

Briefing Residential sector

July 2017



Image: Landsea Xihuafu, No.777 Shengzi Street, Hi-tech Zone.

SUMMARY

Despite strict home purchase restrictions, demand from purchasers was still high. Limited supply and increased demand has driven the average price of new commodity housing higher in Q2/2017.

- The supply volume of Chengdu's housing decreased by 44.7% quarter-on-quarter (QoQ) in Q2/2017 to 1.2 million sq m, down by 57.9% year-on-year (YoY).
- The average price rose by 2.2% QoQ to RMB 13,943 per sq m, up by 32.4% YoY.
- The transacted volume of land totalled 360,000 sq m, down by 27.9% YoY.
- The transacted volume of new commodity housing totalled 1.9 million sq m, showing a significant increase of 29.9% QoQ but a decrease of 30.3% YoY.

“While Chengdu’s housing policies continue to tighten, the government issued its plan for increasing stock of residential land release for the next five years. It is expected that the housing market will become more rational to help improve housing affordability.” Dahuang Chen, Savills Research

➔ **Market overview**

The Chengdu government has issued a series of home-purchase restrictions since Q4/2016 to control skyrocketing residential prices. However the average price of new housing still rose by 2.2% quarter-on-quarter (QoQ), 32.4% YoY, to RMB13,943 per sq m in Q2/2017. This is due to strong purchase demand but limited supply, albeit the market saw a cool-down in Q1/2017. Meanwhile, the supply volume of Chengdu's urban commodity housing decreased by 44.7% QoQ in Q2/2017 to 1.2 million sq m, down 57.9% YoY. The transacted volume of new commodity housing totalled 1.9 million sq m, an increase of 29.9% QoQ but a decrease of 30.3% YoY.

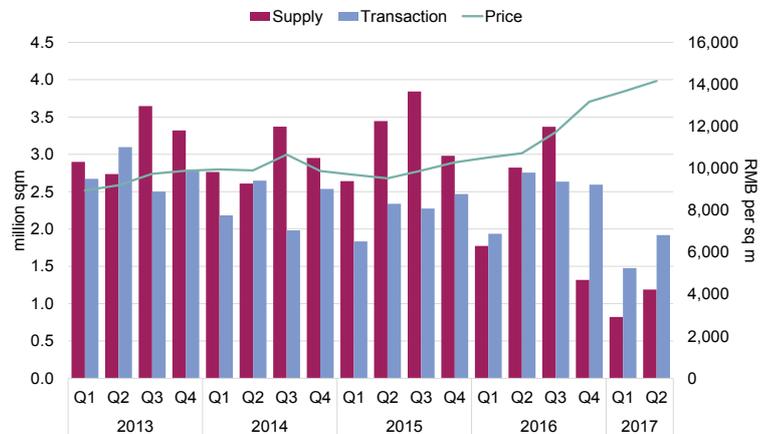
The rules for commercial mortgages were tightened across Sichuan in April 2017, which increased minimum down payments for second-home buyers from no less than 40% to no less than 60% of the total price. Tianfu New Area has the most stringent policy, with minimum down payments not less than 70% of total price. In addition, the policy has blocked mortgages for third-home buyers. This new policy is based on the government's pledge to end residential-property speculation and improve housing affordability for the city's residents.

Land Market

The transacted area of urban land market totalled at 360,000 sq m, down by 27.9% YoY.

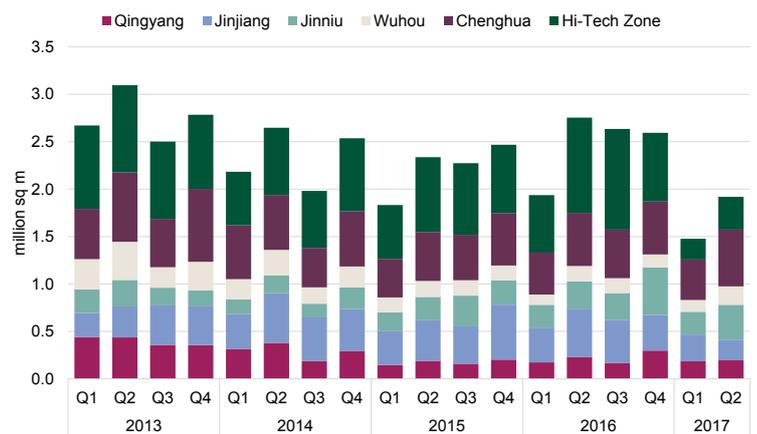
All plots of land were sold at a high premium in Q2/2017 due to no land supply in Q1/2017. A plot for commercial- and residential-use, located in Jianshe Road of Chenghua District, was purchased by Zhongnan Shijicheng Development, a subsidiary of Zhongnan Construction. The accommodation value was RMB12,900 per sq m, a premium of 61.3%. A plot of land for mixed-use located at Mingcui Road of Qingyang District was purchased by CRCC for a total price of RMB1.5 billion.

GRAPH 1 **Main urban residential supply, take-up and price, Q1/2013-Q2/2017**



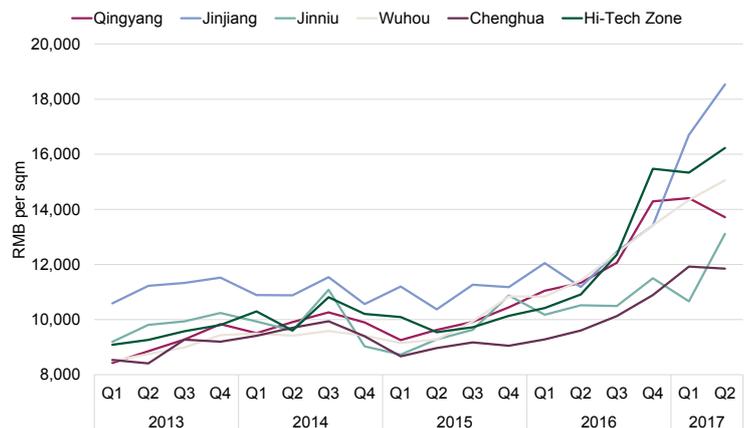
Source: Savills Research

GRAPH 2 **Main urban transaction volumes, Q1/2013-Q2/2017**



Source: Savills Research

GRAPH 3 **Average primary residential prices in main districts, Q1/2013-Q2/2017**



Source: Savills Research

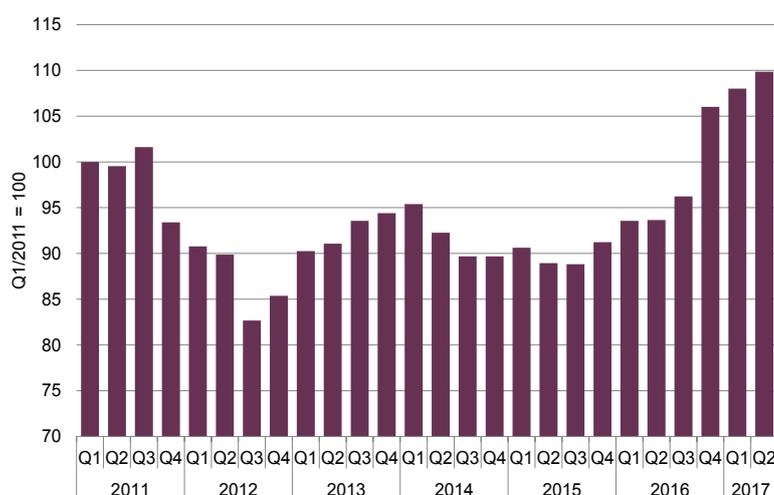
The accommodation value was RMB13,580 per sq m, a premium of 81.1%. These accommodation prices were similar to sale prices of nearby residential projects.

According to the Chengdu residential land supply plan (2017-2021) issued

by the Chengdu Municipal Bureau of Land in June 2017, the average annual supply of residential land from 2017 to 2021 will increase by 13%, compared to the previous five years. The increased land supply will allow for direct increase in housing supply. It is thus expected

that housing prices will cool down and bring healthy development of the residential market. At the end of June, the government introduced a new rule for regulating land auction activities to raise the threshold for land acquisition and regulate intensive speculation activities which happened earlier.

GRAPH 4 **High-end residential price index, Q1/2011-Q2/2017**



Source: Savills Research

Outlook

Housing prices have rebounded in Q2/2017 after a slowdown in Q1/2017. Despite tightened purchase policies, it is difficult to cool down housing prices in the short term if the land supply and demand gap cannot be reduced. The housing supply will only increase when the new Chengdu residential land supply plan (2017 - 2021) is implemented. Thus it is expected that housing prices will cool down and bring a healthy development of the residential market in the medium term. ■

Please contact us for further information

Research



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



Dahuang Chen
 Associate Director
 +8623 6370 3388
 dahuang.chen@savills.com.cn

Agency



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

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.