

Forecast

As a result of favourable policies and the Spring Housing Fair in April, the residential market is expected to see a sustained increase in transaction volumes during the next quarter.

China's supply-side reform is expected to moderate land supply. Increase in demand from the reform of the household registration system, as well as other policies, may lead to an increase in average prices.

Macro market

A series of active macro-policies were implemented after the Spring Festival. These included reducing the minimum levels of down payments for first home buyers to 20%, and lowering the property deed tax by 1% for houses with an area under 90 sq m. These policies led to higher residential transaction volumes in March and an increase both YoY and QoQ. Selling stock remained a priority for some developers, which resulted in falling prices.

Due to China's supply-side reform, which stipulates land supply to gradually decrease by 10% within the next two years, there was a drop in land transaction volumes. Transaction prices also declined, mirroring the poor performance of the land market.

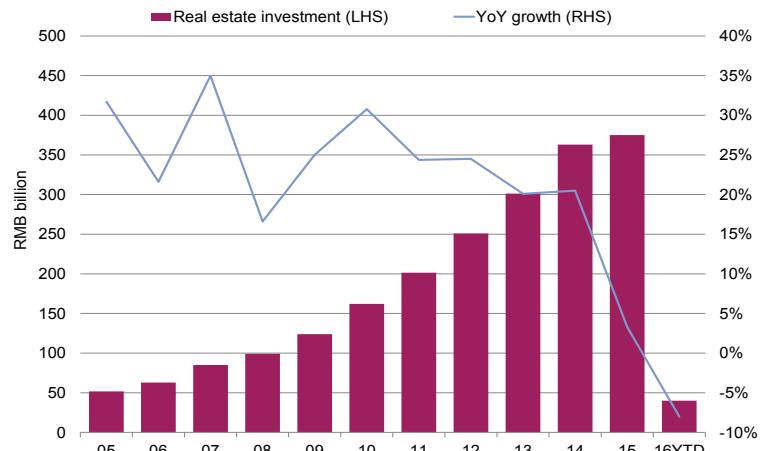
Real estate investment reached RMB40 billion in the first two months of 2016, down 8% YoY. Of this, residential investment was recorded at RMB24 billion, down 14.2% YoY, accounting for 60.1% of total investments. This can be attributed to the reduction in land supply available for sale.

Transaction volumes reached 4.0 million sq m, up 8.6% QoQ and 34.4% YoY, thanks to a string of favourable policies which took effect this quarter. The combination of these policies have strengthened buyers' confidence, which has in turn stimulated demand.

Transaction volumes climbed to a peak in March, rising higher than this time last year. This is partly due

GRAPH 1

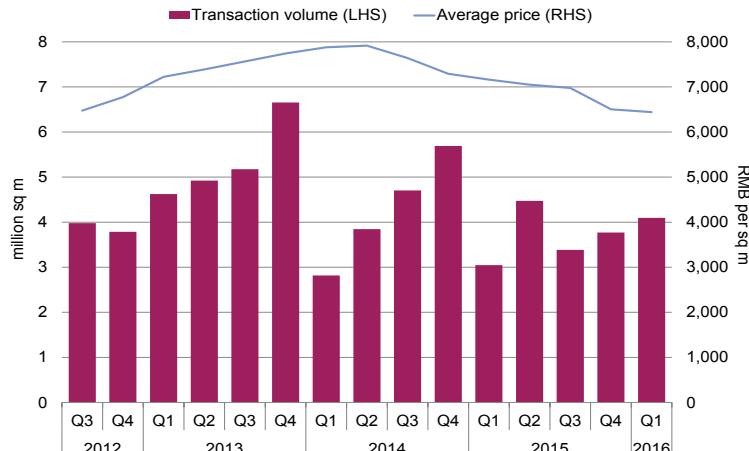
Real estate investment YTD, 2005–February 2016



Source: Chongqing Statistics Bureau

GRAPH 2

Mass-market residential transaction volumes and average prices, Q3/2012–Q1/2016



Source: Savills Research

GRAPH 3

High-end residential price index, Q1/2013–Q1/2016



Source: Savills Research

to various sales tools adopted by developers, for example allowing buyers to break contracts without repercussions.

Transaction volumes in the Yubei district, a traditionally favoured residential area, reached approximately 1,093,153 sq m, accounting for 27% of the total transaction volume – the highest transaction volumes seen in the city during Q1/2016. The Jiangbei district saw the highest average price at RMB8,103 per sq m, 26% higher than the average price of the city's residential market. The traditionally more populated areas, such as the Nan'an and Shapingba districts, also witnessed high transaction volumes.

Differing from the mass market, the high-end residential market witnessed an increasing trend in the first quarter of 2016, with prices increasing 1.4% QoQ. Two newcomers, namely Lake Villa and The U World, were sold at a price of RMB12,000 per sq m and RMB13,000 per sq m respectively. This saw average prices increase to RMB17,042 per sq m.

Land market

Only 0.8 million sq m of land was successfully transacted in Q1/2015, down 74% QoQ and a three-year low. The average accommodation value (AV) reached RMB2,030 per sq m, dropping 7% QoQ.

The city-wide land market performed poorly compared with the previous quarter, due to the cautious attitude of developers and the implementation of new polices. However, there were a few notable land acquisitions by developers such as Jinke, Nuneng and Financial Street Holdings. Jinke acquired one land plot at New North Zone, with a total area of 272,600 sq m and average accommodation value (AV) of only RMB915 per sq m. Nu'neng real estate group acquired another land plot in the Jiulongpo district with a total area of 36,388 sq m and average AV of RMB2,912 per sq m.

Transaction volume in the Liangjiang new area reached roughly 334,364 sq m, accounting for 41% of city-wide transaction volume – the highest of Q1/2016. The Shapingba district also saw a good performance, with a

transaction volume of 108,718 sq m, accounting for 13% of total volume.

2016 Outlook

The market is expected to benefit from favourable policies such as replacing business tax with value-added tax (VAT), which will be implemented in the next quarter. Developers' confidence is expected to rebound, with developers such as Poly and Avic Real Estate Group already reportedly searching for new, quality land plots. Though the land supply is expected to remain tight, the demand for new projects remains.

The Spring Housing Fair is also expected to attract more buyers. As a result, transaction volumes are expected to steadily increase in the next quarter.

China's supply-side reform is expected to moderate land supply. The reform of the household registration (Hukou) system, as well as other policies, may also generate new housing demand, resulting in higher average prices. ■

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