New commodity residential supply fell 19.2% quarter-on-quarter (QoQ) in Q1/2017, to 1.0 million sq m, down 29.8% year-on-year (YoY).

First-hand commodity residential transaction volumes decreased 29.6% QoQ in Q1/2017, to 1.5 million sq m, the lowest level in the last five years.

Average transaction prices increased 7.9% QoQ to a new high of RMB47,400 per sq m in the first quarter.

Due to strict controls on presale approvals, first-hand, high-end apartment supply remained limited, while transaction volumes fell by 14% QoQ in Q1/2017, to 151,500 sq m.

First-hand, high-end apartment transaction prices grew on an index basis, albeit at a slower rate of 0.6% QoQ in Q1/2017, to an average of RMB97,200 per sq m.

The residential land market recovered in Q1/2017, with 11 residential land plots transacted, totaling 928,000 sq m of buildable area, up more than threefold from a historical low in Q4/2016.

The city's residential sales market will continue to consolidate in response to recent demand and supply side restrictions.

“The impact of last November’s new regulations can be seen clearly in first quarter data; the key question remains whether the change in conditions is enough for regulators or if more policy announcements will be made.” James Macdonald, Savills Research

SUMMARY

Shanghai’s residential sales market cooled in the first quarter of 2017, with both new supply and transaction volumes falling to five-year lows, though prices rose 8% to a new high of RMB47,400 per sq m.
Market news
In contrast to the hot residential sales market in 2016, the city’s market has recently cooled down, with sales volumes recording a five-year low in the first quarter of 2017. A combination of factors including a lack of supply, policy tightening in Q4/2016, and the traditional off season in the first quarter, are responsible for this change.

Market demand, however, remained strong, especially for housing upgrades, as demonstrated by the outstanding sales performances in newly-launched projects such as Crystal Plaza Residences in the Pudong New Bund area (96% sales rate), Poly Residence Elite (88% sales rate) in the Baoshan Dachang area and Vanke UniCity in the Qingpu Xujing area (60% sales rate).

With demand continuing to outstrip supply, residential prices continued to grow, hitting new highs for the city-wide market in the first quarter.

As the current home prices in prime locations remain expensive for many homebuyers, and more new homes are now located in suburban areas, upgraders who are seeking larger-sized units but have limited capital are increasingly relocating from downtown to suburban areas, despite the longer commute time and higher transportation costs. This trend is akin to that seen in many developed international markets.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>First-hand commodity residential market by property type, Q1/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supply sq m</td>
</tr>
<tr>
<td>Apartment</td>
<td>881,700</td>
</tr>
<tr>
<td>Villa</td>
<td>136,500</td>
</tr>
<tr>
<td>Overall</td>
<td>1,018,300</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Trading Center; Savills Research
satisfactory sales rates of suburban projects targeting upgraders are evidence of this strong demand.

**Overall commodity residential market**

**First-hand market**

First-hand commodity residential supply fell in Q1/2017, down 19.2%

1 Commodity housing excludes residential properties designated for relocated residents under urban redevelopment plans, as well as economical housing.

Despite a pick-up in sales activity in March, quarterly transaction volumes were at the lowest level over the last five years, down 29.6% QoQ, totalling 1.5 million sq m in Q1/2017. As demand continued to outstrip new supply, unsold inventory declined to 6.2 million sq m by the end of Q1/2017, the lowest level over the past five years.

Despite the decreases in both supply and transaction volumes, average transaction prices continued an upward trend to a new high of RMB47,400 per sq m in the first quarter, up 7.9% QoQ, faster than the average quarterly price growth of 6.9% in 2016.

**Second-hand market**

Second-hand residential transaction volumes decreased 31.5% QoQ in Q1/2017, to 2.9 million sq m, while transaction prices stayed firm, averaging RMB37,000 per sq m, up 1.1% from Q4/2016.

Different from the fixed first-hand prices controlled by developers and the government, second-hand home prices are negotiated. This gives the second-hand market more space for price fluctuations. In addition, as second-hand sales contracts often under-report the true value of the property, the actual gap between first- and second-hand transaction prices is smaller than the data showed (28%).

**High-end residential sales market**

As the government remains strict in controlling the issuance of new pre-sale certificates, many high-end residential projects have no choice but to postpone launch dates further, limiting new supply in the first quarter. Notable supply this quarter included Crystal Plaza Residences, a new project jointly developed by Tishman Speyer and the Lujiazui Group, which launched 294 units totalling 36,200 sq m onto the market.

Similar to the mass market, first-hand apartment transaction volumes witnessed a decrease from the previous quarter, down 14.1% QoQ

2 Judged by comprehensive criteria including location, building quality, total volumes, unit size, transaction price and property management.
to 151,500 sq m in Q1/2017 while strong sales were recorded in the newly-launched project. Transaction levels are expected to remain subdued in 2017, due to limited supply in the pipeline.

First-hand high-end apartment transaction prices grew on an index basis in Q1/2017, albeit at a slower quarterly rate of 0.6%, to an average of RMB97,200 per sq m. Pre-sale prices for new properties are below market expectations due to government controls.

**Project focus**

**Crystal Plaza Residences (晶耀前滩)**

Crystal Plaza Residences is part of a new, mixed-use development, Crystal Plaza, which is jointly developed by Tishman Speyer and the Lujiazui Group. The project is located in the New Bund area within Pudong New Area, with easy access to the Oriental Sports Centre metro station (lines 6/8/11) and near the Middle Ring Road. The well-known Wellington College International Shanghai is located beside the project.

Crystal Plaza has an above-ground GFA of more than 300,000 sq m, comprising Grade A offices, high-end residences and retail facilities. The residential segment encompasses 110,000 sq m across 10 buildings, totalling 1,028 units.

In January 2017, the project launched its first batch of 294 units (36,200 sq m) onto the sales market, primarily offering two- to four-bedroom units between 80-155 sq m. The project recorded an outstanding sales performance, with 282 of the 294 registered units sold as of 12 April, averaging a transaction price of over RMB87,000 per sq m.

Residents will be provided with full living facilities, including an indoor swimming pool, yoga room and fitness centre. This batch of fully-fitted units are expected to be handed over at the end of 2018.

The New Bund is a new, master-planned location lying to the south of the former Expo site next to the Oriental Sports Centre and the Huangpu River. Over the next three years (2017-2019), the area is expected to receive approximately 640,000 sq m of new office space. The long-term development of the New Bund area is positive, given growing demand from the

**TABLE 2**

**Top five apartment projects by first-hand transaction prices, Q1/2017**

<table>
<thead>
<tr>
<th>Project</th>
<th>District</th>
<th>Area</th>
<th>Transaction area (sq m)</th>
<th>Average transaction price (RMB psm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomson Riviera</td>
<td>Pudong</td>
<td>Lujiazui Riverside</td>
<td>595</td>
<td>237,600</td>
</tr>
<tr>
<td>OCT Suhe Creek</td>
<td>Jing’an</td>
<td>Suhe Creek</td>
<td>837</td>
<td>177,900</td>
</tr>
<tr>
<td>Shanghai Arch</td>
<td>Pudong</td>
<td>Lujiazui Riverside</td>
<td>907</td>
<td>130,700</td>
</tr>
<tr>
<td>Grand Summit</td>
<td>Jing’an</td>
<td>Nanjing Road (W.)</td>
<td>761</td>
<td>130,100</td>
</tr>
<tr>
<td>Central Residence</td>
<td>Changning</td>
<td>Xinhua Road</td>
<td>238</td>
<td>129,900</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Transaction Centre, Savills Research
city’s tertiary sector and improving connectivity between the area and Pudong’s more developed commercial areas. In the future, the Raffles Hospital will provide critical support to the area’s emerging cosmopolitan community.

Residential land market
The residential land market recovered in Q1/2017, with 11 residential land plots transacted, totalling 928,000 sq m of buildable area, up more than threefold from a historical low in Q4/2016.

Average accommodation values (AV) for transacted land reached RMB18,000 per sq m in Q1/2017, while premiums exceeded reserve prices by an average of 26.7%.

Shimao Holdings concluded the first residential land transaction in 2017, purchasing a purely residential land plot in Luojing Town, Baoshan district, on 5 January for RMB2.4 billion or an AV of RMB23,500 per sq m.

China Overseas bought three purely residential land plots in the Songjiang district on 29 March for a total consideration of RMB5.1 billion, or an average AV of RMB30,500 per sq m. Premiums for the three plots averaged 70% over the reserve prices, indicating that developers remain hungry to acquire prime land plots. The AVs surpassed the current second-hand residential prices in the surrounding area, which stand at RMB20,000 per sq m.

Residential sales market outlook
The city’s residential sales market will struggle to maintain the momentum that it built up in 2015-16 as a result of more limited supply and strictly-enforced policies. Residential prices, however, will have more room to climb due to the current lack of supply.

Although restrictions dampen transaction activities, the majority of developers are unlikely to discount prices as most remain confident in the local market, which remains undersupplied. In addition, higher land prices provide little room for price cuts.

Despite a recovery in the first quarter, the residential land market will remain quiet until the end of Q2/2017, with only three residential (including purely residential and mixed-use) land plots expected, with an aggregate area of 130,000 sq m. The three plots are all located in the outlying districts of Fengxian and Pudong’s Lingang.

The two sessions held in March indicated that there is no plan to submit a property tax bill for deliberation in 2017.

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