

Briefing Residential sector

April 2014



Image: Sunac Guardian Manor, New North Zone

SUMMARY

Mass residential average prices recorded healthy growth while residential transaction volumes slumped slightly.

- Real estate investment reached a total of RMB36.9 billion during the first two months of 2014, up 23.7% year-on-year (YoY).
- Residential transaction volumes reached over 2.8 million sq m in Q1/2014.
- Residential prices increased 1.7% quarter-on-quarter (QoQ) to an average of RMB7,881 per sq m.
- The difficulty in obtaining housing provident fund loans and higher interest rates further restrained mass-market residential transaction volumes.
- Chongqing's land market is expected to receive a large amount of land supply in emerging areas. Residential supply is expected to rise in the coming years, giving home buyers more options.

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 “Unlike the overheated market situation in 2013, land transaction volumes in Q1/2014 remained relatively low, with both land supply and transaction volumes decreasing.” Dave Law, Savills Research

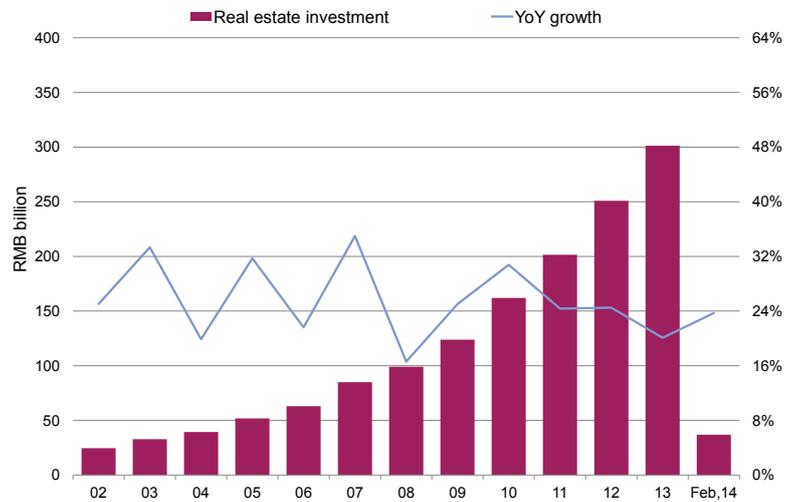
➔ **Macro market**

In March, interest rates of first house loans in Chongqing rose as high as 10%. It is rumoured that the possibility of obtaining housing provident funds is decreasing, and consequently, home purchaser sentiment has been affected. This wait-and-see mood from consumers has influenced residential transaction volumes this quarter. Nevertheless, real estate investment remained stable and both mass-market and high-end residential recorded moderate growth in average prices.

The land market in Q1/2014 is different from that of 2013 in that both supply and demand remained flat.

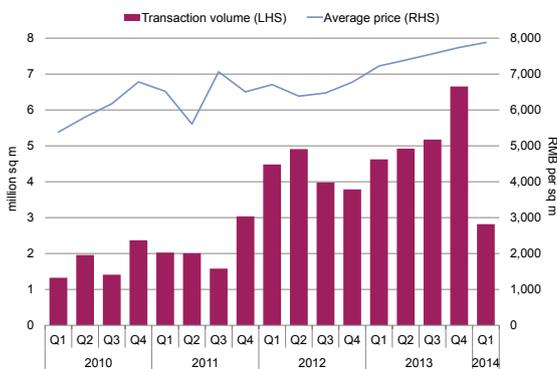
In the first two months of 2014, real estate investment in Chongqing

GRAPH 1 **Real estate investment YTD, 1998–Feb 2014**



Source: Statistics Bureau of Chongqing

GRAPH 2 **Mass-market residential transaction volumes and average prices, Q1/2010–Q1/2014**



Source: Savills Research

GRAPH 3 **High-end residential price index, Q1/2010–Q1/2014**



Source: Savills Research

reached RMB36.9 billion, up 23.7% compared with 2013 and accounting for 38.2% of fixed asset investment. Investor confidence in the Chongqing market has not been affected and more overseas developers are flocking to the most populous municipality in western China.

Mass-market residential supply in Chongqing reached 2,853,553 sq m in Q1/2014, while transaction volumes totalled 2,817,290 sq m. Supply has continuously surpassed demand, leading to a constant increase in stock. Compared with the same period of 2013, transaction volumes decreased by almost 64% YoY, due to the introduction of the 20% capital gains tax and five new property cooling measures issued last year, which led to a temporary surge in transactions in Q1/2013. Additionally, average residential prices increased by 1.7% QoQ to RMB7,881 per sq m.

Among the nine main districts of Chongqing, Shapingba and Yubei districts have recorded the highest transaction volumes. Xiyong (西永) and University City (大学城) are two emerging business hubs in Shapingba district, both enjoying convenient access to metro line 1 which adds to their appeal. These areas are home to a large amount of residential stock targeting the

population from the surrounding high-tech zones and college employees with below average affordability. Yubei district, boasting favourable living facilities and an increasingly mature commercial environment, has been another location under spotlight this year. Most of the residential products in this area target the mid to high market.

Unlike the flat performance in 2013, the high-end residential market recorded positive growth in Q1/2014. High-end residential prices rose 1.8% QoQ to RMB14,563 per sq m. This increase in price can be attributed to the fact that this quarter witnessed new phases of residential supply, at projects such as Cape Coral. Better quality residential products enable developers to re-price and raise their prices.

Land market

Chongqing's land market remained relatively flat in the first quarter of 2014. Fifty-three out of 63 available land plots were transacted in Q1/2014, totalling 3.69 million sq m. Accommodation value amounted to RMB1,207 per sq m. Most of land plots were located in Ba'nan and Jiulongpo districts. ■

OUTLOOK

The upcoming Spring Housing Fair is likely to bring a series of discounts which will benefit home purchasers and stimulate transaction volumes.

■ According to online data released by the municipal government, over 50 projects are expected to be launched onto the market in April and promotional discounts will be offered throughout April and May. The Chongqing Spring Housing Fair is scheduled for the middle of April. Meanwhile, a plethora of preferential policies and discounts

are expected to stimulate residential transaction volumes.

■ Land plots released so far in 2014 are mainly located in emerging areas such as Ba'nán district, a designated as a Central Activity Zone (CAZ) and Central Shopping District (CSD). Ba'nán district's government has planned to release over 42 land plots this year, equivalent to 325 million

sq m. Spread along Babin Road and boasting views to the Yangtze River, 26 commercial-residential mixed land plots and 15 residential plots, plus one industrial land plot, are scheduled to be launched onto the market. Residential supply is expected to increase in the coming years, and consequently the market may need a longer absorption period.

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