

# Is Liquidity Pressure Set to Ease for China's Real Estate Developers?

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In our view, Chinese real estate developers remain under significant liquidity pressure. A series of recent policy announcements aimed at better regulating financing and use of pre-sale funds in the industry sheds further light on the regulator's stance on maintaining long-term healthy development in the sector. These policies can help developers gain better access to refinancing to some extent, but to what extent they would alleviate overall liquidity pressure remains to be seen.

Most developers' cash flow and cash sit with their subsidiary project companies. Cash at the parent level is typically low. As of the end of June 2021, cash held at the parent level of 116 sampled developers accounted for only 16% of the overall consolidated amount.

After a series of real estate credit events in the second half of 2021, local governments strengthened supervision over project pre-sale funds so that developers would meet their obligations to ensure projects are completed. In some regions supervision was excessively tight, further squeezing certain developers' liquidity.

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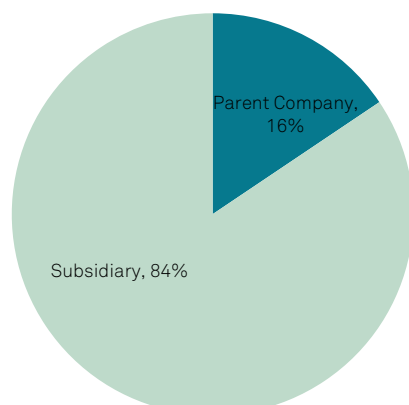
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Chart 1

### 84% of Sampled Developers' Cash Sits With Project Companies

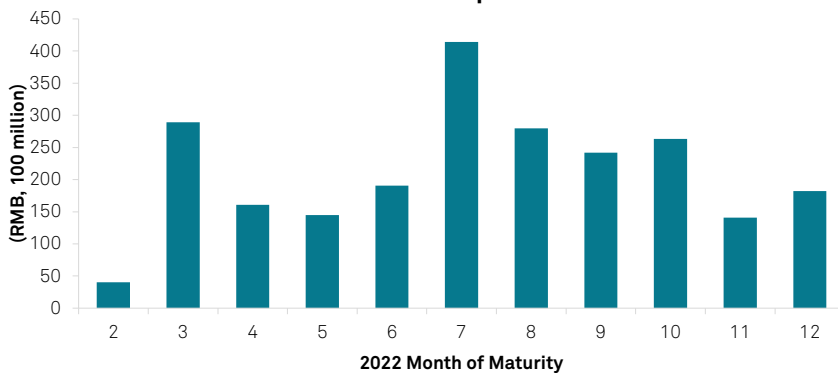


Note: Data is from 2021 interim reports for 116 real estate developers sampled by S&P Global (China) Ratings.  
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Meanwhile, 2022 leaves little room for optimism when considering upcoming debt maturities in the industry. Our analysis of public data shows that around 230 billion RMB of debt will reach maturity for 116 sampled real estate developers in 2022. March and July should be peak months for maturities, and we expect liquidity pressure to continue.

Chart 2

**Debt Maturities to Peak in March, July for Sampled Developers**



Note: Data for 116 real estate developers sampled by S&P Global (China) Ratings, calculated based on debt maturity date. Debt obligations as of February 11, 2022.  
 Source: Public information, Wind.  
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In our view, a standardized pre-sale fund supervision system rolled out on a national level would help the industry ease from excessively tight supervision of pre-sale funds. Such a system would also help developers improve allocation of funds and better cope with liquidity pressure.

At the same time, the People's Bank of China and the China Banking and Insurance Regulatory Commission recently issued a notice stating that affordable rental housing loans would be excluded from the pool of real estate loans that come under management measures. This would help boost supplies of affordable rental housing and maintain a healthy level of financing for real estate developers.

However, it remains to be seen whether these policies can alleviate industry liquidity pressure in good time. Overall real estate sales growth should remain under pressure through 2022 (for more, please refer to "[In Crisis Lies Opportunity: Credit Outlook for the Real Estate Development Industry in 2022](#)"). Under this scenario, increasing the volume of accessible pre-sale funds on their books and improving the efficiency of use of funds are both going to be very important for real estate enterprises looking to deal with liquidity pressure. How soon and to what degree such measures can be implemented may hold significant sway in determining the future direction of liquidity in the industry.

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