Stalled sales start to recover

Quarterly transaction volumes fell to historical lows in response to social distancing and temporary sales office closures.

- Overall first-hand commodity residential supply fell 73.3% in Q1/2020 to 494,000 sq m, down 66.1% year-on-year (YoY).
- First-hand commodity residential transaction volumes fell by 50.4% quarter-on-quarter (QoQ) to 957,000 sq m, almost double that of new supply. Volumes also remain down 32.6% compared to the same period last year.
- Average transaction prices increased by 3.1% QoQ to RMB55,770 per sq m, down 1.3% YoY.
- First-hand high-end apartment supply totalled about 90,000 sq m in Q1/2020, up 65.5% YoY.
- First-hand high-end apartment transaction prices increased 2.2% in Q1/2020 to an average of RMB110,400 per sq m, down 3.4% YoY.
- Despite second-hand transaction volumes falling in the first two months of 2020, average transaction prices rose 1.3% to RMB39,600 per sq m in the three months to February.
- Eight pure for-sale residential land plots were sold in Q1/2020, with a total site area of 311,000 sq m, a buildable area of 588,000 sq m and an average accommodation value (AV) of RMB20,370 per sq m.

- More time spent at home during the city lockdown might mean homeowners become more aware of home defects and will seek out better designed and managed properties in future property upgrades.

“Shanghai’s residential sales volumes were greatly impacted by the COVID-19 outbreak and measures adopted to arrest its spread. Nevertheless, volumes are recovering with stable end-user demand and high levels of confidence in the market.”

JAMES MACDONALD, SAVILLS RESEARCH
MARKET FOCUS
Land approval power delegation
The revised “Land Management Law” was issued by the central government in March. The law allows all provinces to use farmland not already classified as “permanent arable land” for development purposes without first obtaining approval from the central government. Eight administrations, including Shanghai, will also be allowed to use “permanent arable land” for development in a one-year pilot program. However, local authorities will still be subject to annual quotas for land use and farmland protection.

It is hoped that the new law will engender more efficient land allocation and better utilise coastal regions’ scarce land supply, enabling authorities to allocate more land for development in areas that are in desperate need of it and curbing excess development in other areas.

OVERALL COMMODITY RESIDENTIAL MARKET
First-hand market - The first-hand commodity residential supply fell 73.3% in Q1/2020 to 494,000 sq m, down 66.1% YoY. In response to the COVID-19 outbreak, most sales offices were closed for the majority of February, while real estate trading centres closed for more than two weeks. Developers attempted to trade properties online and host virtual showrooms to attracting buyers, though the results were questionable. Limited new supply meant that transactions pushed down unsold inventory levels to 7.3 million sq m.

First-hand apartment transaction volumes fell 50.4% QoQ in Q1/2020 to 957,468 sq m, down 1.3% YoY. Meanwhile, prices increased 2.2% over the same period to an average of RMB55,770 per sq m.

Second-hand market - Second-hand high-end residential market saw transactional activity wane in the first two months of 2020. Areas straddling the Huangpu River continue to account for the largest portion of new units launched onto the market. Three projects launched in Q1/2020 - The Heritage (销售里) in January and then, as the market picked up in March, the Greenland Bund Centre (绿地海珀外滩) and Shanghai Arch Phase II (滨江凯旋门二期) were added to the market.

First-hand high-end apartment transaction volumes fell 26.5% in Q1/2020, totalling 129,000 sq m, down 1.8% YoY. Greenland Bund Centre apartments received pre-sale permission at a price of RMB138,000 per sq m at the beginning of March in a sign that the market might see an increase in high-end residential projects in the remainder of the year.

In contrast to the first-hand market, the second-hand high-end residential market saw transactional activity wane in the first two months of 2020. In contrast to the first-hand market, the second-hand high-end residential market saw transactional activity wane in the first two months of 2020. In response to the COVID-19 outbreak, most sales offices were closed for the majority of February, while real estate trading centres closed for more than two weeks. Developers attempted to trade properties online and host virtual showrooms to attracting buyers, though the results were questionable. Limited new supply meant that transactions pushed down unsold inventory levels to 7.3 million sq m.

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RESIDENTIAL LAND MARKET
The residential land market stayed relatively active in Q1/2020. Eight pure for-sale residential land plots were sold in Q1/2020, with a total site area of 311,000 sq m, a buildable area of 388,000 sq m, and an average accommodation value (AV) of RMB24,370 per sq m. Most of the land plots were sold at their reserve price, with developers tending to conserve capital reducing new outlays. Aside from a number of sizeable land plots auctioned in suburban locations, there were some large mixed-use land plots with for-sale residential components that were also auctioned.

Five pure for-lease residential land plots were sold, also at their reserve prices, with a combined buildable area of 802,000 sq m. The most expensive plot was situated in Huangpu District and sold for more than RMB10,900 per sq m with a buildable area of 78,000 sq m. There were also several mixed-use development plots sold with residential for-lease components, including the Hong Kong Land's acquisition of a Xuhui Riverside land plot.

RESIDENTIAL SALES MARKET OUTLOOK
The land market is expected to pick up in the second half of the year as the government looks to generate revenues from land sales, and developers have a clearer picture of market conditions and financing. In addition to projects that have already acquired their pre-sale certificates like The Heritage (锦绣里), Shanghai Arc Phase 2 (滨江凯旋门二期), Greenland Bund Centre (绿地外滩中心) and Jing’an Palace (静安府), the high-end market is also expected to see new units come from the launch of Forte (外滩豪景苑) and Lakeville Residence (爱庐天地).

The residential market has proven its resilience in response to the global financial crisis and restrictions on buyers; the question that many are asking now is its ability to shake off COVID-19. The first quarter would seem to indicate that it can, with volumes and pricing holding up comparatively well.

On the downside risk, an economic slowdown, potential for salary cuts and rising unemployment jeopardises ownership of properties with short-term bank forbearance. Additionally, developers that need to catch up sales may encourage more aggressive sales promotions, which may spook the market.

On the upside, the majority of buyers are end-users and upgraders with long-term ambitions to buy or trade up their properties. While equity markets have held up well in China, there is a risk to pricing and some households may choose to cash in and invest in a property versus take the risk that the stock market will remain stable. Lending and deposit rates, while not seen as a ready catalyst, may spook the market.

On the upside, authorities can loosen restrictions and open the market to a new batch of buyers, as we have seen happen in other cities in recent months.