

The pace of growth abates as policies cool demand in higher tier cities

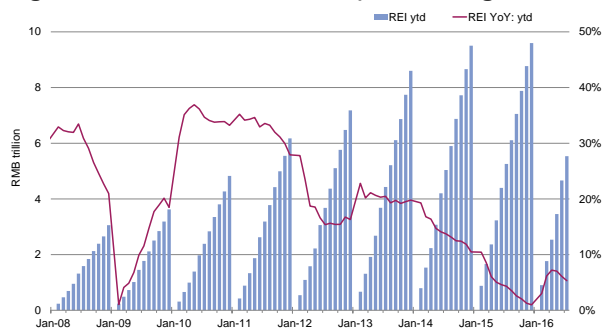
“Growth rates have continued to slow this month off a higher base of comparison and tighter credit control. At the same time, policies introduced in leading cities have damped investment levels and tamed sentiment resulting in price growth moderating in lower tier cities over the last two months, despite supportive and destocking measures.” said James Macdonald, Director of China Research

National real estate data for the first seven months of 2016 was released on 12 August 2016.

Real estate investment stood at RMB5,536 billion in the first seven months, up 5.3% year-on-year (YoY) down from 6.1% for the first six months of the year. Furthermore, 112 million sq m of land was purchased, down 7.8% from 121 million sq m for the same period in 2015. The total land sales consideration increased 7.1% to RMB385 billion indicating that the average price of land sold increased 16.2% to RMB3,446 per sq m. New starts continued to increase by 13.7% YoY, with 929 million sq m under way.

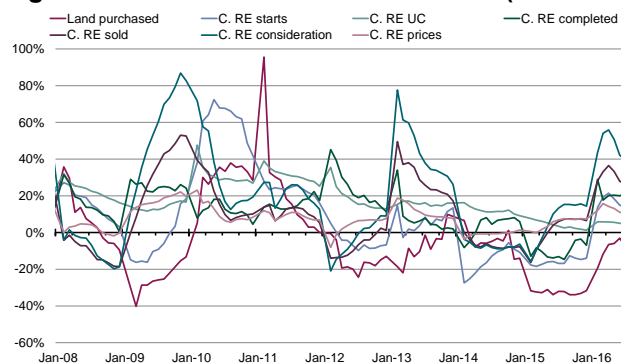
Volume of space completed increased 21.3% YoY to 459 million sq m, meaning that there is currently 6.586 billion sq m under construction up from 6.54 billion sq m the year before. The volume of space sold jumped to 758 million sq m by July 2016, up from 599 million sq m the previous year while the average price paid increased 10.6% YoY to RMB7,599 per sq m. The combined effect of these two indicators resulted in the total consideration paid increasing 39.8% to RMB5.76 trillion.

Figure 1: Investment levels (YTD YoY growth rates)



(National Bureau of Statistics; Savills Research)

Figure 2: General real estate indicators (YTD YoY growth rates)



(National Bureau of Statistics; Savills Research)

Table 1: General real estate indicators (YTD)

Indicator	Unit	Value			YoY change		MoM acceleration Jul-16
		Jul-15	Jun-16	Jul-16	Jun-16	Jul-16	
RE investment	RMB billion	5,256	4,663	5,536	6.1%	5.3%	(0.8 ppts)
Land purchased	million sq m	121	95	112	(3.0%)	(7.8%)	(4.8 ppts)
Land sales consideration	RMB billion	359	316	385	10.2%	7.1%	(3.1 ppts)
Average land price	RMB per sq m	2,966	3,325	3,446	13.7%	16.2%	2.5 ppts
Commodity RE started	million sq m	817	775	929	14.9%	13.7%	(1.2 ppts)
Commodity RE UC	million sq m	6,542	6,698	6,856	5.0%	4.8%	(0.2 ppts)
Commodity RE completed	million sq m	378	395	459	20.0%	21.3%	1.3 ppts
Commodity RE sold	million sq m	599	643	758	27.9%	26.4%	(1.5 ppts)
Commodity property sold	RMB billion	4,117	4,868	5,757	42.1%	39.8%	(2.3 ppts)
Average price of property sold	RMB per sq m	6,872	7,571	7,599	11.1%	10.6%	(0.5 ppts)

(National Bureau of Statistics; Savills Research)

Table 2: General real estate indicators (annual figures)

Indicator	Unit	Value			YoY change		YoY acceleration 2015
		2013	2014	2015	2014	2015	
RE investment	RMB billion	8,601	9,504	9,598	10.5%	1.0%	(9.5 ppts)
Land purchased	million sq m	388	334	228	(14.0%)	(31.7%)	(17.7 ppts)
Land sales consideration	RMB billion	992	1,002	762	1.0%	(23.9%)	(25.0 ppts)
Average land price	RMB per sq m	2,555	3,001	3,341	17.5%	11.3%	(6.1 ppts)
Commodity RE started	million sq m	2,012	1,796	1,545	(10.7%)	(14.0%)	(3.3 ppts)
Commodity RE UC	million sq m	6,656	7,265	7,357	9.2%	1.3%	(7.9 ppts)
Commodity RE completed	million sq m	1,014	1,075	1,000	5.9%	(6.9%)	(12.8 ppts)
Commodity RE sold	million sq m	1,306	1,206	1,285	(7.6%)	6.5%	14.1 ppts
Commodity property sold	RMB billion	8,143	7,629	8,728	(6.3%)	14.4%	20.7 ppts
Average price of property sold	RMB per sq m	6,237	6,324	6,793	1.4%	7.4%	6.0 ppts

(National Bureau of Statistics; Savills Research)

Outlook

The property market has continued to tick along in recent months. Pricing and volume growth is slowing in first and second tier cities that have been subject to new restrictions seen in recent months, though sentiment remains upbeat with pricing holding firm. Strong sales have pushed down unsold inventory levels in some second tier cities to multi-year lows encouraging developers to bid aggressively on new land plots and governments to introduce new regulations – Suzhou and Nanjing just yesterday announced regulations on land sales that would effectively penalise developers bidding too aggressively on land plots. This is in addition to the previous enforcement of a hard cap on accommodation values paid by developers, and land auctions being declared void if prices exceed these ceilings.

As land prices continue to rise, cash rich developers and those with access to credit lines are increasingly likely to look at acquiring development portfolios and partnerships with smaller local or regional developers, helping to rapidly consolidate the developer market. Local government will continue to tweak policy and experiment with new ways of influencing markets either directly or indirectly. Recent land plots in Shanghai have come with increasing conditions on the make up of the residential stock (requiring 5% for economic housing), and sales restrictions (15% held by the developer for the duration of the land tenure – 70 years). More policy intervention is expected in the coming quarters as the national and local governments look to simultaneously tame and spur on the market.

Glossary

YTD: Year-to-date

YoY: Year-on-year

MoM: Month-on-month

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