

# Briefing Residential sector

December 2014



Image: Imperial Park, Shekou, Nanshan district

## SUMMARY

The amount of new supply launched onto the high-end residential market in Q3/2014 totalled more than that in 1H/2014.

■ Serviced apartment rents fell 3.2% quarter-on-quarter (QoQ) to an average of RMB215.6 per sq m per month, down 6.6% year-on-year (YoY), while city-wide occupancy rates rose 0.4 of a percentage point (ppt) QoQ to roughly 87.9%.

■ High-end strata-title apartment rents increased 2.6% QoQ to RMB108.1 per sq m per month, up 4.6% YoY. Occupancy rates remained unchanged at 86.9%.

■ First-hand transaction prices fell 4.8% in Q3/2014 to an average of RMB22,568 per sq m, as transaction volumes increased 5.7% QoQ to a total of 800,000 sq m.

■ A decrease was observed in the second-hand residential market where transaction volumes dropped 9.6% QoQ to 1.06 million sq m, down 41.4% YoY.

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 “Lower prices offered by pressured developers, coupled with higher liquidity released by the Central Bank, are expected to push up transaction volumes on both the supply and demand sides.” Sherry Xu, Savills Research  
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### ➔ Leasing market overview

No new projects were launched onto the market in Q3/2014, with both supply and demand remaining relatively flat. Overall, the high-end leasing market saw an increase in both rents and occupancy rates.

#### Serviced apartment leasing market

Serviced apartment rents decreased 3.2% QoQ to an average of RMB215.6 per sq m per month, down 6.6% YoY.

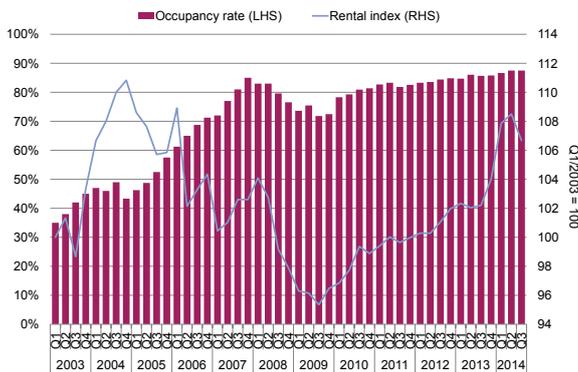
With no new supply launched in the third quarter of 2014, occupancy rates continued to increase, by 0.4% to 87.9%. Shenzhen's serviced apartment market is extremely seasonal – attracting families who

TABLE 1 High-end properties, Q3/2014

Project	District	No. of units	Unit size (sq m)	Asking price (RMB per sq m)
Portofino Phase 16 波托菲诺纯水岸16期	Nanshan	112	165-230	62,000
Imperial Park 海上世界双玺	Nanshan	120	220	100,000
The Sky Garden 曦湾天馥	Nanshan	301	90-260	70,000
Hillside Manor 京基云景梧桐	Luohu	49	240-320	70,000-120,000
OCT Loft Residence Loft 公馆	Nanshan	209	288-310	60,000
Excellent Group Queen's Road 卓越皇后道懿墅	Longhua	32	250	60,000
Ecological Life 栖棠映山	Futian	140	170-231	43,000
One Shenzhen Bay 深圳湾一号	Nanshan	60	160-312	60,000-130,000

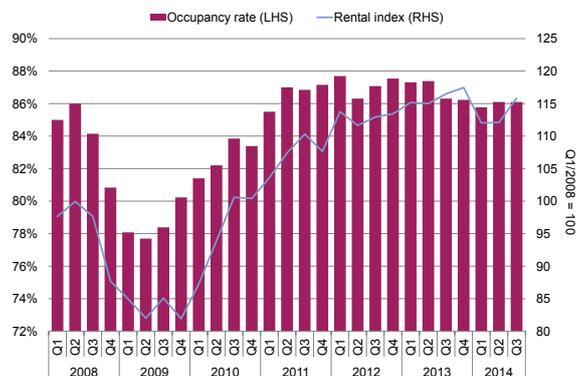
Source: Savills Research

GRAPH 1 Serviced apartment rental index and occupancy rate, Q1/2003–Q3/2014



Source: Savills Research

GRAPH 2 High-end strata-title apartment rental index and occupancy rate, Q1/2008–Q3/2014



Source: Savills Research

feel a serviced apartment is a better fit for their family than a hotel during the summer months. As a result, this quarter, with the holiday season over, many serviced apartments are lacking demand for short-term stays, with many projects seeing lower occupancy rates. Consequently, many projects have resorted to lowering rents in order to attract a more diverse tenant mix.

#### High-end strata-title apartment leasing market

High-end strata-title apartment rents increased 2.6% QoQ to RMB108.1 per sq m per month, up 4.6% YoY, while occupancy rates remained at 86.9%. As a heavy 'wait and see' sentiment continued to affect the residential sales market, many of the potential buyers turned to the leasing market. As a result, demand in the leasing market has increased.

#### Leasing market outlook

After a long period with no supply, two serviced apartment projects are expected to be launched onto the market in the next quarter. The Savills Serviced Apartment, Daxin Shenzhen Bay, is scheduled to open in Q4/2014, adding 355 units to the market in the Nanshan district. Somerset Grandview, in the same district and which was expected

to open earlier in this year, will also possibly be launched in the next quarter.

Serviced apartment occupancy rates are expected to decrease in the fourth quarter of 2014 due to the seasonality of that particular market.

Individuals unable or waiting to get on the property ladder, as well as a greater number of non-local individuals migrating to the city in search of work, are seeking opportunities within the leasing market. This is especially true for consumers with a 'wait and see' attitude about the market's short-term condition (generally those looking to invest in property with gains from capital appreciation). As a result, the high-end strata-title apartment market is expected to witness an increase in demand in the coming quarters, allowing occupancy rates to increase.

#### Sales market overview

This quarter saw a large amount of new high-end residential supply in the Shenzhen market, including new units from eight projects launched during the last 12 months.

- Portofino Phase 16 (波托菲诺纯水岸16期) in the Nanshan district

→ launched 112 units of 165-230 sq m, with asking prices around RMB62,000 per sq m. As prices were lower than expectations, all of the units sold in one day.

- Imperial Park (海上世界双玺), developed by China Merchants Property Development, launched 120 high-rise apartment units of around 220 sq m, with an average asking price of roughly RMB100,000 per sq m in Shekou, Nanshan district. This luxury residential project benefits from sea views as well as an adjacent commercial project, Sea World, built by the same developer.

- The Sky Garden (曦湾天麓) in the Nanshan district launched 301 units, ranging from 90 to 260 sq m, with asking prices of around RMB70,000 per sq m.

- OCT Loft Residence (Loft 公馆) launched 209 apartment units ranging from 288 to 310 sq m in the Nanshan district. It was developed by China Merchants Property, which also developed the famous cultural project Oct Loft next door to the Residence.

**Mass-market residential market**  
First-hand transaction prices fell 4.8% QoQ to an average of

RMB22,568 per sq m, up 1.6% YoY. First-hand transaction volumes rose 5.7% QoQ to 0.80 million sq m, whereas second-hand transaction volumes fell 1.06 million sq m, down 9.6% QoQ and 41.4% YoY.

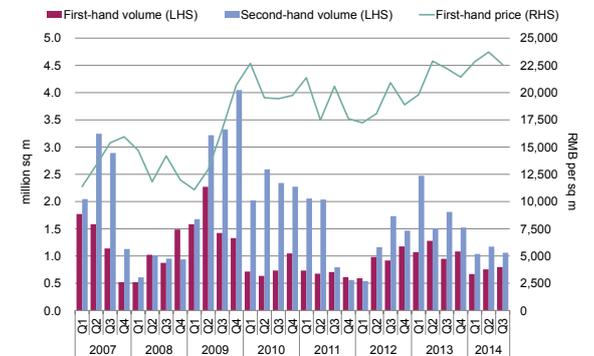
After a six-month lull within the first-hand residential market across three central districts, eight high-end projects were launched onto the market in this quarter, with many opening in the Nanshan district. Developers offered prices that were lower than expected, which led to strong sales performances. However, due to over-supply, suburban areas and emerging districts recorded unsatisfactory sales performances.

**Sales market outlook**  
After a long period of inactivity in the China-wide residential market, local governments have begun loosening housing price restrictions in most cities. Although Shenzhen is still limited by this policy, several other policies, especially those concerning individual financing, are leading the market in the right direction.

Using Standing Lending Facility (SLF) in conjunction with several other policies, the Central Bank has recently injected more liquidity onto the market to support first-time

GRAPH 3

**Mass-market residential transaction volumes and prices, Q1/2007–Q3/2014**



Source: Savills Research

property buyers. In Shenzhen, an 8.0% discount on the base interest rate was available to selected individuals.

Undeveloped land in Shenzhen's city centre has become more of a rarity in recent years; this is unlikely to change and is expected to prevent a dip in prices, allowing Shenzhen's residential market to remain positive in the long run. ■

**Please contact us for further information**

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