

# Briefing Residential sector

July 2015



Image: The Riviera of Chongqing Tiandi, Hualongjiao

## SUMMARY

Transaction volumes increased significantly compared with last quarter, although average prices remained relatively flat.

- Continuously influenced by favourable macro policies and the Spring Housing Fair, the Chongqing real estate market saw a strong performance in Q2/2015, resulting in overall transaction volumes increasing significantly both year-on-year (YoY) and quarter-on-quarter (QoQ).

- Real estate investment reached RMB134 billion in Q2/2015, up 9.8% YoY.

- Residential transaction volumes surpassed 4.4 million sq m in Q2/2015, up 46.7% QoQ and 14% YoY.

- Mass market residential prices decreased 1.6% QoQ to an average of RMB7,049 per sq m.

- Maintaining cash flow was the priority for most developers while unsold inventory remained high, resulting in prices continuing to fall, albeit at a lower rate than previously seen.

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 “The land market witnessed a strong recovery, with sharp increases in both supply and transactions compared with last quarter.”  
 .....  
 Dave Law, Savills Research

➔ **Forecast**

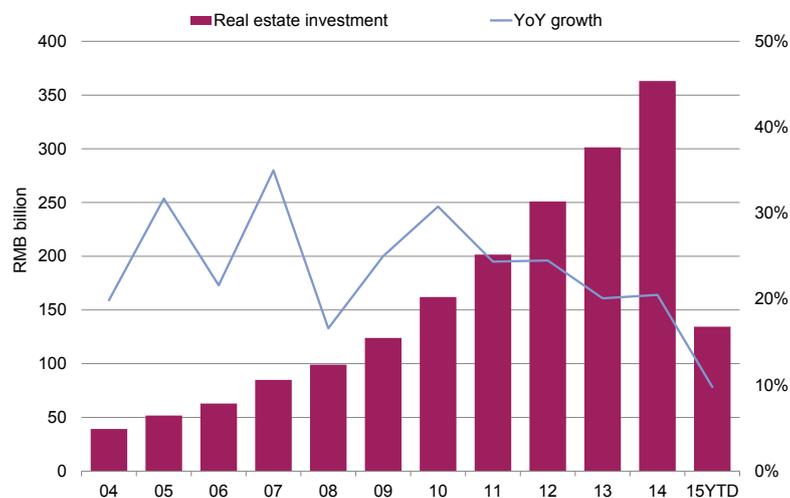
Due to the dramatic performance of the stock market this quarter, a large number of stock profits are expected to enter into the property market in the next quarter and thus demand is expected to increase.

Developers are expected to release new residential projects onto the market as cash flow continues to be the priority with stabilised selling prices. As a result, higher transaction volumes are expected in the next few quarters, while the land market also shows signs of recovery.

**Macro market**

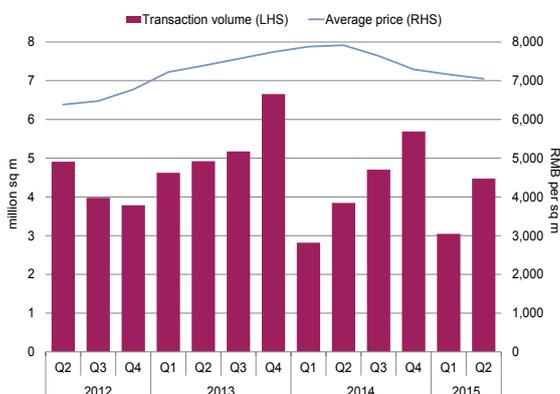
Due to a series of favourable real estate policies released at the end of the last quarter, and the lowering of both deposit and loan interest

GRAPH 1 **Real estate investment YTD, 2004–May, 2015**



Source: Chongqing Statistics Bureau

GRAPH 2 **Mass-market residential transaction volumes and average prices, Q2/2012–Q2/2015**



Source: Savills Research

GRAPH 3 **High-end residential price index, Q3/2012–Q2/2015**



Source: Savills Research

rates, buyers who had previously been displaying wait-and-see attitudes regained confidence in the market and moved towards purchasing. Original demand on the market, combined with the new demand stemming from new found wealth generated from the positive performance of the stock market, resulted in transaction volumes soaring, up 46.7% QoQ and 14% YoY. The first half of this year marked the first time in four years that Chongqing's government released favourable residential policies just before the Spring Housing Fair in April, which not only stimulated the transaction volumes seen during the Fair but the residential market as a whole. A priority for developers is to maintain their cash flow and, as such, offloading inventory was still heavily favoured. As a result, average price continued to decrease, albeit at a slower rate than previously seen.

The overall land market performance recovered significantly as both supply and transactions increased sharply compared with last quarter. Most of the land was acquired by unnamed or low-level local developers; however, the largest land plot seen on the market in the first half of the year was successfully acquired by the BBMG Group, a large, state-owned corporation based in Beijing.

During the first five months of the year, real estate investment reached RMB134.42 billion, up 9.8% YoY. Contrarily, the growth of real estate investment further slowed due to heavy investment in the stock market which took away from capital invested in the real estate market. However, most of the new found wealth from the stock market is expected to find its way back to the real estate market in the coming quarters.

“Increased transaction volumes and stable prices” was the main phenomenon seen in Q2/2015 as transaction volumes reached over 4.47 million sq m, up 14%YoY, while average price fell only slightly to RMB7,049 per sq m, down 1.6% QoQ. It was the joint effect of both favourable residential policies and macro policies that resulted in such a situation. The release of demand from consumers, especially from those previously holding a wait-and-see attitude, has been the driver of demand in this quarter. Developers noticed the change in the market and adjusted strategies by opening new projects as well as offloading stock to maintain cash flow. Meanwhile, many developers continued to adopt alternative sales measures in order to ensure maximised transaction volumes.

Transaction volumes in the Yubei district reached around 830,000 sq m, accounting for 18% of total transaction volumes and the highest transaction volumes of the city in Q2/2015, indicating that it remains a prime location with continued interest from buyers. The Ba'nán district saw the highest supply levels with two large projects opening this quarter. However, due to the location of the district, transaction volumes were surpassed by the Shapingba district, which ended up with 541,843 sq m worth of successful transactions.

Influenced by general residential market performance, high-end average price barely changed, recorded at RMB16,600, up 0.2% QoQ. There was only one new high-end project opened this quarter, demonstrating that current market focus remains on offloading old projects.

**Land market**

The land market in Q2/2015 was very impressive as both supply and transaction volumes increased significantly, mirroring the housing market situation. There were 47 land plots successfully transacted in Q2/2015, compared with only 15 land plots transacted last quarter. A total area of 3.24 million sq m was

transacted, up 264% QoQ. Of these plots, 35 land plots were acquired in June with total consideration seen at RMB14.8 billion, up 17% YoY and average accommodation values (AV) of RMB2,589 per sq m, down 9% QoQ.

The largest plot purchased during the first half of the year was acquired by the BBMG Group, a large, state-owned company based in Beijing. Located in the Chayuan New Zone, Nan'an district, the plot saw an AV of RMB2,566 per sq m and the total transaction price reached RMB3.7 billion. This marks the second land plot acquired by the group in Chayuan, demonstrating its confidence in the fast developing area.

Based on the land acquired this quarter, it can be inferred that developers are continuing to prioritise those plots located in the city centre with relatively extensive existing residential facilities. In fact, developers are currently particularly focusing on development costs when acquiring land due to their strong need to uphold cash flow. Hence, although an active land market was seen this quarter, developers were aiming to make more rational decisions.

**2015 Outlook**

Due to the performance of the stock market in the first five months of this year, new found wealth from the stock market is expected to filter into the housing market in the coming quarters. As a result, a continued upward trend of transaction volumes is expected to be seen. In addition, macro policies are expected to continue taking effect on the market, boosting demand. However, since developers are still looking to preserve cash flow, more sale strategies are expected to surface in an effort to promote new projects as well as offloading old inventory. As a result, average prices are not expected to fluctuate but further stabilise.

As the housing market recovers, quality land plots will continue to attract most attention from developers as they regain their confidence in developing new projects. Northern Chongqing is expected to continue to hold the most competitive areas, however the Jiulongpo and Nan'an districts may also attract well-known developers if quality land plots are released. Transaction prices on the land market are expected to continue to rise over the course of the year. ■

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