

Briefing Residential sector

February 2015

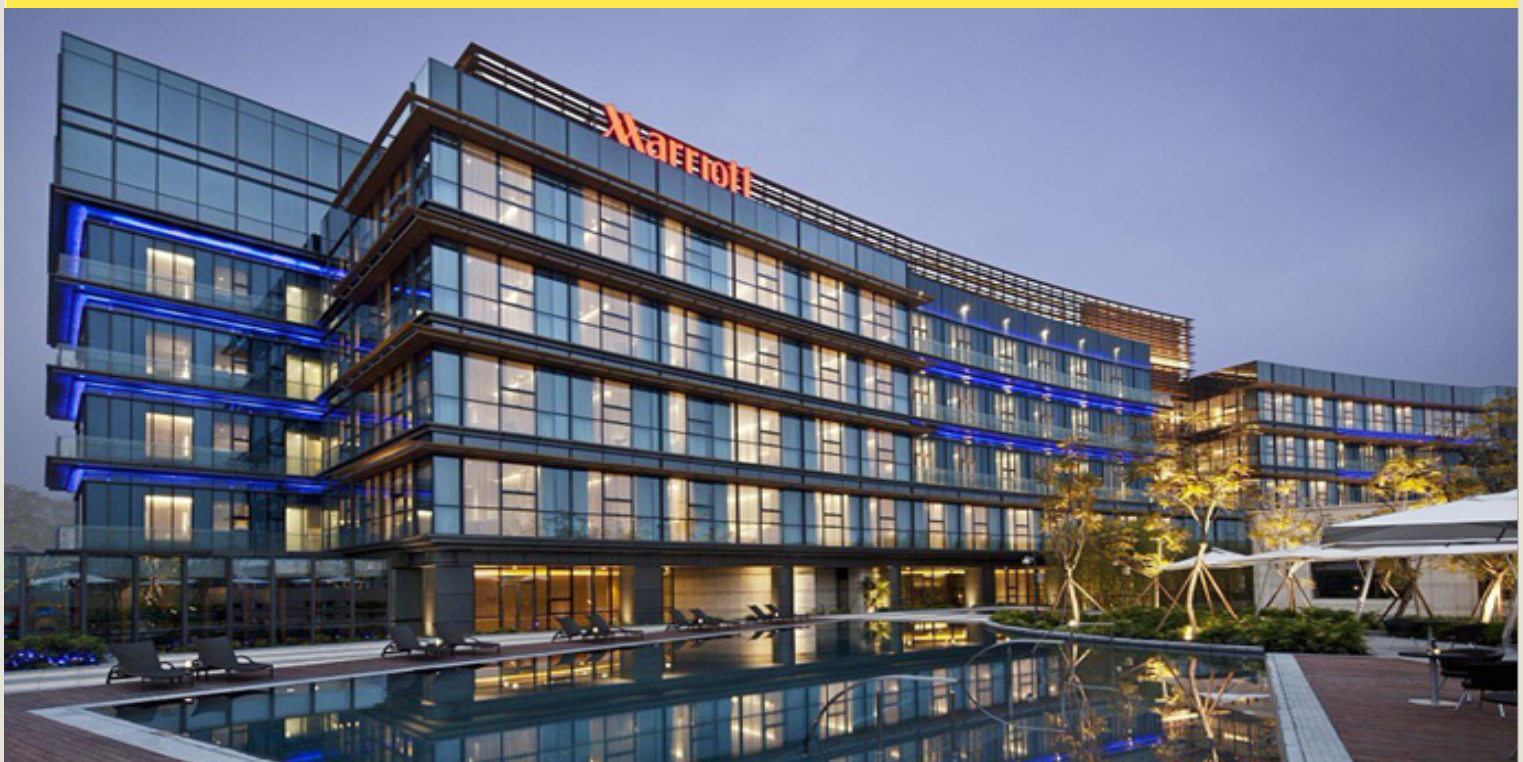


Image: Marriott, Nanshan district

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 rental index increased 1.7% quarter-on-quarter (QoQ) to an average of RMB221.9 per sq m per month, up 4.4% year-on-year (YoY).
- High-end strata-title apartment rents rose 1.7% QoQ to an average of RMB109.1 per sq m per month, up 0.2% YoY.
- First-hand transaction prices increased 11.3% in Q4/2014 to an average of RMB25,123 per sq m, as transaction volumes increased 126.8% QoQ to a total of 1.8 million sq m.
- An increase was observed in the second-hand residential market where transaction volumes rose 68.4% QoQ and 17.2% YoY to 1.78 million sq m.
- Transaction volumes of apartments smaller than 144 sq m doubled, while transaction volumes of apartments larger than 144 sq m tripled in Q4/2014.

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 “Since the Central Bank lowered interest rates, transaction volumes soared with developers raising prices in the wake of increased demand.” Sam He, Savills Research

→ Leasing market overview

No new projects were launched onto the market in Q4/2014, with demand remaining steady. One new serviced apartment, Savills Residence, will be launched in Q1/2015 in the Nanshan District. The Futian and Nanshan districts are expected to remain as the main locale for the high-end residential leasing market.

Serviced apartment leasing market

No new serviced apartments were added to the market in Q4/2014, with average rents increasing 1.7% QoQ to RMB221.9 per sq m per month. The market witnessed an upward trend with a 4.4% YoY increase in rental index.

In the fourth quarter, occupancy rates dropped 0.4 of a percentage point (ppt) to 86.4% with the majority of projects seeing stable vacancy rates. A number of projects have seen lower occupancy as leasing contracts ended at the end of the

TABLE 1

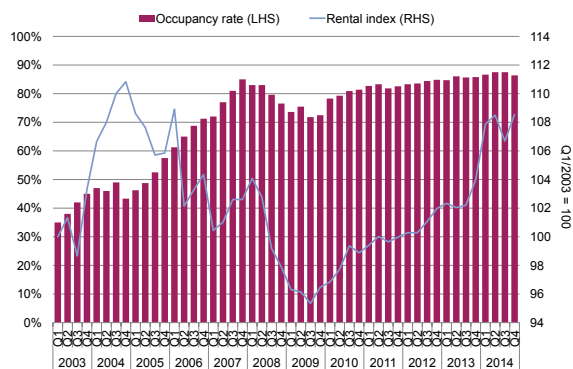
High-end properties, Q2/2014

Project	District	No. of units	Unit size (sq m)	Asking price (RMB per sq m)
CR City 华润城润府一期	Nanshan	400+	83-88	47,500
DK Fortune Gate 大康·福盈门	Futian	108	159-179	50,000
Residence Nine 中海九号公馆	Baoan	TBC	127-180	42,000
CR Blue Mountain 华润银湖蓝山	Luohu	488	91-260	55,000
Expander Lake 城建·御湖峰	Luohu	138	260	43,000
Ecological Life 栖棠映山	Futian	140	153-231	43,000
The Bay City 君临海域	Yantian	TBC	236-399	46,000-150,000
Joys from Hearts 汉森·吉祥龙	Nanshan	173	89-175	68,000
Master Piece de Jade 翡翠海岸	Nanshan	50	117-225	81,000
Shuiwan 1979 水湾1979	Nanshan	50	40-110	55,000

Source: Savills Research

GRAPH 1

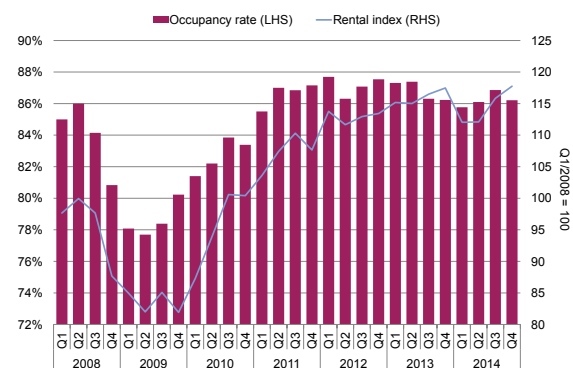
Serviced apartment rental index and occupancy rate, Q1/2003–Q4/2014



Source: Savills Research

GRAPH 2

High-end strata-title apartment rental index and occupancy rate, Q1/2008–Q4/2014



Source: Savills Research

year. Less demand from conventions and events also contributed to the mild fluctuation.

High-end strata-title apartment leasing market

High-end strata-title apartment rents saw an increase of 1.7% QoQ to RMB109.14 per sq m per month with strong growth seen in Futian District. Despite a slump in the first half of the year, rents have regained strength in the second half, climbing 5.1% from Q2/2014, back to the level of Q4/2013. Due to smaller, aging public facilities, the Luohu district is going to be more disadvantaged compared to other newly-developed areas.

2014 Market Overview

In 2014, the average rent for Shenzhen service apartments reached RMB225.4 per sq m per month, up 2.2% YoY. With the increasing demand from business travellers and white collar workers in Shenzhen, the average occupancy rate reached 86.8%, up 1.2 of a ppt from 2013. No new supply was observed in the whole year. Demand remained fairly stable as well with the exception of a seasonal fluctuation in the third quarter.

High-end strata-title apartment rents reached RMB105.6 per sq m per month, up 2.6% YoY. The average occupancy rate remained stable, dropping by 0.4 of a ppt to 86.4%.

Leasing market outlook

After a long period with no new 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.

As a result of the increasing new supply of office buildings in Shenzhen, more professionals may be attracted to the city which in turn may boost demand. As a result, rents may increase over the course of 2015.

Sales market overview

Five new high-end residential projects were launched onto the market and at least four projects provided new units this quarter. - CR Land provided two new projects in Nanshan and Luohu districts - CR City (华润城润府) and Blue Mountain (华润银湖蓝山). CR City added more than 400 high-end residential units of around 85 sq m, with an average asking price of RMB 47,500 per sq m to the market. Blue Mountain, which is more luxurious but also located a little further out, launched 488 furnished units ranging from 91 to 260 sq m at a price of around RMB 55,000 per sq m onto the market.

- DK Fortune Gate (大康·福盈门) in the Futian district launched 108 units onto the market, ranging from 159 to 197 sq m with an average asking price of roughly RMB 50,000 per sq m.

- Residence Nine (中海九号公馆) in the Bao'an district, which sold out its

→ terrace houses last year, launched its apartment units this quarter. New units range from 127 to 180 sq m with asking prices of around RMB 42,000 per sq m.

- Expander Lake (城建·御湖峰) near Shenzhen East Lake in the Luohu District launched 136 large apartment units (260 sq m per unit) with average asking prices of RMB 43,000 per sq m.

- Ecological Life (栖霞映山) launched 140 additional units onto the market, ranging from 153 to 231 sq m, after launching its first group of projects last quarter. The average asking price is expected to remain at RMB 43,000 per sq m.

Mass-market residential market

Due to strong stimuli, including the central bank's lowered interest rates, the Shenzhen residential market rebounded with a strong performance in Q4/2014. First-hand transaction prices saw an aggressive pickup in the fourth quarter – by 11.3% to RMB25,123 per sq m, creating a record high since 2007. Additionally, transaction volumes in both first- and second-hand markets also soared, reaching 1.81 million sq m and 1.78 million sq m respectively. For the first time since Q2/2012, first-hand transaction volumes surpassed second-hand volumes while total transaction volumes nearly doubled last quarter.

For the first three quarters, the total sales volume decreased by 33% YoY while the whole year volume is only 8% lower than last year. The

quick and direct financial measures finally put an end to a tough year for developers. Lower mortgage payments released the demand of potential purchasers and wiped out their initial doubts.

2014 Market Overview

In 2014, the Shenzhen residential market price trended upward, with some fluctuation. Average prices this year reached RMB23,559 per sq m, up 9.1% YoY. Growth rates slowed 6% from 2013 and first-hand transaction volumes reached 4.03 mil sq m, down 8% YoY, while second-hand transaction volumes totalled 5.05 mil sq m, down 31% YoY.

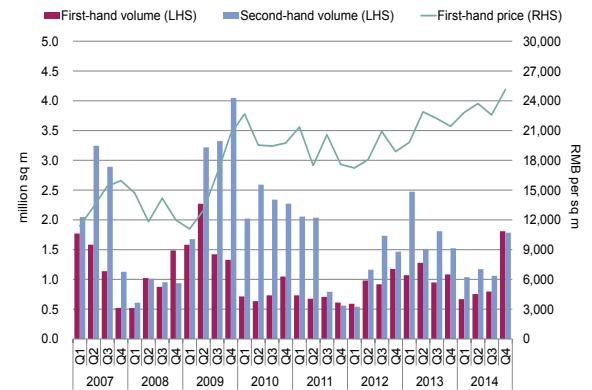
Transaction volumes were extremely low in the first three quarters of 2014. This can be attributed to the fact that each family had a cap on purchases and loans. Lower investment rates and the wait-and-see attitude of purchasers pushed transaction volumes down. In the fourth quarter, due to the cancelling of loan limitations and the large amount of new supply, transaction volumes soared and therefore increased average transaction volumes and prices for the whole year. The total transaction volume of the first-hand residential market reached RMB45.5 billion, hitting an all-time high.

Sales market outlook

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GRAPH 3

Mass-market residential transaction volumes and prices, Q1/2007–Q4/2014



Source: Savills Research

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Please contact us for further information

Savills Research



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



Sam He
 Senior Manager
 +86755 3892 7350
 sam.he@savills.com.cn

Savills Agency



Woody Lam
 Managing Director
 +8620 3892 7108
 woody.lam@savills.com.cn

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