

Briefing Residential sector

May 2015



Image: XingYaoYiPin, Jiangbeizui CBD

SUMMARY

Compared with the same time last year, transaction volumes increased while prices continued to fall, albeit at a slower rate than previously seen.

- Influenced by the recent introduction of favourable macro policies, the Chongqing real estate market witnessed a strong performance during Q1/2015, resulting in overall transaction volumes increasing year-on-year (YoY).

- Real estate investment reached RMB76 billion in Q1/2015, up 10.7% YoY.

- Residential transaction volumes surpassed three million sq m in Q1/2015, up 7.5% YoY.

- Mass market residential prices decreased 1.8% quarter-on-quarter (QoQ) to an average of RMB7,160 per sq m.

- Selling stock remained a priority for a number of developers in 2015, resulting in prices continuing to fall

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 “Both supply and transaction volumes in the land market decreased significantly, however, a sharp increase in transaction prices was recorded.” Dave Law, Savills Research

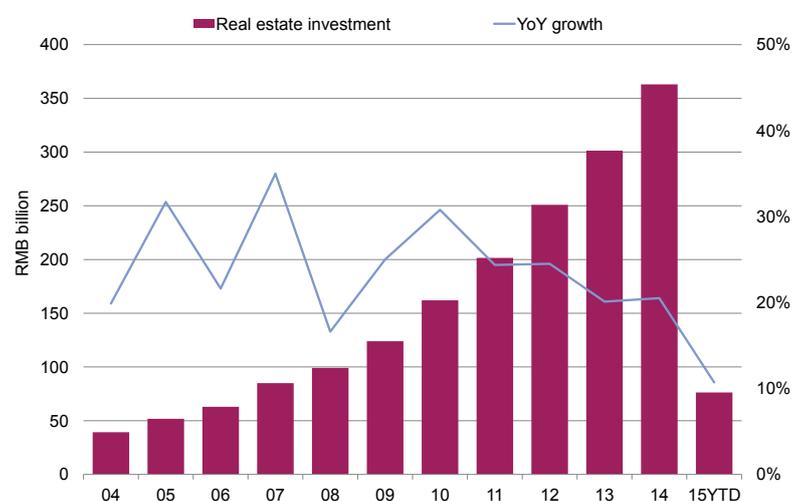
➔ **Forecast**

As a result of favourable policies and the Spring Housing Fair in April, the real estate market is expected to see a significant increase in transaction volumes during the next quarter. High levels of supply and stock are the primary concern, thus selling stock will continue to be the main goal for developers in order to occupy market share and regain cash flows.

Macro market

Due to a series of tightening measures released at the end of 2014, transaction volumes in the first two months of 2015 in Chongqing were not impressive as the number of newly-launched projects, falling

GRAPH 1 **Real estate investment YTD, 2006–March, 2015**



Source: Chongqing Statistics Bureau

60% YoY. As a result of a series of favourable macro-policies after the Spring Festival, such as the lowering of deposit and loan interest rates, the property market was active this quarter, resulting in higher transaction volumes YoY. The main goal for developers was still selling stock and thus the average price continued to show a downward trend, albeit with a slower rate, showing restored confidence by consumers.

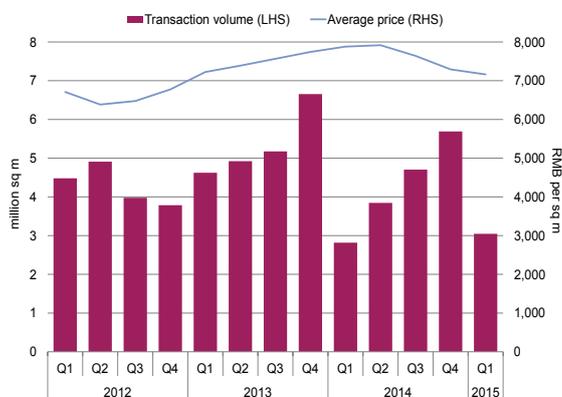
The overall land market performance was not impressive, with a huge decline in transacted area compared with same time last year. However, several transacted lands had high public awareness and some famous, large, domestic developers were active this quarter.

In the first two months of 2015, real estate investment reached RMB76.19 billion, up 10.7% YoY. Although a downward pressure was placed on the growth of real estate investment due to the national holiday(s), the growth continues to demonstrate confidence on the part of investors, which is expected to grow over the next few quarters as the whole property market is reinigorated.

Transaction volumes reached over three million sq m in Q1/2015, up 7.5%YoY, due to a string of favourable macro-policies which had taken effect this quarter. The combination of these policies has stimulated demand within the real estate market. In addition, with various sales tools adopted by developers, transaction volumes climbed to a peak in March and finally made the total volume higher than the same time last year. The increasing demand from consumers, especially from end-users, has helped to balance the supply and demand relationship and hence average prices fell to RMB 7,160 per sq m, down 1.8% QoQ.

The Yubei district had the largest number of transactions, with 4,057 sets of residences successfully sold, while the Shapingba district recorded the largest transaction area of 280,000 sq m in Q1/2015. All districts trended upwards in terms of transaction performances and average prices remained stable with only a few fluctuations. Northern districts, such as the New North Zone, remained the most popular choices of area for most home purchasers.

GRAPH 2 **Mass-market residential transaction volumes and average prices, Q1/2011–Q1/2015**



Source: Savills Research

GRAPH 3 **High-end residential price index, Q2/2012–Q1/2015**



Source: Savills Research

Even though new projects of this quarter had higher prices, the overall market decreased 1.1% to RMB16,700 per sq m.

Land market

There were 15 land plots successfully transacted in Q1/2015, with a total area of 830,000 sq m, down 75% QoQ and 77% YoY. Transacted area volume reached the lowest level of the last two years, due to the new housing market regulations as well as limited land supply this quarter.

Although the national economy is currently facing difficulties, there were a number of notable transactions recorded in Chongqing. In February, Sincere, Tongjing and Xinhua Groups placed a joint bid for a land plot located in central Guanyinqiao with a site area of 15,277 sq m. The total transaction price surpassed RMB1 billion, with an accommodation value (AV) recorded at RMB8,899 per sq m, the highest ever value in the Guanyinqiao area. It has also been commented that it is possibly the most expensive

land transaction in the entire city this year.

Another well-known developer, Evergrande Group, were also in the headlines this quarter by acquiring a land plot with a site area of 130,000 sq m located in the Gailanxi area, Jiangbeizui district. The AV was RMB4,000 sq m. It was the latest land bid placed by the company after the success of the development of the Zhaomushan Project in the New North Zone.

As a result, average AV in Q1/2015 increased to RMB2,834 sq m, up 12% QoQ, the highest value recorded during the last three quarters.

The overall performance of the land market hinted that developers are becoming more cautious about acquiring land, paying close attention to the plot location and potential return. This can be attributed to pressure placed on the amount of current stock in the market and limited cash flows.

2015 Outlook

As favourable policies are expected to continue to have a positive effect on the market, as well as the upcoming Spring Housing Fair, transaction volumes are expected to increase steadily over the next few quarters. In addition, due to high pressure from unsold inventory, developers are likely to continue to adopt various sales tools in order to offload unsold inventory. However, average prices are expected to decrease, mainly due to the influx of supply increasing competition as developers sacrifice price for improving sales.

Led by Evergrande and Sincere group, other well-known developers are expected to begin acquiring quality land plots over the next few quarters. Northern Chongqing is expected to become the most competitive in terms of land plots, while those in Ba'nan and Jiulongpo will be more likely to be acquired by local, small-scale developers for lower prices. ■

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