

Briefing Residential sector

August 2017



Image: LONFOR MANSION, Tianhe district

SUMMARY

The Guangzhou residential market entered a consolidation period in Q2/2017; transaction volumes were down, but average unit prices were up.

■ Residential transaction volumes decreased 10.3% quarter-on-quarter (QoQ) to approximately 1.76 million sq m, down 34.4% year-on-year (YoY).

■ Average residential transaction unit prices increased by 2.4% QoQ to RMB19,302 per sq m, up 5.3% YoY.

■ Average downtown¹ transaction unit prices increased by 5.1% QoQ to RMB36,958 per sq m, while total transaction volumes increased 4.8% QoQ to approximately 233,100 sq m.

■ Average suburban² transaction unit prices slightly decreased, by 0.8% QoQ to RMB16,650 per sq m, while total transaction volumes fell by 12.2% QoQ to 1.55 million sq m.

¹ Downtown districts: Yuexiu, Liwan, Haizhu, Tianhe, Baiyun.

² Suburban districts: Panyu, Huadu, Nansha and Huangpu.

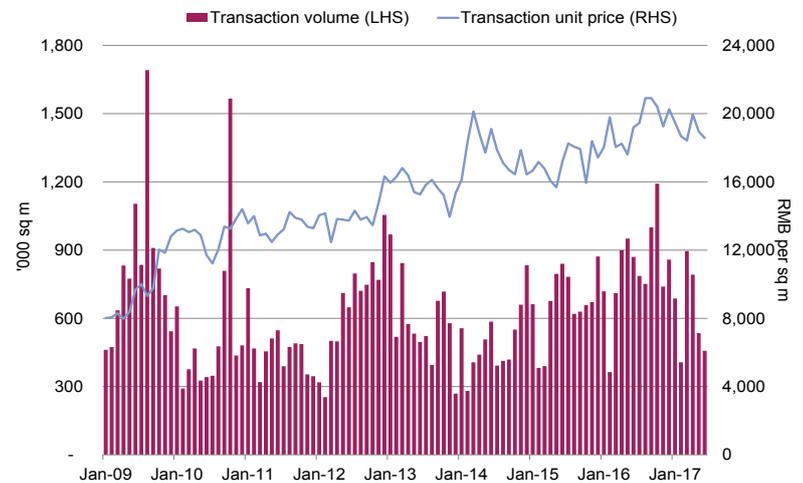
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 “The Guangzhou residential market entered a period of moderate consolidation. Government policy continued to show desired results, as total transactions were down both quarterly and annually, while average transaction prices were up.” Robert Ritacca, Savills Research

➔ **Market overview**

Guangzhou's 1H/2017 GDP grew 7.9%, decreasing 0.1 of a percentage point (ppt) YoY. Particular strength came from the tertiary (services) industry, which contributed 80.6% of the city's GDP, an increase of 1.5 ppts YoY.

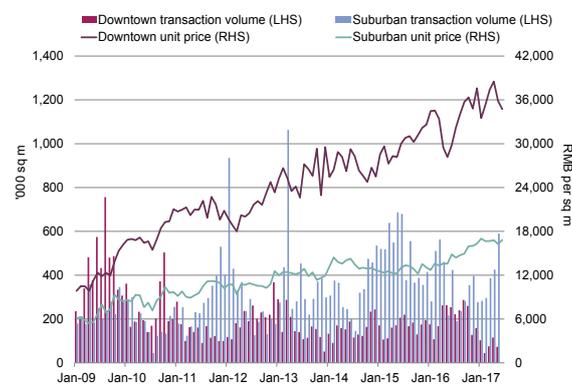
Government regulations were implemented late last year to slow the market and cease speculative investment behaviour. New policies were launched in Q2/2017, directed at land plot locations. The Guangzhou government launched the "2017 Guangzhou City Land Supply Plan" in April. According to the plan, 260 new land plots received sales approval for 2017. The total approved land area represents approximately

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



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

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



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

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



Source: Savills Research

20.5 million sq m, up 18.5% YoY. The vast majority of residential land is set for Guangzhou's suburban area, while no additional residential land supply is planned for the Tianhe and Yuexiu districts.

New regulatory policies were released, targeting Guangzhou's land auction/bidding procedures. The intended purpose of these policies is to prevent developers from bidding-up residential land prices. New procedure implementation follows a four-step practice:

- 1) Bidders compete on price up to a 'price ceiling'. If the ceiling is hit, step two of the bidding process is implemented.
- 2) Bidders compete on percentage of space they are willing to convert to public facilities (such as affordable housing). The government will also set a limit on percentage of affordable housing. If this limit is hit, bidding will move to the third step.
- 3) Bidders compete on percentage of space they are willing to convert to residential lease (that may not be sold). If developers all bid to convert 100%, bidding will move to the fourth step.
- 4) The fourth step is a random lottery selected from the remaining bidders. The above regulations should offer

a fair and competitive environment in the land auction market, and encourage residents to lease residential property rather than purchase. If successful, the new regulations will ease some market pressure on the supply side.

Guangzhou's neighbouring city to the west, Foshan, also upgraded its real estate policies in late May. Regulations now limit first-hand and second-hand transactions in Foshan's restricted buying areas (several areas closest to Guangzhou city) – local residents can buy up to a maximum of two houses, while non-local residents are only permitted to buy one house. These policies were instituted to control speculators from investing in Foshan locations as an alternative or substitute to purchasing in Guangzhou. Although the policies effectively halt speculative practices, they also make it harder for first-time homeowners who may not have the right to purchase in Guangzhou.

Based on data released by the Guangzhou Land Resources & Housing Bureau, Guangzhou's first-hand residential sales market saw transaction volumes decline 10.3% QoQ to 1.76 million sq m, down 34.4%YoY. However, city-wide average unit prices increased 2.4% QoQ to RMB19,302 per sq m, up 5.3% YoY. The second-

hand residential sales market also witnessed transaction volumes decline approximately 45.2% QoQ in Q2/2017, while transaction unit prices rose 6.2% YoY.

Suburban and downtown transaction volumes moved in opposite directions in the second quarter. Downtown residential transaction volumes rebounded 4.8% QoQ, reaching approximately 233,000 sq m, after falling 59.2% QoQ in Q1/2017, while suburban residential transaction volumes declined from the beginning of the year, dropping 12.2% QoQ in Q2/2017, to approximately 1.55 million sq m. Total transaction volumes in downtown and suburban districts declined 70.1% YoY and 20.0% YoY, respectively.

Downtown areas' average unit price increased 5.1% QoQ to RMB36,958 per sq m. Buoyant growth can also be seen over the longer-term, as downtown and suburban districts both saw prices go up by 26.9% YoY and 19.1% YoY, respectively.

High-end residential market

First-hand, high-end (above RMB300,000 sq m) transaction

volumes continued to fall in Q2/2017, with total sq m area and total units both moving lower. Total transacted area fell 30.3% QoQ to 133,528 sq m, while total number of units fell 26.8% QoQ to 905 units. However, average transaction unit prices for the ten highest-priced residential units increased 0.6% QoQ to RMB75,269 sq m. The Tianhe district owns a majority of these luxury residential sites, including Top East, The Landmark, Kingglod, The Bay View, New World China, and Central Park View.

The second-hand, high-end residential market has seen consecutive monthly price increases since April 2015, with an average monthly increase of 5.5%. City-wide high-end residential prices increased 10.9% QoQ to average RMB77,794 per sq m. The high-end and mid-to-high-end residential market saw increases of 11.3% and 10.4% QoQ, to RMB95,833 per sq m and RMB61,760 per sq m, respectively.

Market outlook

The market is experiencing moderate consolidation – while new home transaction volumes declined, average unit prices were stable with an upward drift. Transaction volume

is heavily influenced by government policy; however, market price is set by real demand and supply. Thus, although it is expected that policies will further affect transaction volumes in the residential market, average unit price will continue to be the measurement stick of real demand and economic stability.

The Guangzhou residential market is relatively stable. The first-hand residential market is expected to stabilise in terms of transaction volumes and transacted unit prices in Q3/2017, and in the longer-term. Developers continue to maintain residential market optimism, which may be used as a leading indicator for both expected future supply and demand. New land supply regulations will ensure that supply is moderately released to the market. Previous regulations will continue to control demand from a market transaction perspective. Thus, demand and supply will move more towards equilibrium and prices will reflect a more efficient and mature market economy in the long-term. ■

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