

Briefing Residential sector

January 2016



Image: Capital Mall Tianfu Life, No.388 Tianren Road, Gaoxing District

SUMMARY

2015 saw an increase in activity in the Chengdu residential and land market. In Q4/2015, core urban area land transactions reached 903,468 sq m, up 54% quarter-on-quarter.

- The total supply of new commodity housing in the main urban area decreased 36% quarter-on-quarter (QoQ) in Q4/2015, to 1.14 million sq m, down 28% year-on-year (YoY).
- First-hand residential transaction volumes in the urban area reached 2.01 million sq m in Q4/2015, up 2% QoQ but down 12% YoY.
- Main urban area average prices reached RMB10,625 per sq m, up 2% QoQ and 0.48% YoY.
- Prime land market transaction volume increased 54% QoQ to 903,468 sq m, up 70% YoY.

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 “In 2016, the government is expected to issue additional policies which will aid in incentivising the housing market. Due to the positive effect of previous policies, they are, once again, expected to increase housing demand.”

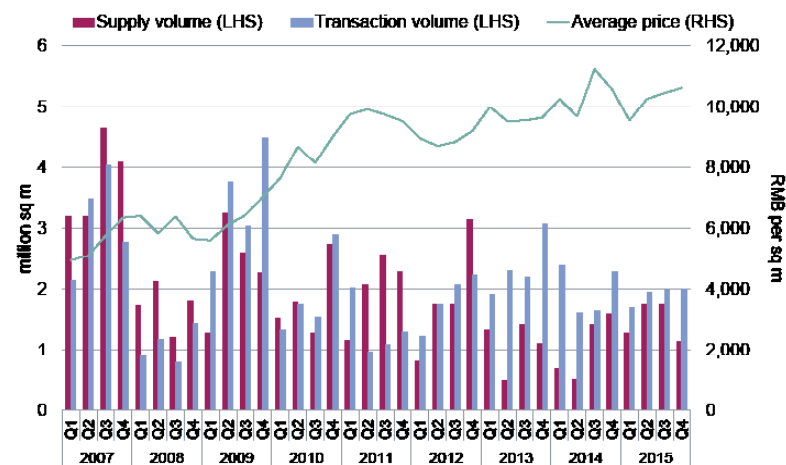
 Dave Law, Savills Research

➔ **Market overview**

In 2015, favourable policies, such as lowered interest rates, benchmark rate, down payments for first and second homeowners as well as favourable housing provident fund policies, not only released home buyers' pressure by reducing the cost of borrowing and stimulated demand, but also reduced financing costs for developers and enhanced their faith in the market.

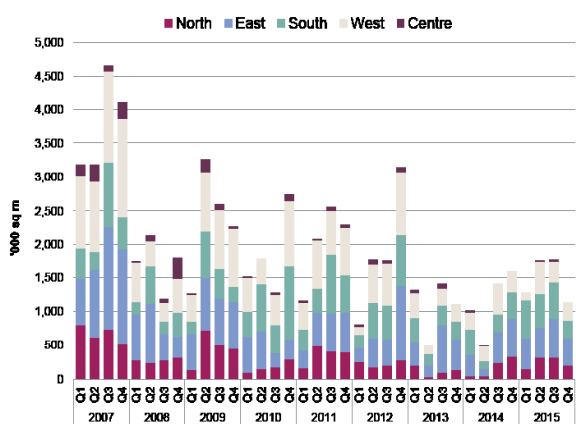
In Q4/2015, due to the favourable policy environment and the further lowered interest rates in October 2015, both the commodity housing price and transaction volume

GRAPH 1 **Main urban residential supply, take-up and prices, Q1/2007-Q4/2015**



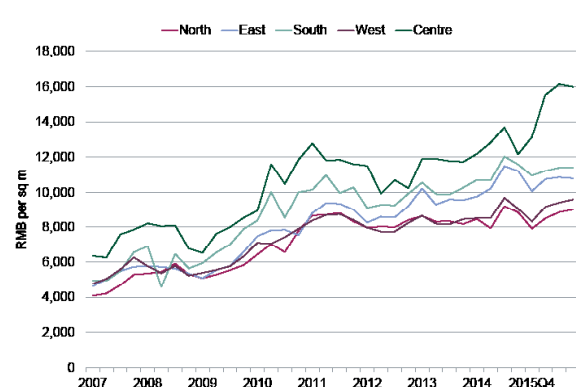
Source: Savills Research

GRAPH 2 **Main urban transaction volumes, Q1/2007-Q4/2015**



Source: Savills Research

GRAPH 3 **Main urban residential prices, Q1/2007-Q4/2015**



Source: Savills Research

increased. In this quarter, total new supply in the main urban areas rose 2% QoQ, reaching approximately 2.01 million sq m, up 12% YoY. Average prices in the central districts reached RMB10,625 per sq m, up 2% QoQ and 0.48% YoY.

In Q4/2015, eastern and southern Chengdu were still the most active areas for first-hand commodity housing transactions. The eastern areas comprised 37% of the total transaction volume, and ranked the first out of all five areas. This is due to the hot sale of rigid demand housing such as CC Park, Evergrande Central Plaza, COFCO Splendid City, and Greenland Centre.

The eastern area was also the most active during 2015, and reached the highest transaction volume, accounting for 34% of the whole year's main urban area transaction volume. The southern area ranked second, accounting for 28%. The central area only accounted for 1% of the total transaction volume due to the limited land supply and most projects being positioned in the high-end market, driving prices higher than the city average.

Land market

Prime land market transaction volume increased 54% QoQ to 903,468 sq m, up 70% YoY.

In 2015, Chengdu's prime land market warmed up. Stimulated by the positive housing policies and land reserve strategy implemented at the end of the year, the market reached its land transaction peak. Due to high closing prices and land premiums, core areas were dominated by large national developers. In December, China Railway Construction Corporation (CRCC) purchased two plots in the Shuangnan area in the western districts with a 75.85% and 71.7% premium rate. Including land the CRCC purchased in the Longtan Area in the eastern districts in November, CRCC topped the list by spending a total of RMB4.64 billion on land in Chengdu's main urban area during 2015.

Outlook

In 2015, developers proactively purchased land in the Qinhuangsi and Huayang areas in the Tianfu New District, the Dafeng area north of the city, and the Damian area east of the

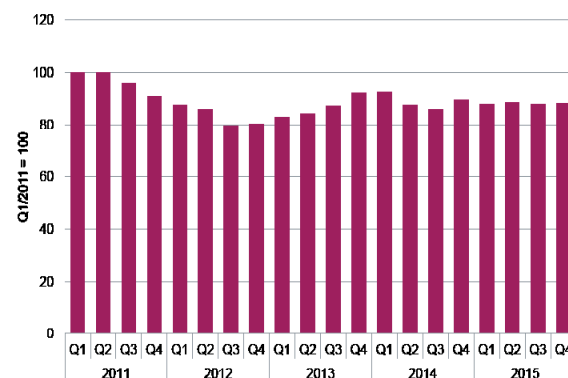
city. With the approval of the Sichuan Tianfu New District Master Plan by central government and the launch of Metro line 4 which connects the eastern and western districts of the city, the surrounding suburban area is receiving more attention. 2016 will see the implementation of the Tianfu New District Master Plan, the launch of Metro Line 3 which connects the southwest and northeast parts of the city, and the launch of new projects in the surrounding suburban areas. These new launches, combined with the current low average price in the suburban area and high transaction numbers, will result in the suburban area becoming a new hot spot and new projects are to be expected.

In 2015, the Central Bank lowered interest rates and the reserve requirement ratio. This, combined with the lowered provident fund and housing down payments, incentivised more home buyers to enter the market. As a result, from Q2/2015, housing prices and transactions

began increasing. In 2016, the government is expected to issue additional policies which will aid in incentivising the housing market. Combined with the positive effect of previous policies, they are expected to again increase housing demand.

However, with the increase in transaction volumes, prices are not expected to fluctuate, resulting in developers still making sales a priority. ■

GRAPH 4 **High-end residential price index, Q1/2011-Q4/2015**



Source: Savills Research

TABLE 1 **Housing transaction Top 5 by unit, 2015**

Rank	Project	Area	Unit	Average Price (RMB per sq m)
1	CR Land Twenty-four City	East	1,881	10,403
2	Le Parc	South	1,675	9,646
3	BRC Color	East	1,352	7,185
4	Centre Politan	North	1,267	8,421
5	Greenland Center	East	1,259	8,571

Source: Savills Research

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