villa indicators, Q4/2016

	Rent (RMB per sq m per month)			Vacancy (%)		
	Q4/2016	QoQ change (%)	YoY change (%)	Q4/2016	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, Q4/2016

Project name	Type	Area	Gross unit size (sq m)	Unit price (RMB per month)
Jin Lin Tian Di	Strata-title apartment	Xintiandi	260	45,500
Shimao Riveria Garden	Strata-title apartment	Lujiazui	315	38,000
Stanford Residences	Serviced apartment	Jing'an	237	58,000
Green Villas	Villa	Jinqiao	390	63,000
Green Court Residence	Serviced apartment	Jinqiao	130	24,000
Willowbrook	Villa	Jinqiao	420	69,000

Source: Savills Research

residences or co-living residences which are starting to emerge in Shanghai.

Market news

Shanghai tightens its grip on the residential market

On 28 November 2016, Shanghai announced new measures to cool the residential market. These included:

• Mortgage down payments for first-time homebuyers has been raised from 30% to 35%.

• Home purchasers will only be considered first-time buyers if they don't already own property in Shanghai and have never applied for a mortgage loan in China.

• All applicants considered second-home buyers will be required to put down 50%-70% as a down payment (dependant on whether property is classified as normal or not).

• Housing provident fund (HPF) loans were normalised to the same levels as commercial loans (50%-70%).

Deutsche Schule Shanghai and Lycee Francais de Shanghai New

Construction has begun on the new joint campus for Shanghai's German and French schools, and is expected to be completed in 2018. The campus, which is located in the Yangpu district, will span over 50,000 sq m and will accept pre-primary to secondary school students.

Lyf by Ascott

Introduced to the public in November 2016, Lyf (pronounced Life) is a new serviced residence by Ascott, "designed for and managed by millennials who wish to experience destinations as locals do." Leveraging the hype surrounding millennials and the co-living concept of late, Ascott aims to have 10,000 Lyf units by 2020, with each project being community-focused with an eye to "connecting guests with fellow travellers and change-makers."

Market outlook

Two new serviced apartments are expected to launch in Q2/2017: Stanford Residence Xuhui, which comprises of 119 units, and the 40-unit Capella Residences Shanghai. Capella Residences is a high-end luxury residence forming part of a mixed-use development which includes a 55-unit hotel, F&B, retail stores, a spa and library.

The State Council, at the beginning of May 2016, announced plans to encourage the residential rental market in China in order to "foster housing reform, improve housing conditions, especially for new urban residents, and promote urbanisation". These entailed subsidies and support of project conversion to for-lease residential use. This, along with the introduction of many boutique offerings, is expected to see more activity in the residential leasing market in the coming years. Consumers will have more choices when it comes to selecting a residence and will be more likely to find something to fit their needs, or will be able to customise an available service offering to do so.

With more accommodation types on offer there will be increased competition, which will be felt most by older, less-well-managed projects. These projects will need to adapt and upgrade or face losing their slice of the market.

The trend of purchasing serviced apartment projects for sale on the strata-title market could assist in the upgrading of some of the older, run-down projects, however, removing these projects from the serviced apartment market.

TABLE 3

Serviced apartment supply forecast, 2017E

Project name	District	Area	Launch date	No. of units	Operator
Capella Residences Shanghai	Puxi	Xuhui	Q2/2017	40	Capella Hotel Group
Stanford Residence Xuhui	Puxi	Xuhui	Q2/2017	119	Stanford Hotels Management
Savills Residence	Pudong	Waigaoqiao	2H/2017	200	Savills
Da Zhong Li (Taikoo Hui)	Puxi	Jing'an	2H/2017	200	Swire
Shama Caojiadu	Puxi	Putuo	2H/2017	168	Shama

Source: Savills Research

Project focus

Stanford Residence Xuhui

Located in the Xuhui district, Stanford Residence Xuhui is a new serviced apartment managed by Stanford Hotels Management. The project is five minutes' walk to Zhaojiabang Road metro station (line 9).

Stanford Residence Xuhui offers 119 two-bedroom to five-bedroom plus study units (157 - 365 sq m). Asking rents are estimated to range from RMB37,000 - RMB85,000.

TABLE 4

Stanford Residence Xuhui

Location	Lane 228, West Jianguo Road, Xuhui district
Owner	K Wah International Holdings
Operator	Stanford Hotels Management
No. of units	119
Transport links	45 minutes' drive to Pudong Airport 40 minutes' drive to Hongqiao Airport 5 minutes' walk to Jiashan Road metro station (line 9 and 12)
Handover date	Q2/2017

Source: Savills China Research

Please contact us for further information

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