Shenzhen - July 2019

MARKET IN MINUTES

Savills Research

Residential

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Serviced apartment rents remain stable

Although the city-wide vacancy rate in the Shenzhen serviced apartment market increased, rental performance stabilised during Q2/2019.

- Although there were no changes to housing purchase restrictions, home mortgage loan interest rates have fallen for seven consecutive months, from 5.62% in October 2018 to 5.20% in May 2019.
- By the end of May, new supply in Shenzhen's first-hand residential sales market fell to 605,184 sq m, down 8.9% quarter-on-quarter (QoQ).
- Transaction volume for the first-hand residential sales market increased by 821,206 sq m, up 2.9% QoQ.
- The average price in the first-hand residential sales market fell by 3.6% to RMB55,632 per sq m; however prices are up 1.3% year-on-year (YoY).
- The vacancy rate in Shenzhen's serviced apartment market increased by 1.3 ppts QoQ to 18.1%.
- The city-wide average rent of the Shenzhen serviced apartment market increased by 2.4% QoQ to RMB253 per sq m per month.
- The policy environment in the Shenzhen residential market is expected to remain unchanged in Q3/2019, as there are no recent signs of a relaxation of housing purchase restrictions.
- A series of internal and external factors, such as economic uncertainties related to trade tensions with the US, are expected to have an impact on the Shenzhen serviced apartment market during Q3/2019.

"Requirements for developers to assign an increasing percentage of their land plots to the construction of affordable housing, will reduce the supply of private commodity housing and could consequently push up commodity residential prices."

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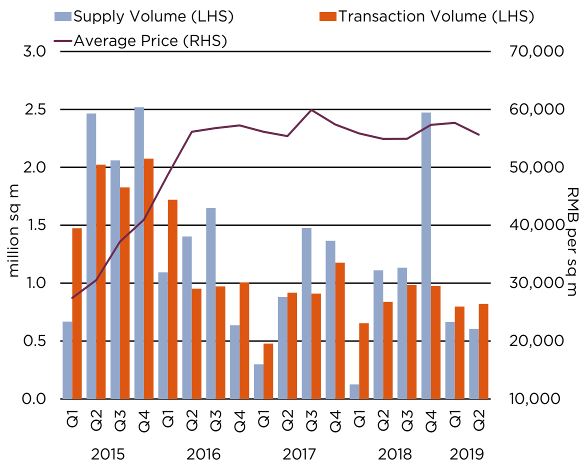
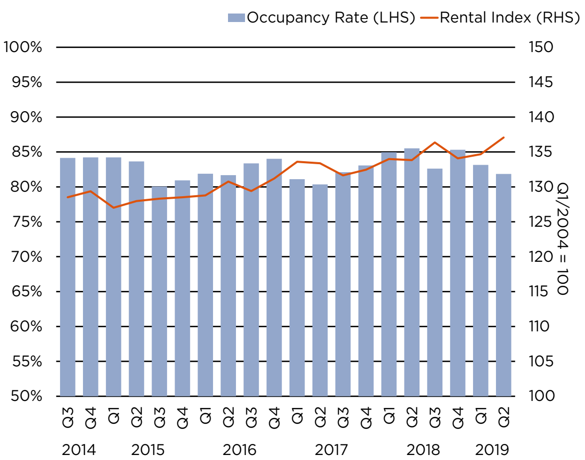
GRAPH 1: First-hand Residential Sales Market Supply Volume, Transaction Volume And Average Price, Q3/2014 to Q2/2019



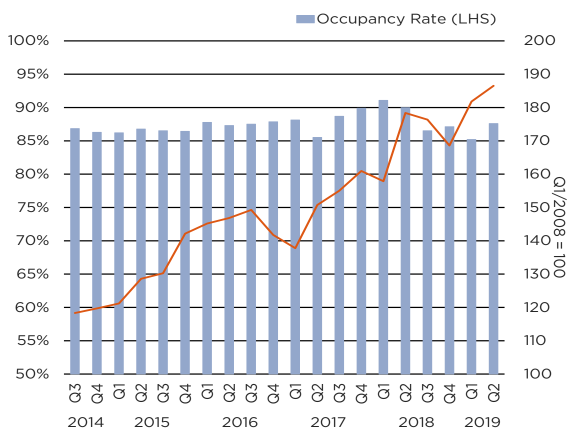
Source CRIC; Savills Research

GRAPH 2: Serviced Apartment Market Occupancy Rate And Rental Index, Q3/2014 to Q2/2019



Source Savills Research

GRAPH 3: Luxury Apartment Market Occupancy Rate And Rental Index, Q3/2014 to Q2/2019



Source Savills Research

MARKET OVERVIEW

Following the publication of the *Notification of Deepening the Reform of Housing System, Accelerating the Establishment of Housing Supply and Guarantee System, Establishing a Parallel System of Renting and Purchasing* in August 2018, the Shenzhen Bureau of Housing and Construction and the Justice Bureau of Shenzhen Municipality jointly published three more notifications regarding public rental housing, affordable commodity housing and talent housing, for public hearing and consultation on 29 April 2019. Although there were no changes to housing purchase restrictions, home mortgage loan interest rates decreased for seven consecutive months, down from 5.62% in October 2018 to 5.20% in May 2019. In addition, developer financing channels were tightened nationwide, following the crackdown in May 2019. Despite that, many developers continued to show strong interest in acquiring land for residential developments in Shenzhen, resulting in fierce competition and high accommodation values for transacted land lots during the auction on 24 June 2019.

SALES MARKET

By the end of May 2019, a total of 605,184 sq m were launched onto the sales market, down 8.9% QoQ. Most new launches were located in non-prime districts. Nanshan district contributed 23.6% of the total supply mainly due to massive new projects delivered in this area. Demand for residential properties remained robust as the total transaction volume increased by 2.9% QoQ to 821,206 sq m. For sales transactions, 81.7% were concluded in non-prime districts, especially Bao'an and Longgang, where rigid demand was the major driving force. Demand generated from first-home buyers and some upgrade demand for larger residential space dominated the market during the quarter. By the end of May 2019, the city-wide average first-hand residential transaction price decreased by 3.6% QoQ to RMB55,632 per sq m, up 1.3% YoY.

LEASING MARKET

Total stock of the serviced apartment market in Shenzhen remained unchanged as no new projects entered the market during Q2/2019. As one of the negative impacts of the economic uncertainties, some MNCs postponed or even cut their plans to deploy senior executives to Shenzhen, leading to a small contraction of demand for serviced apartments. Echoing this, the city-wide average vacancy rate of the Shenzhen serviced apartment market increased by 1.3 ppts QoQ to 18.1% by the end of the quarter. However, the market's rental performance continued to be stable during Q2/2019. Many landlords remained confident over near-term market performance as demand sourcing from local clients was expected to outpace overseas counterparts. Supported by this view, most landlords chose to maintain the same level of or even raise rents for some projects. The result was a 2.4% QoQ increase in the city-wide average rents of the Shenzhen serviced apartment market, which rested at RMB253 per sq m per month by the end of Q2/2019.

MARKET OUTLOOK

The policy environment of the Shenzhen residential market is expected to remain unchanged in Q3/2019, with no recent signals of relaxing the housing purchase restrictions. However, in the near future, areas of land available to develop into commodity housing schemes will become scarcer. While the affordable commodity housing scheme should help to alleviate the rigid demand for housing, the new policies cited earlier, targeted at reducing the area of developing commodity housing while increasing the supply of benefit and affordable housing schemes, should result in an impetus to further growth in capital values of commodity residential projects going forward.

A series of internal and external factors, such as the economic uncertainties, are expected to have an impact on the Shenzhen serviced apartment market during Q3/2019. However, talent schemes supported by the local government with financial incentives should help create more leasing and purchasing demand from highly educated and high-income workers. Performance of the Shenzhen serviced apartment market should therefore be strengthened.