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S&P Global
China Ratings

Real Estate Monthly Roundup: Confidence Yet to Be Rebuilt

June 5, 2023

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Key Takeaways

The sales, price and financing indicators in April show that the real estate industry is under recovery and adjustment. The endogenous momentum of recovery has turned weak after the release of pent-up demand from January to March. The recovery is mainly reflected on the sales side, while newly launched projects and land investments remain sluggish due to high inventory, funding pressure and lack of confidence.

The sales from January to April are better than we expected at the beginning of the year, but we maintain our outlook for a weak recovery in the industry in 2023 since the foundation of the recovery is not solid due to three reasons. Firstly, the macro policy stance of "houses are for living in, not speculation" and "support people in buying their first homes or improving their housing situation" has not changed, and the focus is still on "ensuring timely deliveries of presold homes". Secondly, the sales rebound in the first quarter reflected the release of pent-up demand, while the weak sales in April indicate that the industry's endogenous demand is still unexciting. The sales from January to April are mainly supported by price increases. However, the 70-city price index shows most cities are in the recovery, with few first and second-tier core cities seeing year-on-year price increases. Meanwhile, the sold area did not improve significantly despite the historically low base in April last year, indicating that overall market confidence is still to be restored. Thirdly, we believe that the lack of demand is hindering industry recovery, while the rebound of demand depends on economic growth, per capita income and the improvement of residents' expectations for the future, and these underlying factors would take longer to recover.

We believe the credit quality of property developers depends on the size and quality of land reserves, as well as the refinancing ability. Cities in different tiers have seen greater differentiation on the way to recovery. We have more confidence in the property developers that focus on high-tier cities and have sufficient access to external refinancing, mainly the leading SOEs and a few high-quality private developers. These companies not only have better sales performance but also have sufficient funding sources to support their land acquisition in core cities and consolidate their advantages in land banks. Meanwhile, the developers focus on lower-tier cities would face greater challenges of sales and payment collections, limiting their land acquisitions.

Despite the overall coldness, some hot cities are still seeing a prosperous land market, demonstrating that companies prefer to invest their limited funds in core cities where demand is more stable. We expect developers with weak sales and limited access to refinancing may miss the opportunity to replenish their inventory in hot cities due to funding pressure, making the gap in the quality of land banks among different developers further widen.

In our opinion, it is clear that the policy would continue to focus on the transformation of the industry and it is unlikely to see a sudden deluge of funding activity. Property developers are hard to find sufficient external sources of financing. At the same time, the SOEs and private companies would see great differentiation in their financing capacity, and the financing support would not benefit all developers. We expect those with limited sources of refinancing and poor sales performance to face liquidity pressure.

Residential Property Sales in April

In April, the recovery momentum of residential property turned weak on a national scale, with sales falling back significantly from the previous month, even though the cumulative year-on-year growth expanded from a low base of last year. It is becoming clearer that the rising average price is driving sales rebound and this round of recovery is mainly supported by high-tier cities.

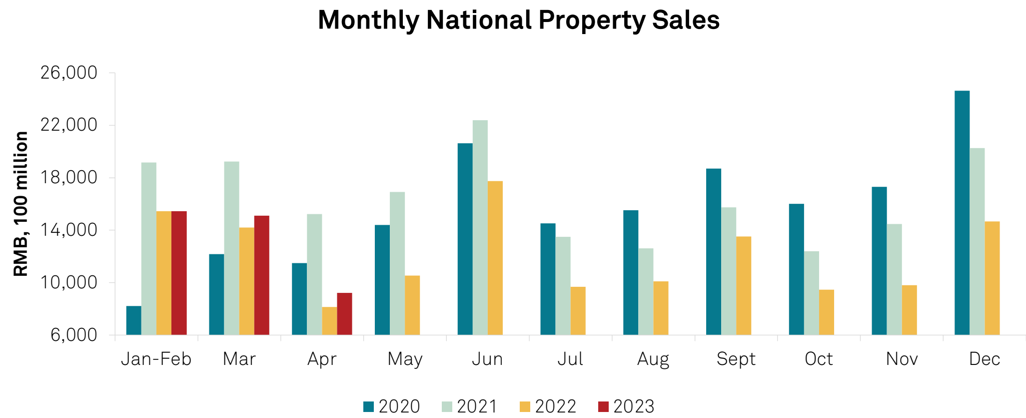
The sold area of residential properties in April was 76.9 million square meters, with sales of 920.5 billion RMB, down 48% and 39% MoM respectively. From January to April, the sold area of residential properties was 376.36 million square meters, down 0.4% YoY, with sales of 3,975.0 billion RMB, an increase of 8.8% from last year.

The average price of residential properties was approximately 10,562 RMB/sqm in January-April, up 7.6% from December 2022. The inventory cycle maintains a high level in the process of weak recovery, and the current market is still dominated by selling off the inventory.

While the floorspace of newly launched projects remains sluggish, the completed floorspace keeps high growth under the impetus of "ensuring timely deliveries of presold homes”. From January to April, the area of newly launched projects reached 312.20 million square meters, down 21.2% YoY with the rate of decline expanding by 2.0 ppts. The completed area was 236.78 million square meters, and the YoY growth rose 4.1 ppts to 18.8%. The floorspace of projects under construction was 7,712.71 million square meters, down 5.6% YoY.

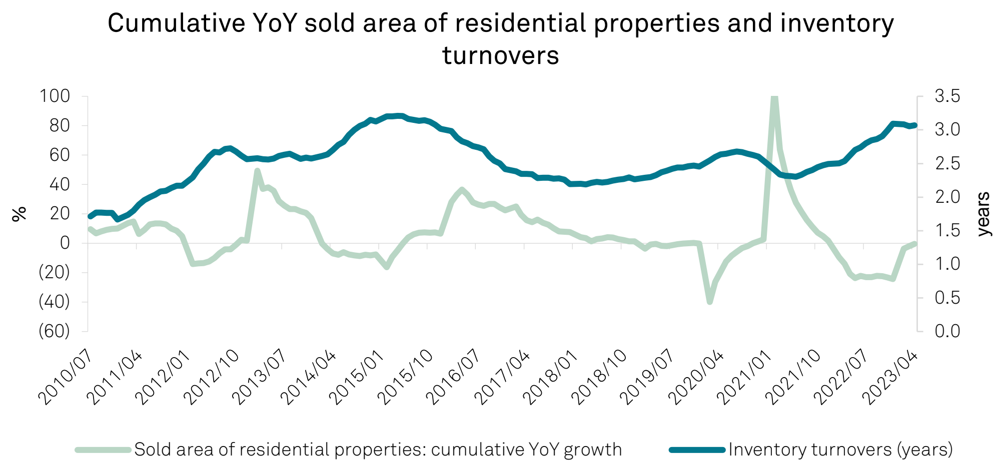
According to CRIC Research, the Top 100 developers’ contract sales of 566.5 billion RMB in April, a decrease of 14.4% MoM but an increase of 31.6% YoY. The cumulative sales growth of the Top 100 developers increased from 3.1% to 9.7% from January to April. In April, among the 30 core cities in China, the sold area in first-tier cities fell slightly, and second-and third-tier cities fell by about 30% on a year-on-year basis. The sales performance of developers is in line with the macro data, as the MoM decline indicates that the foundation of recovery is not solid, mainly constrained by weak demand in lower-tier cities.

Chart 1



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

Chart 2



Note: Nationwide Inventory Turnovers = Monthly Inventory/Total Sold Area in the Past 12 Months. Inventory (t) = Monthly Newly Constructed Area (t) *0.9 - Monthly Real Estate Sold Area (t) + Inventory (t-1), assuming inventory in Feb 1999 is 0.
Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings

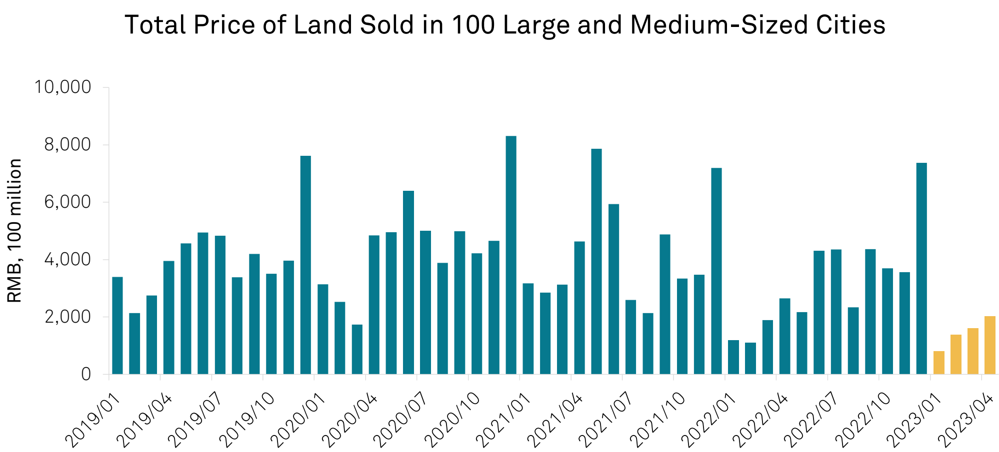
Overview of Land Market

The total price of land acquisitions remained low, but land auctions drove the market to pick up in core cities. In April, the total price of land transactions in 100 major cities dropped by 24% YoY, with a cumulative decline of 15% YoY from January to April.

Some core cities conducted land auctions, including Shanghai, Guangzhou, Hangzhou, Chengdu and Hefei, with property developers bidding fiercely, driving up the market sentiment. In Shanghai, 80% of the plots saw bids exceeding the price ceiling, triggering the one-time offer system. In Hangzhou, nearly 70% of the plots were sold by lottery drawing, while 80% of the plots offers in Chengdu touched the premium ceiling. Driving by these cities, the nationwide premium rate of land sold was 5.9% in April, maintaining a slight improvement trend from 2022, and the number of failed auctions remained at a very low level.

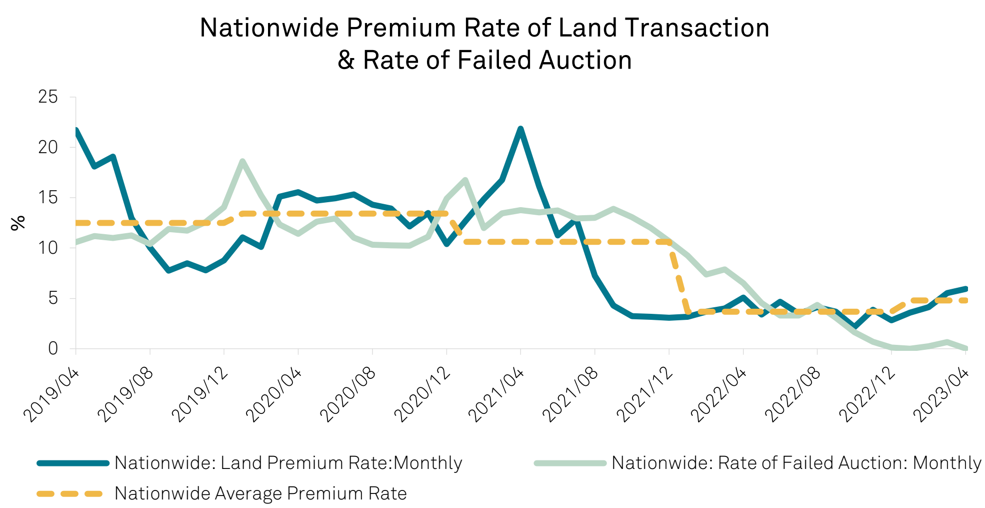
Property developers are cautious in land acquisition in general, with central and local SOEs still being the main buyers of land. According to CRIC Research, the saleable value, total price and total construction area of the Top 100 developers declined by 14%, 1% and 18% YoY, respectively, as of the end of April. While the sales have resumed growth, the saleable value is declining, indicating developers still lack the motivation and capacity to acquire land under the pressure of inventory and funding.

Chart 3



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

Chart 4



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

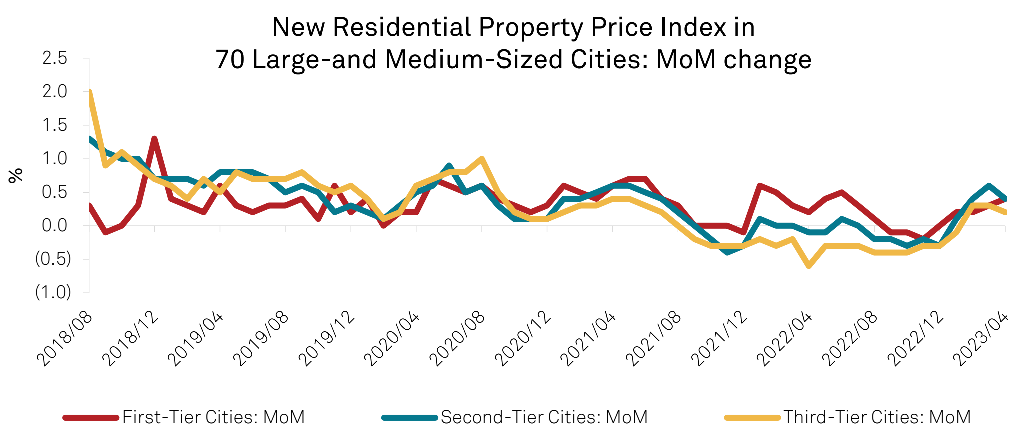
Sales Price of Residential Properties

The overall growth of new residential property prices slowed down from last month in 70 large-and medium-sized cities, with nearly 70% of the cities remaining on the downtrend on a YoY basis. The slow recovery of prices has reflected the driving force of sales is turning weak.

In April, the MoM growth of new residential property prices dropped 0.1 ppts to 0.3%. While the first-tier cities increased by 0.4% MoM, the second-and third-tier cities grew by 0.4% and 0.2%, narrowing 0.2 ppts and 0.1 ppts MoM, respectively. On a YoY basis, the price index declined from 1.4% last month to 0.7% overall. While 22 cities saw price increases (4 cities more than last month), the price index of 48 cities fell from last year, seeing a slow process of price recovery.

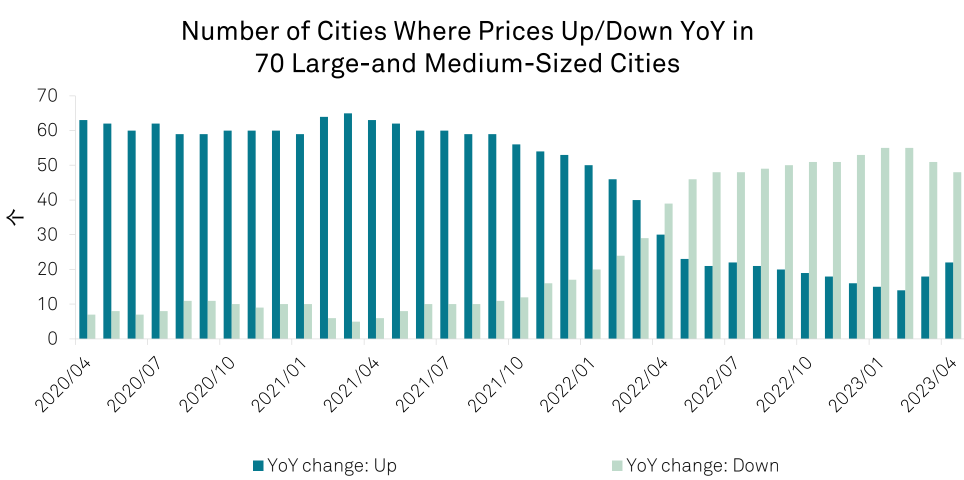
Residential property prices are mainly supported by core cities, and the price growth has slowed down or even declined from last month in more than half of the second-and third-tier cities, demonstrating the lack of "supportive factors" for price rebounds. In April, 1 first-tier city, 20 second-tier cities and 16 third-tier cities saw slowed MoM growth of new residential property prices, while the price index dropped in 1 second-tier and 6 third-tier cities on a MoM basis.

Chart 5



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

Chart 6



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

Financing of Property Developers

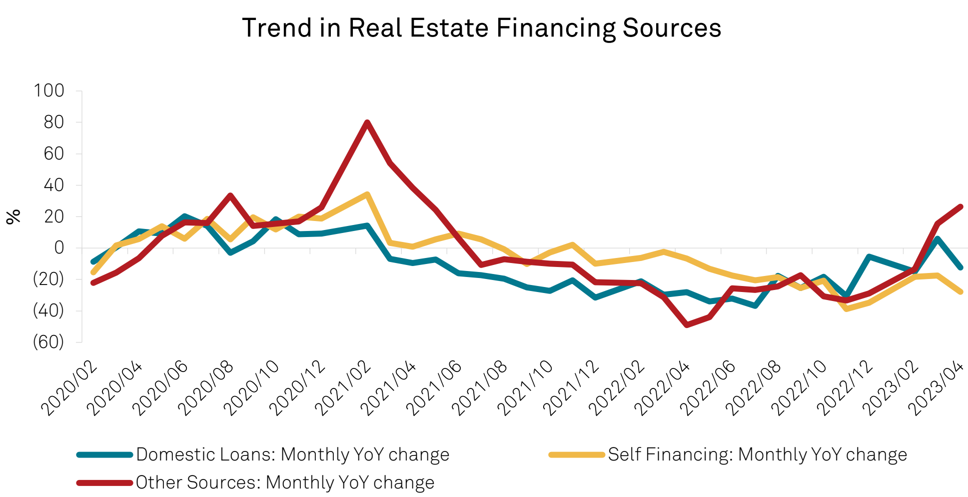
Property developers see a narrowed rate of decline in financing sources, with the most significant improvement in advance payments and residential mortgage loans.

From January to April, property developers received 4,515.5 billion RMB, down 6.4% YoY, narrowing 2.6 ppts from January to March. Sales rebound is the main factor boosting financing. Deposits and advance payments and individual mortgage loans turned to grow by 4.0% and 2.5%, respectively. However, domestic loans and self-financing amounts declined by 10.0% and 19.4% respectively, widening by 0.4 and 1.5 ppts respectively from January to March. Due to the weak financing in the bond market, the decline of the self-financing amount further expanded, without any signal of recovery so far.

The net financing of domestic bonds turned negative slightly, and private developers still have limited access to financing. In April, bond issuance fell back by 30% from March, most of which were issued by SOEs. In terms of private developers, Midea Real Estate issued MTN of 1 billion RMB, guaranteed by China Bond Insurance; both Vanke and Binjiang Real Estate issued bonds independently; and New Hope Real Estate issued ABN.

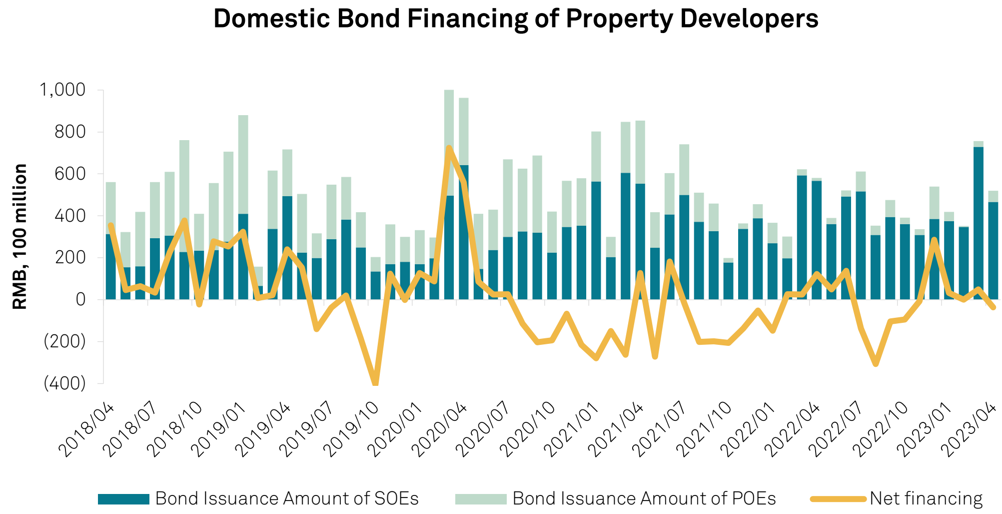
In December 2022, the bond issuance of private developers rallied for a short time under the guarantee of China Bond Insurance. But entering 2023, bond financing is slowing down, indicating that most private developers are still incapable of refinancing independently without external support. Meanwhile, the issuance activities of China USD bonds are still largely frozen.

Chart 7



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

Chart 8



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

Recent Policies

The industry policies launched recently keep consistent with the general direction of "houses are for living in, not speculation", “adopt city-specific measures” and "support people in buying their first homes or improving their housing situation", emphasizing the need to effectively mitigate the risks of leading property developers and "ensuring timely deliveries of presold homes" to promote the transformation and development of the industry.

— On April 4, National Development and Reform Commission issued a notice on infrastructure REITs to clarify six requirements applicable to REITs projects, covering project preparation, issuance conditions, efficiency improvements, the role of experts and professional institutions, the use of collected funds to promote investments, as well as operations and management.

— On April 7, the Monetary Policy Committee of the People's Bank of China held its regular meeting in the first quarter of 2023. It stated the domestic economy showed recovery, but the foundation was not solid; For the real estate industry, efforts should be made to effectively mitigate the risk of leading developers, improve the balance sheet, ensure timely deliveries of presold homes, people's well-being and stability, support people in buying their first homes or improving their housing situation by adopting city-specific measures, accelerate the improvement of financial policy system for housing leasing, and promote the smooth transition of the industry to a new development model.

— On April 25, the Minister of Natural Resources announced that after ten years of unremitting efforts, China had finally established a uniform registration system for real estate. From urban houses to rural homesteads, from real estate to natural resources, the system covers all land space nationwide and all real estate property rights.

— On April 28, the Political Bureau of the CPC Central Committee stated that the economy and society had fully resumed normal operation, as the pressure of contracted demand, supply volatility and weak expectation was easing, and the economic growth was better than expected. It pointed out, however, the economy remains in the process of recovery, given weak endogenous power and sluggish demand. In terms of the real estate industry, it said that the policies should adhere to the principle that houses are for living and not for speculation, support people in buying their first homes or improving their housing situation by adopting city-specific measures, and ensure timely deliveries of presold homes, people's wellbeing and stability. According to the meeting, policies would promote the stable and healthy development of the real estate market and accelerate the establishment of a new development model for the industry. In megacities, policies would be made to renovate urban villages and construct public infrastructures that can be used for both normal and emergency purposes. In addition, government-subsidized housing should be well-planned and constructed.

This report does not constitute a rating action.