

Briefing Residential sector

July 2015



Image: Orchid Garden

SUMMARY

An increase in demand, driven by the relaxation of monetary and public housing fund policies, was seen in Q2/2015, with both transaction volumes and prices rising.

- No new serviced apartment projects were launched onto the market in Q2/2015, with leasing demand mainly absorbing existing stock.
- Serviced apartment rents decreased 0.8% quarter-on-quarter (QoQ) to RMB 197.3 per sq m per month, down 2.9% year-on-year (YoY).
- City-wide serviced apartment vacancy rates fell 0.3 of a percentage point (ppt) QoQ to 31.7%, down 5.0 pts YoY.
- Mass-market residential supply increased 30% QoQ in Q2/2015 to 2.68 million sq m, down 44.7% YoY. Transaction volumes increased 63.6% QoQ to 3.20 million sq m, down 1.3% YoY.
- Residential transaction prices rose 5.7% QoQ and 19.6% YoY respectively to an average of RMB11,576 per sq m.
- City-wide, high-end residential prices averaged RMB25,400 per sq m, up 0.8% QoQ and 0.5% YoY.

“With the current high level of unsold inventory, developers will continue to prioritise offloading inventory with stable asking prices. As a result, significant, city-wide price increases will not be seen in the short term.”

Jonathan Wang, Savills Research

➔ **Residential leasing market**

No new serviced apartments were launched onto the leasing market in Q2/2015, with leasing demands mainly absorbing existing stock. New deals witnessed in the quarter were primarily in Marriott Executive Apartments and Shangri-La Apartments, but termination of tenancy was also evident in older projects.

City-wide serviced apartment vacancy rates fell 0.3 of a ppt QoQ to 31.7%. In the face of such high vacancy rates and a large amount of future supply, landlords are required to come up with new marketing campaigns in an effort to retain old tenants and win new contracts, rather than just lower the price.

Rents

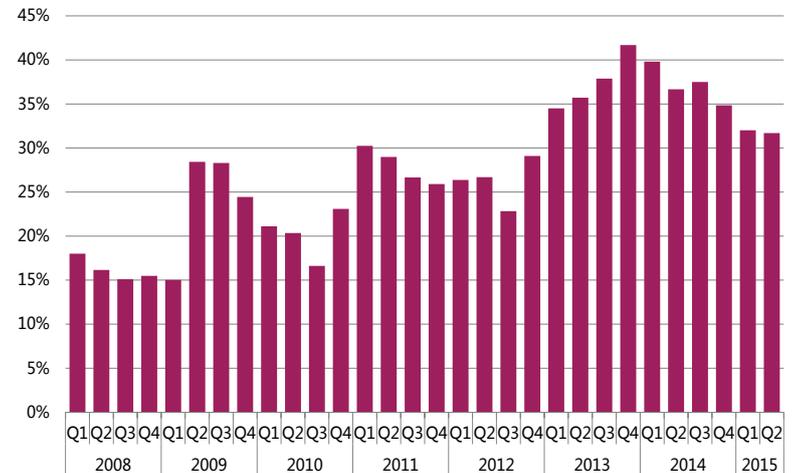
Serviced apartment rents decreased 0.8% QoQ to RMB 197.3 per sq m per month, down 2.9% YoY. Oversupply and the continuing restriction on housing budgets by multinational companies are the main contributions to the falling rents in recent years.

Residential leasing outlook

In the remainder of 2015, two new projects are expected to be launched onto the city centre serviced apartment leasing market, namely Fraser Place Tianjin in the Nankai district, and the serviced apartment component of the Ritz Carlton Hotel along Haihe Riverside, each adding more than a hundred units. Additionally, the Shangri-La Hotel plans to launch another 40 one- and two-bedroom units, doubling its existing stock.

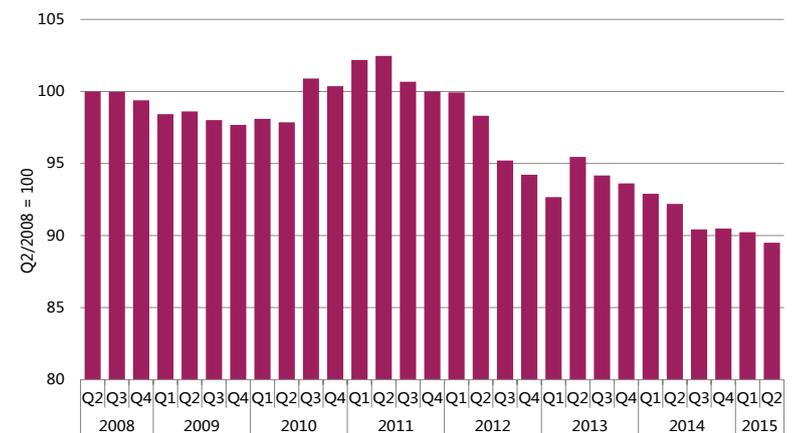
The Binhai New Area will see two new serviced apartments launched in 2015 – the first serviced apartment operated by Ascott Serviced Apartments in Tianjin, Ascott TEDA MSD Tianjin, and Marriott Executive Apartments. Many renowned domestic and overseas enterprises have established their presence in the Binhai New Area and will benefit from the favourable policies within the Free Trade Zone (FTZ). This could result in a considerable increase in consistent leasing demand from employees of these enterprises. In addition, demand may also stem from tenants living in the city centre opting to relocate

GRAPH 1 **High-end serviced apartment vacancy rates, Q1/2008–Q2/2015**



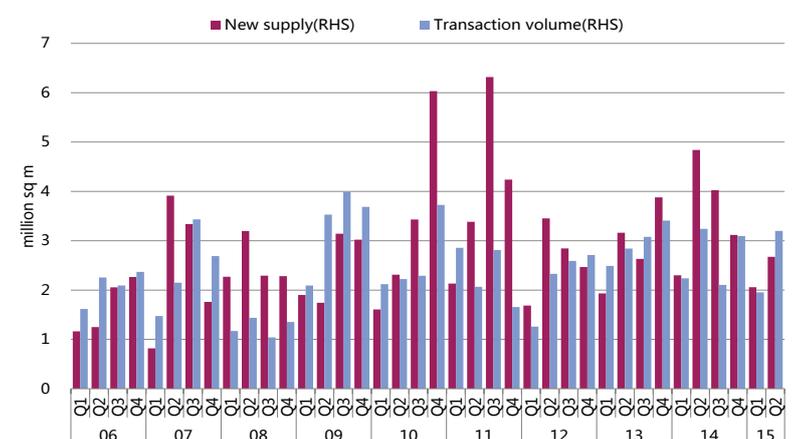
Source: Savills Project & Development Consultanc

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



Source: Savills Project & Development Consultanc

GRAPH 3 **Supply and transaction volumes, Q1/2006–Q2/2015**



Source: Savills Project & Development Consultanc

→ to residences closer to their workplaces in the Binhai New Area.

New supply and high-end mass-market residences entering the leasing market are expected to introduce more competition to the market, placing an upward pressure on city-wide vacancy rates.

Residential sales market

Compared to activity on the residential market in the first quarter, Q2/2015 saw increased end-user and upgrader demand driven by relaxed monetary and public housing fund policies, with both transaction volumes and prices rising.

Mass-market residential supply increased 30% QoQ in Q2/2015 to 2.68 million sq m, down 44.7% YoY. Transaction volumes increased 63.6% QoQ to 3.20 million sq m, down 1.3% YoY. Residential transaction prices rose 5.7% QoQ and 19.6% YoY respectively to an average of RMB11,576 per sq m.

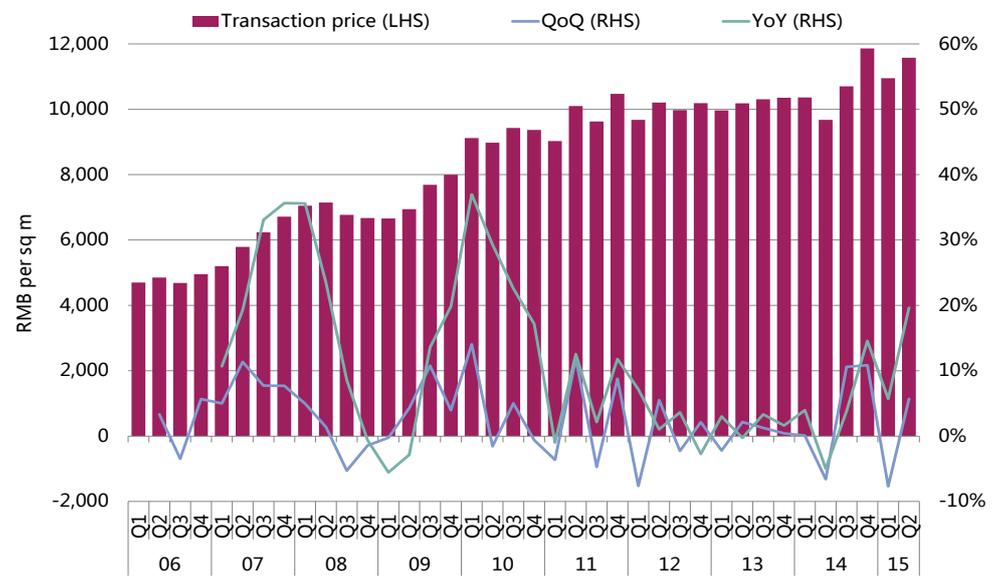
High-end, commercial-titled apartment sales market

No new projects were launched onto the high-end serviced apartment sales market in Q2/2015, with the rest of the year also expected to remain quiet.

Increased transactions were witnessed in the commercial-titled apartment sales market, with the majority in the International Trade

GRAPH 4

Residential transaction prices, Q1/2006–Q2/2015



Source: Savills Research

Centre and R&F Centre in Xiaobailou area. Projects in good locations with fair prices are welcomed by young home buyers, and smaller-sized units with lower asking prices have become the best sellers in the commercial-titled apartment market. These apartments could also be used for commercial purposes and are considered suitable workplaces for start-ups. The commercial-titled apartment sales market is expected to continue to record increased

transaction prices as popularity grows.

High-end residential sales market

Two new projects, namely Orchid Garden and Haihe Bauhaus, were launched onto the high-end residential market in Q2/2015. Q2/2015 saw city-wide high-end residential prices increase 0.8% QoQ to an average of RMB25,400 per sq m, up 0.5% YoY.

TABLE 1

Selected commercial-titled apartment asking prices, Q2/2015

Project name	Location	Launch date	Asking price (RMB per sq m)	Sales Rates (%)
The Centro Tianjin China	Hexi district	Oct 2009	21,000	31
Haihe Xintian	Hebei district	May 2010	21,000	73
R&F Centre	Xiaobailou	Nov 2010	18,300	89
International Trade Centre	Xiaobailou	Oct 2011	19,200	25
The Esplanade	Haihe area	Jun 2012	18,600	96
Residence 1882	Heping district	Nov 2012	30,000	13
Baoli International Plaza	Nankai district	Jan 2013	17,000	98
China Resources Ziyangli	Heping district	Nov 2013	23,900	26
No.8 Milestone SOHO apartment	Hexi district	Sep 2014	23,800	10
Song Jiang apartment	Nankai district	Nov 2014	21,700	2
Lane No.9 apartment	Hexi district	Jan 2015	20,200	4

Source: Savills Research

Due to a lack of residential-zoned land supply, high-end residences with favourable locations in the city centre and improved facilities witnessed price increases to different degrees. Developers are pinning their hopes on the confirmation of another interest rate cut at the beginning of Q3/2015, so as to get the substantial benefits of price appreciation, and then launch their projects.

Orchid Garden, located in the Lao Chengxiang area in Nankai district, two hundred metres from the Xinanjiao station (metro line 2), was developed by TEDA Group. The project includes two 33-storey high-rise buildings, and one eight-storey and one ten-storey low-rise building with an average asking price of RMB25,000 per sq m and RMB29,000 per sq m respectively. The main unit size ranges from 90 to 130 sq m.

Haihe Bauhaus, located in Haihe Riverside area in Hedong district, was developed by Tianjin Xin'an Creative Industrial Investment Co. Ltd., and is the residential component of Mian3 Creative Blocks, a mixed-use development including office, hotel and retail. The residence includes two 20-storey high-rises, with typical units of 105-116 sq m (two-bedrooms) and 144-158 sq m (three-bedrooms). The average asking price was around RMB23,000 per sq m.

TABLE 2 High-end residential sales market, Q2/2015

District	Average asking price (RMB per sq m)		QoQ indexed change (%)	YoY indexed change (%)
	Q1/2015	Q2/2015		
Greater Meijiang	21,500	22,267	3.3%	3.5%
Olympic area	29,500	30,350	2.4%	5.9%
Lao Chengxiang area	25,250	25,960	1.3%	-2.9%
Haihe Riverside	25,971	25,753	0.1%	-0.3%
Other area	25,150	25,250	0.2%	0.8%

Source: Savills Project & Development Consultancy

Expected to be launched in next quarter, the “2-Li” Style Linquan and “7-Li” Honour Mansion, located in the New Badali area in the Hexi district, is eagerly anticipated with great attentions.

Residential sales outlook

During the last quarter, the People's Bank of China twice announced a reduction of the reserve ratio, firstly by 1.0 ppt and secondly by 0.5 of a ppt, as well as interest rate cuts of 0.25 of a ppt in both May and June, to free up money to support the economy.

The interest rate cuts and reduction of down payments for house purchases through public housing

funds led to lower costs and thresholds for house purchasing, encouraging end-users and upgraders to speed up entering the residential market. This trend is expected to continue as the residential market warms up.

Developers will gain more confidence in the future market and accelerate project launches. However, with the current high level of unsold inventory, developers will continue to prioritise those offering stable prices. As a result, a significant city-wide price increase will not be seen in the short term. Increased transactions with stable prices is believed to be the new normal for Tianjin's residential market. ■

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