SPOTLIGHT
Savills Research

Asian Cities - 1H 2023

Guangzhou Serviced Apartments

The leasing market remains challenging, though REITs could spur investor interest

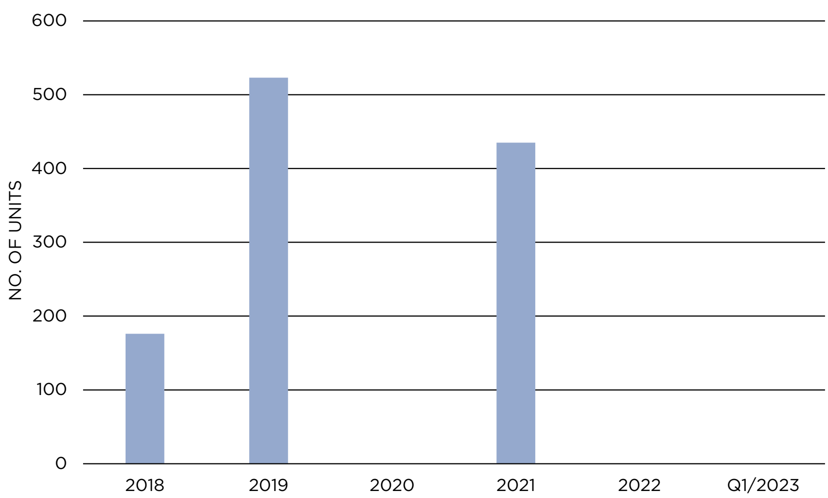
MARKET BACKGROUND

Since the entry of Oakwood Gold Arch Residence Guangzhou on Ersha Island to the market in 2000, the Guangzhou serviced apartment market has developed for more than two decades. The city has experienced rapid growth and foreign trade since China's reform and opening up, which fuelled the sectoral market development and attracted a series of internationally well-known serviced apartment operators such as Ascott, Frasers, and Oakwood as well as several leading hotel brands such as the Ritz-Carlton and Rosewood to tap into the market.

International operators continue to dominate the market, accounting for 73.7% of serviced apartments under operation, though this figure has 6.3 ppts from 2010 with the entrance of local players, such as LN Hospitality and Yuexiu Group. As the city has developed leasing demand has shifted from Huanshi East Road to Tianhe Road and eventually Zhujiang New Town.

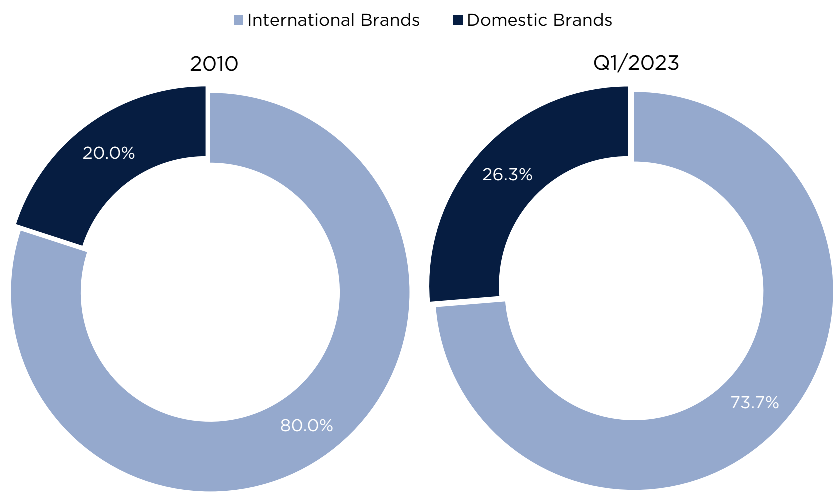
The market consists of four major submarkets of Tianhe Road, Zhujiang New Town, Huanshi East Road and Ersha Island. The citywide stock reached 3,530 units in Q1/2023, up 106.4% YoY. with Zhujiang New Town accounting for 44.7%.

GRAPH 1: New Supply of the Serviced Apartment Market, 2018 to Q1/2023



Source Savills Research

GRAPH 2: Serviced Apartment Market Players, 2010 vs Q1/2023



Source Savills Research

DOMESTIC TENANTS INCREASINGLY DRIVING DEMAND

Leasing demand initially derived from long-term stay hotel expatriate tenants that desired larger units, greater privacy and tailored services and amenities. This demand base created a relatively stable market with the citywide vacancy rate remaining below 20% from 2010 to 2019.

The outbreak of COVID in 2020 and stricter border controls greatly dented demand from the expatriate community that was unwilling or unable to return to China, pushing up the citywide vacancy rate to a historical high of 30.1% in Q2/2020.

Domestic demand helped fill the shortfall to an extent, with individuals with the financial means or unable to acquire properties due to purchases restrictions, choosing to splurge on experiential living. Serviced apartments also proved popular with live streamers utilizing the space as a luxury home office. Other creative uses also emerged, with some units occupied by postnatal care centres. As a result, the vacancy rate started falling but remained elevated compared to pre-COVID levels.

China eased travel restrictions in early 2023, with more international business travellers returning to Guangzhou though it will take time to fully recover, if it ever does, and will unlikely have a meaningful impact in the short term. The citywide average vacancy rate edged up 0.3 ppt in Q1/2023 to 26.3%.

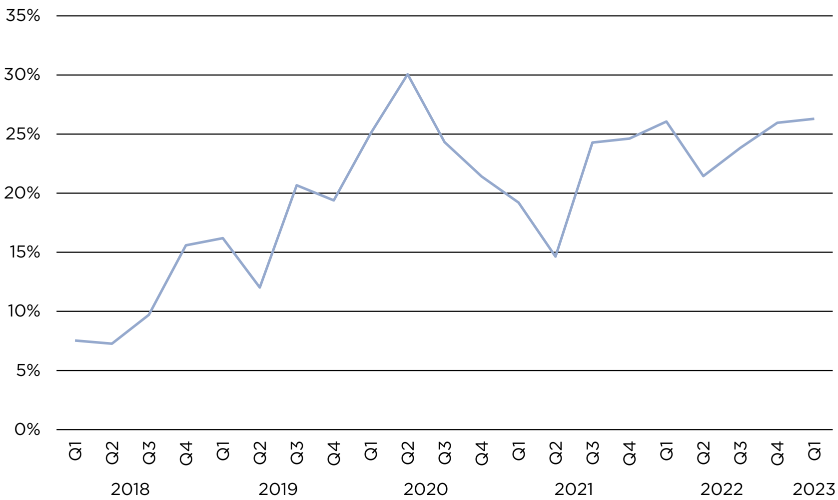
MORE PERKS, FEWER DISCOUNTS

Landlords in the past have tended to rely upon rental discounts to attract new tenants, this has resulted in rents falling at a compound annual rate of 1.8% from 2018 to 2021.

There is limited scope for further cuts however, given rising operational costs, especially additional COVID related operational burdens. Landlords have more recently turned to offering non-financial incentives and benefits, such as service package upgrades (i.e. including breakfasts or more room cleaning services) to retain existing occupiers and attract new tenants. But this will inevitably lead to a rise in operating costs. Rents remained stable in Q1/2023 at an average of RMB218.5 per sq m per month, equivalent a nightly rate of RMB834.1 for a 116 sq m 2-bedroom unit.

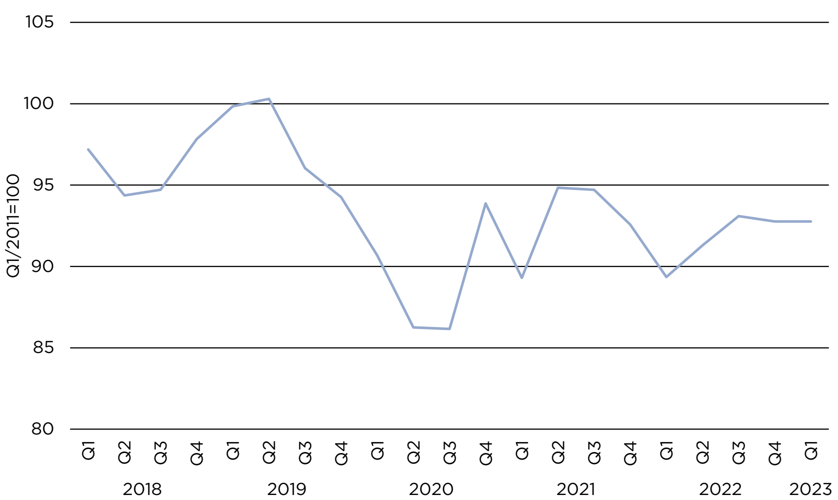
Guangzhou's serviced apartment market has been faced with significant obstacles given covid restrictions, weaker economic growth and fraught trade relations, however an emerging domestic tenant demand is boosting occupancy rates while REIT prospects have attracted investor interest.

GRAPH 3: Average Vacancy Rate for the Serviced Apartment Market, Q1/2018 to Q1/2023



Source Savills Research

GRAPH 4: Rental Indices for the Serviced Apartment Market, Q1/2018 to Q1/2023



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ALTERNATIVE EXIT MECHANISM BOOSTS INVESTMENT SENTIMENT AND CONFIDENCE

The market will remain challenging in the short-term and landlords should continue to focus on operational efficiencies on maintaining occupancy rates, ideally a mix of short and long stay tenants with the former paying higher rates and the latter supporting more stable occupancy. Despite a difficult outlook for demand, new supply is expected to be significant with eight new projects adding 1,872 units scheduled to be completed in the next three years, increasing stock by 53.0%.

One bright spot for the market may strangely be investment activity, as the domestic REIT market continues to expand its remit to include affordable housing and commercial assets, investors are looking at the possibility to repackaging assets to fall within the existing scope or of the potential for the scope to expand further in coming years.

TABLE 1: Future Supply for the Serviced Apartment Market, 2023 to 2025

PROJECT NAME	LOCATION	NO. OF UNITS
Frasers Suites Pazhou	Haizhu	231
Yuexiu Hotel Guangzhou by The Crest Collection	Yuexiu	196
Ascott Pazhou Guangzhou	Haizhu	400
Ascott Yuexiu Guangzhou	Yuexiu	210
Citadines Knowledge City Guangzhou	Huangpu	240
Citadines Huadi River Guangzhou	Liwan	200
Citadines Huadu Lake Guangzhou	Huadu	203
Ascott Ouhao Guangzhou	Nansha	192

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