

Briefing **Residential sector**

November 2014



SUMMARY

Residential transaction volumes continued to increase this quarter, while average prices fell.

- Real estate investment reached RMB215.1 billion in August 2014, up 21.2% year-on-year (YoY).
- Residential transaction volumes reached over 4.7 million sq m in Q3/2014.
- Mass market residential prices decreased 3.5% quarter-on-quarter (QoQ) to an average of RMB7,640 per sq m, which is the first recorded decrease in residential prices in the past 10 quarters.
- Due to the continued tightening of the mortgage credit policy, boosting transaction volumes continued to be the main focus for developers and thus prices fell significantly in Q3/2014
- Under the influence of a national real estate market downturn, future land supply volume is expected to remain low. Due to further urbanisation, emerging areas such as Yuelai will contribute the majority ofland supply in the near future.

"Compared to last quarter, the land market was relatively cold in Q3/2014, with both supply and transaction volume falling." Dave Law, Savills Research

→ Macro market

Residential credit conditions continued to tighten in Q3/2014. Although many cities have loosened restriction policies, the Chongqing residential market was not significantly impacted. Consumers remained on the sidelines which led to a fall in residential prices this quarter. This increase in transaction volumes can be attributed to successful sales of discounted units.

The residential investment market recorded a steady increase in real estate investment in Q3/2014, representing investor trust in the local market.

The land market faced downward pressure in Q3/2014 due to a substantial reduction in supply. As developers had a large amount of existing inventory to sell, they were more cautious about acquiring land compared with previous quarters.

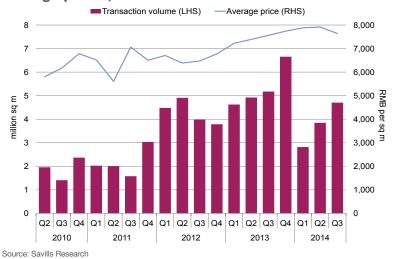
In July 2014YTD real estate investment in Chongging reached RMB183.6 billion, up 22.4%YoY. In August, the YTD number reached RMB215.1 billion, up 21.2% YoY. Investor confidence in the Chongqing market remained strong this quarter despite the slow residential sales market. For example, Vanke Group bid for a residential land plot covering 69.160sg m for a total transaction price of RMB600 million. The land plot was located in the Jiulongpo district and was the second land transaction for Vanke in two months. The deal demonstrated the consistent confidence of large real estate companies in the market. Some small local developers also made a move this quarter, with Rongchuang Group acquiring two land plots in the Yulai and Yubei districts, with a total area of 321,611 sq m and a total price of RMB200 million. The average accommodation value reached RMB3,053 per sq m.

Transaction volumes reach over 4.7 millionsq m in Q3/2014, down 9.1% YoY, as the market remained

Real estate investment YTD, 2005-August 2014 Real estate investment -YoY growth 350 50% 300 40% 250 30% 200 150 20% 100 10% 0% 05 07 09 10 11 12 13 14YTD 80

Mass-market residential transaction volumes and average prices, Q2/2010-Q3/2014

Source: Chongqing Statistics Bureau



heavily influenced by housing restriction policies. However, transaction volumes increased QoQ as developers tried to increase sale volumes during the traditional golden real estate period through various discount tools such as "Limited Time Offer" and "National Holiday Offer". Additionally, some developers even sold at cost price as they faced high pressure to reach year end targets. As a result, average prices decreased to RMB7,640 per sq m, down 3.5%QoQ.

Transactions in Q3/2014 showed the New North Zone, and the Jiulongpo and Yubei districts continued to record the highest transaction volumes. Transactions inthe New North Zone were concentrated in the Zhaomushan area, while the Yuelai area was the best performing region in Yubei. These two regions had a large number of vacant plots with attractive surrounding environments thus garnering attention from both developers and consumers. Intensive development in the infrastructureof

Hua YanNew Cityand high-tech zones in Jiulongpo continued to contribute to total residential transaction volumes. Transaction volumes in the Shapingba and Dadukou districts also remained relatively healthy.

Average high-end residential prices inQ3/2014 reached RMB14,700 per sq m, up 4.4% QoQ. This was mainly because high-end residential projects increased their prices after an extended period of discounts at the opening of the projects.

Land market

Land market in this quarter was cold with both supply and transaction volumes falling both YoY and QoQ, mirroring the overall rigid real estate market. Overall land transactions reached2.4 million sq m with only 19 land plots transacted this quarter. Average premium rates reached 8.8%, a figure that is considered fairly low, especially when compared to 15% in Q3/2013. Among the ninemain districts, the Jiulongpo and Yubei districts had the highest amount of supply. Most land transactions continued to occur

inthe Ba'nan and Yubei districts. Accommodation value amounted to RMB2,119 per sq m, down 29% QoQ.

Outlook

DAs the overall residential market forecast remains gloomy, discount sales are scheduled to continue to be a major selling strategy to stimulate transactions in the short-term. Additionally, as the golden sale season continues to attract potential consumers through next quarter, price growth rates are expected to decrease further while transaction volumes are expected to increase.

Although the land market was not very active this quarter, and developers were more cautious,land transactions are expected to rise at the end of year, while supply is expected to continue to increasein the near future. The Yubei, New North Zone and Jiulongpo areas are expected to continue leading the market in terms of land supply and transaction volumes.

In the next quarter, approximately 80 new residential projects will enter

the market, with some projects from large developers such as Huarun and Wharf. Most of these new projects will be located in the Yubei, New North Zone and Jiulongpo areas. Meanwhile, several land plots in Jiulongpo and Yubei are expected to launch in the next couple of months. As the end of 2014 is approaching, competition is expected to increase among developers; premium rates and accommodation values are expected to see a significant increase compared with this quarter.

GRAPH 3

High-end residential price index, Q2/2011–Q3/2014



Please contact us for further information

Savills Research

Savills Project Development Savills Agency & Consultancy



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



Dave Law Senior Associate Director +8628 8658 7120 dave.law@savills.com.cn



Eric Wo
Deputy Managing Director
+8628 8672 1810
eric.wo@savills.com.cn



Ivan Chong
Director
+8623 6370 3330
ivan.chong@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 500 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.