Briefing
Residential sector

February 2018

Image: Shenzhen Nanshan District All-City

SUMMARY

Shenzhen residential sales volume and price diverged in Q4/2017. Housing prices edged lower, while volume rebounded quarter-on-quarter (QoQ).

■ Three serviced apartment projects launched in Q4/2017, adding 799 new units to the market. Serviced apartment occupancy rates fell by 0.3 of a percentage point (ppt) QoQ to 82.5%. Average rents increased 7.7% QoQ to RMB277.4 per sq m per month, but were also down 7.7% year-on-year (YoY).

■ High-end strata-title occupancy rates increased 2.3 ppts QoQ to 91.3%, up 3.7 ppts YoY. City-wide rental indices increased 3.8% QoQ to RMB145.9 per sq m per month, also up 13.5% YoY.

■ First-hand commodity housing transaction prices decreased 0.2% QoQ in Q4/2017 to RMB54,273 per sq m, down 1.8% YoY. Transaction volumes increased 27.3% QoQ to 862,000 sq m, but still down 7.3% YoY.

■ Second-hand commodity housing transaction volumes decreased 1.4 % QoQ to 1.7 million sq m, up 1.7% YoY.

"The Shenzhen residential commodity housing market for the last 12 months has largely been held in check by regulatory policy. The focus has shifted to the leasing market, as support for urban village leasing development becomes the primary focus."
Robert Ritacca, Savills Research

Leasing market overview

Shenzhen is proceeding forward with its plan for balanced leasing market development. Shenzhen's 13th Five-Year Plan 2016-2020 states that the government intends to standardise 1 million suites for the leasing market. The supply for these suites will be sourced from Shenzhen's urban villages. Currently, urban villages are only allowed to be utilized by the homeowners for self-use. Thus, urban village standardisation may unlock significant leasing value for the Shenzhen market.

The Talent Housing Group successfully bid for Shenzhen's first block of self-sustained leasing land in Q4/2017. However, due to the land shortage in Shenzhen, alternative approaches, such as urban village conversions, will be needed to sustain an efficient urban leasing system.

Serviced Apartment Market

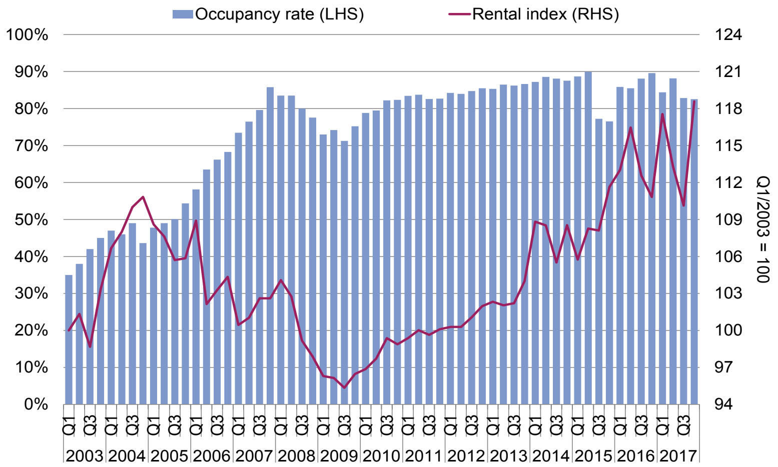
New supply continued to hit the market in Q4/2017. Three new projects, Fraser Suites International Apartments and Golden Central Hotel Phase II in Futian, and Junhengyu Serviced Apartment Hotel in Longhua added 799 new units to Shenzhen's serviced apartment market. City-wide rent increased 7.7% QoQ to RMB277.4 per sq m per month, while the occupancy rates decreased 0.3 of a ppt, QoQ to 82.5%. Prices were driven by final quarter executive activity; as more corporate executives and business people tend to occupy serviced apartments at the end of the year (due to end-of-year travel before the Spring Festival), prices may see a positive drift upwards.

High-end Strata-title Apartment Leasing Market

Both high-end strata-title apartment occupancy rates and rents increased to all-time highs. Average rents increased 3.8% QoQ to RMB145.9 per sq m per month, up 13.5% YoY. The city-wide occupancy rates increased 2.3 ppts QoQ to 91.3%, up 3.7 ppts YoY.

GRAPH 1

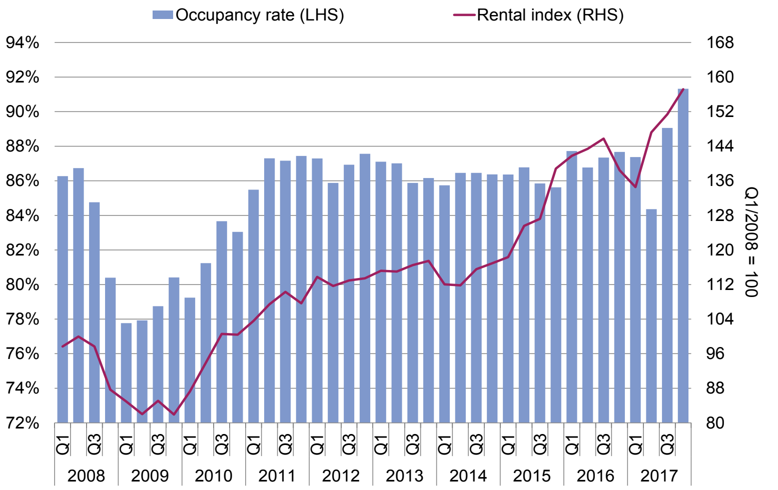
Serviced Apartment Rental Index and Occupancy Rate, Q1/2003–Q4/2017



Source: Savills Research

GRAPH 2

High-end Strata-title Apartment Rental Index and Occupancy Rate, Q1/2008–Q4/2017



Source: Savills Research

In terms of landmark residential housing, Luohu still has the highest rents city-wide, which increased 3.9% QoQ to RMB152.4 per sq m per month, up 6.5% YoY.

Futian is a central business district and has access to high-quality facilities. Thus, rents are expected to keep pace or beat city averages. Futian rents increased 8.1% QoQ to RMB135 per sq m per month, while occupancy rates stood at 91%.

Nanshan's rental increase was slightly below the city average, but still higher than Futian on an absolute basis. The district rent index increased 3.4% QoQ to RMB148.3 per sq m per month.

Occupancy rates in Bao'an are flat QoQ at 95%, but rents decreased 11.2% QoQ to RMB77 per sq m per month. The rent decline was caused by landlords trying to incentivise residents to stay for the long term, and also target new residents with preferential pricing in the final quarter.

Leasing Market Outlook
Two serviced apartment projects are

expected to open in 2018, Lyf Wu Tong Island in Bao'an and Somerset Q Plex in Nanshan (both belong to international leasing company, Ascott). More and more well-known international leasing apartment brands are being introduced in Shenzhen—including but not limited to, Ascott, Frasers and Cres & Asia. Shenzhen's serviced apartments targeted clientele is currently limited, but the market has tremendous leasing potential in the long-term, as Shenzhen continues development as a high-tech and financial centre of the Greater Bay Area and of China.

Due to Shenzhen's high prices, restrictive purchasing policies and high interest rates, housing demand should continue to shift from the purchasing market to the rental market. There are positive expectations for Shenzhen's long-term residential leasing market; urbanisation measures are working, as more people inhabit sub-districts, such as Longhua, Bao'an and Longgang, while its policies are angled toward supporting the renter, such as "tenants enjoy the same public service rights as home buyers".

The Bao'an district high-end residential market occupancy rate continues to outperform. The centre of Bao'an has high rental expectations due to its location, advanced infrastructure, convenient metro network (both launched and in-progress subway lines), and urbanisation rates.

Sales Market Overview

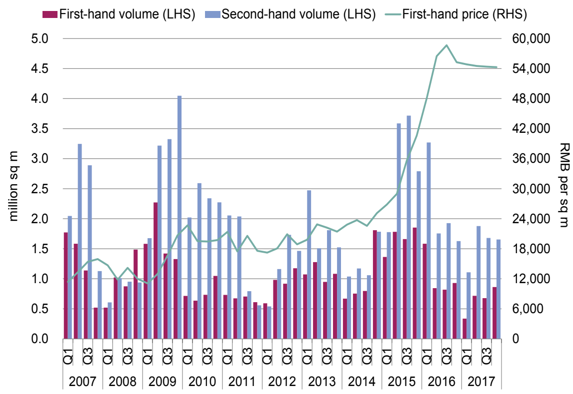
Residential transaction market demand continued to rebound from a multi-year low at the start of the year. However, market prices continued to decrease due to regulatory policy implementation and higher interest rates. First-hand commodity housing prices decreased 0.2% QoQ to RMB54,273 per sq per m, but increased 1.8% YoY in Q4/2017. First-hand transaction volumes increased 27.3% QoQ to 862,000 sq m, but were down 7.3% YoY. Second-hand transaction volumes decreased 1.4% QoQ to 1.7 million sq m, up 1.7% YoY.

Sales Market Outlook

It is highly likely that the Shenzhen sales market will continue to cool down in 2018. Regulatory policies will favour the greater development of the long-term leasing market, while interest rates are likely to stay flat or increase—higher rates tend to put downward pressure on prices in the near-term. Although policy and rates may affect prices in the near-term, in the longer-term prices are expected to rise due to limited land resources, Shenzhen's advantageous location in the Greater Bay Area, urbanisation, and emerging and developing sectors throughout the city.

GRAPH 3

Mass Residential Market Transaction Volumes and Prices, Q1/2007–Q4/2017



Source: Savills Research

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