

China Property Sector

What policy relaxation means for lower tier cities – Zhuzhou’s case study

Multiple cities have released positive property relaxations (Figure 1). We would like to explore Zhuzhou, Hunan as a case study as it has just released 19 counts of stimulus property policies on 29 Apr, right after Poli-Bureau’s meeting. This could be interpreted as a city under struggle and adamantly seeking to turn the tides around. Combined with promotion in ASP, we have seen slight improvement in Labor Day sales. However, to overturn this down cycle is difficult on the following reasons: 1) **Timing** can be viewed as late after its two leading local developers filed for bankruptcies. 2) **Net outflow of population** of 120K people from 2018-2021 (-3% from 2018-2021), representing roughly 50K units, 5mn sqm of GFA, equivalent to annual GFA sold in 2021. 3) **Government is struggling** to boost economy with other developers also tied up.

Zhuzhou has seen its property market cool down since 2019 with 8.6/6.8/6.9/5.7mn sqm GFA sold in 2018/19/20/21, representing +13.8%/-20.3%/+1%/-16.9% YoY respectively. Below we will walk through the major events that has transpired and caused the fall in Zhuzhou’s property market and what will follow this fall:

- **2020 – The beginning signs of the tumble.** With overall property sales declining 20.3% YoY in 2019, Zhuzhou’s largest local developer Zhuzhou Huachen began seeing liquidity issues in 2020. Through our channel check with Huachen’s construction units, issues like unpaid development loans, unpaid private financing and un-settled project construction funds began surfacing as early as Oct 2020. This ended in a typical government bailout at the end of 2020 with Zhuzhou State-owned Assets Investment lending RMB500mn to Huachen to resolve its problems regarding migrant workers’ wages and construction payment arrears. In contrast to expected property market pickup, after a national rebound in 1H21, the property market continued its downturn with overall sales only up 0.1mn YoY in 2020. The government can no longer bailout its largest developer – Huachen...
- **2021 – The tumble.** ...defaulted in 2021, entered into bankruptcy and restructuring process. After Huachen’s default, Zhuzhou Granduer Group – second largest local developer in Zhuzhou (the first successfully restructured state-owned enterprise in the construction industry of Hunan, formerly known as Zhuzhou Construction Company) filed for bankruptcies twice in 2021 but were denied both times by the government. In addition, other nation-wide developers’ projects in Zhuzhou failed to deliver, including that of Evergrande and Greenland, as well as some SMDs’ projects. The events that transpired have all casted doubts and undermined homebuyers’ confidence. Homebuyers began to demand sales on finished projects; construction units began to delay completion to guarantee fee collection; government platforms halted delivery on limited buyer interest. Zhuzhou’s property market was in a standstill.
- **2022 – The aftermath and redemption.**
 - **On Huachen:** The Company has brought in Jinke to provide brand support, project management, and capital injection. It also brought in China Huarong AMC and Zhejiang Jinhui Trust and began resuming

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approval process on land sales. Huachen chairman's equity investment in Sansure Biotech Inc. are also included as an asset in Huachen's restructuring. The shares can be realized and refinancing to provide financial guarantee for the resumption of project construction. All of the above measures are to prioritize filling the funding gap for the resumption and construction to ensure delivery. Through our channel check with local MOHURD, Huachen's projects will be fully resumed on the premise that they pass the safety and quality tests and meet the standards, subject to when the funds will be in place.

- **Stimulus Policies:** After the Poli-Bureau meeting on 29 Apr, Zhuzhou rolled out 19 measures to stabilize and promote local property market. These measures include: 50% subsidy on deed tax, talent housing subsidy of RMB50K, first home subsidy of RMB10K, relaxation on mortgages (second home viewed as first after mortgage repayment), increased maximum loan quota for provident fund loans (up to RMB800K) and reduced second home down payment ratio for provident funds (50% to 30%). Per our channel check with local MOHURD, the primary task is to fulfill necessity-housing needs through provident fund loans, down payment cuts and mortgage relaxations. These measures should guarantee necessity-housing buyers save tens of thousands per unit.
- **Labor Day Holiday Sales:** Some projects sold adequately but below guidance ASP by 10-20% during the holiday. Xiamen C&D's project Jianfa Yangzhu sold a handful of units after announcing an one night only flash discount on their 95sqm units by RMB1k/sqm (from RMB8k/sqm to RMB7k/sqm, -20% from guidance ASP). In addition, Yunfa Zanglongwan sold more than 10 units with an ASP of RMB5.2k/sqm, down 10% from guidance ASP.

In our view, the stimulus policies would help alleviate some pressures on the property market with the aid of decrease in ASP. However, its timing can be viewed as late after the two leading local developers filed for bankruptcies. We believe more time is needed to restore homebuyers' confidence but the city will heal after this crisis and come through stronger.

Figure 1: Policy Relaxation since Poli-Bureau Meeting on 29 Apr

Policy Relaxation since Poli-Bureau Meeting on 29 Apr		
City	Date	Policy
Zhuzhou	4/30/2022	First-time buyers housing subsidy of RMB10K, 50% deed tax subsidy, the maximum amount of provident fund loans raised to RMB800K, and the minimum down payment for second homes will be reduced from 50% to 30%
Huizhou	4/30/2022	Huiyand and Daya Bay lifts purchase restriction, increase provident fund loan limits
Zhongshan	4/30/2022	Qijiang district removed from purchase restriction
Shangrao	4/30/2022	Minimum down payment for the first homes lowered to 20% and second homes lowered to 30%. For improvement housing, RMB200/sqm subsidy will be given
Huangshi	4/30/2022	50% deed tax subsidy in Huangshi New District housing
Suizhou	4/30/2022	50% deed tax subsidy for 1st home under 90sqm
Dazhou	4/30/2022	Multi-children family's 2nd homes viewed as 1st
Lianyungang	5/2/2022	New home down payment cut to 20%
Meizhou	5/2/2022	2nd home provident loan down payment cut to 20%
Wuxi	5/2/2022	VAT exemption on personal housing transfer changed to 2 years from 5 years
Tianmen	5/2/2022	During 1 May - 14 Jun, full subsidy on deed tax
Yueyang	5/2/2022	50% deed tax subsidy, each unit has RMB10K purchase subsidy, land transfer fee paid in installments
Ganzhou	5/2/2022	Relaxes loan applicant age to 70 years old, cut mortgage rate to 5.2% in May
Xuzhou	5/4/2022	Encourages cut in down payment, reduces land auction deposit to 50%
Jiaying	5/5/2022	First home provident fund maximum loan raised to RMB800k for two people

Source: CMBIGM

Figure 2: Zhuzhou's property data, 2018-2021

Zhuzhou Property Data, 2018-2021 (RMB Bn, Mn sqm)								
	REI	YoY	GFA Sold	YoY	Sales Value	YoY	Unsold GFA	YoY
2018	40.0	27.8%	8.6	13.8%	50.5	36.1%	1.0	12.3%
2019	40.3	0.8%	6.8	-20.3%	42.0	-16.9%	1.0	-1.8%
2020	42.0	4.3%	6.9	1.0%	41.3	-1.5%	0.9	-14.9%
2021	41.7	-0.7%	5.7	-16.9%	Not Disclosed	Not Disclosed	Not Disclosed	Not Disclosed

Source: Statistics Bureau, CMBIGM

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