

State of the residential market

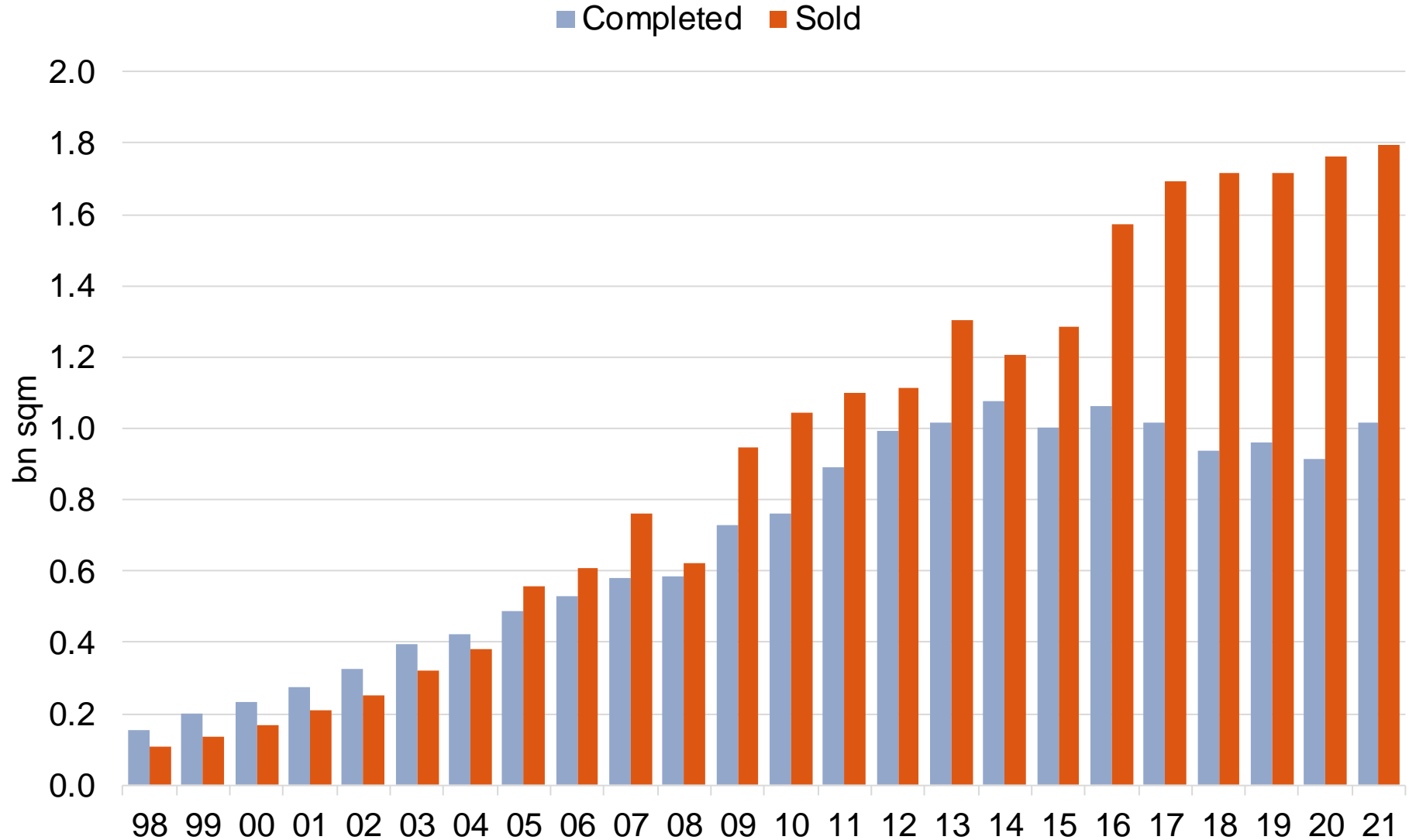
One year on from Evergrande

James Macdonald

Rapid growth in the real estate market

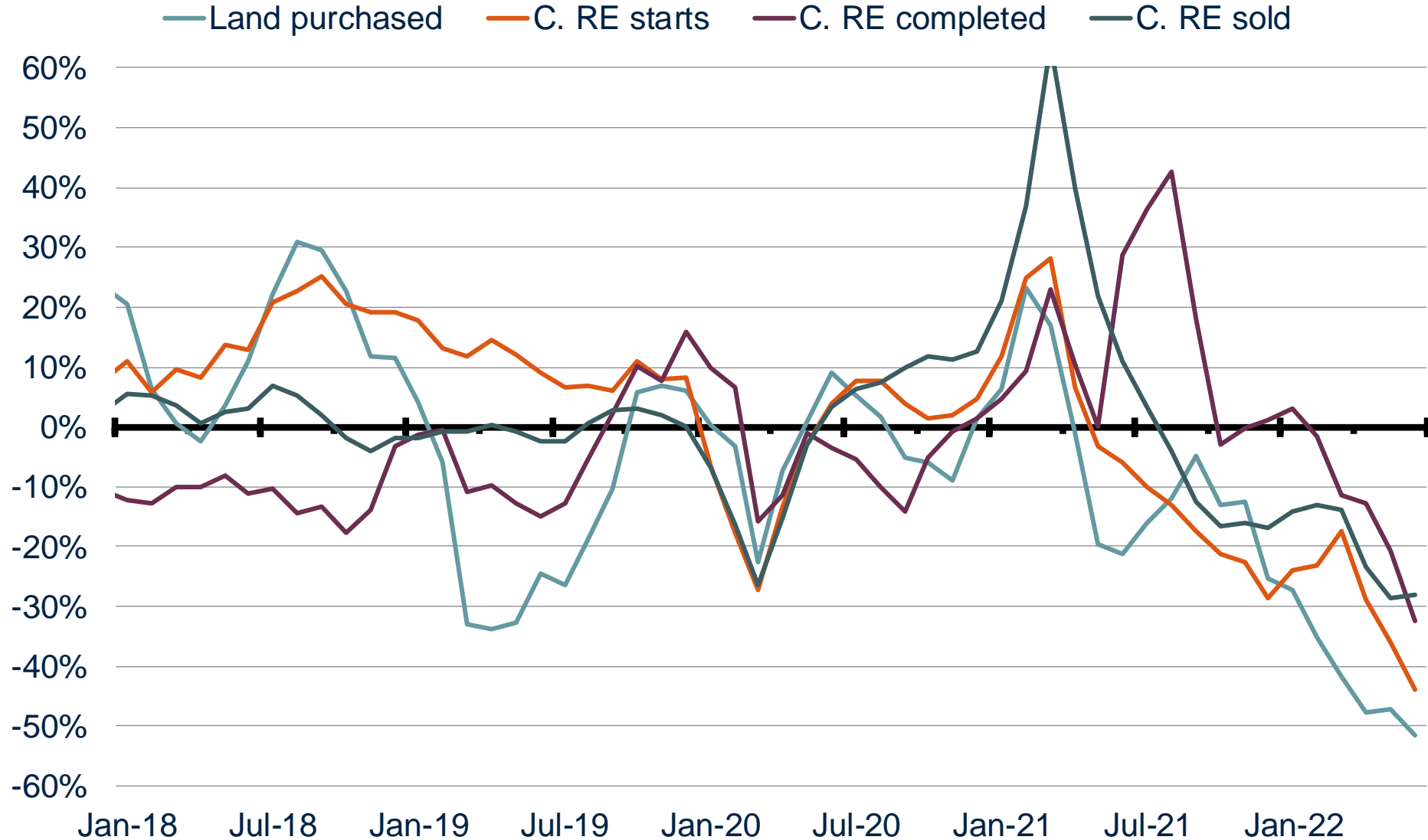
The size of the real estate market has grown at a phenomenal rate over the last two decades with completion volumes increasing from 150 mn sqm back in 1998 to 1.075 bn sqm in 2014.

At this point completion and sales see a significant divergence



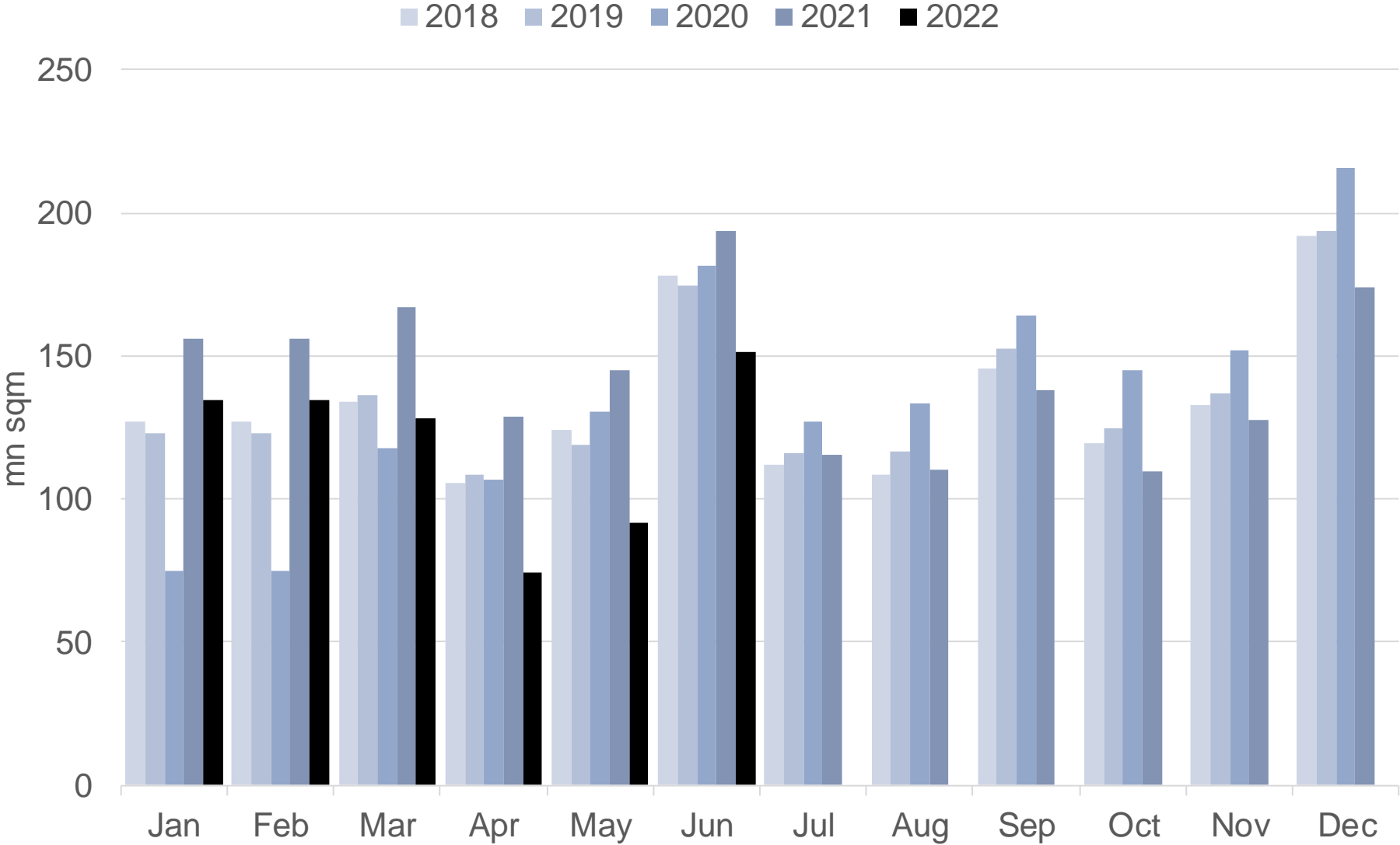
Real estate macro indicator growth rates

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

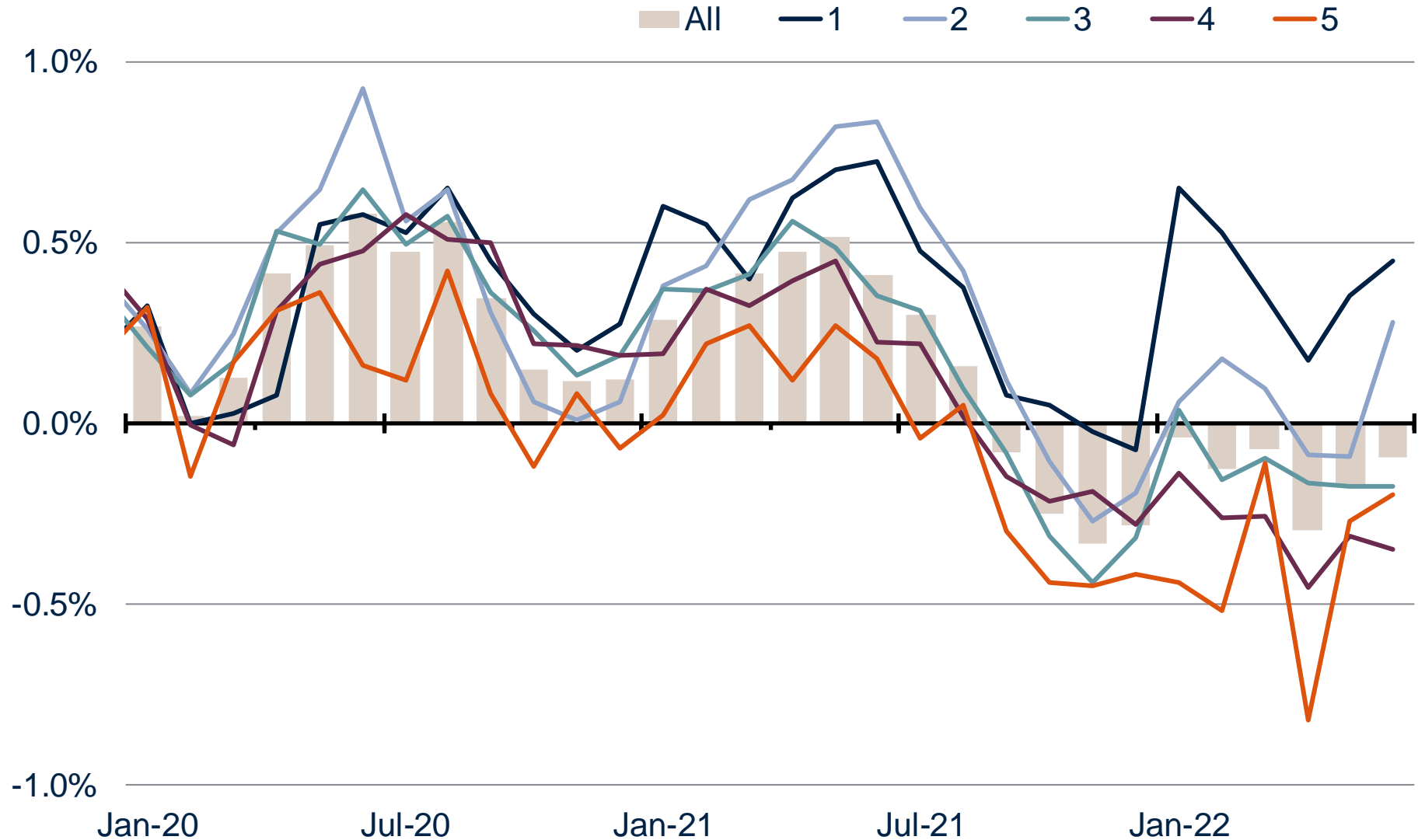
Sales volumes, a key source of financing for developers, are down significantly compared to last year and four-year averages



Real estate price indices

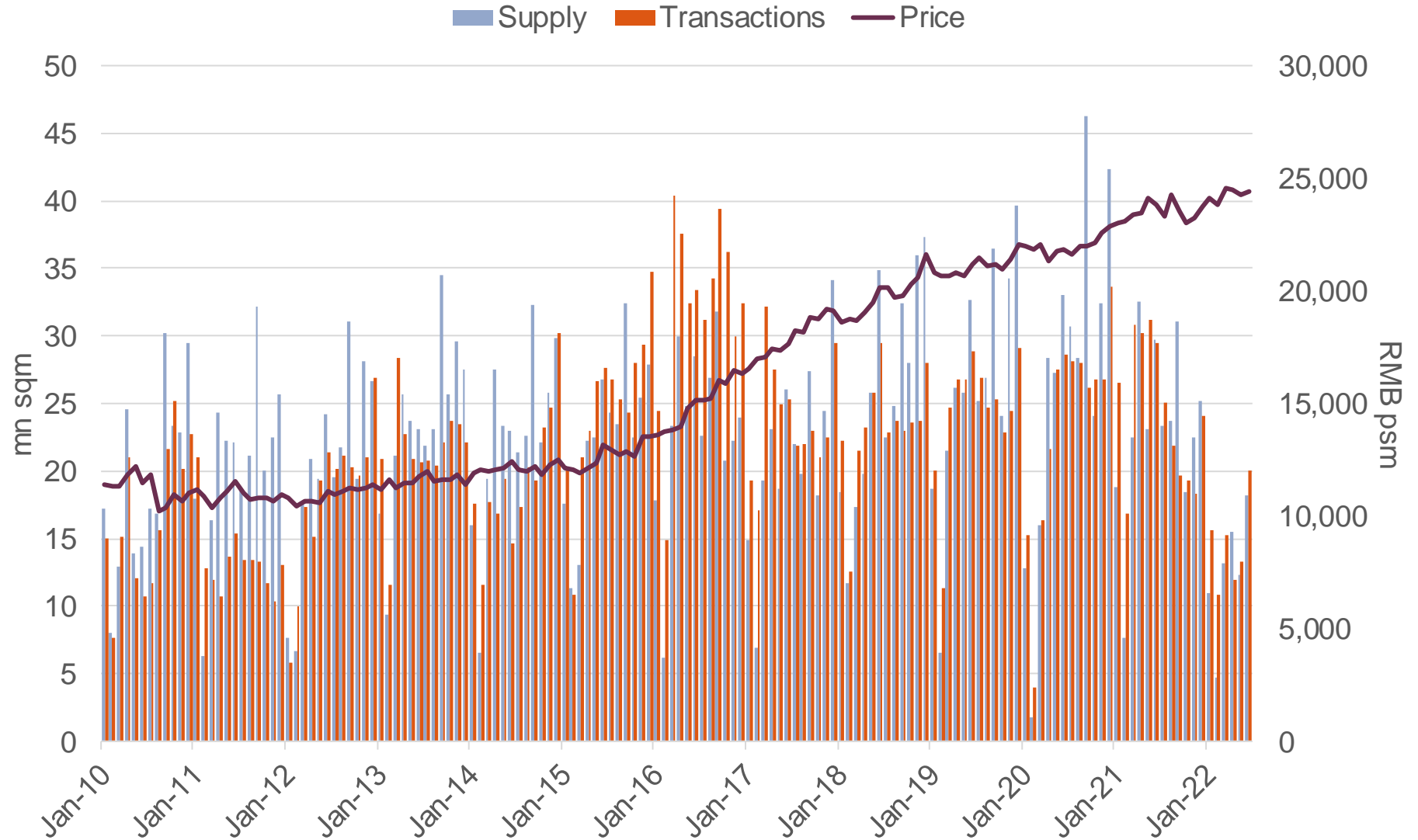
A surprising recovery in prices in first and second-tier cities in June as local authorities continue to remove house purchase restrictions, lower down payment requirements, remove hukou requirements and lower mortgage rates.

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



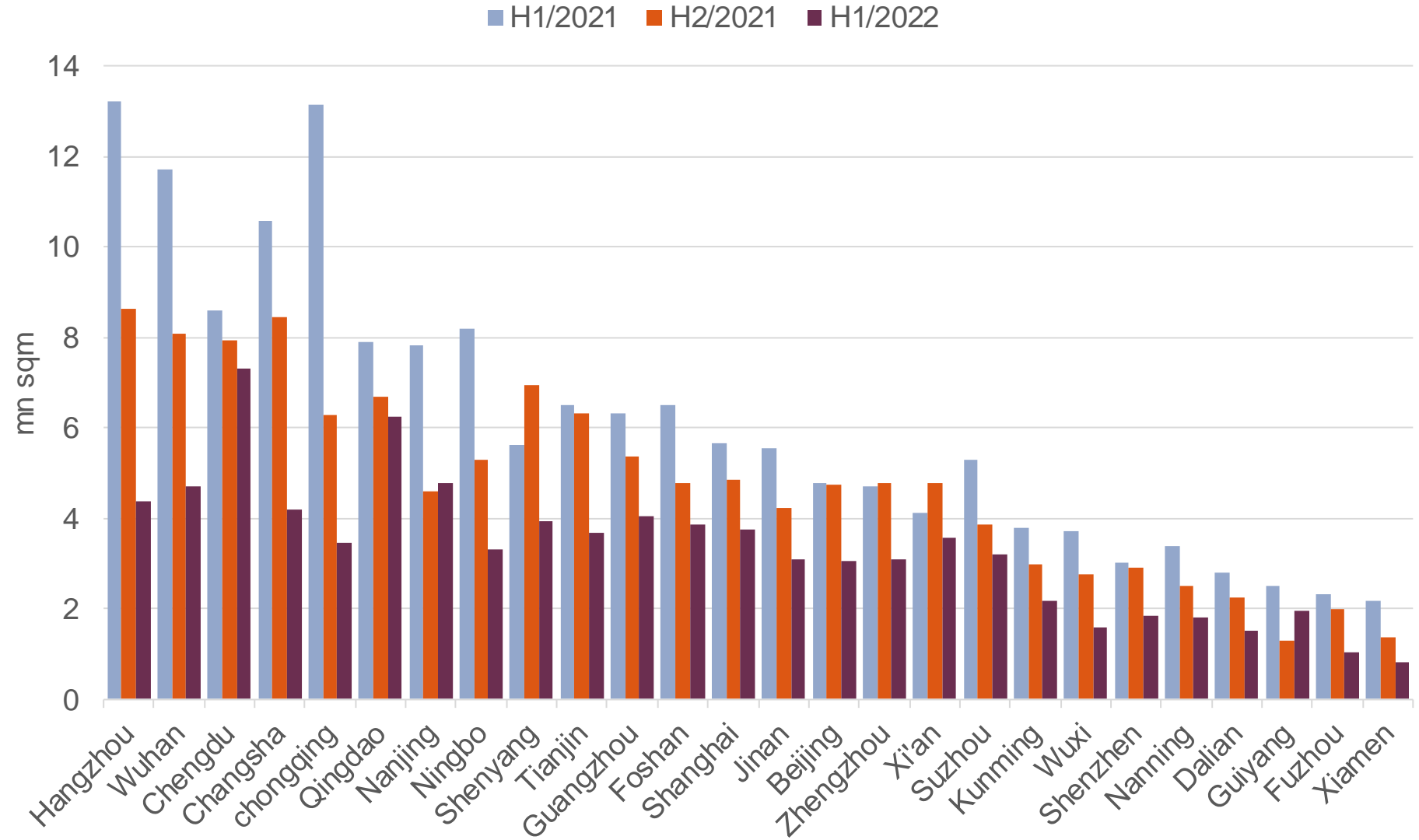
28 city

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



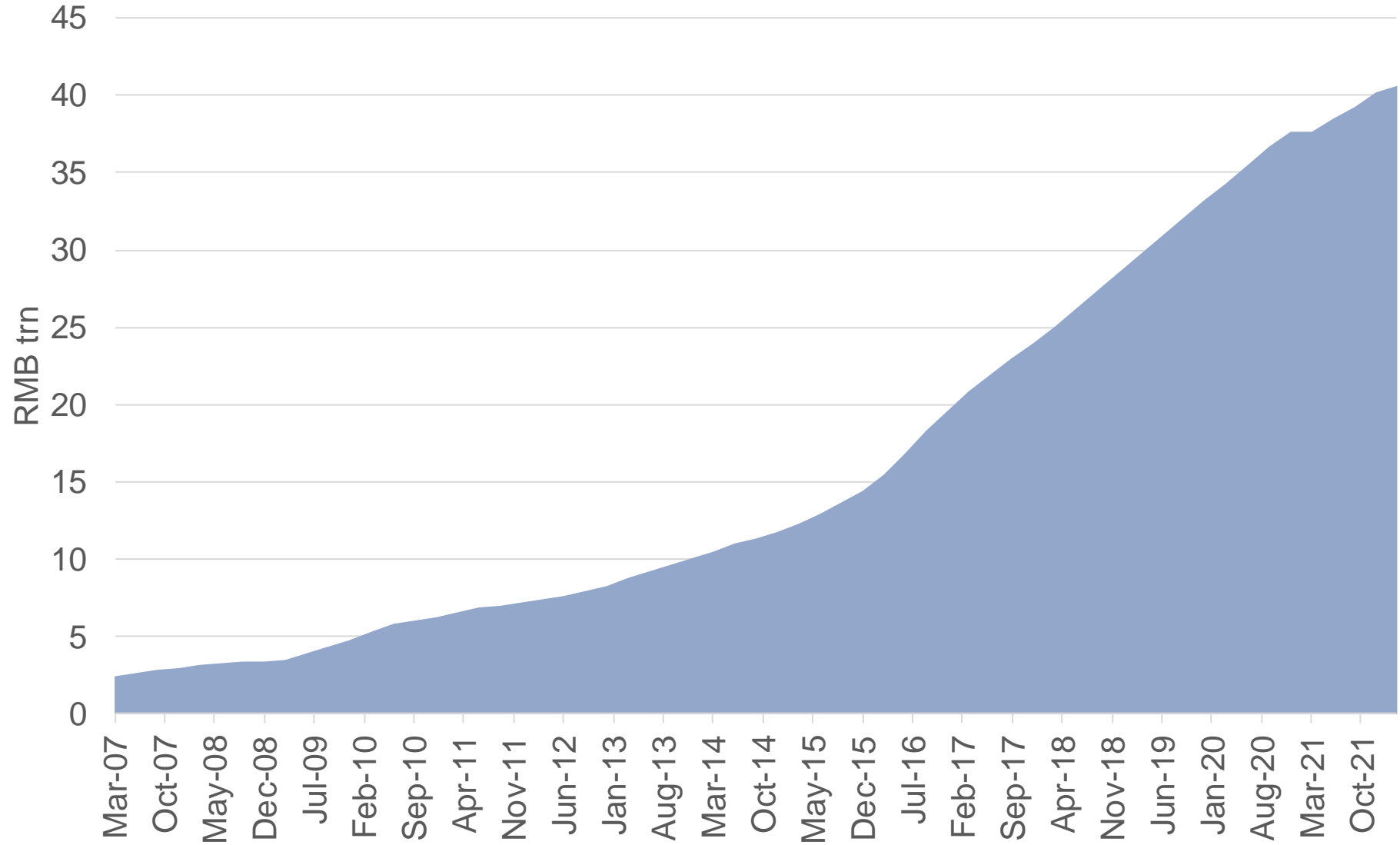
Transaction volumes by city

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



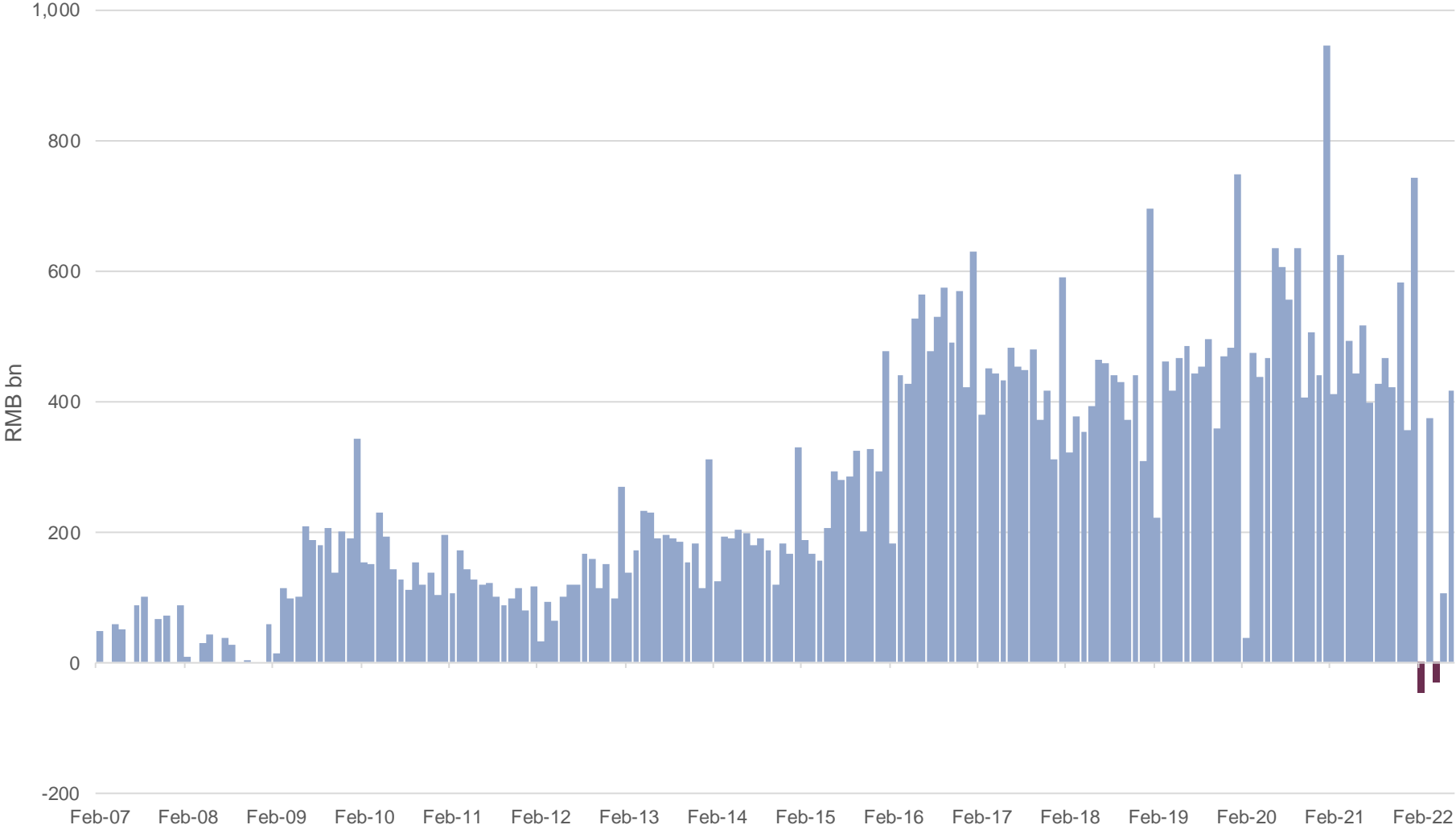
China mortgage market

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



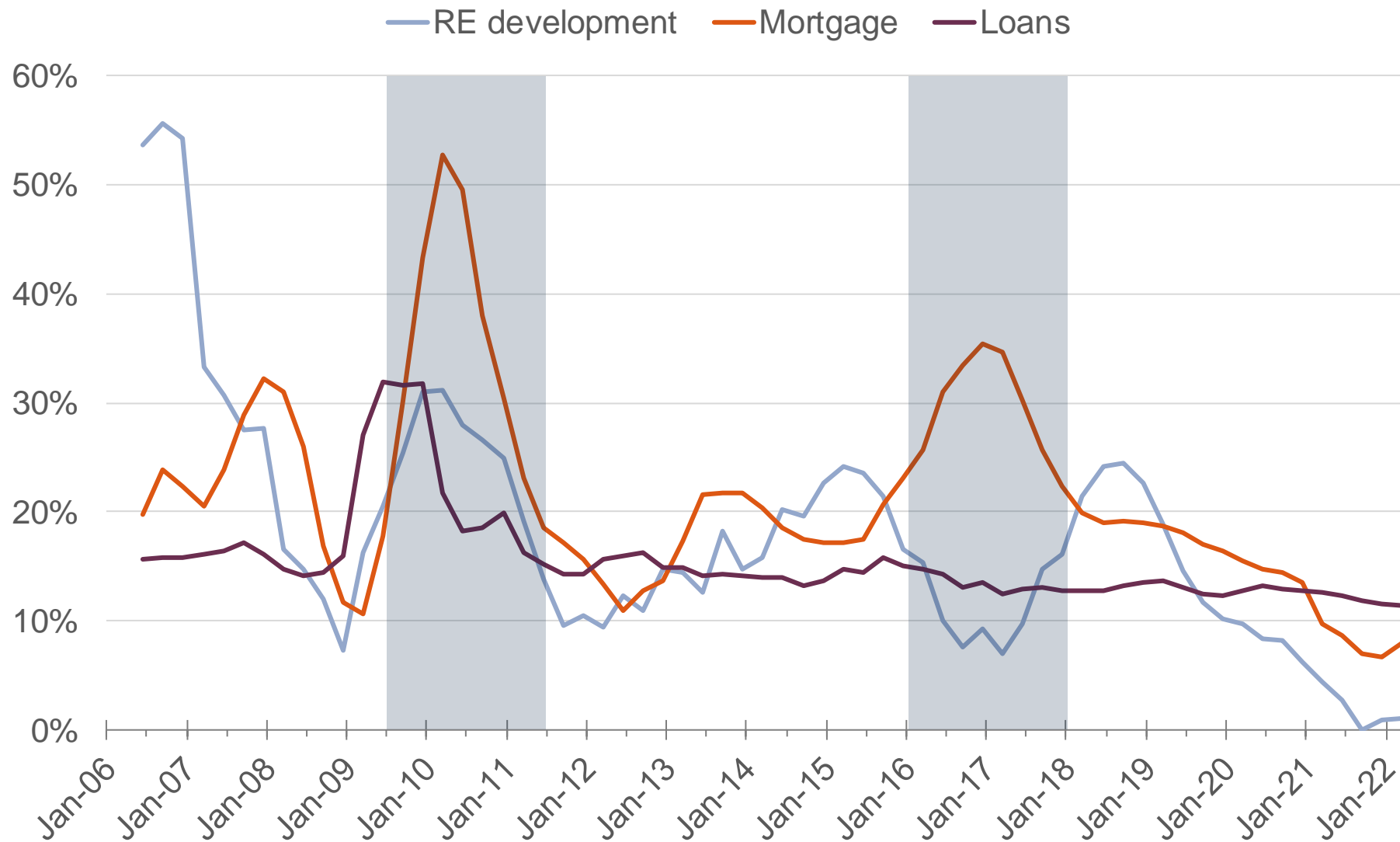
Increase in consumer mid to long term financing

Monthly data on consumer mid to long-term 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

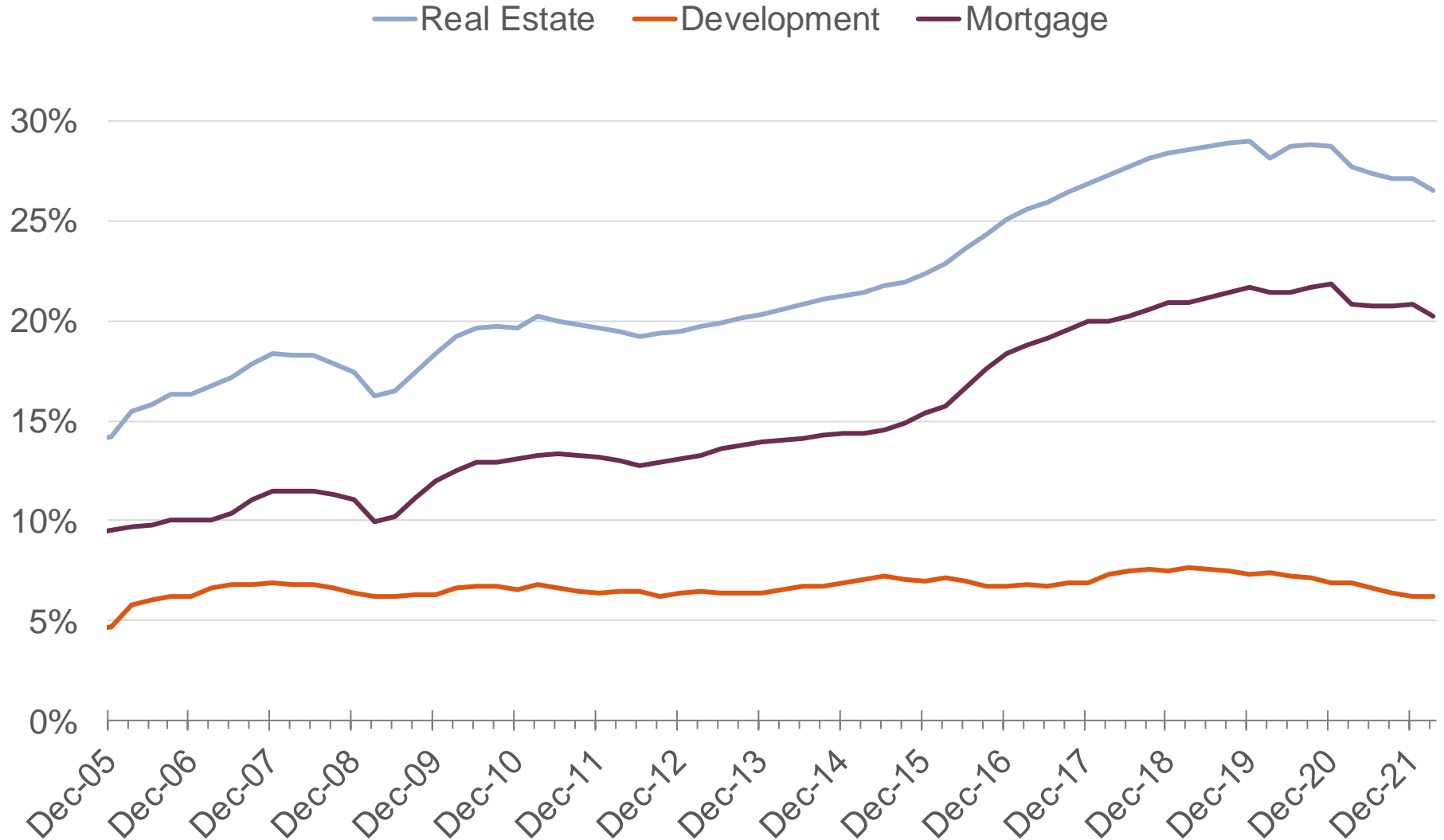


Outstanding loans exposure to real estate

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.

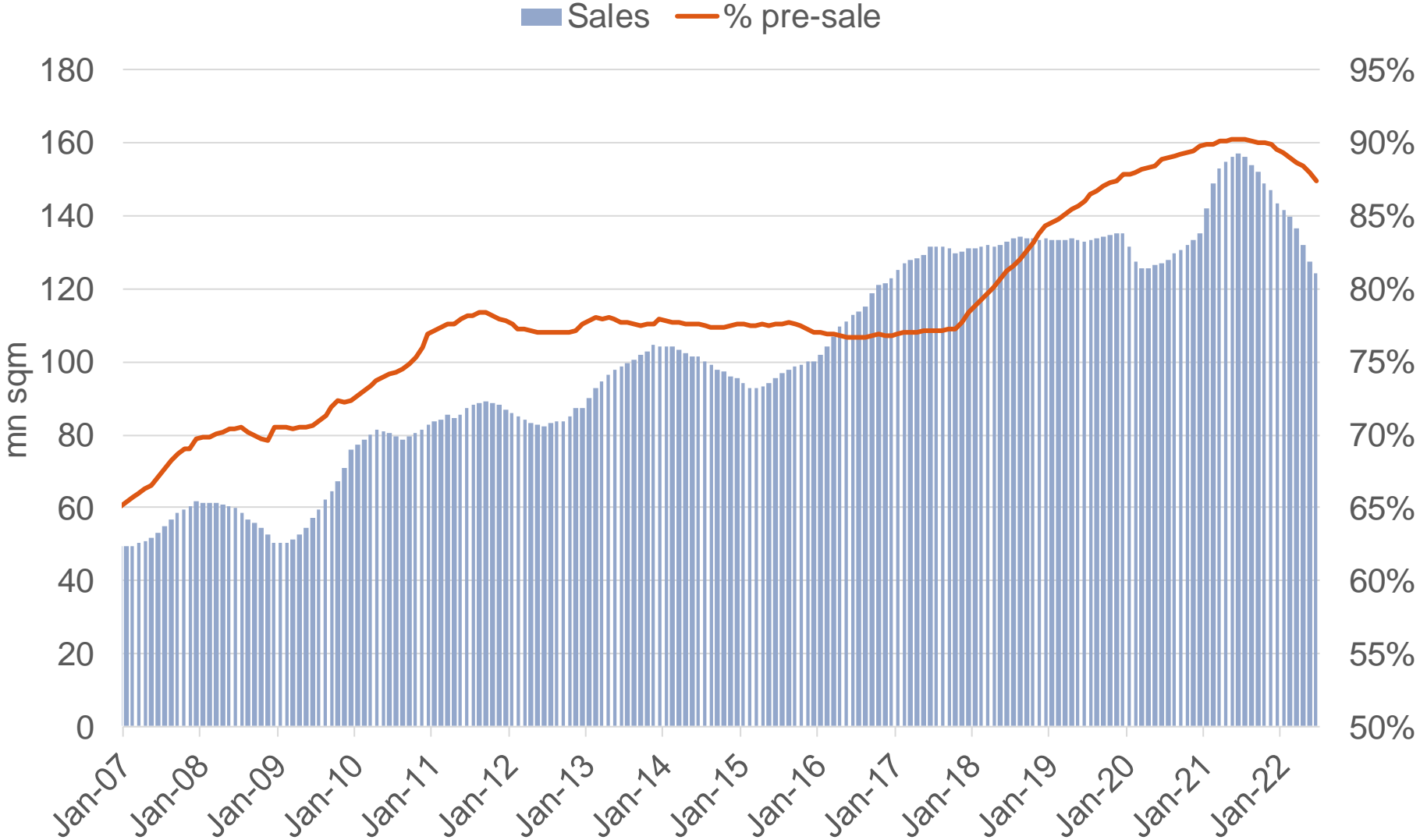
Average loan book exposure to mortgages stands at 20.2% with a further 6.2% to developers.

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



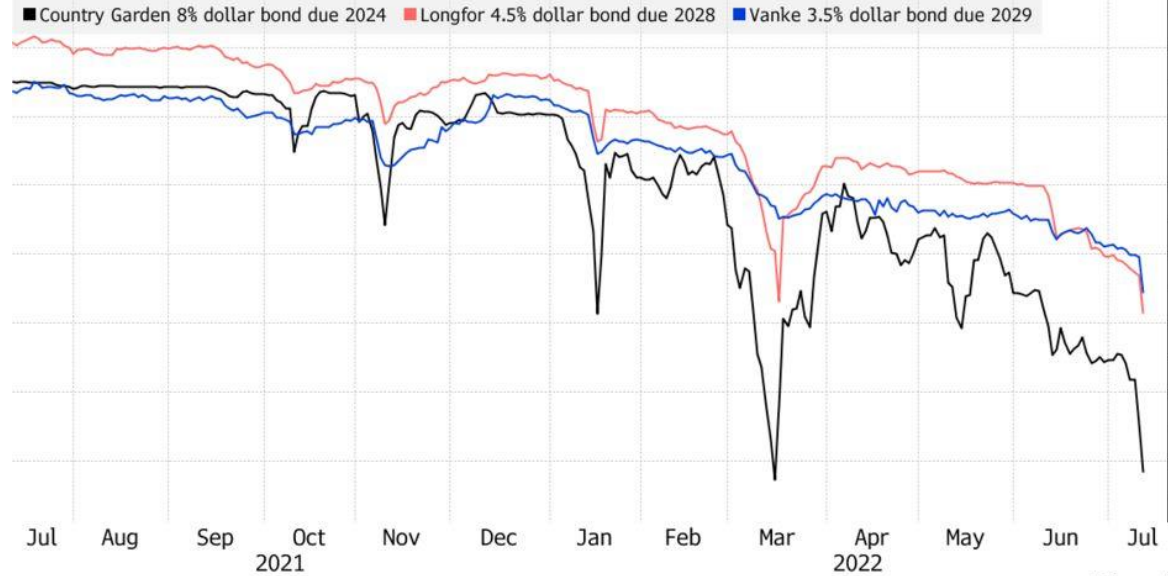
Pre-sales market 12 MMA

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



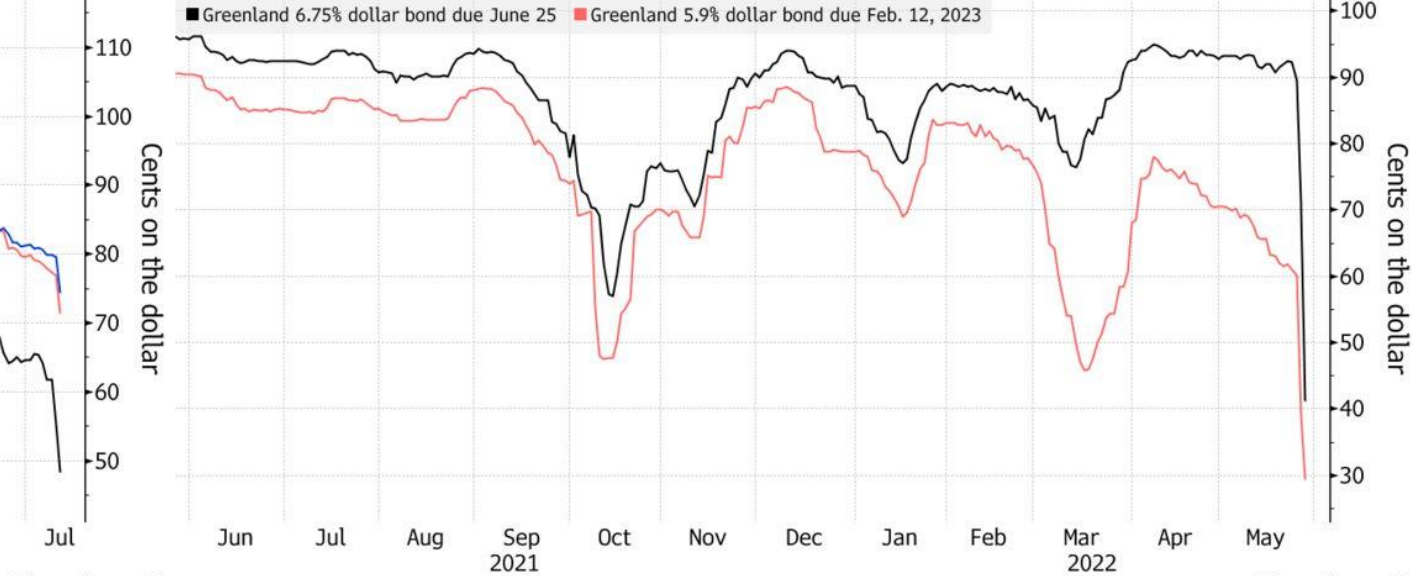
Bond prices continue to fall

Under Pressure Chinese developers' dollar bonds are selling off again



Source: Bloomberg

Falling Further Greenland Holdings dollar bonds add to Thursday's sharp declines



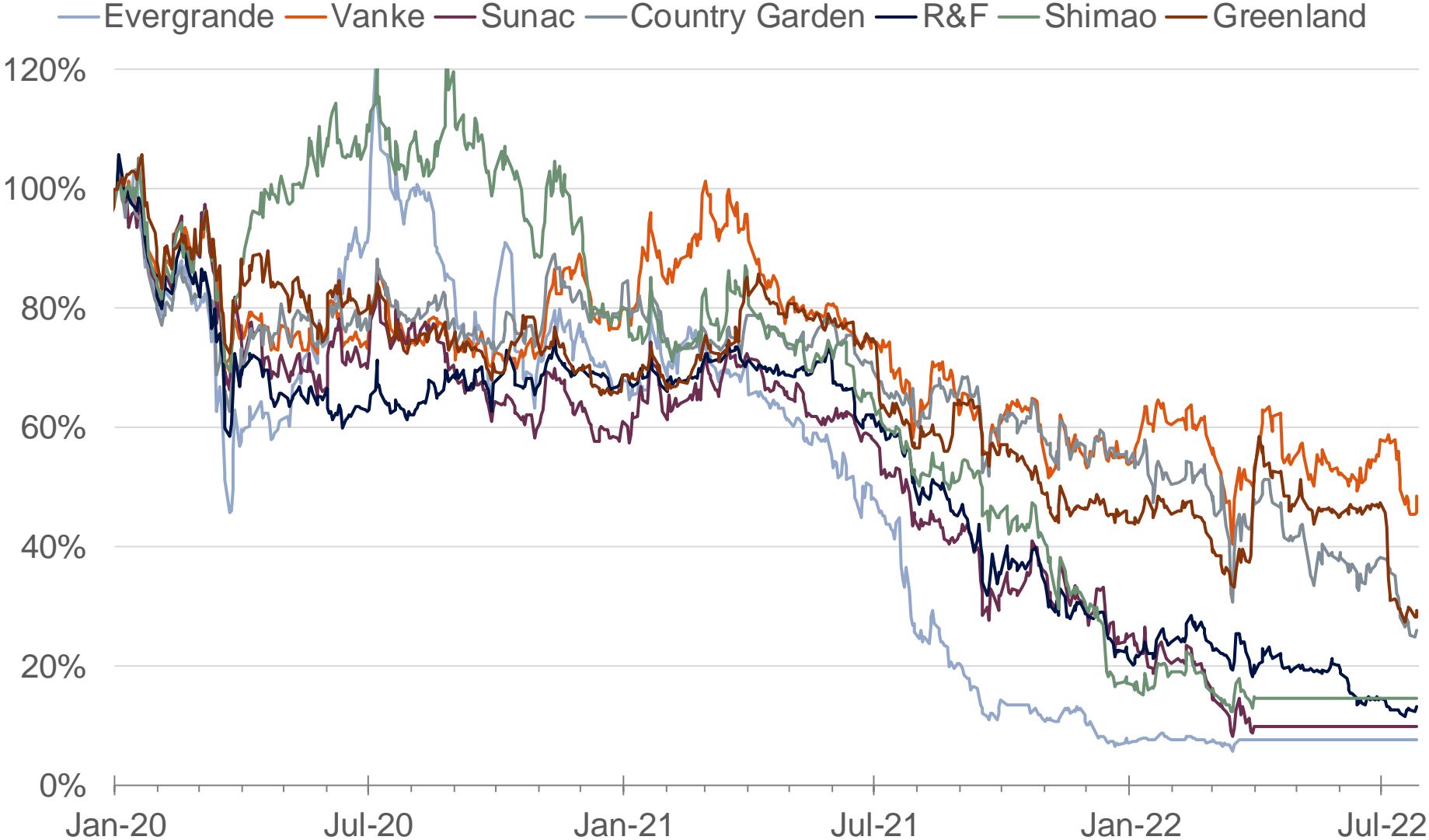
Source: Bloomberg

Bloomberg

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

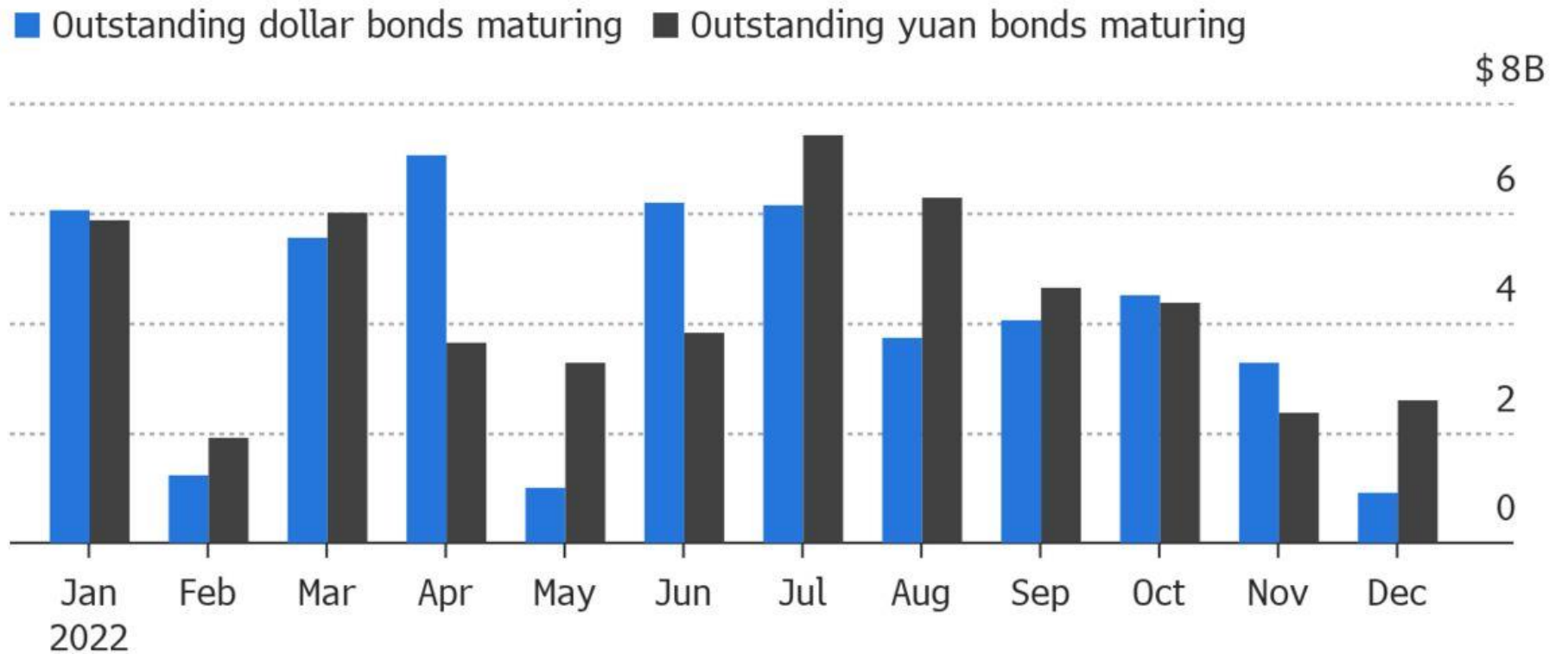


Bond repayment pressure

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

Coming Due

Chinese developers face mounting bond maturities in 2022



Sources: Bloomberg

Note: Yuan bond amounts converted into dollars based on Dec. 31 rate

Bloomberg

Mortgage guarantee exposure by developer

Financial Guarantee on Mortgage as of	RIC	Currency (mn)	End-2020 a	End-2021 b	YoY b-a	YoY (%) b/a-1
39 names that seeking debt extension						
FY21 data available						
Yango	000671.SZ	RMB	83,443	81,161	(2,282)	-3%
CFLD	600340.SS	RMB	71,803	62,342	(9,461)	-13%
Zhongliang	2772.HK	RMB	56,769	61,947	5,177	9%
Zhongnan	000961.SZ	RMB	58,484	52,477	(6,007)	-10%
Langguang Dev	600466.SS	RMB	51,844	48,491	(3,353)	-6%
Jinke	000656.SZ	RMB	38,700	43,300	4,600	12%
RiseSun	002146.SZ	RMB	34,627	36,902	2,275	7%
Zhenro	6158.HK	RMB	32,161	34,711	2,550	8%
Powertlong	1238.HK	RMB	29,462	32,685	3,224	11%
Ronshine	3301.HK	RMB	35,569	28,956	(6,613)	-19%
Tahoe	000732.SZ	RMB	27,760	27,760	0	0%
Shinsun	2599.HK	RMB	27,241	22,251	(4,991)	-18%
Yuzhou	1628.HK	RMB	16,413	18,235	1,822	11%
Leading	6999.HK	RMB	11,594	17,687	6,092	53%
China South City	1668.HK	RMB	16,818	16,296	(522)	-3%
Ganglong China Property	6968.HK	RMB	7,913	11,453	3,540	45%
Redco	1622.HK	RMB	9,695	11,427	1,732	18%
Sunkwan Properties	6900.HK	RMB	6,325	7,856	1,531	24%
Yincheng International	1902.HK	RMB	5,131	7,473	2,342	46%
Dafa	6111.HK	RMB	4,497	6,404	1,907	42%
JY Grandmark	2231.HK	RMB	1,342	1,637	295	22%
Yida China	3639.HK	RMB	505	1,029	524	104%
Golden Wheel Tiandi	1232.HK	RMB	269	326	57	21%
Subtotal 23 names seeking extension with FY21 data available			628,364	632,805	4,441	1%
FY21 data not available (assume flat yoy)						
Evergrande	3333.HK	RMB	550,189	550,189	N/A	N/A
Sunac	1918.HK	RMB	139,140	139,140	N/A	N/A
Greenland Holdings	600606.SS	RMB	124,950	124,950	N/A	N/A
Aoyuan	3883.HK	RMB	110,427	110,427	N/A	N/A
GZ R&F	2777.HK	RMB	102,090	102,090	N/A	N/A
Logan	3380.HK	RMB	38,447	38,447	N/A	N/A
Shimao	0813.HK	RMB	24,376	24,376	N/A	N/A
Kaisa	1638.HK	RMB	27,273	27,273	N/A	N/A
Sinic	2103.HK	RMB	38,450	38,450	N/A	N/A
Fantasia	1777.HK	RMB	12,843	12,843	N/A	N/A
Modern Land	1107.HK	RMB	15,218	15,218	N/A	N/A
Jingrui	1862.HK	RMB	5,417	5,417	N/A	N/A
Xinyuan Real Estate	XIN.N	RMB	15,525	15,525	N/A	N/A
Sunshine 100	2608.HK	RMB	4,739	4,739	N/A	N/A
Sincere Property	Not listed	RMB	N/A	N/A	N/A	N/A
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%

Financial Guarantee on Mortgage as of	RIC	Currency (mn)	End-2020 a	End-2021 b	YoY b-a	YoY (%) b/a-1
20 covered names						
Country Garden	2007.HK	RMB	381,302	383,217	1,915	1%
Poly China	600048.SS	RMB	119,769	173,059	53,291	44%
Midea RE	3990.HK	RMB	80,417	90,112	9,695	12%
Seazen	1030.HK	RMB	80,015	73,049	(6,966)	-9%
CR Land	1109.HK	RMB	62,985	65,232	2,247	4%
COLI	0688.HK	RMB	69,530	64,750	(4,780)	-7%
Agile	3383.HK	RMB	51,378	51,824	446	1%
Greentown	3900.HK	RMB	37,066	47,857	10,791	29%
CM Shekou	001979.SZ	RMB	37,591	46,186	8,595	23%
Jinmao	0817.HK	RMB	30,338	38,661	8,323	27%
COGO	0081.HK	RMB	34,686	38,338	3,653	11%
Times	1233.HK	RMB	29,868	36,973	7,105	24%
CIFI	0884.HK	RMB	23,415	31,164	7,749	33%
Yuexiu	0123.HK	RMB	32,040	29,520	(2,520)	-8%
SCE	1966.HK	RMB	28,666	21,647	(7,019)	-24%
KWG	1813.HK	RMB	20,272	21,016	745	4%
Hopson	0754.HK	HKD	16,869	17,502	634	4%
Sino-Ocean	3377.HK	RMB	9,800	15,826	6,026	61%
Longfor	0960.HK	RMB	10,522	11,607	1,085	10%
SZI	0604.HK	HKD	9,122	5,805	(3,317)	-36%
Others	Others	RMB	228,226	244,430	16,204	7%
Subtotal 20 covered names			1,393,874	1,507,776	113,902	8%
Total 59 names (FY20 sales: 55.9% market shares)			3,231,322	3,349,665	118,343	4%

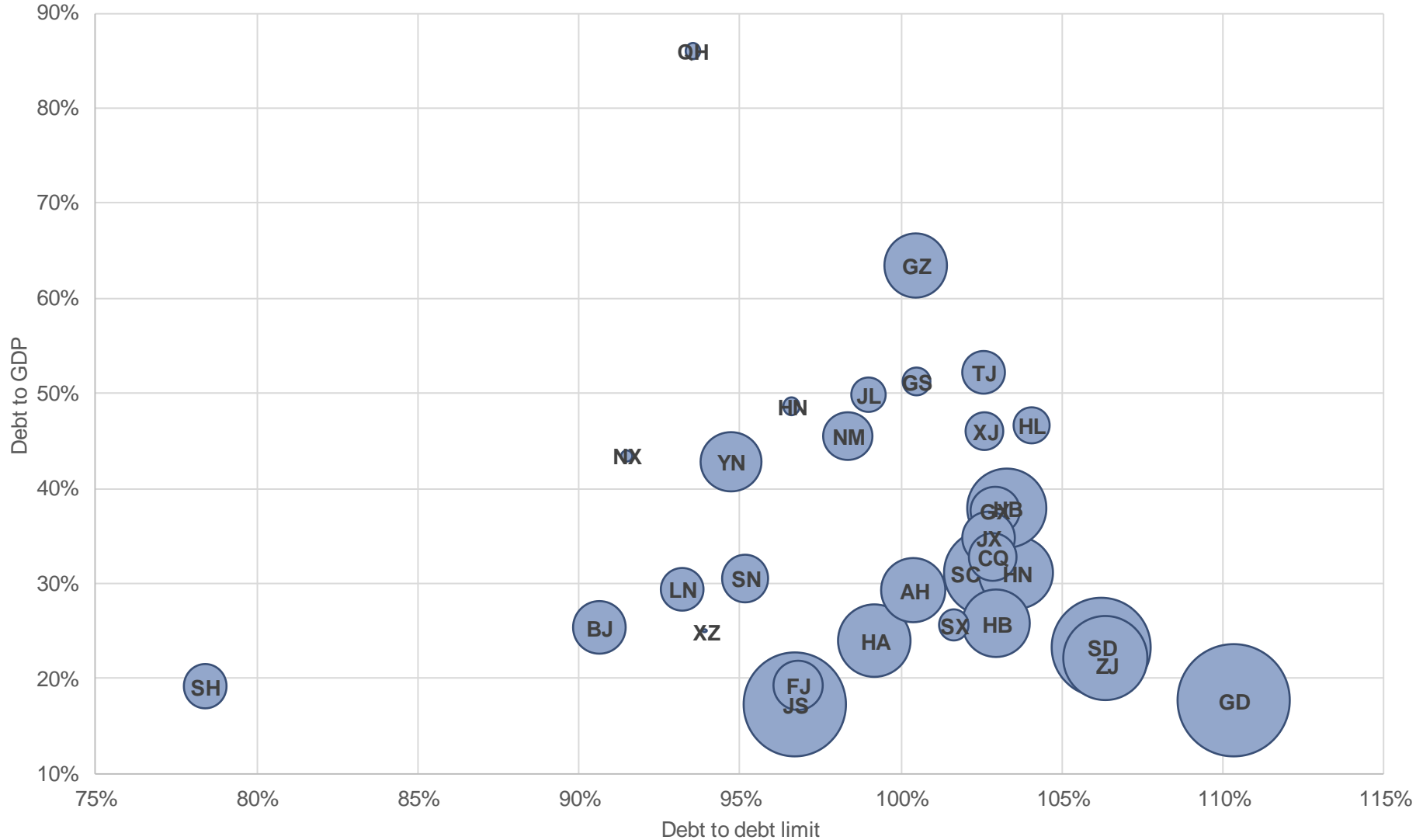
39 property names with credit issues have Rmb1.84trn mortgage guarantee (2020 sales market shares 28.7%)

Mortgage guarantee exposure by city

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

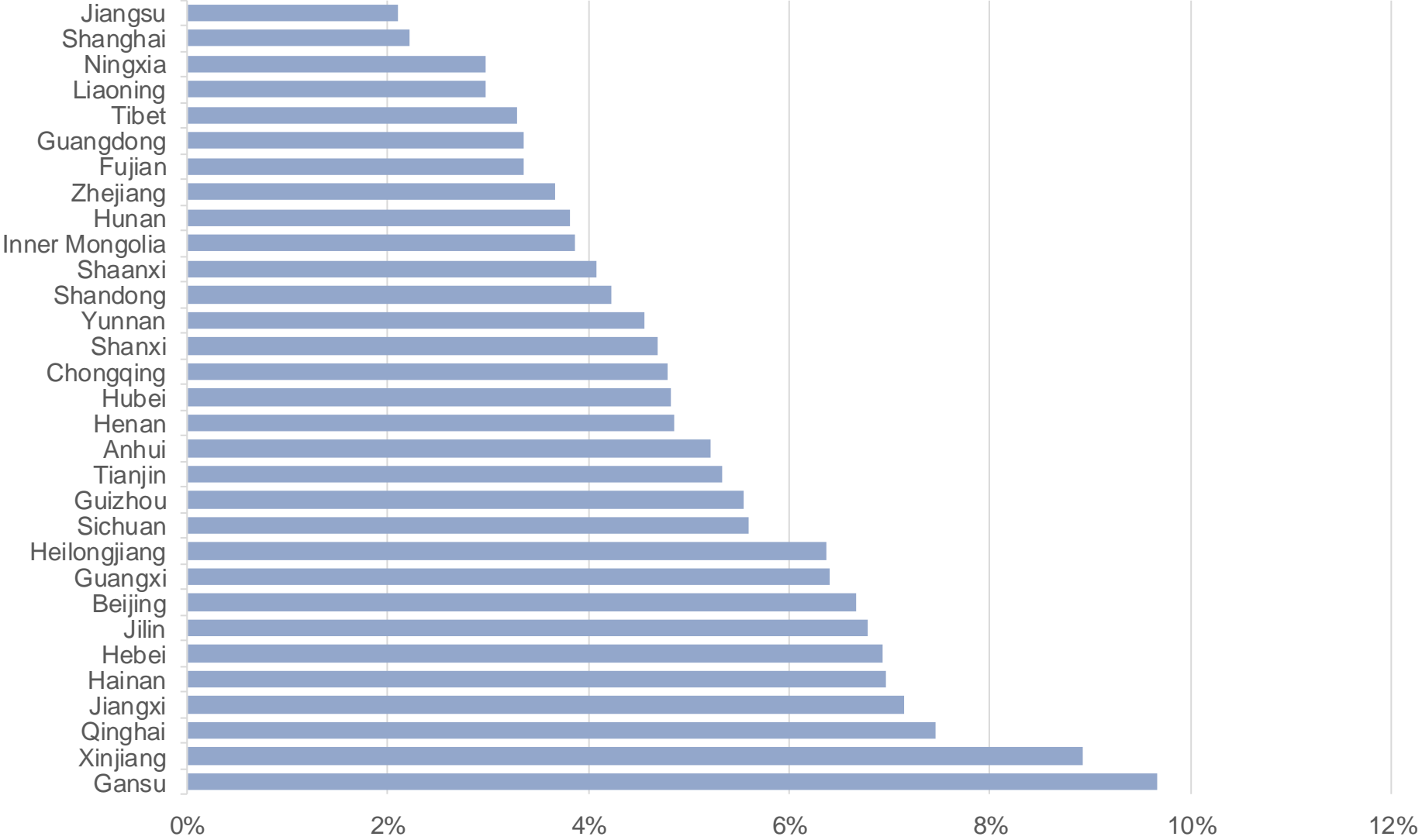
城市	城市 (CN)	尚未交付问题项目 总建面	尚未交付问题项目 总套数	2021年 成交面积	问题项目占比	2021年 成交套数	问题项目占比
City	City (CN)	GFA of projects with delivery issue (mn sqm)	Units of homes with delivery issue (unit)	GFA sold in 2021 (mn sqm)	% of projects with delivery issue (% of GFA)	Units sold in 2021 (mn sqm)	% of projects with delivery issue (% 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%
Fuzhou	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%
Yancheng	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%
Xi'an	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%
Changzhou	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%
Huai'an	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.



Pre-sales – A historical legacy

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

Pre-sales the problem

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?

What can be done?

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
