《Investors rush to develop rental housing as Chinese home pri》

China's sky-high apartment prices and its footloose generation of millennials are fuelling demand for rental apartments, driving investment by foreign private equity funds and Chinese real estate developers.

The country has been very much a home-owner’s market since opening up to the outside world in the 1980s and its home ownership ratio is now one of the highest in the world at about 90 percent.

But that is beginning to change as home price gains far outpace income growth, making the prospects of buying a home an increasingly distant dream for many young Chinese. Newer generations of tech-savvy workers also want to be able to move quickly without being tied down by a property if a better job opportunity opens up in another city.

A typical two-bedroom new home in Beijing costs around 6 million yuan (674,155 pounds), about 69 times the average per capita disposable income in the city, much higher than the ratio of less than 25 times for New York City. It is a similar tale in many of the largest Chinese cities, such as Shanghai and Shenzhen.

US private equity firm Warburg Pincus is among the foreign investors who have taken note. It has invested $500 million with China's Avic Trust in so-called "white-collar apartment" manager Mofang, which started its business in 2010 and now operates 30,000 rental units across the country.

Another rental apartment platform, Mogoroom, has attracted investment from South Korean venture capital firm KTB Network. Also Greystar Real Estate Partners LLC, the largest apartment manager in the United States, says it is looking for opportunities in major Chinese cities.

Chinese developers China Vanke and Longfor Properties are betting big on the so-called youth apartment market, which is aimed primarily at 20-40 year-olds. Vanke aims to add 150,000 rental units to the market in the coming two years, while Longfor is looking at growing by 15,000 units each year.

Targeting young professionals means landlords can't charge high rents. Developers, such as Vanke and Longfor, are mostly leasing or buying under-utilized assets such as hotels, offices and warehouses and redeveloping them into rental units as the returns are much higher than if they bought land and built a new development.

Vanke said in this model, gross profit margin for their rental apartments is in the 20-30 percent range, up to 10 percentage points higher than its overall property development business in 2016.

Still, the industry is in the early ramp-up investment stages in China and the profits are yet to flow into accounts in a meaningful way.

And there may be plenty more rental development to come. Realtor Lianjia Real Estate forecasts that the sector will almost triple to $420.5 billion in annual rental payments by 2025.

COMMON SPACE

When David Chen, 29, relocated a year ago to an advertising company in the southern city of Shenzhen - one of the country's most expensive property markets - he decided a "youth apartment" was his best bet for housing.

Many youth apartments feature a "co-living" theme with a common space where tenants can socialise after work. They also have live-in managers who organise weekly events such as movie nights, cooking parties, and field trips.

"I was new to the city and didn't have many friends, so I thought living with other young people would be more fun. I like to party," said Chen, who pays 2,800 yuan a month, or around 20 percent of his salary, for an apartment operated by China Vanke, the country's No 2 developer by sales.

His en-suite room is around 25 square metres. It fits a double-sized bed and small wardrobe, but has no kitchen.

"To buy a two-bedroom unit you'd need at least 1 million yuan for a downpayment and I can't afford it now," Chen said, adding that a short-term lease was preferable as he may have to relocate to Shanghai after a few years.

The investors are being helped by a government-backed drive to support rental supply in a bid to rein in property prices and satisfy housing demand. The authorities have allowed commercial properties to be redeveloped into rental apartments, and encouraged banks to provide financing to rental apartment companies.

Reuters