MARKET IN MINUTES
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Residential

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Policy intervention drives market

Both of citywide new supply and transaction volume surged in Q2/2020, with emerging areas being the highlight of Shenzhen's residential market.

- The average loan interest rate for the first-time residential property purchasers in Shenzhen rose by 1.0 bps month-on-month (MoM) to 4.98% in June 2020.
- Shenzhen's government temporarily relaxed the requirements for project pre-sales permits, encouraging a market supply recovery.
- Citywide new supply of the first-hand commodity residential properties increased by 113.5% quarter-on-quarter (QoQ) but decreased by 47.3% year-on-year (YoY) to 675,477 sq m during Q2/2020.
- The transaction volume of the first-hand commodity residential properties surged to 1.1 million sq, up 43.3% QoQ but down 14.7% YoY.
- Citywide average transaction price structurally decreased by 14.0% QoQ and 0.2% YoY to RMB55,207 per sq m by the end of Q2/2020 with 82.8% of the total transaction volume coming from emerging submarkets.
- Citywide average vacancy rate in the serviced apartment market decreased by 6.1 percentage points (ppts) QoQ to 31.4% during Q2/2020. The citywide average rent rebounded to RMB247.2 per sq m per month, up 2.7% QoQ on a rental index basis.
- Due to the twin impacts of the supply expansion and demand retrenchment resulting from recent government policies, a stable price trend is expected in the 2H/2020.

"The local authorities continued to show a strong commitment to stabilising housing prices with the implementation of a series of market intervention policies. Underpinned by strong purchasing demand amidst COVID-19, a rapid market digestion and stable price trend are expected in 2H/2020."

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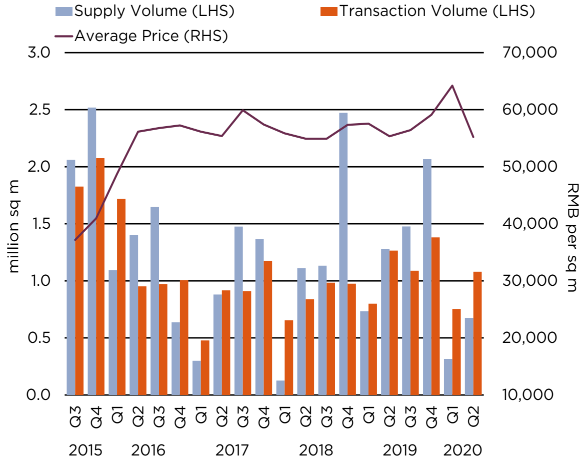
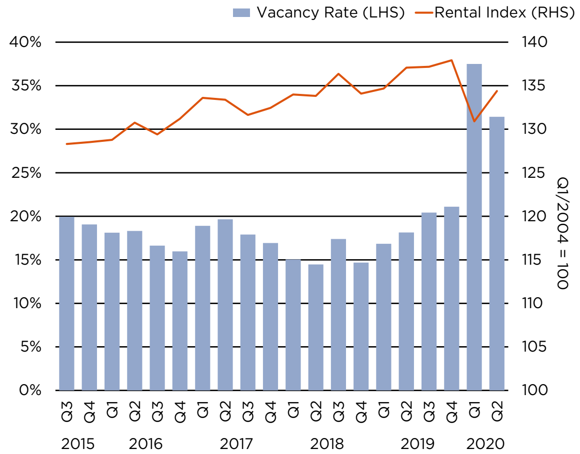
GRAPH 1: First-hand Residential Sales Market Supply Volume, Transaction Volume And Average Price, Q3/2015 to Q2/2020



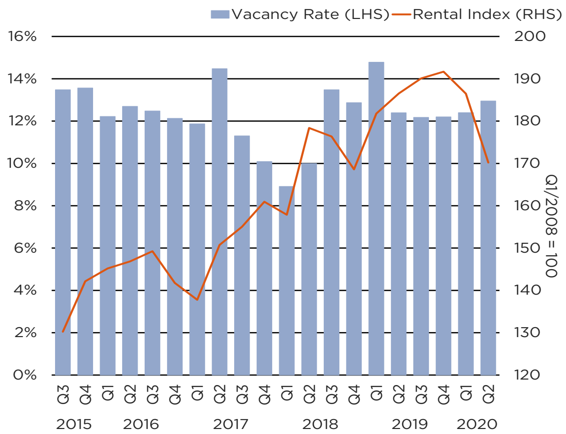
Source CRIC; Savills Research

GRAPH 2: Serviced Apartment Market Vacancy Rate And Rental Index, Q3/2015 to Q2/2020



Source Savills Research

GRAPH 3: Luxury Apartment Market Vacancy Rate And Rental Index, Q3/2015 to Q2/2020



Source Savills Research

MARKET OVERVIEW

In consideration of the pause caused by COVID-19 on the Shenzhen's first-hand commodity residential property market, coupled with the obvious structural imbalance between market supply and demand, Shenzhen's government imposed a series of incentive policies during Q2/2020 to propel the post-epidemic market recovery and sustainable development. For example, it temporarily relaxed the requirements for project pre-sales permits and unveiled a plan for increasing residential land supply in addition to continually building more commercial and affordable housing schemes in 2020. Meanwhile, the easing of epidemic control and prevention measures, in conjunction with the resumption of work and production, resulted in a surge in residential market activities. This was evidenced by the notable QoQ upturns in both citywide new supply and transaction volume in Q2/2020. However, both metrics saw negative YoY changes, implying that the market was not fully recovered from the epidemic by the end of the quarter.

SALES MARKET

The citywide new supply of the first-hand commodity residential properties increased by 113.5% QoQ but decreased by 47.3% YoY to 675,477 sq m during Q2/2020, with 11 projects obtaining project pre-sale registries and launch permits. Notably, 81.5% of the new supply was in emerging submarkets. Shenzhen's government was committed to citywide development of infrastructure and auxiliary facilities, including subways, schools and retail premises, which were some of the primary factors influencing residential purchaser's preference and decisions.
This was the case at the Royal Mansion in Science City of Guangming District, which launched its Phase I for sale in the quarter, but reportedly less than 400 out of 8,998 qualified applicants were allowed to purchase by lottery. Meanwhile, as pent-up demand was gradually released on the back of the containment of the epidemic, the citywide transaction volume surged by 43.3% QoQ to 1.1 million sq m, which was 1.6 times of new supply. Although it saw a YoY decrease of 14.7%, the supply shortage was one of the key reasons given for sustainably strong demand for the Shenzhen residential property market. Despite the sound fundamentals and the strong demand, the ongoing price ceiling policy constrained price growth. On top of that, as 82.8% of the total transaction volume took place in emerging submarkets, the citywide average transaction price structurally decreased by 14.0% QoQ and 0.2% YoY to RMB55,207 per sq m by the end of Q2/2020.

LEASING MARKET

The epidemic prevention and control measures for domestic travelling and business activities eased in Q2/2020, and some foreign executives were exempted from China's cross-border travel ban. This enabled some long-stay demand to resume during the quarter. The short-stay market gradually recovered because of the volume of domestic business travellers picked up in Shenzhen. As a result, the citywide average vacancy rate decreased by 6.1 ppts QoQ to 31.4% during the quarter.

Although most of the projects continued to keep rentals competitive in a bid to stimulate the demand, a small number of projects started to adjust their rents back to normal, retracting discounts they previously offered. As a result, after a sharp rental decrease in Q1/2020, the citywide average rent for the Shenzhen serviced apartment market rebounded to RMB247.2 per sq m per month during Q2/2020, up 2.7% QoQ on a rental index basis.

MARKET OUTLOOK

In addition to showing a continually strong commitment in stabilising housing prices and the housing market, the local authorities have taken more incentive initiatives than just policy intervention, such as the easing the requirements for project pre-sales permits in 2020, unveiling its annual plan in Q2/2020 of building 63,000 commercial housing units and 81,000 affordable housing units and listing new projects scheduled for sale within the year. Not only do these indicate an increase in the future new supply but also soothe market concerns over scarcity. Furthermore, the government has expanded the regulatory intervention in the residential sales market since July, imposing unprecedented strength and scope through a series of restrictive conditions on purchasing eligibility of potential purchasers. Although the number of qualified purchasers is therefore anticipated to decrease, purchasing demand should remain abundant to support the future market digestion. With the collective effect of all these ongoing regulations, an increase in supply, demand retrenchment and a stable price trend should continue in 2H/2020.

Given the uncertainties of the pandemic, border control restrictions are expected to carry on, putting a ceiling on the external demand recovery and leading to persistent pressure on landlords in the serviced apartment market. The citywide average vacancy rate is expected to edge down, supported by the potential easing of border controls between the mainland and Hong Kong in the next few months. However, the market is not expected to recover to pre-epidemic levels unless the nationwide border control restrictions are eased or lifted, and the citywide average rent is anticipated to stay flat.