SUMMARY

Strata-title apartment rents increased 3.3% in Q2/2017 to RMB187 per sq m per month, as demand for more affordable housing drives tenants to the individual landlord markets.

- Two new serviced apartment projects were launched in Q2/2017, adding 174 units to the leasing market and pushing the serviced apartment stock up 2.9% to 6,233 units.
- Average serviced apartment rents increased by 1.4% in Q2/2017 to RMB235 per sq m per month, while strata-title apartment rental growth accelerated to 3.3% quarter-on-quarter (QoQ), with rents reaching RMB187 per sq m per month.
- Villa rents witnessed a slight increase, up 1.1% QoQ to RMB157 per sq m per month.
- City-wide residential leasing vacancy rates increased by 1.4 percentage points (ppts) in Q2/2017, to 13.2%.
- The second quarter saw all three submarkets record increases in vacancy rates. However, many projects still maintained high occupancy rates due to landlords’ flexibility on pricing.
- The residential leasing market is expected to become increasingly competitive as new players join the market.

“Shanghai plans to significantly enhance its residential leasing offering over the next five years, to ensure surging demand for a wide range of temporary accommodation is adequately met.” James Macdonald, Savills Research
Market overview

Pure residential leasing plots sold for the first time in Shanghai
Two residential leasing plots, located in Pudong’s Zhangjiang area and the Jiading district, were sold in July. The Zhangjiang plot has a buildable area of 130,000 sq m; the Jiading plot, with a buildable area of 71,000 sq m, was purchased for RMB424 million. Both plots are designed for residential use on a pure leasing basis, with the developers not permitted to sell during the 70-year land use period. The developments are expected to offer at least 1,897 units, signalling the city’s first step in its ambition to develop about 700,000 privately-held leasing units during the 13th Five-Year Plan (2016-2020) period.

Ascott to accelerate its expansion in China
Ascott is expected to accelerate its expansion in China, with a goal of 20,000 units in China by 2020. The company has built a new worldwide brand called Lyf, targeting millennials, offering small rooms but large public spaces for tenants to socialise and interact in. In China, it has signed management contracts for two residences in Shenzhen and Dalian scheduled to open in 2018. This addition will offer tenants a wider range of accommodation types, but also intensify competition.

Chinese developers to explore long-term lease apartment market
China SCE Properties, a Hong Kong listing developer, signed a strategic cooperation agreement with Greystar Capital, an America-based operator, to develop long-term lease apartments in China. China SCE plans to develop/invest in a total of 50,000 leasing units in China’s first- and second-tier cities in the next three years, targeting mid- to high-end market of young professionals and high-net-worth individuals (HNWI).

The Bailian Group also announced it is to cooperate with Greystar Capital and SPD Silicon Valley Bank to develop the long-term lease apartment market. They join the raft of other domestic developers, including Vanke, Longfor and Gemdale, that have turned their attention to the leasing market over the last year. With more new players entering the market, the residential leasing market is expected to become more competitive.

Central government addresses leasing market weaknesses
The Ministry of Housing and Urban-Rural Development (MOHURD) of China announced guidelines in July 2017 to speed up the development and better regulate the residential leasing market.

The guidelines include increasing the supply of leasing units, encouraging state-owned enterprises (SOEs) to convert into home rental companies, as well as requiring large- and medium-sized cities to establish leasing transaction records to increase the market transparency. In particular, 12 cities have been chosen by the government as the first batch of pilot cities to develop the residential leasing market: Guangzhou, Shenzhen, Nanjing, Hangzhou, Xiamen, Wuhan, Chengdu, Shenyang, Hefei, Zhengzhou, Foshan and Zhaoqing. First-tier cities such as Shanghai and Beijing have already taken action to promote the residential leasing market.

Market overview

Two new serviced apartments, St. Regis Residential Apartments, Stanford Residences Xu Hui and The St. Regis Residences, were launched in Q2/2017, adding 174 units to the leasing market.

Strong take-up in the first half of 2017 led landlords to raise rents, increasing the city-wide average by 1.7% in Q2/2017 to RMB195 per sq m per month, up from 0.2% in Q1/2017. Nevertheless, the entry of new projects pushed up vacancy rates by 1.4 ppts QoQ to 13.2%, up 0.7 of a ppt year-on-year (YoY).

Market performance diverged on the two sides of the Huangpu River. Pudong vacancies increased by 2.9 ppts in Q2/2017 to 16.2%, after two consecutive quarters of decline, while Puxi vacancies remained stable, with a slight decline of 0.2 of a ppt to 9.8%, benefiting from its mature living atmosphere. Pudong rents saw a notable increase of 3.1% in Q2/2017, averaging RMB180 per sq m per month, compared with an increase of 0.7% in Puxi. This was still 16% lower than the average rent in Puxi.
Vacancy rate

The second quarter saw all three submarkets (serviced apartment, strata-title apartment and villa markets) record increases in vacancy rates. However, many projects still maintained high occupancy rates due to landlords’ flexibility on pricing.

The city’s serviced apartment vacancy rate increased by 0.7 of a ppt in Q2/2017 to 16%, due to the entry of new projects, after two consecutive quarters of decline. Strata-title apartments and villas recorded 2.1 ppts and 2.2 ppts QoQ increases in vacancy rates, to 14.1% and 5.6%, respectively.

Rent

All three submarkets recorded rental increases in Q2/2017, with strata-title apartment rents growing the fastest, at 3.3% QoQ.

The strata-title market meets the needs of many tenants, while being the most affordable option. Rents for strata-title apartments averaged RMB187 per sq m per month in Q2/2017, 26% lower than serviced apartments, which averaged RMB235 per sq m per month.

As multinational companies have looked to reduce costs over the last five years, housing budgets have been one of the privileges that expatriate staff have seen cut back significantly. As many expats are no longer able to stretch their budgets to secure a satisfactory serviced apartment in the right location, some of them have turned to strata-title apartments instead. This steady increase in demand from expats, as well as growing demand from locals priced out of the sales market, have helped the strata-title market to record the strongest growth in rents in the last 18 months.

Serviced apartment rents increased by 1.4% in Q2/2017 to RMB235 per sq m per month, while villa rents rose 1.1% QoQ, reaching RMB157 per sq m per month.

Zhangjiang Science City

In August, the Shanghai government approved plans to expand the Zhangjiang Hi-Tech Park into a “science city”, with approximately 700,000 residents and 880,000 jobs to be created.

Located in southeast Shanghai, Zhangjiang Science City is planned to cover an area of 94 sq km, compared with 79.7 sq km for the Zhangjiang Hi-Tech Park’s plan.

| TABLE 1 | Serviced apartment, strata-title apartment and villa indicators, Q2/2017 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Rent (RMB per sq m per month) | Q2/2017 | QoQ change (%) | YoY change (%) | Q2/2017 | QoQ change (ppts) | YoY change (ppts) |
| Serviced apartments | 235.4 | +1.4 | -0.3 | 16.0 | +0.7 | -0.1 |
| Strata-title apartments | 186.8 | +3.3 | +4.3 | 14.1 | +2.1 | +2.9 |
| Villas | 156.8 | +1.1 | +0.5 | 5.6 | +2.2 | +0.1 |
| Overall | 195.3 | +1.7 | +1.2 | 13.2 | +1.4 | +0.7 |

Source: Savills Research

| TABLE 2 | Selected strata-title apartment, serviced apartment and villa transactions, Q2/2017 |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| Project name | Type | Area | Gross unit size (sq m) | Rent (RMB per month) |
| Stanford Residences Jing An | Serviced apartment | Nanjing Road (W) | 235 | 55,500 |
| Elite Residence | Serviced apartment | Hongqiao | 126 | 27,000 |
| Shimao Riviera Garden | Strata-title apartment | Lujiazui | 336 | 43,500 |
| The Palace | Strata-title apartment | Former French Concession | 145 | 30,000 |
| The Emerald | Villa | Kangqiao | 296 | 43,000 |
| Seasons Villas | Villa | Century Park | 223 | 42,000 |

Source: Savills Research

GRAPH 3

Residential leasing market rental index, Q1/2007–Q2/2017

Source: Savills Research
Background of Zhangjiang Hi-Tech Park
Established in July 1992, the Zhangjiang Hi-Tech Park is one of China’s first state-level high-tech zones approved by the State Council, half of it also belonging to the Shanghai Free Trade Zone. It has attracted a large number of high-tech enterprises and small- to medium-sized creative companies, and is the birthplace of new technologies.

Leasing supply planned for Zhangjiang
The science city has plans to build 9.2 million sq m of new residential space, of which 8.9 million sq m, or 96.7%, are for lease only, to accommodate workers.

Accessibility
Zhangjiang is currently serviced by Zhangjiang Gaoke station and Jinke Road station (metro line 2), Zhangjiang Overpass and Middle Ring Road. The area is a 30-minute drive to Pudong International Airport.

More expressways have been planned to link to downtown areas, railway stations and airports. Also, metro (lines 13, 21, 27) and bus lines will be established to better connect office buildings and residential compounds within the area.

Future scope
The expansion of the Zhangjiang High-Tech Park is expected to better connect the Disneyland area and future Longyang Road CBD. The planning for residential development, particularly more leasing units in line with the government’s call for speeding up the development of the residential leasing market, will help to meet workers’ demand.

Market outlook
Three new serviced apartments are expected to launch in 2H/2017:

- Stanford Residences Jin Qiao, which will offer 102 units; the 40-unit Capella Residences Shanghai, which was postponed from Q2/2017; and the 102-unit Middle House Residences by Swire.

The launch of pure residential leasing land plots means that more developer-held leasing units are expected to be added to the current stock, especially in emerging areas. This will require developers to offer a higher capability in managing/operating buildings rather than just sales. This, combined with the city’s ambition to provide 700,000 leasing units during the 2016-2020 period, is an indication that the leasing market will enter a new stage of development.

However, the entries of new players, as well as the growing number of accommodation types, will continue to intensify competition, affecting older projects with less-experienced management teams first and foremost. In order to compete in an increasingly mature market, many projects will have to undergo refurbishments or look to upgrade their services and management teams.

Leasing performances in new master-planned areas will remain tough as they are still in the early stage of development. However, long-term developments are expected to be positive, given improving urban infrastructure and living facilities.

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**TABLE 3**
Serviced apartment supply forecast, 2H/2017

<table>
<thead>
<tr>
<th>Project name</th>
<th>District</th>
<th>Area</th>
<th>Launch date</th>
<th>No. of units</th>
<th>Operator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capella Residences Shanghai</td>
<td>Xuhui</td>
<td>Former French Concession</td>
<td>Q4/2017</td>
<td>40</td>
<td>Capella Hotel Group</td>
</tr>
<tr>
<td>Middle House Residences</td>
<td>Jing’an</td>
<td>Nanjing Road (W)</td>
<td>Q4/2017</td>
<td>102</td>
<td>Swire Hotels</td>
</tr>
</tbody>
</table>

Source: Savills Research
Project focus

Stanford Residences Xu Hui

Located in the Former French Concession (FFC) area in the Xuhui district, Stanford Residences Xu Hui is a new serviced apartment by K.Wah Group. The project is five minutes’ walk to Jiashan Road metro station (lines 9 and 12).

The project offers 119 two- to five-bedroom plus study units (157 - 526 sq m) apartments. Asking rents range from RMB42,000 to RMB110,000 per month.

<table>
<thead>
<tr>
<th>Location</th>
<th>Lane 268, West Jianguo Road, Xuhui district</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>K.Wah International Holdings</td>
</tr>
<tr>
<td>Operator</td>
<td>Stanford Hotels Management</td>
</tr>
<tr>
<td>No. of units</td>
<td>119</td>
</tr>
<tr>
<td>Transport links</td>
<td>45 minutes’ drive to Pudong Airport 40 minutes’ drive to Hongqiao Airport 5 minutes’ walk to Jiashan Road metro station (lines 9 and 12)</td>
</tr>
<tr>
<td>Handover date</td>
<td>Q2/2017</td>
</tr>
</tbody>
</table>

Source: Savills 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

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