

Briefing Residential sector

August 2015

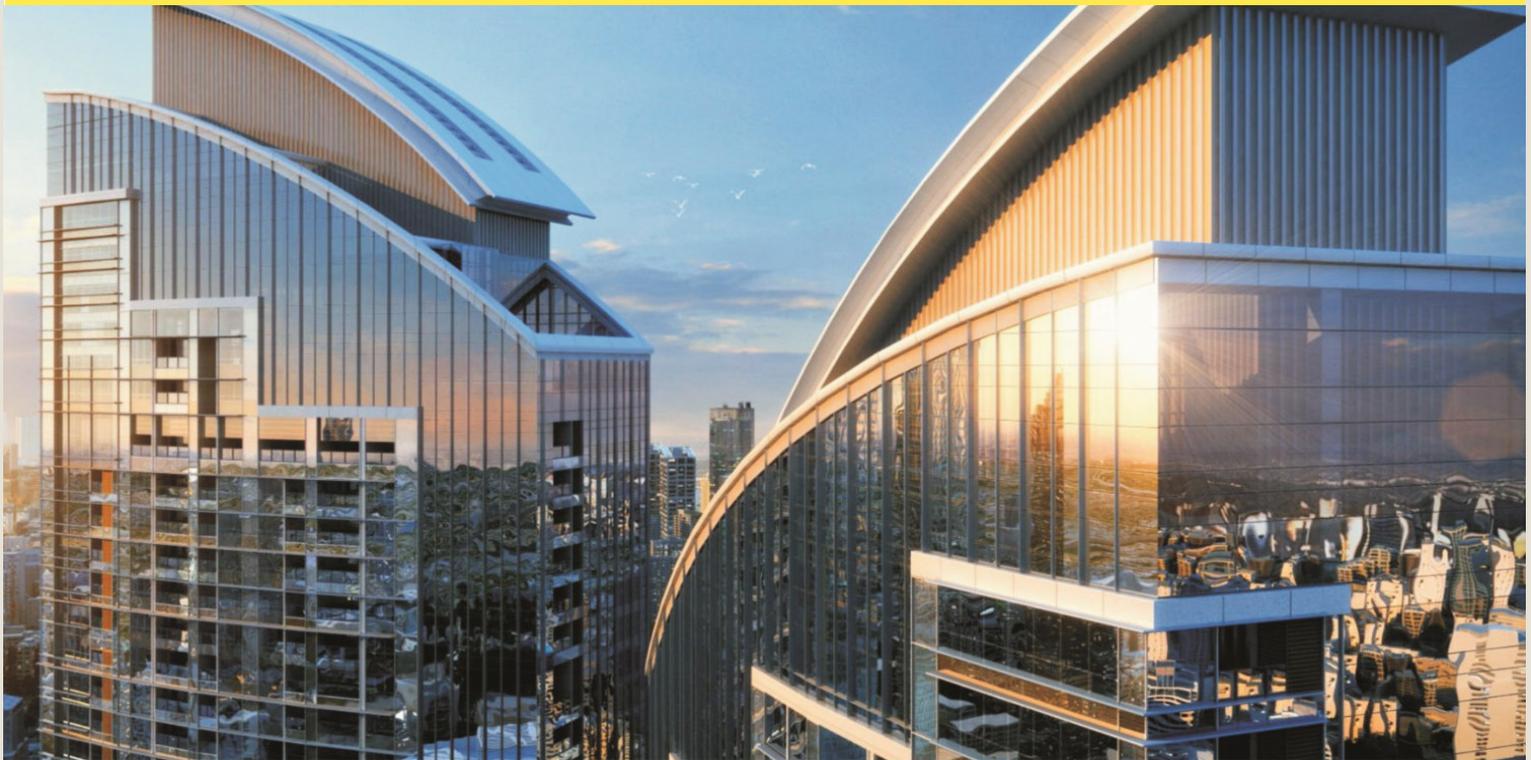


Image: EPI RESIDENCES, Futian district

SUMMARY

Prices and transaction volumes saw an increase in Q2/2015 as a result of preferential stimulus policies. As limited supply is expected in the high-end housing market in the second half of 2015, rents and prices should remain relatively stable.

■ Serviced apartment rents rose 2.3% quarter-on-quarter (QoQ) to an average of RMB243.3 per sq m per month, down 0.2% year-on-year (YoY). City-wide occupancy rates rose 1.7 of a percentage point (ppt) QoQ to roughly 88.7%, up 1.3% YoY.

■ High-end, strata-title apartment rents increased 5.5% QoQ to RMB117.4 per sq m per month, up 12.6% YoY. Occupancy rates rose 0.6% of a ppt QoQ to 86.8%, up 0.8% YoY.

■ First-hand housing transaction prices rose 8.0% in Q2/2015, to an average of RMB28,966 per sq m as transaction volumes increased 30.7% QoQ to a total of 1.78 million sq m.

■ A surge in transaction volumes in the second-hand housing market was seen in Q2/2015, up 101.8% QoQ and 205.9% YoY to 3.59 million sq m.

“Both the serviced apartment and luxury apartment markets are expected to remain stable in the second quarter.”

Sam He, Savills Research

→ Leasing market overview

Both the high-end strata-title and serviced apartment markets saw no new supply in Q2/2015. Although there were increases in occupancy rates and rents, judging from the activity on the current high-end residential market, demand outstripped supply in Q2/2015 in Shenzhen.

Serviced apartment leasing market

While rents increased 2.3% QoQ to RMB243.3 per sq m, the market was relatively flat in terms of rental growth YoY, only down 0.2% despite fluctuations throughout the year.

Although several new policies were rolled out in 1H/2015, the impact on the market seems to be fairly limited, with rents witnessing a large increase in Q2/2015.

Occupancy rates saw an increase of 1.7 ppts in Q2/2015. During the first half of 2015, serviced apartment prices continued on an upward trend, stimulated by new policies. Savills Residence Daxin Shenzhen Bay(大新深圳港湾) is expected to be launched in Q3/2015, adding 335 units to the market.

High-end strata-title apartment leasing market

High-end strata-title apartment rents increased 5.5% QoQ to RMB117.4 per sq m per month, up 12.6% YoY. Occupancy rates increased slightly, up 0.6% QoQ and 0.8% YoY to 86.8%. In Q2/2015, rents in the Futian and Nanshan districts saw significant increases. This can be attributed to the mature office market in the Futian district and the upcoming emergence of another CBD in the Nanshan district, allowing demand to filter down from professionals working in the area. Rents and occupancy in these areas are expected to face upward pressure as development continues.

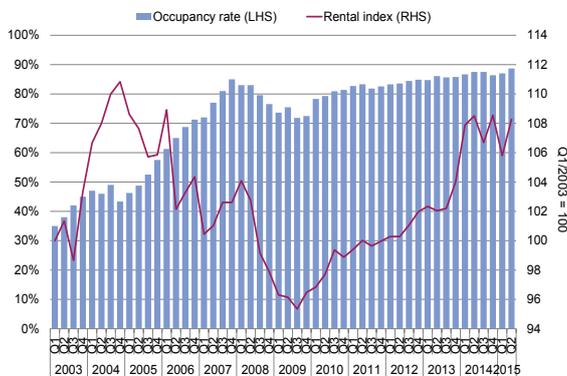
The development of the Qianhai Free Trade Zone may also prompt demand from new companies opening in the area to filter on to the high-end strata-title apartment and serviced apartment markets, with particular emphasis on the Nanshan district.

Sales market overview

In March 2015, one of the most important policies was put into effect. Informally known as the “330 policy”, it stipulated decreases to mortgage down payments for existing Shenzhen homeowners from 70% to 40%, as well as a waiver of the sales tax for second-hand properties if the seller has owned it for more than two years. The implementation of this policy prompted a surge in activity on the residential real estate market. According to the national bureau of statistics, Shenzhen’s first-hand and second-hand housing prices surpassed Beijing and ranked first within 70 major cities, followed by Shanghai, Guangzhou and Nanjing. Additionally, as a result of the “330 policy”, prices boomed in the first-hand and second-hand housing markets in Shenzhen.

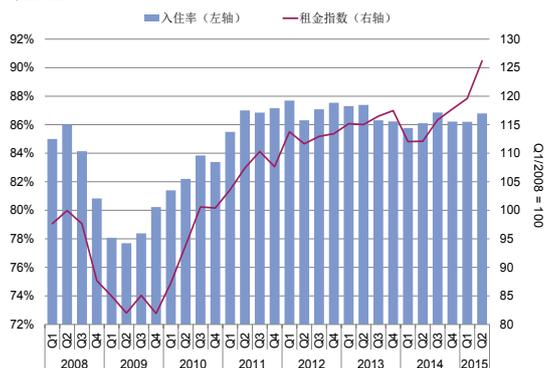
How long this upward trend in prices will last, or whether or not new policies will be released by the local government in an effort to slow growth, is yet to be seen. This price growth can be attributed to the preferential policies released earlier this year and the launch of the Qianhai/ Houhai Free Trade Zone, as well as the Shenzhen-Hong Kong stock exchange connection bringing new demand to the market. This trend is likely to continue as more buyers regain confidence and return to the market, allowing Shenzhen’s

GRAPH 1 Serviced apartment rental index and occupancy rate, Q1/2003–Q2/2015



Source: Savills Research

GRAPH 2 High-end strata-title apartment rental index and occupancy rate, Q1/2008–Q2/2015



Source: Savills Research

→ residential market to continue recovering.

Mass-market residential market

First-hand housing transaction prices rose 8.0% QoQ to an average of RMB28,966 per sq m, up 22.1% YoY. First-hand transaction volumes rose 30.7% QoQ to 1.78 million sq m, whereas second-hand transaction volumes were 3.58 million sq m, up 101.8% QoQ and up 205.9% YoY.

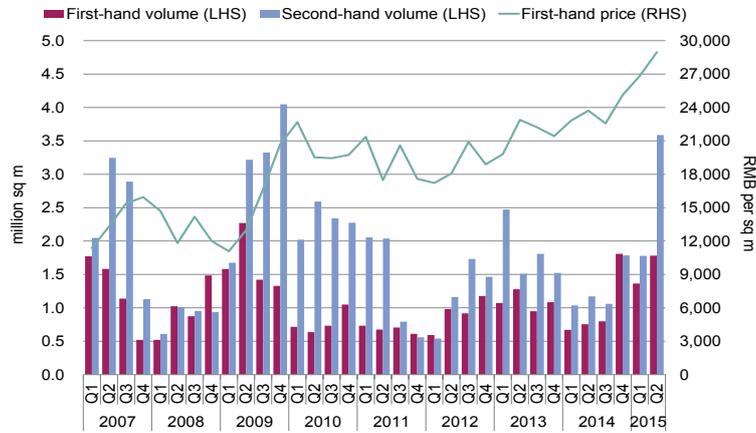
The release of the ‘330’ policy, combined with new stimulus policies implemented on the market, has boosted activity in both the second- and first-hand housing markets in Q2/2015 renewing buyer confidence in the market.

Sales market outlook

In the first half of 2015, the release of the ‘330’ policies and other stimulus plans stimulated the housing market and caused average prices to rise significantly. More than 100 new projects are expected to be launched

GRAPH 3

Mass-market residential transaction volumes and prices, Q1/2007–Q2/2015



Source: Savills Research

onto the Shenzhen housing market in the second of 2015, mainly in the Longgang, Bao'an, Longhua and Nanshan districts. Due to favourable stimulation policies, coupled with a renewed buyer confidence on the market, several upcoming projects may opt to launch early in an effort to capitalise on this surge in activity. On the other hand, the huge supply may limit the growth rate of prices in the second half of 2015.

The Qianhai Free Trade Zone and Houhai will be officially launched in the next two years, bringing significant office and high-end residential demand. It is not only the residential leasing market which will be boosted; the housing prices in areas near Qianhai will increase as well, due to very limited stocks in these areas. ■

Please contact us for further information

Savills Research



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



Sam He
 Senior Manager
 +8620 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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