

Briefing Residential sector

August 2014



Image: Residence Nine, South Wanxiang Road, Gaoxin district

SUMMARY

In Q2/2014, first-hand residential supply and transaction volumes dropped steadily, while prices fell 6%.

■ In Q2/2014, total supply of new commodity housing in Chengdu's main urban areas fell 26% quarter-on-quarter (QoQ) reaching 506,144 sq m, up 1.4% year-on-year (YoY).

■ Transaction volumes fell 33% QoQ reaching 1.61 million sq m, down 30% YoY, while average prices fell 6% QoQ, up 1.6% YoY, to stand at RMB9,682 per sq m.

■ Eastern Chengdu boasted the highest transaction volumes this quarter, accounting for 42% of the

total, while southern and western districts accounted for 25.5% and 22.6% respectively.

■ The high-end residential price index decreased by 6.4% QoQ, up 4.1% YoY, with the average price reaching RMB19,114 per sq m.

■ Chengdu's prime land market supply totalled 617,368 sq m, down 9% QoQ. Total transacted area was up 28.4% QoQ to 703,576 sq m, leading to an accommodation value (AV) of RMB3,991 per sq m.

“The residential market was weak in Q2/2014 and developers relied on sales promotions for volumes. Meanwhile, the local government continued to fine-tune policies, with only a limited impact on the market.”

Dave Law, Savills Research

➔ **Market overview**

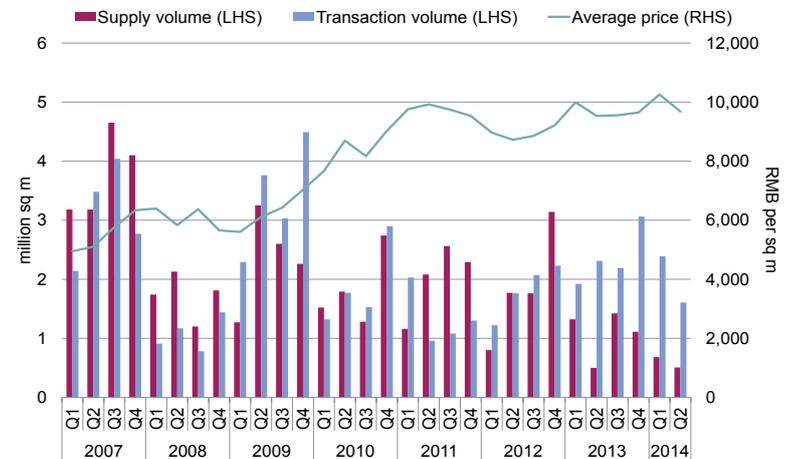
In Q2/2014, new commodity housing supply in Chengdu's main urban areas fell 26% QoQ, reaching 506,144 sq m, up 1.4% YoY. With a growing wait-and-see sentiment seen among buyers, developers began to slow new supply. Therefore, after March, the traditional hot season, total supply dropped significantly. Meanwhile, transaction volumes were down 33% QoQ reaching 1.61 million sq m, down 30% YoY. In June, transaction volumes were 246,000 sq m, hitting its lowest in 12 months. This can be attributed to a lack of buyer confidence and the large amount of unsold inventory, as both supply and transaction volumes have been decreasing for three consecutive quarters.

Average housing prices in prime areas fell 6% QoQ but rose 1.6% YoY, reaching RMB 9,682 per sq m. Due to downward pressure, many developers relied on promotions to boost sales volumes, expecting steady capital chains. It is worth mentioning that with the scarcity of resources in main urban areas, the secondary area, comprising Shuangliu, Wenjiang, Pixian, Longquan and several other suburbs, has recently become popular among potential homebuyers due to improvements in transportation, infrastructure and the environment.

In May, Chengdu adjusted its household registration policy, and homebuyers can now only get a permanent residence permit by purchasing a property over 90 sq m from 1 June instead of the previous 70 sq m. Before the new policy went into effect, a large number of first-home buyers purchased housing over 70 sq m, bringing unsold inventory levels down to a certain extent and leading to a surge in transaction volumes in May and a drop in June. However, most analysts believe that the new policy will only have a limited impact on the residential market.

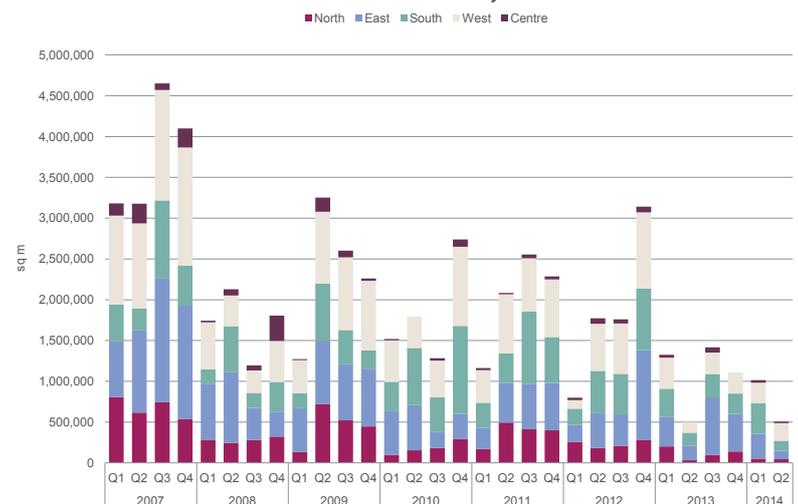
Chengdu Municipal Government recently announced 22 policies to stimulate market demand and economic development. The measures that the government has put the most amount of emphasis on include accelerating the implementation of new projects, carrying out clean-ups of land included in construction projects and encouraging first-home buyers through promoting the progress of a

GRAPH 1 **Main urban residential supply, take-up and prices, Q1/2007–Q2/2014**



Source: Savills Research

GRAPH 2 **Main urban transaction volumes, Q1/2007–Q2/2014**



Source: Savills Research

GRAPH 3 **Main urban residential prices, Q1/2007–Q2/2014**



Source: Savills Research

housing provident fund. Additionally, emphasis has been put on innovation as an important driver for enterprise and industry development. Chengdu's government has also promised to actively support small and medium enterprises by offering further financial incentives and aid in reducing costs. The more definite policies to be released later may help to free up market demand and optimise the residential market to a certain degree.

Although there is still no official notification about the cancellation of home-purchase restriction, it was reported that Chengdu loosed restrictions from 16 July and there was a surge in transaction volumes on that day. But the cancellation could only have limited influence on the whole market, as credit policy and the confidence of potential home-buyers play a more important role.

The high-end residential price index fell 6.4% QoQ, up 4.1% YoY, and average prices reached RMB19,114 per sq m in Q2/2014. First-time buyers and upgraders are the main source of demand in Chengdu's residential market. As a result, many high-end residential developers began to cut housing prices to promote sales. Several properties such as Boyayuan and Le Palais cut asking prices

substantially by up to 35%, but prices of most properties fell within 10%.

Land market

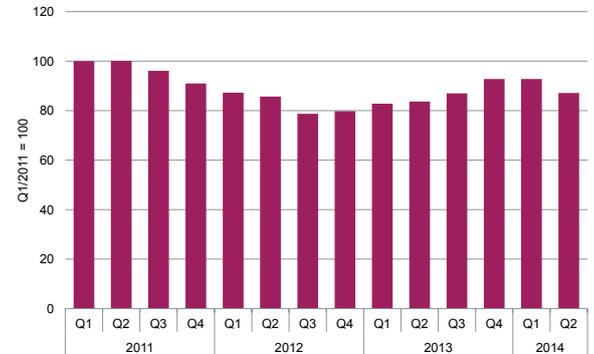
Nineteen land plots in prime areas were released onto the market in Q2/2014, and all were transacted. Total land supply reached 617,368 sq m, down 9% QoQ. Total transacted area was up 28.4% QoQ to 703,576 sq m, leading to an AV of RMB3,991 per sq m. After the land market's downturn in the first quarter, the release of new land was still slow in this quarter, while land transaction volumes rose significantly.

At the beginning of April, Shandong Luneng Group became the land king of this quarter by acquiring the most expensive land site that had previously belonged to Mingda Glass Factory for RMB2.586 billion with an AV of RMB9,350 per sq m. Among well-known developers, Evergrande was the only one to acquire land this quarter. Most buyers were local developers, such as Chengdu New Oupeng, which acquired four land sites.

Outlook

Chengdu's residential market has been sluggish for several quarters due to market oversupply and a wait-and-see sentiment. With a

GRAPH 4 High-end residential price index, Q1/2011–Q2/2014



Source: Savills Research

large amount of unsold inventory, loosening home-purchase restrictions is expected to stimulate the market in the short run. However, with the tight credit policy, commercial banks still cannot provide promotions for mortgage loans, so homebuyers end up burdened with the high cost of mortgages. As a result, the impact of loosening home-purchase restrictions will be limited. No great changes are expected to the financial environment or policies during the remainder of this year and Chengdu's residential market is anticipated to enter an adjustment stage. ■

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