Economic overview

Responding to government policies, Tianjin has implemented regulations of protecting the environment and cutting overcapacity, shifting from pursuing rapid economic growth to promoting high-quality economic development. Consequently, the city’s GDP has experienced mild growth at its slowest pace in history. In 2017, Tianjin’s GDP reached RMB1.86 trillion, an annual growth rate of 3.6%. Tianjin is on its way to rebalancing its economy to achieve sustainable long-term growth. The local real estate market was accordingly affected by the city’s economic development with the value of real estate investment at RMB223 billion in 2017, slightly down by 2.9% year-on-year (YoY).

Policies

In 2017, the real estate market witnessed certain macro-control regulations. Dozens of local governments introduced or expanded restrictions on house purchases and increased the minimum down payment required for a mortgage. “Housing is for living in, not for speculation” continues to be the guiding principle for housing market development in China.

On 31 March 2017, Tianjin Municipal Government announced new regulations for the city’s residential sales market. These regulations bar the purchase of second and third homes by buyers, without local household registrations, as well as third home purchases for buyers with local household registrations in restricted areas (not including Binhai New Area). The municipality also imposed a two-year social security contribution requirement for home purchasers without local household registrations. Moreover, the policies increased the down payment requirements for first and second home purchases to 30% and 60% respectively.

The restrictions are expected to dampen speculative buying and curb soaring property prices. Transaction periods are expected to increase in the near future as both buyers and sellers spend more time in negotiations, slowing city-wide price growth. Restraining the speculation in the residential market will remain the goal of the government for the near future.

Commodity residential market

Tianjin’s commodity residential market saw a decline in both supply and transaction volumes in 2017, hence stock levels experienced an upward trend. Meanwhile, the average transaction prices continued upwards.

The new supply of commodity housing in 2017 fell by 4% YoY to 13.97 million sq m. Compared to the previous year, suburban and fringe areas showed an uptrend, while the city centre and Binhai New Area displayed a reverse trend. Tianjin commodity residential stock totalled 14.11 million sq m at the end of 2017, an increase of 9% YoY. The average transaction volume decreased to RMB12.80 million sq m, recording a new low in the last three-year period, and a drop of nearly half from 2016.

Transaction prices in 2017 reached the highest level in history, reaching RMB15,707 per sq m, an increase of 16% YoY. Each area in Tianjin increased by varied margins, ranging from 12% to 28%. Fringe areas showed significant advances, with average prices of more than RMB10,000 per sq m followed by suburban areas, which increased by 26% YoY to an average of RMB17,471 per sq m. Additionally, the city centre recorded a new high, with an average price of RMB36,545 per sq m, an increase of 21% YoY.

Land market

Tianjin issued a new land transaction policy at the beginning of 2017, aimed at controlling higher land premiums, ensuring developers submit reasonable bids at auction. Under the new guidelines, a maximum price will be set for all land plots at auction, after which developers may continue to increase their bids by increasing the total area of self-sustaining housing they plan to build.
On 4 June 2017, a local developer, Rongsheng Real Estate Development Co. Ltd, acquired one land plot, titled for mixed use, located in Tuanbo New Town in Jinghai District. At its first auction in Tianjin, Rongsheng purchased the plot for a total consideration of RMB1.79 billion (a premium of 50% over the reserve price) with the for-lease component accounting for 27,000 sq m out of 174,000 sq m of buildable area. The accommodation value for the plot of land was RMB10,297 per sq m, a new high in Tuanbo New Town Area and the first transaction following the new guidelines.

The 2017 Central Economic Working Conference pledged to advance economic progress while ensuring stability. It is expected that the land market in 2018 will be smooth and stable in terms of supply and transaction.

High-end residential market
Financial policies and purchasing restrictions continue to have an effect on the residential market. Numerous banks have raised housing loan approval standards and removed preferential rates, while the government is supervising property sales qualifications and the “sell-stage” to developers.

Only two new high-end residential developments entered the city centre’s submarkets in 2017; 181 Centre in the Olympic area of Nankai district, and Jinmao Palace in the Haihe Riverside area of Hedong district, strengthening the high-end residential market structure.

The average transaction price of high-end residential properties increased by 11.7% quarter-to-quarter (QoQ) in Q4/2017 to RMB43,291 per sq m. Due to the scarcity of housing resources in the city centre, it is expected that the average transaction price in the high-end residential market will remain high.

Outlook
A stop-work order was introduced in Q3/2017 to restrict construction and housing demolition activity in an effort to reduce dust pollution. The residential sales market is expected to see no new supply in Q1/2018, as it is still under this stop-work period. Tightened supply and an off-season for sales will keep affecting transaction volumes.

The adjustment of housing loan policies in 2018 will have a direct impact on the residential sales market, and will govern the behaviour of the residential market throughout 2018.

TABLE 1
Transaction price premium of operating land, 2017

<table>
<thead>
<tr>
<th>Premium rate</th>
<th>Number of plots</th>
<th>Proportion of plots</th>
<th>Major land plots</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>47</td>
<td>40%</td>
<td>China Resources Longmen East Road, OCT Zhongbei Town &amp; Zhangjiaowu Town, Jinmao Jinbin Road, Financial Street Dongli Lake</td>
</tr>
<tr>
<td>0%-50%</td>
<td>62</td>
<td>53%</td>
<td>CSCEC BM Warehouse, Tianfang Tiantai Road, Tianfang Jinbin Road, Jinmao Chengxin Road, Tianfang Yingshiu Road</td>
</tr>
<tr>
<td>51%-100%</td>
<td>6</td>
<td>5%</td>
<td>Hongkun Jizhou New Town, Hongkun Jizhou Old Town</td>
</tr>
<tr>
<td>100%</td>
<td>2</td>
<td>2%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Savills Research
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