MARKET IN MINUTES

Residential

Guangzhou - February 2020

The overall policy environment loosened in several districts, with relaxed Home Purchase Restrictions in Nansha, Huadu and Huangpu in Q4/2019.

- The local government relaxed the Home Purchasing Restrictions (HPRs) in several districts including Nansha, Huadu and Huangpu during Q4/2019 in a bid to dilute demand from the core markets and to support the development and implementation of the talent scheme.

- Developers slowed the pace of new project launches in Q4/2019, which was mainly attributed to the sluggish market digestion and softening prices during September and October and held their launches to next season in hopes of greater financial returns.

- New supply of the Guangzhou first-hand residential sales market in nine districts with HPRs decreased by 26% QoQ and 53.7% YoY to approximately 1.4 million sq m during Q4/2019.

- Total transaction volume of Guangzhou’s first-hand residential sales market remained relatively stable at approximately 1.9 million sq m compared to Q3/2019 but dropped by 10.3% on a yearly basis.

- Average price for the Guangzhou residential sales market decreased by 3.1% quarter-on-quarter (QoQ) to RMB29,434 sq m per sq m.

- The Rosewood Guangzhou Serviced Apartment continued to be the highlight of the market for its significance in the improvement of the overall quality of Guangzhou’s serviced apartment property market.

- The average rent of the Guangzhou serviced apartment property market decreased by 1.9% QoQ to RMB212.2 per sq m per month, in exchange for higher letting rate as the vacancy rate decreased to approximately 19.4% by the end of Q4/2019.

Project Launches Slow

- The leasing market became very competitive in Q4/2019. The overall demand size remained relatively stable while tenants relocated to better premises.”

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POLICY ENVIRONMENT

HPRs for the Nansha, Huadu and Huangpu districts were relaxed in Q4/2019. According to the government’s documents, namely, The Notice of Further Improving the Easiness of Purchasing Commodity Housing for Talents and Hong Kong and Macao Residents, The Revised Instructions of Huadu Talents’ Green Card Application, and The Notice of Refining the Talents Home Purchase Policy in Huangpu, the relaxation of the HPRs allowed for qualified talents to enjoy a higher level of eligibility to purchase residential properties by individuals in the aforementioned districts. The acts enabled technically and financially qualified young talents to establish themselves in Guangzhou, albeit with the choice of properties that could be purchased located in suburban areas. It also demonstrated the local government’s commitment to and implementation of attracting young talent and capital from outside Guangzhou, and of stabilising the local residential property market through the administrative approaches.

LEASING MARKET

The combined effects of the conventional seasonality and increasing leasing competition caused a softened asset performance. Although the Rosewood Guangzhou Serviced Apartment continued to be the highlight of the market for its significance to the improvement of the overall quality of the Guangzhou serviced apartment property market, the overall leasing market in the Guangzhou serviced apartment sector became more competitive for its relatively unchanged demand size during Q4/2019. Some tenants chose to relocate to better-quality serviced apartment premises for an upgrade which led to an increase in vacancy rates in several well-known serviced apartment projects but a decrease in the vacancy rate at the newly completed projects for two consecutive quarters. To retain existing tenants and counter the leasing competition, landlords of several well-known serviced apartment properties adjusted their financial terms and other service packages for new leases. Consequently, the average rent of the Guangzhou serviced apartment property market decreased by 1.9% QoQ on a rental index basis, to RMB212.2 per sq m per month, while the citywide vacancy rate dropped by 1.3 ppts QoQ to 19.4% by the end of Q4/2019.

MARKET OUTLOOK

China and the US concluded the Phase I Agreement of the Sino-US trade dispute on January 15, 2020, which is expected to strengthen the economic outlook for China. This should be a benefit to all the first-tier cities in the country, macroeconomics and enterprises heavily relying on the Sino-US ties. With an improved economic backdrop and looser policy environment in 2020, the first-hand residential sales market is expected to pick up again, with both supply and transaction volumes forecasted to increase during the year. Meanwhile, as new projects are featured with relatively high land costs, the average price of the first-hand residential sales market in Guangzhou is expected to soar in 2020. The leasing market of the serviced apartment sector in Guangzhou is expected to be relatively stable in 2020. Rents are forecast to stabilise as the overall vacancy rate decreases during the year.