

Asian Cities - 2H 2020

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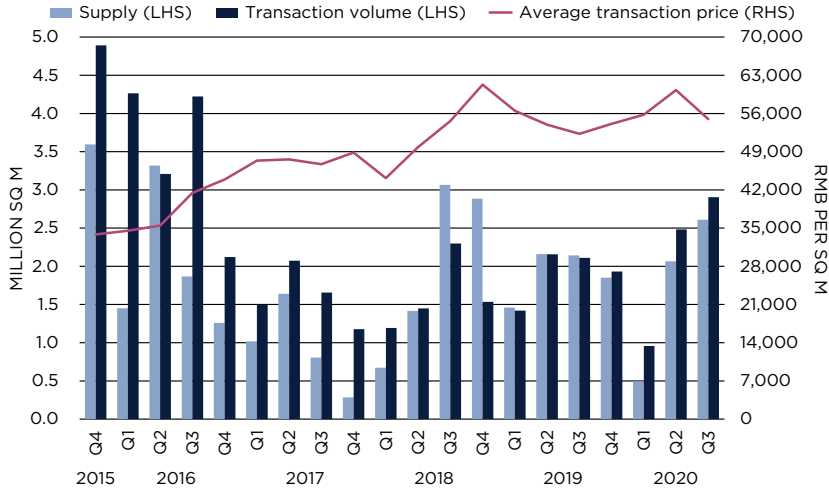
# Shanghai Residential





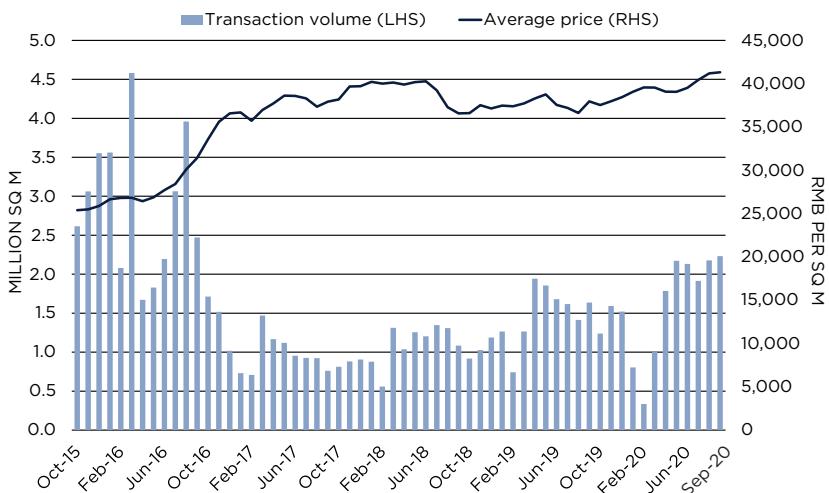
# Shanghai residential land sells at a premium

**GRAPH 1: First-Hand Commodity Residential Market Supply, Transaction Volume And Prices, Q4/2015 to Q3/2020**



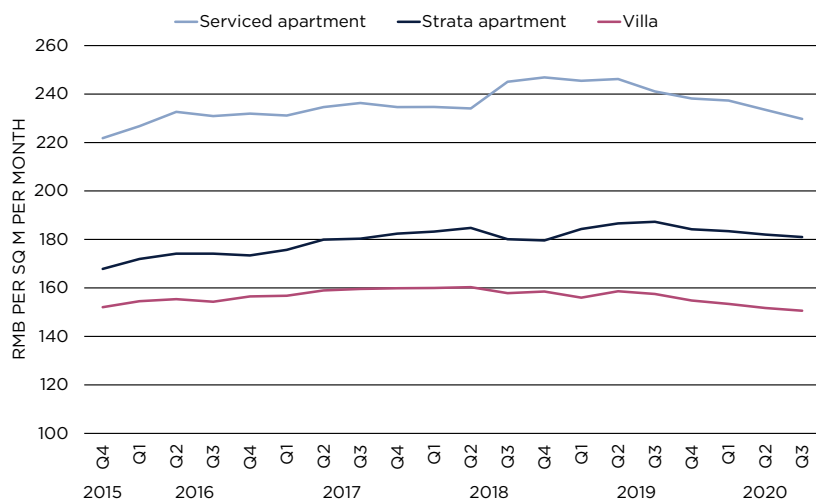
Source Savills Research

**GRAPH 2: Second-Hand Residential Sales Market Transactions And Prices, October 2015 to September 2020**



Source Savills Research

**GRAPH 3: Residential Leasing Average Rents, Q4/2015 to Q3/2020**



Source Savills Research

## OVERVIEW

The Chinese government continues to play an active role in determining the future direction of the real estate and particularly the residential market with the key goal being the stabilisation of China’s real estate especially as the country deals with unprecedented economic challenges. The most recent significant policy announcement was by the People’s Bank of China (PBOC) and the Ministry of Housing and Urban-Rural Development (MOHURD) in August when they introduced the “345” rule that looks to control the scale of interest-bearing liabilities held by developers. The rules are set against three “red lines”, and developers will be divided into four categories accordingly. Their future growth in interest-bearing liabilities will be capped by 0%, 5%, 10% and 15%. Additional guidance was provided to commercial banks to rein in mortgage lending and to be more stringent when reviewing applications.

## LAND

The land market has proved surprisingly active in recent quarters as local authorities look to accelerate the collection of land sales revenue to shore up coffers that have been depleted by COVID-19. 24 for-sale residential land plots were sold with a total site area of 1 million sq m in Q3/2020, a total buildable area of 1.9 million sq m and an average accommodation value (AV) of RMB34,700 per sq m. Several high-quality residential land plots within highly-favoured areas were sold during the quarter, including the North Bund, Qiantan and Yangpu. Among these, a plot sold in Jiangpu Community, Yangpu, recorded an average AV of RMB85,764 per sq m, a new high for residential land sales. Five pure for-lease residential land plots were sold in Q3/2020, with a total buildable area of 328,000 sq m and an average AV of RMB5,065 per sq m.

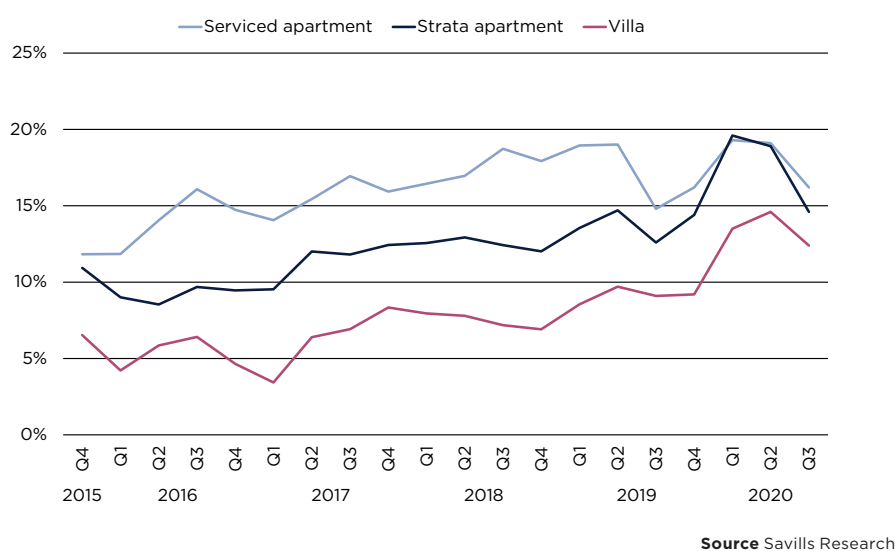
## SUPPLY AND SALES

Developers rushed to launch projects to meet buyer demand, capitalise on improved sentiment within a window of opportunity before renewed restrictions cool the market and also to monetise assets in order to pay down debt or recycle capital. First-hand commodity residential supply increased 26.4% quarter-on-quarter (QoQ) to 2.6 million sq m, up 21.8% year-on-year (YoY).

Transaction areas outside the outer ring roads increased 32.4% QoQ, accounting for 75.1% of the total transacted area. Average transaction price outside the outer ring roads is 57.6% below pricing within outer ring roads, and this resulted in 8.8% decrease QoQ in prices to an average of RMB55,000 per sq m, though still up 5.2% YoY. By ring roads, only the inner to middle ring and the outside of suburban ring road areas fell in price, by 1.8% and 3.8% respectively.

## Shanghai's residential market proved resilient in 2020 with a strong base of end-user demand supporting volumes and prices.

**GRAPH 4: Residential Leasing Vacancy Rate, Q4/2015 to Q3/2020**



Market demand in the second-hand market brought total transaction volume up during the first three quarters in 2020, with an increase of 8.5% YoY. In September 2020, total transaction reached 2.2 million sq m, a new high since late 2016. With an increase in upgrade demand in the second-hand market, the average transaction price rose to RMB41,300 per sq m. While developers accelerated their sales to meet their annual goals and improve their liquidity, the second-hand market is anticipated to calm to some extent in the remainder of the year.

### LEASING

The high-end leasing market was hampered in 2020 by the onset of COVID-19 and the imposition of travel restrictions limiting the return of many expatriates living and working in China. While restrictions were beginning to relax towards the end of summer, a second global wave of cases has seen authorities reimpose travel restrictions for non-Chinese nationals travelling from many countries once again.

**TABLE 1: Top Five Apartment Projects By First-hand Transaction Prices, Q3/2020**

PROJECTS	DISTRICT	AREA	TRANSACTION AREA (SQ M)	AVERAGE TRANSACTION PRICE (RMB PER SQ M)
Tomson Riviera	Pudong	Lujiazui Riviera	1,364	263,400
Lakeville V	Huangpu	Xintiandi	21,736	165,200
The Paragon	Huangpu	Middle Huaihai Rd	1,558	145,800
Nove Mansion	Pudong	Lujiazui Riviera	2,265	143,300
Greenland Bund Centre	Huangpu	Huangpu Riviera	8,029	143,000

Source Savills Research

With the return of some expatriates in the third quarter and landlords actively courting the more upwardly-mobile domestic tenants, prospects for the Shanghai leasing market were improving. Citywide high-end rents fell 1.2% QoQ to an average of RMB197.5 per sq m per month, down 3.6% YoY, but citywide vacancy rate fell 2.8 percentage points (ppts) QoQ to 15.1%, though this was still up 2.0 ppts YoY. Going forward, the market will have to continue to rely on domestic clients (particularly those from other provinces) to support occupancy and rental levels.

Despite the increased headwinds, the residential leasing market saw new players move into the serviced apartment market in the latter

portion of 2H/2020, namely Greystar, the US real estate developer with more than 500,000 units under management in America, which opened LIV'N 833 near Zhongshan Park, and Zhongrong International Trust, which opened Riverdale Residence near Century Avenue. In particular, Greystar's entry signals the first step of many, as the developer also purchased an 8,000 sq m site on Qiujiang Road in Jing'an District with plans to develop it into a 500-unit project that will be the second LIV'N project in the city and China.

### OUTLOOK

While house price restrictions remain firmly in place to discourage speculative investments

while still supporting end-user demand, fresh graduates from four leading local universities, who meet the basic application requirements, can potentially secure a Shanghai hukou as part of a talent programme, which would enable them to get on the property ladder and put down roots in the city. This, combined with other policies, will continue to gradually supplement demand while not overheating demand, helping to match supply and produce a healthy market while also ensuring that those that need housing are able to get on the housing ladder.



For more information about this report, please contact us

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