New commodity residential supply recovered from the multi-year lows seen in Q1/2017, with volumes up 61% quarter-on-quarter (QoQ) to 1.6 million sq m, but down 50.6% year-on-year (YoY).

First-hand commodity residential transaction volumes rebounded by 38.8% in Q2/2017 to 2.1 million sq m, down 34.2% YoY.

Average transaction prices increased slightly, up 0.4% QoQ to a new high of RMB47,600 per sq m.

First-hand high-end apartment supply totalled 56,800 sq m in Q2/2017, with all supply coming from new phases of existing projects. Transaction volumes increased by 13% QoQ to 171,700 sq m.

First-hand, high-end apartment transaction prices increased by 2.2% on an index basis in Q2/2017, to an average of RMB106,900 per sq m.

Only three residential land plots were transacted in the second quarter, all under the new land auction policy. Future residential land plot auctions are expected to more heavily feature lease-only developments, as the government is supporting the expansion of this segment.

Shanghai’s 13th five-year plan envisages a 60% increase in residential units supplied, including the development of 700,000 units for lease and 450,000 units for sale, from 2015 till 2020.

Mortgage rates for first time buyers were raised for the first time in Q2/2017, after remaining flat for the last two years. According to Rong 360, average mortgage rates from banks surveyed increased from 4.41% in March to 4.80% in June.

“No new high-end apartments were launched in the second quarter, as the government reviews and reassess current practices. The local government also introduced new policies designed to support a more transparent and sustainable market, to meet the needs of a changing society.”

James Macdonald, Savills Research

SUMMARY

Shanghai’s residential sales market recovered from the slump experienced in the first quarter, though the market still remain subdued compared to last year. Prices continue to remain firm.
Market news
After recording multi-year lows in Q1/2017 as a result of tougher restrictions and tighter lending criteria that were introduced in the final months of 2016 to cool the market, supply and transaction volumes rebounded in Q2/2017. Unsold inventory levels continued to fall as transaction volumes outstripped supply for the fourth consecutive quarter.

Overall commodity residential market
First-hand market
First-hand commodity residential supply increased by 61% in Q2/2017 to 1.6 million sq m, down 50.6% YoY, still far behind last year’s level. 44% of new supply was located outside of the suburban ring road, up from 29% YoY, as it becomes increasingly difficult to secure pre-sales licenses for higher-value downtown projects.

First-hand commodity residential transaction volumes rebounded 38.8% in Q2/2017 to 2.1 million sq m. Transaction volumes were impacted by a number of factors, not least the continuous imposition of home purchasing restrictions, but also tighter credit control, increasingly limited stock and record-high pricing. According to Rong 360, a provider of customised financing and loan services, the average mortgage rate available to first time

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

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Supply (sq m)</th>
<th>QoQ (%)</th>
<th>Transactions (sq m)</th>
<th>QoQ (%)</th>
<th>Average Price (RMB psm)</th>
<th>QoQ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment</td>
<td>1,494,606</td>
<td>69.5%</td>
<td>1,738,934</td>
<td>34.8%</td>
<td>48,000</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Villa</td>
<td>144,753</td>
<td>6.0%</td>
<td>334,412</td>
<td>63.6%</td>
<td>45,500</td>
<td>13.7%</td>
</tr>
<tr>
<td>Overall</td>
<td>1,639,359</td>
<td>61.0%</td>
<td>2,073,346</td>
<td>38.8%</td>
<td>47,600</td>
<td>+0.4%</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Trading Center; Savills Research
purchasers in Shanghai rose to 4.80% in June from just 4.41% in March.

Unsold inventory levels fell to 6.03 million sq m as a result of demand outstripping supply, the lowest levels since July 2010, and equivalent to 4.9 months of transaction volumes.

The city-wide campaign launched in May that prohibits the sale of commercial-titled residential developments looks to close loopholes that exist in the market and better implement existing regulations. The removal of this stock from the sales market will mean that prospective buyers have to turn to the traditional residential market, placing further pressure on the dwindling stock of unsold properties.

Average transaction prices increased by 0.4% QoQ to a new high of RMB47,600 per sq m. The increase was caused by a 13.7% increase in villa prices, resulting from the continued limited supply, in contrast with a 1.1% decrease in apartment prices. Average transaction prices within the inner ring road increased by 4.4% in Q2/2017, to an average of RMB104,000 per sq m.

Shanghai announced plans to start selling first-hand commodity residences by public lottery in May. The lottery process will require bidders to use their real names to register and prohibits intermediaries from reselling lottery numbers. Developers’ employees should declare purchases from their employer, and in the case of any violations, transactions will be suspended and the developers will be potentially disqualified or blacklisted in the credit management system.

Second-hand market

Second-hand residential transaction volumes increased 11.4% in Q2/2017 to 3.2 million sq m, while transaction prices increased 4.4% to an average of RMB38,600 per sq m. Core districts recorded the fastest growth, jumping 8.0% QoQ to RMB63,000 per sq m as a result of limited availability in both the first- and second-hand markets.

Similar to the first-hand market, new regulations have been issued to ensure a more transparent process when trading second-hand properties. The Shanghai Real Estate Trading Center (SRETC) announced in June that the purchaser’s identity for second-hand transactions must be verified on the online transaction system to ensure authentic transactions. Should there be any discrepancies in either seller’s or the buyer’s information, the sales

---

purchasers in Shanghai rose to 4.80% in June from just 4.41% in March.

Unsold inventory levels fell to 6.03 million sq m as a result of demand outstripping supply, the lowest levels since July 2010, and equivalent to 4.9 months of transaction volumes.

The city-wide campaign launched in May that prohibits the sale of commercial-titled residential developments looks to close loopholes that exist in the market and better implement existing regulations. The removal of this stock from the sales market will mean that prospective buyers have to turn to the traditional residential market, placing further pressure on the dwindling stock of unsold properties.

Average transaction prices increased by 0.4% QoQ to a new high of RMB47,600 per sq m. The increase was caused by a 13.7% increase in villa prices, resulting from the continued limited supply, in contrast with a 1.1% decrease in apartment prices. Average transaction prices within the inner ring road increased by 4.4% in Q2/2017, to an average of RMB104,000 per sq m.

Shanghai announced plans to start selling first-hand commodity residences by public lottery in May. The lottery process will require bidders to use their real names to register and prohibits intermediaries from reselling lottery numbers. Developers’ employees should declare purchases from their employer, and in the case of any violations, transactions will be suspended and the developers will be potentially disqualified or blacklisted in the credit management system.

Second-hand market

Second-hand residential transaction volumes increased 11.4% in Q2/2017 to 3.2 million sq m, while transaction prices increased 4.4% to an average of RMB38,600 per sq m. Core districts recorded the fastest growth, jumping 8.0% QoQ to RMB63,000 per sq m as a result of limited availability in both the first- and second-hand markets.

Similar to the first-hand market, new regulations have been issued to ensure a more transparent process when trading second-hand properties. The Shanghai Real Estate Trading Center (SRETC) announced in June that the purchaser’s identity for second-hand transactions must be verified on the online transaction system to ensure authentic transactions. Should there be any discrepancies in either seller’s or the buyer’s information, the sales

---
contract will become invalid and the seller must go with a broker to SRETC to clarify relevant information. A number of brokerage houses were discovered to have illegally signed transaction contracts without authorisation in the past. 1,500 agencies had had their licenses revoked in Shanghai by April 2017.

**High-end residential sales market**

First-hand, high-end apartment supply totalled 56,800 sq m in Q2/2017, all from new phases/batches of existing projects in secondary areas.

The two projects that supplied new stock in Q2/2017 were Yanlord on the Park and Star River Pudong. Both projects are located in the Huamu region in Pudong. Yanlord on the Park supplied 43,216 sq m (220 units) in its third phase, while Star River Pudong added 13,534 sq m (36 units) in its fifth batch.

Transaction volumes increased by 13% in Q2/2017 to 171,700 sq m. Despite restrictions, many high-end projects recorded a steady trickle of deals in their projects. The latest batch of Shanghai Bay, launched in July 2016, saw close to 24,000 sq m sold in Q2/2017, for a total consideration of RMB2.9 billion, making it the top project in terms of sales revenue for the quarter. Average transaction prices stood at RMB114,000 per sq m.

First-hand, high-end apartment transaction prices grew by 2.2% on an index basis in Q2/2017, to an average of RMB106,900 per sq m.

**Residential land market**

The government introduced new guidelines for the land auction process in the second quarter. The new guidelines call for a rating of potential bidders by the company’s financial standing (30%), technical qualification (20%) and project experience (50%). The three most qualified bidders are then selected to proceed to the next round of bidding. These three bidders are only allowed to submit bids online with a fixed pricing. The adjustment in the tender process is designed to increase the quality of the bidders and improve transparency throughout the process, as well as temper land premiums.

Three land plots were transacted in Q2/2017, totalling 229,004 sq m of buildable area. All three land plots were auctioned under the new auction guidelines. Average accommodation values (AV) fell 29.7% to RMB13,000 per sq m in Q2/2017, with premiums averaging 24.4%. China Overseas acquired a purely

<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>Ocean One</td>
<td>Pudong</td>
<td>Lujiazui Riverside</td>
<td>593</td>
<td>204,400</td>
</tr>
<tr>
<td>The Paragon</td>
<td>Huangpu</td>
<td>Huaihai Middle Road</td>
<td>684</td>
<td>152,900</td>
</tr>
<tr>
<td>Shanghai Arch</td>
<td>Pudong</td>
<td>Lujiazui Riverside</td>
<td>1,081</td>
<td>151,800</td>
</tr>
<tr>
<td>Lakeville Luxe</td>
<td>Huangpu</td>
<td>Xintiandi</td>
<td>7,267</td>
<td>149,500</td>
</tr>
<tr>
<td>Jinmao Palace</td>
<td>Zhabei</td>
<td>Daning</td>
<td>1,143</td>
<td>136,019</td>
</tr>
</tbody>
</table>

Source: Shanghai Municipal Bureau of Planning and Land Resources; Savills Research
residential land plot in Fengcheng Town, Fengxian district, for RMB1.8 billion, or RMB23,330 per sq m, at a premium of 48.8%.

Poly Real Estate acquired a purely residential land plot in Lingang, Pudong district, for RMB800 million, or RMB20,213 per sq m, at a premium of 14.6%. China State Construction acquired a mixed-use land plot for residential and commercial usage in the same neighbourhood, at RMB300 million, or RMB19,318 per sq m, at a premium of 9.8%.

Two land plots zoned as lease-only residences were launched onto the market in July for the first time in the history of the land auction market. These plots eventually sold on 24 July for RMB5,569 per sq m in Pudong (130,000 sq m) and RMB5,950 per sq m in Jiading (71,300 sq m). Both plots were bought by the local state-run developers at reserve pricing.

Shanghai’s 13th five-year plan was announced in July. The plan outlined a dramatic shift in residential land planning, targeting a 20% increase in the amount of land released over the five-year period, bringing it to 55 million sq m of land. 1.7 million new residential units are to be built on this land, 60% more than the previous five-year period. Given a standard plot ratio of roughly 2.5, this would equate to approximately 81 sq m per unit.

**Residential sales market outlook**

High-end apartment prices, where demand remains strong and supply is tight, are expected to hold up better than the mass market where the supply tends to increase. Given limited land supply in recent years and an emphasis on smaller units, larger units in central locations are expected to be highly sought after.

The recent rise in mortgage rates, both in China and a lesser extent in Shanghai, while unlikely to have an immediate impact on the market, does give an indication of the tightening of credit conditions in the residential market. Should this trend continue, it could have a more significant impact on the market.

The new land policy will narrow down the field of competition at land auctions by investigating developers’ source of capital and their ability to develop the schemes. Some developers may instead turn to acquisition of existing projects or investment in lower-tier cities to develop pipelines for new projects.

Given the new criteria for bidders in the land auction market, the field of potential bidders is likely to be significantly smaller. This will likely lead to a consolidation of the developers active in the Shanghai market, and also lead to less competitive bidding processes.

---

**Please contact us for further information**

**Research**

James Macdonald  
Director  
+8621 6391 6688  
james.macdonald@savills.com.cn

**Agency**

Siu Wing Chu  
Managing Director  
+8621 6391 6688  
siuwing.chu@savills.com.cn

Shirley Tang  
Senior Director  
+8621 6391 6688  
shirley.tang@savills.com.cn

Michelle Zhou  
Director  
+8621 6391 6688  
michelle.zhou@savills.com.cn

Savills plc  
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.