

Briefing Residential sector

August 2015



Image: Mei Ling Lake, Huadu

SUMMARY

Guangzhou's residential market saw a significant increase in transaction volumes, mostly due to the recent stimulus policies released by the central government.

■ Transaction volumes rose 61.3% quarter-on-quarter (QoQ) to 2.31 million sq m in Q2/2015, up 50.8% year-on-year (YoY).

■ Residential transaction prices fell 2.9% QoQ in the second quarter to an average of RMB16,345 per sq m, down 12.0% YoY.

■ Average downtown¹ transaction prices rose 1.5% QoQ to RMB28,910

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

per sq m, while transaction volumes reached 538,400 sq m, up 38.3% QoQ.

■ Suburban² transaction prices increased 0.4% QoQ to RMB12,529 per sq m in this quarter, while transaction volumes increased 69.8% QoQ to 1.77 million sq m.

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

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 "Both downtown and suburban areas witnessed a surge in transaction volumes in the residential sales market, although overall transaction prices fell in Q2/2015." Sam He, Savills Research

➔ **Market overview**

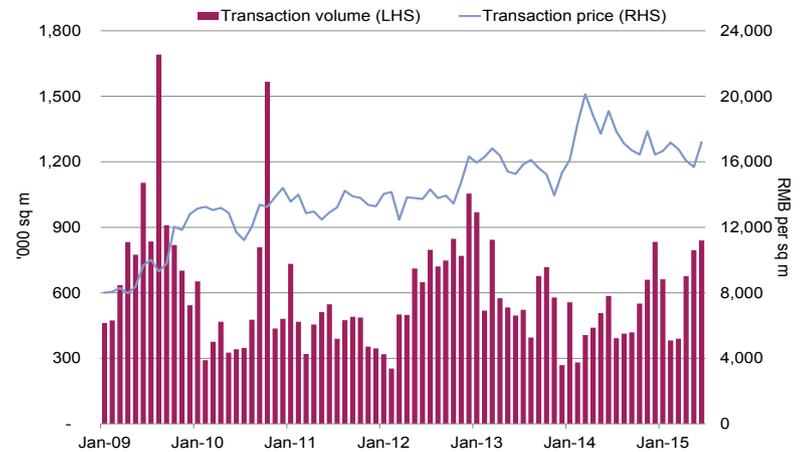
The uncertain domestic and global economic situation has resulted in a decline in GDP growth to 7%. Concurrently, real estate investment growth also saw a decrease in the first five months of this year, down to 5% from 17.2% in the same period of 2014.

However, due to stimulus policies released onto the market this year, such as the reduction of down payments for second-home buyers and several rounds of cuts to interest rates, the first-hand residential market saw buyers regain confidence and re-enter the market, prompting a significant increase in transaction volumes. While transaction volumes grew 2.31 million sq m in the second quarter, up 61.3% QoQ, city-wide prices saw a drop of 2.9% to RMB16,345 per sq m. This can be attributed to the continued high levels of unsold inventory.

With the implementation of new preferential policies this year came renewed confidence in the market from both first- and second-home buyers. As a result, transaction volumes saw a significant rise in Q2/2015. However, unsold stock on the residential market remained high, pushing developers to focus on promoting sales rather than raising prices, leading to a fall in transaction prices.

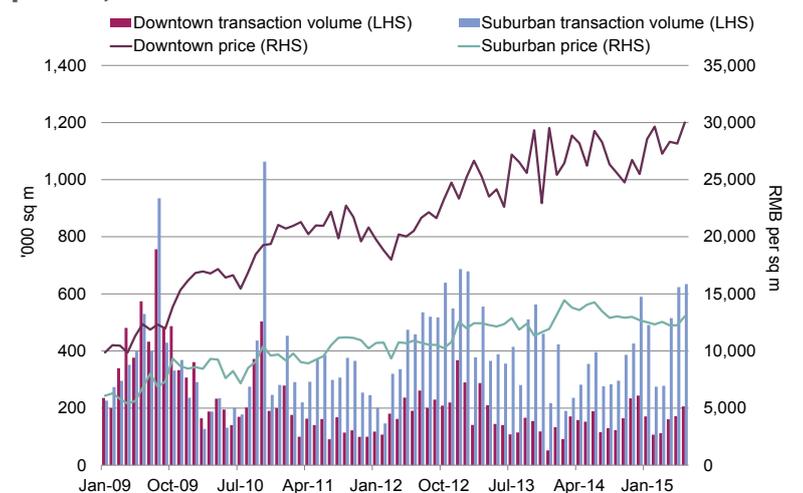
In Q2/2015, Guangzhou residential transaction volumes totalled 2.31 million sq m, up 61.3% QoQ and 50.8% YoY. Residential transaction prices in the second quarter fell 2.9%

GRAPH 1
Residential transaction volumes and prices, Jan 2009 – Jun 2015



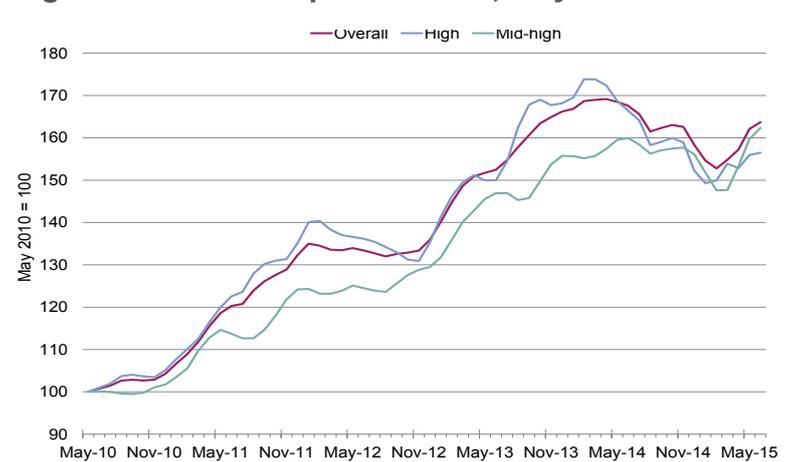
Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 2
Suburban vs downtown transaction volumes and prices, Jan 2009–Jun 2015



Source: Guangzhou Land Resources & Housing Bureau, Savills Research

GRAPH 3
High-end residential price indices, May 2010–Jun 2015



Source: Savills Research

QoQ to an average of RMB16,345 per sq m, down 12.0% YoY.

The downtown residential market saw transaction prices slightly increasing by 1.5% in Q2/2015, after the decrease last quarter, reaching an average of RMB28,910 per sq m. Transaction volumes saw a significant increase of 38.3% QoQ to 538,400 sq m. Residential projects in downtown areas have benefitted from the government's policies as upgrader demand shows signs of recovery on the market in Q2/2015.

Suburban districts also saw an increase in transaction prices to an average of RMB12,529 per sq m, up 0.4% QoQ but down 10.5% YoY. Transaction volumes rose a significant 69.8% QoQ, totalling 1.77 million sq m, up 71.6% YoY. Suburban districts, especially the Panyu and Luogang districts,

continued to be the major areas that saw new supply.

High-end residential market

The high-end residential sales sector also significantly improved during Q2/2015, with prices rising 3.1% QoQ to RMB52,236 per sq m. Mid-to high-end residential prices saw an increase of 8.9% QoQ to RMB38,498 per sq m, up 0.8% YoY.

However, transaction prices for properties priced above RMB30,000 per sq m have seen a decrease, down 7.5% QoQ to RMB 55,679 per sq m, while transaction volumes recorded a jump of 85.6% QoQ from 118,351 sq m to 219,698 per sq m, up over 105% YoY. ■

OUTLOOK

The Guangzhou residential market is expected to see steady growth in transaction volumes in the coming year due to governmental policies encouraging home buyers to enter the market. Inventory levels are expected to remain high, restricting transaction price growth.

After several rounds of cuts to interest rates by banks, the residential market is expected to see more buyers returning to the market as both first- and second-home buyers will benefit from the new policies. This situation is anticipated to continue having an effect on the market demand, which will help to improve the residential sales market.

As a result, residential market transaction volumes are expected to continue increasing over the next few months, while transaction prices are unlikely to rise due to the high level of unsold inventory. Developers are expected to continue prioritising the offloading of this unsold inventory.

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