

Briefing Residential leasing

November 2018

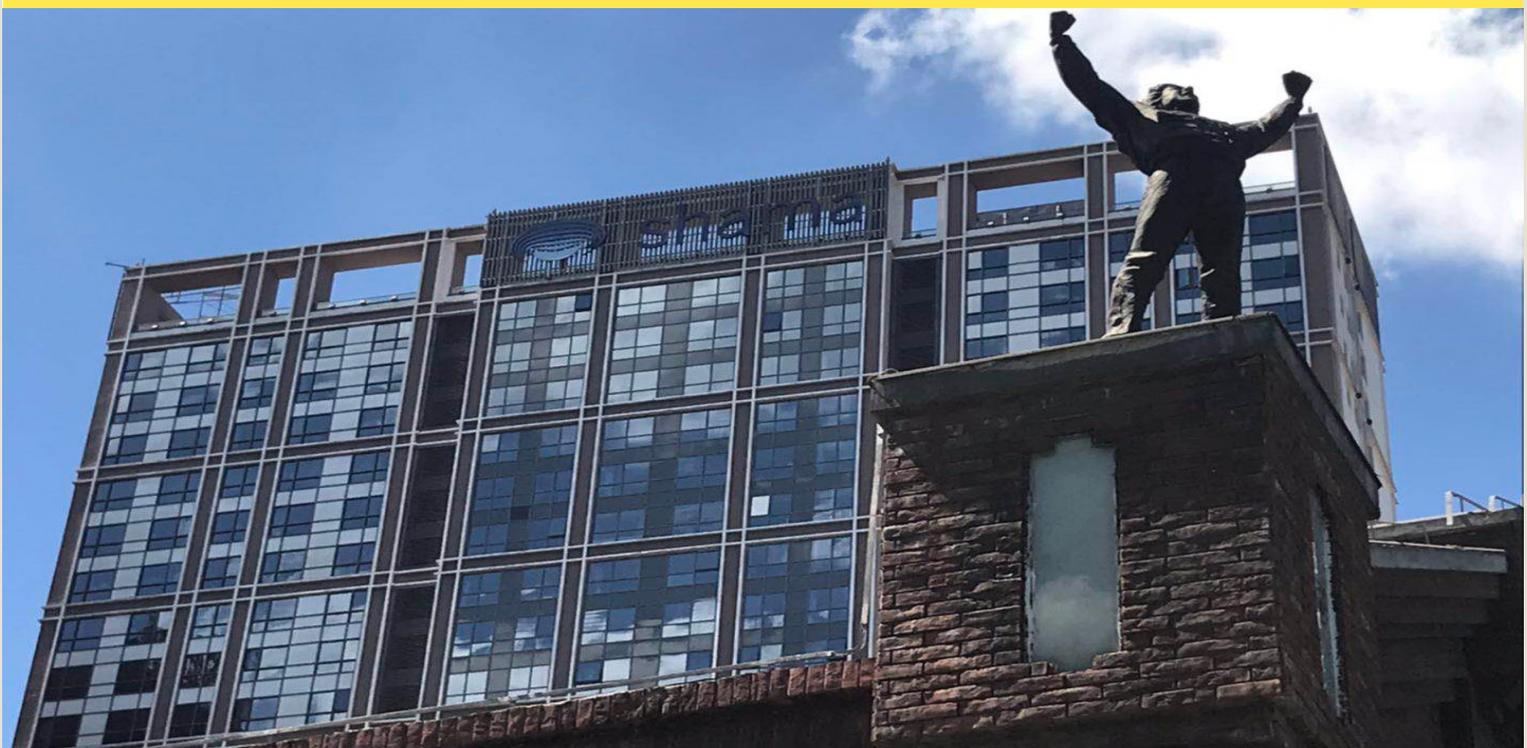


Image: Shama Changfeng, Putuo

SUMMARY

The Puxi serviced apartment market saw two new developments in Q3/2018, and Pudong saw vacancy rates fall due to relatively limited new supply.

- Two new serviced apartment projects came online in Q3/2018, Shama Changfeng and Shama Hongqiao, with a combined 494 units. Somerset Gubei was originally scheduled to open during Q3/2018, but has been pushed back to the middle of Q4/2018.
- Shanghai's high-end residential leasing stock now stands at 13,368 units, with serviced apartments at 7,160 units, strata apartments at 3,719 units and villas at 2,689 units.

- Serviced apartments vacancy rates across the city declined 2.4 percentage points (ppts) quarter-on-quarter (QoQ) to 14.9%, with approximately 1,070 vacant units across the city.
- Citywide rent fell 3% QoQ on an index basis but average rent increased to RMB200.5 per sq m per month—average serviced apartment rents were at RMB244.9 per sq m per month (0.6% QoQ decline), strata apartment rents at RMB181.2 per sq m per month (6.1% QoQ decline) and villas at RMB153.1 per sq m per month (3.7% QoQ decline).

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 “Pudong serviced apartment vacancy rates dropped in Q3/2018 as existing projects absorbed demand and the district saw relatively little supply in recent quarters.” James Macdonald, Savills Research

→ **High-end market news**

New personal income tax reform

A new government policy on the horizon is poised to change personal income tax nationwide. A key point of the new tax law would lower tax rates on low-to-middle income earners (both international and domestic), but place a higher tax burden on high-income earners. As Chinese managers are becoming more skilled and experienced, the need for seconded international managers is falling, and the tax laws are beginning to reflect that fact, with the government planning to cut many of the perks that international employees once enjoyed.

The biggest change for expatriates involves the amount of time that it will take for an international employee to be considered a tax resident of China. Instead of the current rule of five years, a proposed change in the law would consider international employees residents after only 183 days in the country, which would cause all of their global income (i.e. money earned inside and outside of China) to be taxed by the Chinese authorities.

Whatever the final law looks like (set to be enacted in January 2019), these changes have sent an obvious chill through the international community in China.

Market overview

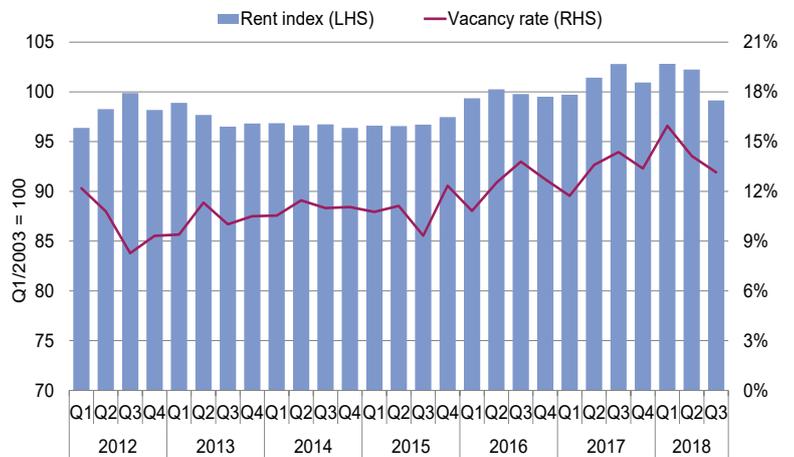
Vacancy rate

Pudong serviced apartment vacancy rates saw a most precipitous drop, 6.2 ppts to 13.8% in Q3/2018 due to limited new supply in the district. Puxi, on the other hand, saw a slight 0.6 ppt increase QoQ to 15.7%, thanks in part to two new projects added in Q3/2018.

Rent

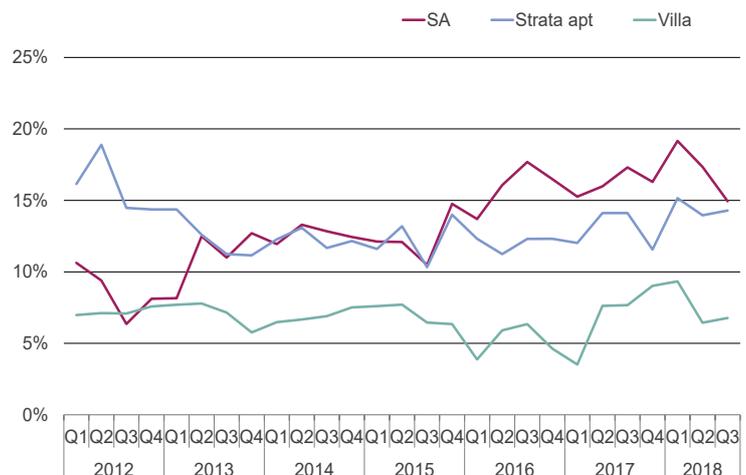
Citywide rent fell 3% on an index basis but average rent increased QoQ to RMB200.5 per sq m per month. The highest rents in the

GRAPH 1 **Rental index and vacancy rate, Q1/2012 - Q3/2018**



Source: Savills Research

GRAPH 2 **Residential leasing vacancy rate, Q1/2012 - Q3/2018**



Source: Savills Research

TABLE 1 **Serviced apartment rent and vacancy rate by district, Q3/2018**

District	Average rent (RMB/sqm/month)	Vacancy rate (%)
Jing'an	356.4	16.5%
Huangpu	243.3	24.2%
Xuhui	223.3	9.7%
Minhang	117.1	8.3%
Pudong	233.9	13.8%
Changning	177.3	23.9%

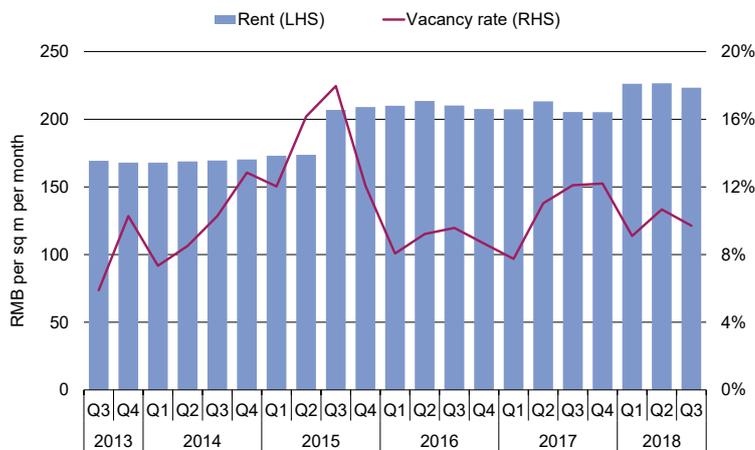
Source: Savills Research

GRAPH 3 Residential leasing average rents, Q1/2012 - Q3/2018



Source: Savills Research

GRAPH 4 Rent and vacancy rate, Q3/2013 - Q3/2018



Source: Savills Research

city can be found in Jing'an at RMB356.4 per sq m per month and the lowest in Minhang at RMB117.1 per sq m per month.

District Spotlight: Xuhui Q3/2013 - Q3/2018

As one of Shanghai's core districts, Xuhui attracts both domestic and international serviced apartment customers with its mix of history and charm. Though average rent for the district (RMB223.3 per sq m per month) isn't as high as its northerly neighbour Jing'an (RMB356.4 per sq m per month), there are still several high-end serviced apartments in the district like Stanford Xuhui and Capella Jian Ye Li. Its central location, quick access to amenities and historical atmosphere, the district will remain popular with domestic and international tenants well into the future.

Xuhui is also home to a newer wave of leasing options in the city centre. BASE Living, while not in direct competition to more high-end serviced apartment providers has established a strong foothold in Xuhui district (13 properties) by renovating old properties (BASE Shiziwan was a former textile factory, for example) and creating middle-to high-end co-living spaces. It is projects like BASE where we can see the government's

TABLE 2 Citywide serviced apartment, strata-title apartment and villa indicators, Q3/2018

	Rent (RMB per sq m per month)			Vacancy (%)		
	Q3/2018	QoQ change (%)	YoY change (%)	Q3/2018	QoQ change (ppts)	YoY change (ppts)
Serviced apartments	244.9	(0.6)	(2.3)	14.9	(2.4)	(2.4)
Strata-title apartments	181.2	(6.1)	(5.3)	14.4	0.3	0.2
Villas	153.1	(3.7)	(3.9)	6.8	0.3	(-0.9)
Overall	200.5	(3.0)	(3.6)	13.2	(1.0)	(1.2)

Source: Savills Research

support for the residential leasing sector seep into the high-end of the market. With some rents ranging into RMB30,000 per month, BASE and other co-living outfits are slowly seeping into the higher-end residential leasing market, and Xuhui is serving as the testing ground for this new style of accommodations.

Supply

Puxi continued to see an influx of supply in Q3/2018 with two new projects (494 units) hitting the market—Shama Changfeng (362 units) and Shama Hongqiao (132 units), both from developer Sincere. This brings the total stock of serviced apartments in the city to 7,160 units, with 4,180 units in Puxi and 2,980 units in Pudong. The lack of new serviced apartments in Pudong (the last supply was the Marriot Pudong East in Q2/2018, with only 73 units) has driven vacancy rates down dramatically.

Market outlook

In terms of supply, Somerset Gubei, originally slated to open in Q3/2018, has been pushed back to Q4/2018, with the property’s soft opening occurring in late October. Recent high-end residential leasing stock has focused on serviced apartments, with relatively little coming in the form of strata apartments and villas in the past few years. This trend is likely to continue as the upcoming high-end residential leasing market will continue to see more serviced apartments launched in the next few quarters. This is especially true in western Puxi, where the development of the Hongqiao Transportation Hub will see several new openings such as the Somerset Gubei in Q4/2018, Somerset Hongqiao in 2019 and Citadines Guangxin Xiangyi in 2020. ■

TABLE 3 **Serviced apartment supply added in Q3/2018**

Project name	District	Area	Launch date	No. of units
Shama Changfeng	Changning	Changfeng Park	Q3/2018	362
Shama Hongqiao	Minhang	Hongqiao	Q3/2018	132

Source: Savills Research

TABLE 4 **Serviced apartment supply forecast, 2H/2018**

Project name	District	Area	Launch date	Units	Operator
Somerset Gubei	Minhang	Hongqiao	Q4/2018	285	Ascott
Le Ville Residence	Pudong	Biyun	Q4/2018	180	Yango

Source: Savills Research

Project Focus

Shama Changfeng

Putuo district, west of Shanghai’s city centre, has been undergoing significant development in the past few years. Several of the district’s former industrial zones have been developed thanks to the spillover development from the Hongqiao Transportation Hub to the south, especially around Daduhe Road and the area around the Shanghai Convention & Exhibition Centre of International Sourcing and East China Normal University. Developer Sincere has decided to take advantage of this urban development by opening up Putuo’s first foreign operator serviced apartment with Shama Changfeng. Located next to Changfeng Park and the Jacky Chan Museum, serves a mix of domestic, Asian and western clients. Though this is the first foreign-operated serviced apartment in the district, other operators eyeing opportunities in the district—such as Citadines Putuo in 2019 and Citadines Guangxin Xiangyi 2020.

TABLE 5
Shama Changfeng

Location	388 Daduhe Road, Putuo	
Owner	Sincere	
Operator	Shama	
No. of units	362	
Layout/Size	50 sq m (Studio) 70 sq m (1 bed) 90 sq m (2 bed)	
Monthly Rent	RMB13,000 – 23,000	

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.

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