

# Briefing Residential sector

November 2014



Image: Northern Vanke City, Luogang

## SUMMARY

Despite more sellable units placed onto the market, and more promotions held, the overall residential market registered restrained transaction volumes in Q3/2014 as home buyers continued to hold a ‘wait-and-see’ attitude in the hope of further price discounts.

■ Residential transaction volumes fell 20.2% QoQ to 1.22 million sq m in Q3/2014, down 23.3% year-on-year (YoY).

■ Residential transaction prices registered a decrease of 7.3% QoQ to an average of RMB17,210 per sq m in Q3/2014, up 8.8% YoY.

■ Downtown<sup>1</sup> transaction prices fell 4.7% QoQ to RMB26,693 per sq m in

Q3/2014, while transaction volumes reached 367,800 sq m, down 26.4% QoQ.

■ Suburban<sup>2</sup> transaction prices decreased 6.2% QoQ to RMB13,135 per sq m in Q3/2014, while transaction volumes were down 17.2% QoQ to 855,800 sq m.

“Both downtown and suburban residential transaction prices registered a quarter-on-quarter (QoQ) decline despite a typically busy season for the residential market.” Lucy Lui, Savills Research

<sup>1</sup> Downtown districts: Yuexiu, Liwan, Haizhu, Tianhe Bei, Baiyun and Huangpu.

<sup>2</sup> Suburb districts: Panyu, Huadu, Nansha and Luogang.

➔ **Market overview**

The nationwide residential market continued to register a subdued performance in Q3/2014, with a number of cities easing or even removing their Home Purchase Restrictions (HPRs) in the hope of stimulating demand to support the market. By the end of the third quarter, only five cities retained their HPRs, with Guangzhou being one of them.

On August 7, Foshan, Guangzhou's neighbouring city, became the first city to remove its HPR. According to the newly implemented policy, individuals with Foshan Hukou are now allowed to purchase two houses. Previously, only families were eligible for the purchase of two houses. Additionally, if the person is holding an identity card registered in another city, they are allowed to purchase a house in Foshan and do not require social security and tax payment certificates.

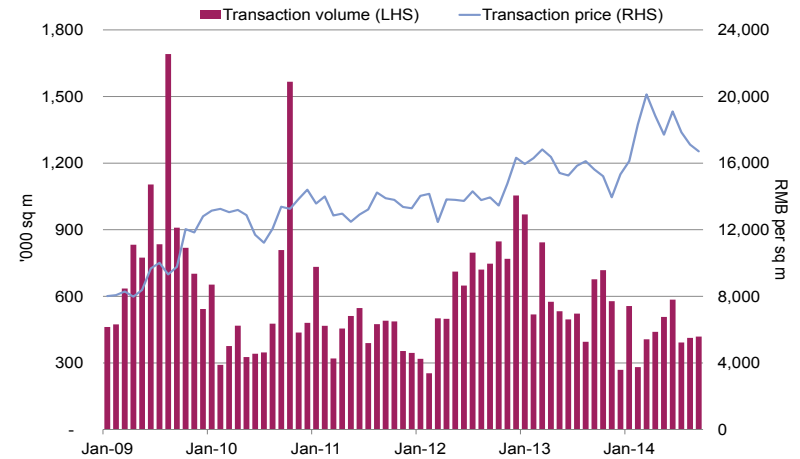
With the restrictions loosened in Foshan, a number of buyers from Guangzhou (particularly those not qualified to purchase houses in Guangzhou), may consider purchasing in Foshan. Foshan registered a remarkable increase in transaction volumes in August 2014, especially in its Nanhai district (adjacent to west Guangzhou) recording a 75.0% increase in transaction volumes.

Although the easing of property curbs is expected to stimulate the market in the short term, it may fail to prevent a market downturn amid tightened mortgage policies. According to the National Bureau of Statistics, prices continued to drop in 69 of the 70 cities monitored in September month-on-month (MoM).

The gloomy nation-wide real estate market has exerted a negative effect on China's overall economy, as GDP growth continued to record below 7.5% in Q3/2014. To boost economic growth, the central bank decided to relax mortgage rules for second-home buyers at the end of Q3/2014 in order to boost its cooling housing market.

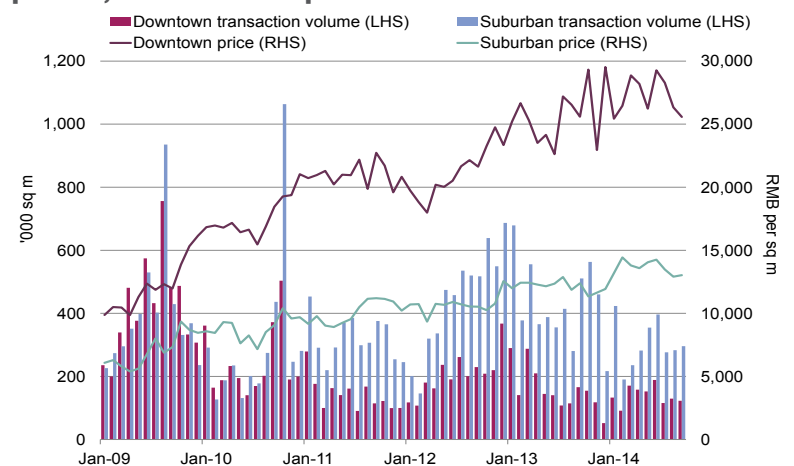
The slight recovery of transaction prices and volumes at the end of

GRAPH 1 **Residential transaction volumes and prices, Jan 2009–Sep 2014**



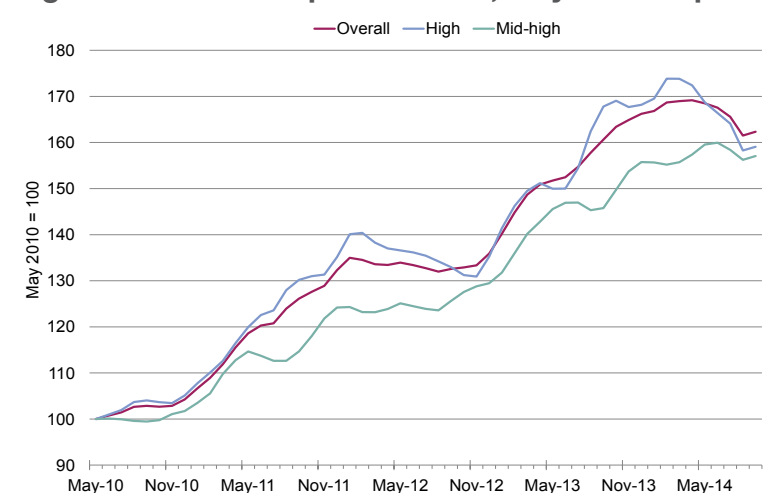
Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 2 **Suburban vs downtown transaction volumes and prices, Jan 2009–Sep 2014**



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

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



Source: Savills Research

last quarter did not last as home buyers continued to hold a wait-and-see attitude on the market. This, alongside the easing of Foshan HPRs, dampened Guangzhou's market further and saw both transaction volumes and prices witnessing quite a significant decline in Q3/2014.

Residential transaction volumes fell 20.2% QoQ to 1.22 million sq m in Q3/2014, down 23.3% YoY, while residential transaction prices registered a decrease of 7.3% QoQ to an average of RMB17,210 per sq m in Q3/2014, up 8.8% YoY.

Both downtown and suburban residential markets have recorded a decline in transaction volumes and

prices. Downtown transaction prices fell 4.7% QoQ to RMB26,693 per sq m in Q3/2014, and transaction volumes reached 367,800 sq m, down 26.4% QoQ. Suburban transaction prices declined 6.2% QoQ to RMB13,135 per sq m in Q3/2014, while transaction volumes were down 17.2% QoQ to 855,800 sq m.

**Hign-end residential market**

Mirroring the overall sluggish residential market, the high-end sector continued to be quiet in Q3/2014. The People's Bank of China (PBoC) loosened loan policies for buyers and developers, sending a positive sign to the market that the government is dissatisfied with

the current slump and is looking to change it. Due to this, prices rebounded at the end of Q3/2014, however, in general, high-end residential prices fell 4.4% QoQ, while mid- to high-end residential prices fell 1.8% QoQ.

Transaction volumes of properties priced above RMB30,000 per sq m recorded a stronger performance, registering an increase of 8.3% QoQ. Average transaction prices of the top ten residential projects in Guangzhou increased drastically from RMB48,528 per sq m in Q2/2014 to RMB67,570 per sq m in Q3/2014, up 39.2% QoQ. ■

**OUTLOOK**

Along with the withdrawal of HPRs, administrative regulations will become a less important factor affecting the market sentiment, with the home loan policy becoming the key factor that affects the property market in the long run.

■ At the end of Q3/2014, PBoC announced the easing of loan policies. The policies, which are effective from October, aim not only to encourage second-home demand onto the sales market, but also relieve cash flow pressure on developers by allowing quality

developers to issue corporate bonds and medium-term notes.

■ Loosening certain monetary policies is expected to better support the real estate market and is expected to restore market sentiment and restore performance.

■ However, over the remainder of 2014, offloading stock is expected to remain the major target for most developers, with more discounts offered to attract buyers back to the market. As a result, residential prices are expected to face continued downward pressure in the short term.

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