

Briefing Residential sector

January 2016



Image: Peak Pilla, Danzishi CBD

SUMMARY

Residential transaction volumes rose in the fourth quarter, while average prices continued to fall.

- The real estate market has grown steadily in 2015. This was due to a number of favourable housing policies which took effect as well as developers offering discounts in an attempt to offload stock.
- Real estate investment reached RMB336 billion in November 2015, up 3.3% year-on-year (YoY).
- Residential transaction volumes surpassed 3.7 million sq m in Q4/2015.
- Mass-market residential prices decreased 7% quarter-on-quarter (QoQ) to an average of RMB6,503 per sq m.
- In order to meet annual sales targets, preferential housing sales continued to increase in the last quarter, leading to transaction volumes rising, while prices declined.

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 “In Q4/2015 both supply and transaction volumes in the residential market decreased, with no new land supply or transaction volumes in October.” Dave Law, Savills Research

➔ **Forecast**

In 2016, selling inventory will remain a priority for most developers, who are also expected to remain cautious about acquiring new land plots. However, with Chinese New Year approaching, the market is expected to witness a flat performance from transaction volumes in the first quarter of 2016.

Macro market

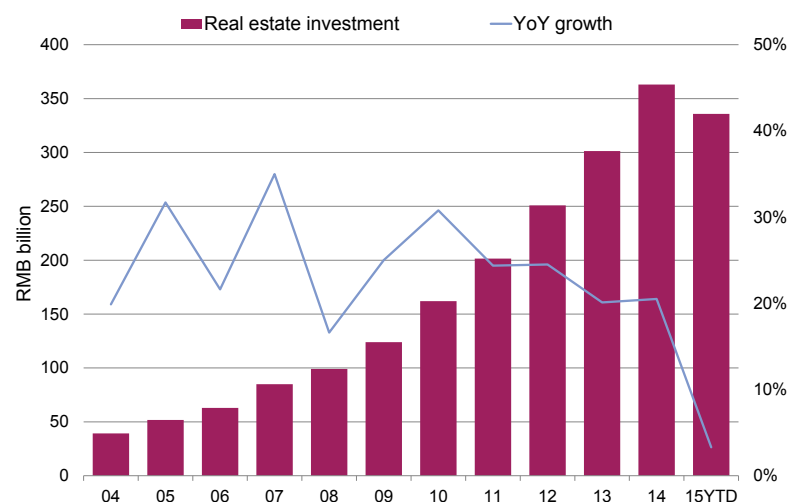
To meet the annual sales goals of developers, the reduction of interest rates and preferential housing sales continued in Q4/2015, this accelerated the speed of sales of the existing stocks, as well as the opening of new projects. As a result, transaction volumes increased as average prices continued decreasing.

Land transactions recovered slightly, with more land supply coming onto the market and national developers purchasing land plots.

Real estate investment reached RMB336 billion in the first 11 months of 2015, up 3.3% YoY. Residential investment was recorded at RMB214 billion, down 2.9% YoY, accounting for 64% of the total investment. The growth of real estate investments continued to slow, due to cautious developers who focused on offloading stock in Q4/2015.

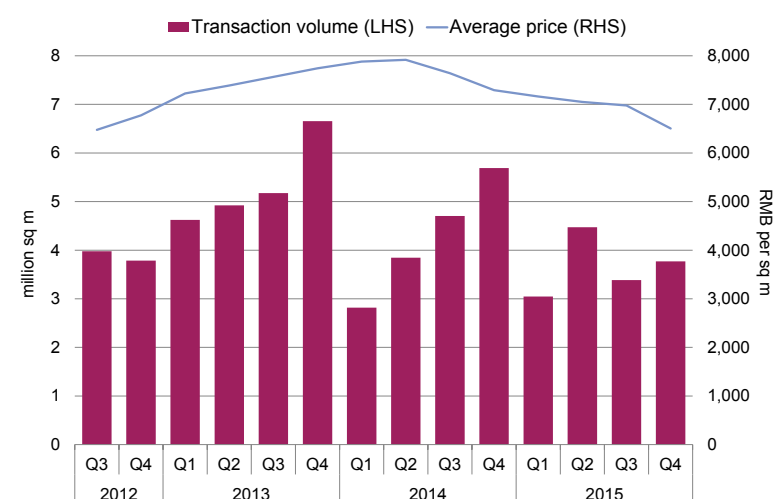
Transaction volumes reached over 3.7 million sq m in Q4/2015, up 11.37% QoQ, as preferential housing sales and favourable real estate policies continued to be carried out. However, transaction volumes decreased 34% YoY. This was due to the economic downturn partly caused by the market reaching capacity which in turn affected the real estate consumption and investment. Developers promoted existing stock heavily in order to offload it as quickly as possible in

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



Source: Chongqing Statistics Bureau

GRAPH 2 **Mass-market residential transaction volumes and average prices, Q3/2012–Q4/2015**



Source: Savills Research

order to meet their annual sales targets, resulting in the successional fall of average prices, recorded at RMB6,503 per sq m, down 7 % QoQ.

The most transacted district of Q4/2015 was Shapingba, with approximately 600,000 sq m successfully transacted. The Jiulongpo and Ba'nan districts also witnessed a strong performance this quarter, with over 410,000 sq

m and 380,000 sq m transacted respectively, further verifying the interests and confidence of developers in these areas.

The market saw two newcomers this quarter, including Peak Pilla in the Danzishi CBD and Rose Garden of Sunac in the Yubei district whose prices were RMB25,000 per sq m and RMB22,000 per sq m respectively. This increased the

overall average of the high-end market price to RMB16,803 per sq m. In addition, with most of the existing projects keeping to the same price level as the last quarter with the exception of two which had an increase, resulting in prices increasing 6.1% QoQ.

Land market

There were 41 new land plot transactions in Q4/2015, ten more than in the last quarter. Even with no land supply and transaction volumes in October, the total transaction area reached 315 million sq m, up 23% QoQ. This was predominantly due to the weak performance in Q3/2015 and a significant increase of land supply in the last month of Q4/2015. Echoing the economic downturn, the accommodation value (AV) reached RMB2,190 per sq m, decreasing 18%, QoQ.

The overall transaction area was less impressive compared to the same time last year and decreased 7%, again echoing the downturn of the real estate market in general. The majority of active developers this quarter were not Chongqing locals, but well-known names. For example, Lu'neng Real Estate group acquired three land plots located in the Ba'nán and Yubei districts, the area totalling approximately 391,065 sq m and with an average accommodation value (AV) of RMB2,727 per sq m. Country Garden real estate group purchased a land plot located in the Yubei district this quarter with the highest AV in Q4/2015 of RMB4,858 per sq m, due to its advantageous location.

Wanda purchased the first land plot for commercial located in Beibei district this quarter, resulting the sixth Wanda Plaza in Chongqing, for a price of RMB1.7 billion.

GRAPH 3

High-end residential price index, Q1/2013–Q4/2015



Source: Chongqing Statistics Bureau

2015 Overview

Since the beginning of 2015, the central government carried out the “330 policy” which included lowering the required down payment for second home purchases to 40% down from 60%. The minimum down payment for first-time buyers who make use of the government’s housing funds was reduced from 30% to 20%, and for second-home buyers the payment remained at 30% provided they are still paying off the first house. However, the policy did not impact the market as expected and instead transaction volumes of second-hand houses increased by 15% due to no business taxes for reselling houses held for or over 2 years.

During 2015, China authorities reduced interest rates five times and deposit reserve ratios three times, which turned the monetary policy from prudent to active. The reduction of interest rates three times and the deposit reserve ratio twice before the second quarter, took effect with the market recording the highest transaction volumes of 4.5 million sq

m in 2015, up 46% QoQ and 16.25% YoY.

The land market echoed the situation witnessed in the residential sales market in 2015, due to limited land supply and major developers taking a ‘wait and see’ stance and were more cautious about acquiring new land plots. The Shapingba and New North Zone districts were the two most transacted areas in 2015 due to their matured infrastructure and growing residential areas. Emerging districts such as Jiulongpo and Ba’nán also witnessed strong performances, further demonstrating the rapid expansion of the city. The transaction volume of the Yubei district only reached 0.65 million, due to the large transaction volumes in the last year which still required development.

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.

2015 witnessed steady development in the Chongqing real estate market.

2016 Outlook

In the coming year, macroeconomic development is expected to be slow alongside a series of monetary policies attempting to stimulate the economy and real estate market. It is highly possible that a new housing policy that sees the home mortgage interest being deducted first from the buyer's income and then collected in individual income taxes will be announced. The reform of the Hukou system and other favourable housing

policies may also be carried out in major cities, including Chongqing. As a result, the supply and demand of the real estate market in Chongqing is expected to further increase at a reasonable rate with steady average prices.

In 2016, the main target for developers will still be offloading inventory as they will want a return from projects that were vacant land plots purchased between 2013 and 2014, which are now completed. This is expected to result in steadily increasing transaction volumes,

which will drive a slight increase in prices under the pressure of selling stock. The Shapingba, Jiulongpo and Ba'nán districts are expected to generate more attention as the 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. ■

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