

Briefing Residential sector

December 2016



Image: Poly Jiangshang, Mingzhu, Hong'ensi area

SUMMARY

In Q3/2016, residential transaction volumes declined while average prices began to pick up.

- This quarter saw residential market transaction volumes reach 4.0 million sq m, a 12.0% decrease quarter-on-quarter (QoQ), yet still up 18.0% year-on-year (YoY). This can be attributed to the impressive release in demand seen over the last six months, combined with transaction volumes of “Golden September” not reaching expectations.
- The land market saw both supply and transaction volumes rise consistently in Q3/2016, although prices declined.
- Real estate investment reached RMB268 billion in Q3/2016, down 1.3% YoY.
- Mass market residential prices increased 4.0% QoQ to an average of RMB6,798 per sq m.
- City-wide residential prices rose slightly compared with the sharp increases experienced in other main cities nationwide.

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 “The land market saw continuous increases in transaction volumes, while prices showed mild quarter-on-quarter decreases.” Dave Law, Savills Research

➔ **Forecast**

- With the market gearing up for the final stretch of 2016, residential transaction volumes are expected to increase slightly, while average prices fall as developers attempt to offload stock.

- Additionally, land market transactions are expected to increase, albeit only slightly, due to the side-effects of China's supply-side reform.

Macro market

The third quarter saw average prices in top Chinese cities increase impressively, while Chongqing only saw a slight increase. This could be partly attributed to lower average accommodation values (AV) compared with other cities. Transaction volumes have declined, with many purchasers adopting a 'wait and see' attitude for more discounts in Q4/2016.

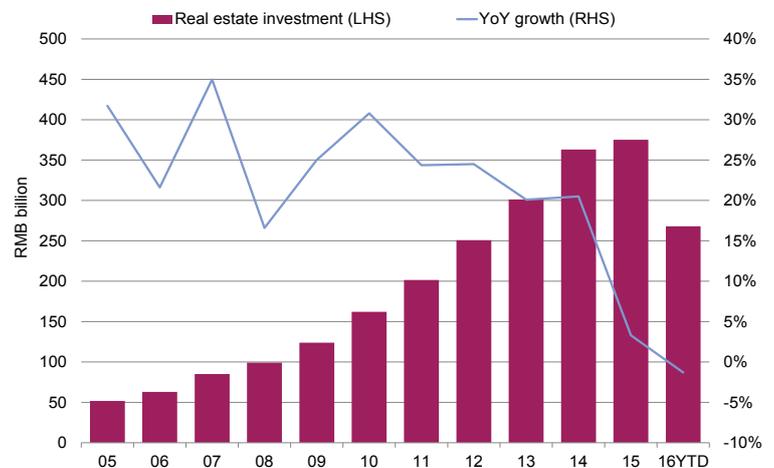
Land transaction volumes continued to increase QoQ, however decreased YoY, with notable land acquisitions by well-known developers the Wanda Group and Beijing North Star Group in Shapingba and the Liangjiang New Area, respectively.

The land market saw a slight decline in prices, with only one land acquisition over RMB7,000 per sq m.

Due to the economic downturn and more investments being made in first-tier cities, due to higher rates of return, real estate investment (until September 2016) reached RMB268 billion, down 1.3% YoY. Of this, residential investment was recorded at RMB165 billion, down 6.3% YoY, accounting for 61.6% of total investments.

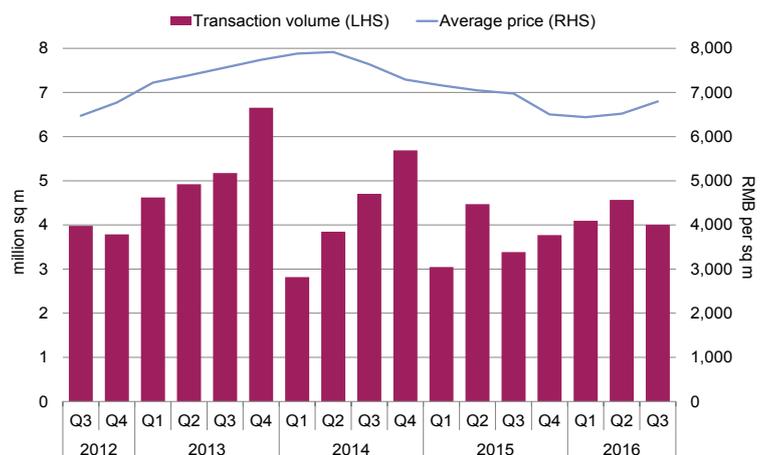
The third quarter is traditionally quiet in terms of transactions, with few projects launching due to the National Day holidays and developers awaiting the fourth quarter, when more promotions are on offer in an attempt to stimulate demand and reach sales targets before year-end. In addition, favourable policies issued during 1H/2016 had less of an effect than previously seen, with some purchasers opting to wait for new projects with a better location and price. Due to the combination of these factors, transaction volumes

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



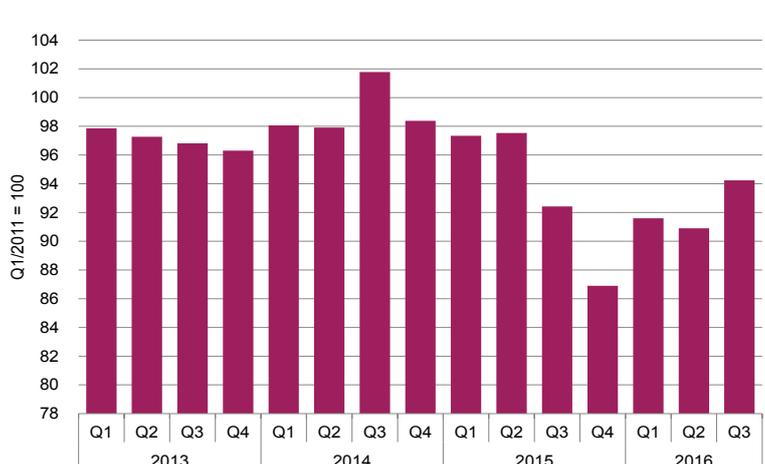
Source: Chongqing Statistics Bureau, Savills Research

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



Source: Savills Research

GRAPH 3 **High-end residential price index, Q1/2013–Q3/2016**



Source: Savills Research

reached 4.0 million sq m, down 12% QoQ. Meanwhile, average prices rose slightly to RMB6,798 per sq m, up 4% QoQ, partially influenced by increasing prices seen in first-tier cities.

Transaction volumes in the Yubei district, a traditionally favoured residential area, reached approximately 644,897 sq m, accounting for 30% of total transaction volumes in the third quarter. The Jiangbei district saw the highest residential prices, RMB8,464 per sq m, as a result of the transaction volumes in the Jiangbeizui CBD, which raised average prices in this area. Emerging areas Jiulongpo and Nan'an are both highly populated districts and witnessed good performances in transaction volumes, showing a trend of buyers looking to upgrade moving to these two districts.

Differing from the mass market, the high-end residential market witnessed an increase this quarter, both in transaction volumes and average prices, up 7.2% and 3.7% QoQ, respectively. There were three new launches: Poly Jiangshang Mingzhu and The Victoria's, which both sold at RMB15,000 per sq

m, and the Residential Property of Evergrande CC Plaza. With the prices of most of the existing projects increasing, average prices were raised to RMB16,983 per sq m.

Land market

Approximately 2.29 million sq m of land was successfully transacted in Q3/2016, up 16% QoQ but down 10% YoY. The average AV reached RMB2,905 per sq m, down 4% QoQ, but up 9% YoY.

The city-wide land market continued to perform well, despite the decline in prices, resulting from a decrease in high-priced acquisitions. Only one land plot was sold to a native developer at a price of RMB7,029 per sq m.

Notable land acquisitions included Wanda Group's purchase of five land plots, with a total area of 640,906 sq m, in the Shapingba district, with an average AV of RMB882 to RMB1,230 per sq m, the highest transaction volumes seen in the area. Another was the well-known state enterprise Beijing North Star Group's acquisition of three land plots with a total area of 429,093 sq m in the Liangjiang New Area, with an average AV of RMB2,730 to RMB3,726 per sq m.

Transaction volumes in the Shapingba district reached 935,929 sq m, accounting for 41% of city-wide transaction volumes – the highest of Q3/2016. The Liangjiang New Area also performed well, with a total transaction volume of 488,778 sq m, accounting for 21% of total city-wide transaction volumes. The Jiangbei district was once again a popular choice amongst developers, with a transaction volume of 428,340 sq m, accounting for 19% of total volume.

Outlook

Customarily, the fourth quarter is the most active in terms of transaction volumes; Q4/2016 is no exception, with developers expected to launch previously delayed projects. However, due to the slow down in the economy, there is not expected to be a significant increase compared with the last three years.

Average prices are anticipated to fall, as selling stock is still a priority, with developers implementing promotions to attract purchasers who have adopted a 'wait and see' attitude up to now. ■

Please contact us for further information

Research



James Macdonald
Director
+8621 6391 6688
james.macdonald@savills.com.cn

Project Development & Consultancy



Dave Law
Director
+8628 8665 7375
dave.law@savills.com.cn

Agency



Eric Wo
Managing Director
+8628 8658 7828
eric.wo@savills.com.cn

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