

# Briefing Residential leasing

August 2018



Image: St. Regis, Jing'an

## SUMMARY

Vacancy rates in Pudong decreased dramatically in Q2/2018, thanks to in part to relatively little supply, increased demand and improved service quality.

■ Serviced apartments vacancy rates across the city declined 1.8 percentage points (ppts) to 17.3%, but this was mainly from Pudong serviced apartments which saw a precipitous decline of 6.1 ppts to 20%, while Puxi serviced apartment vacancy rates increased 1.7 ppts QoQ to 15.2%.

■ Average rent for the entire city remained virtually flat with only a 0.6% decline QoQ, showing a mere 0.8% YoY growth to RMB198.6 psm pmnth. Serviced apartment rents remain the

highest at RMB235.1 compared to strata-title apartments at RMB191.6 and villas at RMB158.9.

■ As of Q2/2018, citywide serviced apartment stock now stands at 6,666 units, with Puxi serviced apartments at 3686 units and Pudong serviced apartments at 2980 units.

■ Two new serviced apartment projects are coming to the market in Q3/2018 with a combined 494 units.

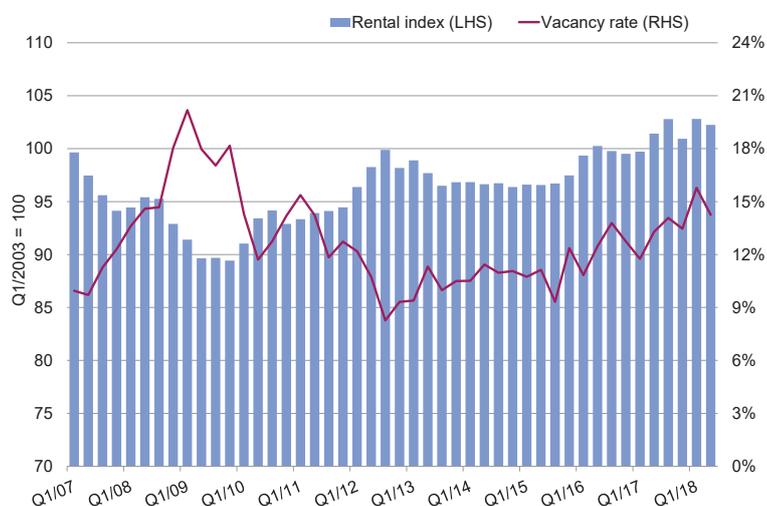
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 “Q2/2018 saw a significant decrease in serviced apartment vacancy rates, especially in Pudong. Relatively little supply and increased demand in the past few quarters has helped contribute to this decrease.”  
 James Macdonald, Savills Research  
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➔ **High-end market news**  
Trade wars vs. China's financial opening

Two opposing trends have the potential to seriously impact the high-end serviced market. The first is the ongoing trade war between the United States and China. Further trade barrier and tariffs can affect headcount seconded to the city. The less business that an American company is doing with China, the less likely that they are sending a professional on an overseas assignment to the country. However, if other countries “take up the slack” and boost their trade and business dealings with China, then the potential for other professionals (especially from neighbouring countries) needing serviced apartments will likely increase.

Trade wars notwithstanding, China is moving forward with its pledge to open up its financial sector to foreign firms. New policies like raising limits on foreign ownership to 51% in financial companies, allowing foreigners to participate in the Chinese stock market, and the planned opening of the Shanghai-London stock connect, will increase the number of foreign managers and professional in Shanghai and thereby increasing the customer base for serviced apartments.

GRAPH 1  
**Rental index and vacancy rate, Q1/2007-Q2/2018**



Source: Savills Research

GRAPH 2  
**Residential leasing vacancy rate, Q1/2007-Q2/2018**



Source: Savills Research

TABLE 1  
**Serviced apartment, strata-title apartment and villa indicators, Q2/2018**

	Rent (RMB per sq m per month)			Vacancy (%)		
	Q2/2018	QoQ change (%)	YoY change (%)	Q2/2018	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	235.1	(1.5)	0.1	17.3	(1.8)	1.4
Strata-title apartments	191.6	0.1	1.9	14.1	(1.1)	0
Villas	158.9	0.1	0.9	8.2	(1.6)	0.4
Overall	198.6	(0.6)	0.8	14.3	(1.5)	1

Source: Savills Research

## Mass-market news

### Heavy hitters continue to enter the fray

On July 12th, 2018, it was announced that long-time friends Canada Pension Plan Investment Board (CPPIB) and property developer Longfor Properties are piling USD\$817 million into China's residential leasing market. The money will be earmarked for tier one and tier two cities and the projects will be realized by a mix of conversions, acquisitions, and developments. Longfor originally entered this corner of the property market in 2016, but it had only built

500 units by the end of 2017. With this new money and favourable government policies, they are looking to expand to more than 50,000 units according to Wu Yajun, Longfor's CEO.

CPPIB follows other serious money into the nascent residential leasing market, including China Construction Bank, Alibaba, Tencent, and Warburg Pincus. Couple this with continued support from the national and local governments, the residential leasing sector is set to expand significantly in the coming years.

## Market overview

### Vacancy rate

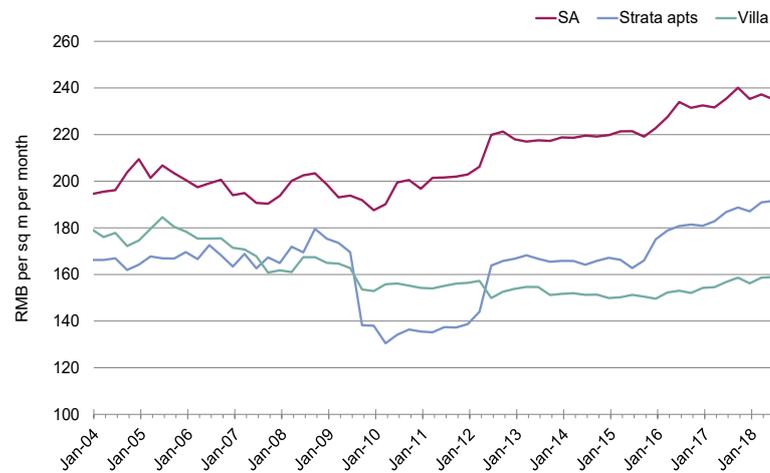
Overall average vacancy rates for the city declined 1.5 percentage points (ppts) QoQ to 14.3%. Serviced apartments vacancy rates across the city declined 1.8 percentage points (ppts) to 17.3%, but this was mainly from Pudong serviced apartments which saw a precipitous decline of 6.1 ppts to 20%, while Puxi serviced apartment vacancy rates increased 1.7 ppts QoQ to 15.2%.

City-wide villa vacancy rates were much more stable as they declined 1.6 ppts QoQ to 6.6%, though this was still up 0.9 ppts YoY. Pudong's villa vacancy rate decreased 0.9 ppts QoQ to 5.8%, while Puxi's villa vacancy rate decreased 2.4 ppts to 7.4% QoQ.

### Rent

It was a rather uneventful quarter for rents in the city. Average rent for the entire city remained virtually flat with only a 0.6% decline QoQ, and showing a mere 0.8% YoY growth to RMB198.6 psm pmnth. Serviced apartment rents remain the highest at RMB235.1 compared to strata-title apartments at RMB191.6 and villas at RMB158.9.

GRAPH 3 Residential leasing market average rent, Q1/2004 - Q1/2018



Source: Savills Research

TABLE 2 Selected serviced apartment, strata-title apartment and villa rents, Q2/2018

Project name	Type	Area	Gross unit size (sq m)	Rent (RMB per month)
Ascott Hengshan	Serviced apartment	Xuhui	142	48,500
One Sunland Serviced Suites	Serviced apartment	Waigaoqiao	70	14,500
Richgate	Strata-title apartment	Xintiandi	298	75,000
Green Valley Villas	Villa	Changning	220	49,000
Trinity Village	Villa	Nanhui	371	35,000

Source: Savills Research

### District snapshot: Jing'an 2013–2018

In October 2015, the State Council officially approved the merger between Zhabei District and Jing'an District to create the "new" Jing'an District. The former Zhabei district is now colloquially known as "north Jing'an". Jing'an has always been a popular area for both locals and international residents and has seen the number of serviced apartments increase significantly in the past five years. Due to the district's central location, a vast array of international businesses and cuisines and continued development, Jing'an serviced apartments will continue to see low vacancy rates and increasing rents. Areas like Wuding Road are very popular nightlife spots for expats and shopping areas like Crystal Galleria and HKRI Taikoo Hui offer a wide variety of shopping experiences in the district.

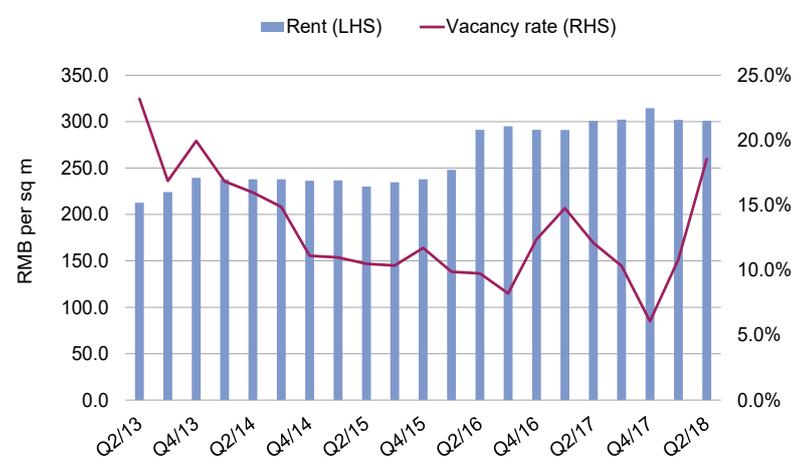
#### Jing'an New Supply Since 2013

Jing'an has seen four new apartment complexes open since 2013, with many as part of larger multi-use complexes (as is the case with the newest serviced apartment, The Middle House, as a part of the brand new HKRI Taikoo Hui shopping centre complex).

#### Supply

As of Q2/2018, citywide serviced apartment stock now stands at

GRAPH 4 **Jing'an rent and vacancy rate, Q2/2013 – Q2/2018**



Source: Savills Research

6,666 units, with Puxi serviced apartments at 3,686 units and Pudong serviced apartments at 2,980 units. Citywide villa stock stood at 2,615 units, with Puxi representing 1,219 units (most of which is in Hongqiao and surrounding areas) and Pudong representing 1,396 units (with the majority of supply in Jinqiao).

Stanford Xuhui originally opened in Q2/2017, with 119 units in the first phases (where unit sizes range from 157 - 526 sq m). Now, in Q2/2018, the new Block 10 is currently accepting leases for another 30 units, but these won't be available for move in until October 2018. This brings the total amount of

TABLE 3 **Jing'an rent and vacancy rates, Q2/2013 vs. Q2/2018**

	Q2/2013	Q2/2018
Rent	212.7	301.0
Vacancy rate	23.2%	18.5%

Source: Savills Research

TABLE 4 **Jing'an serviced apartment supply added since 2013**

Project name	Area	Launch date	No. of units
Kerry Residence	Nanjing Road (W)	Q2/2013	133
Stanford Residence	Nanjing Road (W)	Q4/2016	113
The St. Regis Residential Apartments	Nanjing Road (W)	Q1/2017	55
The Middle House	Nanjing Road (W)	Q2/2018	102

Source: Savills Research

units to 149. With the surrounding area improving rapidly, expanded facilities and the high occupancy rates the project is already enjoying, this new phase will likely see units quickly snapped up by other international and domestic tenants.

### Market outlook

There are two projects coming to the market from developer Sincere and operator Shama. With one project in Changning district (located next to Changfeng Park) and one project in Minhang district (just north of Hongqiao Transportation Hub), Sincere will be launching a total

of 494 units onto the Shanghai market. Combine this with the already-opened Hyatt Place (101 units) nearby and the Phase 10 of Stanford Xuhui (30 units), this represents a large influx of serviced apartments in Puxi. This will inevitably drive down occupancy rates for serviced apartments in Puxi and potentially causing rents to fall in step. In contrast, Pudong, having only received 73 units of serviced apartments since Q1/2018, should see occupancy increase for service apartments, followed by increased rents.

The relative popularity of serviced apartments in Puxi can partially be attributed to the Hongqiao Transportation Hub's increasing importance in comparison to Pudong International Airport. As Hongqiao's transportation capabilities (whether by air, rail, or road) improve, and it becomes a more prominent regional hub, more and more serviced apartments will crop up to service Chinese and Asian short-term business professionals, as this demographic is supplanting western professionals as the main clients for this type of accommodation. ■

TABLE 5  
**Serviced apartment supply added in Q2/2018**

Project name	District	Area	No. of units	Owner
The Middle House	Jing'an	Nanjing Road (W)	102	Swire
Marriot Pudong East	Pudong	Jinqiao	73	Marriot

Source: Savills Research

TABLE 6  
**Serviced apartment supply forecast, 2H/2018**

Project name	District	Area	Launch date	No. of units	Operator
Shama Changfeng	Changning	Changfeng Park	Q3/2018	362	Shama
Shama Hongqiao	Minhang	Hongqiao	Q3/2018	132	Shama
Phase 10 Stanford Xuhui	Xuhui	Xuhui	Q4/2018	30	Stanford

Source: Savills Research

## Project Focus

### Block 10 of Stanford Xuhui

Stanford Xuhui originally opened in Q2/2017, with 119 units in the first phases (where unit sizes range from 157 - 526 sq m). Now, in Q2/2018, the new Block 10 is currently accepting leases for another 30 units, but these won't be available for move in until October 2018. This brings the total amount of units to 149. With the surrounding area improving rapidly, expanded facilities and the high occupancy rates the project is already enjoying, this new phase will likely see units quickly snapped up by other international and domestic tenants.

TABLE 7  
**Block 10 of Stanford Xuhui**

<b>Location</b>	Lane 268, West Jianguo Road, Xuhui	
<b>Owner</b>	K.Wah International Holdings	
<b>Operator</b>	Stanford Hotels Management	
<b>No. of units</b>	30	
<b>Layout/Size</b>	190 sq m (3 bed) 220 sq m (3 bed + 1 study)	
<b>Monthly Rent</b>	RMB45,000 – 60,000	

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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