

Briefing Residential sector

November 2018



Image: Fraser Suites, Shenzhen Futian District

SUMMARY

The overall residential property sales market showed different trends during Q3/2018, turning cooler from August to September.

- The sales transaction volume for the first-hand residential property sales market increased to 916,348 sq m, up 26.3 % QoQ and 35.3% YoY, as of the end of Q3/2018.
- The average residential sales price edged down to RMB54,107 per sq m by the end of Q3/2018, a trivial decrease of 0.02% QoQ.
- The leasing demand in both the serviced apartment and luxury apartment sectors softened during Q3/2018, with the average occupancy rate decreasing by 0.8 ppts QoQ and 6.7 ppts QoQ to 82.9% and 83.3%, respectively. The average rent for the serviced apartment sector increased by 1.0% QoQ to RMB269.0 per sq m per month but that for the luxury apartments decreased by 2.9% QoQ to RMB158.1 per sq m per month.

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 “The sales transaction volume in both July and August continued to increase, but that fell significantly in September as a result of the ‘731 Policy’.”
 Carly Xie, Savills Southern China

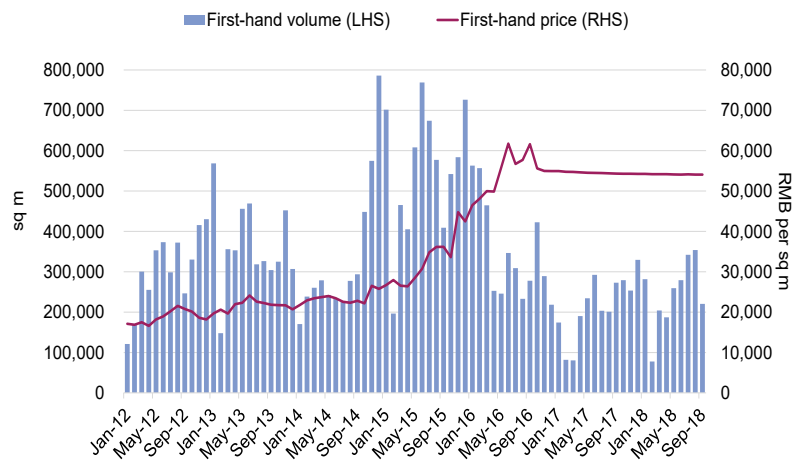
→ **Sales market**

Following on from the call by the central government’s Ministry of Housing and Urban-Rural Development to crack down on market irregularities in 30 major cities in July 2018, the Shenzhen local city government released another act on 31 July 2018, known as the “731 Policy” in the locality, to further strengthen the restrictions on transaction within three years and five years upon purchase for new commodity housing and apartments, respectively, and to suspend the approval on property purchase under the name of business legal entity and/or organisation, and to restrict the sales of new apartments built on new land supply and turn that to be rental housing in a bid to promote the long-term leasing apartment market in Shenzhen.

The aforementioned policies generated some negative impacts on the sales performance of the local residential property market, and the effect became more obvious in September 2018. During Q3/2018 as a whole, the total transaction volume of the Shenzhen residential property sales market increased by 26.3% QoQ to 916,348 sq m. However, the negative impact of the “731 Policy” gradually appeared in the market in September, evidenced by the significant decrease of 37.7% month-on-month from August to September 2018 in the sales transaction volume of the overall Shenzhen residential property sales market. Results of market surveys suggest that many potential property purchasers turned to adopt a strong wait-and-see attitude, postponing their purchase decisions, while many developers felt the pinch of it, leading to a much slower market digestion in the latter part of the quarter.

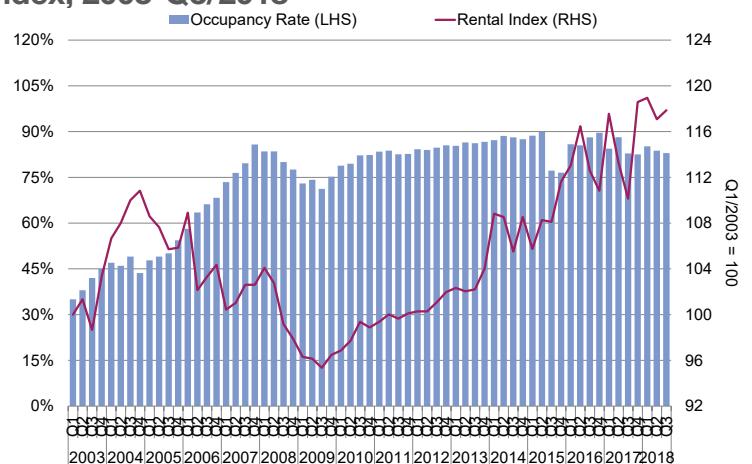
Despite the pent-up demand in the residential property sales market, the newly released policies and the sluggish sales market resulted in a relatively stable sales price trend in Q3/2018. By the end of the quarter, the average sales price edged down by 0.02% QoQ to RMB54,107 per sq m, a trivial decrease from Q2/2018.

GRAPH 1 **Mass residential market transaction volumes and prices, 2012-Sep/2018**



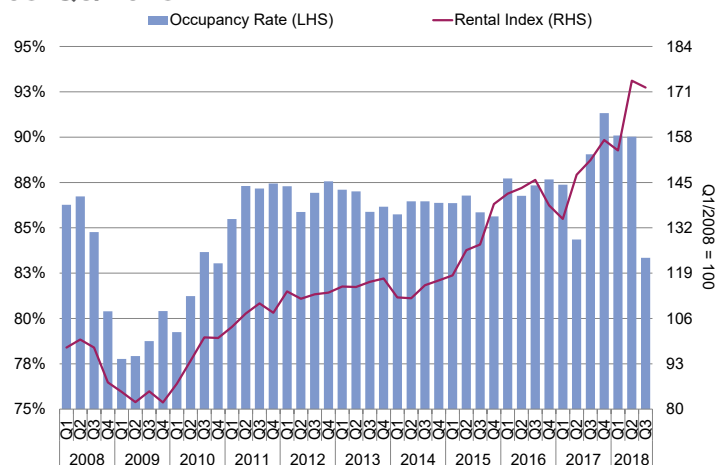
Source: Savills Research

GRAPH 2 **Serviced apartment occupancy rate and rental index, 2003-Q3/2018**



Source: Savills Research

GRAPH 3 **Luxury apartment occupancy rate and rental index, 2008-Q3/2018**



Source: Savills Research

Leasing market

During Q3/2018, the leasing demand in both the serviced apartment and luxury apartment sectors softened, with the average occupancy rate decreasing by 0.8 ppt QoQ and 6.7 ppt QoQ to 82.9% and 83.3%, respectively. With the escalating Sino-US trade war, which had a negative impact on some IT and the international trading companies in Shenzhen that are closely tied with the US economics, some expatriates and senior executives from these companies re-evaluated their accommodation plans and options, leading to the decrease in the overall occupancy rate for the serviced apartment property market in Shenzhen during Q3/2018. In addition, some tenants from Japanese and American electronics companies retreated and terminated their leases ahead of the original plans. As a consequence, the occupancy rate of the high-end property leasing market declined in Q3/2018.

In terms of asset performance however, the serviced apartment and luxury apartment property sectors

showed different patterns during the quarter. The average rent for the luxury apartment market decreased by 2.9% QoQ to RMB158.1 per sq m per month but that for the serviced apartment increased by 1.0% QoQ to RMB269.0 per sq m per month. Apparently, individual owners of luxury apartments were more sensitive to the changes in demand and had quicker reactions to mitigate risks by lowering their rental expectations. By contrast, owners of serviced apartments continued to prefer dealing with corporate clients for relatively stable rental income and occupancy rates.

Outlook

With the persistence of the harsh policy environment, the tightened home purchase restrictions and the "731 Policy" will continue to dampen the market sentiment from both purchasers and developers' perspective. On the back of this, it is expected that the overall residential property sales market in Shenzhen should turn to be more sluggish for the remainder of the year. Concurrently, as encouraged

by the government policies, the long-term leasing apartment market should continue to receive a growing amount of support politically and financially. It is foreseeable that many developers and investors will show an increasing interest in tapping into the sectoral market in the short-term. Although the average sales price of the local residential property market is forecast to decrease, albeit at a slow pace, many local and non-local developers continue to show strong interest in expanding their land bank in Shenzhen in the hope of capitalising the long-term market development opportunities.

The residential property leasing market will enter a low season in Q4/2018. Coupled with the existing Sino-US trade war and its negative impacts on several industries, as illustrated above, the leasing demand for the luxury apartment and serviced apartment property markets, especially the former, is expected to be contracted in the remainder of the year. ■

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