SUMMARY

The Shanghai market experienced positive growth in the first three quarters of 2017. Though it hit some headwinds in Q4, it still rounded out the year in positive territory.

- One new serviced apartment, Capella Jian Ye Li, was officially launched in late October 2017, adding 40 units to the leasing market and pushing serviced apartment stock up to 6,375 units.
- All sub-markets witnessed rental decreases in Q4/2017. Serviced-apartment average rent decreased by 1.4% on an index basis in Q4/2017 to an average of RMB238.7 per sq m per month.
- Strata-title apartment rental decreased 0.9% quarter-on-quarter (QoQ) with rents averaging RMB187 per sq m per month.
- Villa rents registered a decline, down 1.7% in Q4/2017 to RMB156.2 per sq m per month.
- Vacancy rates decreased by 0.7 percentage point (ppt) overall, with only villa vacancy rates registering a 3.1 ppt increase.
- The Shanghai residential leasing market is likely to experience growth in both supply and demand in 2018 with governmental support, developer interest, and a maturation of the market.

“The Shanghai market is still one of the most robust in China and even though 2017 had some ups and downs, the market continued its upward trend.”

James Macdonald, Savills Research
Market News

Changing Tastes
A changing client base is causing a shift in the services provided by serviced apartments. According to the Global Serviced Apartment Industry Report for 2016/2017, 83.03% of respondents cited ‘Connectivity’ (Wi-Fi, Internet access) as a top priority, with ‘Single Occupancy’ (75%) and ‘Family Accommodation’ (49%) coming in second and third, respectively. Client tastes are changing and serviced apartments are adjusting their offerings to ensure they remain relevant amongst increased competition from other forms of residential leasing.

Changing Demographics
In Shanghai, the serviced apartment market is now seeing a trend of local managers/executives who have a house in the suburbs but need an apartment closer to work for the weekdays – a possible indicator of the prominence of ‘single occupancy’ in the ratings.

This coincides with the decrease in the average duration of long-term assignments for overseas staff. As local managers gain more experience and return to China with higher levels of education, corporations are choosing to promote internal local staff rather than flying in managers (and their families) from other countries at significant expense. With China’s growing middle class, this trend is expected to continue into 2018.

Market Overview
The market continued to see new supply in Q4/2017. One new serviced apartment, Capella Residences Jian Ye Li, operated by Capella Hotel Group and owned by Shanghai Hengfu Investment & Development, added 40 units to the residential leasing market.

Average rents decreased in all sub-markets in Q4/2017. Average rent for the entire market was RMB196.5 per sq m per month, which was a 1.4% decrease QoQ (completely offsetting the gains from Q3) but still a 1.9% growth YoY.

Vacancy rates decreased by 0.7 ppt overall in Q4/2017, but the overall vacancy rate is up 0.6 ppt for 2017 to 13.4%.

Vacancy Rate
Vacancy rates decreased by 0.7 ppt overall in Q4/2017. The 3.1 ppts QoQ uptick in villa vacancy rates was offset by the 2.5 ppts QoQ decline for strata apartments and the 1.2 ppt QoQ decrease for serviced apartments.

The overall vacancy rate is up 0.6 ppt for 2017 to 13.4%. The serviced apartment vacancy rate recorded a 0.3 ppt YoY decline to 16.1% while the strata-title apartment vacancy rate also declined 0.7 ppt to 11.6%. Villas rounded out the year up 4.8 ppts to 9.3%, which could reflect the ongoing trend of serviced and strata apartments enticing clients to shift from villa apartments in the suburbs to more centrally located apartments. It also implies the further increase of single assignees to Shanghai instead of a manager and their entire family.

Pudong serviced apartment vacancy rates remained low at 4.3%, up 2.2 ppts QoQ and 0.9 ppt YoY, while Puxi serviced apartment vacancy rates declined 1.5 ppts QoQ to 12.7%, although this was still up 0.3 ppt for the year. This reflects the proximity to prominent international schools for many of the Pudong serviced apartments. Additionally, this data may reflect that most luxury serviced apartments in Puxi do long-term leasing and Pudong serviced apartments often allow short-term leasing.

Rent
Average rents decreased in all sub-markets in Q4/2017. Average rent for the entire market was RMB196.5 per sq m per month, which was a 1.4% decrease QoQ (completely offsetting the gains from Q3) but still a 1.9% growth YoY.

All sub-markets showed YoY rent growth, with strata-title apartments registering the biggest growth, up 3.2%, compared to serviced apartments (2.1%) and villas (0.6%). The average rents for serviced and strata-title apartments registered RMB238.7 and RMB187 per sq m per month, while villas registered RMB156.2 per sq m per month.

Pudong serviced apartment rents increased 4.2% QoQ, compared to a 0.4% QoQ decrease in Puxi serviced apartment rents, expressing that short-term lease rates (more prevalent in Puxi) are higher than long-term rates (more prevalent in Pudong).
Market Outlook

One new serviced apartment is scheduled to launch in Q2/2018: the 102-unit Middle House Residences at the new HKRI Taikoo Hui on West Nanjing Road. The total stock of high-end serviced apartments will reach 6,477 units by the end of Q2/2018. Many projects projected for Q1/2018 have been pushed back to later in the year or to 2019.

The Shanghai government has started to deregulate the financial sector as it tries to position the city as an international financial hub. This combined with relaxed visa policies for highly skilled, international professionals, could mean more managers for financial companies moving to Shanghai. These high-income earners will be looking for high-end residential leasing opportunities near major banks and other financial institutions.

Shanghai announced its city plan up until 2035, and a major component of that is to increase the number of foreigners to 800,000, up from around 170,000 in 2017. The timeline on this is quite long, but it does show the government’s desire to bring in more foreigners to the city, which will obviously have a major effect on the high-end residential leasing market.

The State Council eased regulations on Free Trade Zones (FTZs) in January 2018, so Shanghai’s FTZ will continue to see bustling activity, which will continue to see high occupancy rates and increasing rents for leasing units in the area.

TABLE 1
Serviced Apartment, Strata-title Apartment and Villa Indicators, Q4/2017

<table>
<thead>
<tr>
<th></th>
<th>Rent (RMB per sq m per month)</th>
<th>Vacancy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4/2017</td>
<td>QoQ change (%)</td>
</tr>
<tr>
<td>Serviced apartments</td>
<td>238.7</td>
<td>-1.4</td>
</tr>
<tr>
<td>Strata-title apartments</td>
<td>187</td>
<td>-0.9</td>
</tr>
<tr>
<td>Villas</td>
<td>156.2</td>
<td>-1.7</td>
</tr>
<tr>
<td>Overall</td>
<td>196.5</td>
<td>-1.4</td>
</tr>
</tbody>
</table>

Source: Savills Research

TABLE 2
Selected Strata-title Apartment, Serviced Apartment and Villa Rents, Q4/2017

<table>
<thead>
<tr>
<th>Project name</th>
<th>Type</th>
<th>Area</th>
<th>Gross unit size (sq m)</th>
<th>Rent (RMB per month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lanson Place Jinqiao</td>
<td>Serviced apartment</td>
<td>Jinqiao</td>
<td>122</td>
<td>26,000</td>
</tr>
<tr>
<td>Stanford Residence Jing’an</td>
<td>Serviced apartment</td>
<td>Jing’an</td>
<td>237</td>
<td>57,500</td>
</tr>
<tr>
<td>41 Hengshan Road</td>
<td>Strata-title apartment</td>
<td>Xuhui</td>
<td>160</td>
<td>30,500</td>
</tr>
<tr>
<td>Skyline Mansion</td>
<td>Strata-title apartment</td>
<td>Lujiazui</td>
<td>194</td>
<td>33,000</td>
</tr>
<tr>
<td>Le Chateau</td>
<td>Villa</td>
<td>Changning</td>
<td>600</td>
<td>100,000</td>
</tr>
<tr>
<td>Violet Villa</td>
<td>Villa</td>
<td>Qingpu</td>
<td>274</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Source: Savills Research

TABLE 3
Serviced Apartment Supply Forecast, 1H/2018

<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>Middle House Residences</td>
<td>Jing’an</td>
<td>Nanjing Road (W)</td>
<td>Q2/2018</td>
<td>102</td>
<td>Swire Hotels</td>
</tr>
</tbody>
</table>

Source: Savills Research
Project Focus

Capella Residences Shanghai

Located in Xuhui, Capella Residences (Jian Ye Li) is a new serviced apartment/hotel that officially opened in late October 2017. It is combined with the Capella Shanghai Jian Ye Li Hotel, which has 55 units, for a total of 95 units. The nearest metro station is Zhaojiabang Road (Line 7, Line 9), which gives easy access to other downtown districts.

The serviced apartments offer 40 units of two, three and four-bedrooms, with approximately 300 sq m for the smallest unit to 600 sq m for the largest. Asking rents for a three-bedroom unit at 400 sq m are around RMB110,000, while smaller units range down to RMB75,000 per month.

The project utilises Shanghai’s traditional shikumen architecture and is located in Xuhui district. The piece de resistance of the property is the refurbished historical water tower, the highest point on the property.

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.