Residential Leasing

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Rents falter due to COVID-19

Serviced apartment operators turn to domestic demand to weather the storm.

- The leasing market in Q2/2020 was still quiet, with the majority of transactions coming from smaller, one-to two-bedroom units, as tenants look to downsize in terms of space or budget.
- Citywide average rent fell 1.4% quarter-on-quarter (QoQ) and 3.0% year-on-year (YoY) to RMB200 per sq m per month.
- Serviced apartment rents fell 1.5% QoQ and 3.8% YoY to RMB233.1 per sq m per month, strata-title apartments fell 0.9% QoQ and 2.8% YoY to RMB181.4 per sq m per month and villas fell 1.4% QoQ and 4.3% YoY to RMB151.6 per sq m per month.
- The citywide vacancy rates dropped slightly to 18.0%, down 0.8 of a percentage point (ppt) QoQ, but still up 1.9 ppts YoY in Q2/2020.
- Serviced apartment vacancy rate stood at 19.2% down 1.1 ppts QoQ, high-end strata-title apartments were down 0.6 of a ppt QoQ to 19% and villas were down slightly 0.1 of a ppt QoQ 13.4%.
- Lanson Place Jinqiao closed in May, taking 102 units of serviced apartments off the market and no new supply took its place in Q2/2020. However, Eacqua Residences in Qiantan will add 57 units to the market at the beginning of July.

"The leasing market is still reeling from the ongoing impact of travel restrictions as international tenants are effectively barred from entering the country. However, with more charter flights operating and more effective procedures in place, the market should improve in the latter half of 2020."

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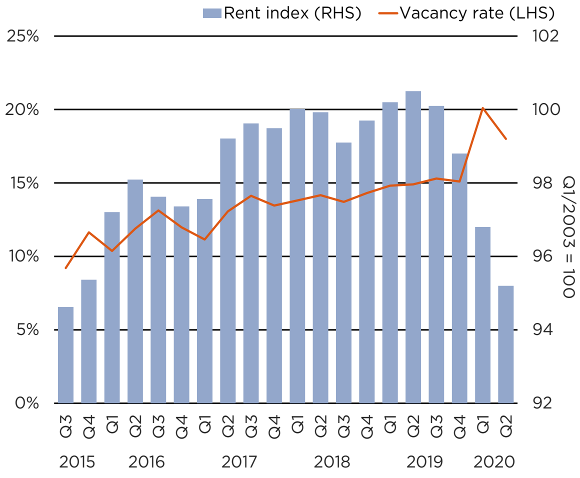
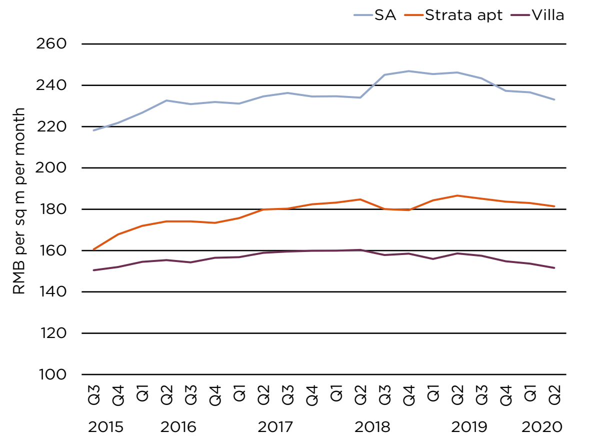
GRAPH 1: Overall Rental Index And Vacancy Rate, Q3/2015 to Q2/2020



Source Savills Research

GRAPH 2: Residential Leasing Average Rents, Q3/2015 to Q2/2020



Source Savills Research

MARKET NEWS

Q2/2020 proved to be better than Q1/2020, though still quiet as the city deals with the fallout of COVID-19. Shanghai has had to adjust to a smaller tenant pool, and operators and high-end leasing properties are developing strategies to maintain occupancy and rental levels.

Travel controls restrict the market

As international flights into China are still highly-restricted and strict quarantine measures remain in place, the market is mainly the domain of domestic tenants, with the only international tenants being the ones who entered China before the strictest controls were put in place.

There have been charter flights for executives from countries like Korea, Germany and Singapore, though these are few and far between, and some potential tenants are hesitant of being forced to quarantine at government-sponsored hotels and facilities.

China is considering travel bubbles/air channels with select regional peers which have been able to control COVID-19 or have strong economic/business ties with China. The leasing market would obviously welcome these measures but, as dependents are unlikely to be initially allowed, the impact will mostly be felt in smaller units. This was evident in Q2/2020 as transactions focused on smaller, one-to two-bedroom units as tenants downsized. Properties with larger unit sizes saw some tenants with family members abroad and unable to return to Shanghai vacate to smaller spaces. This was a prime source of transactions during Q2/2020 and one-bedrooms are the most highly-occupied unit type.

RENTS & VACANCY

Citywide vacancy rates dropped slightly to 18.0%, down 0.8 of a percentage point (ppt) quarter-on-quarter (QoQ), but still up 1.9 ppts year-on-year (YoY) in Q2/2020 as operators enlisted a host of measures (more short-term stays and flexible leasing options) designed to offset the pick-up in vacancy rates seen in Q1/2020.

Rents took a significant hit in Q2/2020. Operators and landlords across the city cut rates and offered promotions to bolster occupancy and weather the storm created by COVID-19. Rents were already trending downward on a YoY basis, but COVID-19 has accelerated that trend. Citywide rent fell 1.4% QoQ and 3.0% YoY to RMB200 per sq m per month.

SUPPLY

There was no new supply in Q2/2020 due to the lingering concerns over COVID-19. Additionally, Lanson Place Jinqiao closed at the end of May, taking 102 units of serviced apartment units off the market and those units were then put to auction by the landlord for qualified residential purchasers.

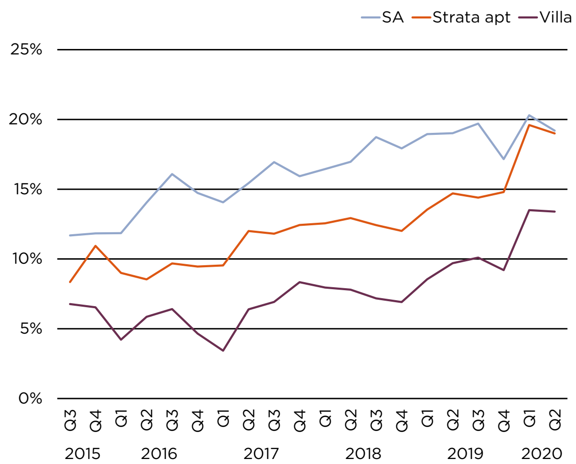
MARKET OUTLOOK

Eacqua Residences (前滩东美国际公寓) in Qiantan will launch in Q3/2020, adding a total of 57 serviced apartments to the market. The project is the first serviced apartments to launch in the Qiantan area. Additionally, Greystar's first project in China, LIV'N 833, near Zhongshan Park, is expected to open in Nov. 2020, bringing 474 units to the market. With the uncertain market fundamentals, many developers are still hesitant to launch projects in the market, and thus 2020 is expected to be a low water mark for high-end serviced apartment supply.

On July 1st, 2020, Lanson Place Xintiandi will be rebranded as Fraser Residence Xintiandi, though the unit types and unit number (106) remain the same. This change in management companies, combined with the closing of the Jinqiao project, leaves Lanson with only two branded projects (Aroma Garden and Parkside) in Shanghai.

Looking forward to 2H/2020, Shanghai's residential leasing market will continue to face headwinds. The citywide tenant pool is expected to remain constrained until travel restrictions are lifted, the global economy improves and people feel comfortable travelling again. However, with COVID-19 still raging across the globe, the timeline for a market recovery remains uncertain.

GRAPH 3: Residential Leasing Vacancy Rate, Q3/2015 to Q2/2020



Source Savills Research

TABLE 1: Serviced Apartment, Strata-title Apartment And Villa Indicators, Q2/2020

	RENT (RMB PSM PMTH)			VACANCY		
		QoQ CHANGE	YoY CHANGE	Q2/2020	QoQ CHANGE	YoY CHANGE
Serviced apartments	233.1	(1.5%)	(3.8%)	19.2%	(1.1 ppts)	0.2 ppts
Strata-title apartments	181.4	(0.9%)	(2.8%)	19.0%	(0.6 ppts)	4.4 ppts
Villas	151.6	(1.4%)	(4.3%)	13.4%	(0.1 ppts)	3.7 ppts

Source Savills Research