

Briefing Residential sector

May 2015



Image: Lane No.9

SUMMARY

The Tianjin residential sales market slowed in Q1/2015, with both supply and transaction rates falling.

- No new serviced apartment projects were launched onto the market in Q1/2015, with leasing demand mainly absorbing existing stock.
- Serviced apartment rents fell by 0.3% quarter-on-quarter (QoQ) to RMB198.5 per sq m per month, down 2.9% year-on-year (YoY).
- City-wide serviced apartment vacancy rates fell by 2.8 percentage points (ppts) QoQ to 32%, down 7.8 ppts YoY.
- Mass-market residential supply decreased 34% QoQ in Q1/2015 to 2.06 million sq m, down 10.5% YoY. Transaction volumes fell by 36.8% QoQ to 1.96 million sq m, down 12.7% YoY, recording the lowest point during the same period in the past two years.
- Residential transaction prices dropped 7.7% QoQ on an index basis to an average of RMB10,953 per sq m, up 5.7% YoY.
- City-wide, high-end residential asking prices averaged RMB25,974 per sq m, down 1.4% QoQ.

.....
 “New property regulations are expected to encourage investor and upgrader demand but oversupply is unlikely to be remedied in the short term. As a result, developers will continue to prioritise inventory offloading.”
 Jonathan Wang, Savills Research

➔ **Residential leasing market**

No new serviced apartments were launched onto the leasing market in Q1/2015, with leasing demands mainly absorbing existing stock. Concerned with the subpar revenues, several landlords opted to lease out units for commercial use or began promoting shorter-stay units for one to two months to increase the occupancy rates and revenues. As a result, city-wide serviced apartment vacancy rates fell 2.8 ppts QoQ to 32%, down 7.8 ppts YoY.

Rents

Serviced apartment rents decreased 0.3% QoQ to RMB198.5 per sq m per month, down 2.9% YoY.

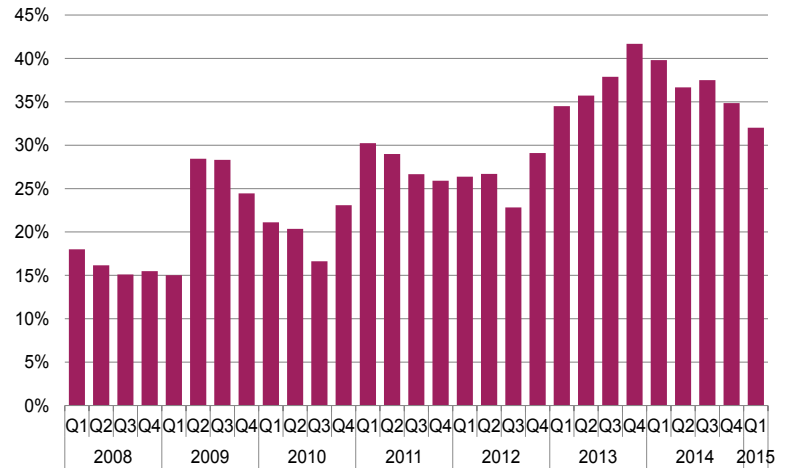
Residential leasing outlook

The Ritz Carlton Hotel is expected to launch its serviced apartment component at the end of 2015.

Due to rising labour costs, several multinational corporations in the manufacturing industry have begun closing their factories in large cities. If this trend reaches Tianjin, several expatriate workers will likely opt to repatriate and thus put a downward pressure on leasing demand. Meanwhile, due to tighter housing budgets, some seconded employees are looking towards more economical, second-hand mass-market residences, resulting in a slowed rental increase for serviced apartments. Additionally, multinational companies are beginning to hire more local employees or expats on local contracts, a trend that is expected to continue throughout 2015.

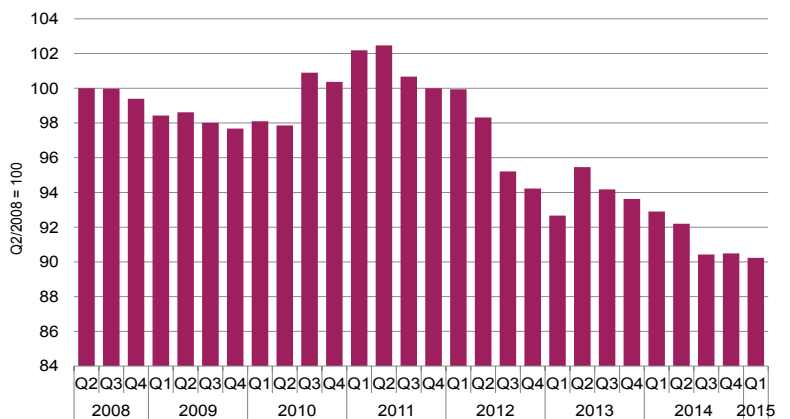
Additionally, an increasing number of hotels are beginning to renovate suites to accommodate frequent individual travellers. Since the government has been encouraging mixed-use developments, many hotels contained in HOPSCA complexes are expected to start cropping up, allowing for more competition within the serviced apartment market which may place downward pressure on the occupancy rates.

GRAPH 1 **High-end serviced apartment vacancy rates, Q1/2008–Q1/2015**



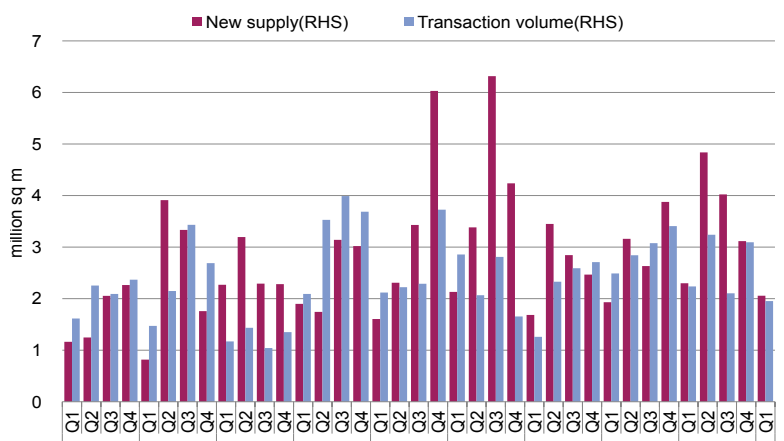
Source: Savills Project & Development Consultanc

GRAPH 2 **High-end serviced apartment rental index, Q2/2008–Q1/2015**



Source: Savills Project & Development Consultanc

GRAPH 3 **Supply and transaction volumes, Q1/2006–Q1/2015**



Source: Savills Project & Development Consultanc

→ **Residential sales market**

Due to the lateness of the Spring festival this year, many developers postponed launch dates, resulting in the slowing of Tianjin's residential sales market in Q1/2015, with both supply and transaction rates falling. Additionally, many home buyers are holding a wait-and-see attitude in anticipation of further supportive measures expected to be rolled out mid-year, which also contributed to the flat figures this quarter.

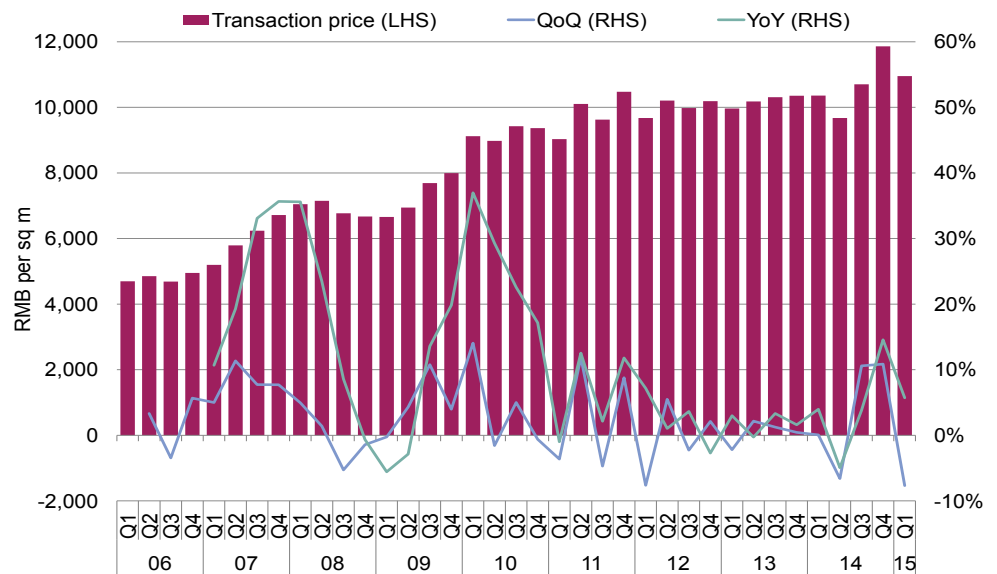
Mass-market residential supply decreased 34% QoQ in Q1/2015 to 2.06 million sq m, down 10.5% YoY. Transaction volumes decreased 36.8% QoQ to 1.96 million sq m, down 12.7% YoY, recording the lowest point during the same period in the last two years. Residential transaction prices dropped 7.7% QoQ on an index basis to an average of RMB10,953 per sq m, up 5.7% YoY.

High-end, commercial-titled apartment sales market

Only one new project, Lane No.9 apartment, was launched onto the high-end serviced apartment sales

GRAPH 4

Residential transaction prices, Q1/2006–Q1/2015



Source: Savills Research

market in Q1/2015, with an average asking price of RMB21,500 per sq m.

Lane No.9 apartment, located at the intersection of the Heiniucheng Expressway and Dongting Road in the Hexi district, was developed by China Overseas Land and Investment

Ltd. Co. and includes high-rise and low-rise apartment buildings. The 86,000-sq m apartment component comprises 1,172 units, with the majority being one-bedroom units of 55 and 77 sq m and two-bedroom units of 102 sq m.

TABLE 1

Selected commercial-titled apartment asking prices, Q1/2015

Project name	Location	Launch date	Asking price (RMB per sq m)
The Centro Tianjin China	Hexi district	Oct 2009	26,000
Haihexintian	Hebei district	May 2010	21,000
R&F Centre	Xiaobailou	Nov 2010	16,000
International Trade Centre	Xiaobailou	Oct 2011	23,000
The Esplanade	Haihe area	Jun 2012	21,000
Residence 1882	Heping district	Nov 2012	28,000
Baoli International Plaza	Nankai district	Jan 2013	23,000
China Resources Ziyangli	Heping district	Nov 2013	26,000
No.8 Milestone SOHO apartment	Hexi district	Sep 2014	28,000
Above the Bund apartment	Hebei district	Oct 2014	28,000
Song Jiang apartment	Nankai district	Nov 2014	21,000
Lane No.9 apartment	Hexi district	Jan 2015	21,500

Source: Savills Research

With lower costs but higher-quality property management, the apartment holds great potential for development for both self-use and investment. Currently, most of the high-end, commercially-titled apartment developments are located within mixed-use developments that include commercial and retail facilities, resulting in a higher value from an investment point of view than standalone apartment complexes. Tianjin's high-end, commercial-titled apartment sales market is expected to see an increase in both transaction volumes and price in the coming year.

High-end residential sales market

Only one new high-end residential sales project, namely Lane No.9 apartment, was launched onto the city centre market in Q1/2015. City-wide average asking prices decreased 1.4% QoQ to RMB25,974 per sq m.

Lane No.9 apartment, located at the intersection of the Heiniucheng Expressway and Dongting Road in the Hexi district, developed by China Overseas Land and Investment Ltd. Co., includes high-rise, low-rise and apartment buildings. The project comprises four 23- to 24-storey high-rise buildings and six 10-storey low-rise buildings, with an average asking price of RMB25,000 per sq m and

TABLE 2 **High-end residential sales market, Q1/2015**

District	Average asking price (RMB per sq m)		QoQ indexed change (%)	YoY indexed change (%)
	Q4/2014	Q1/2015		
Greater Meijiang	21,750	21,500	-0.4%	0.7%
Olympic area	27,667	30,500	1.1%	1.1%
Lao Chengxiang area	27,750	27,250	-1.9%	9.6%
Haihe River	27,741	26,853	-2.2%	3.2%
Other area	25,563	25,722	-0.5%	1.6%

Source: Savills Project & Development Consultancy

RMB30,000 per sq m respectively. The main unit size ranges from 96 to 144 sq m.

Residential sales outlook

The People's Bank of China, the Department of Housing and Construction and the China Banking Regulatory Commission announced on March 30 the reduction of down payments to 20% for first-homes purchased through the public housing fund and 40% for second-home purchases. This policy is expected to restore homebuyer confidence and encourage end-user and upgrader demand in the market. Despite a slow start to the year, a series of supportive measures and

policies is expected to prompt a pick-up in Tianjin's residential market in 2015. However, with high unsold inventory levels and the market reacting to regulatory policies with a lag, recovery is unlikely until the second half of the year.

Meanwhile, though the residential sector is less sensitive to macro-policies, the approval of the Tianjin Free Trade Zone (FTZ) is expected to provide a much needed boost to the residential market in the Binhai New Area. However, from a long-term perspective, the population inflow along with the relocation of enterprises should create demand on the market prompting housing prices within the FTZ to rise. ■

Please contact us for further information

Savills Research

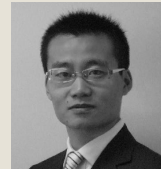


James Macdonald
 Director, China
 +8621 6391 6688
 james.macdonald@savills.com.cn

Savills Agency



Andy Chee
 Senior Director
 +8622 5830 8886
 andy.chee@savills.com.cn



Jonathan Wang
 Manager
 +8622 5830 8877
 jonathan.wang@savills.com.cn

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.