

Residential



Leasing demand supported by European firms

As demand from US firms softens in response to the ongoing trade dispute, the leasing market is pivoting to European firms for tenants.

- Financing channels tightened for most developers, following on from the China Insurance Regulatory Commission May 2019 crackdown on illegal funds flowing into real estate companies.
- Bank loan interest rates for individual mortgages hovered at a low level, resting at around 5.2%.
- 1.3 million sq m was launched onto the sales market in Q2/2019.
- Total transaction volume increased by 21.5% quarter-on-quarter (QoQ) to 2.1 million sq m during the quarter.
- The majority of sales transactions occurred in Huangpu and Nansha districts, where end-user demand was deemed to be the major driving force.
- The average transaction price increased by 5.9% QoQ to RMB28,937 per sq m.
- No new serviced apartment projects were added to the market in Q2/2019, leaving the total stock unchanged.
- The citywide vacancy rate of the Guangzhou serviced apartment market fell by 4.0 percentage points (ppts) QoQ to 12% by the end of the second quarter.
- Serviced apartment rents remained stable at an average of RMB215.38 per sq m per month in Q2/2019.

“Residential transaction volumes have exceeded supply for a second consecutive year with pricing reaching a new all-time high of RMB28,937 per sq m.”

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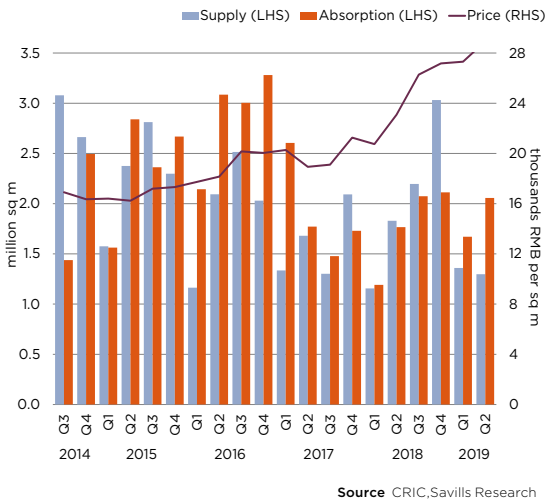
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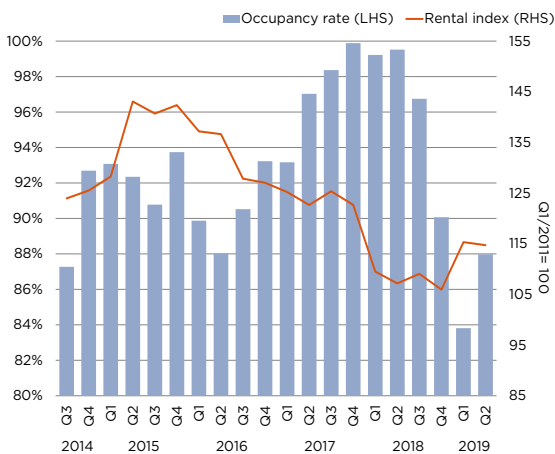
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GRAPH 1: Nine Districts' Residential Transaction Volumes And Prices, Q3/2014 to Q2/2019



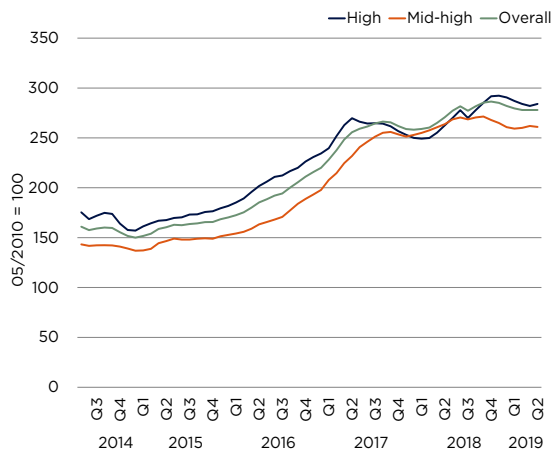
Source: CRIC, Savills Research

GRAPH 2: Serviced Apartment Occupancy Rates And Rental Indices, Q3/2014 to Q2/2019



Source: Savills Research

GRAPH 3: Second-Hand High-End And Mid-High Residential Price Indices, Q3/2014 to Q2/2019



Source: Savills Research

POLICY ENVIRONMENT

The overall policy environment for the Guangzhou residential property market remained unchanged. Financing channels tightened for most developers, following on from the China Insurance Regulatory Commission May 2019 crackdown on illegal funds flowing into real estate companies. The implication was that developers would adopt a more cautious attitude towards land acquisitions, slowing growth in land prices—which would ultimately help to nurture stable price growth for the Guangzhou residential property market.

Bank loan interest rates for individual mortgages hovered at a low level, resting at around 5.2%, which supported a positive purchasing sentiment across the board to some extent. However, rules for mortgage applicants, especially for second-house purchasers utilising their housing funds, toughened in April 2019. The release of a new policy for the Country Management Fund (国管公积金) increased the loan cost for second-house purchasers.

SALES MARKET

Most of Guangzhou's new launches were located in the Nansha district. 1,297,516 sq m of new supply was launched onto the sales market in Q2/2019. Developers launched more units at the end of April and May, compared to the beginning of the month, to increase sales revenue for quicker cash returns.

Total transaction volume increased by 21.5% QoQ, to 2,057,135 sq m by the end of Q2/2019. The majority of sales transactions were concluded in the Huangpu and Nansha districts where end-user demand was deemed to be the major driving force. Demand from first-time home buyers along with some upgrade demand for larger residential space/units dominated the market.

Within the urban areas¹, Yuexiu district witnessed growth in sales transactions triggered by households with children and the subsequent need for quality education facilities. It's worth noting that a significant amount of the transactions concluded in the Tianhe district came from the Lanting Shenghui—same as the previous quarter—boosting the overall transaction volume for the Tianhe residential property market. This was one of the city's best performers, exemplifying the strong upgrade and investment demand for luxury residential properties in city-centre precincts.

By contrast, the majority of demand in suburban areas came from people aged 35 to 40, with a minority of buyers aged 25 to 35. Anecdotal evidence suggested that both categories are eyeing owner-occupancy and investment in almost equal measures, taking up 50% of the total purchases.

The average transaction price increased by 5.9% QoQ to RMB28,937 per sq m.

¹ Urban areas include Yuexiu, Liwan, Haizhu, Tianhe and Baiyun.

LEASING MARKET

The total stock of the serviced apartment property market in Guangzhou remained at 2,740 units as no new projects entered the market during Q2/2019.

As a sign of the negative impact of the ongoing Sino-US trade disputes and corresponding uncertainties, many American companies postponed or even suspended their plans to deploy senior executives to Guangzhou and also reduced housing budgets for related personnel, leading to a contraction in both leasing demand and rental threshold in Q2/2019. On the contrary, as economic relationships and business cooperation between China and several EU countries strengthened, some European firms showed greater interest in investing in Guangzhou. This was most apparent in the automobile, chemical engineering and petrochemical industries, which created a significant amount of housing demand from expatriates working for firms in these industries. This, to a great extent, offset the aforementioned demand contraction and served as a positive note for the residential leasing market. Consequently, the overall average vacancy rate of the Guangzhou serviced apartment property market decreased by 4.0 ppts QoQ to 12% by the end of the quarter.

Many landlords continued to ask for rent at the same levels as the previous quarter. Therefore, the overall average rent of the Guangzhou serviced apartment property market remained relatively stable at RMB215.38 per sq m per month by the end of Q2/2019.

MARKET OUTLOOK

The overall policy environment for the Guangzhou residential property market should continue to tighten as there is no sign that the government will lift the Housing Purchasing Restrictions in the remainder of the year. Despite that the bank mortgage interest rate was cut, the actual effect on stimulating the house purchasing demand is minimised. For those developers with less gearing, destocking is no longer the issue, or at least not the most critical one. On the other hand, the purchasing power and price thresholds for first-time home buyers are expected to remain strong. Thus it is expected that prices for the Guangzhou residential property should remain largely stable.

Although the outlook for the Guangzhou serviced apartment property market, and to a greater or lesser extent the general residential leasing market, should remain broadly positive, some landlords are expected to react quicker towards the potential impact of continued Sino-US trade disputes by lowering their rents in exchange for higher and more stable occupancy rates in the second half of the year. As a result, capital values for most of the assets in this sector should be further enhanced by strengthened occupancy levels and stable rental incomes.