

# CHINA RESIDENTIAL MARKET REPORT

2021



CUSHMAN &  
WAKEFIELD





# Macro Environment

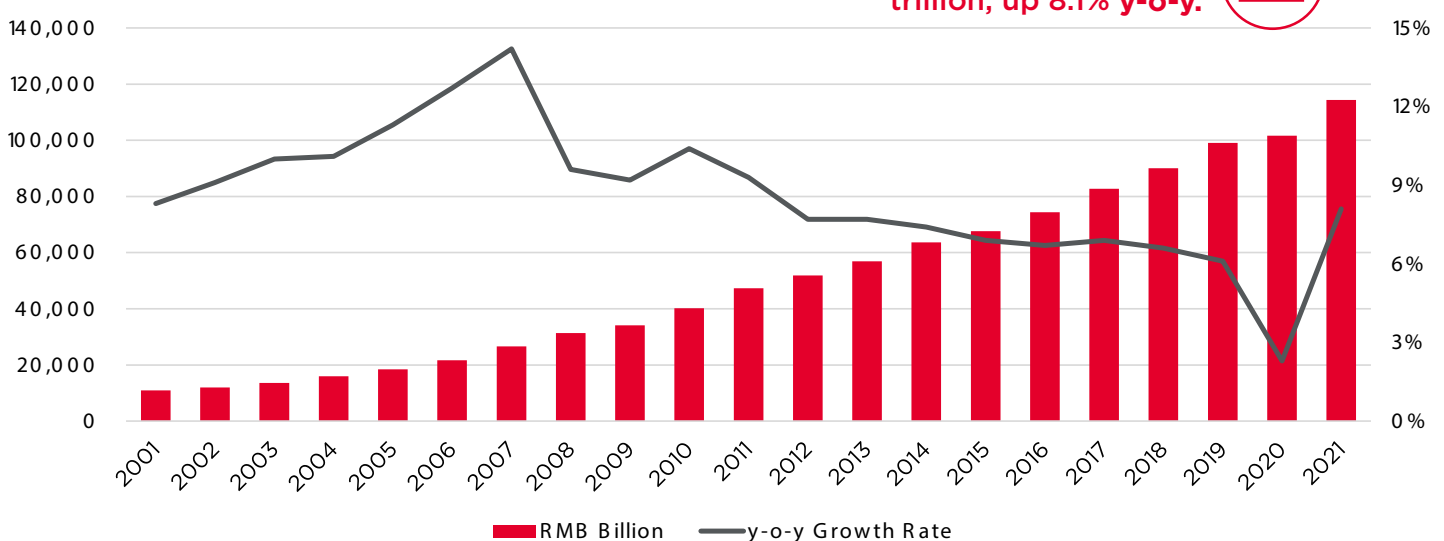
## China's full-year GDP grew 8.1% y-o-y, supported by a recovering economy

China's GDP reached RMB114.4 trillion in 2021, a rise of 8.1% y-o-y and two-year average growth of 5.1% at constant prices. The nation's economy continued to recover in 2021, with the economic growth rate outperforming expectations, as well as outpacing most of the world's other major economies.

Total retail sales of consumer goods for the year grew 12.5% y-o-y, with a two-year average growth rate of 3.9%. In Q4, driven by the National Day holiday and the Double Eleven e-commerce promotion periods, total retail sales of consumer goods reached RMB12.3 trillion, demonstrating a recovering and more positive trajectory.

### China GDP and Growth Rate

China GDP totaled RMB114.4 trillion, up 8.1% y-o-y.



Sources: National Bureau of Statistics of China, Cushman & Wakefield Research.

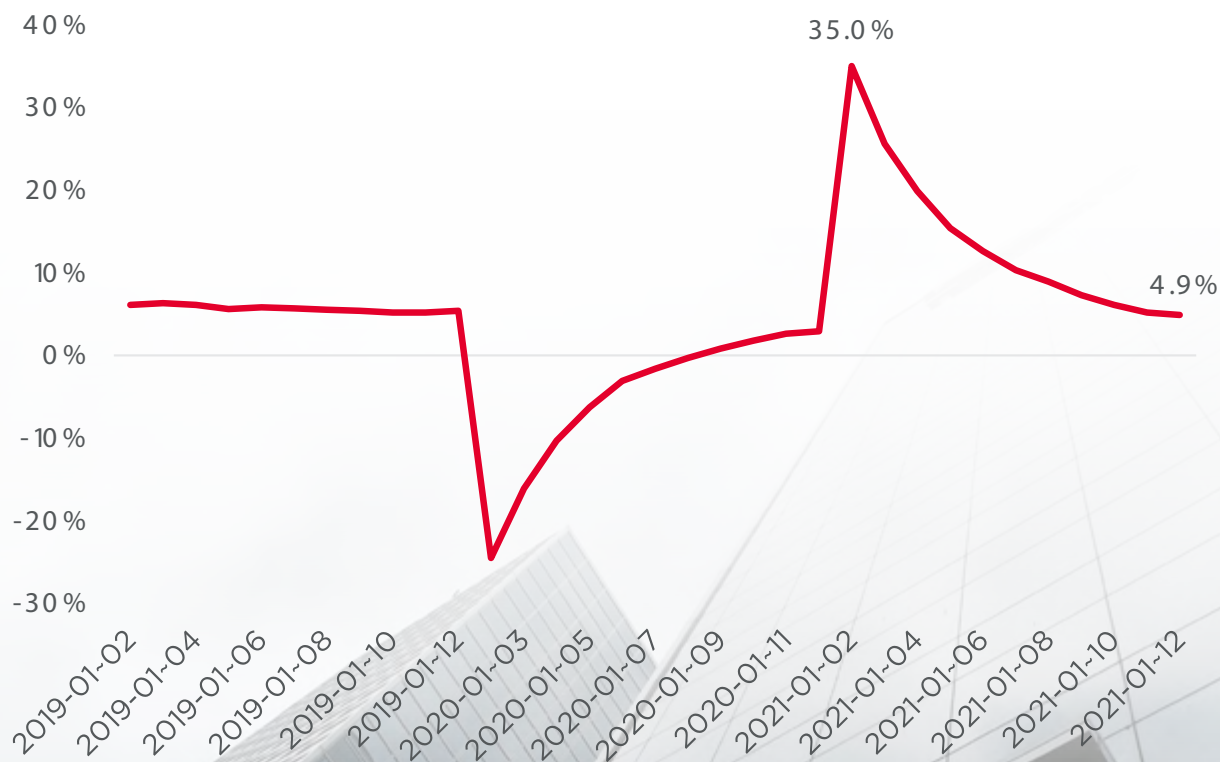
# Effective investment expanded, with fixed asset investment in high-tech industries continuing to strengthen

Investment in fixed assets (excluding rural households) reached RMB54.45 trillion in 2021, a rise of 4.9% over the previous year, with average two-year growth of 3.9%.

Specifically, high-tech industries have played a leading role. In 2021, investment in high-tech industries increased by 17.1% y-o-y, 12.2 percentage points higher than the growth rate of overall investment and helping to drive up overall investment growth by 1.2 percentage points.

With sustained efforts from a proactive fiscal policy, prudent monetary policy, solid progress of major projects outlined in the 14th Five-Year Plan, and the accelerated issuance of local government special bonds, investment in fixed assets is expected to steadily strengthen.

## Growth Rate of Investment in Fixed Assets



Sources: National Bureau of Statistics of China, Cushman & Wakefield Research.





# Residential Market



# Investment growth in real estate development slowed, with overall land purchase area shrinking

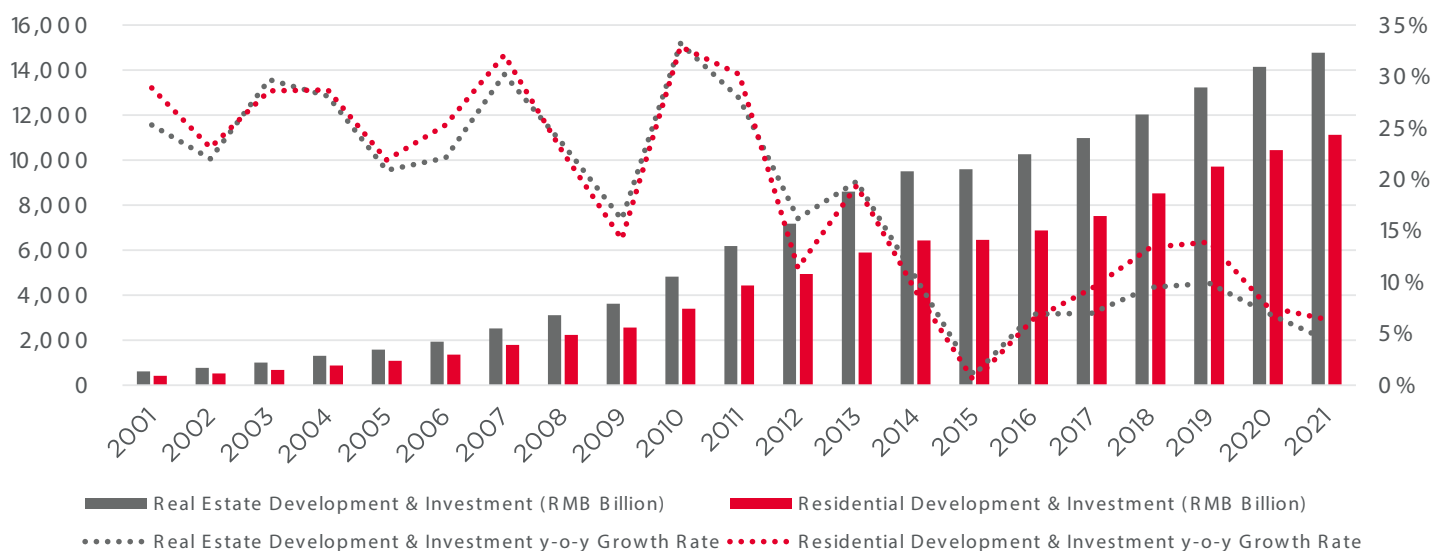
Investment in real estate development for the year increased by 4.4% y-o-y, down 2.6 percentage points on the performance in 2020, while residential investment rose by 6.4% y-o-y, down 1.2 percentage points on the prior year.

The land acquisition area by real estate development enterprises totaled 215.9 million sq m in 2021, a drop of 15.5% y-o-y. The new land auctions mechanism significantly cooled the market, driving a

sharp change from an overheated state at the beginning of the year to distinctly cold at the end. However, in order to achieve the policy-based housing supply targets, land supply policies are expected to be refined on an ongoing basis. “Hot market” cities are expected to expand their land supply and appropriately increase project profit margins to support land transactions.

## Real Estate and Residential Development Investment

Investment in real estate development was RMB14.8 trillion, up 4.4% y-o-y, and in residential development was RMB11.1 trillion, up 6.4% y-o-y.

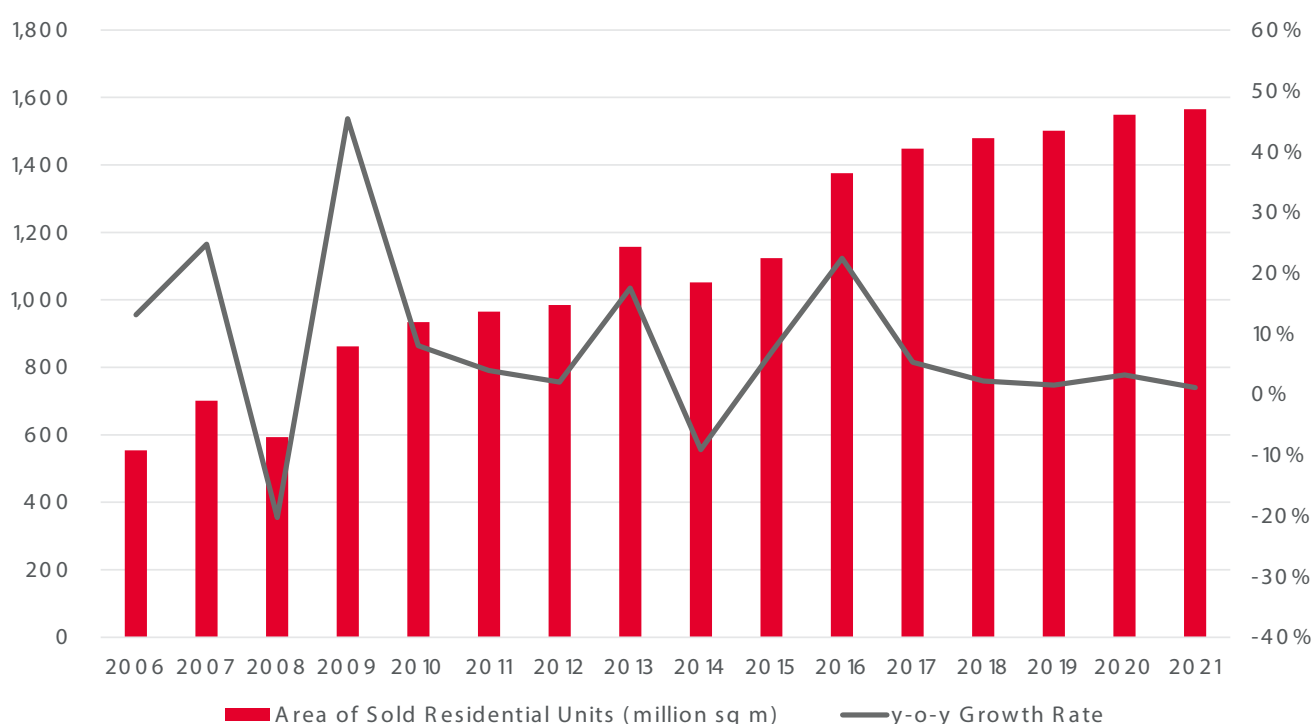


Sources: National Bureau of Statistics of China, Cushman & Wakefield Research.

# Sales of new residential units turned from hot to cold in the year, indicating the market is entering an adjustment stage

## Total Area of Sold New Residential Units

Total floor space of sold residential units reached 1,565 million sq m, up 1.1% y-o-y.



Sources: National Bureau of Statistics of China, Cushman & Wakefield Research.

Total floor space area of sold new residential units in 2021 reached 1,565 million sq m, up 1.1% y-o-y, with the annual growth rate dropping 2.1 percentage points.

Although the full-year figure was up y-o-y, the total area of sold new residential units in Q4 alone fell by 19.8% y-o-y to 411 million sq m, while total consideration sank by 20.2% y-o-y to RMB4.08 trillion.

The continued issuance of regulatory policies in 2H gradually cooled the market and impacted sales of new residential units. Consequently, sales volume in the second half of the year was significantly lower than in the first half, as well as in the same period last year. The overall residential market experienced a marked change from hot to cold throughout the year, indicating that the market is now entering an adjustment stage.

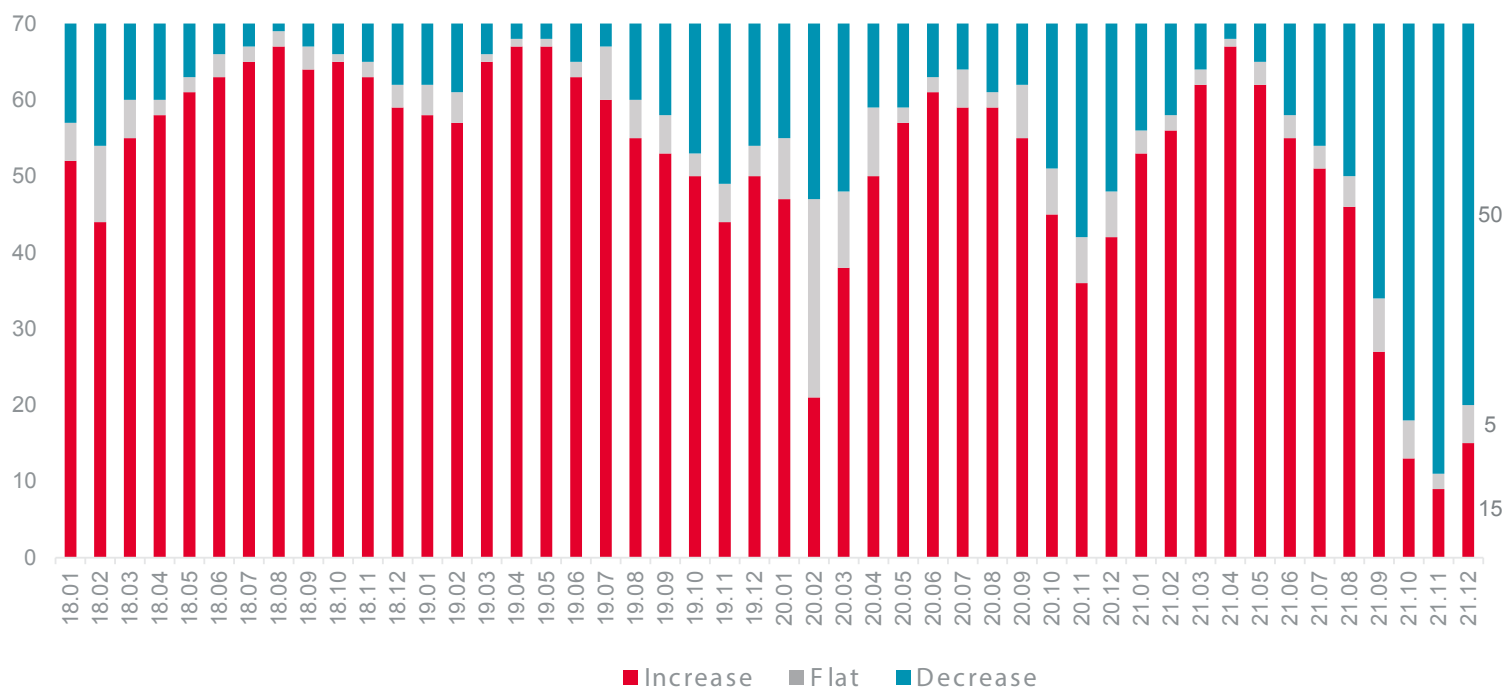


# The number of major cities with falling new home prices hit a record high

In December 2021, 15 cities in the study of 70 cities recorded m-o-m price increases for newly constructed commercial residential buildings, while 50 cities saw m-o-m price decreases. November 2021 saw the largest number of cities with falling prices in the study since March 2015, as an increasing number of homebuyers stayed on the sidelines, leading to a drop in transaction volume.

Regulatory policies have covered multiple areas, including restrictions on purchases, loans and sales; housing quality management, optimization of land auction rules, and affordable houses. The market responded, with a subsequent impact on the scale of property market transactions.

**Price Change Trend for Newly Constructed Commercial Residential Buildings in 70 Large and Medium-Sized Cities**



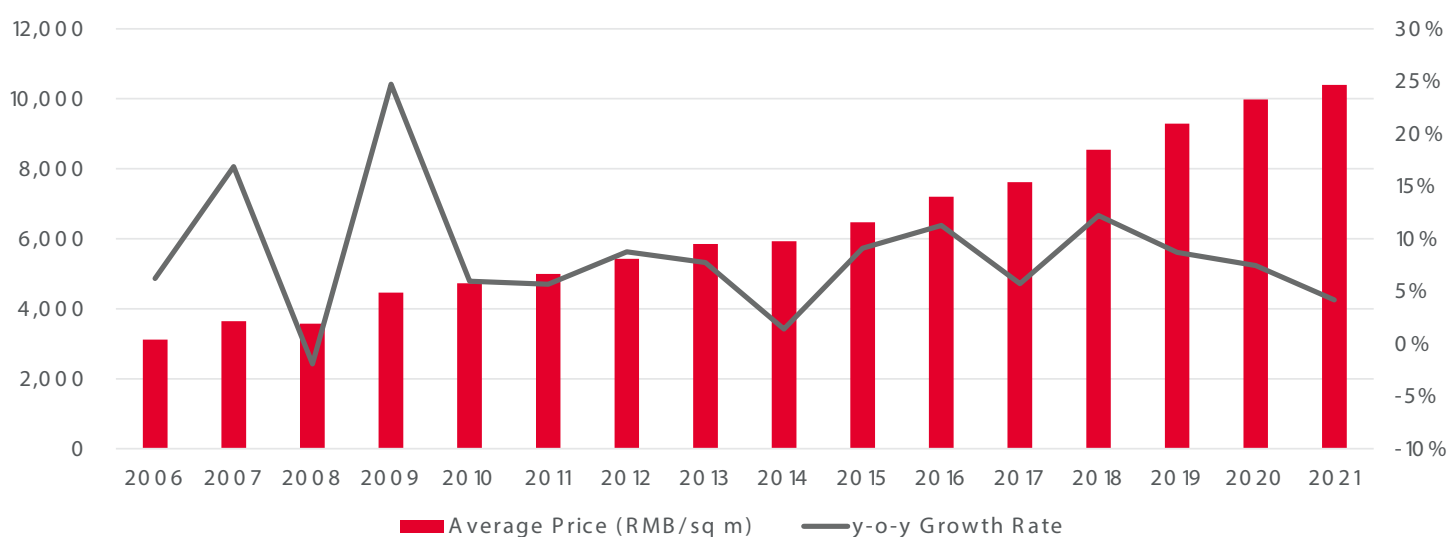
Sources: National Bureau of Statistics of China, Cushman & Wakefield Research.



**The annual average sale price broke the RMB10,000 mark for the first time, although Q4 alone dropped 3.4% q-o-q**

## Average Sale Price of Residential Units

The average sale price of residential units reached RMB10,396/sq m, up 4.2% y-o-y.



Sources: National Bureau of Statistics of China, Cushman & Wakefield Research.

By the end of 2021, the full-year average sale price of new residential units reached RMB10,396 per sq m, up 4.2% y-o-y, breaking the RMB10,000 mark for the first time. However, quarter-by-quarter, the average price growth rate trended down. In Q4 alone, the average sale price of new residential units was back at RMB9,920 per sq m, down 3.4% compared to the RMB10,267 per sq m seen in Q3.



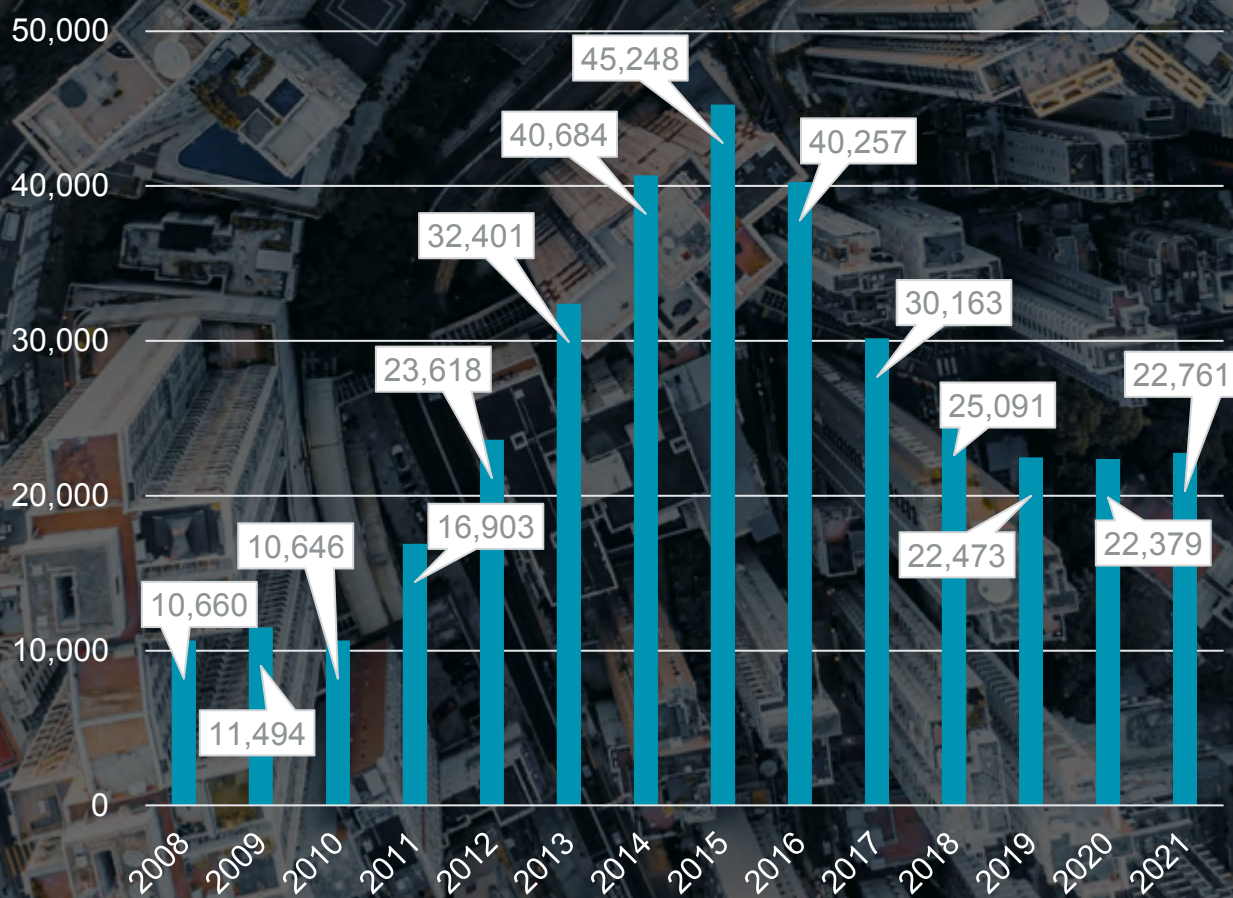
## Area of residential units for sale remained stable

By the end of 2021, the total area of residential units for sale was at 227.61 million sq m, up just 3.41 million sq m since the end of Q3, and up 3.82 million sq m y-o-y, hence remaining relatively flat.

Growth of market demand slowed in the year, primarily due to the new land auction mechanism, the early launch of new properties by developers, and the weakening of market sentiment. However, the overall area of residential units for sale has remained quite stable since 2019, reflecting the trend of overall balance between supply and demand.

### Area of Residential Units for Sale

Unit: 10,000 sq m



Source: National Bureau of Statistics of China, Cushman & Wakefield Research.





# Typical Markets

## 24 Key Cities Across The Country

The analysis of the market data of 24 Key Cities has been conducted in the form of sample groupings. The samples selected and groupings are:

**Tier 1 cities:** Beijing, Shanghai, Guangzhou, Shenzhen

**Developed Tier 2 cities:** Tianjin, Chongqing, Suzhou, Wuhan, Chengdu, Hangzhou, Nanjing, Qingdao, Changsha, Ningbo

**Ordinary Tier 2 cities:** Zhengzhou, Shenyang, Xi'an, Hefei, Fuzhou, Changchun, Nanchang, Xiamen, Nanning and Hohhot

The data for Hangzhou, Ningbo, Nanchang and Hohhot do not include data for government subsidized housing units, while the data for the remaining cities do include government subsidized housing units.



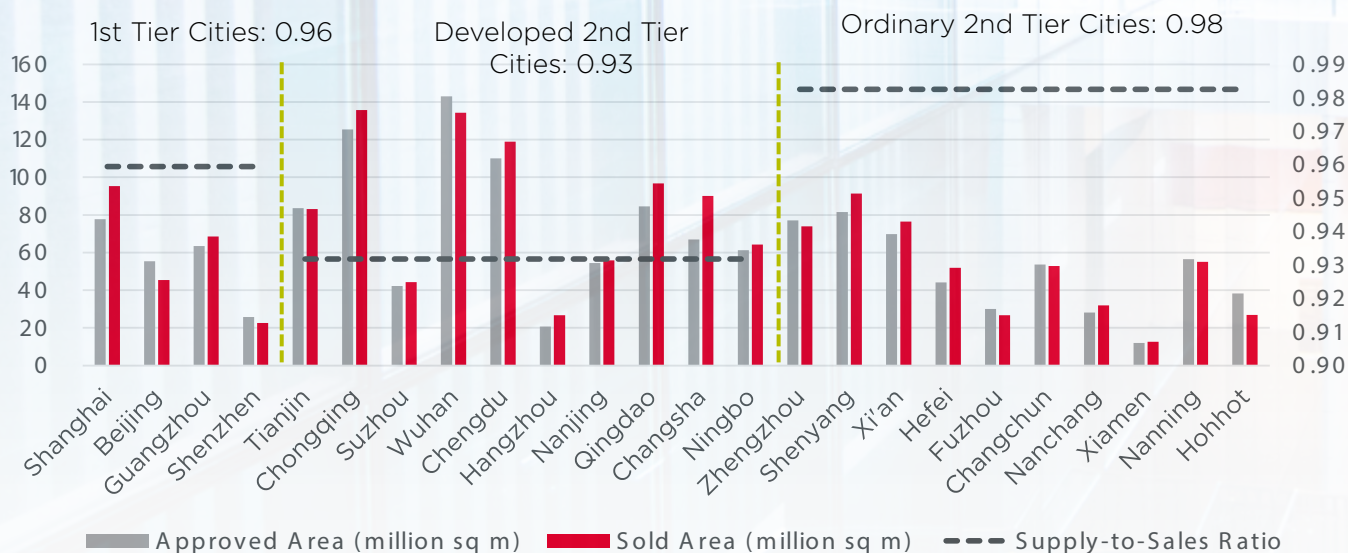
# The accumulative supply-to-sales ratio was only 0.95, with hot city markets mostly undersupplied

From 2016 to 2021, the accumulative area approved for sale in the 24 Key Cities study totaled 1.51 billion sq m, while the accumulated sold area was 1.58 billion sq m. The supply-to-sales ratio was 0.95.

The supply-to-sales ratios for Tier 1, Developed Tier 2 and Ordinary Tier 2 cities were 0.96, 0.93 and 0.98, respectively, demonstrating a mutual supply shortage. In particular, the Developed Tier 2 category

supply-to-sales ratio was below the average of the 24 Key Cities. Apart from Tianjin and Wuhan, the other eight Developed Tier 2 cities' sold area was greater than new supply volume over last six years, indicating a huge absorption of previous stock during the period. The residential market scale of Ordinary Tier 2 cities was generally smaller and less active than Developed Tier 2, and their supply and demand forces remained relatively balanced.

## Accumulative Approved Area and Sold Area of New Residential in Key Cities (2016-2021)



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.

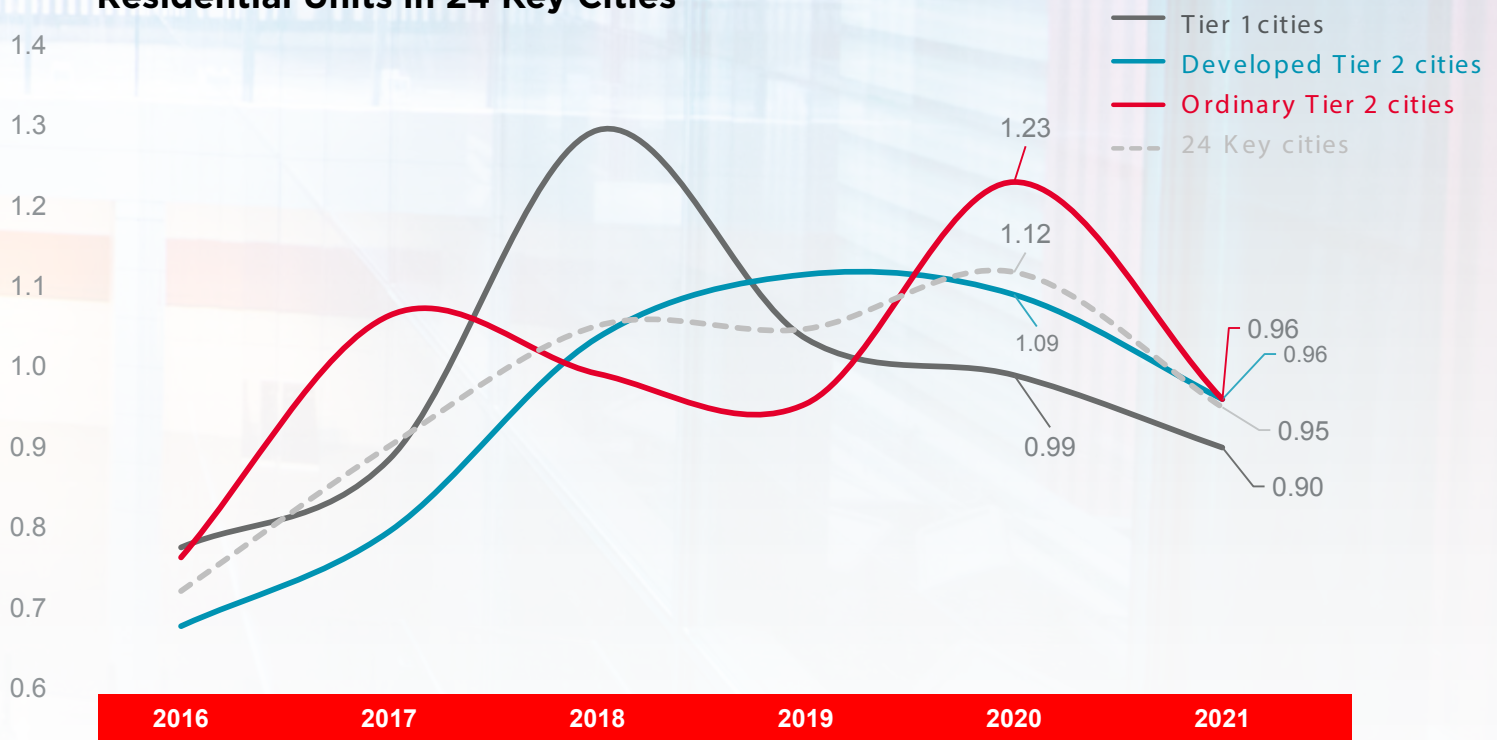


# Supply-to-sales ratio for the full year fell to 0.95, with both supply and sold area shrinking in Q4

In 2021, the approved area in the 24 Key Cities reached 257.47 million sq m, down 7.3% y-o-y, while the sold area totaled 270.68 million sq m, up 8.9% y-o-y. The supply-to-sales ratio for the full year dropped to 0.95 from 1.12 in 2020, with the figure in Tier 1 cities dropping from 0.99 in 2020 to 0.90. The other Grades also fell to less than 1.

Local governments continued to follow the central government's policy of "housing is for living in, not for speculation." The pressure from policies implemented on the supply and demand sides of the real estate market resulted in a significant y-o-y contraction in the scale of supply and sales. In Q4, the approved area and sold area of the 24 Key Cities dropped 25.3% and 21.0% y-o-y, respectively.

## Annual Trends of Supply-to-Sales Ratio of New Residential Units in 24 Key Cities



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.

## Full-year sold area of 24 Key Cities up 8.9% y-o-y

In 2021, monthly average transaction volumes of Tier 1 cities, Developed Tier 2 cities and Ordinary Tier 2 cities rose by 20.8%, 7.1%, and 6.2% y-o-y, respectively, at 11.8, 8.7, and 14.9 percentage points higher than last year. These figures demonstrate active demand for new residential units in the key cities.

### Monthly Average Transaction Volumes for the Three City Groups

(Unit: million sq m)



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.

The indicator reflects the sum of monthly average transaction volumes of selected sample cities in the corresponding group.



## Market demand in Tier 2 cities softened in 2H

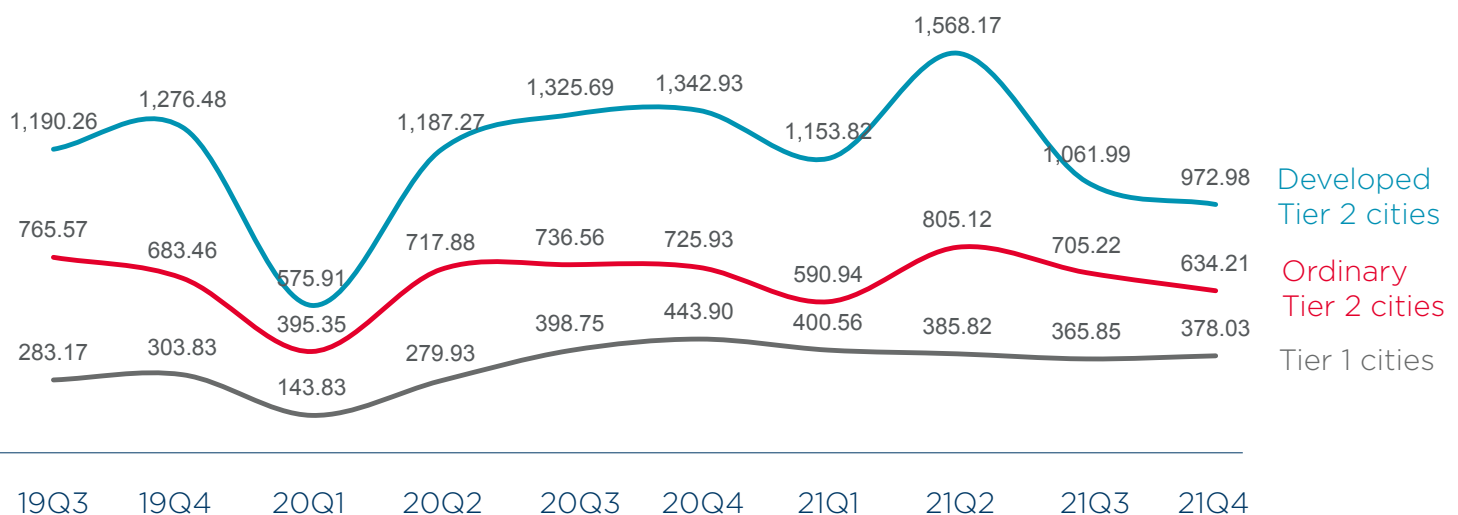
Quarterly overall average monthly transaction volumes in the 24 Key Cities recorded a drop in Q4. Tier 1 cities grew 3.3% q-o-q, but Developed and Ordinary Tier 2 cities were down 8.4% and 10.1% q-o-q, respectively, indicating that demand for new residential units in Tier 2 cities, especially in the Ordinary group, softened towards the year's end. The wait-and-see sentiment is becoming stronger under the current policy and market environment.

for rigid housing demand, combined with promotion activities from real estate firms, should reactivate market demand and drive the recovery of transaction volumes. Transaction activities in hot city markets with solid economic fundamentals are forecast to increase, supported by relief of supply shortages, while transaction volumes in city markets with weak economic fundamentals and sufficient supply are expected to remain at relatively low levels.

Relaxed credit policies and other support

### Quarterly Trends of Monthly Average Transaction Volumes for the Three City Groups

(Unit: million sq m)



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.

The indicator reflects the sum of monthly average transaction volumes of selected sample cities in the corresponding group.

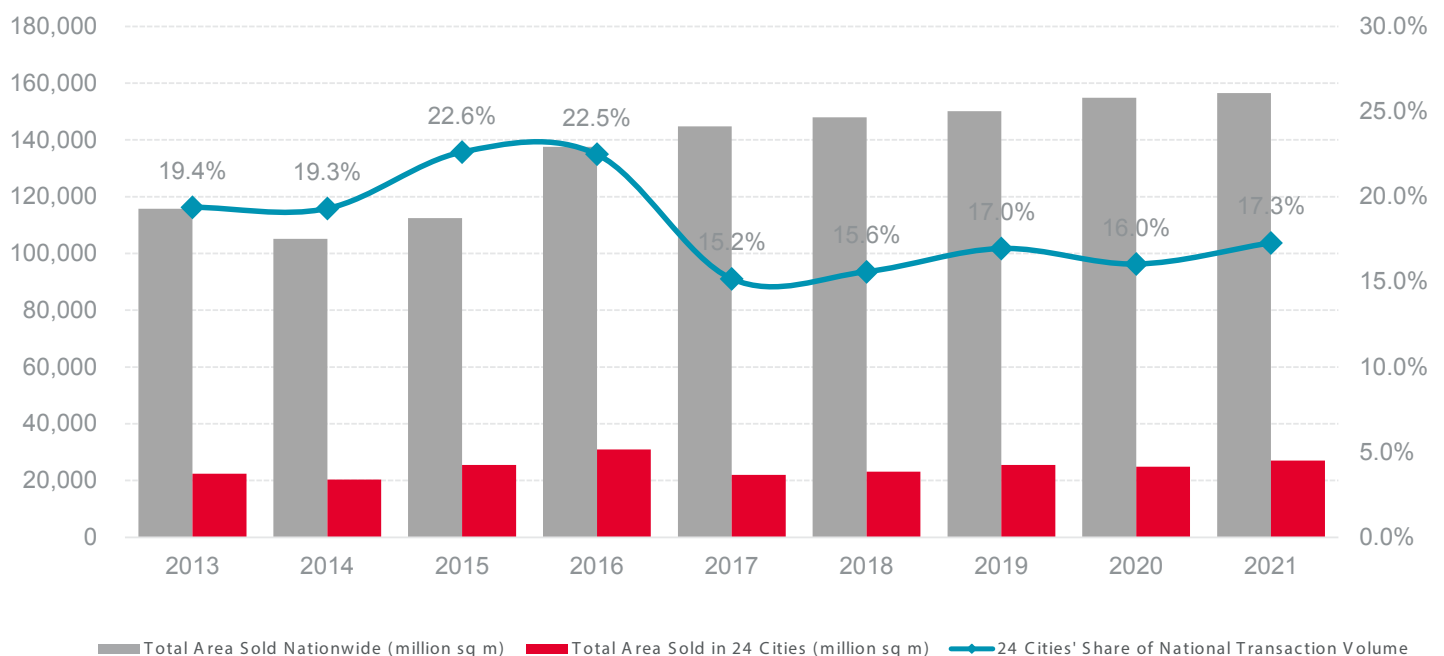
## 24 Key Cities' share of total transaction volume remained stable

The total sold area of new residential units was 1.57 billion sq m for the year, up 1.1% y-o-y, while 270.68 million sq m was sold in the 24 Key Cities, up 8.9% y-o-y.

Total new residential transaction volume for the 24 Key Cities for the year 2021

represented 17.3% of the national total, up 1.3 percentage points on the previous year. Due to the higher market demand and stronger risk resilience in the hot city markets, the 24 Key Cities' share of the national total is expected to continue to rebound.

### 24 Key Cities' Share of National New Residential Transaction Volume



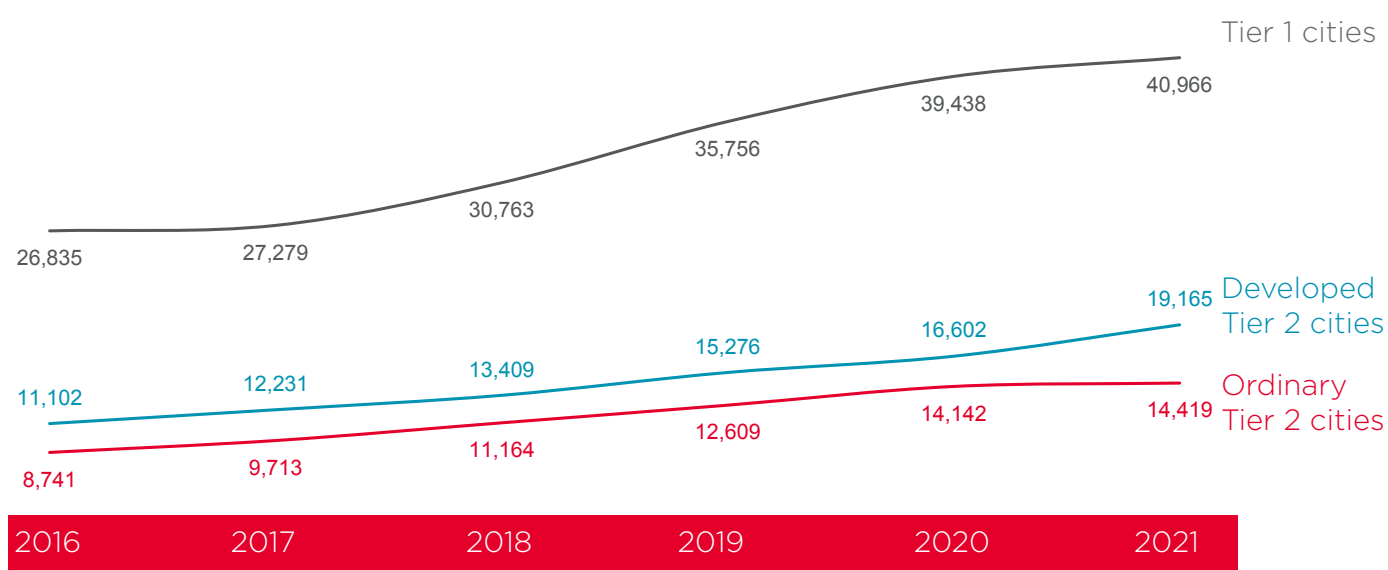
Sources: CREIS, Urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.



# Price growth in Developed Tier 2 cities far exceeds the national average

## Yearly Trends of New Residential Unit Average Prices for the Three City Groups

(Unit: RMB/sq m)



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.

In 2021, average prices of new residential units in China rose by 4.2% y-o-y, with Tier 1, Developed Tier 2, and Ordinary Tier 2 cities up 3.9%, 15.4% and 2.0%, respectively.

The comparison of growth rates of 2021 and 2020 shows a marked divergence, with Tier 1 and Ordinary Tier 2 declining by 6.4 and

10.2 percentage points, respectively, while Developed Tier 2 rose by 6.8 percentage points.

The Developed Tier 2 cities demonstrated the boldest upward trend, with a growth rate far exceeding the country's average.

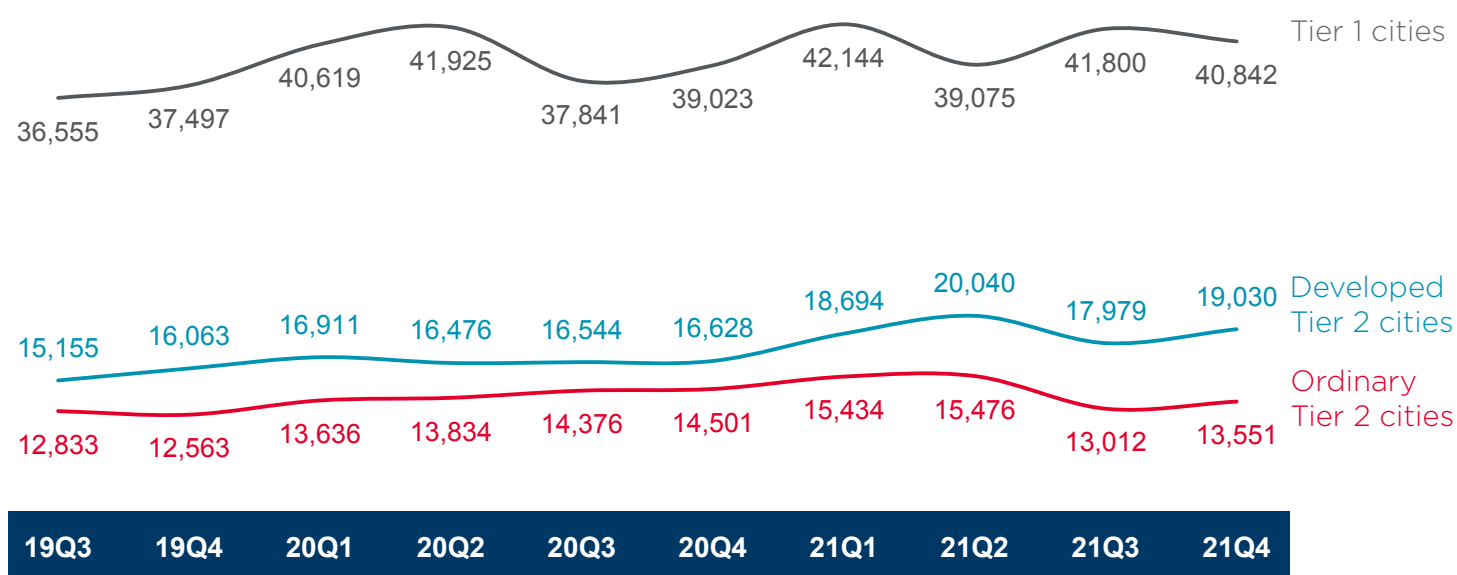
## Average prices of 24 Key Cities grew 3.6% q-o-q in Q4

In Q4, average prices in the Developed and Ordinary Tier 2 city groups rose by 5.8% and 4.1% q-o-q, respectively, while Tier 1 cities dropped 2.3% q-o-q.

Shenzhen saw the most significant q-o-q drop among the Tier 1 cities, at 20.5%, impacted by the location of new housing projects launched in the year. Among the Tier 2 cities, nine cities recorded q-o-q drops in Q4 while 11 cities saw increases.

### Comparison of Quarterly Trends of Average Prices for the Three City Groups

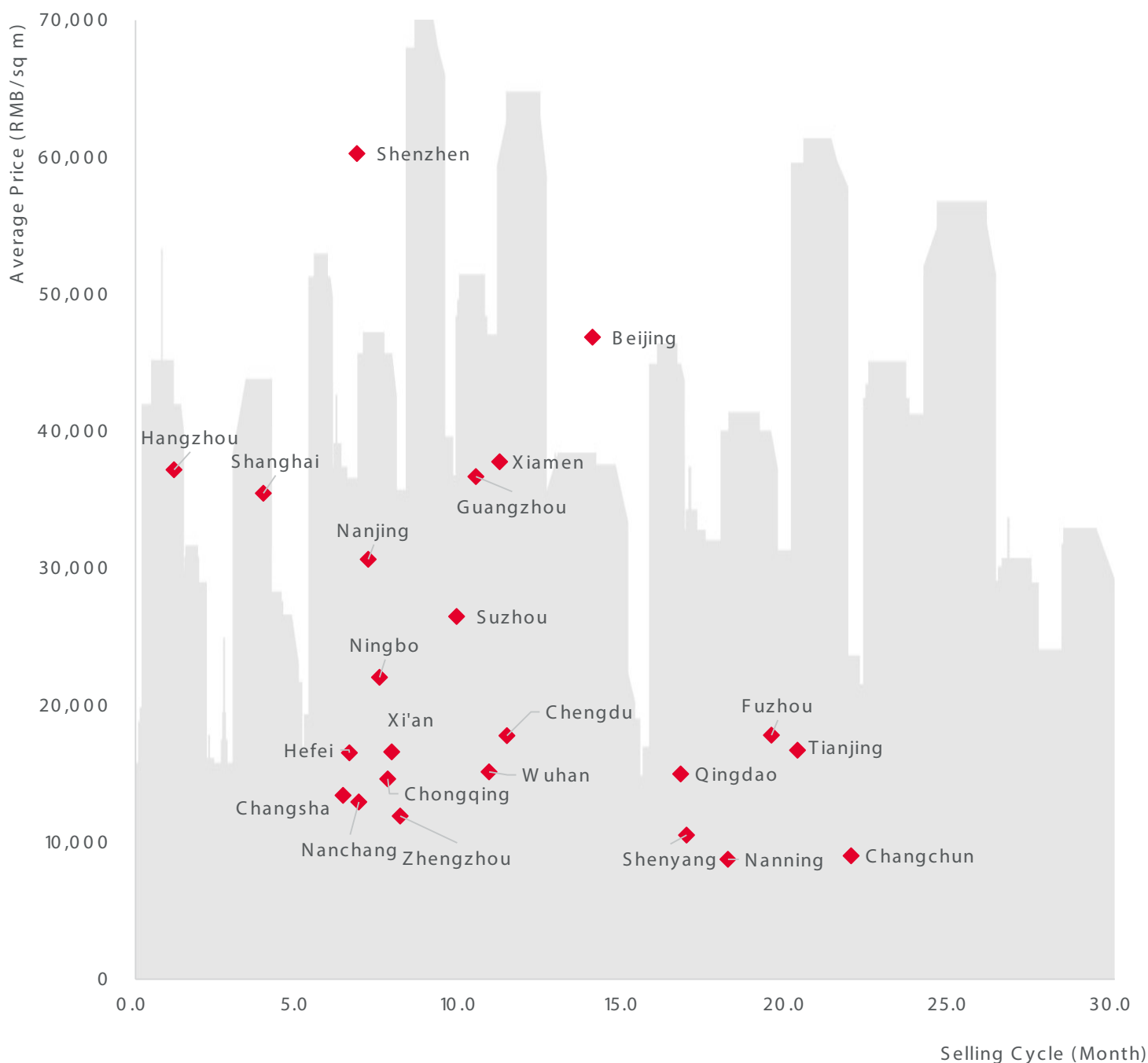
(Unit: RMB/sq m)



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.



## Average new housing prices and selling cycles in key cities at the end of 2021



Note: The selling cycle is calculated using the average monthly sold area in the past year as the selling rate.

The approved area is defined as the commercial housing area that has obtained the Commercial Housing Pre-sale Permit and can be pre-sold or sold.

# Sold area of new residential units in different key cities in 2021



More than 14 million sq m



6 million – 10 million sq m



10.1 – 14 million sq m



Less than 6 million sq m



Sources: CREIS, urban planning, land management and statistics departments of selected cities, Cushman & Wakefield Research.



# Cumulative average new housing selling prices in key cities in 2021



Average Price  $\geq$  RMB 30,000/sq m



Average Price  
RMB 10,000 - 20,000/sq m



Average Price  
RMB 20,000 - 30,000/sq m



Average Price  $\leq$   
RMB 10,000/sq m



Note: Excluding the impact of government subsidized housing, the average prices in Beijing and Shanghai were RMB48,082/sq m and RMB56,598/sq m respectively.







# Policies and Outlooks

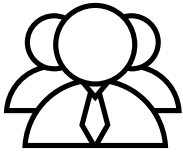


# China sets tone for 2022 economic development: prioritize stability while pursuing progress



## Policymakers set tones on prioritizing stability while pursuing progress

- On Dec. 6, 2021, the meeting of the Political Bureau of the CPC Central Committee set the tone for the nation's economic policies next year, highlighting stability as the top priority while pursuing progress, and to continue to implement a proactive fiscal policy and a prudent monetary policy.
- On Dec. 10, 2021, the official statement of China's annual Central Economic Work Conference pointed out that, "while acknowledge the achievements, it cautioned that China's economic development is facing pressure from demand contraction, supply shocks and weakening expectations", and required that "cross-cyclical and counter-cyclical macro-regulation policies should be integrated".
- On December 13, the People's Bank of China highlighted that "prudent monetary policies should be flexible and appropriate, and liquidity should maintain at a reasonable and sufficient level. We will improve the policy design and adjustments of cross-cycle and counter-cycle and make the monetary policies more forward-looking, effective and targeted".
- On December 20, The People's Bank of China and the China Banking and Insurance Regulatory Commission jointly published a Notice on Financial Services for Mergers and Acquisitions and Disposal of Key Real Estate Enterprise Projects, encouraging banks to carry out M&A loan business in a prudent and orderly manner, and to support prime real estate enterprises to merge and acquire high-quality projects of difficult real estate enterprises.



### **Land supply methods and related policies will continue to be improved**

In 2021, the new mechanism of land auctions has had a significant effect on stabilizing land prices but resulted in an overall market turning from hot to cold throughout the year. Under the pressure of market adjustments and liquidity shortage, the third round of centralized land sales was sluggish. Given the affordable housing supply targets, hot cities are expected to increase land supply and appropriately increase the profit margins of development projects to improve land transactions. Land supply methods and related policies will continue to be improved.



### **Reserve requirement ratio (RRR) cut will support the development of the real economy**

- Since the second half of 2021, China's economic recovery has been affected by external shocks such as the spread of COVID-19, extreme weather, real estate deleveraging pressure, and the expansion of "double restrictions and double controls" due to energy shortages. The two consecutive RRR cuts during 2H are the first resumption of the RRR monetary policy since 2020, which is expected to play a positive role in the overall liquidity environment.
- The purpose of the RRR cut is to strengthen cross-cyclical adjustment in the face of new downward economic pressure and to better support the real economy, especially the small and micro enterprises. Under the current macro environment, the RRR and interest rate cuts are conducive to boost economic growth and to improve the credit environment of the real industry. The RRR cut in December released a total of RMB1.2 trillion in long-term funds to promote the balanced development of the financial and real economy.



### **Adhere to the principle of "housing is for living in, not for speculation" and maintain the steady and healthy development of real estate sector**

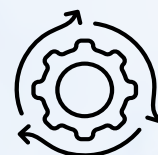
- The Central Economic Work Conference reiterated the principle of "housing is for living in, not for speculation." China will strengthen guidance on market expectations, explore new development modes, boost the development of renting housing market, promote the construction of government-subsidized housing projects, support the property market to better satisfy the reasonable demand of homebuyers and adopt city-specific policies to boost the virtuous cycle and healthy development of the real estate sector.
- From the central government's recent statements on the real estate industry, real estate industry as a pillar industry in China's economy has been reaffirmed, and the steady and healthy development of the sector has become the consensus and development target.



# Insights and Outlook

The intensive introduction of regulation policies throughout the year cover not only restrictions in home purchase, loan and sales, but also housing quality management, optimization of land auction rules, and credit tightening, which have greatly impacted the market. In Q4, the number of cities with declining housing prices for both new and second-hand housing reached a five-year high, indicating a remarkable cooling of the market. Overall, China's real estate market has stepped into an adjustment channel.

In terms of policy, the Political Bureau meeting and the Central Economic Work Conference repeatedly mentioned “prioritize stability while pursuing progress,” and “supportive policies should be implemented ahead of schedule, and all regions and departments should actively roll out policies conducive to economic stability.” Given that the market is cooling down, the real estate regulation policy is expected to be moderately eased to stabilize the market. However, with “housing is for living in, not for speculation” remaining the keynote guidance, adopting “city-specific policies” means specific measures with appropriate tightness or relaxation will be taken in different places to maintain continuity, consistency and stability of the policy.



In terms of funding, the Central Economic Work Conference called for the continued implementation of a proactive fiscal policy and prudent monetary policy. Combined with the statements that “the excessive risk aversion behaviors of financial institutions and financial markets will be gradually corrected” and “satisfy housing mortgages of rigid demand and upgrade demand from household,” the subsequent real estate credit policy is believed to be relaxed, and the approval process of credit allocation may be accelerated. RRR cuts have signaled a gradual increase in liquidity. The following macro-level financing environment is expected to remain moderately loose, supporting the development of the real industry and benefiting the real estate sector to a certain extent.

The overall real estate market is expected to be in the adjustment stage through 2022. However, the fall of transaction volume may gradually rebound and stabilize along with the introduction of relevant policies. Especially in some key cities, with the measures such as to satisfy housing mortgages of rigid demand and upgrade demand from households, reasonably issuing development loans and M&A loans to real estate companies, and as well as supporting affordable rental housing, sales of new residential units are expected to recover gradually if not rebound quickly. During the adjustments, positive policies are expected to promote the stable and healthy development of the real estate industry and market, but city divergence may appear: cities with sufficient demand but insufficient supply are expected to turn warm; while cities with high inventory pressure but insufficient demand may see greater downward pressures.





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To better serve our clients our China Research Team has established Centres of Excellence in various focus areas, such as Capital Markets, Industrial, Logistics and Retail. XiaoDuan leads the Research Centre of Excellence for China Residential Market. If you have any queries related to South China, Greater Bay Area or Residential Market, please contact:



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