

Property

Will RMB 300bn re-lending facility be a turning point?

A number of relaxation policies have been introduced including PBOC's announcement of a RMB 300bn re-lending facility for banks to support de-stocking. The market has showed strong and positive reactions to recent policy initiatives and we presented the potential reasons and investor's feedback in the concluding paragraph. Overall, we anticipate that there may be instances of **profit-taking in the short term**, given that the sector has been in an upward trend for c.1 month without improvements in the underlying fundamentals and the announcement of RMB 300bn re-lending facility is below the market's previous expectation of RMB 1tn. Nonetheless, **from a medium to long-term perspective**, we foresee a continuous recovery in the sector's performance. This optimism stems from the positive pivot in top-level policy discourse, specifically the initial mention of inventory reduction after 2016. We are confident that, despite the current difficulties associated with the implementation of supporting policies, additional measures will be rolled out to fulfil the objective of inventory reduction, thereby engendering a constructive transformation in the industry's fundamentals. Considering that the sector's valuation remains at a relatively low ebb, **we advise investors to buy the dip**. For stocks, we prefer PM companies like CR MixC, Poly Services and Onowo, property agent BEKE, and PJM company Greentown Mgmt. For developers, we recommend CR Land with long-term value.

■ What is new?

1) [PBOC announced to reduce 5 ppt of the downpayment ratio](#) for the purchase of first and second homes to historical low of 15% and 25% from the previous 20% and 30%, respectively. The lower limit on mortgage rate has been abolished and the interest rate for housing provident fund loans has been reduced by 25 bps. **We think** this will marginally boost property sales, but the extent of the enhancement is likely to be less pronounced than those observed during prior downturns given the unchanged long-term expectations: continuous population decline and the fact that housing inventory remains high and the downward trend in housing prices is challenging to reverse.

2) [PBOC also announced RMB 300bn re-lending program for 21 banks](#) (with interest rate of 1.75%) to support local state-owned enterprises (SOEs) in purchasing completed but unsold housing as affordable housing. It is expected to stimulate RMB 500bn in bank loan. **We think** the program faces several hurdles (details in next paragraph) that could impede its successful implementation. It is crucial to monitor if forthcoming regulations will address these challenges. However, in the long term, this marks a commendable initial step, clearly reflecting the regulatory body's resolve to address the industry's fundamental concerns. With the shift of top-level policy direction ([report](#)), we are confident that a continuous stream of supplementary policies will be introduced to assist existing policies in achieving the inventory reduction goals

■ What are the challenges on RMB 300bn re-lending program?

1) **From the perspective of banks**, these types of loans essentially represent financing secured by unsold residential properties and could have been applied before, but were not issued much for well-known reasons. With the new re-lending facility, a bank, if having issued RMB 10bn loans to a local SOE to purchase unsold houses for converting into affordable housing, now they can seek a RMB 6bn (allowing 60% principle to be refinanced) refinancing from the PBOC at a rate of 1.75%. It seems

OUTPERFORM
(Maintain)

China Property Sector

Miao ZHANG

(852) 3761 8910

zhangmiao@cmbi.com.hk

Bella LI

(852) 3757 6202

bellali@cmbi.com.hk

Related Reports

1. [Weekly highlight: Holiday sales update and takeaway from channel check in Beijing](#)
2. [Weekly highlight: hope +ve policy tone and better trading sentiment to help fundamental recovery](#)
3. [Weekly highlight: +ve progress on policy implementation, no remarkable recovery on sales](#)
4. [Property - NBS 1Q24: weakness was well expected, expecting more financing-side policies](#)
5. [Weekly highlight: WoW sales recovery interrupted by public holiday; further observation is needed](#)
6. [Weekly highlight: Strong WoW recovery at Mar end, policy relaxation continued](#)
7. [New Hope Services \(3658 HK\) - 12% dividend yield with cash balance > mkt cap: Maintain BUY](#)
8. [Weekly highlight: Tier-1 cities showed WoW recovery, YoY decline remains deep](#)
9. [Greentown Management \(9979 HK\) - FY23 results in-line: >30% NP and 100% pay-out](#)
10. [2M24 NBS data: Piling up inventory with poor sales, hope lies in Mar](#)

like a strong incentive but it is important to highlight that PBOC also emphasized that banks should make lending decisions autonomously, adhering to principles of risk self-assumption and commercial viability. Are banks willing to take more risks? We think it is unlikely, unless supplementary clauses or exemption mechanisms are in place. We would like to highlight that PBOC launched RMB 100bn of Rental Housing Loan support program at the beginning of 2023, while only RMB 2bn has been utilized as of end of Mar 2024.

2) From the perspective of local SOEs involved in the acquisition of unsold homes: i) Assume local SOE "A" is interested in acquiring a certain residential community for affordable housing. ii) When applying for affordable housing loans, question arises: how to finalize the purchase price, how to evaluate the property's worth, and how to determine the LTV ratio? iii) Assume the loan is successfully obtained at LTV ratio of 50%, question arises: the enterprise must self-fund the remaining 50% of the purchase price, as banks are unlikely to provide full financing. iv) Assume the enterprise successfully acquires the community, question arises: is there sufficient (rent/buying) demand for affordable housing, and what implications will the acquisition price have for the valuation of neighbouring properties? How will the original property owners within the community reflect to the acquisition? In summary, many obstacles are yet to overcome.

■ **Why market reacted so positively to recent policy measures and what is the feedback of investors?**

1) Fear of Missing Out (FOMO): Some investors who missed out on the upswing that commenced on 16 April displayed higher willingness to purchase some to avoid further missing out on potential rallies.

2) Positive policy outlook and anticipation of further support: Certain investors perceive the mention of "de-stocking" at the politburo meeting on 30 April as a signal of a paradigm shift in the upper echelons' stance in the industry. Even if the current proactive policies do not yield immediate results, it is anticipated that persistent efforts will be directed towards addressing inventory issues until tangible outcome is achieved.

3) Limited alternatives. Some investors believe that there are limited attractive investment opportunities in other sectors, making the property sector a comparatively more appealing option. Some also mentioned their findings from recent communication with a variety of sell-side institutions that a common underlying assumption in the extrapolation of many investment strategies and sector-specific investment advice is expectation of "recovery in the real estate market". Thus, they are of the opinion that it could be advantageous to allocate capital towards property stocks.

4) Trust the decision of state capital. Some investors interpret the RMB 300 bn re-lending facility as a signal of state capital's strategic market entry to identify and capitalize on undervalued assets, underpinned by the belief that state funds are usually not involved in ventures that incur losses. Thus, even though the sector has not yet demonstrated signs of reaching its nadir when assessed through fundamental analysis, it is assumed that the upper echelons of governance may take proactive measures to ensure that the juncture at which state capital is deployed marks the market's bottom.

Figure 1: Adjustment records of lower limit of downpayment ratio

Date	Lower limit of downpayment ratio		Issuing Authorities	Related Document
	First-Time Homebuyers	Second-Time Homebuyers		
1998-05-09	30%	30%	People's Bank of China (PBOC)	Measures for the Administration of Personal Housing Loans
1999-02-23	20%	20%	PBOC	Guidelines on Personal Consumer Loans
2003-06-05	20%	May be appropriately increased based on the 20% benchmark.	PBOC	Notice on Further Strengthening the Management of Real Estate Credit Business (Document No. 121)
2006-05-24	20% for homes < 90 sqm 30% for homes ≥90 sqm	30%	Ministry of Construction, National Development and Reform Commission, Ministry of Supervision, Ministry of Finance, Ministry of Land and Resources, PBOC, State Administration of Taxation, National Bureau of Statistics, China Banking Regulatory Commission (CBRC)	Notice on Adjusting Housing Supply Structure and Stabilizing Housing Prices
2007-09-27	20% for homes < 90 sqm 30% for homes ≥90 sqm	40%	PBOC, CBRC	Notice on Strengthening Commercial Real Estate Credit Management
2008-10-22	Minimum 20%, with flexibility based on factors such as whether it's the first home, for owner-occupation, and whether it's ordinary housing		PBOC	Notice on Expanding the Range of Floating Personal Housing Loan Interest Rates and Other Related Issues
2009-06-19	20%	Strict adherence to the second housing loan policy, no reduction in down payment ratio by any means, with actual implementation of 40%	CBRC	Notice on Further Strengthening Mortgage Loan Risk Management
2009-12-14	Enhanced differentiated credit policy		Executive Meeting of the State Council	The State Council's Four Measures
2010-01-07	20%	40%	General Office of the State Council	Notice on Promoting Stable and Healthy Development of the Real Estate Market (Eleven Measures of State Council)
2010-04-17	20%	40% for homes < 90 sqm 50% for homes ≥ 90 sqm	State Council	Notice on Resolutely Curbing Rapid Housing Price Increases in Some Cities (Ten Measures of State Council)
2010-09-29	30%	50%	PBOC, CBRC	Notice on Improving Differentiated Housing Credit Policy and Other Related Issues
2011-01-26	30%	60%	General Office of the State Council	Notice on Further Doing a Good Job in Real Estate Market Regulation (New Eight Measures of State Council)
2013-02-26	30%	In cities with housing purchase restrictions and high housing price pressure, further increase the down payment ratio and loan interest rate for second homes. Some tier1&2 cities lift to 65-70%	General Office of the State Council	Notice on Continuing to Do a Good Job in Real Estate Market Regulation (Five Measures of State Council)
2014-09-29	30%	60%, with the second home recognition standard changing from "recognizing	PBOC, CBRC	Notice on Further Doing a Good Job in Housing Financial Services (New Policy on Sep 30th)

		both house and loan" to "recognizing loan but not house"		
2015-03-30	30%	40%	PBOC, Ministry of Housing and Urban-Rural Development, CBRC	Notice on Issues Related to Personal Housing Loan Policy (New Policy on Mar 30th)
2015-09-30	25% in cities with no purchase restriction	40%	PBOC, CBRC	Notice on Further Improving Differentiated Housing Credit Policy and Other Related Issues
2016-02-01	20% in cities with no purchase restriction	30%	PBOC, CBRC	Notice on Adjusting Issues Related to Personal Housing Loan Policy
2023-08-31	20%	30%	PBOC, China Banking and Insurance Regulatory Commission (CBIRC)	Notice on Adjusting and Optimizing Differentiated Housing Credit Policy
2024-05-17	15%	25%	PBOC, CBIRC	Notice on Adjusting the Minimum Down Payment Ratio Policy for Personal Housing Loans

Source: State Council, PBOC, CBIRC, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.