

Briefing Residential sales

January 2014



Image: Thaihot Mansion, Pan-CBD, Tongzhou district

SUMMARY

Stricter approval procedures for pre-sales certification under the new restrictive policy suppressed high-end residential supply. This limited supply of high-end residences, combined with steady demand, supported price appreciation.

■ Beijing's first-hand residential supply decreased by 19% quarter-on-quarter (QoQ) to around 2.0 million sq m, while transaction volumes fell by 11% QoQ to 2.8 million sq m.

■ Overall residential market price appreciation declined in October and November, mainly a result of the intensified cooling policies. However, the price index grew by 15.4% in the first 11 months of the year.

■ Limited new supply led to Grade A apartment transaction volumes falling by 25% QoQ to 483 units. The supply/

demand imbalance supported Grade A apartment price appreciation of 1.4% QoQ and 8.5% year-on-year (YoY), resulting in an average of RMB61,200 per sq m.

■ In Q4/2013, high-end villa transaction volumes increased by 23.7% QoQ to 261 units. Transaction prices increased 6.7% QoQ to an average of RMB46,400 per sq m.

■ With the new cooling policies postponing the pre-sale stage of several high-end projects to 2014, high-end supply is expected to pick up

in the first quarter. High-end residential property prices are expected to appreciate in 2014, as new supply is not scheduled to match demand.

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 "The mass-residential and Grade A apartment markets witnessed the strongest price growth since 2010, despite a decline in transaction volumes." Joan Wang, Savills Research

→ **Policies**

The “Beijing Seven Rules” and “self-use commodity housing” (23 October 2013)

On 23 October 2013, Beijing’s Ministry of Housing and Urban-Rural Development (MOHURD) (北京市住房和城乡建设委员会) released seven new restrictive policies to further control the local residential market and stabilise housing prices, also known as the “Beijing Seven Rules”. Additionally, Beijing MOHURD announced new regulations on self-use commodity residential properties.

Major policies in the “Beijing Seven Rules” included:
 - Strengthening the supervision of the approval of pre-sales certificates for projects, particularly those with high target prices, strong price growth and large profit margins; and

- Increasing the supply of self-use commodity residential property in order to satisfy sandwich-class demand.

Major policies on self-use commodity residential property:

- The majority of units are required to be no larger than 90 sq m with the largest unit no larger than 140 sq m;

- Sales prices are to be set at a 30% discount to other commodity residences with equivalent specifications in a similar location;

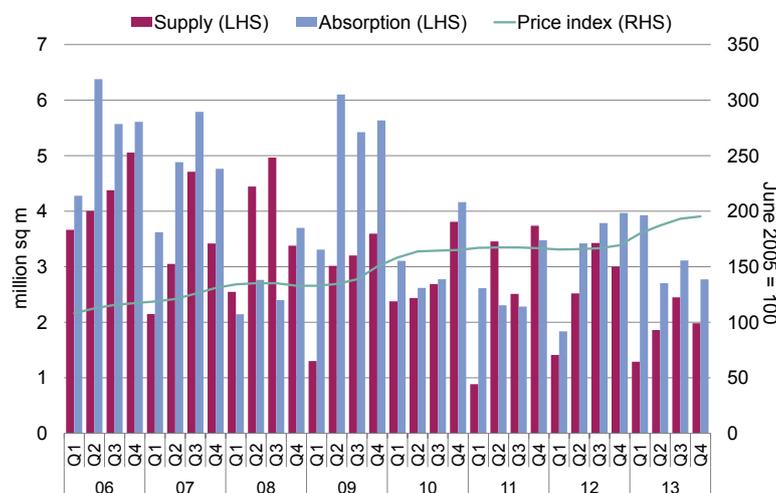
- Approved purchasers are allowed to buy only one self-use commodity residential property; and

- Purchasers are prohibited from property transfer within five years in principal. If self-use commodity residences are sold after five years, a 30% capital gains tax will be charged and the seller will be prohibited from buying another self-use commodity property.

First-hand mass-market overview

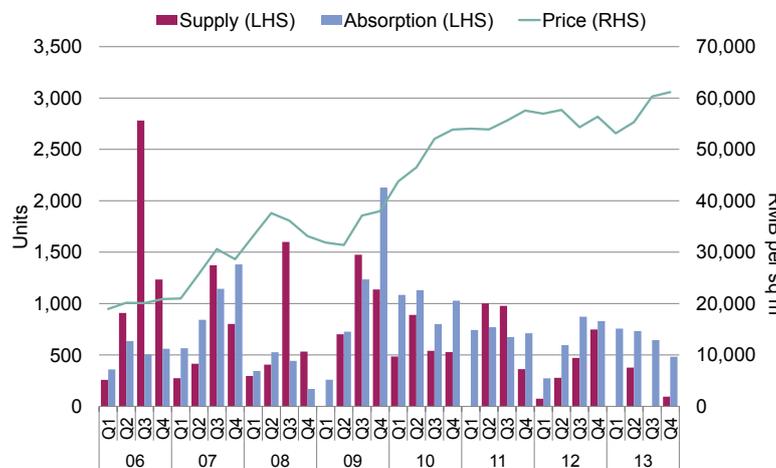
Affected by the stricter approval procedures for pre-sales certification starting from late October, many projects with high proposed sales prices postponed or even suspended their launches. As a result, Beijing’s first-hand residential supply decreased by 19% QoQ to around 2.0 million sq m, down 34% YoY.

GRAPH 1 **First-hand mass-market residential supply, take-up and price index, Q1/2006–Q4/2013**



Source: Beijing Real Estate Transaction and Management Bureau, Beijing Municipal Bureau of Statistics, Savills Research

GRAPH 2 **First-hand Grade A apartment market supply, take-up and price, Q1/2006–Q4/2013**



Source: Savills Research

Slow demand in December, combined with some residents temporarily halting their housing-purchase plans with the launch of the “self-use commodity housing”, led to transaction volumes decreasing by 11% QoQ to 2.8 million sq m, down 30% YoY.

First-hand residential supply in 2013 totalled 7.6 million sq m, down 27% YoY, while transaction volumes registered 12.5 million sq m, almost equivalent to that in 2012. As a result, unsold inventory stood at 7.7 million sq m by the end of the year, down

24% YoY, indicating strong demand in the local market.

Price appreciation declined in the fourth quarter, mainly as a result of the intensified cooling policies. By the end of November 2013, the overall residential market price index increased by 1.1% compared with the figure for September. However, the overall residential market price index grew by 15.4% in the first 11 months of the year, the largest growth seen since restrictive policies came into effect in late 2010.

First-hand Grade A apartment market

Given a stricter approval process for pre-sales certification under “Circular 17”, only one high-end apartment, Wangjing Jinmao Palace (望京金茂府), was granted a pre-sales permit for a new phase of 94 units in the fourth quarter. The limited new supply led to Grade A apartment transaction volumes falling by 25% QoQ to 483 units, down 42% YoY.

Limited developable residential land in city centre areas, which were the typical locations for high-end residences, restricted Grade A apartment supply in 2013 to only 471 units, down 70% YoY, while transaction volumes were up 1.6% YoY to 2,615 units. This disequilibrium between supply and demand allowed Grade A apartment prices to appreciate by 1.4% QoQ and 8.5% YoY, to an average of RMB61,200 per sq m.

Given a firm asset value, high-end residences remained one of the most favourable investment vehicles against risks with high net worth individuals. This was demonstrated by nine projects that outperformed in the market, with average transaction prices in excess of RMB70,000 and price appreciation ranging from 5% to 19%. Most notably, Mandarin Court (长安太和), King Palace (上国阙) and Imperial Mansion (霞公府) all recorded transactions prices over RMB95,000 per sq m during the quarter.

First-hand high-end villa market

Similar to the Grade A apartment market, no new high-end villas were launched onto the market. However, transaction volumes increased by 24% QoQ to a total of 261 units in Q4/2013.

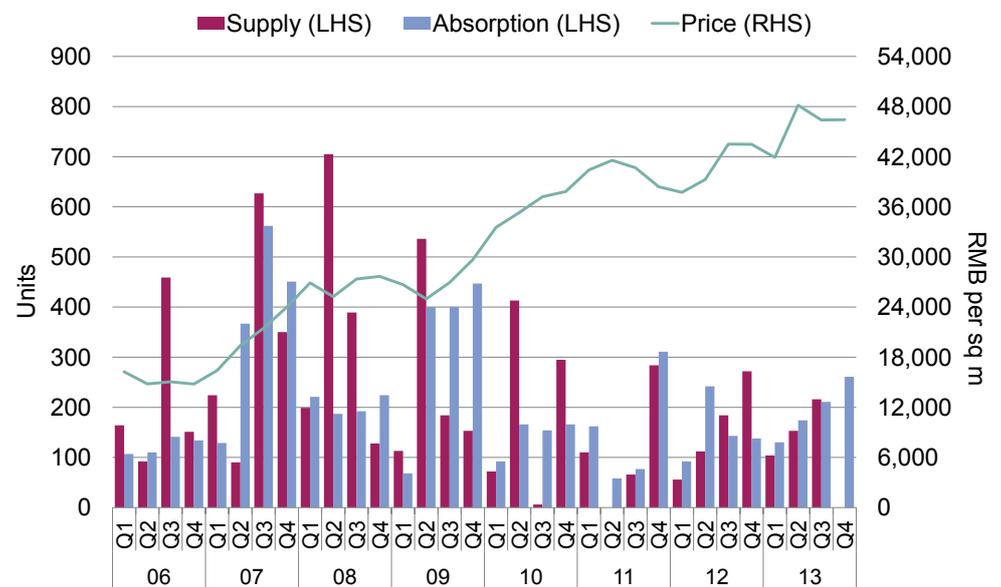
A shrinking pool of villa properties, combined with several prime villa projects such as Chinoiserie Villa (九章别墅) and Life Beyond Golden Dream (龙湖·双珑原著) being launched onto the market in the past three quarters, inspired strong demand for high-end villas in 2013. Supply decreased by 24% to 473 units in the year, while transaction volumes reached 776 units, up 26% YoY. As a result, prices rose by 6.7% YoY to an average of RMB46,400 per sq m.

TABLE 1 Major residential land transactions, Q4/2013

Plot	District	Purchaser	Site area (sq m)	GFA (sq m)	Estimated AV (RMB per sq m)
Dongba south region plot	Chaoyang	Poly & Capital Development Real Estate Alliance	47,777	93,534	25,000
Dongba plot	Chaoyang	EverGrande	89,469	208,373	27,000
Dongsheng village plot	Haidian	Fu Hong Business Services Ltd	13,025	27,353	29,000

Source: Beijing Land Consolidation and Reserve Center

GRAPH 3 First-hand high-end villa market supply, take-up and price, Q1/2006–Q4/2013



Source: Savills Research

Residential land market

The residential land market was very active in the fourth quarter, with 30 residential land plots transacted, bringing a total consideration of RMB52.3 billion, up 39%QoQ. This figure is nearly seven times that of 2012, although no land parcels had an accommodation value (AV) of over RMB30,000 per sq m.

Three residential plots posted notable transaction prices during the quarter. The first land plot with a self-use commodity housing component was acquired by EverGrande Real Estate with an adjusted AV of nearly RMB27,000 per sq m. This residential site is located in Dongba, Chaoyang district, which has been

allocated the fourth embassy area by the government. Poly & Capital Development Real Estate Alliance also acquired a residential plot with self-use commodity housing in the same area with an AV of around RMB25,000 per sq m. Additionally, Fu Hong Business Services Ltd acquired a residential plot in Dongsheng village with an AV of around RMB29,000 per sq m.

According to the Beijing Land Resources Bureau, the city plans to increase the supply of residential land in 2014, particularly with “self-use commodity residential property” components. Forty percent of residential land plots expected to be launched will be targeted for

affordable housing projects. The remaining plots are for commodity housing, half of which will be developed into "self-use commodity housing". As a result, land supply for commodity housing projects is expected to decrease compared with the 2013 figure.

Market outlook

As the pre-sale stages of several high-end projects were postponed by new cooling policies, high-end residential supply is expected to pick up in 2014, with five new high-end residential projects:

- North River Yanjia NO.77 (万科北河沿甲柒拾柒号) developed by Vanke
- Hyde Park (保利海德公园) developed by Poly Real Estate

- Wanliu Academy (中赫万柳书院) developed by Sinobo Real Estate

- Sanlitun No.1 (三里屯1号) developed by Topwin Real Estate

- Riverside Palace (琨御府) developed by Metro Land Corporation Ltd (京投银泰)

New phases of two existing projects are expected to enter the Grade A apartment pre-sales market in 2014, namely:

- Ru Yuan (五矿万科如园)
- Wangjing Jin Mao Palace (望京金茂府)

Four high-end villa projects are expected to enter the high-end villa pre-sales market in 2014:

- Ocean Palace (远洋天著) developed by Sino-Ocean Real Estate

- Linyu villa (林语墅) developed by HongKun Real Estate

- Western Art villa (西山艺境) developed by Jinshui Real Estate

- RunZe villa (润泽墅郡) developed by Runze villa Real Estate

As a result, transaction volumes are expected to increase with rising supply, assuming these new projects enter the market on schedule.

Overall transaction prices of high-end residential properties are expected to increase in 2014. Proposed prices for at least half of the new Grade A apartments are expected to be as high as RMB100,000 to RMB150,000 per sq m. ■

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