

Briefing Residential sector

November 2017



Image: Shenzhen Nanshan District Peninsula City Garden

SUMMARY

Shenzhen's first-hand residential prices continued to cool in Q3/2017. First-hand and second-hand residential transaction volumes also continued to trend lower due to the government's policies curbing speculation.

- Three serviced apartment projects added 416 new units in Q3/2017. Serviced apartment occupancy rates decreased 5.3 percentage points (ppts) quarter-on-quarter (QoQ) and year-on-year (YoY) to 82.9%. Average rents decreased 2.8% QoQ to RMB265.9 per sq m per month, down 2.2% YoY.

- High-end strata-title occupancy rates increased 4.7 ppts QoQ to 89.1%, up 1.7 ppts YoY. Average rents increased 2.8% QoQ to RMB140.8 per sq m per month, up 3.9% YoY.

- First-hand commodity housing transaction prices decreased 0.3% QoQ in Q3/2017 to RMB54,374 per sq m, down 7.3% YoY. Transaction volumes also decreased 5.5% QoQ to 677,410 sq m, down 17.4% YoY.

- Second-hand commodity housing transaction volumes decreased 10.6% QoQ to 1.68 million sq m, down 12.8% YoY.

.....

“Shenzhen is one of 12 pilot cities in the residential leasing market. Given Shenzhen's fast growing population, and supporting policies, we expect the leasing market to efficiently develop in the future.” Robert Ritacca, Savills Research

.....

➔ **Leasing market overview**

Three serviced apartments totaling 416 units were launched in Q3/2017. Average occupancy rates declined, as new supply entered the market. The rental index also declined, as aged apartment operators lowered rents to maintain competitiveness. Two of the three new projects were also priced lower than the city's average. High-end strata-title apartment occupancy rates and rents rose in the third quarter, driven by higher demand from the Shenzhen's three central districts: Luohu, Futian and Nanshan.

The central government's policymakers have highlighted Shenzhen as one of the 12 pilot cities to lead China's residential leasing market development. Greater support from the central government could lead to greater supply, better building quality, more serviceable options and additional rights for Shenzhen residents who lease an apartment (approximately 70%¹ of Shenzhen's 12 million population leases an apartment).

Serviced Apartment Leasing Market

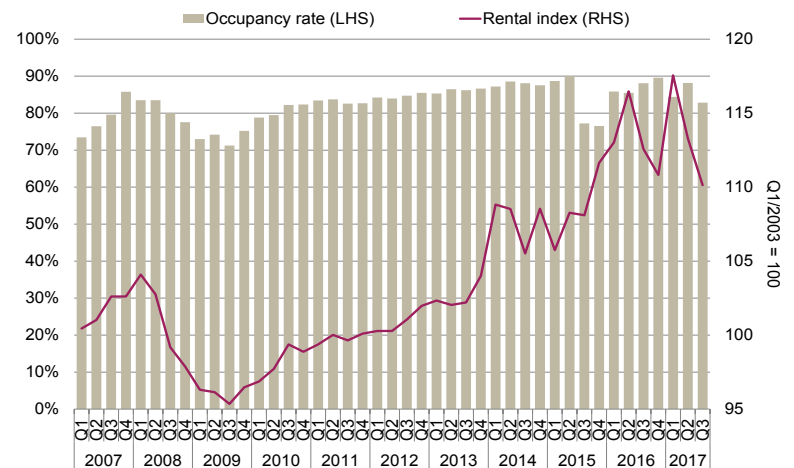
Serviced apartment occupancy rates decreased 5.3 ppts QoQ to 82.9% in Q3/2017. The occupancy rate decline was driven by new supply, as three new projects added 416 units to the market. The average serviced apartment rent also decreased 2.8% QoQ and 2.2% YoY to RMB265.9 sq m per month. The decrease was due to downward pricing pressure from aged serviced apartments looking to stay competitive in the market.

High-End, Strata-Title Apartment Leasing Market

High-end, strata-title apartment occupancy rates increased 4.7 ppts QoQ to 89.1%, up 1.7 ppts YoY. The average rent price also increased 2.8% QoQ to RMB140.8 per sq m per month, up 3.9% YoY.

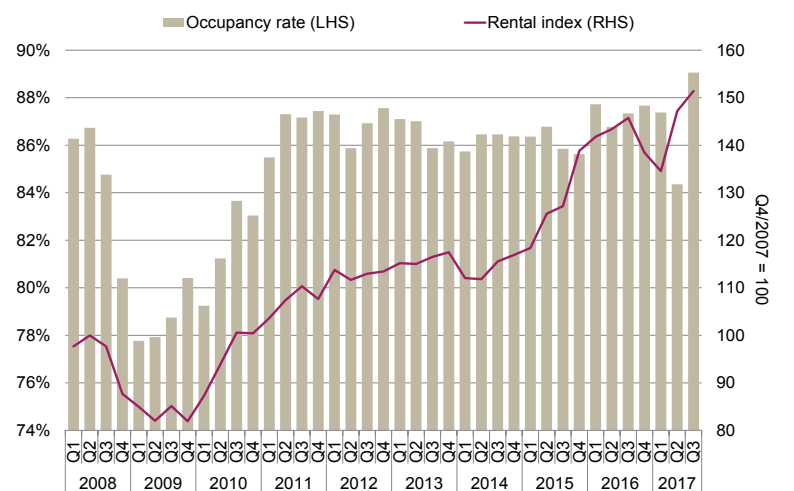
¹National Bureau of Statistics

GRAPH 1 **Serviced Apartment Rental Index and Occupancy Rate, Q1/2007–Q3/2017**



Source: Savills Research

GRAPH 2 **High-End Strata-title Apartment Rental Index and Occupancy Rate, Q1/2008–Q3/2017**



Source: Savills Research

The city's positive occupancy rate movement was supported by solid market demand from the three major districts of Futian, Luohu, and Nanshan. Luohu maintained the highest occupancy rate at 95%. Futian district saw the largest rental price increase, rising by 3.2% QoQ RMB145.8 per sq m per month.

Bao'an district is an emerging high-end district that is adjacent to Qianhai, the city's future CBD. Its location is deemed very desirable to business professionals working

nearby. As Qianhai CBD develops, it is expected that the high-end leasing market in Bao'an will also display positive price and occupancy data.

Leasing Market Outlook

Two projects, Fraser Suites Shenzhen and Golden Central Apartment are expected to launch in Q4/2017, adding another 631 units to the serviced apartment leasing market.

Shenzhen's serviced apartment market will continue to develop. New market supply will continue to

→ pressure aged projects, potentially lowering occupancy rates and the rental indices. Landlords of these projects should continue to use innovative management tactics and/or upgrade living conditions to remain competitive in the market.

The Bao'an district will continue to remain a focal development district for the high-end residential sector. It is expected to become a white-collar living area for professionals commuting to Qianhai.

Sales Market Overview

Regulatory policies issued at the end of 2016 cooled city-wide residential transaction volumes and prices by reigning in speculative demand. First-hand commodity housing prices continued to decrease during Q3/2017, but at a much slower rate than previous quarters. First-hand and second-hand transaction volumes continued to decrease, also at slower pace than the beginning of the year.

Mass Residential Market

First-hand transaction volumes decreased 5.5% QoQ to 677,410 sq m, down 17.4% YoY. Second-hand transaction volumes decreased

10.6% QoQ and 12.8% YoY. Shenzhen first-hand transaction prices decreased 0.3% QoQ and 7.3% YoY to RMB54,374 per sq m.

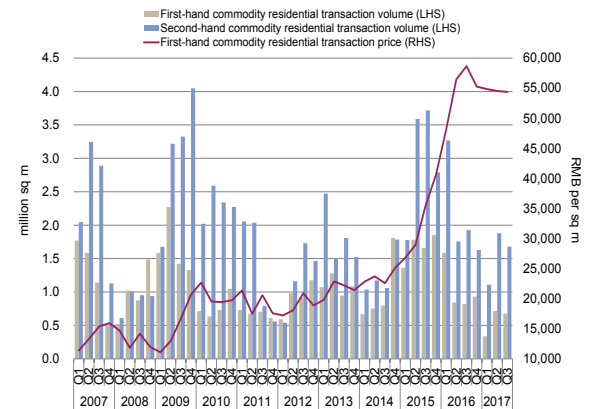
First-hand commodity housing transaction volumes declined significantly, starting in Q2/2016, and reached a 10-year low in Q1/2017. Transaction volume has since risen in the last six months, albeit at a much lower level than its peak period Q4/2014-Q1/2016.

First-hand transaction prices continued to be lower than the Q3/2016 peak. This decline is mainly brought on by tighter policies to control speculative investment. However, the average transaction price has stayed relatively flat since Q1/2017, suggesting that the downward price trend may be coming to an end.

Sales market outlook

Shenzhen will continue to evolve into a global finance, logistics and technology centre. Its on-going multi-industrial development, coupled with its adjacent location to Hong Kong and Macau, will continue to keep sales market expectations high. Thus, although tighter home purchase policies may affect prices

GRAPH 3 Mass Residential Market Transaction Volumes and Prices, Q1/2007–Q3/2017



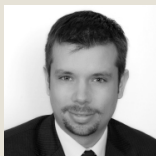
Source: Savills Research

in the near-term, in the longer-term prices are expected to appreciate.

The leasing market stipulations introduced during Q3/2017 will not have an immediate impact on the sales market, but might influence transaction volume in the longer-term, as peoples' expectations and thoughts about buying a home in Shenzhen – the most expensive market in China - may be traded-off for the preferential leasing benefits and options of residential housing. ■

Please contact us for further information

Research



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



Robert Ritacca
Senior Manager
+86755 8828 5241
robert.ritacca@savills.com.cn

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

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.