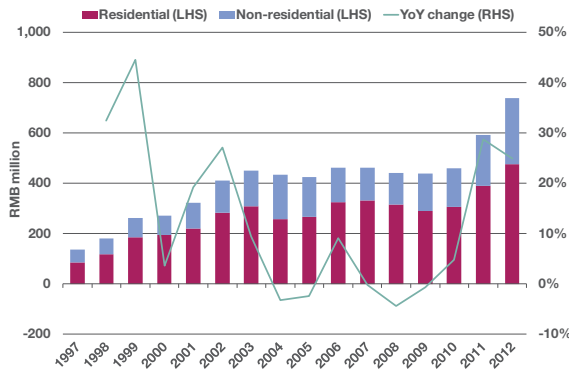


# Asian Cities Report Shenzhen Residential

2H 2014

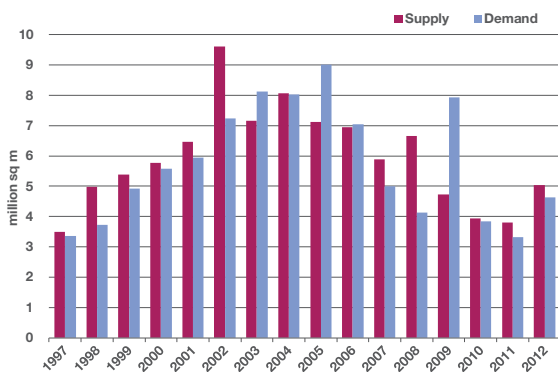


**GRAPH 1**  
**Real estate investments and YoY change, 1997-2012**



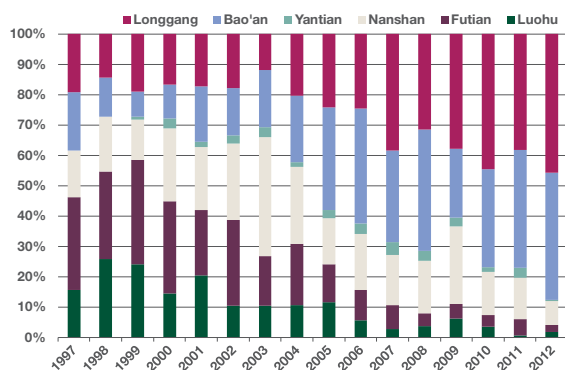
Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

**GRAPH 2**  
**First-hand housing supply and demand, 1997-2012**



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

**GRAPH 3**  
**First-hand housing supply distribution, 1997-2012**



Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

## Market overview

Shenzhen was the nation's first Special Economic Zone and, due to its proximity to Hong Kong, an important gateway to China. Shenzhen is also the most popular immigrant city in the country. By the end of 2013, the population had reached 10.6 million, of which the non-resident population accounted for 71%. A large migratory population allows constant new demand to enter Shenzhen's residential market.

In 2013, Shenzhen's GDP per capita reached RMB136,947, up 9.6% year-on-year (YoY) and first among top-tier cities. The strong purchasing power of residents has also accelerated the development of Shenzhen's real estate market.

Shenzhen is at the forefront of land resource management and real estate development in the country. Urban renewal is an important source of land supply in the city centre, which aims to repurpose land and also protect the environment. Successful diversified residential project models, such as a combination of residential property and tourism, can also be found in Shenzhen.

## First-hand housing supply and demand

Although Shenzhen witnessed rapid growth before 2004, real estate investment in Shenzhen had yet to increase substantially between 2004 and 2010. Only after 2011 did the market see a 30% increase in real estate investments. This can be attributed to the development of Qianhai, Houhai and other emerging areas. Among them, investment growth in non-residential properties, including office and commercial projects, was significantly greater than before.

Following market saturation and the lack of land supply, both supply and demand within Shenzhen's

residential market continued to decline and have remained low in recent years. Property tightening measures, including house purchase restrictions and raising of loan rates, have largely inhibited the development of first-hand housing. Since the beginning of 2014, transaction volumes of first-hand housing have remained extremely low, reflecting the general wait-and-see attitude of buyers. However, in 2H/2014, 35 new projects alongside 15 existing projects are expected to enter the market with a total area of 3 million sq m. This implies that developers have not lost confidence in the market yet.

## New housing supply distribution

Since 2003, new first-hand housing projects tend to be concentrated in Baoan and Longgang districts, although this has gradually reduced. New supply in Yantian district was limited by the green land area restrictions and therefore remained at a very low level. Along with the increasing migrant population, Baoan and Longgang districts have become the first choice for many young people due to lower prices and a continuously improving metro system.

Given the limited land supply in the three central districts, upgraders welcomed larger-sized apartments while smaller sized apartments were more prevalent in Baoan and Longgang districts. Benefiting from the Qianhai development, both supply volume and prices in Baoan have largely increased in recent years.

## Transaction prices

Despite restrictions, the decrease in trading volumes and other adverse effects, average prices in Shenzhen continued to rise, falling just short of Beijing's and Shanghai's figures. This trend began to change in May 2014 when average transaction prices fell. This can be attributed

to developers cutting prices and many new projects being launching in suburban areas where prices are lower.

At present, the average price of first-hand housing in Shenzhen is 22,329 RMB per sq m, down 1% month-on-month (MoM). Average prices in Futian and Nanshan district are the highest reaching RMB48,000 per sq m followed by Luohu and Yantian districts at RMB31,000 per sq m, Baoan district prices reached RMB21,000 per sq m, and Longgang district saw the lowest prices, at RMB16,600 per sq m. As a result, Longgang district proved to be the most popular among young buyers.

### Second-hand housing supply and demand

As a result of the large migratory population in Shenzhen, transaction volumes of second-hand units remained at a high level. Between 2007 and Q2/2014, second-hand housing transaction volumes reached 1.77 times more than that of first-hand housing market, demonstrating the popularity of second-hand housing in Shenzhen. Longgang district recorded the highest second-hand transaction volumes within any of the districts in Shenzhen.

The average price of second-hand houses continued to rise. Since 2009, annual growth rates have floated between 5% and 30%. Smaller-sized apartments, with 51-90 sq m, accounted for about half of the total transaction volumes. In 1H/2014, transaction volumes of larger-sized apartments, more than 90 sq m, rose 2% HoH as many upgraders began to return to the market.

### High-end residential market

Since 2002, the high-end residential market in Shenzhen has extended westward from Silver Lake. During

2002-2008, most new supply was launched in the Western Futian district. After 2008, with the development of Qianhai, Houhai and Nanshan, these new districts became centres for the high-end residential market. A small amount of supply was also observed in Yantian district.

Due to the lack of land supply in the city centre, some developers have transferred new villa projects to nearby cities such as Huizhou and Dongguan. Thanks to ongoing infrastructure development and the upcoming completion of the road network between cities, more buyers are returning to the market. Serviced apartments remain clustered in business zones, such as the Futian and Nanshan districts.

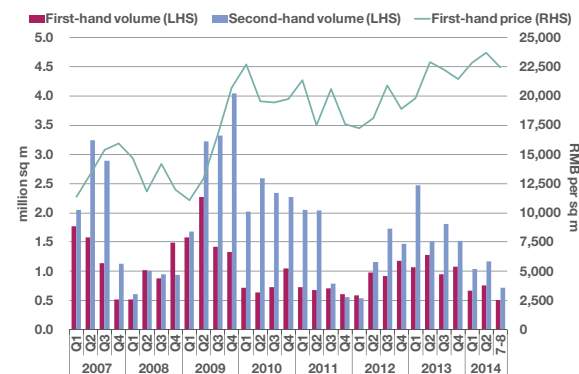
### Future supply

With the Chinese central bank ordering state-owned banks to provide lower loan rates to first-hand houses buyers, loan policies in some cities have been relaxed, which is great news for the real estate market.

Prices of first-hand properties will suffer from downward pressure in 2H/2014 due to a high volume of expected new supply and continued weak demand in emerging areas. However, given the scarcity of vacant land in central areas and the high cost of regeneration, high prices may remain in place in Shenzhen's central areas in the long term.

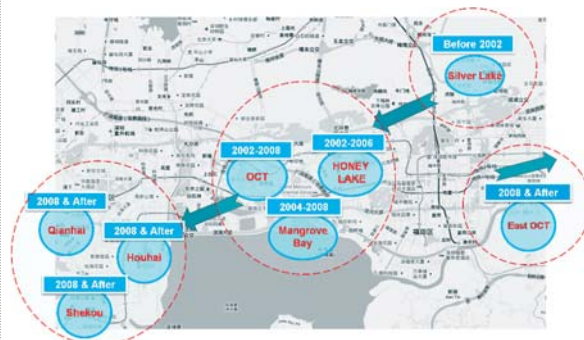
According to the latest plans for increased land supply between 2011 and 2015, urban renewal projects will be the most important source, accounting for about 60% of total land supply. Second is housing demolition and relocation, accounting for about 25%, and third is new land at 15%. Therefore, supply of first-hand houses in the city centre is expected to rebound in the future. ■

GRAPH 4 Residential market transaction volumes and prices, 2007-Q2/2014



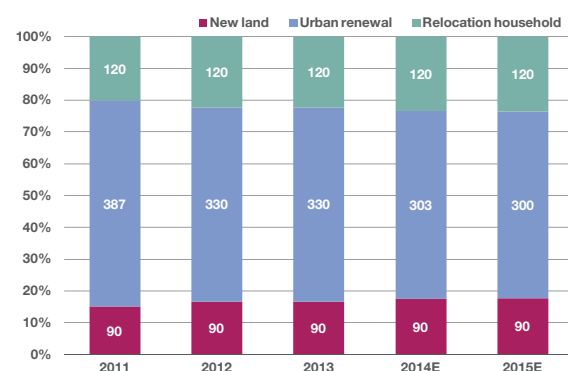
Source: Shenzhen Statistics Bureau, Savills Research & Consultancy

MAP 1 High-end residential submarkets distribution, Q2/2014



Source: Savills Research & Consultancy

GRAPH 5 Land supply source for residential use, 2011-2015



Source: Savills Research & Consultancy

## ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific  
Raymond Lee - CEO, Greater China  
Chris Marriott - CEO, South East Asia  
Christian Mancini - CEO, North East Asia  
Charles Chan - MD, Valuation & Professional Services, Greater China



## HONG KONG SAR

### Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2842 4534 Fax: (852) 2869 6738  
Contact: Raymond Lee E-mail: rlee@savills.com.hk  
EA Co. Licence: C-002450

### Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong  
Tel: (852) 2801 6100 Fax: (852) 2501 5810  
Contact: Charles Chan E-mail: ccchan@savills.com.hk  
EA Co. Licence: C-023750

### Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong  
Tel: (852) 2534 1628 Fax: (852) 2508 1883  
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk  
EA Co. Licence: C-002955

### Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong  
Tel: (852) 2512 1838 Fax: (852) 2887 3698  
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk  
EA Co. Licence: C-004089

## MACAU SAR

### Savills - Macau

Savills (Macau) Limited  
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau  
Tel: (853) 8506 6288 Fax: (853) 2878 1805  
Contact: Franco Liu E-mail: fliu@savills.com.mo

## CHINA

### Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China  
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699  
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

### Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District  
Beijing 100022, China  
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299  
Contact: Billy Chau E-mail: Billy.Chau@savills.com.cn

### Savills - Guangzhou

Room 906, R & F Centre, 10 Hua Xia Road, Zhu Jiang New Town  
Guangzhou, 510623, China  
Tel: (86) 3892 7168 Fax: (86) 3892 7030  
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn

### Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China  
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676  
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn  
*Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Zhuhai*

## ASIA

### Savills - Indonesia

PT Savills Consultants Indonesia  
Panin Tower – Senayan City  
16th Floor, Unit C  
Jl. Asia Afrika Lot. 19  
Jakarta 10270, Indonesia  
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81  
Contact: Jeffrey Hong Email: jeffrey.hong@propertyconnection.co.id

### Savills - Japan

Savills Japan Co., Ltd  
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,  
Tokyo 106-0041, Japan  
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705  
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

### Savills - Korea

Savills Korea  
11/F Seoul Finance Center, 84 Taepyungro-1-ga  
Chung-gu, Seoul, Korea 100-768  
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188  
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

### Savills - Malaysia

Savills Rahim & Co  
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250  
Kuala Lumpur, Malaysia  
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096  
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

### Savills - Myanmar

Savills Myanmar Limited  
192 Kaba Aye Pagoda Road, Bahan Township, Yangon  
Tel: (95) 9 250 515 035  
Contact: Richard Emerson Email: remerson@savills.com.mm

### Savills - Philippines

KMC MAG Group  
8/F Floor Sun Life Centre, 5th Ave  
Bonifacio Global City 1634, Philippines  
Tel: (632) 403-5519  
Contact: Michael McCullough Email: michael@kmcmaggroup.com

### Savills - Singapore

Savills (Singapore) Pte Ltd.  
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712  
Tel: (65) 6836 6888 Fax: (65) 6836 2668  
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

### Savills - Taiwan

Savills (Taiwan) Limited  
17F-1, Exchange Square, 89 Sung Ren Road  
Xin-Yi District, Taipei, Taiwan  
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929  
Contact: Cynthia Chu E-mail: cchu@savills.com.tw  
*Office in Taichung*

### Savills - Thailand

Savills (Thailand) Limited  
26/F Abdulrahim Place, 990 Rama IV Road  
Silom, Bangrak, Bangkok 10500, Thailand  
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339  
Contact: Mark Price E-mail: mprice@savills.co.th

### Savills - Vietnam

Savills Vietnam Ltd. Co.  
18/F, Fideco Tower, 81-85 Ham Nghi Street  
District 1, Ho Chi Minh City, Vietnam  
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571  
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn  
*Office in Hanoi*

## AUSTRALIA

### Savills - Australia

Savills (Aust) Pty Ltd.  
Level 7, 50 Bridge Street, Sydney, Australia  
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899  
Contact: Paul McLean E-mail: pmclean@savills.com.au  
*Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.*

## NEW ZEALAND

### Savills - New Zealand

Level 8, 33 Shortland Street, Auckland NZ 1010  
Tel: (64) 9 951 5910 / (64) 9 951 5911  
Contact: Doug Osborne E-mail: dosborne@savills.co.nz  
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

## NORTH AMERICA

### Savills - New York

Savills Studley  
399 Park Avenue, 11th Floor, New York, NY 10022  
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034  
Contact: Mitchell Steir E-mail: msteir@savills-studley.com

## UNITED KINGDOM / EUROPE / SOUTH AFRICA

### Savills - Europe

33 Margaret Street, London W1G 0JD  
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773  
Contact: Jeremy Helsby E-mail: jhelsby@savills.com  
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