

# Residential Leasing



## Serviced apartments broaden client base

Facing challenges, serviced apartments are looking for, and finding, new types of tenants.

- Citywide average rent for all asset classes stood at RMB205 per sq m per month, a 0.8% decrease quarter-on-quarter (QoQ) but a 1.2% increase year-on-year (YoY).
- The citywide vacancy rate stood at 15.3%, a 0.4 of a percentage point (ppt) increase QoQ and a 1.8 ppts increase YoY.
- For rents by submarket, serviced apartment rent stood at RMB243.4 per sq m per month, which is down 0.8% QoQ and 0.7% YoY; strata apartments stood at RMB185.1 per sq m per month, also down 0.8% QoQ but up 4.1% YoY; and villas stood at RMB157.5 per sq m per month, which is down 0.5% YoY.
- For vacancy rates by submarket, the serviced apartment vacancy rate increased to 17.3%, up 0.2 of a ppt from this time last year; strata-title increased to 15.2% up 3.3 ppts YoY; and villas increased to 10.1%, which is 2.9 ppts higher YoY.
- L Apartment 46 (惠临雍萃) opened in Qiantan during Q3/2019, bringing 184 strata-title apartments to the market. The new supply brings Shanghai's high-end leasing market

(serviced and strata apartments as well as villas) total stock to approximately 16,630 units.

- Shanghai will see a fair amount of supply in Q4/2019, with a total of 1,338 units split between 720 units of serviced apartments and 618 units of developer-owned apartments.

“The residential leasing market is indeed facing some challenges, with falling rents and rising vacancy rates, but operators and developers are adapting to the climate in innovative ways.”

JAMES MACDONALD, SAVILLS RESEARCH

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#### RESIDENTIAL LEASING

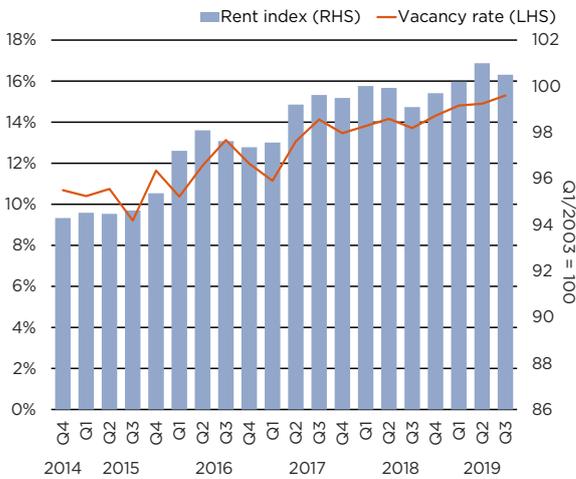
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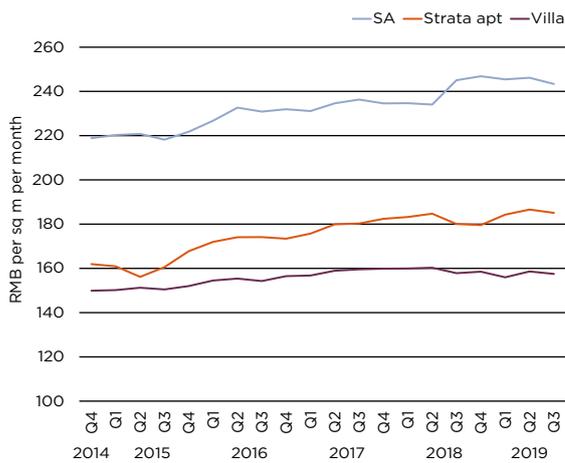
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**GRAPH 1: Overall Rental Index And Vacancy Rate, Q4/2014 to Q3/2019**



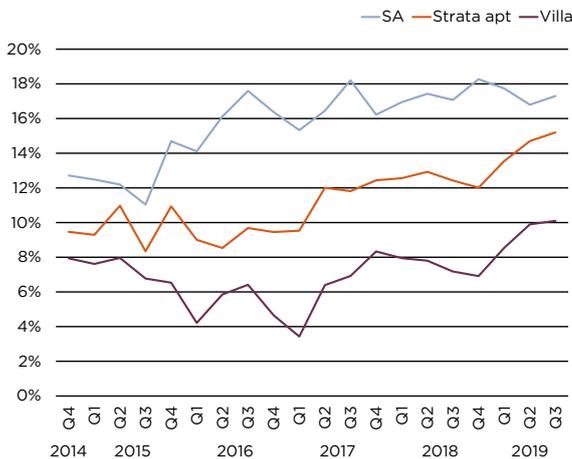
Source: Savills Research

**GRAPH 2: Residential Leasing Average Rents, Q4/2014 to Q3/2019**



Source: Savills Research

**GRAPH 3: Residential Leasing Vacancy Rate, Q4/2014 to Q3/2019**



Source: Savills Research

**MARKET NEWS**

The tenant demographics of Shanghai’s serviced apartment market have been changing for a while—a shift from international clients to domestic ones—but, recently, new types of tenants are looking to take up residence in high-end serviced apartments in Shanghai.

**Group Travellers** - Serviced apartments that offer daily or weekly rentals are seeing a new demographic propping up their occupancy rates—group travellers. Families or groups of friends are turning away from hotels and looking at serviced apartments as a viable alternative. These groups, mainly from surrounding cities in the Yangtze River Delta, are renting out two- to three-bedroom places for long weekends. These serviced apartments that can are providing these travellers with the ability to wine and dine on their own schedule and from the comfort of a high-end property. Plus, when the bill is split multiple ways, it ends up being cheaper than a traditional hotel to boot.

**Internet Celebrities** - Wang hong, internet celebrities who serve as Key-Opinion Leaders (KOLs) and influencers for companies, particularly in the fashion and entertainment industries, are starting to use serviced apartments for much more than living. Thanks to the high-end furnishings and fit-outs on offer, some internet celebrities are renting out apartments in new projects to serve as glamorous backdrops for their online lives. These internet celebrities are less focused on the location—so traditional prime locations are less affected by this—but they are striving to ensure that the property is new and the fit-out is of the highest standard. Technology is changing the serviced and high-end strata apartment market, though in a way few had ever anticipated.

**SUPPLY**

The strata-title apartment project L Apartment 46 opened in Qiantan during Q3/2019, bringing a total of 184 strata-title apartments to the market. The project is

well-placed as it’s right across the river from Wellington International School and nearby several new office projects in the area. Qiantan is developing quickly, with L Apartment 46 joining Phase 1 of Crystal Plaza Residences (which will soon be followed by Phase 2 and 3 with 618 units in the same development in Q4/2019).

Additionally, Citadines Xujiahui (馨乐庭徐家汇) on West Longhua Road opened on 10 October, adding 152 serviced apartment units (ranging from 22 sq m to 70 sq m) to the market.

**MARKET OUTLOOK**

Developers have been holding back projects throughout the year; however, several projects are expected to launch in both the serviced and strata-title apartment markets in Q4/2019.

- Bvlgari Residence, next door to the already-opened Bvlgari Hotel, is expected to open in Q4/2019 with 143 units.
- To go with the L Apartment 46 that opened in Q3, Phase 2 and 3 of Crystal Plaza Residences (晶耀名邸) in Qiantan is expected to open in Q4/2019, adding 618 units to the area.
- Originally expected to open in Q3/2019, Citadines Gubei (192 units) has now been pushed back to Q4. Additionally, Citadines Lujiazui is expected to open in Q4, adding 168 units to the Pudong market.

The future of the high-end residential leasing market remains challenging. However, it’s promising that newer types of tenants are looking at serviced apartments, providing a boon to operators who are feeling the downward rental pressure and tightening margins. It’s still quite early to tell how significant an impact these trends will be. People stay in serviced apartments in part due to the greater flexibility they provide—short-term contracts, etc.—and, with the increased uncertainty in the market, tenants can use the benefits of serviced apartments to adapt to ever-changing conditions.

**TABLE 1: Citywide Serviced Apartment, Strata-title Apartment And Villa Indicators, Q3/2019**

	RENT (RMB PSM PMTH)			VACANCY		
	Q3/2019	QoQ CHANGE	YoY CHANGE	Q3/2019	QoQ CHANGE (PPTS)	YoY CHANGE (PPTS)
Serviced apartments	243.4	(0.8%)	(0.7%)	17.3%	0.3	0.2
Strata-title apartments	185.1	(0.8%)	4.1%	15.2%	0.4	3.3
Villas	157.5	(0.5%)	(0.2%)	10.1%	0.4	2.9
Citywide	205.1	(0.7%)	1.2%	15.3%	0.4	1.8

Source: Savills Research