

# Residential Leasing



## Rents made a strong comeback in Q4/2018

Stronger demand from domestic clients helped rents rebound from their falls in the third quarter.

- Overall residential rents increased 1.5% quarter-on-quarter (QoQ) to an average of RMB204 psm pmth
- Rent in each subsector saw increases in Q4/2018, with serviced apartments increasing 1.3% QoQ to an average of RMB248.4 psm pmth, strata-title apartments up 2.0% QoQ to RMB184.0 psm pmth and villas increasing 1.4% QoQ to RMB155.0 psm pmth.
- The citywide vacancy rate increased slightly by 0.2 percentage points (ppts) QoQ to 13.3%.
- Vacancy rates among subsectors were mixed, with serviced apartment vacancy rates up 0.4 ppts QoQ to 15.3%, strata-title apartments down 0.5 ppts QoQ to 13.8%, and villas up 0.2 ppts QoQ to 7%.
- Two new serviced apartment projects opened in Q4/2018, Somerset Gubei (285 units) and LeVille Residence (180 units).
- There are no high-end serviced apartment units expected to come into the market in Q1/2019 as many projects have

been pushed back to later in the year. Brands such as Shama, Savills Residence and Citadines are expected to open properties in 2019.

- Government support of the leasing sector has opened up new channels to finance the development and operations of leasing projects, such as asset-backed securities (ABSs).

“Vacancy rates stayed relatively stable during Q4/2018, but rents clawed back some of the declines seen in Q3. Despite this, average rents across the whole market ended up in negative territory for the full year of 2018.”

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#### RESIDENTIAL LEASING

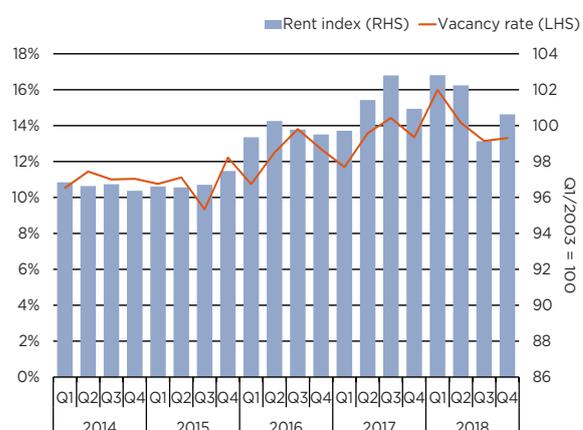
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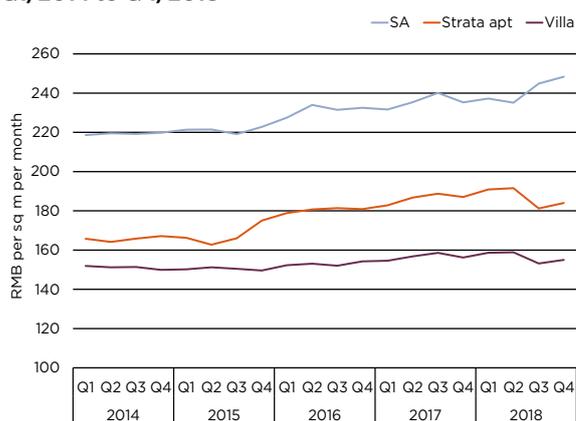
Savills plc  
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**GRAPH 1: Overall Rental Index And Vacancy Rate, Q1/2014 to Q4/2018**



Source Savills Research

**GRAPH 2: Residential Leasing Average Rents, Q1/2014 to Q4/2018**



Source Savills Research

**HIGH-END MARKET NEWS**

**Opening the financial sector-** Shanghai’s financial sector is set for a boost in demand as international financial firms are allowed greater control over joint ventures and the ability to create wholly owned foreign enterprises. This policy change is expected to bring with it more international managers to the city with firms like Citigroup and HSBC leading the charge. For example, in early December, HSBC, through its joint-venture, announced that it will more than quadruple the number of Mainland China companies covered by its research (from 80 to 400). Undoubtedly, the majority of the new headcount will be relatively junior positions, but there will certainly be more senior staff in need of short-and long-term rental options in major cities across China.

**New sources of financing-**With government support of new avenues of financing like green bonds, quasi-REITs and ABSs, developers seeking to finance residential leasing projects have more options, much needed as monetary policy is tightening in the broader market. These new avenues also help the ABS market mature as more professionals and regulators find ways to make these structures work as a financing tool. Future residential projects, not just in Shanghai but around China, are expected to utilise these financing vehicles.

**SUPPLY**

Pudong finally saw some additional supply with the addition of Yanggo’s LeVille Residences with 180 units in the Biyun area. The only other new supply in 2018 in Pudong was the 73 units at the Marriott Pudong East; coincidentally, the two properties are within a ten-minute walk from each other, with the rest of Pudong still lacking new supply.

**MARKET OUTLOOK**

There are approximately 700 units of serviced apartments (from brands like Citadines, Shama and Savills Residence) scheduled to launch in 2019, though some projects scheduled for Q1/2019 have been pushed back due to construction delays and the uncertain economic environment. Some of these properties will be in Pudong to pick up opportunities created by the lack of new supply in that part of the city.

The turbulent global economy and the increasing number of domestic tenants in serviced apartments should see serviced apartment operators change their service offerings to better suit domestic clients. Additionally, changing income tax laws, with the Chinese government moving towards a tax regime that will see expatriates lose certain tax privileges, and increasingly difficult visa policies will further decrease the attractiveness of China for international professionals. These have been trends in the market for some time, but operators are now starting to see their client demographics tip heavily towards domestic clients, giving them further incentive to reposition their properties.

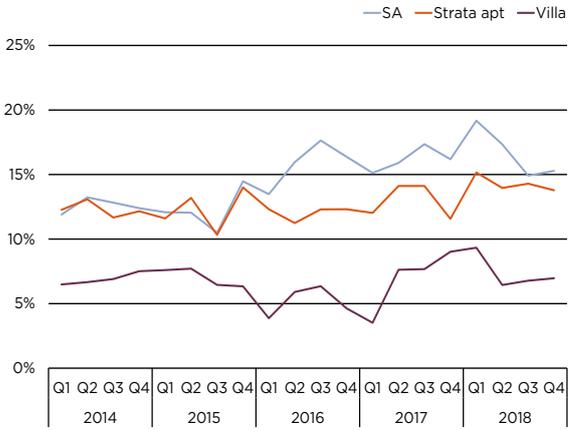
**DEFINITION:** Unless otherwise stated, rents refer to one-year asking rents of 150-sq m, two-bedroom units in the mid-zone of residential towers unless unavailable, in which case the standard unit size for the development is used.

**TABLE 1: Citywide Serviced Apartment, Strata-title Apartment And Villa Indicators, Q4/2018**

	RENT (RMB PSM PMTH)			VACANCY		
	Q4/2018	QoQ CHANGE(%)	YoY CHANGE(%)	Q4/2018	QoQ CHANGE (PPTS)	YoY CHANGE (PPTS)
Serviced apartments	248.4	1.3	1.5	15.3%	0.4	-0.9
Strata-title apartments	184.0	2.0	-2.4	13.8%	-0.5	2.2
Villas	155.0	1.4	-0.8	7.0%	0.2	-2.1
Overall	204.4	1.5	-0.3	13.3	0.2	0.0

Source Savills Research

**GRAPH 3: Residential Leasing Vacancy Rate, Q1/2014 to Q4/2018**



Source Savills Research

**TABLE 2: Serviced Apartment Supply, Q4/2018**

PROJECTS	DISTRICT	AREA	UNITS
Somerset Gubei	Minhang	Hongqiao	285
LeVille Residence	Pudong	Jinqiao	180

Source Savills Research