

Briefing Residential sector

May 2018



Image: Central Capital, Tianhe

SUMMARY

Total transaction volume stabilised after a dramatic rebound in the previous quarter.

■ First-hand residential transaction volume decreased to 1.19 million sq m, down 31.1% quarter-on-quarter (QoQ) and 54.3% year-on-year (YoY) in Q1/2018.

■ Average residential unit sales prices decreased 2.4% QoQ, but increased 2.3% YoY to RMB20,741 per sq m.

■ Downtown¹ transaction volume decreased 27.2% QoQ to 268,922

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

sq m, down 37.7% YoY. Average downtown unit sales prices decreased 6.0% QoQ to RMB39,683 per sq m, but increased 6.7% YoY.

■ Suburban² transaction volume continued to decline, down 32.2% QoQ and 57.6% YoY to 920,000 sq m. Average suburban unit sales prices decreased to RMB15,218 per sq m, down 2.3% QoQ and 10.0% YoY.

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

“Guangzhou, as a critical piece of the Greater Bay Area, is attracting more and more talent from around the country. The average residential price will continue its upward trend and experience more rational growth rates under regulatory policies.” Woody Lam, Savills Southern China

➔ Market overview

The Guangzhou residential market transaction volume has dropped sharply since Q2/2017, predominantly due to the following reasons:

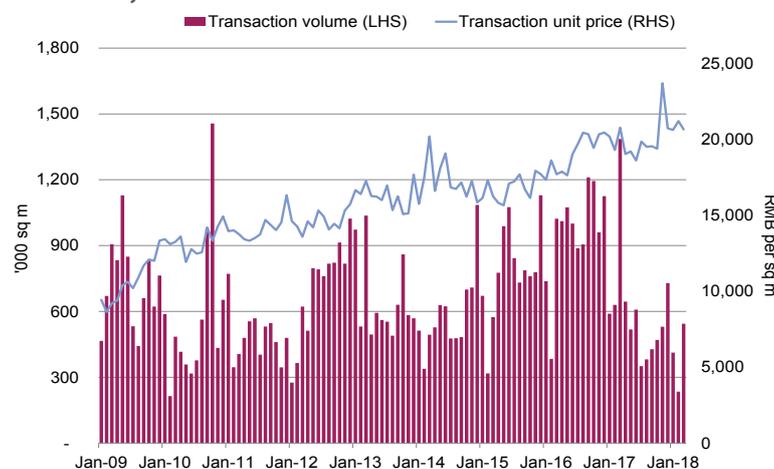
- Tighter purchasing restrictions
- Higher mortgage rates
- Stricter financial reviews by banks for mortgage qualifications

Huge numbers of potential home buyers were not eligible to purchase units under the tighter purchasing policies, which were released one year ago. Mortgage rates in Guangzhou have risen more than 20% over the last year, dampening buyer sentiment under the higher rates. Banks are also stricter with their financial review processes in order to filter out under-qualified lenders. These regulatory policies have succeeded in cooling down market sentiment.

The Guangzhou government published a draft of the Guangzhou Urban Master Plan (2017-2035) in Q1/2018. According to the plan, Guangzhou's permanent resident population will reach 20 million by 2035. With a population of 14.5 million at the end of 2017, Guangzhou is expected to see a population increase of around 330,000 people per year from 2018-2035, which will generate demand for 121,000 homes each year. However, in the past 20 years, new housing supply has only increased by 80,000 to 100,000 units per year. Additionally, the Urban Master Plan shows that the volume of new land will be highly controlled, and that new land supply in Guangzhou will gradually decrease after 2020. As a result, first-hand residential land is expected to be in short supply, while greater demand will shift to second-hand or other stock, such as refurbished (or value-added) stock.

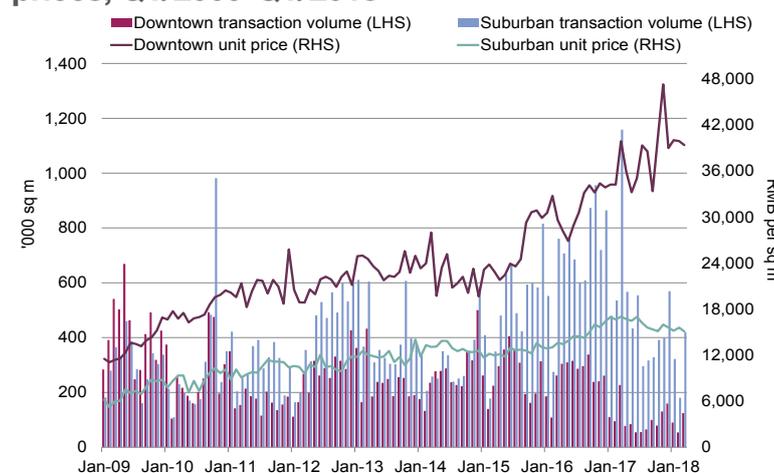
The current adjustment of the Guangzhou residential market should be temporary, thereby preventing the

GRAPH 1 Residential transaction volumes and prices for nine districts, Q1/2009-Q1/2018



Source: CRIC, Savills Research

GRAPH 2 Suburban vs downtown transaction volumes and prices, Q1/2009-Q1/2018



Source: CRIC, Savills Research

market from overheating and bringing back stable growth. Guangzhou is a well-developed and attractive tier-one city in China, and the increasing population will continue to generate housing demand. Housing prices will continue to appreciate due to the limited supply and growing demand.

Guangzhou's first-hand residential transaction volume in nine purchase-restricted districts (not including Zengcheng and Conghua) decreased 31.1% QoQ and 54.3% YoY to 1.19 million sq m in Q1/2018. Average transaction prices also dropped

2.4% QoQ but increased 2.3% YoY to RMB20,741 per sq m.

Downtown district transaction volume decreased 27.2% QoQ and 37.7% YoY to 268,922 sq m in Q1/2018. Average transaction unit prices in the downtown area decreased 6.0% QoQ to RMB39,683 per sq m, but were still up 6.7% YoY. Baiyun recorded the sharpest drop among the five downtown areas, down 12.5% QoQ to RMB35,786 per sq m, but still a rise of 24.7% YoY as a result of the rapid development of Baiyun New Town.

Transaction volume in suburban districts decreased 32.2% QoQ and 57.6% YoY to 920,000 sq m in Q1/2018. Suburban average transaction prices decreased 2.3% QoQ and 10% YoY to RMB15,218 per sq m, predominantly due to purchasing restrictions and higher mortgage rates.

High-end residential market

First-hand, high-end (above RMB30,000 per sq m) transaction volumes dropped dramatically in Q1/2018 to a total of 151,064 sq m, down 47.3% QoQ and 21.2% YoY. Total transaction units decreased 46.0% QoQ to 1,154 units. The slide of high-end transaction volumes is likely an adjustment after a big rebound last quarter. Moreover, the average sales price of the top 10 highest-priced residential units increased 0.2% QoQ and 6.7% YoY to RMB79,848 per sq m in Q1/2018.

Overall high-end and mid-high-end residential prices decreased 4.3% QoQ to RMB79,420 per sq m, but increased 13.6% YoY. The second-

hand, high-end residential price dropped to RMB90,100 per sq m, down 3.9% QoQ, but still up 5.8% YoY. The second-hand, middle-high-end residential price decreased 2.5% QoQ to RMB71,272 per sq m, but increased 26.4% YoY.

Market outlook

It has been one year since the tighter residential purchasing policy (the so-called 3.30 policy) was implemented, and the transaction volume and transaction unit prices of Guangzhou's first-hand residential homes have been effectively adjusted. In addition, the two sessions (两会) also emphasized the general policy of "houses are for living and not for speculating" and "control residential leverage". It is expected that regulation of the Guangzhou housing sales market will not loosen in the near future, and tight regulatory policies will keep the market stable.

Guangzhou has also implemented the policy of "same rights for leasing and purchasing", encouraging a switch from the residential sales

GRAPH 3

Second-hand high-end and mid-high residential price indices, Q3/2010-Q1/2018



Source: Savills Research

market to the residential rental market. Due to this, Guangzhou will continue to strengthen its development of residential leasing in the future.

It is estimated that the average unit price of residential sales will remain stable in the next quarter, while housing transaction volume will decline on a YoY basis. ■

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