

# Briefing Residential sector

May 2017



Image: Top East. The Landmark, Zhujiang New Town

## SUMMARY

Guangzhou's average new home prices recorded the largest year-on-year jump in March compared to other first-tier cities, causing the government to announce stricter controls to dampen housing prices.

■ Residential transaction volumes decreased 28.7% quarter-on-quarter (QoQ) to approximately 1.99 million sq m, up 11.0% year-on-year (YoY).

■ Average residential transaction unit prices decreased by 6.0% QoQ to RMB18,841 per sq m, but still up 2.4% YoY.

■ Average downtown<sup>1</sup> transaction unit prices decreased 3.2% QoQ

<sup>1</sup> Downtown districts: Yuexiu, Liwan, Haizhu, Tianhe, Baiyun

to RMB35,168 per sq m, while total transaction volumes dropped 59.2% QoQ to approximately 220,000 sq m.

■ Average suburban<sup>2</sup> transaction unit prices increased 4.3% QoQ to RMB16,785 per sq m, while total transaction volumes fell by 21.1% QoQ to 1.77 million sq m.

<sup>2</sup> Suburban districts: Panyu, Huadu, Nansha and Huangpu.

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 “The local government has taken steps to cool the property market, including limiting residential sales and land purchases on the auction market. As a result, it is anticipated that transaction volumes will decline and price growth will slow.” Robert Ritacca, Savills Research  
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➔ **Market overview**

The Guangzhou economy grew by 0.2 of a percentage point (ppt) YoY, with the city's GDP achieving an 8.2% YoY growth rate. In particular, the tertiary industry has flourished, contributing to 78.6% of the city's GDP, an increase of 1.6 ppts YoY.

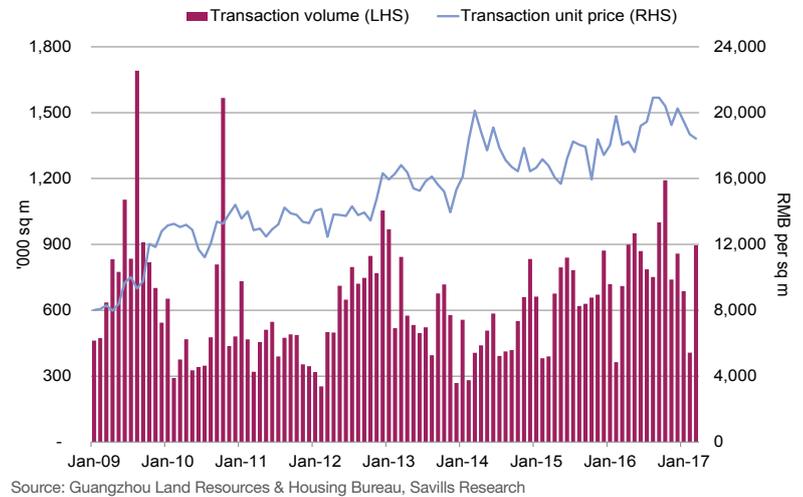
The municipal government issued stricter housing measures in March in an attempt to cool the overheating market. Under the latest measures, the eligibility for home purchasing has been further restricted to those who have paid income taxes and social insurance for at least five consecutive years. Additionally, minimum down payment requirements have been raised for first- and second-hand home purchases to 40% and 70%, respectively.

The latest regulation, named the "330 Deal", came into effect on March 30th, 2017. On the demand side, the 330 Deal restricts individual residents from purchasing first-hand apartments<sup>1</sup>. The policy also forbids the construction of apartments under 300 sq m, which will impact future supply. Additionally, the 330 Deal restricts housing sales for two years after the initial purchase and extends market curbs to the Conghua and Zengcheng districts. The rollout of the 330 Deal had an immediate effect, reducing citywide apartment turnover.

Based on data released by the Guangzhou Land Resources & Housing Bureau, the city's first-hand residential sales market witnessed a decline in both transaction unit prices and transaction volumes in the first quarter of 2017. During the period, first-hand residential sales volumes fell 28.7% QoQ to approximately 1.99 million sq m, while the transaction unit price decreased 6.0% QoQ to RMB18,841 per sq m.

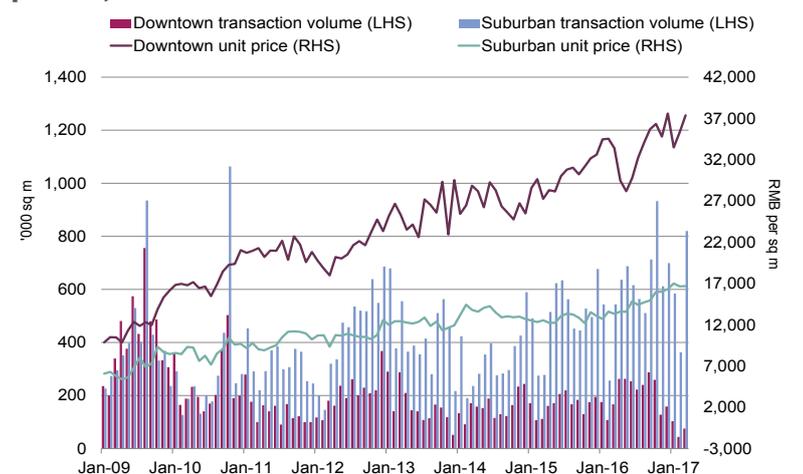
<sup>1</sup> Corporate buyers are still allowed to purchase first-hand apartments

GRAPH 1  
**Residential transaction volumes and prices, Jan 2009–Mar 2017**



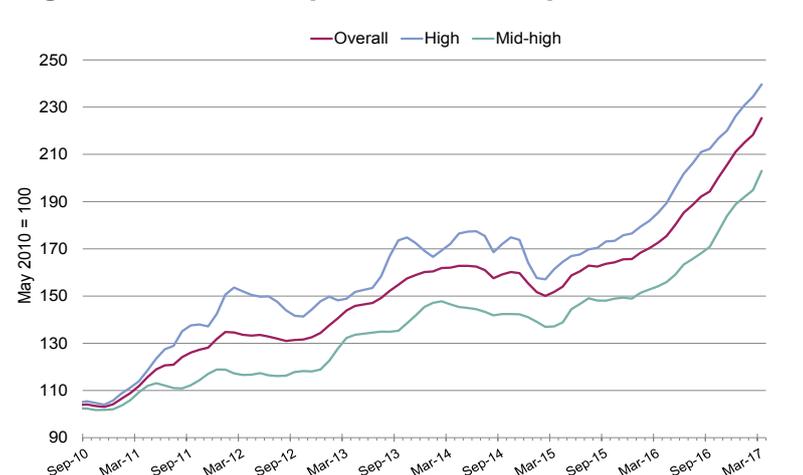
Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 2  
**Suburban vs downtown transaction volumes and prices, Jan 2009–Mar 2017**



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 3  
**High-end residential price indices, Sep 2010–Mar 2017**



Source: Savills Research

The Chinese Lunar New Year created a mild disruption in sales, which decreased transaction volumes to some extent. Meanwhile, the government prohibited sales of residential projects with high market prices. These two events decreased transaction volumes and unit prices despite the developers' usage of "double contracts", whereby the cost of the property above the city's residential price ceiling is paid as a separate "refurbishment" fee.

Transaction volumes in the downtown residential market fell by 59.2% QoQ to approximately 220,000 sq m in Q1/2017. Meanwhile, transaction unit prices decreased 3.2% QoQ to RMB35,168 per sq m due to the decrease of high-end residential transactions.

Average transaction unit prices of suburban areas continued to increase over the past 12 months, registering an increase of 4.3% QoQ to RMB16,785 per sq m, although transaction volumes fell 21.2% QoQ to approximately 1.77 million sq m. Similar to other cities, the ongoing

development of suburban areas continues to attract buyers away from the city centre. However, the Conghua and Zengcheng districts are now subject to new purchasing restrictions that limit non-locals to purchasing just one house in these areas.

### High-end residential market

The growth of the overall residential market contributed to an increase in high-end residential prices for the 23rd consecutive month in Q1/2017 (pricing began to rise in April 2015). High-end residential transaction unit prices increased 6.78% QoQ to an average of RMB69,610 per sq m during the period. Meanwhile, the high-end and mid- to high-end residential markets saw increases of 6.30% and 7.22% QoQ to RMB85,149 per sq m and RMB55,797 per sq m, respectively. Properties above RMB300,000 per sq m fell 51.1% QoQ to 191,600 sq m in the first quarter of 2017. This was caused by the government's ban on high-end property sales. The average transaction unit price for the top 10

residential projects was down 0.9% QoQ, to an average of RMB74,839 per sq m in Q1/2017.

### Market outlook

The Guangzhou municipal government released a package of stricter regulatory measures, including more rigid down payment requirements. Non-resident buyers and investors will now find it increasingly difficult to enter the city's residential market, while growing demand brought by the city's population growth will also be affected. Additionally, the city government of neighbouring Foshan tightened regulations on housing purchases to cool their adjacently-located residential investment market.

Developers maintain a positive outlook for the city's residential market, resulting in active land auction and housing markets. However, with tighter regulations in place to curb speculative home purchases, transaction volumes will decrease. ■

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