Market take-up slows

Tightened financing channels and increasingly hesitant attitudes among many property purchasers resulted in decelerating market digestion during Q3/2019.

- Although the People’s Bank of China implemented the new Loan Prime Rate (LPR) scheme in August 2019, its direct impact on the Guangzhou residential sales market was mild.
  - The loan mortgage rate for house purchasers increased to 5.34% by the end of September 2019.
- Tightened financing channels and increasingly hesitant attitudes among many property purchasers resulted in decelerating market digestion and a drop in the transaction volume of the first-hand residential sales market during Q3/2019.
  - New supply of the Guangzhou residential market increased by 46.3% quarter-on-quarter (QoQ), to approximately 1.9 million sq m during this quarter.
  - Transaction volume of the Guangzhou first-hand residential sales market decreased to 1.89 million sq m, down 7.8% QoQ.
  - The average transaction price increased to RMB30,387 per sq m, up 5.0% QoQ.
  - The Rosewood Guangzhou Serviced Apartment in Tianhe district was launched in September, increasing the total citywide stock to 3,095 units.

- Though the new completion increased the citywide average vacancy rate for serviced apartments by nine percentage points (ppts) QoQ to 21%, it also structurally pulled up the citywide average rent by 1.3% QoQ to RMB218.3 per sq m per month at the end of Q3/2019.

“Many developers accelerated the pace of new project launches. Consequently, new supply in the Guangzhou residential sales market increased during Q3/2019.”

CARLBY XIE, SAVILLS RESEARCH
POLICY ENVIRONMENT
No new regulations or acts pertaining to the purchasing eligibility nor general sales market practices were released by the central and local governments. Thus, the overall policy environment in the Guangzhou residential property market remained unchanged during Q3/2019. However, financing channels tightened because the loan interest rate for first-time house-buyers increased, as did difficulties in getting approval and credit for individual loan applications. By the end of September, the loan interest rate for first-time homebuyers had increased to 5.34%.

SALES MARKET
Most developers accelerated the pace of launching new projects in Q3/2019. As a result, new supply in the Guangzhou residential sales market increased by 46.3% QoQ to approximately 1.9 million sq m during Q3/2019.

In Q3/2019, obtaining approval on loan applications from banks became more difficult relative to the prior two quarters as bank loan credits decreased. Meanwhile, some developers offered price promotions to destock. Collectively, these triggered an increasingly hesitant attitude among many potential property purchasers in Guangzhou during the quarter. The transaction volume of the Guangzhou first-hand residential sales market decreased by 7.8% QoQ to 1,897,668 sq m. However, the softened market sentiment was less prevalent in suburban areas, where the developing infrastructure and branch campuses of prestigious education facilities were serving as critical factors to most potential purchasers. For example, the Asian Games City in Panyu, at the intersection of Metro Line 3 and Line 4, outperformed in July, partially owing to its proximity to Guangzhou Tieyi Middle School.

Despite the multiple types of sales promotions—either in the form of price discounts or free car parking space with the purchase of a property—that were offered by many developers, transactions of luxury residential projects in Liwan, Baiyun and Tianhe districts structurally raised the average price of the Guangzhou residential market by 5.0% QoQ to RMB30,387 per sq m.

LEASING MARKET
The Rosewood Guangzhou Serviced Apartment in Tianhe district launched onto the market in September, injecting 355 units to the Guangzhou serviced apartment property market. The completion also caused the total citywide stock to increase to 3,095 units and the citywide average vacancy rate for serviced apartments to rise by nine ppts QoQ to 21% by the end of the quarter.

Although overall leasing demand remained relatively stable during the quarter, the new completion caused escalated leasing competition in the market, especially in Tianhe District. As a ripple effect, many landlords reviewed and adjusted their property leasing strategies, offering rental cuts ranging from 5% to 10%, or service packages and higher commission rates to third-party agencies, to counter the competition. Nonetheless, the citywide average rent structurally increased by 1.3% to RMB218.3 per sq m per month.

MARKET OUTLOOK
The outlook for the Guangzhou residential property market is expected to be stable, with limited alterations in the policy environment—i.e. home purchase restrictions and eligibility, among others. New supply in the first-hand residential sales market should be abundant as many developers will continue to expedite the pace of project launches and, through sales, ease their cashflow.

In terms of the leasing market, the seasonality issues in the fourth quarter of the year are expected to affect occupancy; landlords are projected to re-arrange incentives in order to stay attractive and competitive in the next quarter.