Residential market recovers in Q1/2019

Overall first-hand transaction volumes and average prices rose on a year-on-year (YoY) basis.

- Overall new commodity residential supply decreased by 49.4% quarter-on-quarter (QoQ) to 1.46 million sq m, but increased 116.8% YoY.
- First-hand commodity residential transaction volume decreased by 7.4% QoQ, totalling 1.42 million sq m, though up 19.1% YoY.
- Average transaction prices decreased by 7.8% QoQ to RMB56,500 per sq m, resulting from a change in transaction mix.
- First-hand, high-end apartment supply decreased by 86.4% QoQ, totalling 54,600 sq m.
- Transaction volume in the first-hand, high-end apartment sector recorded a decrease, falling 31.3% from Q4/2018, and totalling 193,000 sq m, greatly exceeding supply.
- First-hand, high-end apartment transaction prices decreased by 2.7% on an index basis to an average of RMB99,700 per sq m.
- Both second-hand residential transaction volume and average transaction price remained stable, price slightly rose to RMB37,700 per sq m.
- Ten pure for-sale residential land plots were transacted, with a total site area of 542,000 sq m, a total GFA of 871,000 sq m, and an average floor price of RMB16,700 per sq m.
- Shanghai will see significant new supply in the market this year. It is anticipated that the number of new project launches in 2019 will be greater than in 2018.

“Shanghai’s residential market saw improvement amid an unchanged policy environment. This positive sentiment is expected to follow through to Q2/2019.”

JAMES MACDONALD, SAVILLS RESEARCH
MARKET OVERVIEW

With the close of the Two Sessions in March, the basic tune of China’s real estate market—keeping market stability—remained relatively unchanged. No significant policy change has been applied in Shanghai. Due to the Chinese New Year, new supply and transaction volume decreased 49.4% and 7.8% QoQ. First-hand residential inventory climbed to 7.27 million sq m, and the digestion period rose further to 7.1 months. Due to the transaction volume decrease in the overall market and the transaction volume increase outside the outer ring road, the city’s average price fell slightly to RMB37,500 per sq m. For the second-hand residential market, the average transaction price rose 1.6% QoQ to RMB37,712 per sq m. Overall, both supply and transaction levels in the residential market rose significantly YoY, but transactions outside the outer ring road increased QoQ, resulting in a 7.8% QoQ decrease of the average transaction price. First-hand residential inventory significantly YoY, and the market is showing signs of an initial recovery.

First-hand Market – New commodity residential supply more than doubled YoY in Q1/2019 to 1.46 million sq m. First-hand commodity residential transaction volume increased by 27.9% YoY, totalling 1.42 million sq m; this is a slight drop of 7.4% QoQ, due to the Chinese New Year. Transactions within the outer ring road decreased QoQ, but transactions outside the outer ring road increased QoQ, resulting in a 7.8% QoQ decrease of the average transaction price to RMB56,500 per sq m. March is the traditional sales season for Shanghai’s residential market, and with more supply entering the market, buying opportunities emerged.

Second-hand Market – Second-hand residential transaction volume remained stable compared to Q4/2018. The average transaction price also remained stable with only a slight rise to RMB37,700 per sq m. Taking into account the Chinese New Year, both transaction volume and average price in the second-hand market did well in Q1/2019. While the first-hand residential market is gradually recovering, homeowners with replacement demands are anticipated to bring more supply to the second-hand market in order to upgrade their homes.

HIGH-END RESIDENTIAL SALES MARKET

The market ushered in new supply totalling 55,000 sq m, down 86.4% QoQ. New supply came from a total of 227 units spread across the Palace (嘉御庭), located in Hengshan Rd., and Capitalbay (御翠豪庭), located in the East Bund. Transaction volume in the first-hand, high-end residential sector more than tripled that of supply, totalling 193,000 sq m and down 31.3% QoQ. The price index of first-hand, high-end residential fell by 2.7% QoQ, and the average price reached RMB69,500 per sq m.

Comparing different areas, the price index of primary and emerging areas decreased slightly, while that of secondary areas showed an upward trend. The secondary areas include developing high-end residential enclaves within the middle ring road like Suhe Creek, Xuhui Riviera and others. Among them, Qufu Rd. and Hanzhong Rd., located along the Suzhou River, are expected to have significant high-end residential supply in 2019. As high-end projects cluster and the local infrastructure continues to improve, high-end residential communities are gradually forming in these areas.

Average price of second-hand, high-end properties reached RMB105,400 per sq m. Shimao Riviera Garden (世茂滨江花园) continued to lead transactions with 22 units and 4,202 sq m sold, followed by Yanlord Garden (仁恒滨江园) and Maison Des Artistes (御翠豪庭).

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RESIDENTIAL LAND MARKET

Ten pure for-sale residential land plots were transacted with a total site area of 542,300 sq m and a total GFA of 871,300 sq m. Most of the plots are located in decentralised districts, but one—in the North Zhongshan Community, Putuo—is expected to offer 76,500 sq m of new supply.

Those plots were transacted with an average accommodation value of RMB16,700 per sq m. Two more mixed-use land plots with residential portions were transacted in Nanqiao New Town, Fengxian and Chuansha, Pudong.

Eight for-lease residential land plots were transacted and all at their reserve prices. The majority of land supply (six plots) is in Pudong, and one site in particular, Sunqiao, will offer 101,500 sq m of residential leasing area for Zhangjiang. One more for-lease residential land plot was transacted in Jiangpu Community, Yangpu while another was transacted in Songjiang.

RESIDENTIAL SALES MARKET OUTLOOK

Shanghai has witnessed a rebound in the number of home buyers enquiring and visiting sales offices. Since the Chinese New Year, demand has gradually recovered as home buyers see opportunities to secure good deals. Developers remain under pressure due to cash flow needs and thus must liquidate holdings to pay off debt and continue to invest. An accommodative bank lending environment will also encourage future home buying.

During the Two Sessions, the basic tune of the real estate market stayed largely the same. We are not likely to see fluctuations in terms of land prices, house prices and market expectations. Housing purchase restrictions will continue to be determined on a city-by-city basis. This customised approach will enable local authorities to respond to conditions on the ground more quickly and effectively.

For the first-hand, high-end market, Shanghai will see significant new supply in the market. It is anticipated that the number of new project launches in 2019 will be greater than in 2018. Qufu Rd./Jing’an Joy City, Hanzhong Rd. and North Lujiazui Riviera are among the top supply regions.