

Residential



Demand for residential leasing declines

Both the occupancy rate and average rent in Shenzhen's serviced apartment market fell slightly during Q4/2018.

- In order to achieve higher year-end sales revenues, developers accelerated their paces of launching projects, leading to an increase in the volume of the new supply.
- A total of 2.5 million sq m of new supply was launched onto the Shenzhen first-hand residential sales market in Q4/2018.
- Affected by the policy control and slowing economy, the demand for the Shenzhen primary residential property sales market softened.
- The transaction volume for Shenzhen's first-hand residential market decreased to 975,654 sq m, down 0.9% quarter-on-quarter (QoQ).
- The average residential transaction price increased to RMB57,335 per sq m, up 4% QoQ.
- The demand for the Shenzhen serviced apartment sector were mainly generated by expatriates and senior executives from MNCs.
- Rents for the Shenzhen serviced apartment property market decreased by approximately 2.5% QoQ to an average of RMB280 per sq m per month.
- The occupancy rate for the Shenzhen serviced apartment property market decreased by 1.7 ppts QoQ to 80.9%.

“The demand for Shenzhen's serviced apartment market declined during Q4/2018, due to the impact of an uncertain economic environment and the withdrawal of overseas employees during the December holiday season.”

CARLBY XIE, SAVILLS RESEARCH

Savills team

Please contact us for further information

RESEARCH

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

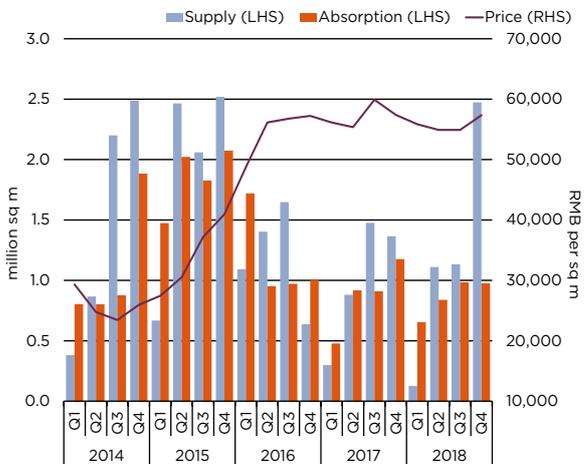
Carlby Xie
Director
Southern China
+8620 3665 4874
carlby.xie@savills.com.cn

CENTRAL MANAGEMENT

Woody Lam
Managing Director
Southern China
+8620 3665 4777
woody.lam@savills.com.cn

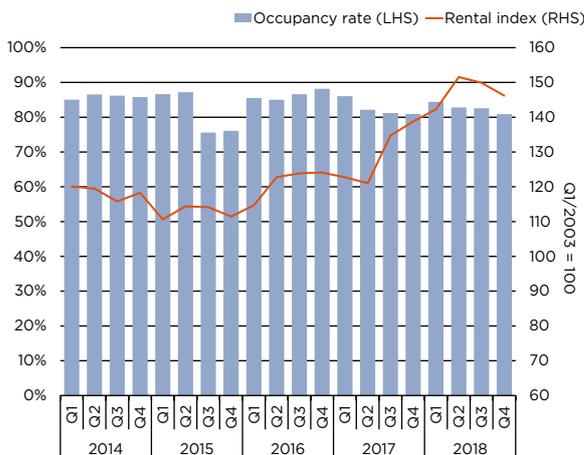
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GRAPH 1: Shenzhen Primary Residential Sales Market Transaction Volumes and Prices, 2014 to 2018



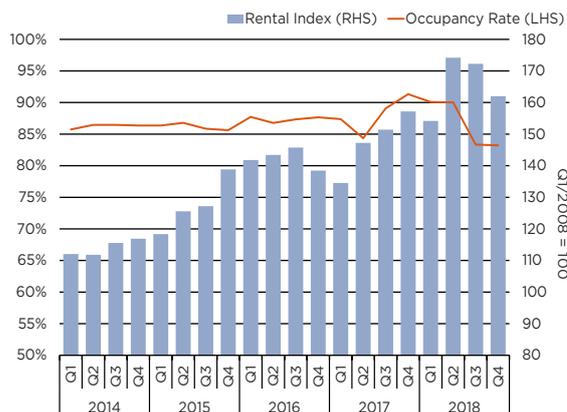
Source: CRIC; Savills Research

GRAPH 2: Shenzhen Serviced Apartment Market's Occupancy Rate and Rental Indices, Q1/2014 to Q4/2018



Source: Savills Research

GRAPH 3: Shenzhen Luxury Apartment leasing market's Occupancy Rate and Rental Indices, Q1/2014 to Q4/2018



Source: Savills Research

MARKET OVERVIEW

The policy environment in Shenzhen's residential property sales market remained tight during Q4/2018. For example, the government's Draft Comment for Property Market Monitoring Measures, published in November, stipulated that developers must clearly price their commercial housing and limit the range within which housing prices can rise or fall. Consequently, developers were facing more stringent policy controls when launching new projects and obtaining pre-sales permits. Nevertheless, in exchange for year-end higher sales revenue, most developers in Shenzhen accelerated project launches to the market with certain price promotions. However, due to the impact of the slowing economy and the continuation of tightened government controls, most potential purchasers and investors adopted a wait-and-see attitude. The demand for both investment and owner-occupancy declined in Shenzhen's residential property market.

Due to the uncertain economic environment caused by the Sino-US trade war, and the December holidays, the Shenzhen serviced apartment property market entered a low season during Q4/2018. Both the overall occupancy rate and average rent decreased slightly during the quarter.

SALES MARKET

By the end of December 2018, the volume of new supply launched onto the Shenzhen first-hand residential property market increased by 118% QoQ to 2.5 million sq m. New supply was distributed mainly outside the Shenzhen Special Economic Zones (SEZ); Bao'an, Longgang and Guangming districts accounted for 28%, 22% and 14%, respectively, of total new supply. This was a result of several accelerated project launches during the quarter.

Most purchasers and investors were still facing stringent policy controls over their credit and loan applications while house purchasing restrictions remained tight during Q4/2018. These factors increased costs for purchasers and investors, and thus aggravated their cautiousness regarding investment and purchasing decisions. As a result, although purchasers and investors faced more purchase options during Q4/2018, demand in the residential sales market softened and total transaction volume decreased by 0.9% QoQ to 975,654 sq m.

Despite the continued pent-up demand for houses, the stringent policies arising from government control, bank supervision and housing reform facilitated a relatively stable residential average transaction price performance during Q4/2018. The average transaction price of Shenzhen's first-hand residential property market increased by 4% QoQ to RMB57,337 per sq m.

LEASING MARKET

The average occupancy rate of the Shenzhen serviced apartment sector

declined slightly during 2018, falling by 1.7 ppts QoQ to 80.9% by the end of Q4/2018. Long-stay tenants in the Shenzhen serviced apartment market were mainly expatriates and senior executives of MNCs (especially from the IT and international trade industries). In addition, of the 98 Fortune 500 companies with offices in Shenzhen many were from Japan and the United States, which indicates close ties and significant influence between these companies and the Shenzhen foreign investment and international trading sectors. However, due to the impact of the Sino-US trade war, some expatriates and senior executives re-evaluated their accommodation plans and contracts, leading to a decrease in the occupancy rate in the Shenzhen serviced apartment sector.

During Q4/2018, some landlords cut rents in order to obtain higher occupancy rates. As a result, the average rent for Shenzhen's serviced apartment sector decreased by 2.5% QoQ to approximately RMB280 per sq m per month.

MARKET OUTLOOK

Due to the impact of the slowing economy, the likelihood of a more stringent policy environment in 2019 is low, and a more relaxed policy environment for the market is expected as the government aims to maintain the property market's stable performance. Meanwhile, future policy trends will focus on maintaining stable growth in the property market, building more sophisticated housing for both buyers and renters, and strengthening the development of the leasing market and the supply of the indemnificatory housing in the Shenzhen residential market.

For the residential sales market, demand from purchasers and investors is expected to increase, due to the high likelihood of a relaxed policy environment in 2019 coupled with the decrease in some banks' loan interest rates, which occurred at the end of 2018. These factors should facilitate an increase in transaction volume and stable growth of the average transaction price in the Shenzhen residential market.

On the leasing market, more new projects are forecast to enter the market in 2019: lyf Wu Tong Island Shenzhen and Tujia Somerset, which are the two serviced apartment brands under the Ascott. However, due to the lack of prime serviced apartments and some developers and investors are turning from the sales market to the leasing market, it is predicted that more prime leasing apartments will enter the Shenzhen leasing market.

Long-stay demand in the serviced apartment leasing market should continue to be stable and its projected growth is expected to be on par with new supply in 2019, leading to a relatively steady performance for the sector in the next 12 months.