

Briefing Residential sector

August 2017



Image: Mangrove West Coast, Nanshan District

SUMMARY

Shenzhen's housing market experienced a significant rebound in Q2/2017, with transaction volumes in both primary and secondary markets climbing significantly.

- Serviced apartment occupancy rates increased 3.7 percentage points (ppts) quarter-on-quarter (QoQ) to 88.1%. Rental indices decreased 3.6% QoQ to RMB262.4 per sq m per month, down 3.7% year-on-year (YoY).

- High-end, strata-title apartment occupancy rates decreased 3.0 ppts QoQ to 84.4%, down 2.4 ppts YoY. Rents increased 9.4% QoQ to

RMB136.4 per sq m per month, up 2.7% YoY.

- First-hand transaction volumes more than doubled, up by 113.1% QoQ to a total of 716,865 sq m. Prices declined 0.6% in Q2/2017, to average RMB54,532 per sq m.

- Second-hand transaction volumes increased 69.5% QoQ to 1.88 million sq m, up 7% YoY.

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 “Transaction volumes rebounded, while prices were relatively stable in Q2/2017. The rebound indicates real demand and renewed confidence in Shenzhen as a long-term residential market.” Robert Ritacca, Savills Research

→ **Leasing market overview**

Serviced apartment occupancy rates slightly increased in the second quarter, predominantly due to the lack of any new projects hitting the market. However, high-end, strata-title apartment occupancy rates declined due to significant city-wide rent increases.

Serviced apartment leasing market

Serviced apartment occupancy rates increased 3.7 ppts QoQ to 88.1%, up 2.7 ppts YoY. Rental indices decreased 3.6% QoQ to RMB 262.4 per sq m per month in 2Q/2017, down 3.7% YoY.

High profile apartments from previously-released projects imposed higher than average rental prices on the market, creating an upward drift in city-wide rents. Despite the higher rents, new projects remain almost fully occupied, which pushed up city-wide occupancy rates. Some serviced apartments in Luohu offered discounts or remained flexible by offering short-term leases to maintain high occupancy, sending the rental index lower in Q2/2017.

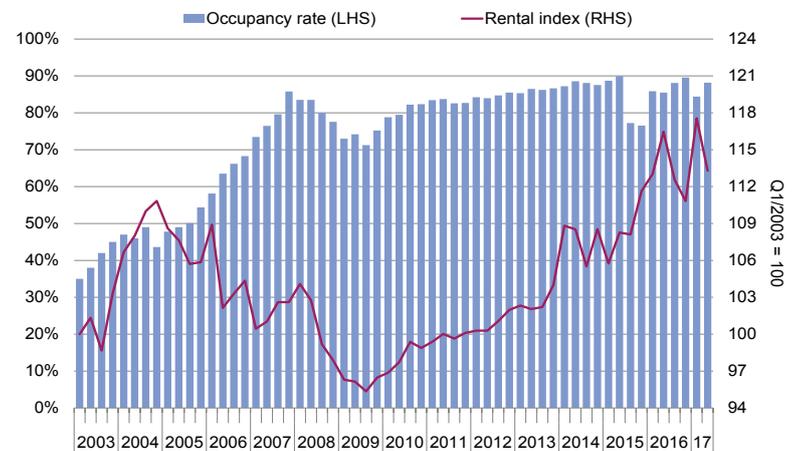
High-end, strata-title apartment leasing market

High-end, strata-title apartment occupancy rates declined 3.0 ppts QoQ to 84.4%, also down 2.4 ppts YoY. Rental indices increased 9.4% QoQ to RMB136.4 per sq m per month, up 2.7% YoY. High-end apartments in central locations experienced varying rental increases in Q2/2017. In particular, strata-title apartments in the Luohu district increased 16% QoQ, the steepest increase in the city. The emerging Bao'an district saw both occupancy rates and prices rise, as its locational proximity to Qianhai continues to display some inelastic market demand features.

Leasing market outlook

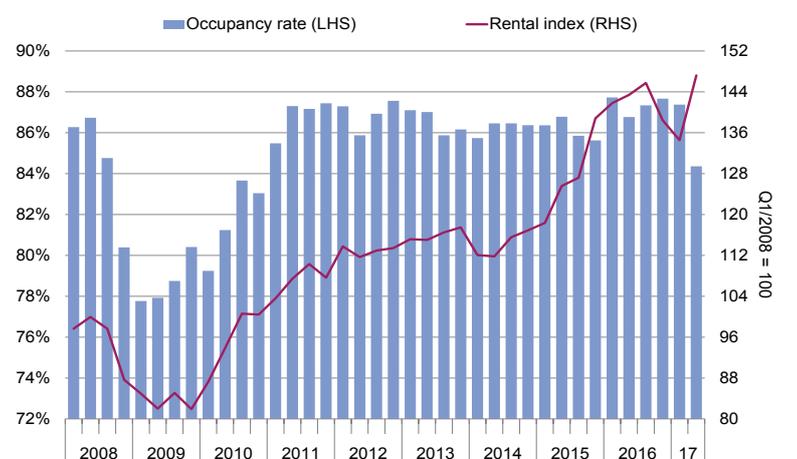
“Raffles City” in Nanshan and “Capri by Fraser Shenzhen” in Yantian are expected to launch in Q3/2017, adding 366 units to the serviced

GRAPH 1 **Serviced apartment rental index and occupancy rate, Q1/2003–Q2/2017**



Source: Savills Research

GRAPH 2 **High-end strata-title apartment rental index and occupancy rate, Q1/2008–Q2/2017**



Source: Savills Research

apartment leasing market. Four new projects are expected to launch in 2H/2017. As serviced apartments supply hits new highs, occupancy rates and existing rents may face downward pressure.

High-end, strata-title apartments are near market equilibrium; further increases in rents should correlate to lower city-wide occupancy rates. However, strata-title apartments in Bao'an witnessed an increase in both rents and occupancy rates in Q2/2017. This performance is driven by the locational adjacency

to Qianhai (in Nanshan). Qianhai will emerge as the central financial district of Shenzhen, but its high-end residential supply will be limited. Thus, high-end residences in Bao'an are expected to become primary living options for business professionals and executives whom work in the Qianhai new area.

Sales market overview

Regulatory policies issued at the end of 2016 have effectively cooled price inflation and controlled speculative purchasing behaviours. Eight months after these policies were initiated,

→ Shenzhen transaction volumes rebounded significantly, as both first-hand and second-hand transactions showed significant QoQ increases in the second quarter. The rebound indicates real market demand and renewed buyer confidence in Shenzhen as a long-term residential real estate market.

Mass residential market

First-hand transaction volumes surged 113.8% QoQ to 717,000 sq m, down 15.2% YoY. Transaction prices cooled 0.6% QoQ to average RMB54,532 per sq m, down 3.4% YoY. Second-hand transaction volumes stood at 1.88 million sq m during the second quarter, up by 69.5% QoQ, down 7% YoY.

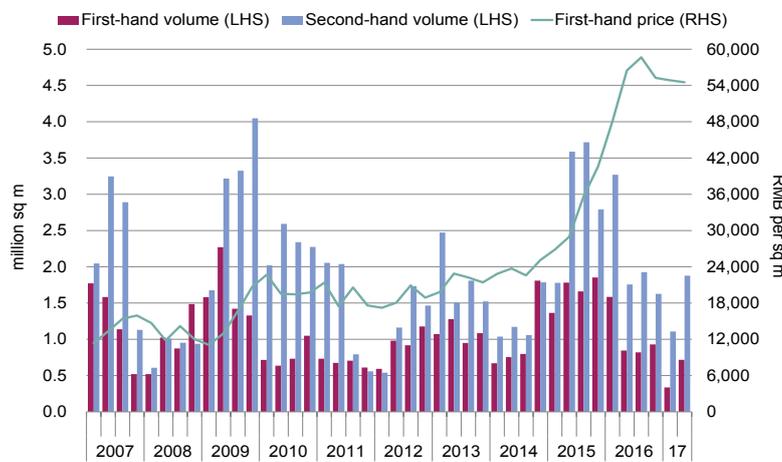
Sales market outlook

Regulatory policies¹ released in Q4/2016 resulted in a significant retreat of both transactions and housing prices. Prices continue to cool, while transaction volumes rebounded in Q2/2017. First-hand and second-hand homebuyers are finding value at current market prices, and are confident about long-term market expectations.

Residential prices should continue to consolidate between RMB50,000 and 60,000 per sq m in the near-term. However, if prices usurp previous highs, more government intervention and tighter policy restrictions would again be expected. All else being equal, first- and second-hand sales activity should continue to be driven by real buyers in emerging and developing districts of the city. ■

¹ Shenzhen's regulatory policy include a minimum 70 percent down-payment for second properties and restrictions on non-residents. <https://www.bloomberg.com/news/articles/2016-10-11/china-said-to-plan-tighter-control-of-funds-entering-property>

GRAPH 3
Mass residential market transaction volumes and prices, Q1/2007–Q1/2017



Source: Savills Research

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