Shanghai – May 2019

MARKET IN MINUTES

Savills Research

Residential Leasing

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Competition intensifies as client base shifts

The tenant profile of serviced apartments is changing in response to greater domestic demand.

- Shanghai's overall residential rents decreased 0.2% quarter-on-quarter (QoQ), though this constituted an increase of 3.8% year-on-year (YoY), to an average of RMB204.8 per sq m per month.

- By submarket, serviced apartment average rent decreased by 0.6% QoQ to an average of RMB245.5 per sq m per month and villas decreased 1.6% QoQ to RMB156 per sq m per month. However, strata-title apartment average rent increased by 2.6% QoQ to RMB184.3 per sq m per month.

- The citywide vacancy rate increased by 0.5 of a percentage point (ppt) QoQ to 14.8%.

- Vacancy rates in both strata-title apartments and villas were up—strata-apartments increased 1.5 ppts QoQ to 13.5% and villas increased by 1.6 ppts to 8.5%. However, serviced apartment vacancy rates fell by 0.5 of a ppt QoQ to 17.7%.

- One renovated strata-titled project launched onto the market in Q1/2019. The Royal Pavilion (华山公寓)—which is under new management—in Jing'an launched 74 units targeting high-end tenants in March of 2019.

- Two serviced apartment projects are scheduled to launch onto the market in Q2/2019—one a renovation and the other a new opening. Joyride Residence (悦楷玲珑服务式公寓), formerly the Elite Residence, near Zhongshan Park will contribute 119 units to the market and Landsea Serviced Apartment (朗诗阁服务公寓) in Putuo will add 250 units.

"A new generation of tenants is starting to move into the serviced apartment market. Operators, both domestic and international, will have to adjust services and product offerings to match new tenant demands."

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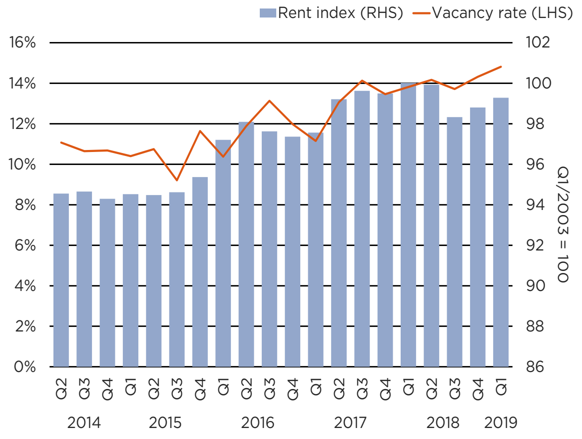
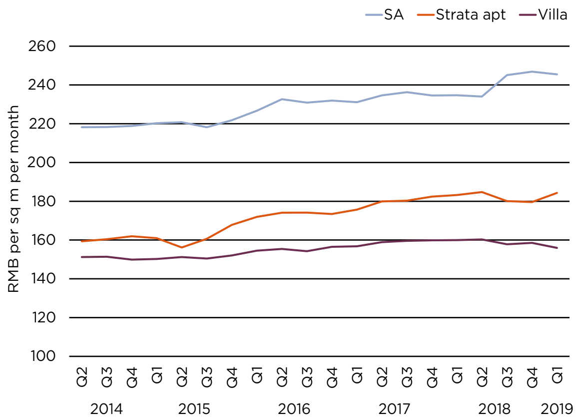
GRAPH 1: Overall Rental Index And Vacancy Rate, Q2/2014 to Q1/2019



Source Savills Research

GRAPH 2: Residential Leasing Average Rents, Q2/2014 to Q1/2019



Source Savills Research

HIGH-END MARKET NEWS

A new generation- The profile of serviced apartment tenants is changing and has been changing for many years now; however, many projects are seeing a new "third-generation" coming to the fore. They are bringing a new client profile and a whole new set of demands with them. These new tenants are younger, overseas-educated and are accustomed to renting. They arrive with higher expectations for the serviced apartment market in areas like design quality and location, but they are less concerned with value-added services. Having grown accustomed to a rental lifestyle overseas, this new generation of tenants is returning home and affecting the rental market in Shanghai and other leading cities in China.

Continued financial opening-Recently, several financial companies have applied for, and received, greater access to the China market through majority ownership of joint ventures or via other regulatory approvals. Financial heavyweights like J.P. Morgan Chase, Nomura, HSBC, UBS, Allianz and others have in recent months received regulatory approval to establish majority foreign-owned joint ventures or wholly foreign-owned enterprises (WFOEs) in China. The opening of China's financial sector bodes well for Shanghai's residential leasing market as the city will attract more highly paid international and domestic professionals. The national policy of improving the competitiveness of the country's financial institutions will increase the number of white-collar professionals and thus the tenant base for serviced apartments and high-end residential leasing.

However, this development contrasts with the economic slowdown and ongoing trade dispute, which are encouraging some sectors like the automobile industry to further localise staff and relocate staff to other high-growth markets.

SUPPLY

The Shanghai Longfeng Group, a local developer, renovated the former Royal Pavilion (华山公寓) in Jing'an and launched 74 units targeting high-end clients in March of 2019.The property kept its previous name in both English and Chinese, but is now developer-owned apartments.

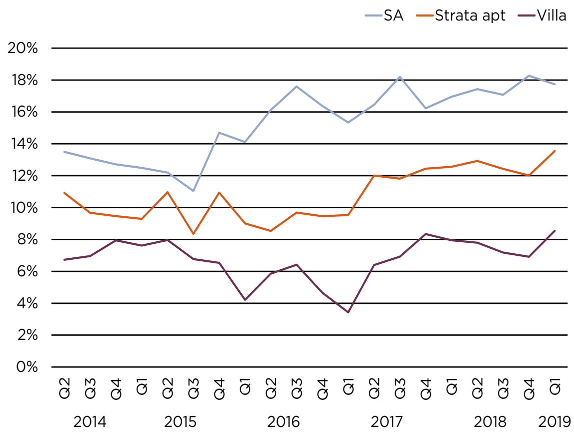
MARKET OUTLOOK

Two serviced apartments—one a rebrand/relaunch and the other a new opening—are launching onto the Shanghai market in Q2/2019. Joyride Residence (悦樘玲珑服务式公寓), formerly the Elite Residence, near Zhongshan Park opened fully on 1 April 2019 with 119 units. The other development is the Landsea Serviced Apartment (朗诗阁服务公寓) on East Yunling Road in Putuo with 250 units. Puxi will continue to see most of the market's supply during the year, with a focus on the areas around the Hongqiao Transportation Hub and north into Putuo district.

Outside of the supply debuting in Q1/2019, brands such as Ascott and developers like Sunac are expected to increase their presence in Shanghai's market. There are approximately 600 serviced apartment units scheduled to launch in the rest of 2019. In addition to this, Shanghai is expected to see sustained competitive growth from multi-family and co-living market operators—such as BASE and Cohost. While not directly competing with serviced apartments, these operators will set competitive benchmarks in terms of service and quality standards.

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.

GRAPH 3: Residential Leasing Vacancy Rate, Q2/2014 to Q1/2019



Source Savills Research

TABLE 1: Citywide Serviced Apartment, Strata-title Apartment And Villa Indicators, Q1/2019

	RENT (RMB PSM PMTH)			VACANCY		
	Q1/2019	QoQ CHANGE(%)	QoQ CHANGE(%)	Q1/2019	QoQ CHANGE (PPTS)	YoY CHANGE (PPTS)
Serviced apartments	245.5	-0.6%	4.6	17.7%	-0.5	0.8
Strata-title apartments	184.3	2.6%	0.6	13.5%	1.5	1.0
Villas	156.0	-1.6%	-2.5	8.5%	1.6	0.6
Villas	204.8	-0.2%	3.8	14.8%	0.2	1.0

Source Savills Research