

# Briefing Residential sector

August 2014



Image: Northern Vanke City, Luogang

## SUMMARY

The residential market began to see signs of a revival towards the end of the second quarter, as more developers resorted to price discounts to encourage home sales, combined with the government's attempt to ease housing regulations.

■ Average residential transaction volumes rose 23.2% quarter-on-quarter (QoQ) to 1.53 million sq m in Q2/2014, down 4.5% year-on-year (YoY).

■ Residential transaction prices registered an increase of 3.6% QoQ to an average of RMB18,565 per sq m in Q2/2014, up 18.2% YoY.

■ Downtown<sup>1</sup> transaction prices rose 3.1% QoQ to RMB27,997 per

1 Downtown districts: Yuexiu, Liwan, Haizhu, Tianhe Bei, Baiyun and Huangpu.

sq m in Q2/2014, while transaction volumes reached 499,700 sq m, up 26.5% QoQ.

■ Suburban<sup>2</sup> transaction prices rose 2.7% QoQ to RMB14,002 per sq m in Q2/2014, while transaction volumes were up 21.6% QoQ to 1,033,000 sq m.

2 Suburb districts: Panyu, Huadu, Nansha and Luogang.

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 “Both downtown and suburban residential transaction prices registered marginal increases as the municipal government eased its housing regulations.” Lucy Lui, Savills Research  
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➔ **Market overview**

The depressed market sentiment spilled over into the beginning of Q2/2014. Despite increased supply and more price promotions, transaction volumes in April did not see much of a recovery. Many potential home buyers were determined to maintain a “wait-and-see” attitude.

Dismal sales figures instilled new fears in developers of a real market downturn. Under mounting stock pressure, Vanke, one of China’s key developers, began offering up to 30% price discounts on all of its Guangzhou projects for sale, and consequently has achieved a satisfactory sales performance this quarter. Following Vanke’s lead, more and more developers resorted to price discounts in an attempt boost sales.

Additionally, the municipal government also attempted to lend a hand to the residential market. Some minor adjustments were made to ease residential regulations in order to inject some energy into the market. Price caps, which were implemented in suburban districts, were now lifted to a much higher level. Limitations on the sales registrations for expensive units were removed, while the fast-tracking of hukou approvals for new Guangzhou citizens is also expected to boost end-user demand on the residential market.

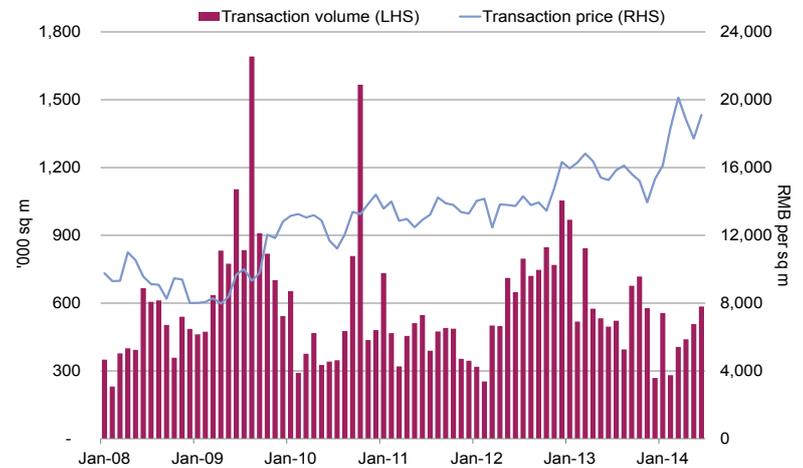
Incentivised by the joint efforts of developers and the government, the residential market began to see signs of a revival towards the end of Q2. Both residential transaction prices and volumes witnessed a QoQ increase.

Residential transaction volumes increased 23.2% QoQ to 1.53 million sq m in Q2/2014 after a slow first quarter, but remain down 4.5% YoY.

Residential transaction prices registered an increase of 3.6% QoQ to an average of RMB18,565 per sq m in Q2/2014, up 18.2% YoY.

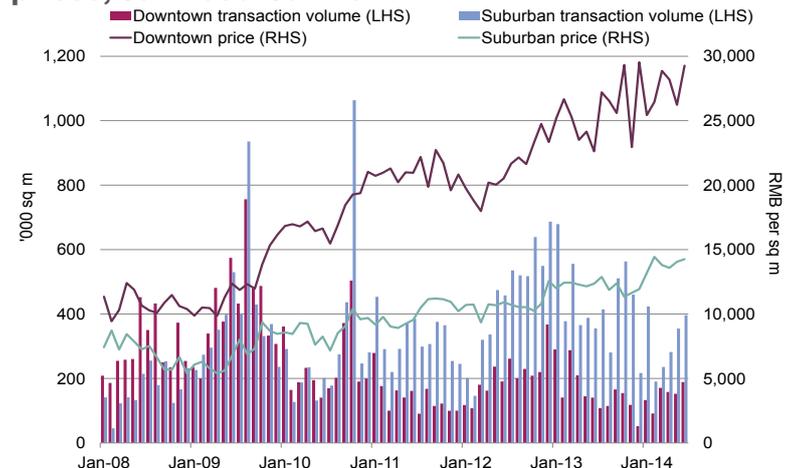
Both downtown and suburban residential markets have recovered slowly after a slow first quarter. The removal of limitations on sales registrations for expensive units

GRAPH 1 **Residential transaction volumes and prices, Jan 2008–Jun 2014**



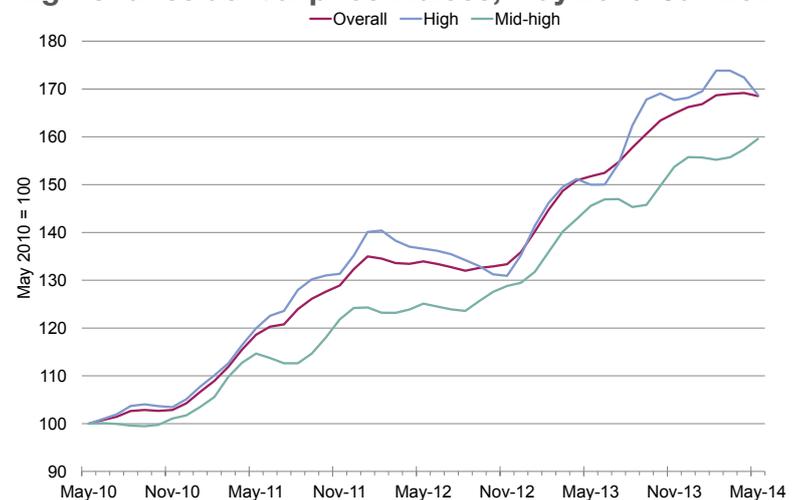
Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 2 **Suburban vs downtown transaction volumes and prices, Jan 2008–Jun 2014**



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 3 **High-end residential price indices, May 2010–Jun 2014**



Source: Savills Research

allowed more high-priced units to be transacted and prices to climb. Downtown transaction prices rose 3.1% QoQ to RMB27,997 per sq m in Q2/2014, and transaction volumes reached 499,700 sq m, up 26.5% QoQ. Suburban transaction prices rose 2.7% QoQ to RMB14,002 per sq m in Q2/2014, while transaction volumes were up 21.6% QoQ to 1,033,000 sq m.

**Hign-end residential market**

In Q2/2014, the overall lacklustre residential sector also affected the

high-end market. Moreover, house purchasing limits, which are still in effect, continued to restrict property investors and multi-home owners, key players in the high-end market, from making purchases. This resulted in a continuing slow high-end residential sales market in Q2/2014.

Transaction volumes of properties priced above RMB30,000 per sq m remained stable, only registering a marginal decrease of 0.8% QoQ. While the high-end residential price index fell 3.7% from last quarter.

Mid- to high-end residential prices increased 3.3% QoQ.

Several developers offered discounts in order to boost sales. Consequently, average transaction prices of the top ten residential projects in Guangzhou fell from RMB59,016 per sq m in Q1/2014 to RMB48,528 per sq m in Q2/2014, down 17.8% QoQ. ■

**OUTLOOK**

As most developers will face mounting stock pressure in 2H/2014, many of them are expected to resort to price discounts to encourage sales performance. Downward pressure is anticipated to remain high in the remaining half of 2014.

■ With the house purchasing limit still in effect, Guangzhou's municipal government will attempt to loosen control on the residential market by utilising various methods, including relaxing the citizenship registration process. This could lead to a boost in

end-user demand and support the housing market.

■ Most developers not able to sell their stock in 1H/2014 will face great pressure in attaining their annual targets. More supply is expected to be launched onto the market and more discounts may be offered to

attract end-users back in the second half of the year. Residential prices are expected to face continued downward pressure in the short term. However, a sharp plunge in prices is unlikely as developers hope to keep buyer sentiment strong.

**Please contact us for further information**

Savills Research



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

Savills Research & Consultancy



**Lucy Lui**  
Director  
+8620 3892 7130  
lucy.lui@savills.com.cn

Savills Agency



**Woody Lam**  
Managing Director  
+8620 3892 7108  
woody.lam@savills.com.cn

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