High-end supply recovers

First-hand, high-end apartment supply jumped to 223,000 sq m in Q3/2019 after two quarters of limited releases, helping to meet pent-up demand.

- Overall new commodity residential supply matched the previous quarter, with 2.14 million sq m of new supply entering the market, down 32.2% year-on-year (YoY).
- First-hand commodity residential transaction volume fell by 2.1% quarter-on-quarter (QoQ) to 2.11 million sq m, down 8.2% YoY.
- Average transaction price fell by 3.1% in Q3/2019 to RMB52,300 per sq m, down 4.3% YoY.
- First-hand, high-end apartment supply totalled 223,000 sq m, a fivefold increase from last quarter.
- First-hand, high-end apartment transaction volume fell by 11.5% QoQ to 161,000 sq m, down 49.1% YoY.
- First-hand, high-end apartment transaction prices increased by 3.1% QoQ on an index basis to an average of RMB108,000 per sq m.
- A total of 16 pure for-sale residential land plots were transacted, with a combined site area of 892,000 sq m and a total buildable area of 1.27 million sq m.
- Second-hand average prices crept up to RMB38,000 per sq m in Q3/2019.
- Increased competition from the first-hand market resulted in fewer listings in the second-hand market in Q3/2019. The second-hand market is expected to continue to struggle in the final quarter.

“Though this traditional sales season saw no significant transaction performances, Shanghai’s residential land market has been steadily growing since Q4/2018, which in the midterm will benefit the residential market in the fringe areas.”

JAMES MACDONALD, SAVILLS RESEARCH
MARKET OVERVIEW
The People's Bank of China announced plans to link the personal mortgage loan rate to the national five-year loan prime rate (LPR), starting from 8 October with the LPR at 4.85%. Nationally, first-home mortgage rates should be no less than 4.85% while rates for second homes should be no less than 5.45%. Shanghai, however, announced that rates for first-home mortgages could be set as low as 4.65%, 20 bps below the LPR, and just marginally lower than the previous rate of 4.65%. With mortgage rates largely unchanged in Shanghai, the impact on the market is expected to be negligible. The LPR will be updated on the 20th or subsequent workday of each month and is based on quotations from 18 contributing banks.

First-hand Market - New commodity residential supply remained unchanged at 21.4 million sq m in Q3/2019, down 32.2% YoY. Meanwhile, first-hand commodity residential transaction volumes fell by 2.1% QoQ to 2.11 million sq m, down 8.2% YoY. Average transaction prices recorded quarterly increases in all areas (as delineated by the city’s ring roads) within the suburban ring road. However, prices fell outside the suburban ring road (the city’s largest market). As a consequence, the citywide average transaction price fell slightly in Q3/2019 to RMB109,100 per sq m. As transaction volumes equalled supply levels for the second consecutive quarter, inventory levels remained largely unchanged, and pricing on a like-for-like basis remained relatively stable.

Second-hand Market - Second-hand transaction volumes decreased 14.9% QoQ to 4.7 million sq m, up 24.8% YoY. The quarterly figures were boosted by a strong performance in September with 1.64 million sq m trading hands, ending a five-month slide in volumes. Average transaction prices increased just 1.1% QoQ to RMB38,000 per sq m. Increasing competition from the first-hand market and weaker sentiment resulted in fewer new listings in Q3/2019, with the situation expected to persist through the year’s final quarter.

HIGH-END RESIDENTIAL SALES MARKET
A total of 223,000 sq m and more than 1,000 units of new supply launched onto the first-hand, high-end residential market in Q3/2019, ending a near-drought over the last two quarters. Supply came from new batches at the Fuxing Royale (复兴珑御), Nove Mansion (九庐), Venezia (百汇园), and The Gallery (瑞虹新城悦庭), as well as new launches at Riverside Mansion (恒大府邸). The new supply offered buyers more options in the high-end market.

The inevitable lag between supply and transaction volumes meant that transaction volume fell 14.9% QoQ to 161,000 sqm, down 49.1% YoY—though this is expected to pick up in Q4/2019. However, the first-hand, high-end price index increased by 3.1% to RMB108,000 per sq m, up 4.2% YoY. Price indices of all areas (primary, secondary and emerging areas) recorded growth in Q3/2019.

Supply focused on areas straddling the Huangpu River, including Huangpu, Lujaizui and Xuhui. Q4/2019 is also expected to see new units launched at Ba Dai Tou, OCT Suhe Creek, with river views seemingly a constant characteristic of high-end launches as of late.

Similar to the overall market, the jump in first-hand, high-end residential supply has had an impact on the second-hand, high-end market. Of the high-end compounds monitored by Savills, only Shimao Riviera Garden recorded more than 30 units selling in Q3/2019. Nevertheless, transaction prices remained largely unchanged, in fact increasing by 1.8% to RMB60,910 per sq m.
RESIDENTIAL LAND MARKET

A total of 16 pure for-sale residential land plots were sold in Q3/2019, with a total site area of 892,000 sq m and buildable area of 1.26 million sq m, as well as an average accommodation value (AV) of RMB18,600 per sq m. Most land plots were in fringe districts such as Minhang, Jinshan, Qingpu and Chongming. There was only one plot sold in a more central district, Yangpu's New Jiangwan Town. The 45,382 sq m site was sold to China Enterprise Company Limited for an AV of RMB52,500 per sq m at the reserve price. Q3/2019 also witnessed four mixed-use sites (with residential components) sold with a combined 236,800 sq m of buildable area designated for residential use.

Five pure for-lease residential land plots were sold at their reserve prices with a combined buildable area of 267,000 sq m. Plots in Beicai, Pudong and Qilian Community, Baoshan possessed relatively high AVs of above RMB7,200 per sq m. Also, part of the newly sold, mixed-use plot “Science Gate” in Zhangjiang is expected to have some of its buildable area designated for for-lease residential use.

RESIDENTIAL SALES MARKET OUTLOOK

In both the overall and high-end, first-hand markets, an increase in supply levels in recent months is expected to result in elevated transaction volumes for 2019’s final quarter as developers look to secure sales before the end of the financial year. However, the new supply in the first-hand market is expected to intensify competition with the second-hand market, resulting in fewer new listings.

The policy outlook remains relatively stable, with volumes holding up well. Nevertheless, with a relatively pessimistic economic outlook expected to feed through to salary increases and bonuses, consumers and home-buyer sentiment could be dented towards the start of 2020. Weaker sentiment could result in weaker volumes next year and may encourage the government to reduce interest rates to spur growth. Consequently, some market watchers predict we could see a reduction in mortgage rates.

TABLE 2: Top Five Apartment Projects By First-hand Transaction Prices, Q3/2019

<table>
<thead>
<tr>
<th>PROJECTS</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>Bund House</td>
<td>Huangpu</td>
<td>Huangpu Riviera</td>
<td>3,571</td>
<td>151,000</td>
</tr>
<tr>
<td>Nove Mansion</td>
<td>Pudong</td>
<td>Lujiazui Riviera</td>
<td>239</td>
<td>147,800</td>
</tr>
<tr>
<td>The Paragon</td>
<td>Huangpu</td>
<td>Huaihai Road (M)</td>
<td>1,410</td>
<td>142,600</td>
</tr>
<tr>
<td>Fuxing Royale</td>
<td>Huangpu</td>
<td>Laoximen</td>
<td>184</td>
<td>134,100</td>
</tr>
<tr>
<td>One Jingan</td>
<td>Jing’an</td>
<td>Nanjing Road (W)</td>
<td>2,106</td>
<td>132,200</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Trading Center, Savills Research