

Briefing Residential sector

April 2016

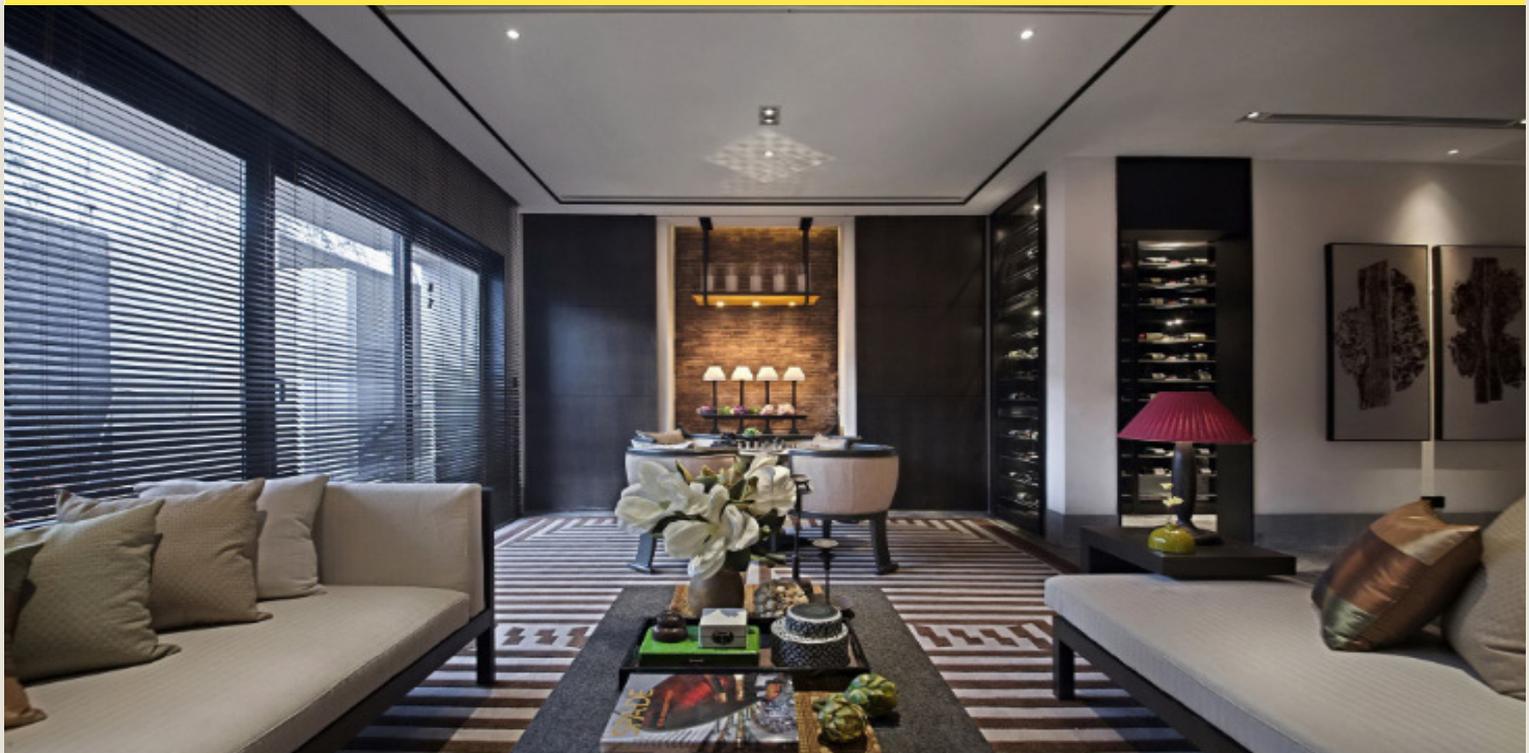


Image: Vogue Legend, Tianfu Avenue, Gaoxin District

SUMMARY

In Q1/2016, new commodity housing supply and transactions decreased due to the Spring Festival. However, the numbers are still higher than for this period last year.

- Total supply of new commodity housing in the main urban areas decreased 41% quarter-on-quarter (QoQ), to 1.77 million sq m, down 33% year-on-year (YoY).
- First-hand residential transaction volumes in the urban areas reached 1.93million sq m in Q1/2016, down 22% QoQ and up 6% YoY.
- Main urban area average prices reached RMB10,490 per sq m, up 2.09% QoQ and 9.36% YoY.
- Prime land market transaction volumes decreased 59% QoQ to 529,975 sq m, down 30% YoY.

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 “With the loosening of second-home and large-unit housing policies, an increase in demand for these types of units is expected in 2016.” Dave Law, Savills Research & Consultancy

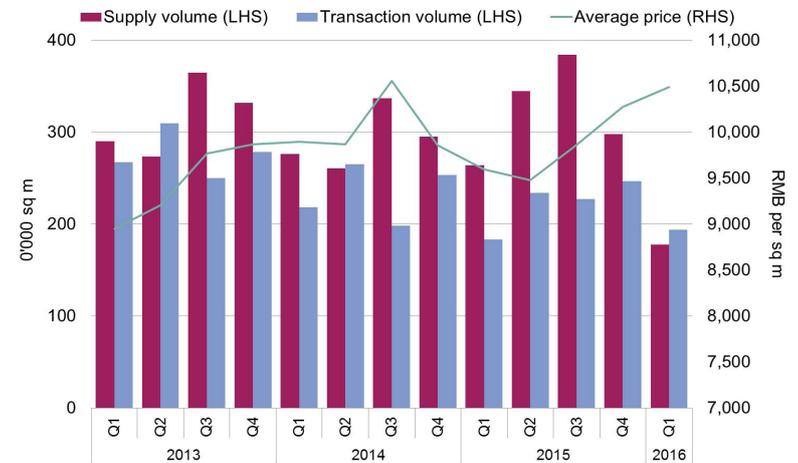
➔ **Market overview**

In Q1/2016, due to the Spring Festival (a traditionally busy period), new supply in the main urban areas rose 2% QoQ, reaching approximately 1.77 million sq m, down 22% QoQ. Transaction volumes decreased 22% QoQ to 1.93 million sq m.

However, due to the implementation of favourable policies, transactions increased 6% YoY.

At the end of 2015, the Central Economic Working Conference set “real estate de-stocking” as one of five primary goals for 2016. Decreased interest rates and down payments, combined with the cut in real estate taxes and transaction fees, relieved home buyers’ financial burden and transaction costs. This

GRAPH 1 **Main urban residential supply, take-up and prices, 2007-Q1/2016**



Source: Savills Research

stimulated more home buyers to enter the market.

In March, the National People’s Congress (NPC) and the Chinese Political Consultative Conference (CPPCC) introduced the long-awaited valued added tax (VAT) reform for the real estate sector. Coming into effect from 1 May 2016, there will be a changeover period where the introduction of input tax credits will allow companies to offset some of their costs. This is expected to positively affect the real estate market in the future by reducing tax.

In Q1/2016, average prices in main urban areas reached RMB10,490 per sq m, up 2.09% QoQ and 9.36% YoY. The rising home prices seen in first-tier cities, and some leading second-tier cities, combined with lowered interest rates, has stimulated the market and led to increased home prices.

The Gaoxin district was still the most active area for first-hand commodity housing transactions. This district saw 31% of the city’s total transaction volumes, and ranked first out of the six districts in Chengdu. The Chenghua district ranked second, representing 23% of total transactions. The hot sales of both rigid demand housing (such as British Ville) and high-end housing (such as Yintai Centre) in the Gaoxin district resulted in the area becoming the most active district.

The Jinjiang district, located in the south-east of the city near both the Jin and Fu rivers, reached the highest average price out of the six districts. This district is home to a number of high-end housing projects such as Kings Peak, Sky Villa, Evergrande Metropolis Mansion and Royal Palace, which pulled up average prices.

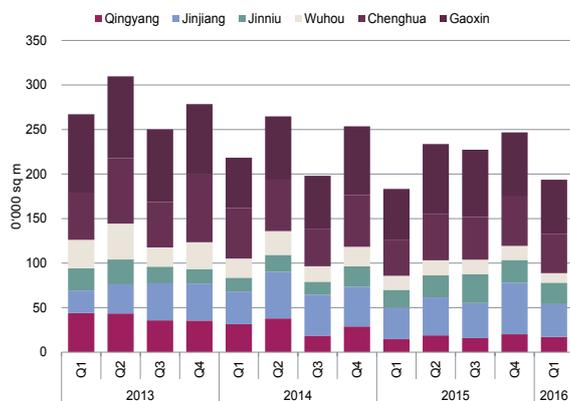
Land market

Prime residential land market transaction volumes decreased 59% QoQ to 529,975 sq m, down 30% YoY.

In March 2016, the Chengdu Taihangruihong Real Estate Development Company Ltd. purchased a plot in the Bairen Community, in the Qingyang District at a 126% premium rate. The average price was RMB12,000 per sq m, which resulted in it taking over residential land king status in the city.

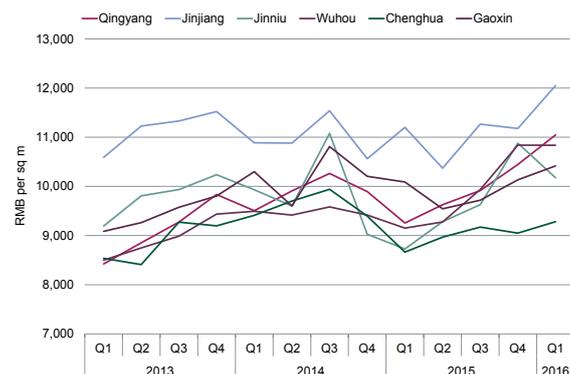
The local government has approved the land supply plan in the main urban area. According to the plan, in 2016, land supply will be controlled within 9.16 million sq m. In this area, residential land supply increased 12% YoY to 2.75 million sq m. Residential land supply will be focused in Wuhou, Chenghua and the Chengdu Tianfu New District. However, commercial land supply decreased 43% YoY, to 1.30 million sq m.

GRAPH 2 **Main urban transaction volumes, 2007-Q1/2016**



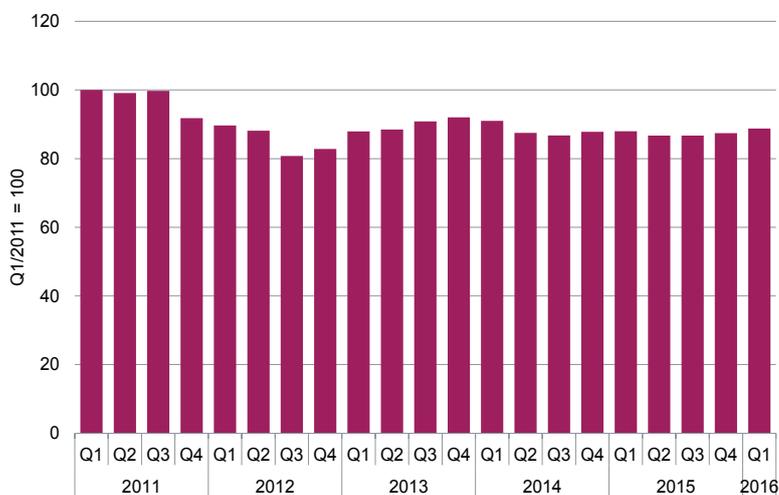
Source: Savills Research

GRAPH 3 **Main urban residential prices, 2007-Q1/2016**



Source: Savills Research

GRAPH 4
High-end residential price index, 2011-Q1/2016



Source: Savills Research

Outlook

The end of 2015 saw the Central Economic Work Conference set “real estate market de-stocking” as one of the top five goals for 2016. In addition to this, the NPC and CPPCC enforced the new VAT reform and de-stocking policies. This, combined with lowered interest rates and down payment requirements, is expected to see a growing trend of more home buyers entering the market and pushing up demand.

In the future, due to the implementation of tax and transaction fee reductions on large-home units and second homes, a more active second-home buyers market can be expected. However, in terms of the general market, as the effect of policies weakens over time, home buyers will become more rational. As a result, the large expected increase in future transaction volumes will gradually even out. ■

Please contact us for further information

Research



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

Project Development & Consultancy



Dave Law
 Director
 +8628 8665 7375
dave.law@savills.com.cn

Agency



Eric Wo
 Managing Director
 +8628 8658 7828
eric.wo@savills.com.cn

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