

# Briefing Residential sector

February 2015



Image: Vanke Wonder Land, Baiyun

## SUMMARY

Due to the recent loosening of monetary policies issued by the central government, the Guangzhou residential market has witnessed a recovery in transaction volumes in October and November 2014.

■ Average residential transaction volumes for October and November were up 48.4% quarter-on-quarter (QoQ), totalling 1.21 million sq m, down 6.6% year-on-year (YoY).

■ Average residential transaction prices for October and November were up 16.6% YoY to an average of RMB17,214 per sq m.

■ In October and November 2014, average downtown transaction

prices fell 1.5% YoY to RMB25,742 per sq m, while average monthly transaction volumes reached 199,050 sq m, up 46.0% YoY.

■ Average suburban transaction prices increased 12.7% YoY to RMB12,949 per sq m in October and November, while average monthly transaction volumes fell 20.6% YoY to 406,200 sq m.

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 “The downtown residential market registered a recovery in transaction volumes, while the suburban market recorded a growth in transaction prices.”  
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Sam He, Savills Research

➔ **Market overview**

After a sluggish period over the last few months, residential markets witnessed a slightly recovery due to the easing of loan policies and the cutting of bank interest rates in October and November of 2014. The easing of property curbs is stimulating the market and home buyers are encouraged to enter the market. Developers are also benefitting from the policies through not only the improvement of project sales but also by allowing the issue of corporate bonds and medium-term notes to relieve cash flow pressure. However, the Home Purchase Restrictions (HPRs) continue to take effect in Guangzhou despite some loosening.

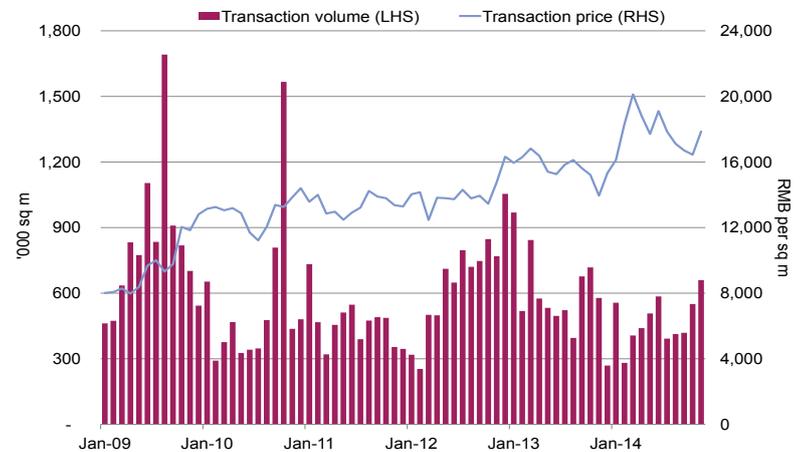
Although the government was releasing measures to boost the property market, it may not be enough to prevent a market downturn amid tightened mortgage policies. According to the National Bureau of Statistics, prices continued to drop in 67 of the 70 cities monitored in November month-on-month (MoM).

The gloomy nation-wide real estate market has exerted a negative effect on China's overall economy, as GDP growth recorded a historical low of 7.4% in 2014, failing to reach the target of 7.5%. This was also the first time the target has not been reached in the last 24 years.

Favourable policies issued by the central government, such as bank interest rate cuts and property loan easing, have encouraged home buyers to re-enter the market, especially second-home buyers. The residential market bore witness to a significant recovery in transaction volumes in October and November of 2014 as liquidising inventory continued to be the main target for many developers. Transaction prices recorded a fall due to the promotion of projects at discounts for home buyers.

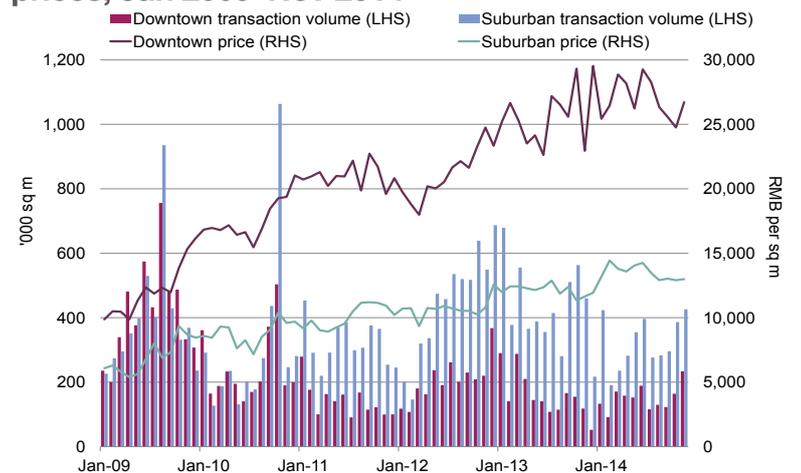
Compared to Q3/2014, residential average monthly transaction volumes increased 48.4%, totalling 1.21 million sq m. However this was still down 6.6% year-on-year (YoY). Residential transaction prices registered a moderate decline of 0.4% QoQ to an average of

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



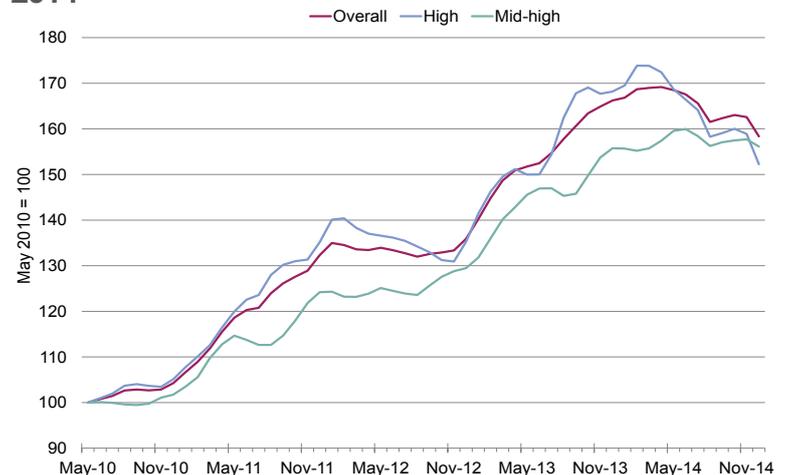
Source: Guangzhou Land Resources & Housing Bureau, Savills Research

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



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

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



Source: Savills Research

RMB17,214 per sq m, up 16.6% YoY. In October and November 2014, the downtown residential market witnessed a surge in transaction volumes, while suburban markets recorded a growth in transaction prices.

Average downtown transaction prices fell 1.5% YoY to RMB25,742 per sq m, while average monthly transaction volumes reached 199,050 sq m, up 46.0% YoY. In suburban districts, average transaction prices increased 12.7% YoY to RMB12,949

per sq m in October and November, while average monthly transaction volumes were down 20.6% YoY to 406,200 sq m.

### High-end residential market

Unlike the small recovery witnessed in the overall residential market, the high-end sector recorded a fall in transaction prices during Q4/2014. In general, high-end residential prices fell 4.3% QoQ, while mid- to high-end residential prices fell 0.6% QoQ.

However, 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 decreased drastically from RMB67,570 per sq m in Q3/2014 to RMB53,670 per sq m in Q4/2014, down 20.6% QoQ. ■

## OUTLOOK

The central government has issued a policy about starting the national real estate registration system, which will be effective from March 2015. Administrative regulations such as HPRs in Guangzhou, are expected to gradually become a less important factor affecting the market sentiment.

■ In November, the People's Bank of China (PBOC) announced cuts to benchmark interest rates for loans and deposits, which has helped the recovery of transaction volumes within the residential market over the last two months. Second-home buyers are receiving encouragement to re-enter the market, and developers are taking the opportunity to further promote

projects in order to achieve annual year-end sales goals.

■ Loosening certain monetary policies is expected to better support the real estate market and is expected to restore market sentiment and restore performance. For the next few months, residential market transaction is estimated to rebound.

■ However, due to the downturn of transactions during 2014, offloading stock is expected to remain the major target for most developers in 2015. As a result, residential prices in Guangzhou are not anticipated to rise in the short term.

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