

Briefing Residential leasing

May 2018



Image: The Middle House Residence, Jing'an

SUMMARY

Shanghai rents rebounded across the board in Q1/2018. Q1 growth made up the falls from the final quarter of 2017 for a solid start to 2018.

■ Rents increased to an average of RMB199 psm pmnth, up 1.9% quarter-on-quarter (QoQ) and 3.1% year-on-year (YoY).

■ Average rent for serviced apartments increased to RMB240.6 psm pmnth, strata-title apartments RMB190.9 psm pmnth, and villas to RMB158.7 psm pmnth, up 2.3%, 1.8%, and 4.0% QoQ, respectively.

■ Citywide vacancy rates increased 1.9 percentage points (ppts) QoQ to 15.3%. Serviced and strata-titled

apartments increased 2.1 ppts and 3.7 ppts QoQ to 18.4% and 15.2%, respectively. Villa vacancy rates declined 1.1 ppts QoQ to 8.2%, though this was still up 4.8 ppts YoY.

■ Pudong serviced apartment average rent decreased slightly to RMB165.9 psm pmnth, down 0.2% QoQ but up 0.8% YoY. Pudong's vacancy rate decreased 1.7 ppts to 10.5%. Puxi serviced apartment average rent increased 1.6% to RMB241 psm pmnth, while Puxi's vacancy rate decreased 1.1 ppts to 1.8%.

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 “2018 is shaping up to be a landmark year for the residential leasing market. With government and developer support, the residential leasing market will be a far more interesting sector than in previous years.” James Macdonald, Savills Research

➔ **Market News**

The long-term rental apartments (长租公寓) are gaining further support from both developers and the government. However, this market is still relatively immature and leaves much to be desired on the investor side. Many developers who have rolled out long-term rental properties—including Country Garden, Longfor, Poly, Vanke, and China Overseas Land & Investment—do not expect to be making significant returns on these projects in the short term, and even the overall business may suffer. According to Shao Mingxiao, Longfor’s Chief Executive Officer, the best the company can do for the leasing business is to “break even, for now”¹. Due to this, government support is critical in the sector until a solid business model is in place.

MINI, the car brand owned by BMW, and Nova Property Investment announced plans to convert an abandoned paint factory into a co-living space in Jing’an called “Mini Living”. This marks the first time a non-property-related brand is expanding into the co-living market in the city. Depending on the success of the project (construction begins at the end of 2018), other non-property brands may move into this sector to expand their portfolio of “multi-faceted lifestyle brands”.

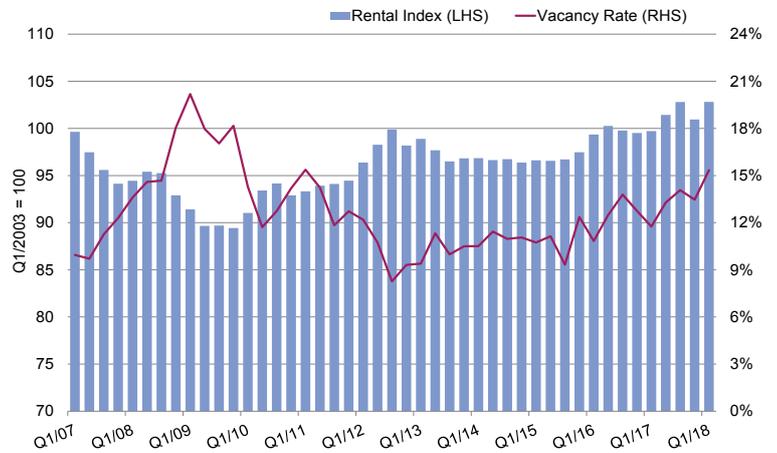
Market overview

Vacancy rate

Average vacancy rates for the city increased 1.9 percentage points (ppts) QoQ to 15.3%. Serviced and strata-titled apartments increased 2.1 ppts and 3.7 ppts QoQ to 18.4% and 15.2%, respectively. Villa vacancy rates declined 1.1 ppts QoQ to 8.2%, though this was still up 4.8 ppts YoY. Pudong’s vacancy rate decreased 1.7 ppts to 10.5%, while Puxi’s vacancy rate decreased 1.1 ppts to 1.8%.

¹“Chinese developers warn more rentals will hamper margins”, South China Morning Post, April 4th, 2018

GRAPH 1
Residential leasing market rental index and vacancy rate, Q1/2007 - Q1/2018



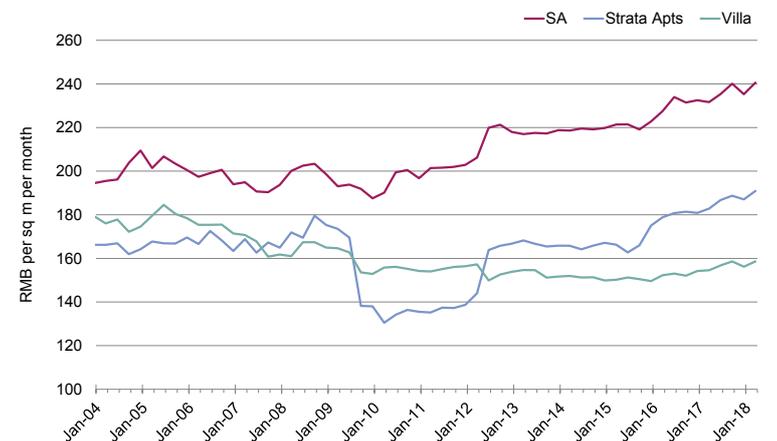
Source: Savills Research

GRAPH 2
Residential leasing market vacancy rate, Q1/2007 - Q1/2018



Source: Savills Research

GRAPH 3
Residential leasing market average rent, Q1/2007 - Q1/2018



Source: Savills Research

Rent

Citywide rents increased to an average of RMB199 psm pmnth, up 1.9% quarter-on-quarter (QoQ) and 3.1% year-on-year (YoY). Average rent for serviced apartments increased to RMB240.6 psm pmnth, strata-title apartments RMB190.9 psm pmnth, and villas to RMB158.7 psm pmnth, up 2.3%, 1.8%, and 4.0% QoQ, respectively.

Market outlook

In addition to the 102-unit Middle House Residences at the Taikoo Hui shopping mall, the Marriot Pudong East (Jinqiao) opened 73 units of its serviced apartment on April 1st, 2018. The two projects combined will add 175 units to the serviced apartment market and bring the total to 6,510 units in Q2/2018.

On the back of the shared economy and co-working craze as well as a push by the central government to develop the long term apartment rental market and an increase in short term assignments, China is seeing the expansion of different residential leasing options. ■

TABLE 1

Serviced apartment, strata-title apartment and villa indicators, Q1/2018

	Rent (RMB per sq m per month)			Vacancy (%)		
	Q1/2018	QoQ change (%)	YoY change (%)	Q1/2018	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	240.6	2.3	3.6	18.4	2.1	3.1
Strata-title apartments	190.9	1.8	4	15.2	3.7	3.2
Villas	158.7	1.4	1.8	8.2	(1.1)	4.8
Overall	199	1.9	3.1	15.3	1.9	3.6

Source: Savills Research

TABLE 2

Selected serviced apartment, strata-title apartment and villa rents, Q1/2018

Project name	Type	Area	Gross unit size (sq m)	Rent (RMB per month)
Kerry Residence	Serviced apartment	Jing'an	119	42,500
Savills Residence Hongqiao	Serviced apartment	Hongqiao	136	35,000
Jinlin Tiandi	Strata-title apartment	Xintiandi	260	46,500
Yanlord Town	Strata-title apartment	Pudong	150	20,000
The Emerald Forest	Villa	Former Nanhui	684	75,000
Garden Inside Villa	Villa	Qingpu	350	35,000

Source: Savills Research

TABLE 3

Serviced Apartment Supply Forecast, Q2/2018

Project name	District	Area	Launch date	No. of units	Operator
Middle House Residences	Jing'an	Nanjing Road (W)	Q2/2018	102	Swire Hotels
Marriot Pudong East	Pudong	Jinqiao	Q2/2018	73	Marriot

Source: Savills Research

Project Focus

The Middle House Residences

The Middle House Residences launched in April 2018. Situated next the Taikoo Hui shopping mall and a short walk to Metro Lines 2, 12, and 13, the Middle House Residence is about as centrally-located in Puxi as one can get. A part of Swire Hotel’s House Collective (hence the name), its sister properties can be found in Beijing, Chengdu, and Hong Kong (named The Opposite House, The Temple House, and the Upper House, respectively).

The Middle House Residence rooms range from Residence 55 (including Residence 55 Accessible, which are specifically designed to be handicap accessible), Residence 80, Residence 90, and Residence 110, all of which conveniently explain the square meterage available for the rooms.

TABLE 4
The Middle House Residences

Location	No. 366 Shi Men Yi Road, Jingan
Owner	Swire
Operator	Swire & HKR International
No. of units	102
Layout/Size	55 sq m (1 bedroom) – 110 sq m (2 bedroom)
Rent	RMB58,000 – RMB96,000
Special	Handicap accessible rooms available



Source: Savills Research

Definition

Unless otherwise stated, rents refer to one-year asking 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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