

Residential Sales

1 November 2011

“Despite a stagnant mass-residential market, the high-end sales market remained buoyant as high net worth individuals were less affected by government regulations and the tighter monetary environment.”



Image: Upper East Side, Chaoyang district

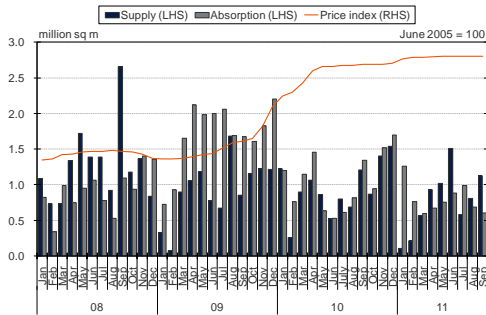
- Mass-market residential supply exceeded transaction volume by 200,000 sq m in the third quarter, bringing unsold inventory levels up to 14.3 million sq m.
- High-end villa prices decreased by 2.1% quarter-on-quarter to an average of RMB40,674 per sq m despite an increase of 32.8% in transaction volume.
- The mass-market residential price index remained unchanged in the third quarter, representing just a 1.8% increase year-on-year.
- High-end residential transaction volume is expected to remain subdued in 2012 resulting in a moderate fall in prices.
- Grade A apartment prices increased by 3.2% quarter-on-quarter to an average of RMB55,608 per sq m, while transaction volume fell by 12.6% to 673 units.

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First-hand sales market overview

Mass-residential market supply contracted by 27.4% in the third quarter to 2.5 million sq m, representing a decrease of 6.6% year-on-year. The reduction in supply was largely due to a combination of stringent issuing of pre-sale certificates and developers postponing the launch of projects.

First-hand mass-residential market supply and absorption, Jan 2008–Sep 2011



Source: Beijing Real Estate Transaction and Management Bureau, China Statistic Bureau, Savills Research & Consultancy

Mass-residential market transaction volume fell 1.0% quarter-on-quarter to 2.3 million sq m, representing a 17.7% decrease year-on-year. As demand fell short of supply in the third quarter, unsold inventory levels rose to 14.3 million sq m by the end of September 2011, the highest in over two years.

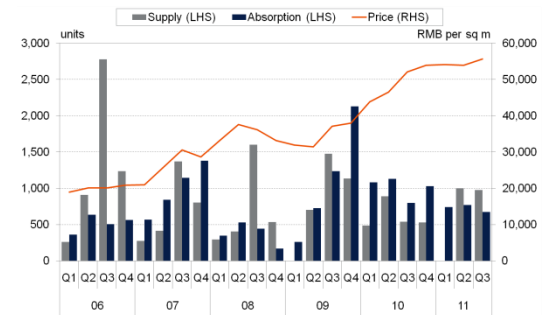
The mass-market residential price index remained unchanged in the third quarter, representing just a 1.7% increase year-on-year. Transaction prices in some suburban districts saw substantial decline, with the decline being most evident in districts which are receiving relatively large amounts of supply, such as Tongzhou and Daxing districts.

First-hand Grade A apartment market

Four projects received pre-sale certificates in the Grade A apartment market in the third quarter, adding 980 units to the market. These projects included No. 8 Royal Park, Jin Mao Palace (Phase II) and Oriental Mansion in Chaoyang district, and West Chateau in Haidian district.

At the same time, a number of developers, which had withheld units from the market in recent years, have now released these units onto the sales market. It is their belief that there is still demand and that the current regulations are likely to remain in place, resulting in a fall in prices being imminent. Examples include Upper East Side, which launched a dozen or so penthouse units, and Legendale Hotel, which also plans to sell their apartment units.

First-hand Grade A apartment supply, absorption and average transaction price, Q1/2006–Q3/2011



Source: SRETC, Savills Research & Consultancy

Grade A apartment transaction volume fell by 12.6% quarter-on-quarter to 673 units. Projects launched in the third quarter accounted for much of this demand, as such projects were launched with more reasonable asking prices, notably West Chateau at around RMB39,500 per sq m.

Transaction prices in the Grade A apartment market rose by 3.2% in the third quarter to an average of RMB55,608 per sq m. While the mass-residential market begins to see price declines, the high end of the market continues to be afforded slight room for appreciation as they are still primarily sought-after by high net worth individuals who are less sensitive to interest rate and down payment hikes.

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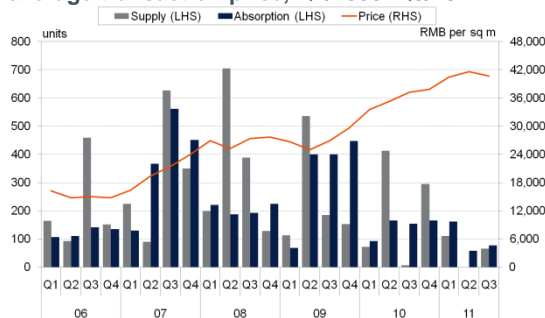
Noteworthy projects which increased their prices include Jin Mao Palace and Heritage Estate, located in Chaoyang district and Haidian district respectively. Jin Mao Palace increased the asking price by 11% to RMB50,000 per sq m when it launched its second phase. Meanwhile, Heritage Estate, which was temporarily taken off the market during the second quarter of 2011 due to government concerns over the project's high asking prices, registered Beijing's highest transaction price during the third quarter at RMB140,000 per sq m after it was allowed back on the market.

First-hand high-end villa market

Only one new high-end villa project was launched onto the pre-sales market in the third quarter. Ocean Palace in Daxing district, handed over 66 units at asking prices ranging between RMB10 million and RMB20 million per unit.

Transaction volume in the high-end villa market reached 77 units in the third quarter, outpacing supply by 16.7% and registering the third consecutive quarter of excess demand.

First-hand high-end villa supply, absorption and average transaction price, Q1/2006–Q3/2011



Despite strong demand, prices in the high-end villa market fell 2.1% quarter-on-quarter to an average of RMB40,674 per sq m, the first quarterly decline for two years. While the majority of the market kept prices stable, some developers, notably Longfor and its project Villatic, lowered prices in order to generate cash flow amid a tight credit market, thereby bringing down the market average.

Sales market outlook

Supply pressure is expected to remain strong into the first half of 2012 in the Grade A apartment market, as a large number of residential land plots, with an accommodation value exceeding RMB15,000 per sq m, were transacted in the first half of 2010, including Ocean Crown and Ru Yuan, which will both be launched onto the pre-sales market in the fourth quarter.

Transaction volume is likely to remain low as buyers continue to exercise a wait-and-see attitude towards the market. As regulations have driven a significant number of investors out of the market and the remainder of end-use purchasers is more cautious, only reasonably priced high-quality units are continuing to record healthy levels of turnover.

Both buyers and developers have come to the realisation that the central government will keep market-cooling regulations in place for a prolonged period of time. Buyers believe that there will be a correction in prices before the market starts to recover and so are postponing purchases until developers start offering more considerable discounts. Developers also understand that if they are to generate cash flow they will need to offer incentives to buyers.

As a result high-end residential transaction volume will remain low and transaction prices are expected to record a slight correction in 2012, despite the strong underlying demand for the high-end residential market.

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