

Briefing Residential sector

October 2015



Image: Royal Bay, Baoan district

SUMMARY

Despite the weakening influence of the 330 policies, first-hand market average prices increased due to the Golden sales season and interest rate cuts.

- Serviced apartment rents decreased 0.2% quarter-on-quarter (QoQ) to an average of RMB223.8 per sq m per month, up 2.5% year-on-year (YoY). City-wide occupancy rates fell 12.7 percentage points (ppts) QoQ to 77.2%, down 10.9% YoY.

- High-end, strata-title apartment rents increased 1.3% QoQ to RMB116.9 per sq m per month, up 10.1% YoY. Occupancy rates decreased 0.9 of a ppt QoQ to 85.9%, down 0.6 of a ppt YoY.

- In Q3/2015, first-hand housing transaction prices rose 23% QoQ to an average of RMB35,625 per sq m, as transaction volumes decreased 6.8% QoQ to a total of 1.66 million sq m.

- Transaction volumes in the second-hand housing market witnessed an upward trend in Q3/2015, increasing 3.6% QoQ to 3.71 million sq m, up 250.7% YoY.

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 “Occupancy rates in both the serviced and luxury apartment markets fell in Q3/2015 due to new projects entering the market.” Sam He, Savills Research

➔ **Leasing market overview**

Two new projects entered the serviced apartment leasing market in Q3/2015 – Ascott Somerset Grandview Shenzhen in Futian district and Savills Residence Daxin Shenzhen Bay – adding around 50,000 sq m. Additionally, new high-end strata-title apartment projects totalling 2.22 million sq m were launched in Futian, Nanshan and Baoan districts. This large amount of new supply led to a decrease in occupancy rates. Serviced apartment rents decreased, while the luxury apartment market saw rents increase.

Serviced apartment leasing market

In Q3/2015, serviced apartment market rents fell 0.2% QoQ to RMB223.8 per sq m per month, up 2.5% YoY. The market has

been somewhat volatile since the beginning of 2014; however, the decrease in rents in Q3/2015 was smaller than changes in recent quarters.

In Q3/2015, occupancy rates within the serviced apartment market fell 12.7 ppts QoQ to 77.2%, down 10.9% YoY, as a result of new projects entering the market. Ascott Somerset Grandview Shenzhen and Savills Residence Daxin Shenzhen Bay added nearly 50,000 sq m to the market. In addition, a number of older projects in Luohu and Futian districts, which have not been recently renovated, were downgraded due to weaker performances.

High-end strata-title apartment leasing market

High-end, strata-title apartment rents increased 1.3% to RMB116.9 per sq m per month, up 10.1%. Occupancy rates saw a slight increase of 0.9 of a ppt QoQ to 85.9%, up 0.6 of a ppt YoY. In Q3/2015, a number of new projects entered the market in anticipation of the Golden sales season of September and October, resulting in a decrease in overall occupancy rates.

Luxury apartment market rents saw a slight increase, resulting from the traditional Golden sales season and the weakening impact of the new 330 policies. Nanshan district rents saw an obvious decrease due to a large amount of new supply this quarter. As Nanshan district benefits from an advantageous location and master planning, namely the development of the Qianhai FTZ and Houhai, demand is expected to increase in the area in the near future. As a result, rents and occupancy rates in the area are also expected to begin to increase.

the demand of serviced apartments and luxury apartments in the surrounding area, leading to the increase of occupancy rates of these two markets. High-end strata-title apartment rents are expected to continue to increase, while serviced apartment rents are expected to remain relatively stable.

Over 50% of new supply in Q3/2015 was located in Nanshan district, leading to a temporary reduction in rents and occupancy rates in the area. However, as the economy and the office building market of Nanshan district develops, the luxury and serviced apartment leasing market is predicted to follow.

Sales market overview

The impact of the 330 policies became weaker in Q3/2015, compared with Q2/2015. While the first-hand residential market witnessed a decrease in transaction volumes, transaction prices in the first-hand market and transaction volumes in the second-hand market continued to increase under the influence of the Golden September period and the reduction of rates in August.

Mass-market residential market

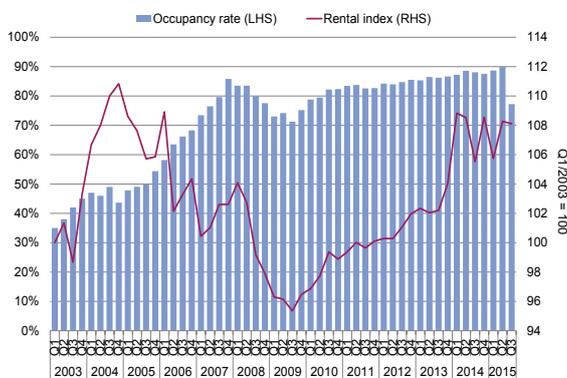
First-hand housing transaction prices rose 23% QoQ to an average of RMB35,628 per sq m, up 57.9% YoY. First-hand transaction volumes decreased 6.8% QoQ to 1.66 million sq m, while second-hand transaction volumes reached 3.71 million sq m, up 3.6% QoQ and up 250.7% YoY.

The effect of the 330 policies has begun to fade. However, compared with Q3/2014, the residential market remained active in Q3/2015. Although September is typically known as a peak season in the residential sales market, and the Central Bank also decreased the one-year loan rate and deposit interest rates to stimulate the market, performance was not as strong as expected. As a result, the transaction prices of the first-hand market continued their upward trend.

Sales market outlook

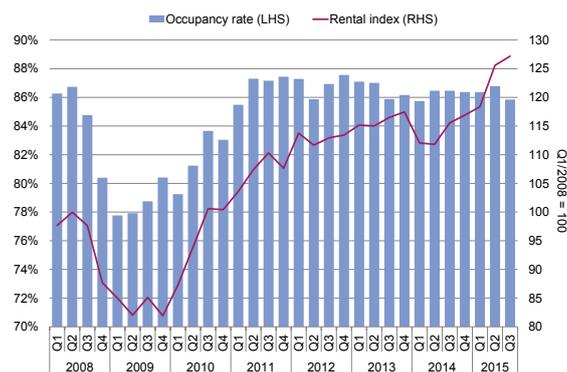
Although Q3/2015 included the ‘Golden September’ hot sales season, first-hand market transaction

GRAPH 1 **Serviced apartment rental index and occupancy rate, Q1/2003–Q3/2015**



Source: Savills Research

GRAPH 2 **High-end strata-title apartment rental index and occupancy rate, Q1/2008–Q3/2015**



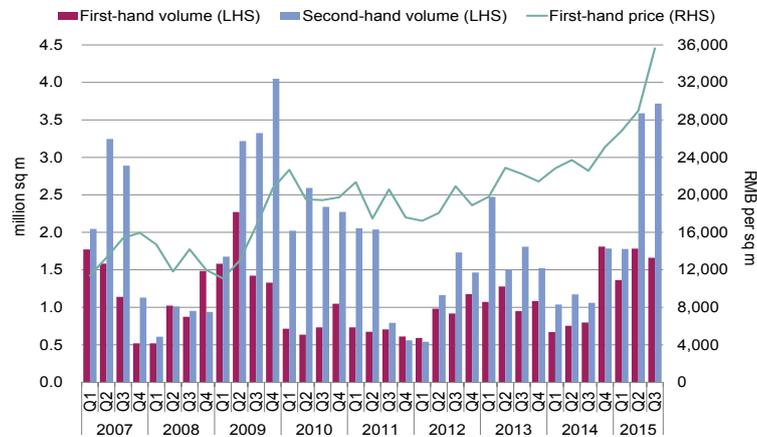
Source: Savills Research

→ prices continued an upward trend while transaction volumes decreased. Although the fading impact of the new policies led to a calming of consumers, the reduction of rates provided an incitement for the market.

With a large amount of new supply and strong demand, the Shenzhen residential sales market is expected to remain active. The development of the Qianhai and Houhai areas is anticipated to attract many companies and white-collar workers to work and live in the Nanshan district, forming a strong demand for the residential sales market. ■

GRAPH 3

Mass-market residential transaction volumes and prices, Q1/2007–Q3/2015



Source: Savills Research

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

Project & Development Consultancy



Sherry Xu
 Director
 +86755 8828 6922
 sherry.xu@savills.com.cn

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