

Briefing Residential sector

March 2017



Image: Violet Castle, Ziyun Road, Jinniu District

SUMMARY

Restrictive government housing policies saw stricter pre-sale license requirements for developers, slowing down the pace of supply, which decreased 61% quarter-on-quarter to 1.32 million sq m.

■ In Q4/2016, total supply of new commodity housing in the main urban areas decreased 61% quarter-on-quarter (QoQ), to 1.32 million sq m, down 56% year-on-year (YoY).

■ First-hand residential transaction volumes in urban areas reached 2.59 million sq m in Q4/2016, down 1.55% QoQ but up 5% YoY.

■ Main urban area average prices reached RMB13,785, up 18% QoQ and 34% YoY.

■ Prime residential land market transaction volumes increased 160% QoQ to 492,789 sq m, down 15% YoY.

“Restrictive housing policies saw developers slow down their supply pace, resulting in new commodity housing supply reaching its lowest point since the trough of the market in 2013. As a result, short-term demand is expected to be restrained, with decreased first-hand residential transaction volumes.” Dave Law, Savills Research & Consultancy

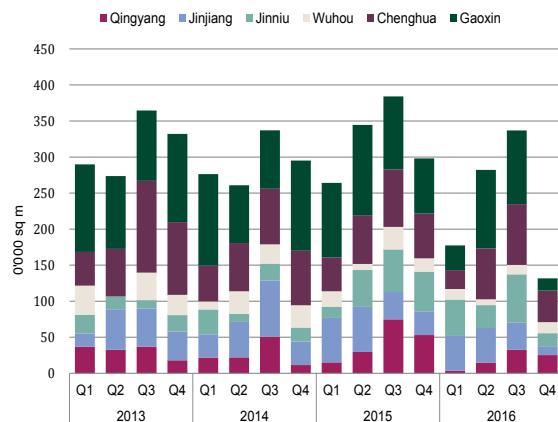
→ Market overview

In Q4/2016, average prices in the city's main urban area continued to increase, achieving the quickest growth rate since Savills began tracking this indicator in 2013. In an attempt to cool the city's overheated market, the local government issued a series of restrictive housing policies. As a result, developers began to show a wait-and-see attitude, slowing down the pace of supply. This saw housing supply decrease to its lowest point since tracking began in 2013.

In Q4/2016, total supply of new commodity housing in the main urban areas decreased 61% QoQ,

GRAPH 2

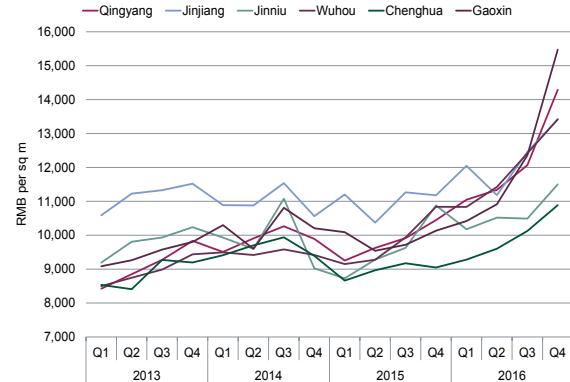
Main urban Supply volumes, Q1/2013-Q4/2016



Source: Savills Research

GRAPH 3

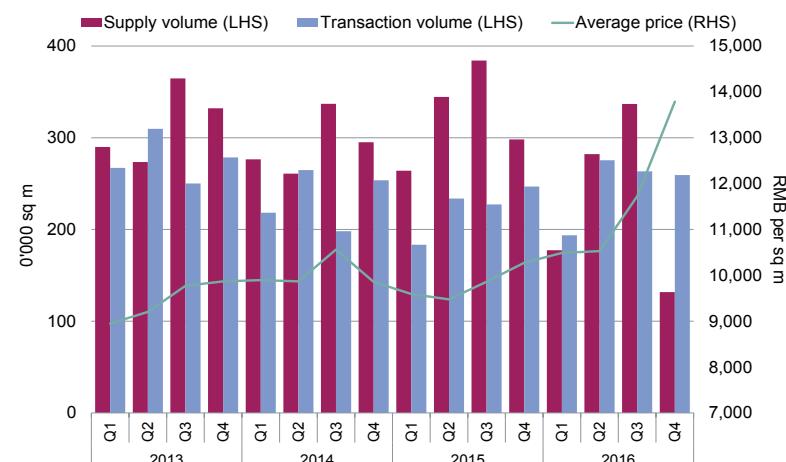
Main urban residential prices, Q1/2013-Q4/2016



Source: Savills Research

GRAPH 1

Main urban residential supply, take up and price, Q1/2013-Q4/2016



Source: Savills Research

to 1.32 million sq m, down 56% YoY. Transaction volumes in urban areas reached 2.59 million sq m in Q4/2016, down 2% QoQ but still up 5% YoY. Increasing demand for first-hand residential housing pushed prices up in Q4/2016, with first-hand residential housing prices in main urban areas increasing to RMB13,785 per sq m, up 18% QoQ and 34% YoY.

In Q4/2016, the local government implemented a number of restrictive policies aimed at reigning in the overheated market. Some of the restrictive measures implemented in October included only allowing a person to purchase one additional home, and increasing down payment requirements for the purchase of a second house to 40%. In November, the government then issued several policies aimed at promoting the healthy growth of the real estate market. This saw existing policies in hot areas, such as the Tianfu New District and South Gaoxin District, reconfigured to cool the market.

In addition, the minimum requirements for pre-sale licence applications was increased for developers, as well as increasing the minimum gross floor area (GFA), restricting pre-sale prices, and

requiring that the actual transaction price cannot be higher than the pre-sale price.

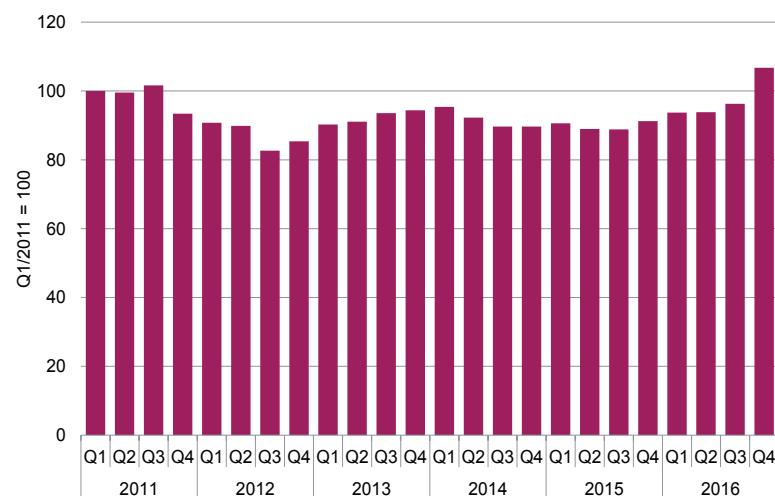
As a result of the newly implemented restrictions, demand was restrained. The increased pre-sale requirements for developers assisted in shrinking prices, as developers are now restricted on how much a sales price can be increased. This, combined with many developers achieving their annual sales targets in advance, saw developers slowing down their supply pace, and adjusting their product positioning in-line with government policies.

Land Market

In Q4/2016, prime residential land market transaction volumes decreased 15% YoY to 492,798 sq m.

Due to decreased land supply and an overheated residential market in Q4/2016, an increased amount of land was sold at a higher premium. In October, BRC purchased a plot of residential land in the Longquanyi district at a 191% premium, with an average price of RMB5,075 per sq m. November saw Changhong Real Estate purchase a residential plot of land in the Jinniu district at a 200.77% premium, while the Desun

GRAPH 4

High-end residential price index, Q1/2011-Q4/2016

Source: Savills Research

Group purchased a residential plot of land in the Tazishan area at a 199.36% premium. In December, China Railway Real Estate Group purchased three residential plots of land in the Tianfu New District, with an average price of nearly RMB9,000 per sq m, an average 175%

premium, on par with new homes currently on sale in the area.

Frequent high premium land transactions, coupled with rocketing housing prices, saw local government implement a price cap on 12 December 2016. This included

new measures detailing the transfer rules of seven land plots up for sale at the end of December, which entailed ending the auction once the price cap was reached.

Outlook

In an attempt to cool an overheated market, the local government implemented a number of housing purchase restrictions in Q4/2016, which included increased down payments in an attempt to lower the number of speculators and investment buyers. The increased control of developers with regards to pre-sale prices and transactions is another attempt by local government to control escalating housing prices.

Developers are expected to continue to decrease their supply pace, due to policy tightening. Consequently, transaction volumes are expected to decrease due to lowered supply with housing prices still being tightly controlled. Although demand is still strong, the decreased supply will see this figure decrease. ■

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