Sales Market Plunges

Market digestion became sluggish as purchasers opted for wait-and-see attitude rather than deploying capital amidst the COVID-19 epidemic.

- The impact of the recent COVID-19 outbreak since end-January 2020 caused the Guangzhou economy and the volumes of residential property sales and leasing activities to plummet during the first two months of Q1/2020.

- New supply of the Guangzhou residential property sales market decreased by 31.8% quarter-on-quarter (QoQ) to 1.44 million sq m.

- Market digestion became sluggish as purchasers opted for wait-and-see attitude rather than deploying capital due to the growing concerns of external and internal economics and the impact of the COVID-19 outbreak.

- The overall transaction volume decreased by 49.4% QoQ and 44.1% YoY to 1.3 million sq m by the end of Q1/2020.

- The citywide average transaction price decreased by 1.1% QoQ to RMB26,125 per sq m during Q1/2020.

- The Guangzhou serviced apartment market turned silent throughout Q1/2020, with nearly a vacuum of site visits and leasing transactions as a result of the double impacts of slowing economics and COVID-19.”

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MACRO ENVIRONMENT
The impact of the recent COVID-19 outbreak from the end of January 2020 caused Guangzhou’s economics and the volumes of residential property sales and leasing activities to plummet during the first two months of the Q1/2020. Following the strict epidemic prevention and control measures imposed by the central and local governments, business activities and population inflows were stalled during the period. According to the Guangzhou Statistics Bureau, investment in real estate developments, the number of overseas tourists and retail sales of the accommodation and catering industry dropped by 8.4%, 66.2% and 35.1% year-on-year (YoY) during January and February, intensifying market challenges to both developers and serviced apartment operators in Guangzhou.

SALES MARKET
Overall, the Guangzhou first-hand residential sales market plunged during Q1/2020 due to the COVID-19 outbreak. Following the central and local governments directives, sales offices of over 40 projects in Guangzhou temporarily closed from 28 January to early March to prevent the potential COVID-19 spread. As a result, project launches of the Guangzhou first-hand residential sales market decelerated significantly in Q1/2020, with new supply volumes rebounding in March, which was mainly attributed to the completion of contract reviews and signings that were postponed from January and February. This contributed to a 380% month-on-month increase in the transaction volume in March. Although many developers launched online sales platforms and sales promotion campaigns during the COVID-19 outbreak, the overall transaction volume decreased by 49.4% QoQ and 44.1% YoY to 1.3 million sq m by the end of Q1/2020.

The price discounts imposed by several developers caused transaction prices to fall and the citywide average transaction prices decreased by 1.1% QoQ to RMB26,125 per sq m during Q1/2020. The prices of first-hand residential houses in urban areas, including Tianhe, Yuexiu, Haizhu, Liwan and Baiyun remained relatively stable, while prices in suburban areas, such as Zengcheng, Conghua and Huadu fluctuated during the quarter.

LEASING MARKET
The Guangzhou serviced apartment market turned silent in Q1/2020, with nearly a vacuum of site visits and leasing transactions as a result of the double impacts of slowing economics and COVID-19. The central government was forced to suspend the Chinese visa application services and to deny entries of foreign passport holders even if their Chinese visas remained valid. This prevented the return and arrival of many large-scale corporations’ senior executives from overseas. Consequently, asset performance of projects targeting business executives was dampened, but those targeting families remained relatively stable. Meanwhile, relocation demand continued to derive greater leasing competition as new demand on the market was limited. As a result, landlords of established properties had to review and adjust their leasing strategies, including, but not limited to, rental cuts and offering better service packages. Overall, the vacancy rate of the Guangzhou serviced apartment market increased by 5.6 ppts QoQ to 25.1% while the average rent decreased by 3.8% QoQ to RMB203.9 per sq m per month.

MARKET OUTLOOK
Despite that the central bank of China offered more flexibility in monetary and fiscal policies in March and April to help raise market liquidity and stimulate the economy, purchasers’ sentiment is expected to remain prudent due to the growing concerns of external and internal economics and the impact of the COVID-19 outbreak. The market witnessed a number of cases where potential buyers reviewed their purchasing decisions and reduced their purchasing areas. However, transaction volumes rebounded in March, which was mainly attributed to the completion of contract reviews and signings that were postponed from January and February. This contributed to a 380% month-on-month increase in the transaction volume in March. Although many developers launched online sales platforms and sales promotion campaigns during the COVID-19 outbreak, the overall transaction volume decreased by 49.4% QoQ and 44.1% YoY to 1.3 million sq m by the end of Q1/2020.

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Despite that the central bank of China offered more flexibility in monetary and fiscal policies in March and April to help raise market liquidity and stimulate the economy, purchasers’ sentiment is expected to remain prudent due to the growing concerns of external and internal economics and the impact of the COVID-19 pandemic. Meanwhile, developers have to accelerate their paces of project launches in the remainder of 2020 to strengthen their cashflows and mitigate the financial risks by offsetting their losses in the first quarter. More aggressive price discounts should help heal the dented purchasing sentiment wounded by COVID-19 and incubate more anxiety in owning a property.

In any case, prices of properties in urban areas are expected to be stable, while those in suburban areas are anticipated to have price corrections from their current values during the short-term. Nonetheless, it reflects a suitable time for purchasers to review the market conditions to facilitate their market entry. Developers should decide to either desist or liquidate their corporate real estate strategy priorities. Additionally, the short-to medium-term development of the Guangzhou serviced apartment market in 2020 is predominantly dependent on whether the ban of inbound travels by foreign passport holders can be lifted in the next few months.