MARKET IN MINUTES

Savills Research

Residential

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Residential supply and demand both decline

The supply and transaction volumes of Shenzhen's first-hand residential property market fell by 73.1% and 18.2% quarter-on-quarter (QoQ), respectively, at the end of Q1/2019.

- The mortgage rate for first hand residential properties in Shenzhen has fallen for five consecutive months from November 2018.
- New supply in Shenzhen's first-hand residential sales market in Q1/2019 decreased to 664,579 sq m, down 73.1% QoQ.
- The transaction volume for the first-hand residential sales market fell to 798,293 sq m, down 18.2% QoQ.
- The average price in the first-hand residential sales market edged up by 0.6 of a percentage point (ppt) QoQ, 3.3% year-on-year (YoY), to RMB57,686 per sq m.
- Due to seasonality issues, the vacancy rate of Shenzhen's serviced apartment property market increased by 2.1 ppts QoQ to 16.8%.
- The city-wide average rent of the Shenzhen serviced apartment market increased by 0.6% QoQ to RMB247 per sq m per month.
- The policy environment for the Shenzhen residential property market should remain relatively unchanged during Q2/2019, while demand for both owner-occupancy and investment remain strong.
- Supported by talent schemes from the local government, the arrival of highly-educated and high-income migrant workers is expected to result in more leasing demand for serviced apartments. The serviced apartment market should be more active over the rest of 2019, with increasing apartment inquiries and a declining vacancy rate.

"With the release of the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area*, Shenzhen will encourage domestic and international high-quality and high-income talent to relocate to the locality, propping up demand for residential properties."

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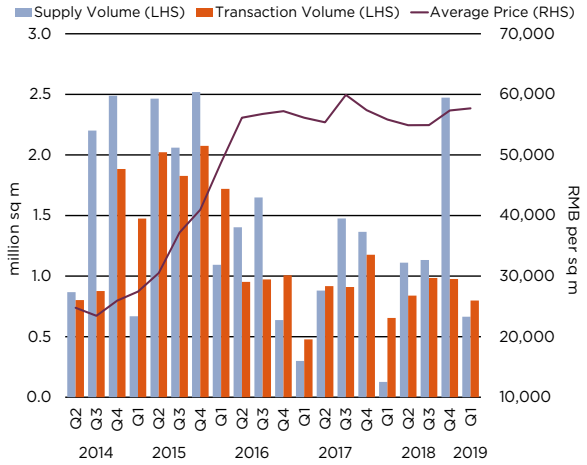
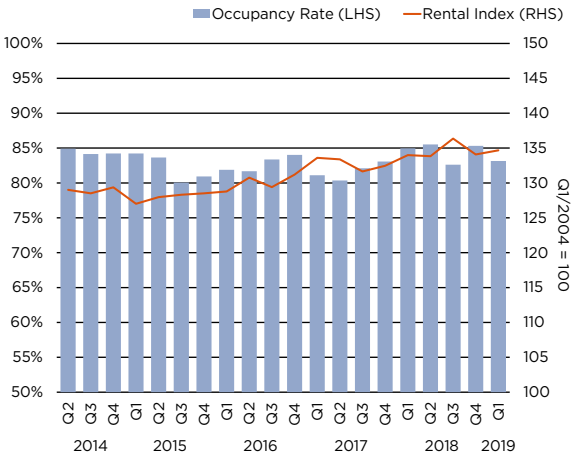
GRAPH 1: Shenzhen First-hand Residential Sales Market Supply Volume, Transaction Volume and Average Price, Q2/2014 to Q1/2019



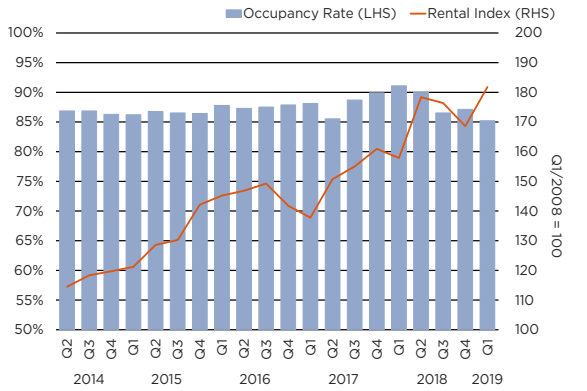
Source CRIC; Savills Research

GRAPH 2: Shenzhen Serviced Apartment Market Occupancy Rate and Rental Index, Q2/2014 to Q1/2019



Source Savills Research

GRAPH 3: Shenzhen Luxury Apartment Market Occupancy Rate and Rental Index, Q2/2014 to Q1/2019



Source Savills Research

MARKET OVERVIEW

The tightened policy control over the Shenzhen residential property market remained unchanged during Q1/2019, with the government trying to ensure a stable and healthy performance of the property market. As emphasised in the *Shenzhen Government Work Report* in January, the government will retain its focus on improving residential market mechanisms and strengthening the public housing security system, as 2019 was the first year of the "Second Housing Reform".

Overall, the Shenzhen first-hand residential sales market entered a conventionally low season from January to February, owing to the Chinese New Year holiday. However, the release of the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)* in February 2019 injected strong market confidence from a macro level by giving a positive outlook for Shenzhen's property market in general, and the residential sector in particular. Coupled with the decline in the bank mortgage rate, down from 5.62% in November 2018 to 5.25% by the end of Q1/2019, Shenzhen's first-hand residential property market saw more activity in March. This was evidenced by increased supply and transaction volumes, in comparison with those in January and February.

SALES MARKET

Due to seasonality and economic uncertainties, the Shenzhen residential sales market was quiet and saw a decrease in the volume of site inspections and project inquiries as well as a longer decision-making process during the period from January to February. However, both supply and transaction volumes of the Shenzhen residential sales market picked up again in March, supported by the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* and the reduced mortgage rates. By the end of Q1/2019, new supply launched onto the market decreased to 664,579 sq m, down 73.1% QoQ.

The demand for owner-occupancy and investment for the Shenzhen residential market remained strong—a result of ample liquidity and limited investment channels among Shenzhen's investors, who continue to search for properties with high potential for capital appreciation. By the end of Q1/2019, the transaction volume of the Shenzhen first-hand residential property market decreased to 798,293 sq m, down 18.2% QoQ. The average price increased by 0.6 of a ppt QoQ or 3.3% YoY to RMB57,686 per sq m.

LEASING MARKET

A similar development occurred in Shenzhen's serviced apartment market, compared with the residential sales market during Q1/2019, as leasing demand for serviced apartments slumped in January and February. Due to both returning and newly arrived foreign employees working for MNCs in Shenzhen, market activity picked up in March, as evidenced by the increasing inquiry volumes at major serviced apartments. Even though the city-wide vacancy rate increased by 2.1 ppts QoQ to 16.8% by the end of Q1/2019, the rental performance of some serviced apartments was positive, with the average rent increasing by 0.6% QoQ to RMB247 per sq m per month.

MARKET OUTLOOK

In Q2/2019, Shenzhen's residential policy environment should remain unchanged, as the government will continue to stabilise market development and maintain a healthier housing price growth. Pent-up demand for both owner-occupancy and investment should be released due to decreased mortgage rates and developers' and purchasers' optimism on the future of the Shenzhen/GBA property market during the rest of the year. Transaction volume is expected to rise in Q2/2019, with stable price growth in the remainder of the year.

The residential leasing market is expected to continue its upward trend in Q2/2019. Lyf Wu Tong Island Shenzhen, developed by Taihua Real estate, is scheduled for completion at the end of May, bringing 120 units of new supply to the market. Supported by talent schemes from the local government, the arrivals of highly-educated and high-income migrant workers are expected to bring about more leasing demand to the Shenzhen serviced apartment sector. The serviced apartment market should be more active in the rest of 2019, with increasing apartment inquiries and a declining vacancy rate.

Note: The Shenzhen residential database was revamped and updated to reflect market changes during Q1/2019.