Leasing Market Improves

Leasing demand from some local residents rose, leading to a quarterly decrease of 5.7 percentage points in citywide serviced apartment vacancy rate.

- In August 2020, a new policy, known as the “Three Red Lines”, was circulated by the PBoC and MOHURD. Due to the policy, many major real estate enterprises are prompted to destock by devaluing their residential sales projects and expediting their project sales activities.

- In September 2020, the Guangzhou municipal government published the “Clause 66”, allowing Hong Kong and Macao residents to mortgage their Guangzhou properties at banks in Hong Kong and Macao.

- New supply of first-hand residential property market increased by 37.8% quarter-on-quarter (QoQ) to approximately 2.8 million sq m, and transacted areas increased by 40.7% QoQ to approximately 2.1 million sq m. Meanwhile, the average transaction price edged up 0.4% QoQ to RMB31,683 per sq m.

- Relatively relaxed border control policies helped bring about an influx of leasing demand from MNCs’ senior executives to the serviced apartments in the city.

- The average vacancy rate of the Guangzhou serviced apartment market decreased by 5.7 percentage points (ppts) QoQ to 24.3% by the end of the quarter. The citywide average rent edged down by 0.1% QoQ on an index basis to RMB194.1 per sq m per month.

- An undisclosed investor purchased the Ascott Guangzhou in Tianhe District from Ascott Residence Trust (ART) for a total consideration of RMB780 million in Q3/2020.

“The government released two policies and their effect on the Guangzhou residential property market, particularly on pricing, has yet to be substantiated. The hysteretic nature of policy implementation and pent-up demand caused for a brisk development of new supply and market digestion in the first-hand residential commodity property market during the quarter.”

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POLICY ENVIRONMENT

Two major real estate related policies were introduced to the residential property market at both state and local levels during Q3/2020. From the state level, the People’s Bank of China (PBoC) and the Ministry of Housing and Urban-Rural Development (MOHURD) held a meeting on key real estate enterprises in Beijing on 20 August 2020.

To further implement the long-term mechanisms of real estate, encourage the prudent management real estate finance, and enhance the marketisation, regularisation and transparency of real estate enterprise financing, the PBoC, MOHURD and other relevant departments jointly formed capital monitoring and financing management rules, known as the “Three Red Lines” (1. A liability/asset ratio, after excluding advance receipts, of over 70%; 2. a net debt-to-equity ratio greater than 100%; and 3. a cash-to-short-term-debt ratio less than 100%) for major real estate enterprises. The restrictions were clear that developers that hit all three criteria could not increase their debt levels above those seen in June 2019; developers that hit two of the criteria could only increase their debt levels by 5% a year; and those that hit one criterion could increase their debt levels by 10% a year. The financing scale of real estate enterprises will be limited in the future, which will affect these enterprises’ land acquisition and financing strategies and diminish their highly-gear business expansion activities, if any. In response, many real estate enterprises are prompted to destock by devaluating their residential sales projects and expediting their project sales activities, the impact of which could still be apparent in Q4/2020 and beyond.

From the local level, the Guangzhou municipal government published the Action Plan of Implementing the Financial Support and Advice to the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area, known as the “Clause 66”, on 2 September 2020, allowing Hong Kong and Macao residents to mortgage their Guangzhou properties at Hong Kong and Macao. This, in theory, should bring about more purchasing demand to the Guangzhou residential property market, helping to cultivate a stronger investment sentiment.

SALES MARKET

While the effect of the policies on the Guangzhou residential property market, especially on pricing, has yet to be substantiated, the hysteretic nature of policy implementation and pent-up demand caused for a brisk development of new supply and market digestion in the first-hand residential commodity property market in Q3/2020. New supply increased by 37.8% YoQ and 47.4% year-on-year (YoY) to approximately 2.8 million sq m and transacted areas increased by 40.7% YoQ and 5.7 ppts YoY to approximately 3.1 million sq m. Meanwhile, the average transaction price of the first-hand residential commodity property market edged up 0.4% YoQ to RMB31,683 per sq m.

LEASING MARKET

In the residential leasing market, some small improvements were identified during Q3/2020, owing to the relatively relaxed border controls for COVID-19 epidemic prevention and control. According to the Guangzhou city government, policies on the border control between Guangdong and Hong Kong – Macao were relaxed moderately in September 2020, after an eight-month ban to foreign passports holders’ entry into China. This allowed some MNCs’ senior executives to enter the Guangdong province via the two Special Administration Regions, conditional on the completion of quarantine for 14 days in either Guangzhou, Shenzhen or Zhuhai.

The policy change helped bring about an influx of leasing demand to serviced apartments. By the end of Q3/2020, no new supply was injected into the serviced apartment, and the stock of the Guangzhou serviced apartment market remained at 3.095 units. Meanwhile, the market started to see some positive signs as its vacancy rate decreased. Notably, leasing demand continued to be primarily sourced from some rich local residents who rented serviced apartments for a higher quality of life and upgrades. This immediately caused the average vacancy rate of the Guangzhou serviced apartment market to decrease by 5.7 ppts QoQ to 24.3% by the end of quarter.

Despite the rectifying market conditions, most landlords continued to offer competitive rents in a bid to rescue asset performance from the economic and market plumbs over the first half of the year. The citywide average rent thereby edged down by 0.2% QoQ on an index basis to RMB94.1 per sq m per month.

There was an en bloc sales transaction in the serviced apartment market during Q3/2020. An undisclosed investor purchased the Ascott Guangzhou, located on Tianhe East Road, Tianhe District, from Ascott Residence Trust (ART) for a total consideration of RMB780 million. The transaction demonstrates the continued attractiveness of prime residential investment opportunities in the city centre and the ample liquidity of private equity in Guangzhou.

MARKET OUTLOOK

Looking ahead, the further tightening real estate financing policy is expected to cause the residential property market, which had just recovered from the COVID-19 epidemic in 1H/2020, to fall into turmoil again. With the prompt reaction by major developers to the policies, the growth of the average residential property prices in Guangzhou is expected to taper off, which helps to catalyze a stronger absorption in the next six months.

With the ongoing pandemic in many other countries, the government announced that it would suspend the permission of foreign passport holders’ entry to China effective immediately in a number of countries including the US, France, Belgium and others on 4 and 5 November. This will cause a pause in the rebound of leasing demand from many senior MNC executives in the local leasing market in Q4/2020, casting a shadow over the market recovery at the end of the year.