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S&P Global
China Ratings

Real Estate Monthly Roundup: New Policies Help Rein in Downward Trend

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Key Takeaways

We believe the adjustments in real estate policies since August have arrived just in time to prevent housing sales from declining further. Following the Politburo meeting at the end of July that highlighted the major changes in supply and demand dynamics in China's property market, a slew of measures was rolled out to adjust and optimize real estate policies, including a cut to the floor of down payment ratio on first- and second-home purchases, relaxed standards for identifying first-home mortgages across first-tier cities, and lower interest rates on existing mortgages. In our view, the implementation of such policies would unleash part of the pent-up demand from first-home buyers. September to date, new house and pre-owned home transactions in Beijing and Shanghai have increased considerably.

Nevertheless, factoring in the sluggish demand among low-tier cities and tepid sales from January to August, we anticipate such eased regulatory restrictions will play a basic role in underpinning real estate sales throughout the year but are unlikely to drive a strong market rally nationwide. Firstly, in terms of sales structure, sales in third- and fourth-tier cities, which contribute a significant portion of national residential property sales, are now dampened by insufficient first-home purchase demand, leading to mounting de-stocking pressure. Given that these cities have not been subject to restrictive house purchase policies, their property markets would see limited stimulus from the eased house purchase curbs and relaxed requirements for buyers' eligibility. Meanwhile, it is noteworthy that high-tier cities may keep siphoning demand from low-tier cities, as the softened restrictions could accelerate resource reallocation in a market-oriented way, pushing more home buyers towards high-tier cities. According to historical data, sales in first-tier, second-tier and other cities accounted for around 15%, 40% and 45% of total residential property sales, respectively. Insufficient demand among low-tier cities drags on sales rebound to a large extent.

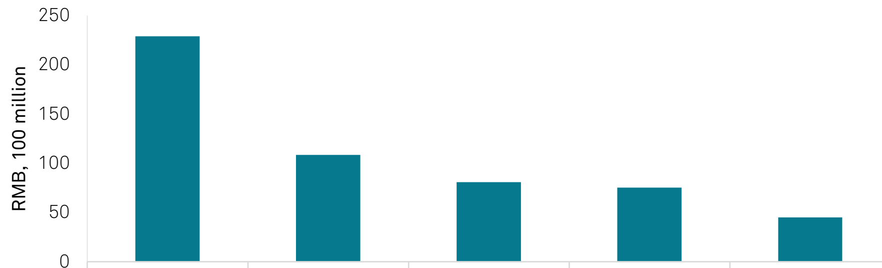
Secondly, the weak sales from January to August put a strain on the recovery of annual sales. Data show that the cumulative declines in national gross floor area ("GFA") sold and total sales haven't begun to narrow. From January to August, 739.5 million square meters of residential properties were sold, down by 7.1% YoY; total sales registered 7815.8 billion RMB, down by 3.2% YoY. In this case, we project a decrease of around 5% in annual sales of 2023 compared to 2022 should the sales in the last four months of 2023 reach the same level as in the same period of 2022; a positive growth of 5% or above could only be possible if average monthly sales hit roughly 1.5 trillion RMB for the rest of 2023, a sales scale similar as in the same period of 2021 and which we think is unlikely to materialize. Accordingly, we expect annual sales in 2023 to drop by 5% compared to 2022. However, we see low likelihood of a sharp sales decline since the sales in the fourth quarter may well post a year-on-year growth thanks to policy stimulus and a low baseline in the fourth quarter of 2022.

For real estate developers, we continue to focus on their refinancing progress and bond maturity schedules. Despite a clear regulatory stance on meeting the rational financing demand of private developers, it will take a longer time for the supportive measures to make an impact in the aftermath of a series of credit events about Country Garden, Sino-Ocean Group, and Wanda Group.

Private developers are still facing severe conditions in terms of external financing. In particular, amid persistently stringent supervision on the use of pre-sale funds, the portion of funds that developers can use at their discretion may be much smaller than the amount of cash reported on their financial statements. Chart 1 shows major private developers' outstanding bonds with a maturity of one year or below and maturity schedules by month.

Chart 1

Major Private Developers' Outstanding Bonds Maturing within One Year



	Gemdale Group	Longfor Group	Binjiang Real Estate	Seazen Group	Midea Real Estate Holding
Total Value of Matured Bonds	229	108	81	75	45
2023-10	30		9		
2023-11	20	1		19	
2024-01	23	27			
2024-02		20	10		20
2024-03	61	10	18		
2024-04	25		6	2	
2024-05	20	15		17	10
2024-06	15		6		
2024-07		15	15		
2024-08	35	20	16	37	5
2024-09					10

Note: Data as of September 20, 2023. Total outstanding bonds include major issuers' onshore and offshore bonds with a maturity of one year or below; US dollar-denominated bonds are converted to RMB-denominated ones using the spot exchange rate; the maturity of option-embedded bonds is the next exercise date.
Source: Wind, S&P Global (China) Ratings.

Compared to external financing, payment collection of sales plays a more critical role in helping private developers weather the current difficulties. In our view, the ongoing market trend and policy focuses should benefit developers with land reserves concentrated in high-tier cities. Sales may further diverge as the quality of land banks differentiates. The policy tailwinds could only bring a limited boost to the sales of developers with low-tier-city-centered land reserves.

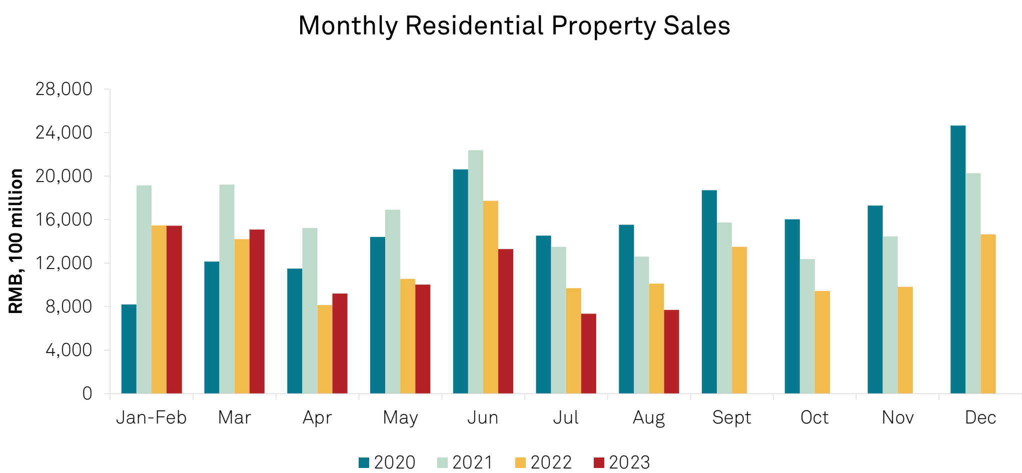
Residential Property Sales in September

Sluggish residential property sales persist across the nation, policy impact remains to be seen. In August, GFA sold was 73.86 million square meters and total sales came to 770.8 billion RMB, up by 4.8% and 4.7% MoM and down by 12.2% and 16.4% YoY (baseline adjusted), respectively. The cumulative declines in GFA sold and total sales continue to widen on a yearly basis. From January to August, GFA sold dropped by 7.1% YoY to 739.5 million square meters; total sales decreased by 3.2% YoY to 7815.8 billion RMB. By region, the growth of sales in East China turned negative YoY, while sales decline in Middle and West China narrowed. From January to August, sales in East China recorded a decrease of 0.7% YoY, compared to a growth of 3.0% from January to July; sales in Middle and West China shrank by 8.9% and 4.5%, respectively, 0.6 and 1.9 percentage points narrower compared to the previous month.

"Weak new starts, strong completion" continues, sell-through cycle exceeds previous peak. From January to August, GFA of new starts slumped 24.4% YoY to 638.91 million square meters. GFA completed surged 19.2% YoY to 437.26 million square meters. GFA under construction dropped by 7.1% YoY to 8.06 billion square meters. The sell-through cycle has slightly surpassed the previous high in early 2015. We expect the current sell-through cycle to hit the peak as sales stabilize along with eased policies.

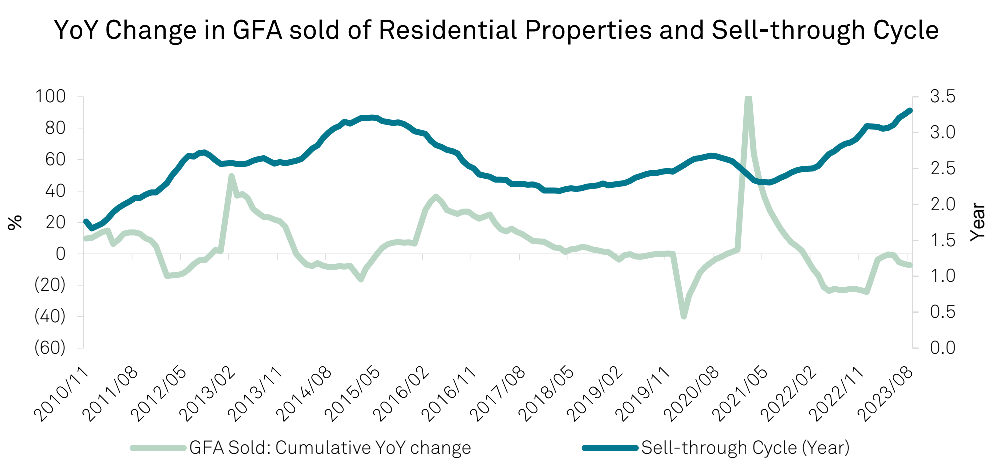
Developers' sales performance continued to weaken in August, market sentiment stays on hold after policy adjustments. According to CRIC Research, contracted sales of the top 100 developers came to 343 billion RMB in August, representing a decrease of 1.3% MoM and a plunge of 33.9% YoY; cumulative sales from January to August dropped by 8.5% YoY. More than 70% of the top 100 developers saw decreased sales in August compared to a year earlier, and around half of them suffered both month-on-month and year-on-year shrinkages in sales. Several developers achieved month-on-month growth in sales, including China Overseas Land & Investment, CR Land, C&D Group, Longfor Group, Gemdale Group, Yuexiu Group, Dahua Group and ITG Holding.

Chart 2



Note: Baseline for historical monthly sales is unadjusted.
Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings.

Chart 3



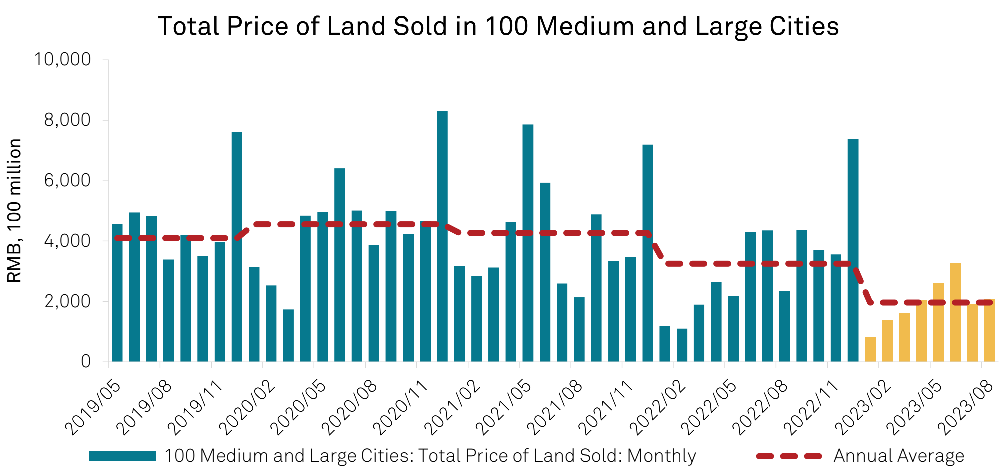
Note: Inventory (t) = Monthly GFA of New Starts (t) *0.9 - Monthly GFA Sold (t) + Inventory (t-1), assuming inventory in Feb 1999 is 0. Sell-through Cycle = Monthly Inventory/Total GFA Sold in the Past 12 Months.
Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings.

Overview of Land Market

The total price of land transactions hovers at a low level, land auction heat subsides. In August, the total price of land transactions among 100 medium and large cities increased by 10.3% MoM, while the cumulative total value of land sales from January to August fell by 21.5% YoY. Beijing, Shanghai, Shenzhen, Hangzhou, Chengdu, and many other cities have launched centralized land auctions. Land markets in Beijing and Shanghai remain heated, while land biddings in core second-tier cities such as Hangzhou, Chengdu and Xi'an cool down remarkably, with land price premium moving down further across the nation. In some second-tier cities, land parcels with moderate quality often ended up unsold, as showed by numerous pass-in and withdrawal cases at land auctions in Chengdu, Jinan, Zhengzhou, and Nanchang. In August, the national premium rate of land transactions hit 3.4%, 1.2 percentage points lower than in July.

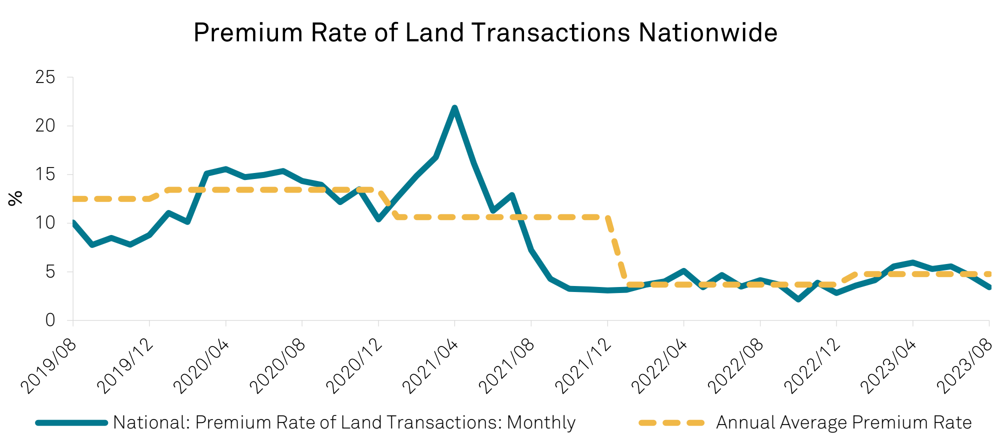
Developers' confidence in investing stays low, land acquisition performance varies significantly. According to CRIC Research, land acquisition-to-sales ratio for the top 100 developers from January to August reached as low as 18%, compared to 25% for the top 10 developers. More than 80% of new land parcels were acquired by the top 20 developers, marking a clear movement of land resources towards leading developers. 2023 to date, developers have zoomed in on high-tier cities for land acquisitions, with average land price per sqm of GFA for new land banks maintaining at a high level among mainstream developers.

Chart 4



Source: Wind, S&P Global (China) Ratings.

Chart 5

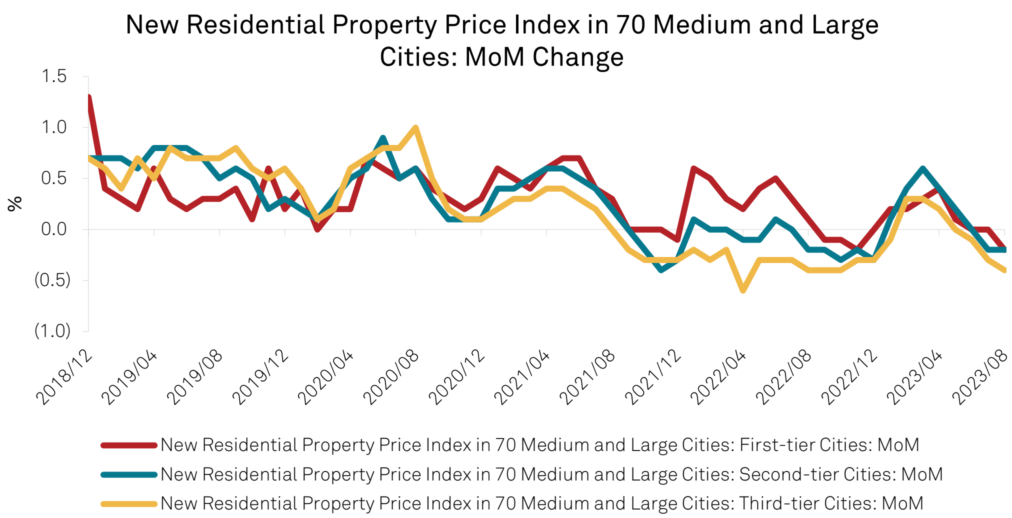


Source: Wind, S&P Global (China) Ratings.

Sales Price of Residential Properties

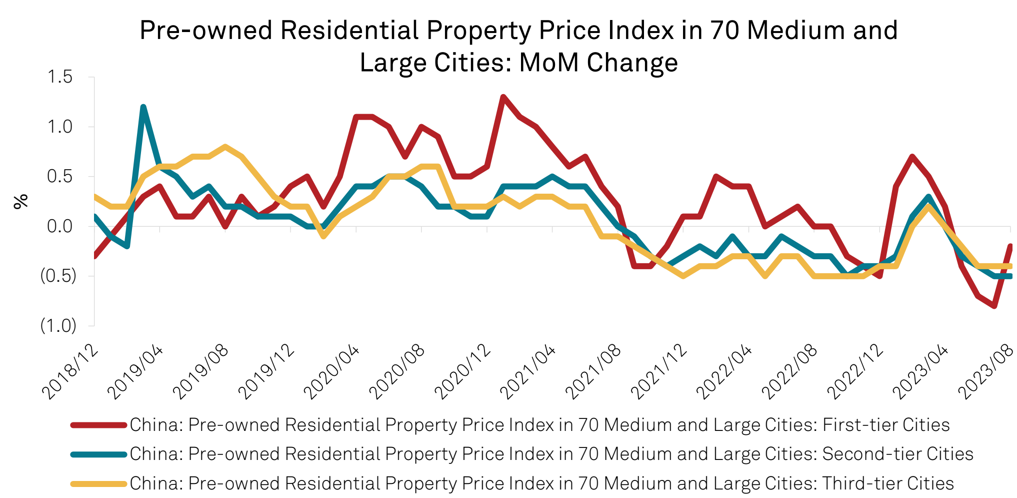
New residential property prices keep falling, secondary housing markets in first-tier cities see inflection point. In August, the price index of new residential properties in 70 medium and large cities dipped by 0.3% MoM, 0.1 percentage point wider compared to the previous month; the price index of new residential properties in first-, second-, and third-tier cities dropped by 0.2%, 0.2% and 0.4%, respectively. Cities with month-on-month price increases reduced to 17 from 20 in July, and new residential property price indexes in more than 70% of cities declined MoM. For secondary housing markets, prices of pre-owned homes in first-tier cities are most sensitive to policy adjustments, while secondary housing prices in second-tier and third-tier cities show signs of bottoming. In August, the price index of pre-owned residential properties in 70 medium and large cities decreased by 0.5% MoM. In particular, first-tier cities saw a dip of 0.2% in the index, 0.6 percentage point narrower than in the previous month, and the price indexes in second-tier and third-tier cities recorded decreases of 0.5% and 0.4%, respectively, similar to the level of decline in July.

Chart 6



Source: Wind, S&P Global (China) Ratings.

Chart 7



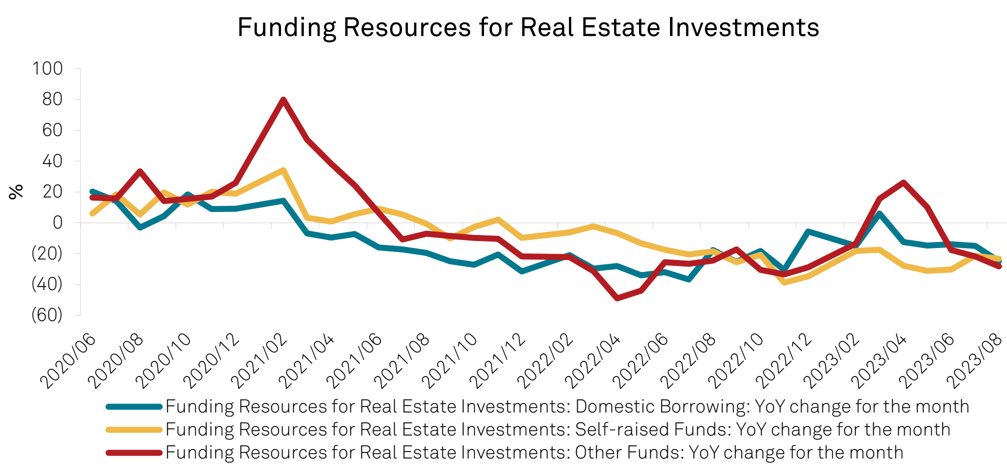
Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings.

Financing of Property Developers

Lackluster sales weaken funding sources for property development, insufficient motivation for replenishing self-raised funds. From January to August, real estate developers received 8711.6 billion RMB, down by 12.9% YoY, 1.7 percentage points wider than in July. Months of discouraging sales squeeze the sources of funds. Deposits and prepayments, and mortgage loans were down by 7.3% and 4.3%, respectively, 3.5 and 3.3 percentage points wider compared to the previous month. Domestic borrowing and self-raised funds fell by 12.8% and 22.9%, respectively. Due to the wave of credit incidents among private developers, the volume of self-raised funds has slid by over 20% for four consecutive months.

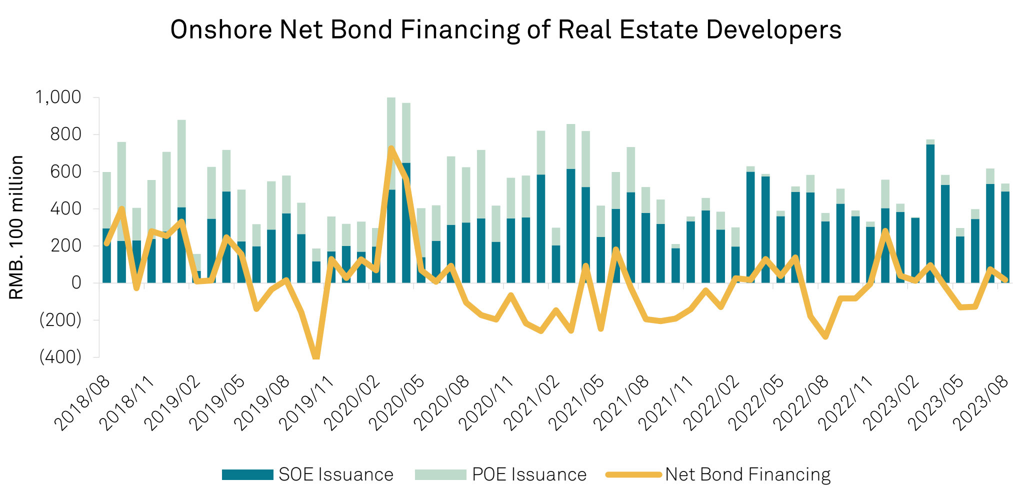
Onshore bond issuance and net financing scale edge down, financing policies targeting private developers are yet to make an impact. In August, Midea Real Estate Holding and Binjiang Real Estate raised a total of 1.6 billion RMB through bond issuance. Longfor Group, Radiance Group and China SCE Group received 2.6 billion RMB in total through issuing MTNs, which are secured by the guarantee of China Bond Insurance Corporation.

Chart 8



Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings.

Chart 9



Note: Industries and enterprise types are classified based on WIND Classification
Source: Wind, S&P Global (China) Ratings.

Recent Policies

The tone-setting Politburo meeting in late July stressed the major changes in the supply and demand dynamics in the property market, and Chinese leadership pledged to adjust and optimize real estate policies in a timely manner to suit new situations. In response to this top-level guidance, a series of new policies were issued by the central government this month, followed by specific measures at the local level. The four first-tier cities – Beijing, Shanghai, Guangzhou and Shenzhen – have all relaxed standards for identifying first-home buyers. Numerous second-tier and third-tier cities have followed the lead to roll out their own policies. We expect increasing market activities in the real estate sector with continued policy support.

— On August 18, in a press conference on the theme of reinvigorating the capital market and boosting investors' confidence, a senior official at the China Securities Regulatory Commission ("CSRC") said that more measures will be introduced to stabilize market expectation and confidence and to meet the major changes in the supply and demand dynamics in the real estate sector. The CSRC will make consistent efforts to facilitate the steady and healthy development of the property market by ensuring the effective implementation of relevant regulations and measures in the capital market. Real estate developers' access to equity and bond financing channels should remain stable so that their reasonable funding demand can be met. Company-specific policies will be provided to resolve bond default risks among large developers.

— On August 25, the Ministry of Housing and Urban-Rural Development ("MOHURD"), the People's Bank of China ("PBOC") and the National Administration of Financial Regulation ("NAFR") jointly issued the Notice on Optimizing the Standards for Identifying the Number of Housing Units in Connection with Personal Mortgage Loans ("the Notice"). The Notice is aimed at promoting the implementation of a new policy that broadens the definition of first-home mortgages. Under the new rules, a household whose family members do not own a property in a certain city is eligible for credit policies for first-time homebuyers in that city, regardless of its previous mortgage record. On August 30, the local governments of Guangzhou and Shenzhen announced their eased policies accordingly; on September 1, Beijing and Shanghai adopted the relaxed criteria for identifying first-time homebuyers.

— On August 25, the Ministry of Finance ("MOF"), the State Taxation Administration ("STA") and MOHURD issued the Announcement on Extending the Individual Income Tax Policy in Connection with Residential Property Replacement, according to which the relevant tax benefits will be extended until the end of 2025. Specifically, any individual taxpayer who purchases a new residential property within one year of the sale of their previous property is eligible for a rebate of individual income tax paid on the sale of the old property.

— On August 27, the CSRC issued a notice on promoting a balanced development of primary and secondary markets and the supervisory arrangements for IPOs and refinancing activities. Details of the notice include a temporary slowdown in IPO approval in a bid to encourage balanced growth on both investing and financing sides; and differentiated treatments for listed companies with refinancing needs. The restrictions on the interval and scale of refinancing will be tighter for listed companies whose current market prices are lower than their issue prices or net asset value per share, or suffering consistent operating losses or with a relatively large proportion of financial investments. However, listed real estate developers are not subject to the restrictions relating to market prices and operating losses.

— On August 31, the PBOC and NAFR jointly issued Notice on Adjusting and Optimizing Differentiated Housing Credit Policies and Notice on Matters Concerning Lowering the Interest Rates on Exiting First-Home Mortgage Loans. Detailed measures include that the floor of the down payment ratio for residential mortgages will be unified as not less than 20 percent for first-home buyers and as not less than 30 percent for second-home buyers. The floor of the first-home mortgage rate remains at the current level in accordance with existing rules, while the floor of the second-home mortgage rate is adjusted to be not less than the loan prime rate in the corresponding period plus 20 basis points. Starting from September 25, 2023, borrowers with existing mortgages can apply for new mortgage loans to replace the previous ones, and the interest rate for a new mortgage loan shall be determined through negotiation between the borrower and the lending bank. However, the adjusted interest rate shall not be lower than the floor of the first-home mortgage rate when the original mortgage loan was issued in the same city.

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