New commodity residential supply fell in Q4/2016, down 32.5% quarter-on-quarter (QoQ) to 1.3 million sq m, down 65.0% year-on-year (YoY).

First-hand commodity residential transaction volumes dropped 49.8% in Q4/2016 to 2.1 million sq m.

Average transaction prices increased 5.4% QoQ to a new high of RMB43,700 per sq m in the fourth quarter, bringing annual price growth up to 19%.

New high-end apartment supply was quite limited in the fourth quarter, totalling 79,200 sq m.

First-hand, high-end apartment transaction volumes witnessed a decrease of 46.6% from the previous quarter, totalling 178,500 sq m in Q4/2016.

First-hand, high-end apartment transaction prices continued their rise, increasing by 3.1% on an index basis in Q4/2016 to an average of RMB100,100 per sq m.

The residential land market proved quiet in Q4/2016 with only three residential land plots transacted, totalling 202,400 sq m of buildable area.

The city's residential prices are expected to remain firm in 2017, although there is expected to be a slowdown in transaction volumes as new restrictions dampen transacting activities.

“Continuous reductions of unsold inventory and a dramatic increase in prices drove the local government to issue further restrictions at year end to cool down the hot market.” James Macdonald, Savills Research

SUMMARY
2016 was another incredible year for the Shanghai residential sales market, with annual sales values of new homes reaching RMB529 billion, up 85% versus the five-year average.
Market news
2016 has been a spectacular year for the Shanghai residential market, with transaction volumes outstripping new supply, resulting in a significant reduction of unsold inventory in the first-hand market and a dramatic increase in prices.

By the end of 2016, 6.6 million sq m of new residential areas remained unsold, down 40% from 10.8 million sq m one year before. The reducing inventory and limited supply caused average transaction prices to increase at a faster pace of 19% in 2016, compared with the five-year average growth rate of just 8.3%.

However, the increase in residential prices also caught the attention of regulators with a number of restrictions put in place for developers, home purchasers and agencies, in an attempt to cool the market.

“3·25” policy
The Shanghai government announced on 25 March 2016 to increase down payment requirements for non primary residences (50% for ordinary housing, and 70% for non ordinary). The municipality also extended the period required for social security contributions for home purchasers without a Shanghai Hukou from two to five consecutive years, as well as a number of other policies.

Six measures
Following a wave of policy tightening by many local governments during the October holidays, Shanghai released six measures on 8 October 2016 to improve supervision and better regulate the market, including strengthening supervision over developers’ financing sources and the further regulation of property pre-sales and the loan market.

“11·28” policy
Despite a slower month-on-month (MoM) price growth rate in October 2016, Shanghai announced tighter measures on 28 November to cool down the market, namely a higher mortgage down payment ratio for first-home buyers (35% from 30%)

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Shanghai residential sales market performance, FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supply</td>
</tr>
<tr>
<td></td>
<td>Million sq m</td>
</tr>
<tr>
<td>First-hand commodity</td>
<td>7.9</td>
</tr>
<tr>
<td>Second-hand</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Trading Center; Savills Research

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>First-hand commodity residential market by property type, Q4/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supply</td>
</tr>
<tr>
<td></td>
<td>sq m</td>
</tr>
<tr>
<td>Apartment</td>
<td>1,113,000</td>
</tr>
<tr>
<td>Villa</td>
<td>147,000</td>
</tr>
<tr>
<td>Overall</td>
<td>1,260,000</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Trading Center; Savills Research
and a stricter definition of first home purchase –homebuyers who do not own any property in Shanghai and have never applied for a mortgage loan in China. All other applicants will be considered second home purchasers and are required to pay a 50-70% down payment. These had a significant impact on transaction volumes as a substantial portion of recent deals have been households upgrading properties.

**Overall commodity residential market**

First-hand commodity residential supply fell in Q4/2016, down 32.5% QoQ to 1.3 million sq m, while transaction volumes dropped 49.8% in the fourth quarter, totalling 2.1 million sq m. The great decrease in volume was primarily as a result of limited supply, with purchases being brought forward to Q3/2016 in anticipation of new regulations and new tightening measures of Shanghai’s “11·28 Policy”.

Despite the decline in both supply and transaction volumes, average transaction prices continued to increase 5.4% QoQ to a new high of RMB43,700 per sq m in the fourth quarter, bringing the full-year price growth up to 19%.

With rapid price growth outstripping rental growth, many investors are buying for capital value appreciation rather than buy-to-let purpose. The response of the second-hand residential market to new policies is often more pronounced compared with the first-hand market, and Q4/2016 was no exception. Home inspections were reported to see a decrease of 30-50% QoQ. At the same time, there was a 55% decrease in transaction volumes, totalling just 4.2 million sq m in the fourth quarter.

Despite the fall in volumes, transaction price growth accelerated, up 10% to RMB336,600 per sq m in Q4/2016, a new high for the Shanghai market.

**High-end residential sales market**

As a result of the stringent issuance of pre-sale certificates by the government, some highly-priced residential projects had to postpone their launches to the New Year. Therefore, first-hand high-end apartment supply was quite limited in the fourth quarter, totalling 79,200 sq m which came from new phases and batches of existing projects.

Jing’an Prime Land (静安府), one of the brand new projects in 2016, launched its third batch of 272 units in Q4/2016, adding nearly 33,300 sq m to the sales market. Asking prices started from RMB90,000 per sq m, roughly 6% higher than the first batch which was just launched in Q3/2016.

Other notable new supply was

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**Selected launch of high-end apartment supply, Q4/2016**

<table>
<thead>
<tr>
<th>Project (EN)</th>
<th>Launch date</th>
<th>Area</th>
<th>District</th>
<th>Developer</th>
<th>Launch unit</th>
<th>GFA (sq m)</th>
<th>No. of units sold in new batches</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Majesty, 2nd batch</td>
<td>Nov</td>
<td>Secondary</td>
<td>Jing’an</td>
<td>COFCO</td>
<td>138</td>
<td>34,446</td>
<td>95</td>
</tr>
<tr>
<td>Jing’an Prime Land, West Zone</td>
<td>Dec</td>
<td>Secondary</td>
<td>Jing’an</td>
<td>CR Land, Huafa</td>
<td>272</td>
<td>33,253</td>
<td>-</td>
</tr>
<tr>
<td>One Park</td>
<td>Dec</td>
<td>Secondary</td>
<td>Pudong</td>
<td>Xinjia Shanghai</td>
<td>65</td>
<td>11,498</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Transaction Centre, Savills Research

No transactions registered in the SRETC system as of Q4/2016.
contributed by One Park (公园壹号) in Pudong, formerly Regency Parksuites (丽晶博园), which launched 26 units in early 2005. Apart from 25 units sold to individuals, the rest of the project is now largely owned by the Yinyi Group and added just 65 new units to the market in Q4/2016.

Similar to the mass market, first-hand high-end apartment transaction volumes witnessed a decrease of 46.6% from the previous quarter, totalling just 176,500 sq m in Q4/2016. This was also a result of the tightness of high-end supply.

First-hand high-end apartment transaction prices continued their rise, increasing by 3.1% on an index basis in Q4/2016 to an average of RMB100,100 per sq m, exceeding RMB100,000 per sq m for the first time and marking a new high for the high-end market.

**Project focus**

One Park (公园壹号)

Developed by Xinjia Shanghai, a local real estate developer, One Park is an existing high-end residential project formerly named Regency Parksuites (丽晶博园). The project is located next to Century Park in the Pudong New Area with easy access to the Century Park metro station (line 2).

With an above-ground GFA of 18,300 sq m, the project consists of one residential building totalling 100 apartment units. In February 2005, the project launched its first batch of 26 units onto the sales market with transaction prices averaging RMB30,000 per sq m. However, the project’s remaining sales have been pending for over 10 years until 2016.

In January 2016, the Yinyi Group, a Ningbo company, acquired 50% equity of the project’s company for a total consideration of RMB25 million and renamed the project as One Park upon launching its second batch of 65 units (11,500 sq m) on 30 December 2016. The main offerings being three-bedroom (170-182 sq m) units and 172 sq m four-bedroom units. Asking prices started from RMB100,000 per sq m in Q4/2016, on a par with other new high-end products in the area such as Yanlord on the Park (仁恒公园世纪).

As new units were launched at the end of 2016 and the overall market has recently cooled down, only two units were registered as sold by 15 January 2017, with transaction prices averaging RMB98,500 per sq m. In spite of the slow “start”, the project is still believed to see a good sales performance, given the limited new high-end supply in this area.

This new batch of fully-fitted units are expected to be handed over at the end of 2018.

**Residential land market**

The residential land market proved quiet in the fourth quarter with only three residential (two pure residential and one mixed-use) land plots transacted, totalling 202,400 sq m of buildable area.

**TABLE 4**

Top five apartment projects by first-hand transaction prices, Q4/2016

<table>
<thead>
<tr>
<th>Project</th>
<th>District</th>
<th>Area</th>
<th>Transaction area (sq m)</th>
<th>Average transaction price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomson Riviera</td>
<td>Pudong</td>
<td>Lujiazui Riverside</td>
<td>597</td>
<td>301,300</td>
</tr>
<tr>
<td>Lakeville Luxe</td>
<td>Huangpu</td>
<td>Huaihai Road (M)</td>
<td>2,002</td>
<td>142,700</td>
</tr>
<tr>
<td>The Paragon</td>
<td>Huangpu</td>
<td>Huaihai Road (M)</td>
<td>2,168</td>
<td>136,200</td>
</tr>
<tr>
<td>Bund House</td>
<td>Huangpu</td>
<td>Huangpu Riverside</td>
<td>12,502</td>
<td>129,700</td>
</tr>
<tr>
<td>Shanghai Arch</td>
<td>Pudong</td>
<td>Lujiazui Riverside</td>
<td>528</td>
<td>129,000</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Transaction Centre, Savills Research
Average accommodation values (AV) fell to RMB8,800 per sq m in Q4/2016, down from their peak of RMB39,500 per sq m in Q3/2016. The price decrease was a result of the limited land sales and the location of land plots (as the only three land plots transacted are all located in the Fengxian district) rather than a correction in land prices.

The first residential land transaction in 2017 was concluded by Shimao Holdings, which bought a pure residential land plot in Luojing Town, Baoshan district on 5 January 2017 for RMB2.4 billion or an AV of RMB23,500 per sq m.

Residential land sales revenues totalled RMB100 billion in FY2016, almost on par with FY2015 (-0.4% YoY), while AVs increased 54.3% YoY averaging RMB30,600 per sq m.

**Residential sales market outlook**

**Policy**

Shanghai’s recent policies and actions by authorities have indicated a clear intention to regulate and strengthen supervision of developers, agencies and home purchasers. In addition, the new mayor of Shanghai has recently emphasized that the government will strictly enforce existing policies and keep prices from soaring.

**Supply**

The government’s stricter control on pre-sale certificate issuance is likely to limit supply in 2017. Some high-end residential projects, which were scheduled to launch in 2H/2016, are still waiting for their pre-sale approvals. At the same time, the city will continue to support end-user demand and low-income families with 50,000 new affordable housing units in the pipeline for 2017.

**Transactions, prices**

The city’s residential prices are expected to remain firm in 2017 as higher land prices and reducing inventories provide little room for price cuts. However there is expected to be a slowdown in transaction volumes as new restrictions dampen transacting activities.

**Commercial-title residential products**

The suspension of sales of some commercial residential products and restrictions on new launches is likely to limit supply. As a result, pricing is likely to be pushed up given the strong demand for this type of product.

In response, Shanghai’s mayor has indicated that authorities are currently working on policies which will regulate and control this specific market. While the authorities have not disclosed what this might entail, possible measures could be purchase restrictions on these type of products or the encouragement of official conversions of commercial-title properties to residential use, similar to a policy recently implemented in Suzhou. This could also assist in offloading commercial inventory.

**Land**

Another 14 residential (including pure residential and mixed-use) land plots are scheduled for auction in Q1/2017, totalling 687,000 sq m of site area. All the plots are located in suburban areas such as Jinshan, Songjiang and Pudong’s Lingang.

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