

# Residential Leasing

24 November 2011

“The residential leasing market remained active in the third quarter with occupancy rates recording their largest increase since the 2010 Shanghai Expo.”



Image: Shama Xintiandi, Huangpu

- Stepping into the peak season, more leasing transactions pushed occupancy rates higher in all sectors of the market. Overall occupancy rates increased by 2.3 percentage points quarter-on-quarter to 87.4%.
- Strata-title apartments saw occupancy rates rise by 2.9 percentage points quarter-on-quarter to 85.5% due to an influx of headcount working in CBDs.
- Overall residential rents increased by 0.2% quarter-on-quarter to an average of RMB164.9 per sq m per month.
- Century Park and Xintiandi recorded the highest rental growth in the market due to stronger demand for prime residences.
- The cost of employing expatriates in China could rise following the introduction of a new law requiring foreign employees to be covered by national social insurance.
- No new projects were launched onto the market, while more landlords switched their for-sale units to the leasing market.

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## Market overview

The residential leasing market remained buoyant in the third quarter, with demand remaining strong and the only new supply coming from the strata-title market. A rising inflationary environment and robust growth in company revenues helped to justify the increase in multinational corporation (MNC) housing budgets, supporting further rental growth.

## Rising costs

The cost of living in China, and particularly in Shanghai, is rising not only for the locals but also for expatriates. Mercer, a human resources consulting firm, ranked Shanghai 21st in terms of cost-of-living for expatriates in 2011, down from 25th in 2010. This makes Shanghai more expensive to live than New York and not that much cheaper than London, which was ranked 18th. The survey ranks cost-of-living in US dollars at market exchange rates, with changes in exchange rates having a big impact on cost.

The survey compares the costs of more than 200 items for expatriate secondees, including food, housing, transportation, clothing and entertainment, using prices in New York City as a base to establish the survey's ranking system. The 2011 report identifies food costs – both eating in and out – and transportation costs as the main contributors to Shanghai's higher ranking this year. In general, however, housing costs account for most of the expenses for Shanghai and Beijing.

Mercer also stated that China is the world's largest receiver of overseas employees, designated by international firms, foreign governments and non-government organisations.

## Cost-of-living (Mercer), 2006–2011

	2006	2007	2008	2009	2010	2011
Beijing	14	20	20	9	16	20
Shanghai	20	26	24	12	25	21
Hong Kong	4	5	6	5	8	9
Singapore	17	14	13	10	11	8
Tokyo	3	4	2	1	2	2
London	5	2	3	16	17	18
New York	10	15	22	8	27	32

Source: Mercer, Savills Research & Consultancy

## New social insurance law to target foreign nationals working in China

The cost of hiring expatriate workers is set to increase further with the introduction of new legislation requiring foreign employees to be covered by China's social insurance scheme.

Starting from 1 October, all expatriates working in China under a Z visa will be required to pay the same rate as Chinese nationals for medical, unemployment and retirement benefits. Employers and employees are expected to carry 37% and 11% of the overall welfare burden respectively, with the remaining costs to be borne by the government. With a contribution ceiling of RMB11,688 per month, the maximum employer plus employee contribution will be around RMB5,610 per month. These regulations are still preliminary with the final regulations expected to be released before the end of the year.

## Shanghai social security cost contribution

	Employee	Employer
Pension	8%	22%
Medical	2%	12%
Unemployment	1%	1.7%
Maternity	0%	0.8%
Work-related injury	0%	0.5%
Total	11%	37%
Contribution ceiling per month (RMB)	11,688	
Maximum monthly contribution (RMB)	1,286	4,325

Source: Pricewaterhouse Coopers, Savills Research & Consultancy

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## Project news

### Mapletree acquires Silver Court



Image: Silver Court

Singaporean private equity real estate fund, Mapletree, acquired Silver Court in August 2011 for a total consideration of RMB2.4 billion.

The project is a mixed-use development near Huaihai Road (M) in Huangpu district, and is composed of a 28-storey serviced-apartment and 16-storey office tower, with a five-storey retail podium.

The serviced-apartment component is currently operated by Fraser Residence, although it is unclear whether the change in ownership will have any impact on the management.

### Savills Residence signs management contract with Topchoice Reality



Image: Topchoice Plaza Shanghai, Savills Residence

Savills Property Services China has entered into a long-term management agreement with Topchoice Reality for the Savills Residence Topchoice Plaza, Shanghai.

Located on Pudong Avenue close to Taolin Road in Pudong New Area, the Savills Residence Topchoice Plaza Shanghai is scheduled to open in early 2012. The project will have 63 fully furnished and equipped apartments ranging in size from an 80 sq m one-bedroom unit to a 360-sq m triplex four-bedroom unit. The serviced residence will also offer a residents lounge, a music room, children's play area, media cinema, fitness centre with swimming pool and the residence spa.

### Shanghai IFC Residence ready for 2012

Shanghai IFC developed by Hong Kong Sun Hung Kai Properties will also launch its 294 deluxe-serviced suites in the coming 2012, the residence offers direct access to the neighbouring IFC mall, office complex and The Ritz-Carlton Hotel Shanghai.

Located in Little LuJiazui, Shanghai IFC has over around 450,000 sq m of gross floor area covering grade-A office towers, shopping mall with a wide variety of international retailers, five-star The Ritz-Carlton Shanghai, Pudong, and the deluxe Shanghai IFC Residence serviced suite hotel is the last part of whole complex to be launched.

### Kempinski's first project in town

Kempinski's first foray into Shanghai's serviced apartment sector will be complete with the launch of The One Executive Suites in January 2012. The project offers 244 units ranging from a large studio to one, two and three bedroom suites and is located within Fengyang Mansion, a mixed-use building a short walk from Jing'an District's popular shopping and business areas.

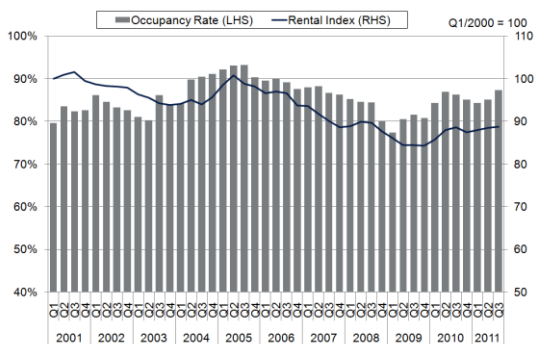
Kempinski is a luxury hotel group involved in a number of luxury hotel and hospitality related businesses. Before Shanghai project The One, only Kempinski Hotel Beijing (Beijing Lufthansa Center) offers serviced apartment units .

# Residential Leasing

## City-wide residential leasing market

Overall residential rents increased by 0.2% quarter-on-quarter to an average of RMB164.9 per sq m per month, while the city-wide occupancy rate increased by 2.3 percentage points to 87.4%. A number of developments have applied significant rental increases in the first half of the year in response to record high secondment levels. In the third quarter, the market looked to consolidate these gains while ensuring optimum occupancy levels, as the market winds down approaching the end of the year.

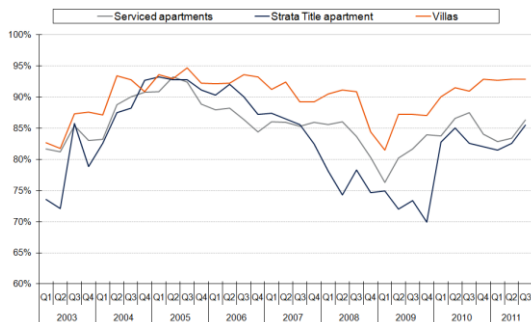
## Residential leasing market occupancy rate and rental index, Q1/2001–Q3/2011



Source: Savills Research & Consultancy

Serviced apartment landlords have increasingly adopted more flexible leases (both long and short term). This adoption can be partly explained by a preference of MNCs to second individuals for shorter periods, and also an increasing number of tenants requesting shorter contracts. Landlords, especially serviced apartments landlords, are continuing to revise rents upward as the market rebounds off its trough in mid-2009.

## Strata-title apartment, serviced-apartment and villa occupancy rates, Q1/2003–Q3/2011



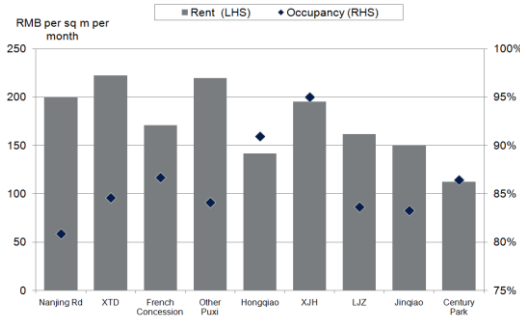
Source: Savills Research & Consultancy

City-wide villa occupancy rates remained unchanged at 92.9% in Q3/2011, registering the fourth consecutive quarter with no notable change. City-wide serviced-apartment and strata-title apartment occupancy rates, meanwhile, recorded a significant jump in Q3/2011, both rising by 2.9 percentage points to 86.3% and 85.5% respectively.

Although the strata-title market is still in its relative infancy, it is maturing quickly. With the sales market remaining stagnant over the last year and inflation staying high, many landlords have applied rental increases (5-10%). In order to be able to charge higher rents, individual landlords are increasingly looking towards the high-end expatriate market for tenants and consequently are gradually modifying their leasing practices to accommodate expatriate demands.

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## Overall apartment rents and occupancy rates, Q3/2011



Source: Savills Research and Consultancy

Hiring and relocation activity in the professional services sector continued to fuel residential leasing markets in traditional central business districts. As a result, areas such as Xujiahui, West Nanjing Road and Lujiazui, all experienced occupancy and rent increases in the third quarter.

While upgrades to Shanghai's metro network have shortened commute times, the majority of expatriate staff still prefer living in downtown areas, if they can afford it, even if it means leasing a lower quality development. An exception can be made for those with larger families who wish to relocate to districts closer to international schools – typically in remote areas.

## Strata-apartment, serviced-apartment and villa rents and occupancy rates, Q3/2011

	Rent (RMB per sq m per mth)	Rent Growth (%)	Occupancy (%)	Occupancy Growth (ppts)
<b>Serviced Apartment</b>	202.8	-0.5	86.3	2.9
<b>Strata Apartment</b>	140.7	0.4	85.5	2.9
<b>Villa</b>	158.8	0.8	92.9	0.0

Source: Savills Research and Consultancy

## Market outlook

This year has been an overall healthy leasing market, with increased demand from expatriates and a handful of wealthy Chinese businessmen and women helping to push up occupancy rates and rents from their lows in mid-2009.

Slowing economic growth in western economies will likely result in a slowing of the manufacturing and export industries in China, but also might encourage international companies to place more emphasis on the development of their Asian, and particularly Chinese, operations as emerging economies register relatively greater growth. Meanwhile, while landlords may be increasing rents, much of this is being eroded by high inflation and a strengthening Renminbi which means that real growth is much lower than nominal growth.

## Selected strata-apartment, serviced-apartment and villa transactions, Q3/2011

Project Name	Type	District	Gross Unit Size (sq m)	Unit Price (RMB per month)	No. of Bedrooms	Lease Start	Lease Term (months)
The Emerald	Villa	Former Nanhui	382	51,000	5	Jul	12
Top of City	Strata apt	Jing'an	154	20,000	3	Jul	12
The superb serviced apartment	Serviced apt	Xuhui	198	24,000	3	Jul	12
Fraser Suites Top Glory	Serviced apt	Pudong	247	53,000	3	Aug	12
Regency Park	Strata apt	Pudong	103	20,000	2	Sep	12
Contemporary Spirit Villas	Villa	Minhang	346	45,300	4	Sep	12

\* Savills standard rent includes: Management fee, clubhouse fee, tax invoice, ADSL and garden maintenance

# Residential Leasing

On the whole, the residential leasing market should record a fairly stable market going forwards, with Shanghai remaining a focus for many international, as well as domestic, companies. The pace of growth in demand should be large enough to absorb a significant amount of the new supply coming to the market.

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