

# Briefing Residential sector

January 2018



Image: Magnificent, Tianhe

## SUMMARY

Total transaction volume surged in Q4 and average unit prices also increased due to high-end transactions in the downtown area.

■ First-hand residential transaction volume increased to approximately 1.73 million sq m, up 17.1% quarter-on-quarter (QoQ) in Q4/2017, but down 47.3% year-on-year (YoY).

■ Average residential unit sales prices increased 11.3% QoQ and 6.1% YoY to RMB21,259 per sq m, led by a few high-end residential projects in the downtown area.

■ Downtown<sup>1</sup> transaction volume increased to approximately 369,187

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

sq m, up 90.4% QoQ, but down 50.2% YoY. Average downtown unit sales prices increased to RMB42,221 per sq m, up 19.1% QoQ and 24.9% YoY.

■ Suburban<sup>2</sup> transaction volumes also increased 6.0% QoQ to 1.36 million sq m, but were down 46.4% YoY. Average suburban unit sales prices decreased to RMB15,569 per sq m, down 6.4% QoQ and 2.8% YoY.

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

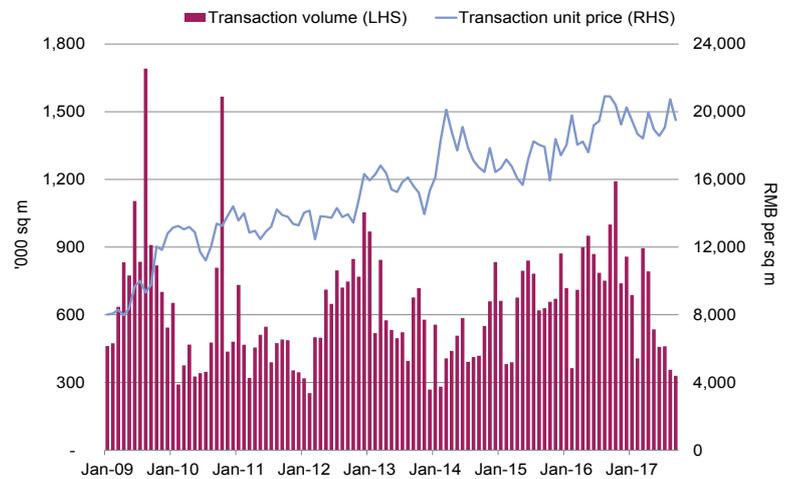
“Developers are seeking to capture higher end-of-year sales revenue by releasing more projects in the fourth quarter. As a result, transaction volume and unit prices both increased, with profound effects felt in the downtown area.” Robert Ritacca, Savills Research

➔ **Market overview**

The Guangzhou residential market is balanced in terms of downtown and suburban developments, and is diversifying from the traditional sales market into a long-term lease market. The two districts not affected by purchase regulations<sup>1</sup>, Zengcheng and Conghua, claimed 33.9% of the residential transaction market share in 2017. This was predominantly due to lower average prices, access to public transit and other improvements. Government support has fostered interest in these two areas; large residential land supply is being offered, and large companies

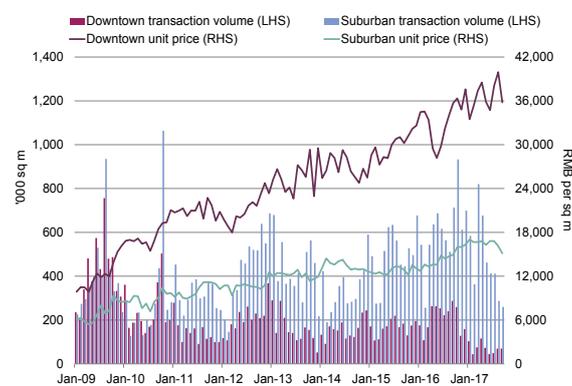
<sup>1</sup> Non-locals may buy one property without paying any social insurance

GRAPH 1 **Nine Districts Residential Transaction Volumes and Prices, Jan 2009–Dec2017**



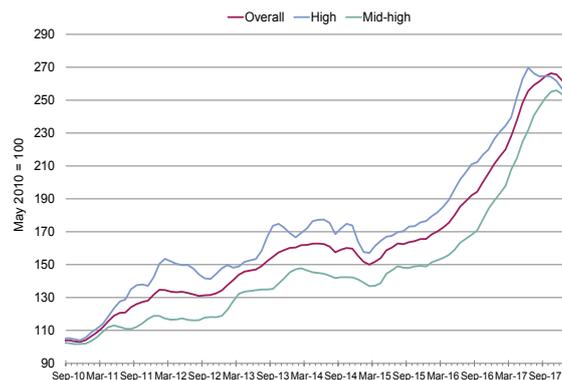
Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 2 **Suburban vs Downtown Transaction Volumes and Prices, Jan 2009–Dec2017**



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 3 **Second-Hand High-End and Mid-High Residential Price Indices, Sep 2010–Dec 2017**



Source: Savills Research

are receiving incentives to move to these districts.

For the other nine districts that represent the majority of Guangzhou residential transactions (66.1%), tighter regulatory policies (such as increased down-payment stipulations) and interest rates on first-home mortgages significantly influenced the demand side for Guangzhou residential real estate. China first-home mortgage rates stood at 5.36%<sup>2</sup> in Nov. 2017, up 0.92 of a percentage point (ppt) YoY.

In addition to controlling the demand side, the government also regulated the supply side of residential purchasing transactions by increasing support for the long-term residential leasing market:

- The Guangzhou government released more residential-type land supply in 2017. The total residential land area supply reached 4.79 sq km, with gross floor area (GFA) of 12.04 million sq m, up 78% YoY. Specifically, 2.36 sq km land supply was via the land auction market and the other 2.43 sq km of land supply was through affordable housing and urban villa regeneration.

<sup>2</sup>Source: Rong 360

- The Guangzhou government also increased rental-only properties and land supply by encouraging developers to assist with long-term lease apartment construction and operation. In 2017, Vanke obtained three plots with a mandatory ‘self-maintenance usage’, illustrating the new business-development trend from sole construction to the maintain-and-operate development model.

In 2017, Guangzhou’s nine districts’ (not including Zengcheng and Conghua) aggregate annual transaction volume decreased 34.1% YoY, totalling 7.58 million sq m. These nine districts were affected by stricter purchase regulations. Guangzhou’s first-hand residential transaction volume increased to 1.73 million sq m in Q4/2017, up 17.1% QoQ but still down 47.3% YoY. Average transaction prices bucked the nationwide tier-one trend, increasing 11.3% QoQ and 6.1% YoY to RMB21,259 per sq m in 2017. Price increases were driven by a few high-end residential projects transacting in the downtown area.

Downtown district transaction volume increased in Q4/2017 to 369,187 sq m, up 90.4% QoQ

but still was down 50.2% YoY. Transaction unit prices in the downtown area remained solid even with the stricter regulation policies, as few high-end projects were released. Downtown average transaction prices increased 19.1% QoQ and 24.9% YoY to RMB42,221 per sq m. Specifically, Baiyun recorded the highest YoY prices increase, up 38.2% YoY to RMB40,883 per sq m, due to the rapid development of Baiyun New Town and several villa transactions.

Transaction volume in suburban districts slightly increased 6.0% QoQ in Q4/2017, but was down 46.4% YoY to 1.36 million sq m. Suburban average transaction prices decreased 6.4% QoQ and 2.8% YoY to RMB15,569 per sq m, predominantly due to specific area value and double contracts (a combination of official sales contracts and fit-out contracts) having a negative effect on average prices.

### High-end Residential Market

First-hand, high-end (above RMB30,000 per sq m) transaction

volumes significantly increased in Q4/2017 to a total of 290,000 sq m, up 103.0% QoQ, but still down 26.8% YoY. Total transactions increased 1,175 units to 2,137 units. Moreover, the average sales price of the top 10 highest-priced residential units increased 19.3% QoQ and 5.5% YoY to RMB79,716 per sq m in Q4/2017.

Overall high-end and mid-high-end residential prices increased to RMB82,993 per sq m, up 1.1% QoQ and 28.7% YoY. The second-hand, high-end residential price dropped to RMB 93,747 per sq m, down 1.6% QoQ, but still up 18.0% YoY. The second-hand, middle-high-end residential price increased to RMB73,135 per sq m, up 3.6% QoQ and 39.0% YoY.

### Market Outlook

In 2017, the central government tightened its grip on inflationary residential real estate prices by implementing more nationwide policy restrictions on purchasing homes. Guangzhou's residential market felt the initial effects of the tighter policies, but is currently in

a very healthy and stable condition – transaction unit prices have been marginally increasing QoQ, while transaction volumes are lower YoY and within a reasonable range.

Regulatory policies should continue to have an effect in 2018. As a result, average prices should be positive but should lack price-volatility spikes, while both residential investment and sales transactions should be lower than the historical five-year average.

Developers may face more financial and operational pressures. Many potential purchasers are taking a wait-and-see approach, which will put pressure on “landmark projects”<sup>3</sup>. Additionally, more stringent land-auction market policies should bring additional challenges for developers, such as how they could acquire and develop land at the fairest market price, and how to construct innovative projects to attract buyers. ■

<sup>3</sup> Developmental land with high transaction unit prices, obtained in 2016, which should be available for sales in 2018.

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