

Briefing **Residential sector**

May 2015



Image: Da Yi Villa, Baiyun

SUMMARY

Despite government-issued stimulus policies such as cuts to interest rates on loans and the reduction of down payments, Guangzhou's residential market witnessed decreases in both transaction volumes and prices in Q1/2015.

- Q1/2015 saw transaction volumes fall 29.9% quarter-onquarter (QoQ) to 1.43 million sq m, up 15.2% year-on-year (YoY).
- Average residential transaction prices were down 0.4% QoQ to an average of RMB 16,828 per sq m, down 6.1% YoY.
- Average downtown¹ transaction prices increased 10.6% QoQ
- ¹Downtown districts: Yuexiu, Liwan, Haizhu, Tianhe Bei, Baiyun and Huangpu.

- to RMB28,486 per sq m, while transaction volumes reached 389,400 sq m, down 39.3% QoQ.
- Average suburban² transaction prices fell 2.8% QoQ to RMB12,480 per sq m in Q1/2015, and transaction volumes were sharply down 25.5% QoQ to 1.04 million sq

²Suburb districts: Panyu, Huadu, Nansha and

"Transaction prices in downtown areas continued to increase due to the lack of new supply, while suburban districts saw a significant decrease in transaction volumes and prices."

Sam He, Savills Research

Market overview

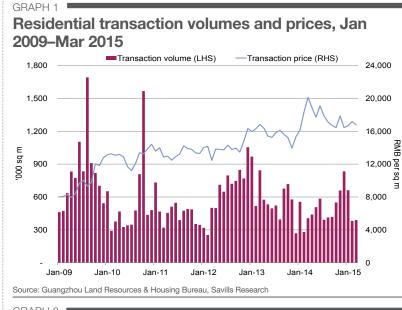
The Spring Festival signalled the offseason for the Guangzhou residential market, allowing the market to remain relatively quiet during Q1/2015. Meanwhile, in an effort to help the market recover, the central government rolled out new policies in March including a reduction in down payments for both first and second homes as well as the remittance of a transaction tax on pre-owned houses sold two or more years after purchase. This, combined with the cuts to loan interest rates announced in February, is expected to boost activity in the residential market over the course of the year.

In terms of the first-hand residential market, the growth of national real estate investment continued to decline, but remained up 8.5% YoY in Q1/2015, down from 16.8% YoY in Q1/2014. This quarter marks the first instance where the growth rate has fallen below 10% in the last five years.

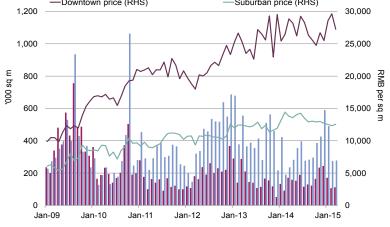
Government policies such as down payment reductions and cuts to loan interest rates have already gone some way to boosting demand in the market, from second-home buyers particularly but also first-home buyers and upgraders.. As a result, transaction volumes are expected to rise in the coming months. The residential market transaction volume in the next few months is expected to rise.

Q1/2015 saw transaction volumes and prices in Guangzhou fall. Transaction volumes fell a significant 29.9% QoQ to 1.43 million sq m, up 15.2% YoY. Residential transaction prices only fell 0.4% QoQ to an average of RMB 16,828 per sq m, down 6.1% YoY.

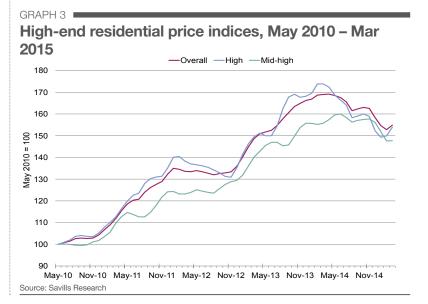
Due to the insufficient new supply over the last twelve months, the downtown residential market saw transaction prices increase a noteworthy 10.6% to reach an average of RMB 28,486 per sq m.



Suburban vs downtown transaction volumes and prices, Jan 2009-Mar 2015 Downtown transaction volume (LHS) Suburban transaction volume (LHS) -Downtown price (RHS) -Suburban price (RHS) 1,200



Source: Guangzhou Land Resources & Housing Bureau, Savills Research



Concurrently, transaction volumes fell significantly 39.9% QoQ, totalling only 389,400 sq m, down 1.4% YoY.

Suburban districts have seen supply and inventory begin to accumulate, leading to a decrease in transaction prices. Transaction volumes and prices in suburban areas were down 25.5% QoQ and 2.8% QoQ to 1,043,900 sq m and RMB 12,480 per sq m respectively.

Hign-end residential market

Unlike the overall residential market, the high-end residential sales sector remained weak during Q1/2015. More specifically, high-end residential prices rose 1.1% QoQ to RMB 50,682 per sq m, while mid- to high-end residential prices registered a drop of 5.4% QoQ to RMB 35,351 per sq m.

However, transaction prices for properties priced above RMB 30,000 per sq m have seen an increase, up 12.2% QoQ to RMB 60,209 per sq m, while transaction volumes fell 32.8% QoQ from 176,197 sq m to 118,315 per sq m.

OUTLOOK

As a result of newly-released governmental policies to encourage demand in the market, the Guangzhou residential market is expected to witness an increase in transaction volumes over the coming year.

- In February, the People's Bank of China (PBOC) announced the second cut to benchmark interest rates on loans and deposits.

 Meanwhile, the central government released incentives to encourage second-home buyers during the NPC & CPPCC in March. As a result, the residential market may continue to witness recovering transaction volumes.
- The real estate registration system was rolled out in March of this year and is considered the basis of levying real estate tax in the future. In the short term, the effect will be trivial, but it will contribute to the healthy growth of the real estate market in the long run.
- The rest of 2015 is expected to see most developers continue to prioritise offloading inventory. As a result, transaction volumes are expected to increase while residential prices are not anticipated to rise in the short term.

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