

Briefing Residential sales

November 2014



Image: Kunyufu, Haidian district

SUMMARY

Unlike the mass market, the high-end residential market continued to experience stable performance in the third quarter in terms of both transaction volumes and prices.

■ With developers offering price discounts to stimulate sales, by the end of August, the first-hand residential price index was down 1.8% quarter-on-quarter (QoQ) to 99.1. Discounted prices pushed transaction volumes up 36.6%, QoQ to approximately 2 million sq m in the third quarter.

■ Two Grade A apartments and one high-end villa project were launched in the third quarter, adding a total of 696 units to the residential sales market. Given uncertainties in the market, projects with high expected prices have elected to postpone their opening dates.

■ Grade A apartment transaction volumes reached 395 units in the third quarter, up 16.5% QoQ. Increased transactions were largely a result of the positive performance of prime projects launched in the past six months. Prices, however, stabilised at RMB65,100 per sq m, up 8.0 year-on-year (YoY).

■ High-end villa transaction volumes rose 8.5% YoY to 229 units. As a result, prices appreciated by 4.8% QoQ to an average of RMB51,600 per sq m, up 11.2% YoY.

“More developers were forced to launch sales promotion activities to boost transaction volumes in the first-hand mass market.”

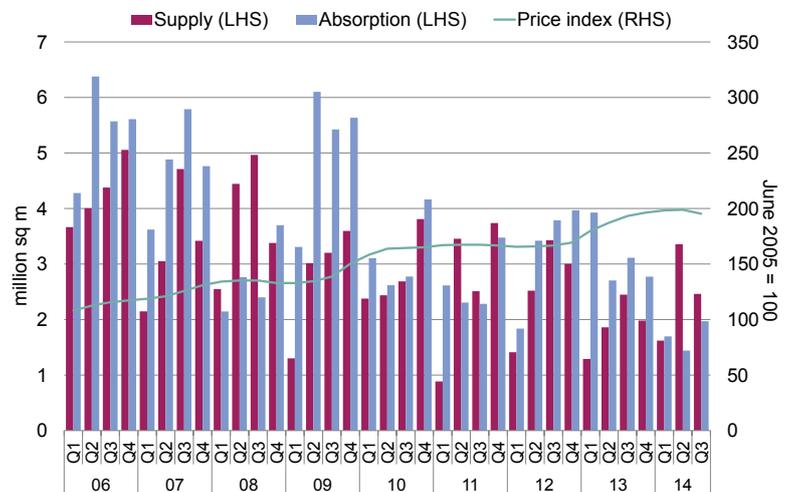
Joan Wang, Savills Research

➔ **Policies**

Looking to stimulate the cooling housing market, there has been significant government activity in the policy area in the past months. The end of the third quarter saw Beijing, Shanghai, Guangzhou, Shenzhen and Sanya remain the only five cities to continue with the housing purchasing restrictions (HPRs) put into effect by the government in late 2010. Looking to offset suppressed sales, the other 41 cities previously under this policy have successfully had their restrictions cancelled.

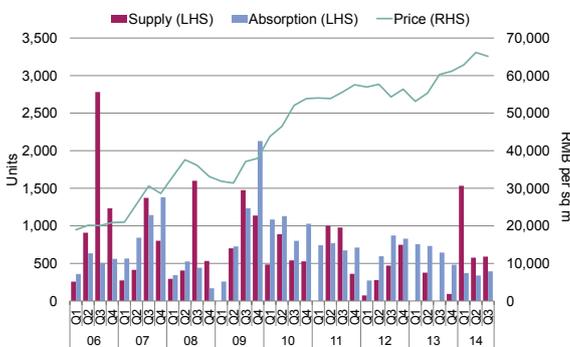
The China Banking Regulatory Commission has been working with the big banks to establish a series of regulations to relax the current mortgage conditions. The regulations will look to ease the pressure on first and second home buyers, working to help prop up the housing market.

GRAPH 1 **First-hand mass-market residential supply, take-up and price index, Q1/2006–Q3/2014**



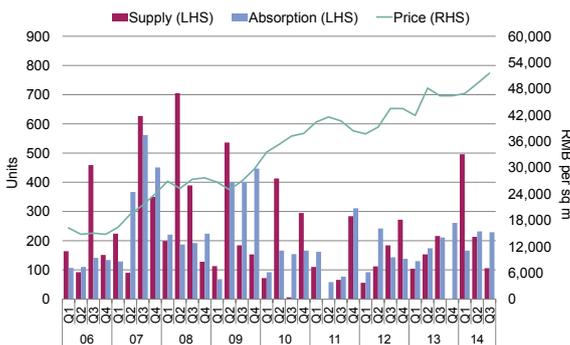
Source: Beijing Real Estate Transaction and Management Bureau, Beijing Municipal Bureau of Statistics, Savills Research

GRAPH 2 **First-hand Grade A apartment market supply, take-up and price, Q1/2006–Q3/2014**



Source: Savills Research

GRAPH 3 **First-hand high-end villa market supply, take-up and price, Q1/2006–Q3/2014**



Source: Savills Research

On 8 October, the Beijing Municipal Housing and Urban-Rural Construction Commission announced new regulations regarding deed taxation for the residential market. The regulations stipulate that if the housing unit is located within the Fifth Ring Road and is priced under RMB39,600 per sq m or the total price is lower than RMB4.68 million, the deed tax can be a minimum of 1%, further easing pressure on market participants. Depending on the unit size, prior deed taxes ranged from 1% to 3% minimum on first homes and 3% minimum on second homes. With Q3/2014 seeing recorded transactions reach an average price of RMB28,000-35,000 per sq m for common residences located between the Fourth and Fifth Ring Road, we expect this new regulation to lead to increased transactions in the market.

First-hand mass-market overview

Beijing's first-hand residential market has remained relatively cool this quarter, however activity is up from last quarter. With developers keen to improve sales performance and capitalise on the traditional peak purchasing season of September, many developers have accelerated their sales schedules in Q3/2014 by discounting prices. Price discounts appeared to stimulate sales, with

transaction volumes increasing 36.6% QoQ to approximately 2 million sq m. The discounts were quickly reflected in the first-hand residential price index, by the end of August the figure was down 1.8% from that of June.

Activity for luxury residential projects has been rather flat this quarter, with the government continuing to remain cautious in the issuing of pre-sale licences. As a result, some projects with expected high prices have experienced delays in their launches. While other projects, such as Wanliu Academy (中赫万柳书院) have chosen to postpone their launch dates, given the uncertainties of the market. The limited activity in the market has seen supply decrease by 26.6% QoQ to 2.5 million sq m.

First-hand Grade A apartment market

Two Grade A apartments, one new project – Riverside Palace (琨御府), and the new phase of one existing project – Zhen Garden (臻园), entered the market in the third quarter, adding a total of 590 units, up 2.3% QoQ.

Quarter three saw Riverside Palace (琨御府), located in Haidian district, granted approval with a pre-sale price of RMB64,000 to RMB75,000 per sq m, releasing 345 units to the

market in August 2014. Developed by Metro Land Corporation Ltd (京投银泰股份有限公司), the project is located in the Yuyuantan area, surrounded by several high-end residences such as Heritage Estate and Yuanxitang. Given the location and current lack of market supply, the high price did not deter buyers, with demand remaining strong and reflected in a subscription rate of over 90% on the project's opening.

Positive performance of prime projects launched in the past six months, notably the four projects Zhen Garden, Poly Hyde Park, Fountain Palace (中海枫丹公馆) and Riverside Palace, has spurred activity in the Grade A apartment market. These four projects absorbed 295 units, accounting for 75.6% of the total recorded transactions. As a result, Grade A apartment transaction volumes have increased by 16.5% QoQ to 395 units in the third quarter.

Contrary to the first-hand mass market, stable demand from high net worth individuals (HNWIs) saw Grade A apartment prices largely stabilise at RMB65,100 per sq m, up 8.0% YoY.

First-hand high-end villa market

One new high-end villa, Glory Chateau (紫禁壹号院), entered the sales market in the third quarter. Consequently, supply decreased to 106 units, down by 50.2% QoQ, reaching the lowest level of the first three quarters of 2014.

Glory Chateau (紫禁壹号院), located in Daxing district was developed by SUNAC, the same developer responsible for the well performing West Chateau project. Having acquired its pre-sale certificate on 28 September 2014, pre-sale prices of the project were RMB60,000 to RMB75,000 per sq m (townhouse) and RMB92,000 to RMB120,000 per sq m (French-style yard). While the project is located in a non-prime area, the developer's villa experience along with the plot being the land king of Yizhuang area in 2013 with accommodation value of RMB28,000 per sq m has contributed to the high prices.

TABLE 1
New high-end apartments, Q3/2014

Project	Location	Units	Pre-sales price (RMB per sq m)
Zhen Garden (臻园)	Chaoyang district	245	47,000-50,000
Riverside Palace (琨御府)	Haidian district	345	64,000-75,000

Source: Savills Research

TABLE 2
New high-end villas, Q3/2014

Project	Location	Units	Pre-sales price (RMB per sq m)
Glory Chateau (紫禁壹号院)	Daxing district	106	60,000-75,000 (townhouse) 92,000-120,000 (French-style yard)

Source: Savills Research

The limited supply of luxury villas has fuelled an increase in demand, as a result the high-end villa market has experienced similar performance as the Grade A apartment market. Despite being overshadowed by tightening controls, transaction volumes grew by 8.5% YoY to 229 units.

Supported by the limited supply and strong demand, prices rose by 4.8% QoQ to RMB51,600 per sq m, up 11.2% YoY

Residential land market

Echoing the slowdown of the residential sales market, the residential land market remained relatively cool. The third quarter saw only seven land plots transacted for a total consideration of RMB25.2 billion, up 44% QoQ and representing 20% of all recorded transactions.

While housing prices have declined, actual accommodation values of residential plots have fluctuated at a relatively high level, resulting in developers postponing their plans to purchase lands.

Market outlook

Two new Grade A apartments are scheduled to enter the market in the last quarter of 2014. With steady growth from both end-users and improving demand from HNWIs, the new supply is expected to lead to an increase in transaction volumes.

Wanliu Academy (中赫万柳书院), located in Haidian district under developer Sinobo, is expected to enter the sales market in Q4/2014. Located in Wanliu area, a traditional luxury residential area in the locality, the project's prime location coupled with a lack of new land supply, is expected to fetch the highest proposed price, reaching RMB120,000 to RMB150,000 per sq m.

Oceanwide International (泛海国际), located in Chaoyang district with a prime location hosting views over Chaoyang Park, is also scheduled to enter the market in the last quarter of 2014. The area is already home to a series luxury residences, such as Palm Springs (棕榈泉国际公寓), Park Avenue (公园大道), Oriental Mansion (保利东郡), etc, with current second hand prices ranging from RMB60,000 to 80,000 per sq m, and will also see the 2015 launch of the Central Park Plaza project which is expected to reach a price of RMB100,000-150,000 per sq m. Supported by its prime location, the proposed price appears justified at RMB96,000 to RMB100,000 per sq m.

Q4/2014 is expected to see developers continue with sales promotion activities in exchange for increased transaction volumes. With transaction volumes expected to grow, incentives such as the recent loosening of mortgage policies should see prices largely stabilise.

Throughout 2014, the high cost of residential plots has seen accommodation values soar in the high-end residential market. Meanwhile activity outside the Fifth Ring Road has seen a joint cooperation between Beijing Dejun Investment Company Limited and Beijing Aochen Properties Limited, acquire the non prime location Liuniangfu plot in Shijingshan district

at an accommodation value (AV) of RMB32,000 per sq m. Further, the land king project in non-prime Mentougou district was the Tanzhesi plot, a joint acquisition by Beijing Jingtou Land Real Estate Co. Ltd and Beijing Infrastructure Investment Co. Ltd reaching a high RMB15,000 per sq m. With developers willing to support these prices, we see this as a strong sign of their confidence

in the mass market, which should lead to prices largely stabilise in the coming 12 months. ■

TABLE 3 Major residential land transactions, Q3/2014

Plot	District	Purchaser	Site area (sq m)	GFA (sq m)	AV (RMB per sq m)
Shijingshan Liuniangfu Plot	Shijingshan	Beijing Dejun Investment Company Limited and Beijing Aochen Properties Limited	116,600	151,700	32,000
Nanyuancun Plot	Fengtai	Beijing Tian Heng Real Estate Co. Ltd and Financial Street Changan (Beijing) Real Estate Co. Ltd	99,600	205,100	29,000

Source: Savills Research

TABLE 4 Future supply, Q4/2014

Project	Location	Type	Opening date	Proposed price
Wanliu Academy (中赫万柳书院)	Haidian district	Grade A apartment	Q4/2014	120,000–150,000
Oceanwide International (泛海国际)	Chaoyang district	Grade A apartment	Q4/2014	96,000-100,000

Source: Savills Research

Please contact us for further information

Savills Research



James Macdonald
 Director, China
 +8621 6391 6688
 james.macdonald@savills.com.cn

Savills Beijing Research & Consultancy



Joan Wang
 Director
 +8610 5925 2042
 joan.wang@savills.com.cn

Savills Residential Sales



Anthony McQuade
 Senior Director
 +8610 5925 2002
 anthony.mcquade@savills.com.cn



Angela Lu
 Associate Director
 +8610 5925 2068
 angela.lu@savills.com.cn

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