New commodity residential supply fell 59.7% in Q1/2016, totalling 1.4 million sq m, down 20.9% year-on-year (YoY).

First-hand commodity residential transaction volumes increased 117.7% YoY to 4.3 million sq m in Q1/2016, down 12.8% from the five-year high recorded in Q4/2015.

Average transaction prices continued to increase, but at a slower rate of 2.0% quarter-on-quarter (QoQ) to RMB34,500 per sq m in the first quarter.

No new high-end apartment supply was seen in the first quarter.

First-hand, high-end apartment transaction volumes fell 27.4% in Q1/2016 to 257,100 sq m, up 62.3% YoY.

First-hand high-end apartment transaction prices increased 2.9% on an index basis in Q1/2016 to an average of RMB79,700 per sq m.

Developers fiercely competed for prime land plots, pushing up premiums to 93.8% from an average of 73.8% in Q4/2015.

The Shanghai residential sales market is expected to see transaction volumes decrease due to the latest tightening measures, but prices will remain firm.

“No new high-end apartment supply was seen in the first quarter, partly resulting from stricter issuance of pre-sale certificates by the government, with many new high-end products expected to launch in Q2/2016.” James Macdonald, Savills Research
Market news
Shanghai has recorded spectacular growth (an annual growth rate of 18.3%) in residential prices over the last year, similar to what has been seen in Shenzhen. In order to cool the overheated residential market, the Shanghai government unveiled nine-point tightening measures on 25 March 2016. These included, amongst others, a higher down payment requirement for second-home buyers and a higher threshold for non-local residents to buy a house.

“3·25” policy details

Key policies
- Non primary residence down payment is set at 50% for ordinary housing, and 70% for non-ordinary units.
- Five consecutive years of social security payments for households without a Shanghai Hukou looking to buy a property, up from two years.
- Companies are forbidden from reselling commodity residential properties within three years of purchase.

Better regulation and supervision
- HPR eligibility is checked prior to online registration.
- Strengthened pre-sales certificate regulation, preventing developers from withholding units from the market.
- A better regulated brokerage business.
- A better supervised and regulated transaction process for second-hand properties.
- Misleading or false advertisement or information will be reported and publicised.

Financing restrictions
- Prevent developers and agencies lending money for down payments.
- Crackdown on unregulated financing in the real estate market.
- Home purchasers have to declare that down payments are their own money; false testimony can result in their credit rating being penalised.

Increased supply
- Increased supply of low cost rental housing and talent apartments.
- Increased residential land supply for the development of small- to mid-sized units (i.e. less than 90 sq m)

The regulations are likely to curb rapid growth of residential prices resulting from irrational purchases and speculative behaviour by some developers, agencies and financing companies.

As many homebuyers rushed to conclude their transactions before the policy, Shanghai first-hand commodity residential transaction volumes surged on 24 March 2016, one day prior to the policy release, resulting in a monthly transaction high (2.2 million sq m) since 2008.

With limited new supply and active transactions, unsold first-hand residential inventory saw a faster pace of decrease to 8.4 million sq m at the end of Q1/2016, from 10.8 million sq m at the end of 2015. The digestion period, as a consequence, was reduced to 4.1 months which was a five-year low for the city.

Divorce rates reportedly spiked at the end of March, as married couples became unable to afford the increased down payments required under the new regulations and so carried out fake divorces. This is just one indication of the lengths that individuals will go to in order to buy a

Table 1
First-hand commodity residential market by property type, Q1/2016

<table>
<thead>
<tr>
<th></th>
<th>Supply</th>
<th>Transactions</th>
<th>Average price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>sq m</td>
<td>sq m</td>
<td>RMB psm</td>
</tr>
<tr>
<td>Apartment</td>
<td>1,337,500</td>
<td>3,622,200</td>
<td>34,600</td>
</tr>
<tr>
<td>Villa</td>
<td>112,400</td>
<td>642,300</td>
<td>33,900</td>
</tr>
<tr>
<td>Overall</td>
<td>1,449,900</td>
<td>4,264,600</td>
<td>34,500</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Trading Center; Savills Research

Graph 1
First-hand residential unsold inventory, Jan2010–Mar2016

Source: Shanghai Real Estate Transaction Center; Savills Research

Graph 2
First-hand commodity residential market supply, transactions and prices, Q1/2006–Q1/2016

Source: People’s Bank of China; Savills Research
property. This is also indicative of the strength of demand in the market.

Overall commodity residential market

Due to seasonal factors, first-hand commodity residential supply fell by 59.7% QoQ totalling 1.4 million sq m in Q1/2016, down 20.9% YoY.

Despite the traditional off season, market demand proved phenomenal, with first-hand commodity residential transaction volumes increasing 117.7% YoY to 4.3 million sq m in Q1/2016, down 12.8% from the five-year quarterly high seen in Q4/2015. This was primarily attributed to a market rush before the cooling measures were released.

Located in the Hongkou district, Rainbow City (瑞虹新城) launched the second batch of its sixth phase The Upper (上区) in February 2016, adding 352 units or 46,500 sq m onto the sales market. By the end of the first quarter, 304 units had been sold, with transaction prices averaging over RMB77,200 per sq m, a strong sales performance in what is traditionally the off season.

The increase in activity was much more noticeable in the second-hand residential market, with transaction volumes increasing 13.3% QoQ and 163.2% YoY, totalling 9.8 million sq m in Q1/2016, a quarterly high in the history of the market.

Similar to the first-hand market, average transaction prices in the second-hand residential market continued their upward trajectory, hitting a new high of RMB267,700 per sq m in the first quarter, up 3.8% QoQ.

Second-hand residential unsold inventory increased 12.3% QoQ to 12.2 million sq m at the end of Q1/2016. Homeowners were either looking to trade up to larger or more modern units, or looking to exit markets and reinvest elsewhere.

However, the digestion period remained at a relatively low level of 3.7 months due to frequent transaction activities.

High-end residential sales market

Partly resulting from stricter issuance of pre-sale certificates by the government, no new high-end apartment supply was seen in the first quarter, with many new high-end units expected to launch in Q2/2016.

With no new supply added to the market, first-hand high-end apartment transaction volumes fell to 257,100 sq m in Q1/2016, down 27.4% QoQ but up 62.3% YoY.

First-hand high-end apartment transaction prices continued, with an increase of 2.9% on an index basis in Q1/2016, to an average of RMB79,700 per sq m. Transaction prices in primary residential areas remained high at over RMB100,000 per sq m while emerging areas witnessed the biggest price increase of 6.1%, averaging RMB57,800 per sq m.

TABLE 2

<table>
<thead>
<tr>
<th>Bankuai</th>
<th>District</th>
<th>Average transaction price (RMB per sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xijiao</td>
<td>Changning</td>
<td>150,800</td>
</tr>
<tr>
<td>Lujiazui Riverside</td>
<td>Pudong</td>
<td>142,600</td>
</tr>
<tr>
<td>Huaihai Road (M)</td>
<td>Huangpu</td>
<td>123,700</td>
</tr>
<tr>
<td>Hengshan Road</td>
<td>Xuhui</td>
<td>117,300</td>
</tr>
<tr>
<td>Nanjing Road (W)</td>
<td>Jing'an</td>
<td>110,500</td>
</tr>
<tr>
<td>Q4/2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lujiazui Riverside</td>
<td>Pudong</td>
<td>150,800</td>
</tr>
<tr>
<td>Xijiao</td>
<td>Changning</td>
<td>130,900</td>
</tr>
<tr>
<td>Huaihai Road (M)</td>
<td>Huangpu</td>
<td>129,000</td>
</tr>
<tr>
<td>Hengshan Road</td>
<td>Xuhui</td>
<td>109,600</td>
</tr>
<tr>
<td>Nanjing Road (W)</td>
<td>Jing'an</td>
<td>97,700</td>
</tr>
</tbody>
</table>

Source: Shanghai Real Estate Transaction Centre, Savills Research

*Commodity housing excludes residential properties designated for relocated residents under urban redevelopment plans, as well as economical housing.

*Judged by a number of criteria including location, building quality, total volumes, unit size, transaction price and property management.

GRAPH 3

Second-hand residential sales market transactions and prices, Q1/2007–Q1/2016

Source: Shanghai Real Estate Transaction Centre, Savills Research

*Core districts: Changqing, Jing'an, Xuhui and Huangpu.

Fringe: Baoshan, Fengxian, Chongming, Jinshan, Qingpu and Songjiang.

Primary: Well-established luxury residential enclaves within the inner ring road (Huaihai Road (M), Lujiazui Riverside, Xinhua Road, etc.).

Secondary: Developing high-end residential enclaves within the middle ring road (Huamu, Dapuqiao, Gubei, etc.).

Emerging: Emerging high-end residential enclaves outside the middle ring road (New Jiangwan Town, Sanlin, Waigaoqiao, etc.).

GRAPH 4

First-hand high-end apartment market transactions and prices, Q1/2005–Q1/2016

Source: Shanghai Real Estate Transaction Centre, Savills Research

*Primary: Well-established luxury residential enclaves within the inner ring road (Huaihai Road (M), Lujiazui Riverside, Xinhua Road, etc.).

Secondary: Developing high-end residential enclaves within the middle ring road (Huamu, Dapuqiao, Gubei, etc.).

Emerging: Emerging high-end residential enclaves outside the middle ring road (New Jiangwan Town, Sanlin, Waigaoqiao, etc.).
Project focus
Queen’s Gate (英庭名墅)

Located southwest of the Hongqiao Transportation Hub in the Xujing area in the Qingpu district, Queen’s Gate is a joint venture high-end villa and apartment complex by Asia Standard International Group (ASI) and Couture Homes of CSI Properties. The project is a five-minute drive to Huqingping Road and a five-minute drive to the Hongqiao Airport.

Situated in the Xujing villa community adjacent to the Hongqiao CBD, the project is surrounded by abundant education resources such as the Shanghai German and French School, Western International School of Shanghai and Montessori School of Shanghai.

With a plot ratio of 0.435, the project covers a site area of 144,700 sq m, which will be developed into 157 detached villas, 67 townhouses and 96 apartments. Planned unit sizes (above-ground area) are 218 sq m to 320 sq m for villas, and 57 sq m to 93 sq m for apartment units.

The project launched its first batch of 60 detached villas onto the pre-sale market in June 2015. The main offerings are 226 sq m to 268 sq m villas with the asking prices in March 2016 ranging from RMB12 million to RMB20 million per house. Fifty-one units had been sold by the end of Q1/2016, with transaction prices averaging RMB14 million per house. Bare shell houses are expected to be handed over at the end of Q3/2016. The project is expected to launch its second batch of 30 detached villas in Q2/2016.

An exclusive clubhouse is provided for the residents, with full facilities including an indoor heated swimming pool, gym, wine & cigar room and children-oriented facilities such as a library and playground.

Residential land market

The city continued to see fierce competition for new land plots among developers as a result of the strictly-controlled land supply and the bullish sentiment in the residential sales market. State-owned enterprises (SOEs) and large private companies bid aggressively at the recent land auctions, including the Greenland Group, Beijing Capital Land and Jiangsu Zhongnan Construction.

Eight residential (including pure residential and mixed-use) land plots were transacted in Q1/2016, totalling just 469,100 sq m of buildable area, five of which were located in the west Hongqiao area of the Qingpu District.

Accommodation values (AV) for transacted plots averaged RMB19,400 per sq m, up 4.4% QoQ, while premiums over reserve prices were pushed up to 93.8% from an average of 73.8% in Q4/2015, evidence of developers’ enthusiasm and sustained confidence in the Shanghai market.

Residential sales market outlook

Supply
The second quarter of 2016 is expected to see a large influx of new supply after some projects were delayed in Q1/2016. New high-end apartment supply will include the Fuxing Royale (复兴珑御), Jinmao Palace (大宁金茂府), and brand new projects such as Jing’an Prime Land (静安府) in the former Zhabei district, now the Jing’an district, and Bund Wonder (阳光城滨江悦) in the Yangpu district.

Demand and policy
With rapidly falling unsold inventory levels, Shanghai is expected to continue enforcing existing restrictions or introducing further cooling measures to control the market from overheating. Additionally, the Mayor of Shanghai has said that existing measures are expected to be in place for a sustained period of time.

The latest “3·25” policy tightening is likely to reduce transaction volumes in the short- to mid-term, slowing market activity and cooling price
growth, although prices are not expected to adjust down.

The transition from business tax to valued added tax (VAT) in the property sector, which is scheduled to start from 1 May 2016, is likely to reduce buyers’ tax burden on second-hand transactions, though the benefit will be very limited.

For developers where deductibles account for a large percentage of total costs and profit margins are below 30%, the introduction should reduce the tax burden, although there may be cash flow issues. There is also a transitional period/grandfather scheme for projects currently under development. Developers should seek consultation as soon as possible to see how measures impact ongoing and future projects.

Residential land supply
The former Zhabei district is expected to see ten residential (five pure residential and five mixed-use) land plots launched in 2016, with a total above ground buildable area of 958,500 sq m. In addition, North Bund in the Hongkou district is expected to launch four pure residential land plots totalling 182,600 sq m of above ground buildable area.

Urban redevelopment
The ongoing massive urban redevelopment has helped, and will continue to add value to, certain areas such as Zhabei Suhe Creek, Dongjiadu and East Bund. As a result, more high-end residential products are expected in these areas.

<table>
<thead>
<tr>
<th>Date</th>
<th>District</th>
<th>Site area (sq m)</th>
<th>GFA (sq m)</th>
<th>Plot ratio</th>
<th>Transacted price (RMB million)</th>
<th>Premium (%)</th>
<th>AV (RMB per sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1/2016</td>
<td>Jan</td>
<td>Minhang</td>
<td>41,262</td>
<td>90,777</td>
<td>2.2</td>
<td>2,630</td>
<td>189.2</td>
</tr>
<tr>
<td></td>
<td>Jan</td>
<td>Qingpu</td>
<td>17,048</td>
<td>18,752</td>
<td>1.1</td>
<td>535</td>
<td>60.9</td>
</tr>
<tr>
<td></td>
<td>Feb</td>
<td>Qingpu</td>
<td>19,397</td>
<td>38,794</td>
<td>2.0</td>
<td>857</td>
<td>57.8</td>
</tr>
<tr>
<td>Quarter</td>
<td>-</td>
<td>-</td>
<td>248,423</td>
<td>469,102</td>
<td>1.9</td>
<td>9,080</td>
<td>93.8</td>
</tr>
<tr>
<td>Q4/2015</td>
<td>Nov</td>
<td>Yangpu</td>
<td>131,998</td>
<td>148,498</td>
<td>1.1</td>
<td>7,299</td>
<td>81.7</td>
</tr>
<tr>
<td>Dec</td>
<td>Minhang</td>
<td>32,142</td>
<td>64,284</td>
<td>2.0</td>
<td>2,815</td>
<td>143.3</td>
<td>43,790</td>
</tr>
<tr>
<td></td>
<td>Dec</td>
<td>Jiading</td>
<td>95,382</td>
<td>171,688</td>
<td>1.8</td>
<td>4,650</td>
<td>108.3</td>
</tr>
<tr>
<td>Quarter</td>
<td>-</td>
<td>-</td>
<td>1,131,359</td>
<td>1,851,816</td>
<td>1.6</td>
<td>34,340</td>
<td>73.8</td>
</tr>
</tbody>
</table>

Source: Shanghai Municipal Bureau of Planning and Land Resources, Savills Research

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