

Briefing Residential leasing

November 2017



Image: Stanford Residences Jin Qiao, Pudong

SUMMARY

The notable increases in residential leasing supply will meet surging demand for a wide range of temporary accommodation, while at the same time intensifying competition as new players join the market.

- One new serviced apartment, Stanford Residences Jin Qiao, was launched in Q3/2017, adding 102 units to the leasing market pushing serviced apartment stock up 1.6% to 6,335 units.

- Serviced apartment average rent increased by 1.6% on an index basis in Q3/2017 to RMB240.1 per sq m per month.

- Strata-title apartment rental growth slowed to 1.4% quarter-on-quarter (QoQ) with rents averaging RMB188.8 per sq m per month.

- Villa rents recorded steady growth, up 1.1% in Q3/2017 to RMB158.6 per sq m per month.

- New projects pushed up vacancy rates in the serviced apartment market, by 1.3 percentage points (ppt) to 17.3%, while the strata-title apartment and villa markets remained stable.

- Supported by the government, the Shanghai residential leasing market is likely to speed up.

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 “Serviced apartment rents continued to increase in Q3/2017, to RMB240 per sq m per month, while new projects pushed vacancy rates up to 17%.” James Macdonald, Savills Research

➔ **Market News**

More Pure Residential Leasing Plots Sold in the City

Following the city's first two residential leasing plots sold, in Pudong and Jiading in July, more leasing plots were transacted or converted from commercial use in Q3/2017.

Shanghai Land Group bought nine residential leasing land parcels (four in September and five in October) for RMB5.4 billion, totalling 666,600 sq m of buildable area. In addition, twelve commercial and mixed-use land plots were converted for residential leasing use, with approximately 10,000 new units expected to be built. As opposed to the previous plots, in Pudong's Zhangjiang area and Jiading district, these plots are mostly in downtown locations.

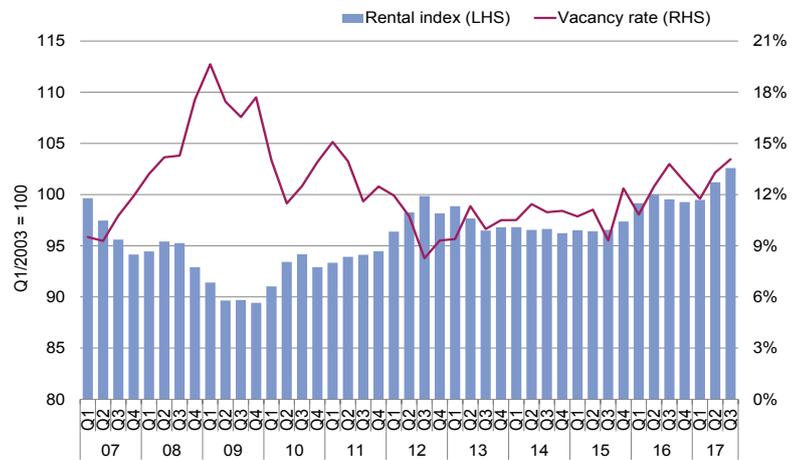
The plots are all planned for residential use on a pure leasing basis, with the developers not permitted to sell in-strata during the 70-year land use period. The increase on the supply side, signals the city's first step to develop about 700,000 privately-held leasing units, during the 13th Five-Year Plan (2016-2020) period.

Poly to Issue ABS Based on Residential Leasing Assets

Poly Real Estate Group announced in October that the Shanghai Stock Exchange had approved its offering of asset-based securities (ABS), based on residential leasing assets.

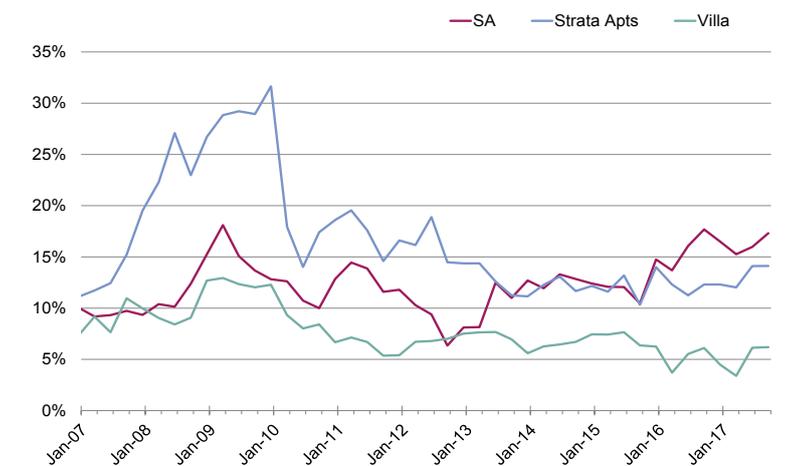
The securitisation of residential leasing assets is important in developing the residential leasing market. The central and local governments have both issued guidelines to promote the leasing market, with REIT pilots encouraged. The pilots will not only boost the

GRAPH 1
Residential Leasing Market Rental Index and Vacancy Rate, Q1/2007–Q3/2017



Source: Savills Research

GRAPH 2
Residential Leasing Market Vacancy Rate, Q1/2007–Q3/2017



Source: Savills Research

sustainable development of the leasing market, but will also add another financial product with a stable source of income for investors in the capital market.

Market Overview

The market continued to see new supply in the third quarter. One new serviced apartment, Stanford Residences Jin Qiao by K.Wah Group, was launched in Q3/2017, adding 102 units to the leasing market.

Since new alien work permit policies took effect in April 2017, it now takes a longer time for international newcomers to get work permits. Some leasing transactions, as a consequence, were postponed to the third quarter, pushing up occupancy rates in some projects.

Strong take-up in the third quarter led landlords to raise rents, increasing the city-wide average by 1.4% in Q3/2017 to RMB198 per sq m per month, up 3.1% year-on-year

(YoY). Nevertheless, the entry of new projects pushed up the overall vacancy rate by 0.8 ppts in Q3/2017 to 14.1%, up 0.3 YoY.

In response to the government's call for accelerating the development of residential leasing market and policies designed to support this development, companies are showing interest in developing multifamily units. Many new residential leasing land plots are now owned by state-owned enterprises (SOEs), such as Shanghai Land Group and Lujiazui Group. Domestic developers plan to set up their own leasing and operation teams for new projects.

Vacancy Rate

New supply pushed up vacancy rates in the serviced apartment market, by 1.3 ppts in Q3/2017 to 17.3%, while the strata-title apartment and villa markets' vacancy rates remained stable, at 14.1% and 6.2%, respectively. Many projects still maintained high occupancy rates due to popular locations or landlords' flexibility on pricing and leasing terms.

Jingrui Holdings acquired Elite Residence in Q1/2017. After eight years of operation, the Elite Residence is scheduled for renovation and redesign, resulting in an increase in vacancy rates.

The serviced apartment is located next to the Zhongshan Park metro station, with more than 100 existing apartment units for lease.

Rent

All three submarkets recorded rental increases in Q3/2017, with serviced apartment rents growing the fastest at 1.6%, which remained the highest rents among the submarkets, averaging RMB240.1 per sq m per month, in the third quarter.

Strata-title apartment rents continued to grow but at a slower pace of 1.4%, in the third quarter, to an average of RMB188.8 per sq m per month.

TABLE 1

Serviced Apartment, Strata-Title Apartment and Villa Indicators, Q3/2017

	Rent (RMB per sq m per month)			Vacancy (%)		
	Q3/2017	QoQ change (%)	YoY change (%)	Q3/2017	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	240.1	+1.6	+2.6	17.3	+1.3	-0.4
Strata-title apartments	188.8	+1.4	+1.9	14.1	-	+1.8
Villas	158.6	+1.1	+2.3	6.2	+0.1	+0.1
Overall	198.3	+1.4	+3.1	14.1	+0.8	+0.3

Source: Savills Research

TABLE 2

Selected Strata-Title Apartment, Serviced Apartment and Villa Transactions, Q3/2017

Project name	Type	Area	Gross unit size (sq m)	Rent (RMB per month)
Stanford Residences Xu Hui	Serviced apartment	Former French Concession	219	50,500
IFC Residences	Serviced apartment	Lujiazui	158	42,000
Skyline Mansion	Strata-title apartment	Lujiazui	302	45,000
Lakeville Regency	Strata-title apartment	Xintiandi	180	45,000
Willow Brook	Villa	Jinqiao	400	69,000
Tomson Riviera Garden	Villa	Century Park	400	55,000

Source: Savills Research

Villa rents recorded steady growth, up 1.1% in Q3/2017 to RMB158.6 per sq m per month.

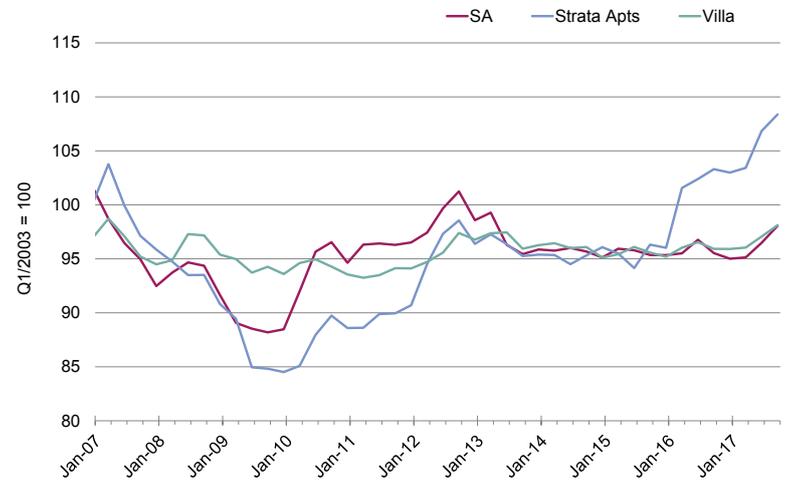
Market Outlook

Two new serviced apartments are scheduled to launch in Q4/2017: the 40-unit Capella Residences Shanghai and the Middle House Residences by Swire, comprised of 102 units. Total stock of high-end serviced apartments, as a result, is anticipated to reach 6,477 units by the end of 2017.

The recent wave of residential leasing land supply means that there is expected to be more institutionally-held leasing units added to the current stock, both downtown and in emerging areas. 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 grow. Meanwhile, there will be more market players in the market as developers plan to manage their projects themselves.

GRAPH 3

Residential Leasing Market Rental Index, Q1/2007-Q3/2017



Source: Savills Research

Market demand will continue to be increasingly driven by domestic tenants, especially with the expanded range of accommodation products available and the increasing number of senior positions within companies being held by Chinese nationals.

Leasing performances in new master-planned areas, while still difficult, will improve with improving urban infrastructure and living facilities. ■

TABLE 3

Serviced Apartment Supply Forecast, Q4/2017

Project name	District	Area	Launch date	No. of units	Operator
Capella Residences Shanghai	Xuhui	Former French Concession	Q4/2017	40	Capella Hotel Group
Middle House Residences	Jing'an	Nanjing Road (W)	Q4/2017	102	Swire Hotels

Source: Savills Research

Project Focus

Stanford Residences Jin Qiao

Located in the Pudong Jinqiao area, Stanford Residences Jin Qiao is a new serviced apartment project by K.Wah Group. The project is within a ten-minute walk to the nearest metro station of Jinqiao Road (line 6), providing easy access to Lujiazui and other key business and retail areas.

The project offers 102 two-to three-bedroom units (107 - 214 sq m). Asking rents range from RMB20,300 to RMB51,000 per month.

Jinqiao is one of the most established residential areas in Pudong, with both apartment and villa developments available for lease. The area is in close proximity to the Jinqiao Export Processing Zone and Zhangjiang Hi-Technology Park, where many of the tenants work. The area also offers a wide variety of properties at different price points and proximity to a variety of international schools.

TABLE 4
Stanford Residences Jin Qiao

Location	Block 1-3, Lane 58, Jinye Road, Pudong
Owner	K.Wah International Holdings
Operator	Stanford Hotels Management
No. of units	102
Transport Links	- 40 minutes' drive to Pudong Int'l Airport - 10 minutes' walk to Jinqiao Road metro station (line 6)
Handover Date	Q3/2017



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.

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