

Briefing Residential sector

May 2015

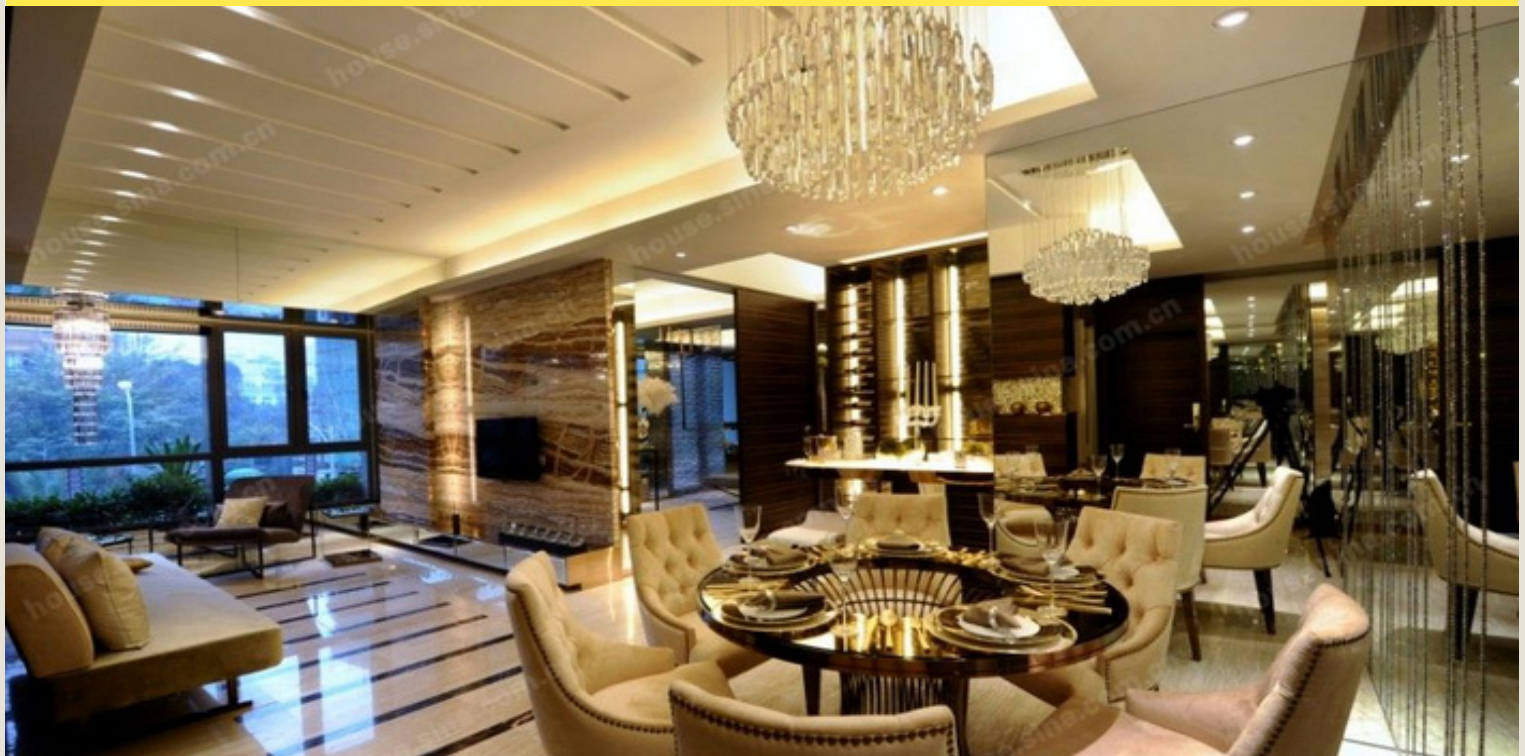


Image: The Metropolis, Tangba Street, Jinjiang district

SUMMARY

Q1/2015, a traditionally quiet season due to the Spring Festival, saw first-hand residential transaction volumes record a significant decrease.

- In Q1/2015, total supply of new commodity housing in Chengdu's main urban areas fell 19% quarter-on-quarter (QoQ), reaching 1,280,000 sq m, up 88% year-on-year (YoY).
- Main urban area first-hand residential transaction volumes fell 26% QoQ to 1.69 million sq m, down 29% YoY.
- Average prices in main urban areas were down 1.0% QoQ to RMB10,423 per sq m, up 2% YoY.
- Southern Chengdu boasted the highest transaction volumes in Q1/2015, accounting for 45% of the total, while northern and eastern districts accounted for 12% and 35%, respectively.
- The high-end residential price index decreased by 2.3% QoQ to RMB18,987 per sq m, down 6% YoY.
- Chengdu's prime land transaction volumes were up 66.6% QoQ reaching 883,207 sq m.

“Despite the loosening of real estate policies reintroducing demand to the market, it is unlikely to make a noticeable impact on prices due to the current high levels of available stock.” Dave Law, Savills Research

➔ **Market overview**

In Q1/2015, new commodity housing supply in Chengdu's main urban areas fell 19% QoQ, reaching 1.28 million sq m, up 88% YoY. Main urban area first-hand transaction volumes reached 1.69 million sq m, down 26% QoQ, down 29% YoY. Affected by the Chinese Spring Festival, both the supply of, and demand for, commodity housing dropped significantly. However, at the beginning of March 2015, the Central Bank lowered benchmark lending and deposit rates. This is a positive sign for developers who are short on capital and, as a result, brought confidence back to the housing market. Consequently, in March the transaction volumes began to rise to normal levels.

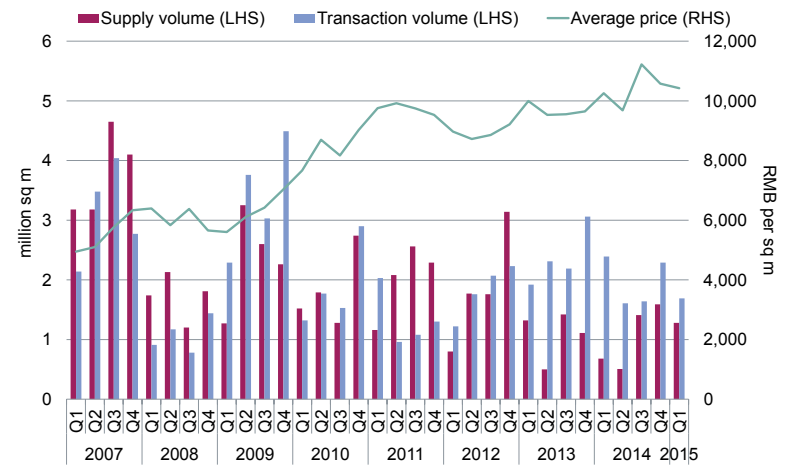
Q1/2015 saw commodity housing prices fall 1.0% to RMB10,423 per sq m. This can be attributed to the fact that consumer power shifted to other sectors of the market during the Spring Festival, such as retail and entertainment.

Southern (South Renming Road Extension and Dayuan district) and eastern Chengdu (Dongda Street extension and Panchenggang district) boasted the highest transaction volumes in Q1/2015, accounting for almost two-thirds of the total transaction volumes in main urban areas. Transaction volumes have frequently been coming out on top over the past year which is consistent with Chengdu's urban planning and development plan.

Land market

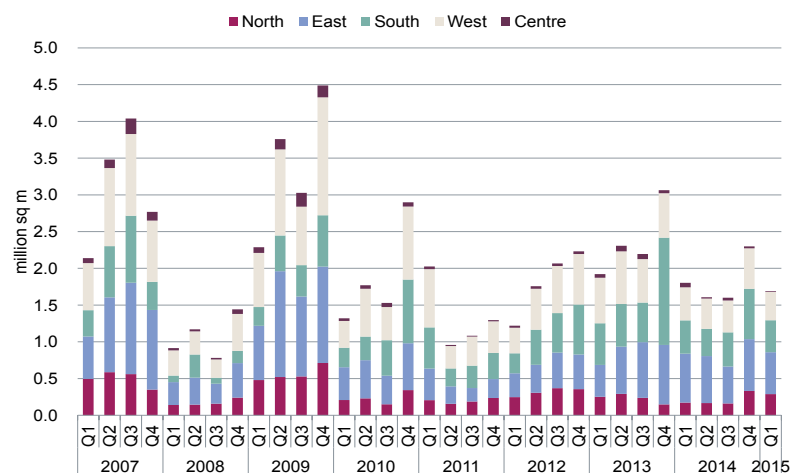
The first quarter saw land transactions in main urban areas up 66.6% QoQ to 883,207 sq m, with total supply down

GRAPH 1 **Main urban residential supply, take-up and prices, Q1/2007-Q1/2015**



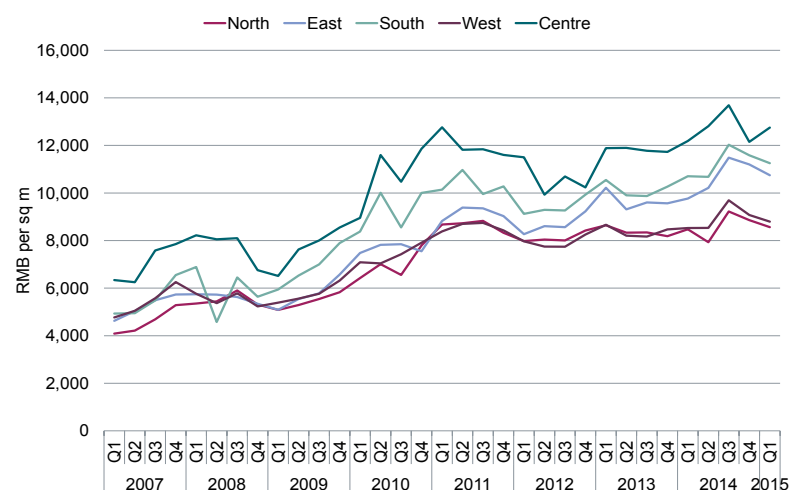
Source: Savills Research

GRAPH 2 **Main urban transaction volumes, Q1/2007-Q1/2015**



Source: Savills Research

GRAPH 3 **Main urban residential prices, Q1/2007-Q1/2015**



Source: Savills Research

27% QoQ to 2,042,575 sq m. While the government has been working to slow the release of land plots onto the market, they nevertheless released several this quarter that were situated in highly sought after areas. As a result, developers' demand for the plots was renewed and, thus, prompted a rise in transaction volumes.

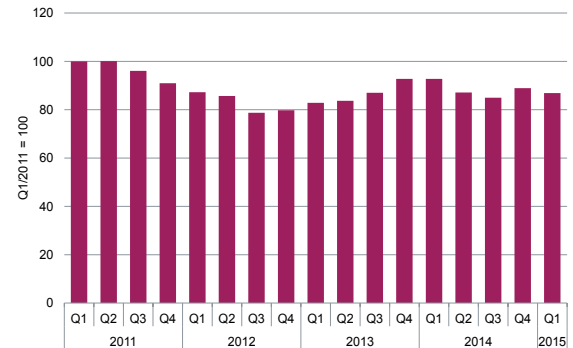
Lanrun Estate became the land king this quarter by acquiring a plot in the Chunxi Road commercial area for a total consideration of RMB920 million and an accommodation value (AV) of RMB 17,073 sq m. Setting the highest AV the Chunxi Road commercial area has seen, it is also the second-highest transacted land plot in Chengdu's land transaction history. Lanrun Estate was especially active on the land market in this quarter, spending over RMB2 billion within 20 days to acquire three pieces of land in Chengdu's core area. Of the four most expensive land plots transacted in Chengdu, two were acquired by Lanrun Estate.

Outlook

The National People's Congress and National Committee of the Chinese People's Political Consultation Conference's meetings released positive signals for the real estate market in the coming year and the local government have adopted new credit and tax policies. These factors have brought renewed confidence back to the Chengdu real estate market. Homebuyer willingness to enter the housing market is rising and this is expected to be seen in increasing transaction volumes throughout the rest of the year. This, along with the loosening of housing policies, will prompt the return of demand to the residential sales market. However, this is unlikely to make a large impact on the current market due to the huge amount of supply and stock.

The People's Bank of China, the Department of Housing and Construction and the China Banking Regulatory Commission announced

GRAPH 4 High-end residential price index, Q1/2011-Q1/2015



Source: Savills Research

on March 30 the reduction of down payments to 20% for first-homes purchased through the public housing fund and 40% for second-home purchases. This policy is expected to restore homebuyer confidence and encourage end-user and upgrader demand in the market. ■

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