

State of the residential market

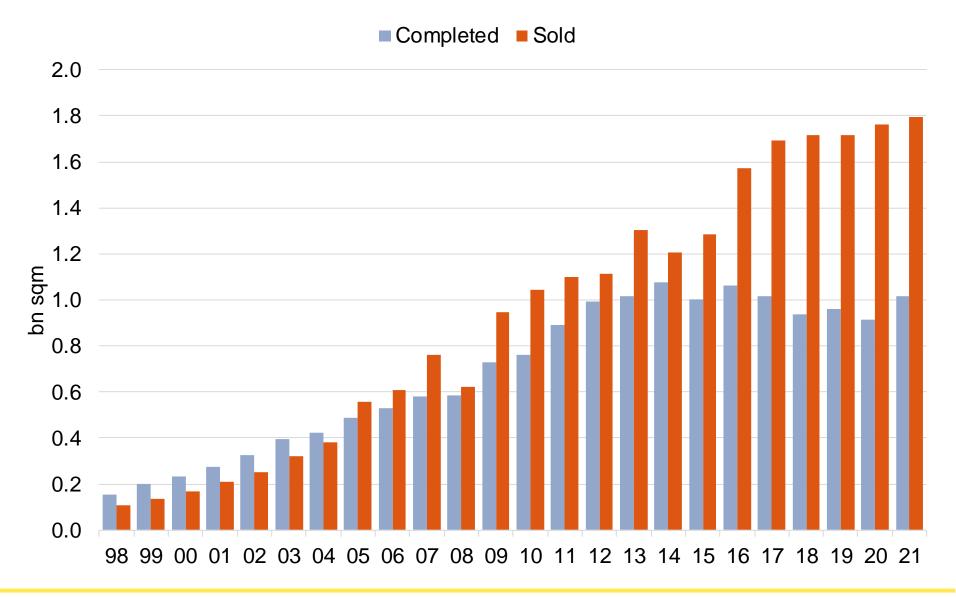
One year on from Evergrande

James Macdonald

Rapid growth in the real estate market

The size of the real estate market has grown at a phenomenal rate over the last two decades with completion volumes increasing from 150 mn sqm back in 1998 to 1.075 bn sqm in 2014.

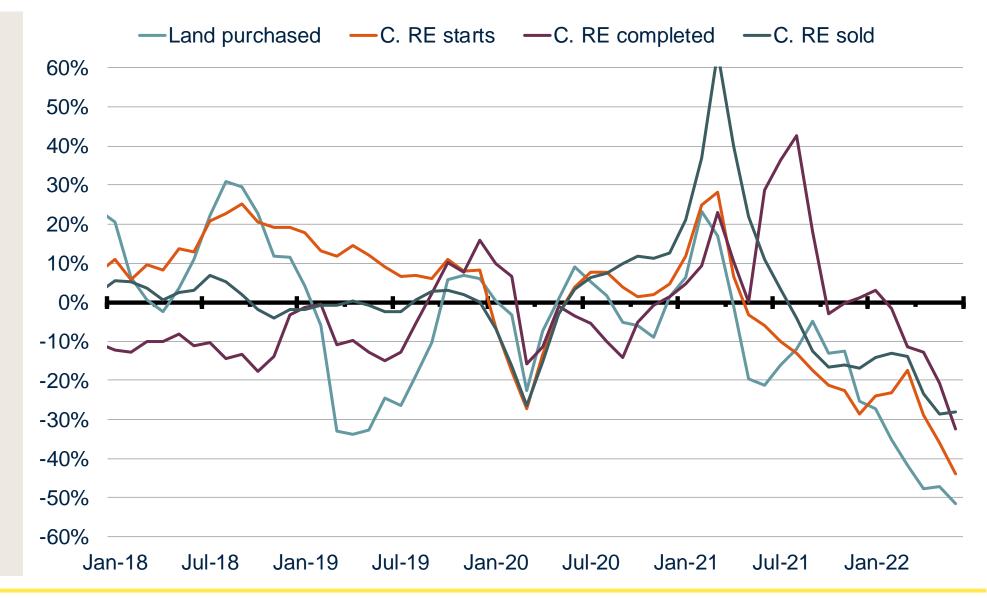
At this point completion and sales see a significant divergence





Real estate macro indicator growth rates

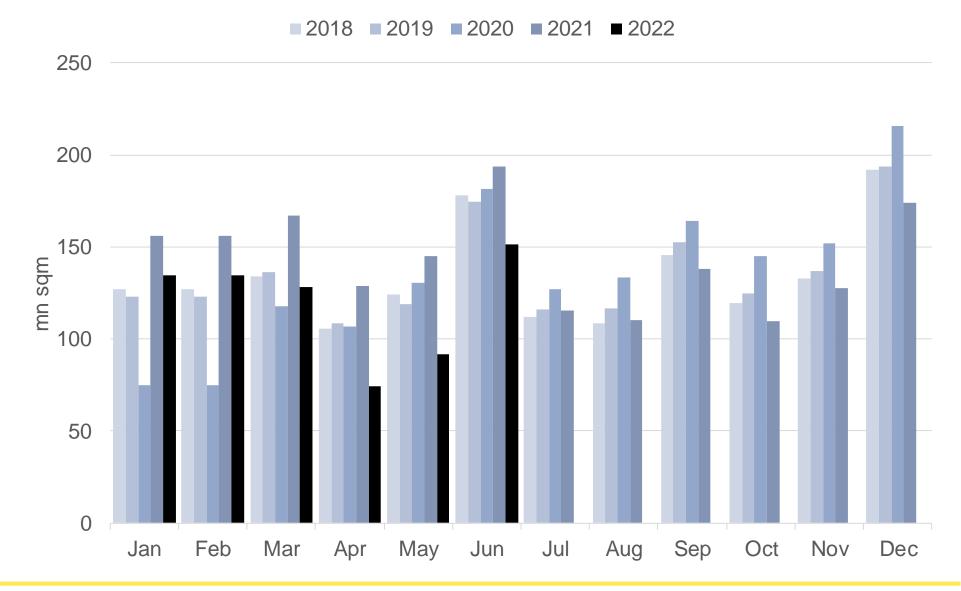
Nearly all indicators are pointing to a significant and prolonged contraction in the real estate market as developers scale back expenditure



Real estate sales volumes



Sales volumes, a key source of financing for developers, are down significantly compared to last year and four-year averages

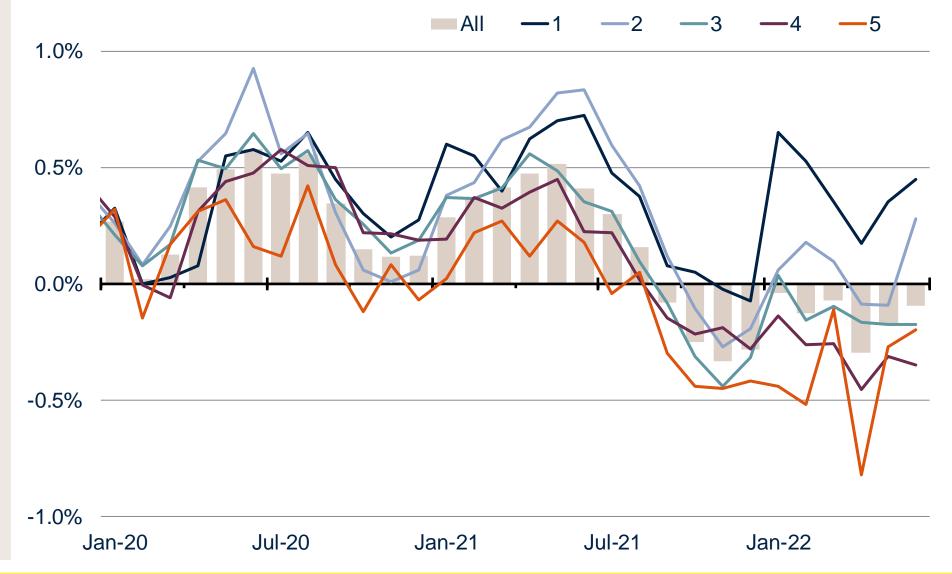


Real estate price indices



A surprising recovery in prices in first and second-tier cities in June as local authorities continue to remove house purchase restrictions, lower down payment requirements, remove hukou requirements and lower mortgage rates.

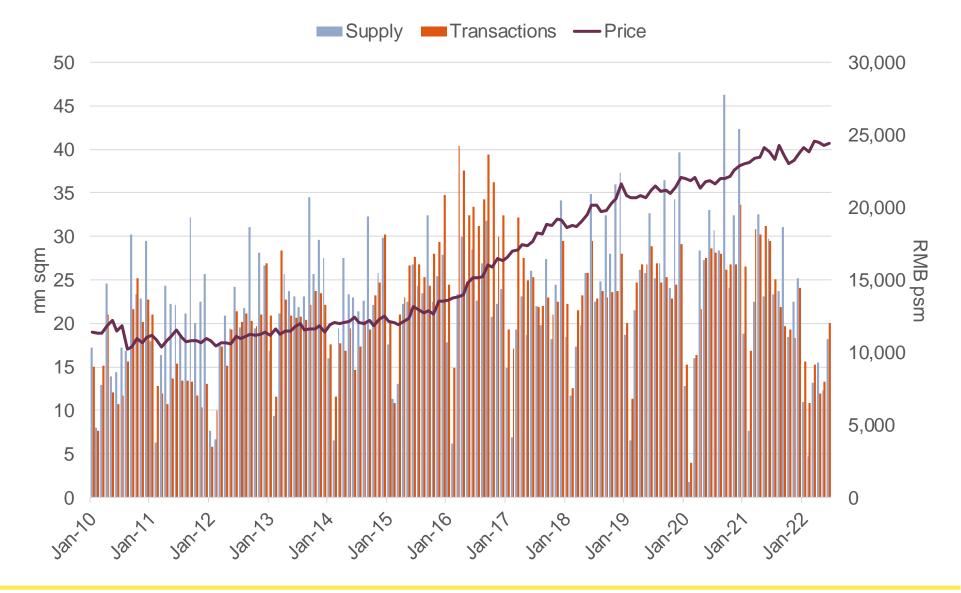
The broader market however remains deflationary and the situation is likely to persist with a number of downside factors



28 city

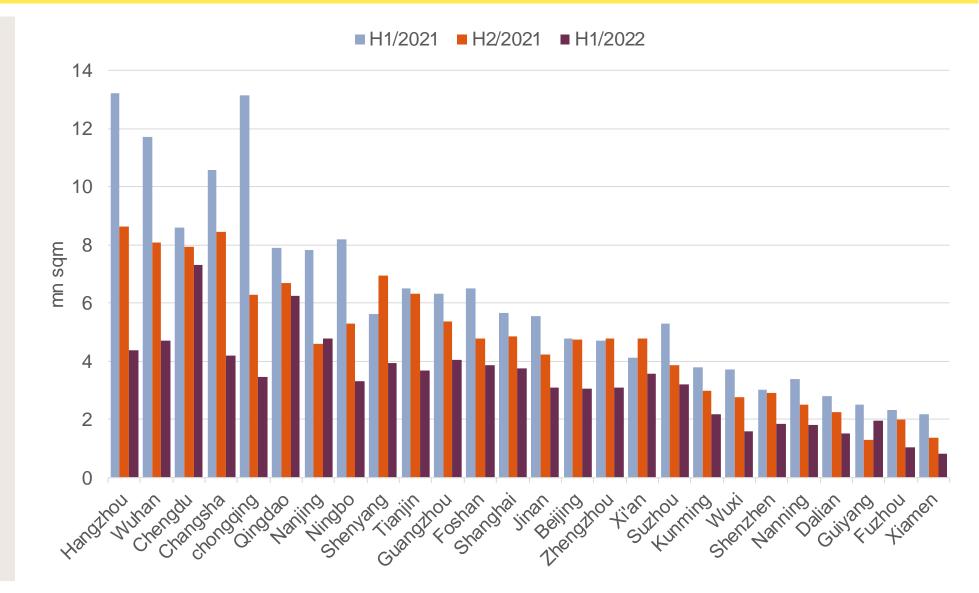


Looking specifically at 28 key cities. The market was incredibly hot during



Transaction volumes by city

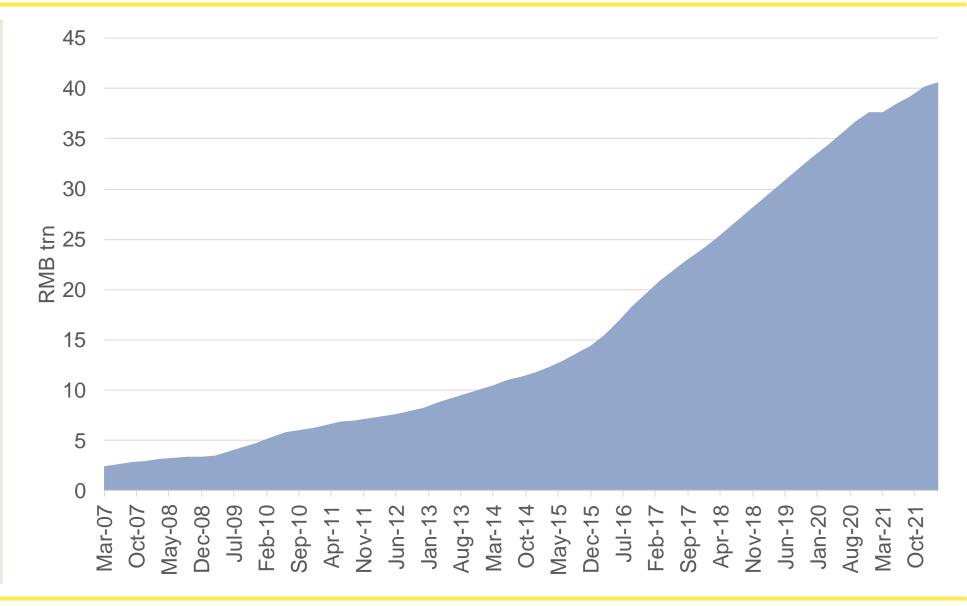
Some markets especially large second-tier cities such as Hangzhou, Wuhan, Chengdu and Chongqing, have seen a precipitous fall in transcation volumes over the last year





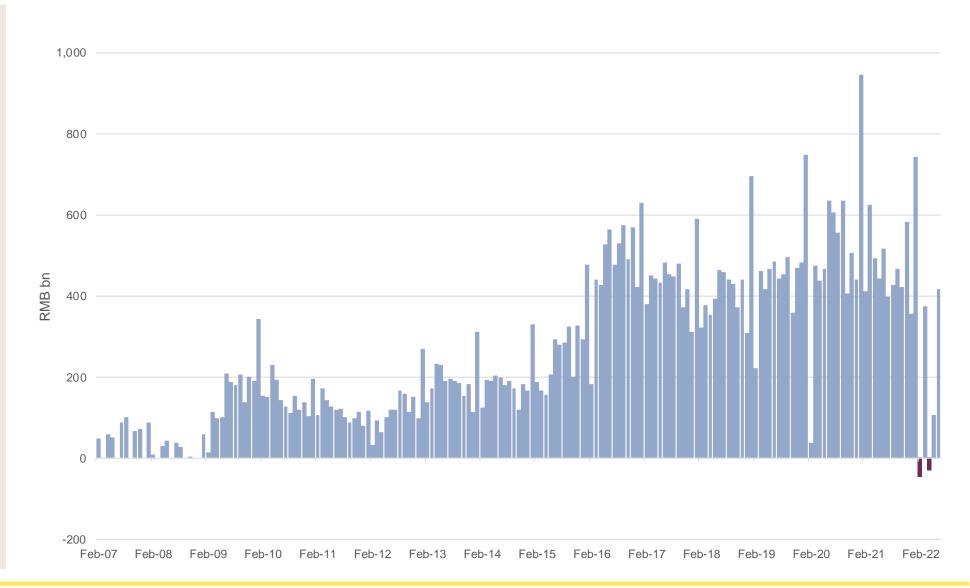
China mortgage market

China's mortgage has expanded rapidly over the last decade adding fuel to the market but also increasing costs and risks.



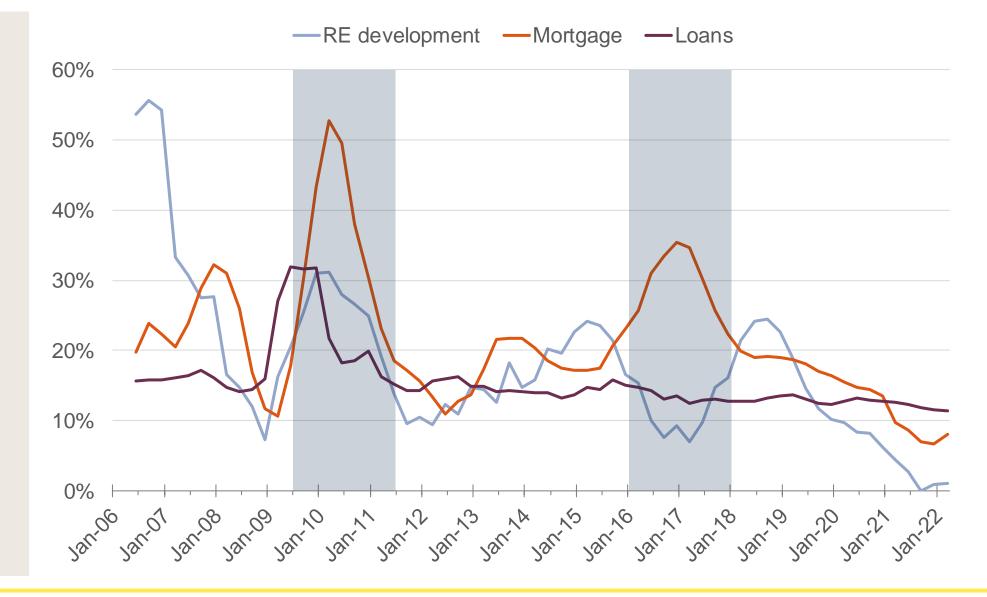
Increase in consumer mid to long term financing

Monthly data on consumer mid to longterm financing (primarily mortgages) indicates a sharp slowdown and indeed a contraction in particular months during the first half of 2022.



Annual growth in outstanding loans

Lending growth to the real estate sector has generally outstripped overall loan growth over the last decade



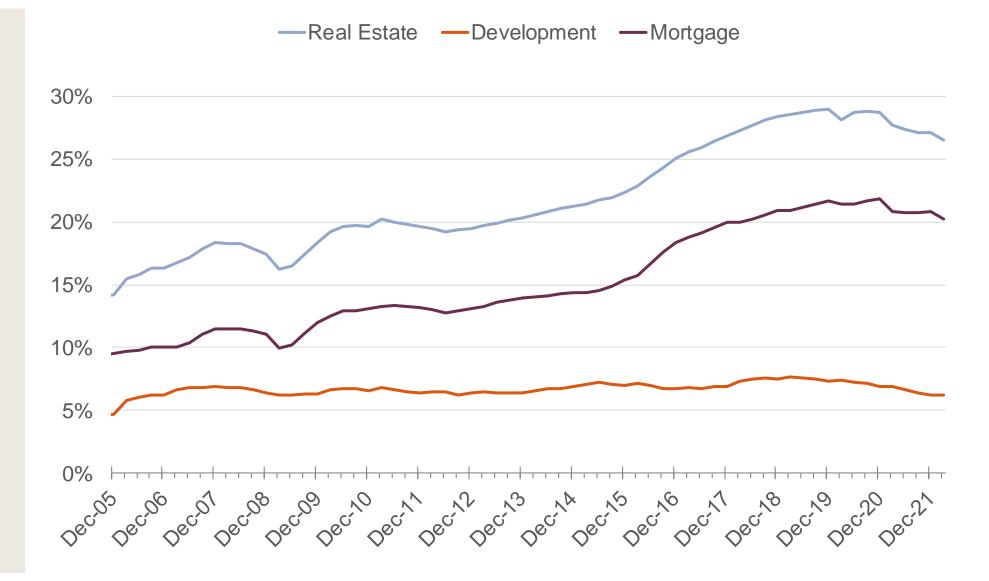
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Outstanding loans exposure to real estate

Banks were already looking to control their exposure to the real estate market after new regulations came in last year limiting reliance on RE financing.

Average loan book exposure to mortgages stands at 20.2% with a further 6.2% to developers.

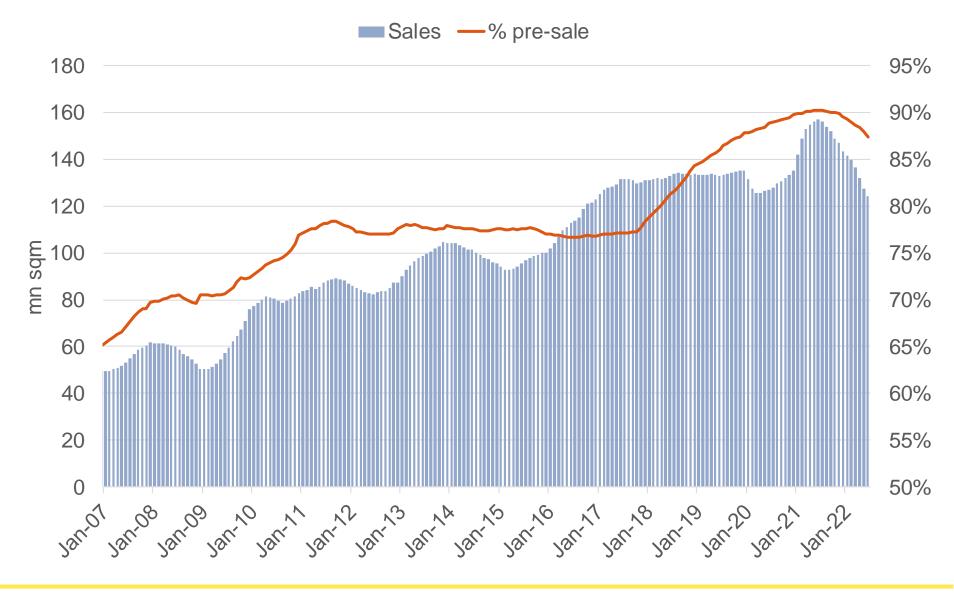
Indirect exposure also exists e.g. properties uses as collateral for business loans



Pre-sales market 12 MMA

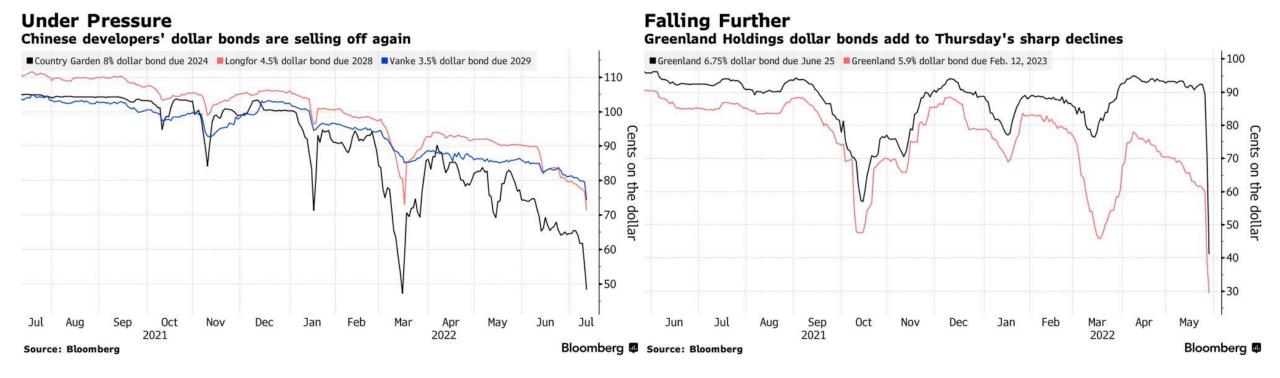


The percentage of properties sold pre-sale has surged from 65% in 2007 to 90% by 2021



Bond prices continue to fall

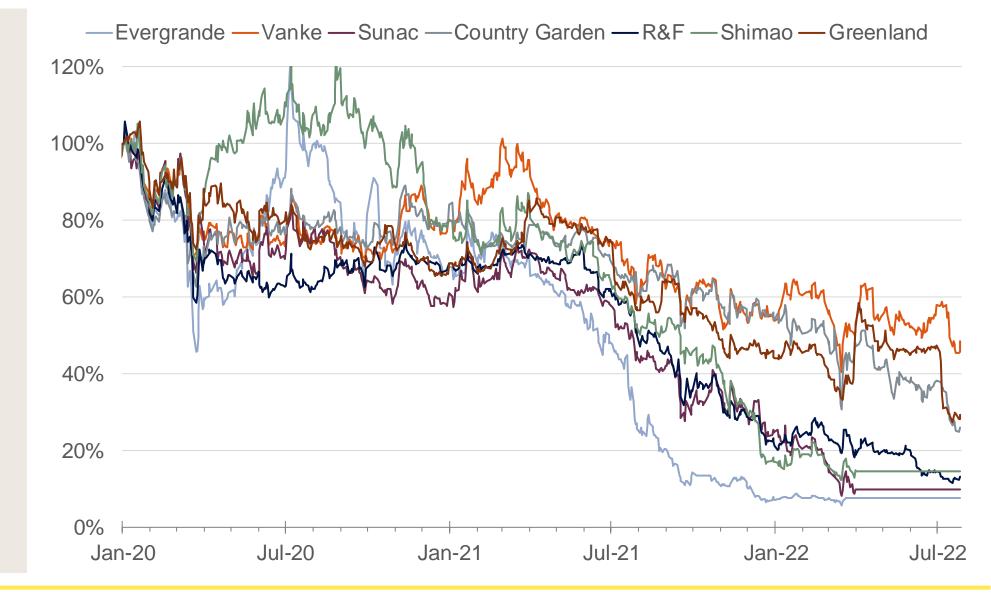




Developers are also faced with difficulty in refinancing their bonds with even state-backed developers such as Greenland being forced to delay payments.

Developer share prices tumble

Developer shares have tumbled since the start of 2020 with several no longer traded after failure to submit their 2021 annual reports

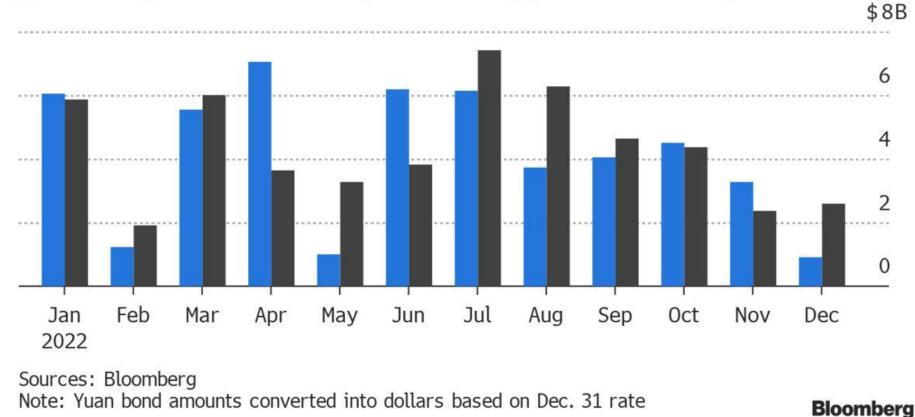


Bond repayment pressure



There remain significant bond maturities in the second half of the year.

Coming Due Chinese developers face mounting bond maturities in 2022



Outstanding dollar bonds maturing Outstanding yuan bonds maturing

Mortgage guarantee exposure by developer

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Rongqiao Not listed RMB N/A N/A N/A N/A	Sunshine 100	2608.HK	RMB	4,739	4,739	N/A	NA							
	Sincere Property	Not listed	RMB	N/A	N/A	N/A	NA							
Subtotal 39 names seeking extension (FY20 sales: 28.7% market shares) 1,837,447 1,841,889 4,441 0%	Rongqiao	Not listed	RMB	N/A	N/A	N/A	N/A							
	Subtotal 39 names seeking	extension (FY20 sales: 28.7	% market shares)	1,837,447	1,841,889	4,441	0%							

Mortgage guarantee exposure by city

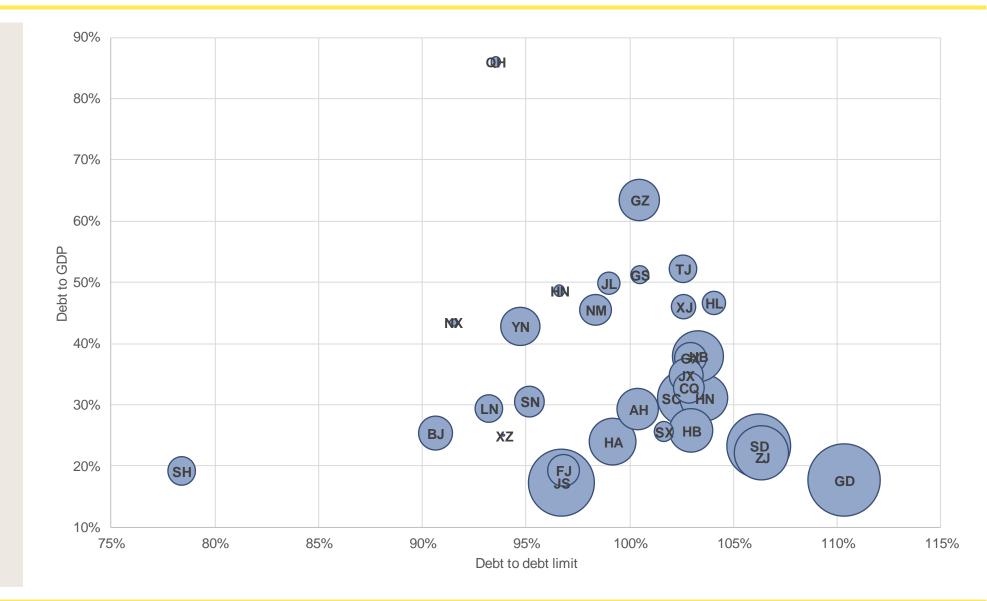


9% of 2021 Sales have delivery issues in 24 key cities (186k units/ 24.7msm GFA)

城市	城市(CN)	尚未交付问题项目	尚未交付问题项目	2021年	问题项目占比	2021年	问题项目占比
		总建面	总套数	成交面积		成交套数	
City	City (CN)	GFA of projects	Units of homes with		% of projects with	Units sold	% of projects with
		with delivery issue	delivery issue	2021	delivery issue	in 2021	delivery issue
		(mn sqm)	(unit)	(mn sqm)	(% of GFA)	(mn sqm)	(% of units)
Zhengzhou	郑州	2.71	25,249	9.48	29%	89,103	28%
Changsha	长沙	4.46	28,139	17.84	25%	136,393	21%
Kunming	昆明	1.43	10,976	6.76	21%	55,076	20%
Fuz hou	福州	0.89	8,077	4.30	21%	41,755	19%
chongqing	重庆	3.31	23,729	19.43	17%	174,987	14%
Nanning	南宁	0.96	7,343	6.13	16%	55,519	13%
Y ancheng	盐城	0.52	4,260	3.40	15%	28,542	15%
Wuhan	武汉	2.74	24,275	19.78	14%	168, 320	14%
Guangzhou	广州	1.43	9, 184	11.79	12%	109,418	8%
Wuxi	无锡	0.66	2,262	6.46	10%	54,487	4%
Shanghai	上海	0.96	8,439	10.54	9%	94,203	9%
Suzhou	苏州	0.67	5,561	9.17	7%	76,001	7%
Xřan	西安	0.61	3,373	8.87	7%	67,552	5%
Tianjin	天津	0.81	7,520	12.82	6%	120,438	6%
Xuzhou	徐州	0.49	3,596	12.62	4%	102,709	4%
Changz hou	常州	0.25	2,654	6.85	4%	54,902	5%
Jinan	济南	0.29	1,895	9.82	3%	76,486	2%
Beijing	北京	0.27	1,393	9.51	3%	81,035	2%
Nanjing	南京	0.31	2,538	12.46	2%	108,930	2%
Shenzhen	深圳	0.14	N/A	5.96	2%	64,690	N/A
Qingdao	青岛	0.34	2,007	14.82	2%	131,490	2%
Chengdu	成都	0.35	2,633	16.73	2%	127,620	2%
Lianyungang	连云港	0.05	411	2.81	2%	22,538	2%
Huaian	淮安	0.03	300	3.19	1%	26,277	1%
Total		24.68	185,814	241.54	10%	2,068,471	9%

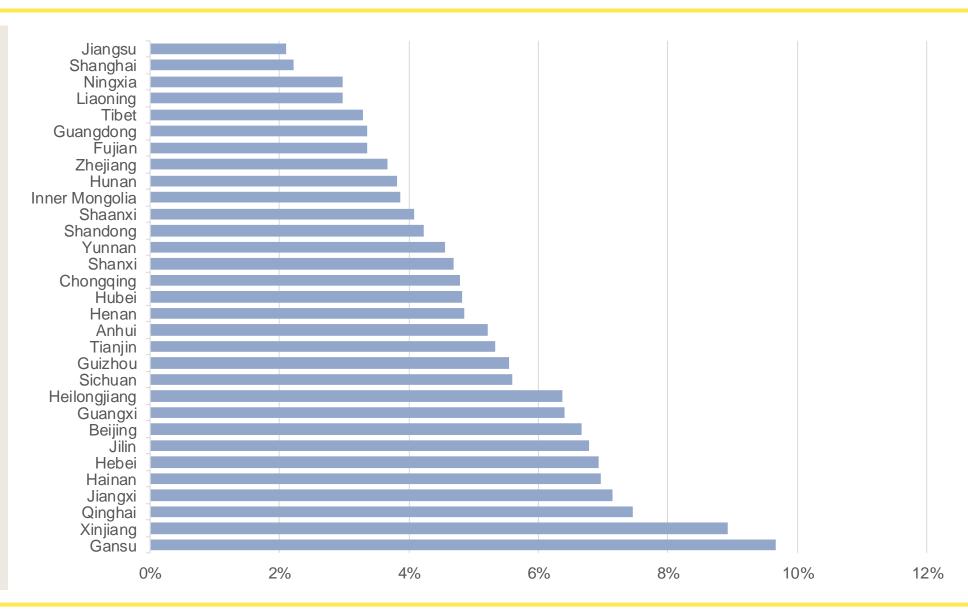
Local governments remain highly indebted





Debt issuance has surged

Five provinces have issued the equivalent of 7% of their GDP in bonds in the first six months of this year.







Need to rapidly grow scale of market

Households with large savings

Limited mortgage market

Developer financing relatively expensive

Shortage of supply means buyer are willing to pre-sale

Prices were rising – pre-sale represented a discount to market



Households increased use of mortgages to finance property acquisitions

Household financial stability - Slowing economy, salary cuts, unemployment

Developer misuse of pre-sale funds

Debt crunch

Delayed handover

Falling house prices

Project quality not up to pre-sale promise

Potential for financial contagion?

Social unrest?



Short term

- No credit rating penalization for home buyers
- Secure buyer down payments
- Developer bailout fund
- Government guarantees project completion

Long term

- Limit presales activity
- Better management of pre-sale escrow funds
- Down payment only pre-sales, remainder of financing provided by banks directly to developers
- · Developers held liable for delayed delivery



Thank you

From the team here at Savills