China Property Sector

Expert call takeaways: A positive shift in regulatory stance; sector may see recovery post CNY

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We've hosted a conference call and invited a real estate expert within the government system to interpret the intention of recent policies and provide insights into the future policy direction. According to the information shared by the expert, **a significant shift in policymaker's attitude has occurred on the financing side – from "rescuing projects rather than developers" to "rescuing developers through rescuing projects"**. Due to the gradual ineffectiveness of demand-side policies, developers may face another wave of liquidity crisis under the new round of debt repayment pressure in 1Q24 especially in March. Regulators aim to prevent this from causing a further downturn in industry fundamentals and leading to a prolonged drag on capital market performance and expectations on the macro economy. Therefore, there is an accelerated push for the introduction of financing support policies, with an emphasis on robust implementation to address the issue of supporting policies not being materialized over the past two years. **We believe that the implementation effort of this round of financing support policies may exceed the market's initial expectations**.

- **Key takeaways of our expert call:**
  - **Policy focus:** Managing two risks for real estate enterprises - operational and liquidity risks. The ultimate goal is to resolve operational risks but it would require a recovery in property sales. **The current emphasis is primarily on addressing the liquidity issues**. This round of policy is not merely rhetoric; it is expected to have substantive effects, as the financing coordination mechanism is dedicated to address the lack of implementation of financing supporting policies over the past two years
  - **Core differences in this round of financing support policy:** 1) Introducing local governments as credit endorsement. 2) Focusing on the project and city level which provide more operational space for cities and developers' local branches to package projects effectively for better acceptance by the banks.
  - **The Financing Coordination Mechanism (FCM)** was formulated with the consideration of exempting banks from certain liabilities and making them treat state-owned enterprises (SOEs) and private-owned enterprises (POEs) equally without burdens. If the required project whitelist includes only SOEs' projects, it contradicts the regulatory intention behind establishing the mechanism. Thus, **the project whitelist is likely to lean towards POEs, especially in the initial batches**. The list may be made public to help stabilize market expectations by showcasing that POEs' projects are included. The ultimate goal of the mechanism is to prevent more POE names from defaulting by easing their liquidity risks. The mechanism is a regulatory innovation and is expected to be effectively implemented. However, it should not be anticipated to reverse the market trend. We believe it is a promising start to change the negative cycle of property market.
  - **The FCM demands faster effectiveness compared to previous policies**. Usually the implementation timeline for similar policies is measured over a quarter, but regulators demand urgent effectiveness for FCM with the project whitelist due at the end of Jan and incremental loans from banks are expected to be deployed post the CNY/in late Feb. By doing so, POEs facing debt repayment peak in 1Q24 may have more chance to avoid defaulting. Additionally, regulators require continuity for the FCM, indicating the whitelist will not end after the first batch.

- **Efficiency will also be higher for investment property loans**: Normally, approval of investment property loans takes 2-3 months, but under the current regulatory stance, around 1/3 reduction in time is possible, based on expert's estimates. Developers meeting the requirements are highly likely to get loans in 1.5-2 months.
- **Expected policy results in Guangzhou**: Due to the CNY, property sales are not expected to quickly recover within one month, but certain areas such as Tianhe District and Yuexiu District may experience more stabilized housing prices within a quarter based on the expert's estimation. Considering the current economic conditions, overheating and rapid increases in housing price are unlikely, in expert's view.
- **Other tier-1 cities may follow the relaxation in Guangzhou but with smaller steps and differences on timing.** Based on the expert's expectation, Shenzhen may adopt Guangzhou's experience and potentially start easing from suburban areas to core areas, for example, to lift restrictions on houses with GFA>144 sq. m. As Shanghai and Beijing have different market positioning and fundamentals, a complete removal of purchase restrictions seems unlikely. Beijing's relaxation may involve measures related to talent introduction, lottery systems, and balancing residential and work populations in certain area etc.
- **Property sales in 2024E:** the expert expects a 3-5% YoY contraction in GFA of property sales in 2024E, with new home prices to stay stable and property sales meeting upgrading demands with higher ASP to take a larger proportion. The price of existing homes is expected to decline 3-5%.

■ **Our view.** We noticed that, on the demand side, Suzhou implemented relaxation of purchase restrictions citywide and Shanghai eased restrictions in areas beyond the outer ring road. On the financing side, Guangxi has submitted a project whitelist with 107 project included. These are in line with the expert's assertion that "this round of supporting policies will be effectively landed." We believe that if other cities actively submit project whitelists as Guangxi, particularly those featuring a substantial number of projects from POEs, **the stock performance of the property sector may see short-term recovery, especially post the CNY due to the following. 1)** The regulatory stance shifting from "rescuing projects rather than developers" to "rescuing developers through projects", which is beyond the market expectation, indicating that the determination of regulators to boost the market is beyond what was anticipated as well. **2)** The market response to the policy relaxation in Guangzhou was a bit unexpected for regulators in our view and this may provide more motivation for regulators to promote implementation of support policies. **3)** The effective implementation of financing policies will alleviate homebuyers' concerns on new home delivery risk; coupled with the delayed impact from Guangzhou's policy measures, property sales may experience a mild recovery under the influence of multiple positive factors. For stocks, we recommend the one with 40% land bank exposure in Guangzhou (1H23) and developers with higher land-to-sales ratios (2023): C&D Intl., CR Land, COLI, Greentown China; developers with a larger proportion of investment properties like Longfor, CMSK, Vanke and Seazen.

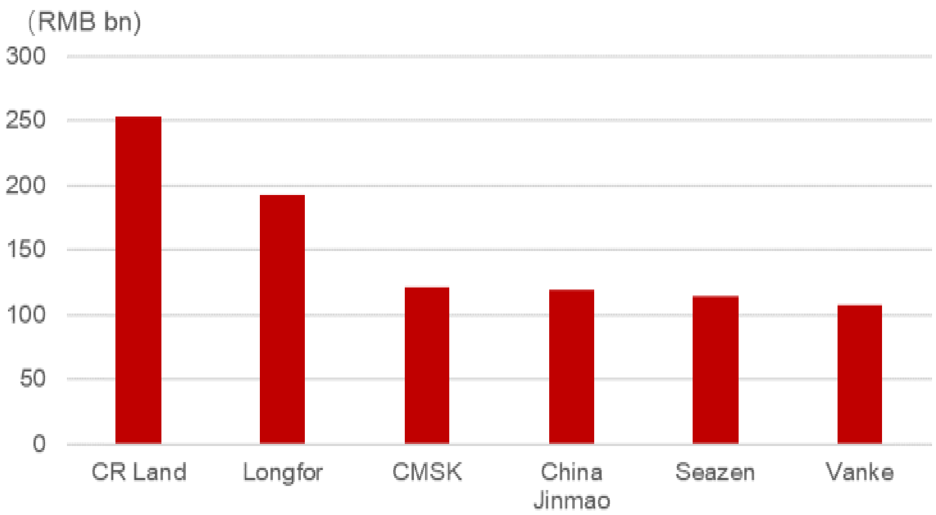
Figure 1: New home sales declined 7% YoY in MTD Jan as of 29 Jan 2024

Source: Wind, CMBIGM

Figure 2: Secondary sales surged 77% YoY as of 29 Jan 2024 mainly due to the early CNY in 2023

Source: Keyland.com, CMBIGM

Figure 3: Investment property scale as of end of 1H23



Source: Company report, CMBIGM

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