

Briefing Residential sector

August 2016



Image: River Hill Villa, Dazhulin area

SUMMARY

Both residential transaction volumes and average prices rose in Q2/2016 due to a combination of favourable policies and the Spring Housing Fair.

- Influenced by favourable real estate policies and the Spring Housing Fair, the residential market witnessed a rise in transactions during Q2/2016, resulting in increases both year-on-year (YoY) and quarter-on-quarter (QoQ).

- Both supply and transaction volumes in the land market rose in Q2/2016, although only one transaction was seen in April.

- Real estate investment reached RMB172 billion in Q2/2016, up 1.5% YoY.

- Residential transaction volumes reached 4.57 million sq m in Q2/2016, up 2% YoY and 12% QoQ.

- Mass market residential prices increased 1.0% QoQ to an average of RMB6,520 per sq m.

- Favourable policies led to an increase in demand, resulting in a slight increase in prices.

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 “The land market saw notable increases both in transaction values and prices compared with last quarter, with the average accommodation value recording a new five-year high.” Dave Law, Savills Research

➔ **Forecast**

With the traditional off-peak season (mainly July and August) around the corner, and demand released, residential transaction volumes are expected to decline in the next quarter.

Selling stock will still be the primary goal for most developers, thus a decrease in average prices is expected in the third quarter.

Macro market

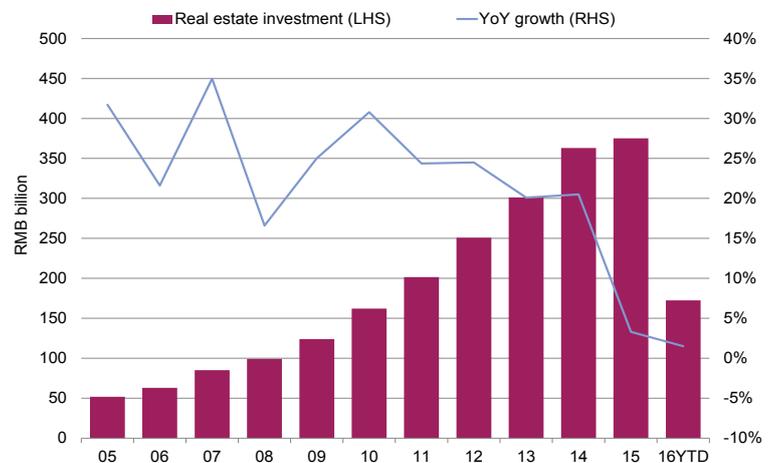
A series of preferential real estate policies and sales tools were put in place during the Spring Housing fair in April, which aided in transaction volumes reaching the second highest point in five years, to 728,600 sq m, which accounted for 16% of the total transaction volumes seen in Q2/2016. In addition, more policies were implemented after April, which further pushed up transaction volumes. Due to the number of new projects launched in Q2/2016, both vacancy rates and prices increased.

The Liangjiang New Area saw two high-priced land transactions which pushed the average price up to RMB3,012 per sq m. Meanwhile, land transaction volumes recovered from their poor performance in Q1/2016, and increased QoQ; however, they remained significantly down YoY.

Real estate investment reached RMB172 billion in June 2016, up 1.5% YoY. Of this, residential investment was recorded at RMB106 billion, with the downward rate declining to 1.5% YoY, accounting for 61.6% of total investments, mirroring the recovering confidence of investors in the city's real estate market.

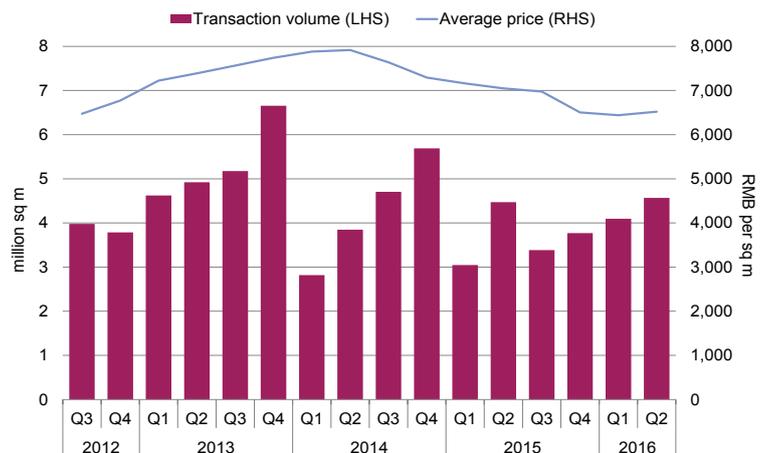
Transaction volumes reached 4.57 million sq m, up 12% QoQ and 2% YoY, due to the combination of the Spring Housing Fair and the favourable policies which were carried out in 1H/2016. For example, the change from Business Tax to Value-Added Tax (VAT) that was released in May by the Ministry of Finance stimulated demand from some owners of private enterprises. Additional stimulating policies released in the first three months of 2016 successfully improved the confidence of developers, with more new projects entering the market with

GRAPH 1 **Real estate investment YTD, 2005–May 2016**



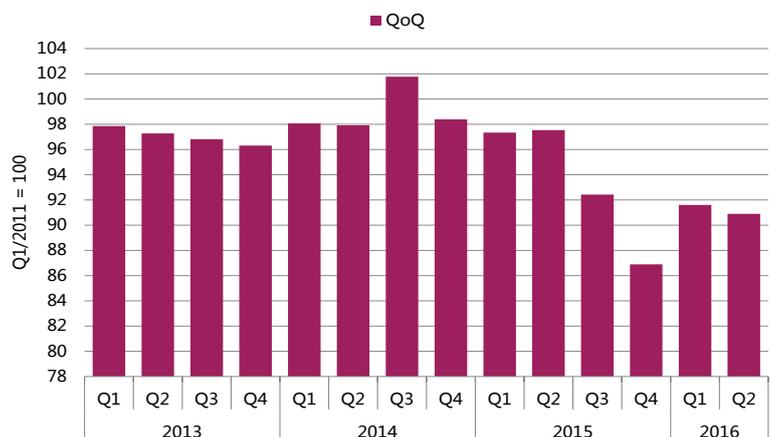
Source: Chongqing Statistics Bureau

GRAPH 2 **Mass-market residential transaction volumes and average prices, Q3/2012–Q2/2016**



Source: Savills Research

GRAPH 3 **High-end residential price index, Q3/2012–Q2/2016**



Source: Savills Research

less discounts and more purchasers with significantly increasing demand. This benefitted both transaction volumes and average prices.

1H/2016 has seen a good performance, predominantly due to the Spring Housing Fair. Transaction volumes from the Spring Housing Fair reached 728,600 sq m, up 45% QoQ (compared with the Autumn Housing Fair in 2015) and down 22% YoY (compared with the Spring Housing Fair in 2015), with the highest price seen in the last three years of RMB6,639 per sq m.

A number of policies and sales tools could have contributed to the good results. For instance, nearly all the projects sold during this time could be purchased with an application for the housing provident fund loans, and the main banks in China launched some loan programmes to aid migrant workers to purchase a home more easily.

Differing from the mass market, the high-end residential market witnessed a decreasing trend this quarter, with prices decreasing 0.8% QoQ to RMB16,712 per sq m. This was mainly due to the majority of developers lowering their prices in order to increase transaction

volumes. Three newcomers, namely River Hill Villa, The Coronation and Evergrand Yudahui, were sold at a price of RMB13,000 per sq m, RMB13,700 per sq m and RMB12,500 per sq m, respectively.

Land market

Approximately 1.98 million sq m of land was successfully transacted in Q2/2016, up 141% QoQ and down 39% YoY. The average accommodation value (AV) reached RMB3,012 per sq m, up 48% QoQ and 16% YoY.

The city-wide land market performed relatively well when compared with the previous quarter, albeit the YoY decrease was partly caused by China's supply-chain reform. With the increasing confidence of landlords, there were two notable land acquisitions by developers such as Jinke and Longfor, which greatly improved transaction prices. Jinke purchased one land plot in the Lijia area with a total area of 156,205 sq m and the highest average accommodation value (AV) of RMB7,618 per sq m. Longfor acquired another land plot in the Dazhulin area with a total area of 36,388 sq m and average AV of RMB7,614 per sq m. Another noteworthy purchase was made by

the Wanda Group who acquired four land plots in Shapingba with a total area of 363,698 sq m.

Transaction volumes in the Liangjiang new area reached roughly 798,344 sq m, accounting for 40% of city-wide transaction volumes – the highest of Q2/2016. The Shapingba district also saw a good performance, with a transaction volume of 522,465 sq m, accounting for 26% of total volume, indicating that developers still have faith in these two areas.

Outlook

Considering the impressive release in demand seen in the last six months, and with the traditional off-peak season looming, transaction volumes are expected to fall in Q3/2016.

However, Q4/2016 will see some new policies such as the reform of the household registration (Hukou) system, and developers adjusting sales methods in order to reach targets for the year, which could see transaction volumes start on an upward trend.

Since selling stock is still the priority of the market, the prices may decrease slightly, although the market is showing signs of recovery. ■

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