

China Property Sector

Our take on the imminent property tax

On the property tax pilot program, it shows policy will be consistent and firm on the property sector instead of towards easing. In addition, the scope of property tax is wider than market expectation as 1) it includes non-residential 2) more cities could be included rather than just Shenzhen and Hainan. Lastly, pending on the tax rate, it could affect the investment demand, which is accumulatively 20-30% in the past few years.

- **What's new?** On 23 Oct, the Standing Committee issued their decision authorizing the State Council to carry out pilot property tax in some cities. Details are: 1) The property tax in pilot areas is levied upon both **residential and non-residential** properties. 2) The **State Council shall determine the pilot areas** and report them to the Standing Committee for record. 3) The State Council should **learn and reflect from previous trials**.
- **Wider scope in property type and location:** The scope of taxable property type has expanded to include non-residential properties and we believe this means service apartments, which make up 30-50% of office areas reported under NBS' property sales data. If we look at property sales from 2011 to the most recent 9M21 data, service apartments' area was roughly 1.2% of residential (assume service apartment is 50% of office), which means the taxable area will be enhanced by 1.2% (Figure 1). Moreover, trial cities may include cities other than previously speculated Shenzhen and Hainan. Deriving from NBS' commercial housing sales price index among 1st and 2nd tier cities, we noticed cities in the YRD and PRD like Guangzhou, Guangdong; Nanjing, Jiangsu and Hangzhou, Zhejiang have the highest price surges and might also be included in the trial (Figure 2).
- **How will the Government reflect upon previous trials?** In order for property tax to be an effective long-term scheme, the key issue is the curbing of housing price escalation. The answer lies within tax rate, treatment of existing units and houses in different cities. 1) If the tax rate could be close to rents yield say 1.5%, then the holding costs would be much higher for the buyers and the contribution to total tax revenue would be 20% in Shanghai's case. 2) Another key point would be extending the property tax to cover existing units with some exemptions. Shanghai only charged property tax on new transactions. However, for trials in newly added cities, it would be better to extend to existing homes so that people with multiple units could release excess back to the market. This would improve the overall supply together with demand curbing in the above. 3) Moreover, the Standing Committee has also addressed the issue with high collection cost, which was based on personal declaration. The total 2019 property tax revenue was only RMB21bn compared to RMB47bn tax department expenses. An effective and feasible way of collection would boost the overall efficiency of property tax.
- **How will the market react?** The implementation of property tax trials at this moment shows the consistency and continuity of the overall policy towards the property market. As the market has been waiting for a relaxation or pause in policy, we believe this announcement will hurt market sentiment. This trial run will mostly affect developers with heavy exposure in 1st and 2nd tier cities and will also have spill-over effect on the overall market. Please also refer to our past report ([China Property Sector – This time is different](#)) for more details on this topic.

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Figure 1: Total commercial properties sold in mn sq m

	Total Area Sold (mn sq m)											Average
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	9M21	
Residential	970	985	1,157	1,052	1,124	1,375	1,448	1,479	1,501	1,549	1,154	1,254
Office	20	23	29	25	29	38	48	44	37	33	23	32
Service Apartments	10	11	14	12	15	19	24	22	19	17	11	16
SA % in Residential	1.0%	1.1%	1.2%	1.2%	1.3%	1.4%	1.6%	1.5%	1.2%	1.1%	1.0%	1.2%

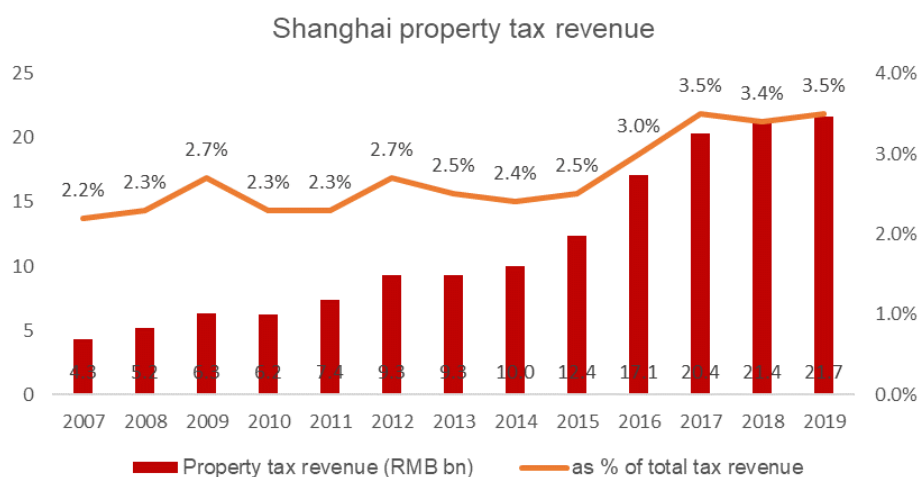
Source: NBS, CMBIS

Figure 2: Commercial housing sales price index among 1st and 2nd tier cities

YoY %	Commercial housing sales price index in 1st and 2nd tier cities							
	2015	2016	2017	2018	2019	2020	9M21	Overall
Shenzhen	47.5	23.8	-3.0	0.1	3.6	4.1	3.8	98.5
Xi'an	-0.1	7.2	12.2	22.4	14.2	6.9	7.5	93.0
Shanghai	18.2	31.7	10.2	0.4	2.3	4.2	4.0	90.9
Guangzhou	9.2	24.3	5.5	8.3	4.7	5.2	9.0	86.2
Wuhan	4.5	25.5	0.6	10.8	11.8	4.5	6.0	81.0
Hefei	1.4	46.5	-0.2	4.2	3.9	3.6	5.7	75.8
Nanjing	7.9	41	-1.4	0.7	4.1	4.9	5.0	73.2
Shijiazhuang	1.7	19	2.9	14.9	9.5	2.8	2.1	64.5
Changsha	-0.5	18.2	6.1	11.1	4.5	5.0	6.9	62.6
Beijing	10.4	28.4	-0.2	2.3	4.8	2.3	4.5	62.1
Hangzhou	5.8	28.6	-0.6	5.6	5.0	4.5	3.4	62.0
Chongqing	-1	7.2	10.0	11.6	8.1	4.6	8.3	59.5
Fuzhou	1.8	27.6	-1.7	8.5	4.2	4.4	5.4	58.9
Kunming	-2.6	4.2	10.2	16.6	11.1	5.6	1.5	55.3
Guiyang	-0.9	5.2	10.4	18.8	6.5	2.5	3.7	54.8
Huizhou	-2.3	25	4.5	3.9	3.9	7.6	2.6	52.1
Shenyang	-0.9	3.3	11.5	12.0	9.3	5.0	3.3	51.6
Yantai	-1.9	5.4	8.2	13.5	10.0	5.5	2.8	51.5
Dalian	-1.8	2.6	8.4	14.4	8.2	4.8	6.1	50.3
Zhengzhou	2.7	28.4	-0.7	9.4	1.7	-0.8	2.8	48.6
Jinan	0.8	19.4	0.9	15.9	0.5	-1.0	5.5	47.7
Qingdao	-2.4	13.4	4.2	13.3	4.2	2.8	4.9	46.8
Chengdu	0.6	5.6	-0.6	12.7	10.6	6.3	3.6	45.0
Nanchang	1.7	14.4	6.4	9.3	3.5	0.8	1.1	42.7
Harbin	-0.6	2.2	10.7	14.4	10.1	0.8	-0.7	41.8
Tianjin	3.4	25.4	0.1	1.7	1.4	1.1	4.1	40.9
Changchun	-1.8	3.9	9.0	11.8	9.4	2.3	0.7	40.1
Lanzhou	-1.6	3.2	5.5	10.8	4.9	5.2	5.1	37.7
Wenzhou	1.8	4.7	6.7	1.9	4.2	4.3	3.7	30.6
Taiyuan	1.5	2.6	7.9	11.2	4.6	-1.0	-2.2	26.5
Average	3.4	16.6	4.8	9.8	6.2	3.6	4.0	57.7

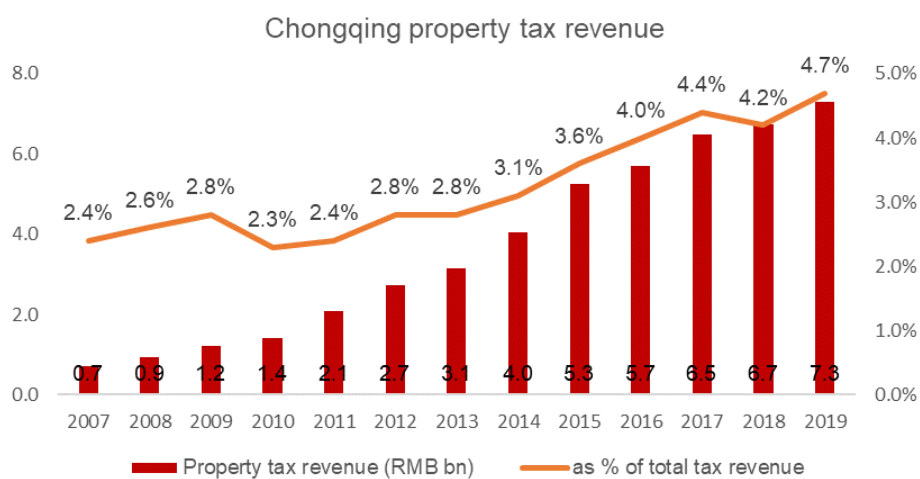
Source: NBS, CMBIS

Figure 3: Property tax in Shanghai

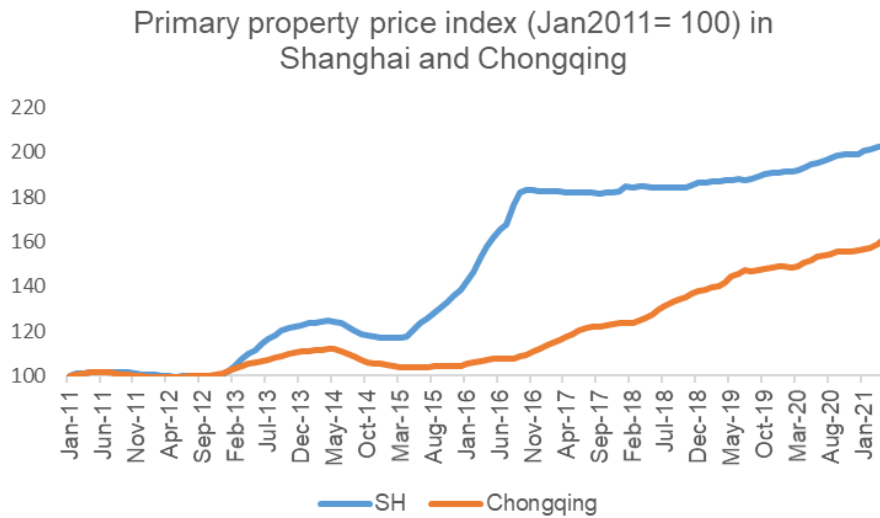


Source: MOF

Figure 4: Property tax in Chongqing



Source: MOF

Figure 5: Property price trend in SH and Chongqing since property tax rolling out

Source: CMBIS estimates

Figure 6: Comps table

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			PB	Dividend Yield	
						20A	21E	22E		20A	21E
Vanke - H	2202 HK	21.35	285,688	BUY	33.92	4.5	4.0	3.8	0.9	7%	7%
COLI	688 HK	18.14	198,539	BUY	30.49	3.8	3.6	3.1	0.4	7%	8%
Country Garden	2007 HK	8.08	181,638	BUY	13.36	4.1	3.1	2.8	0.8	7%	6%
CR Land	1109 HK	32.50	231,756	BUY	44.79	6.5	6.0	5.6	1.0	4%	4%
Longfor	960 HK	37.35	226,727	HOLD	34.27	9.1	6.2	5.9	1.7	5%	5%
Shimao	813 HK	14.06	49,684	BUY	44.94	3.1	2.7	2.3	0.4	11%	11%
Agile	3383 HK	7.06	27,654	BUY	13.89	2.4	2.4	2.1	0.5	16%	14%
KWG	1813 HK	7.65	24,350	BUY	17.87	3.0	2.5	2.1	0.5	15%	16%
China Aoyuan	3883 HK	3.46	9,701	BUY	15.48	1.2	1.0	0.9	0.4	34%	25%
Times China	1233 HK	6.08	12,063	BUY	16.20	2.0	1.4	1.2	0.5	15%	16%
China SCE	1966 HK	2.58	10,893	BUY	5.60	2.4	2.1	1.6	0.4	14%	14%
Redsun	1996 HK	2.11	7,045	BUY	3.52	3.5	2.8	2.4	0.5	8%	8%
Vanke - A	000002 CH	20.73	234,966	BUY	31.36	5.3	4.7	4.5	1.1	6%	7%
Radiance	9993 HK	4.40	17,799	BUY	5.55	4.1	3.6	3.0	0.8	7%	8%
Dafa	6111 HK	5.04	4,173	BUY	8.32	10.2	5.5	4.8	1.0	2%	3%
Shinsun	2599 HK	5.22	15,887	BUY	7.75	4.0	3.6	3.1	1.9	4%	4%
Dexin	2019 HK	2.64	7,132	BUY	3.56	5.9	5.2	4.6	1.2	6%	7%
Average						4.4	3.6	3.2	0.8	9.8%	9.7%

Source: Bloomberg, CMBIS

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