

# China Property Sector

## Will the newly-released demand hold on?

Both primary and secondary market reacted strongly to the new policy (认房不认贷) during the weekend. Project visitors and transactions for new home in BJ & SH showed a rally, and 2<sup>nd</sup>-hand house listing volume was boosted by cash-out demand and sell-to-buy demand. We think it is hard for newly-released demand to hold on and it might be able to support the new home recovery for 1-3 months in our view as part of the demand is relying on the transaction of existing market and is likely to be curbed by 2<sup>nd</sup>-hand housing price which will keep under pressure in our view due to the reason we illustrated below. However, we saw regulators' determination to stabilize the property market through the new policy and we may expect more easing policies before the end of the year if the sales continue to weaken. For stocks, we continue to like brokerage: BEKE, PM:CR MixC, COPH, Poly Services, Onewo, Yuexiu Services. Developers: CR Land, Yuexiu Property.

- **Who are benefiting?** As shown in [table](#) on P.2, the new policy (认房不认贷) in tier-1 cities releases the purchasing demand from people who used to own one house but already been sold (D1) and people who own one and only one house that wish to replace the existing one with new one (D2). These two kinds of buyers are now being treated as the first time buyer and enjoy lower down-payment ratio and mortgage rate.
- **How the market reacts?** According to our channel check, **for new home market**, both project visitor flow and transaction sizzled in BJ and SH during the past weekend, while SZ and GZ saw little change due to typhoon. In tier-2 cities, Tianjin and Changsha saw active transaction after their follow-up policies, other cities saw little change. **For secondary market**, more listings are coming from cash-out demand and sell-to-buy demand (D2). In districts where home price fell less before the policy, some owners re-list their houses when their neighbours lift price after the easing policy. Cash-out demand is higher than sell-to-buy demand in these districts. In districts with larger price decline, cash-out demand is less as the price still results in losses for home owners.
- **What is next?** Considering the background that residents' income expectations have not yet recovered, delivery quality of new home is still an issue that being often mentioned in the news, and many developers are still struggling on the edge of default. **We think the effect from new policy may be limited as** shown in [Figure 2](#): **1)** there is certain amount of D1 and is likely to boost new home sales for 1-2 months in our view. **2)** D2 for new home will be gradually released from existing home transaction and the amount will be in a downward trend as **2<sup>nd</sup>-hand housing price will remain under pressure given 1)** owners with cash-out needs may eventually lower their prices as the listing volume is increasing and it is a good window to leave the market, **2)** owners with sell-to-buy needs may cut price to sell the old one quicker. The price cut may boost existing home transaction in short term but will soon stimulate "watch-and-see" sentiment in buyers and delay their purchase decisions, and thus the lower transaction leads to less D2. As such, we think the new policy may support the recovery of new home sales for 1-3 months. Through the policy, **we see the determination of regulators to stabilize the property market and hence we expect more easing policies before the end of the year if the demand cannot sustain.**

**OUTPERFORM**  
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### China Property Sector

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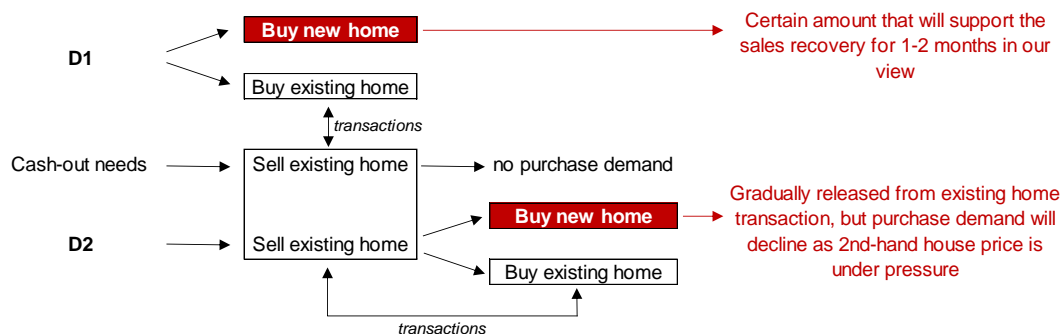
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**Figure 1: Newly-released demand from the new policy (认房不认贷)**

Status	Before the new policy	After the new policy
D1 Owned 1 house and sold with mortgage record	2nd time buyer	qualified as 1st time buyer
D2 Owns 1 and only 1 house with mortgage record	2nd time buyer	qualified as 1st time buyer after sold the existing one

Source: Company data, CMBIGM

**Figure 2: Newly policy may have limited effect in our view**



Source: CMBIGM

**Figure 3: New home sales in 30 major cities went up 13% WoW as of 3 Sep**



Source: CMBIGM

**Figure 4: Secondary home sales in 8 cities went down 8% WoW as of 3 Sep**



Source: CMBIGM

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