

Briefing Residential sector

February 2015



Image: Himalaya of Sunshine 100, Nan Bin Road

SUMMARY

Residential transaction volumes rose for the third consecutive quarter, while average prices continued to fall.

- As a number of tightening housing policies took effect in 2014, the overall Chongqing real estate market has undergone a comprehensive reversal in terms of supply and demand, witnessing a 10-quarter consecutive fall in prices and less impressive transaction volumes year-on-year (YoY).
- Real estate investment reached RMB325 billion in November 2014, up 22.9% YoY.
- Residential transaction volumes surpassed 5.7million sq m in Q4/2014.
- Mass-market residential prices decreased 4.5% quarter-on-quarter (QoQ) to an average of RMB7,200 per sq m.
- In order to meet annual sales targets, preferential housing sales continued to increase in the last quarter, leading to transaction volumes increasing significantly, while prices declined.

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 “Both supply and transaction volumes of land supply in Q4/2014 increased, however, overall performance was flat.”

Dave Law, Savills Research

➔ **Forecast**

In the coming year, selling inventory will remain a priority for most developers, who are also expected to remain cautious about acquiring new land plots. Meanwhile, as Chinese New Year is approaching, the market is expected to witness a flat performance with regards to transaction volumes in the first quarter of 2015.

Macro market

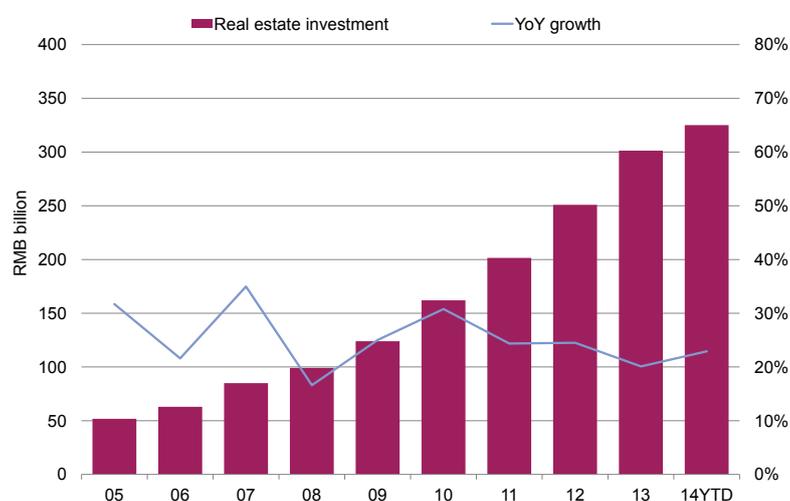
No major policy adjustments in Q4/2014 resulted in continued downward market expectations. Sale targets fell short of expectations for most developers who faced huge financial pressure. This led to developers accelerating the speed of selling existing stocks, as well as the opening of new projects, through various discount tools. As a result, transaction volumes recorded a continued increase as average prices decreased.

The residential investment market recorded a steady increase in real estate investment in Q4/2014, indicating investor trust in the local market.

Land transactions recovered slightly, with more land supply coming onto the market. However, the majority of the land plots transacted were small, with no large national developers involved.

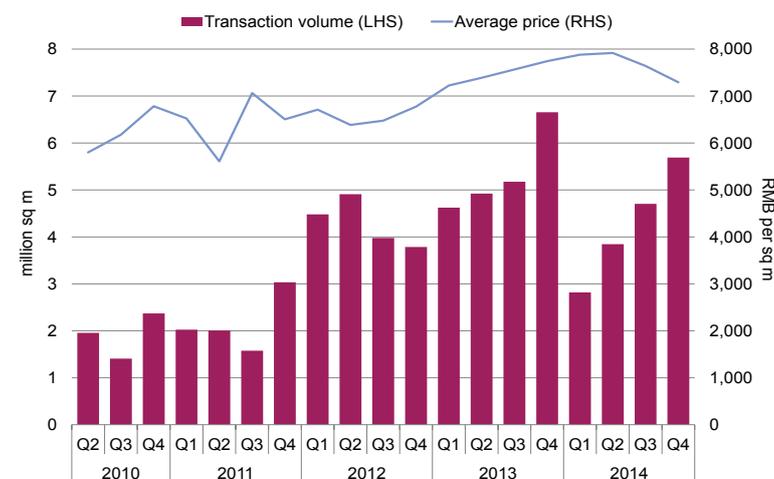
In October 2014, year-to-date (YTD) real estate investment in Chongqing reached RMB282 billion, up 21% YoY. In November YTD, the number reached RMB325 billion, up 22.9% YoY. Investors' confidence in the Chongqing market remained strong despite the slowing residential sales market, leading to a positive trend in the market. Main contributors of real estate investment were not renowned developers, but several local developers acquired a number of land plots, mainly in non-prime Ba'nán and Jiulongpo districts. Transaction volumes reached over

GRAPH 1 **Real estate investment YTD, 2005–November, 2014**



Source: Chongqing Statistics Bureau

GRAPH 2 **Mass-market residential transaction volumes and average prices, Q2/2010–Q4/2014**



Source: Savills Research

5.7 million sq m in Q4/2014, down 14.5% YoY, as the market continued to be affected by macroeconomics and credit policies. Unsurprisingly, transaction volumes increased 20.9% QoQ as developers made their biggest efforts on discount sales in 2014, leading to the biggest transactions volumes of this year occurring in Q4/2014. Additionally, apart from traditional methods of sales, some developers adopted several creative sale methods such as “recommendation marketing” which encouraged existing

consumers to recommend new potential clients by rewarding them a 5% commission fee on the total transaction price. As a result, average prices decreased to RMB7,292 per sq m, down 4.5% QoQ, the biggest decrease since Q2/2012.

The most transacted district of Q4/2014 was Jiulongpo, with over 9,000 units and approximately 800,000 sq m successfully transacted. Liangjiang New Area also witnessed a strong performance this quarter, with over 350,000 sq m

transacted, mainly due to end-user demand from workers of the rapidly developing area. The New North Zone continued to be one of the most popular districts for consumers, as well as the Shapingba and Nan'an districts.

Several newcomers this quarter, including Himalaya of Sunshine 100 on Nanbin Road in of Nan'an district which recorded the highest price city-wide of RMB40,000 per sq m, increased the overall average high-end market price to RMB16,700 per sq m. However, existing projects either recorded a sharp downfall or remained at the same level compared to last quarter, resulting in prices decreasing 3.3% QoQ, echoing the general market downturn.

Land market

41 new land plots were transacted in Q4/2014, 22 more than in the last quarter, with an accommodation value (AV) amounting to RMB2, 526 per sq m, up 19% QoQ. Meanwhile, total transaction area reached 337 million sq m, up 39% QoQ, mainly due to the weak performance in Q3/2014 and a significant increase of land supply in the last month of Q4/2014.

However, the overall transaction area was less impressive compared to the same time last year, echoing the downturn of the real estate market in general. Average premium rates reached 10%, a slight increase QoQ, albeit still very low compared to the 40% achieved in Q4/2013. Local developers were active in acquiring land plots. For example, Chongqing Chengtuo Real Estate Company acquired six land plots located in Ba'n'an and Dadukou districts, becoming the company that acquired the most land in Q4/2014. Conversely, large, nationally-renowned developers such as Longfor and Greenland waited until December to acquire their first land plot of the year, hinting at low confidence and caution towards the market spilling into next year. Most

land transactions occurred in Ba'n'an and Jiulongpo districts.

It is worth mentioning that Avic Real Estate Company made a bid for a land plot located in Yuzhong district this quarter, marking their first move within the Chongqing real estate market, for a price of RMB1.2 billion. Due to the limited land supply within the district, the AV reached RMB7, 500 per sq m, the highest value of the year.

2014 overview

Since the end of 2013, the central government has chosen to decentralise its control over the national real estate market, a milestone that marked a significant change in the real estate market in 2014. This policy was mainly aimed at reducing the level of central administrative intervention. However, it has placed a greater reliance on market self-regulation combined with local government policies based on the actual situation in their own jurisdiction. The move promoted the diversification of housing supply to meet the different needs, in order to establish a more reasonable supply-demand relationship, and thus a

more affordable housing price for the majority of residents. Meanwhile, the policy also allowed each major city to establish a long-term mechanism for the regulation of the real estate market according to different situations through land regulations, taxation and financial policies.

In the first half year of 2014, the Chongqing government tightened the credit policy on house purchases and almost stopped accepting housing funds. In the second half, the housing funds policy was gradually loosened as the government started to allow using diversified housing funds for purchasing.

Both the national and local housing policies combined directly affected the overall performances of the real estate market in Chongqing. Transaction volumes were significantly decreased compared to 2013 and average prices decreased to a more reasonable level. The overall Chongqing real estate market has undergone a comprehensive reversal quarter by quarter as the housing market witnessed a situation of oversupply for the first time in almost three years. The reversal

GRAPH 3 **High-end residential price index, Q1/2012–Q4/2014**



Source: Savills Research

also resulted in climbing pressure for developers, most of whom were struggling to meet sales targets and adopted numerous discount tools.

The land market echoed the situation witnessed in the residential sales market in 2014, due to limited land supply and major developers taking a 'wait and see' attitude, being cautious about acquiring new land plots. Yubei and the New North Zone were the two most transacted areas in 2014 due to matured infrastructure and living atmosphere; emerging districts such as Shapingba, Jiulongpo and Ba'nán also witnessed strong performances. The most transacted land plots were located in Jiulongpo and Ba'nán, further demonstrating the rapid expansion of the city.

Although real estate investment recorded a steady growth QoQ, the overall rate was not as large as previous years, mirroring the current market situation and demonstrating a cautious, yet more reasonable, investment pattern among investors.

2014 saw the real estate market in Chongqing wave goodbye to the golden age of rapid development and enter an era of steady growth.

2015 Outlook

In the coming year, macroeconomic development will further slow alongside a series of monetary policies attempting to stimulate the economy and real estate market. There is a high possibility of decreasing interest rates in 2015 to stimulate consumption. In terms of housing policy, administrative measures such as purchase and loan limitations will be gradually dropped and instead, a self-regulated market will be gradually formed and a long-term mechanism for real estate regulation will be the main measure for most of the major cities, including Chongqing. As a result, the supply and demand of the real estate market in Chongqing is expected to increase further at a reasonable rate with steady average prices.

In 2015, the main target for developers will still be offloading inventory as they will want a return from the projects, now completed, that were vacant land plots purchased between 2012 and 2013. This is expected to result in steadily increasing transaction volumes and a slightly decreasing price, similar to that seen in the last two quarters of 2014. The Liangjiang New Area, Jiulongpo and Ba'nán are expected to generate more attention as central points of numerous new projects in the coming quarters.

Land supply and transactions are expected to remain stable. In the long run, with less vacant land plots being acquired, the amount of new projects will decrease significantly after the selling of current inventory, resulting in a more balanced supply and demand. ■

Please contact us for further information

Savills Research



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

Savills Project Development & Consultancy



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



Backy Fung
 Senior Director
 +8628 8658 7841
 backy.fung@savills.com.cn

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