Land supply more than doubles

56 pure for-sale residential land plots were auctioned in 2019, with an aggregate buildable area of 4.4 million sq m, up 140% from 2018.

- Overall first-hand commodity residential supply fell 13.6% in Q4/2019 to 1.85 million sq m, down 35.8% year-on-year (YoY).
- First-hand commodity residential transaction volumes fell by 8.5% quarter-on-quarter (QoQ) to 1.93 million sq m, up 25.8% YoY.
- Average transaction prices increased by 3.5% QoQ to RMB54,100 per sq m but remained down 11.7% YoY.
- First-hand, high-end apartment transaction prices fell by 2.7% QoQ on an index basis to an average of RMB104,300 per sq m, down 1.4% YoY.
- Second-hand transaction volumes totalled 16.25 million sq m in the first eleven months of 2019 up 36.2% compared to the same period in 2018.
- Nine pure for-lease residential land plots were auctioned in Q4/2019, with a combined buildable area of 81,000 sq m, all sold at their reserve pricing.
- Shanghai auctioned 56 pure for-sale residential land plots in 2019, with an average accommodation value (AV) of RMB19,200 per sq m.
- A bounce in average transaction prices in Q4/2019 and signs that policies are unlikely to tighten further have lent support to an improvement in sentiment, which could bring buyers back to the market and result in a slow but steady increase in prices in 2020.

“A stable policy environment and a solid end-user demand base continue to support the Shanghai residential market.”

JAMES MACDONALD, SAVILLS RESEARCH
**MARKET FOCUS – Lingang New Area**
The long-awaited Lingang talent housing regulations were finally released on 22 November 2019 after several months’ discussion. The purpose of the regulations is to attract a talented workforce and new industries to the area. The area is delineated by Dazhi River to the north, G1503 Expressway, Wahong Highway, and Lianggang Avenue to the west and the coastline to the east and south. The regulations clarify that non-locals are allowed buy homes within the area as long as they have paid five years of taxes in Shanghai, while also helping to dispel speculative claims, calming expectations and returning buyer sentiment to a degree of normality. Land sales in Lingang have remained focused on R&D and industrial developments since 2018, with only one plot for economic housing purpose auctioned off. A total of 1,979 apartments and 139 townhouses were launched to the market in 2019 with the initial announcement regarding Lingang inclusion in the FTZ in August spurring transactions to surge to 83 units per month, though this gradually subsided to 290 units per month in the fourth quarter. Given Lingang’s small contribution to the overall Shanghai residential market, the impact on the wider market is expected to be very limited. Nevertheless, the generally supportive nature of the regulations—namely the encouragement of homeownership, as opposed to restricting it—will further alter market expectations.

**OVERALL COMMODITY ALTERATION PRICE**

**First-hand Market** - New commodity residential supply fell 13.6% in Q4/2019 to 1.85 million sq m, down 35.8% YoY. First-hand commodity transaction volumes outpaced supply, reaching 1.91 million sq m in Q4/2019, down 8.5% QoQ, but up 25.8% YoY. Average transaction prices recorded quarterly increases in all areas as delineated by the city’s ring roads, while the citywide average transaction price also increased 3.6% in Q4/2019 to RMB53,400 per sq m.

**Second-hand Market** - Second-hand transaction volumes totalled 16.25 million sq m in the first eleven months of 2019, up 36.2% compared to the same period in 2018. Second-hand average transaction prices remained largely stable in 2019, reaching RMB38,000 per sq m in November, up 1.2% YoY. As prices in the first-hand market remained relatively stable, in large part due to restrictions on pre-sales permits, the gap between first- and second-hand pricing narrowed, disincentivising buyers from looking at the second-hand market when the first-hand product is available. The only exception to this might be in areas such as Qiantan where demand greatly outstrips supply and the expectation for future price growth is high. Improving sentiment may encourage homeowners to look at upgrading properties, which could increase inventory volumes in the second-hand market in 2020.

**HIGH-END RESIDENTIAL SALES MARKET**
1,041 units and a total of 200,000 sq m of new supply launched onto the first-hand, high-end residential market in Q4/2019, on a par with last quarter. New supply was seen in Lujiangu Riviera, as well as the secondary areas of Xuhui Riviera and Buyecheng (不夜城). Specific projects included The Mansion (中企滨江府) along with new batches of Ba Dai Tou (八埭头) and The Gallery (瑞虹新城悦庭).

Transaction volume remained roughly unchanged from last quarter at 176,000 sq m, down 38.6% YoY. The first-hand, high-end price index fell 2.7% QoQ to RMB104,300 per sq m, down 1.4% YoY. Price indices of all areas (primary, secondary and emerging areas) recorded decreases in Q4/2019. The second-hand high-end market recorded a pickup in activity in 2019, with the volume of units traded in a basket of large-scale, high-end, established developments recording an uptick compared to 2018. Shimao Riviera Garden (世茂滨江花园), one of the largest high-end developments in Shanghai, recorded 173 units sold, up 46.5% compared to 2018. Similar increases were recorded in projects such as Oriental Manhattan (东方曼哈顿), Yanlord Garden (仁恒滨江园) and Xiangmei Garden (香梅花园). Much of the activity was in the first half of the year with new first-hand stock being added to the market in the second half and creating increased competition for potential home buyers. Similar to the first-hand high-end market, average second-hand high-end transaction prices fell 2.6% in Q4/2019 to RMB106,900 per sq m but remained up 6.9% YoY. The 2020 market is expected to see new high-end launches keeping up pressure on the competition. If pre-sale price controls persist, the new supply in the first-hand market will continue to draw buyers away from the second-hand market, resulting in suppressed volumes and prices.
RESIDENTIAL LAND MARKET

A total of 20 pure for-sale residential land plots were sold in Q4/2019, with a total site area of 695,000 sq m, buildable area of 1.20 million sq m, and an AV of RMB19,700 per sq m. Most plots were in fringe districts such as Qingpu and Songjiang with only one central plot auctioned in Tianmu, Jing'an District, which sold for an AV of RMB55,000 per sq m, the most expensive residential land sold in 2019. The land was acquired by Shanghai Daning Assets Management, with a plot ratio of 3.42 and a buildable area of 17,000 sq m. No mixed-use residential plots were sold in Q4/2019.

Also in 2019, 56 pure for-sale residential land plots were transacted, with most of them sold at their reserve pricing. Five land plots were sold in the central districts including Yangpu, Jing'an, and Putuo, while the rest were in suburban districts. Land supply buildable area more than doubled in 2019 to 4.4 million sq m and will boost residential supply in Shanghai in the coming two to three years.

In Q4/2019, nine pure for-lease residential land plots were sold at their reserve prices with a total buildable area of 831,000 sq m. The most expensive one was located near HTH and sold for more than RMB10,900 per sq m. Aside from the pure residential plots, Guangzhong in Hongkou District and Zhangjiang in Pudong also had mixed-use land plots that sold with for-lease residential allocations.

RESIDENTIAL SALES MARKET OUTLOOK

In both the overall and high-end, first-hand Policyholders with mortgages not linked to the Loan Prime Rate (LPR) will be given a one-time choice to switch their mortgage policy to one that is linked to the LPR, another push by the government to make the loan market more market-oriented. The market is anticipating 2020 launches of new phases at Lakeville Residence, Fuxing Royale, Shanghai Arch, Shanghai Bay and OCT Suhe Creek, along with several other high-end projects.

Metro lines 14, 15, and 18 are expected to enter into service in the next two years, improving connectivity and opening up new markets. This, combined with a series of project launches, will present a number of buying opportunities in areas such as South Putuo and South Middle Ring Rd in Pudong (including Qiantan).

A bounce in average transaction prices in Q4/2019 and signs that policy is unlikely to tighten further have lent support to an improvement in sentiment, which could bring buyers back to the market and result in a slow but steady increase in prices in 2020.