



Perspectives of Housing Finance in China

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The glorious
Bund in Shanghai

*Signifying a mixing story of
real estate market in China....*

The shabby
downtown
in Shanghai



Outline

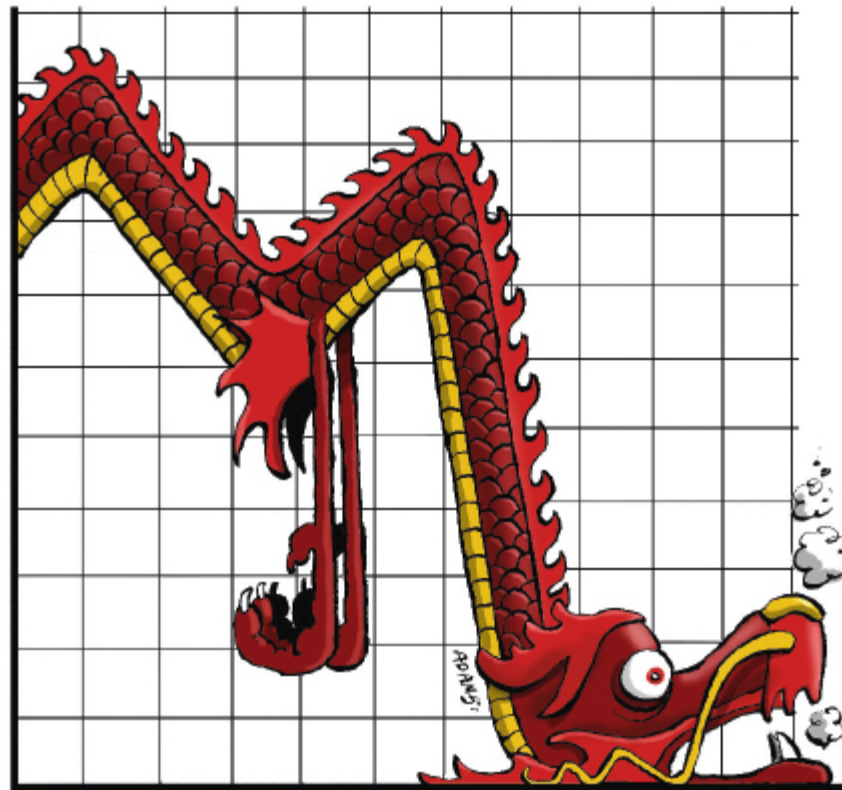
- Macro Economy in China
- Housing Market in China
- Housing Finance in China
- Future Outlooks

Forget Greece: China's economic slowdown is the biggest story of the year

There's hardly an industry or a part of the world that isn't counting on China to keep growing strongly. Soon, that could be a big problem

Elliot Wilson 15 August 2015

119 Comments



Real downers

To August 25th 2015

CSI 300 stockmarket index

December 31st 2004=1,000

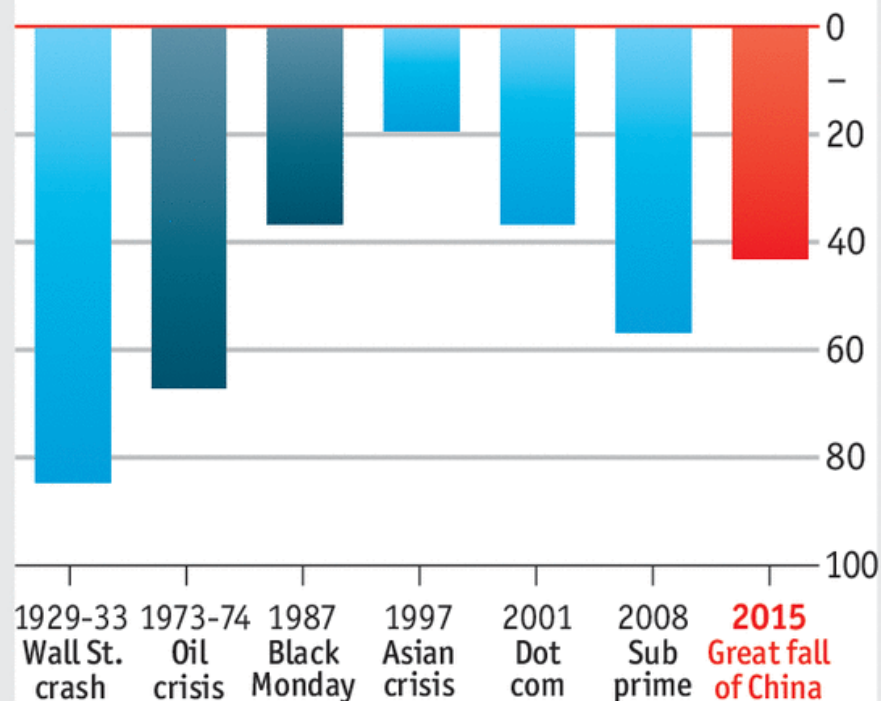


Sources: Thomson Reuters; Robert Shiller; NBER

Stockmarket losses during selected financial crises

Local currency, % decrease from peak to trough, 0=peak

Equities: American British Chinese

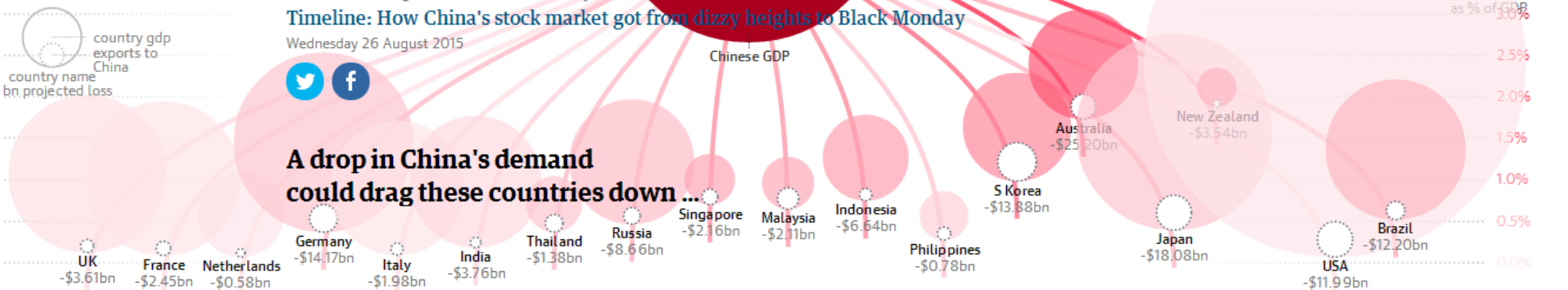


How China's economic slowdown could weigh on the rest of the world

In the year to July, China's customs agency reports that imports from Australia are down by \$15bn dollars on the same period last year - a loss which is already equal to 1% of Australia's GDP, and many other countries stand to lose out to similar degrees. China's imports overall are down by 14.6% over 2015. Find out what happens if this decline continues for the rest of the year - or worsens - and how that loss compares to each country's GDP.

Timeline: How China's stock market got from dizzy heights to Black Monday

Wednesday 26 August 2015

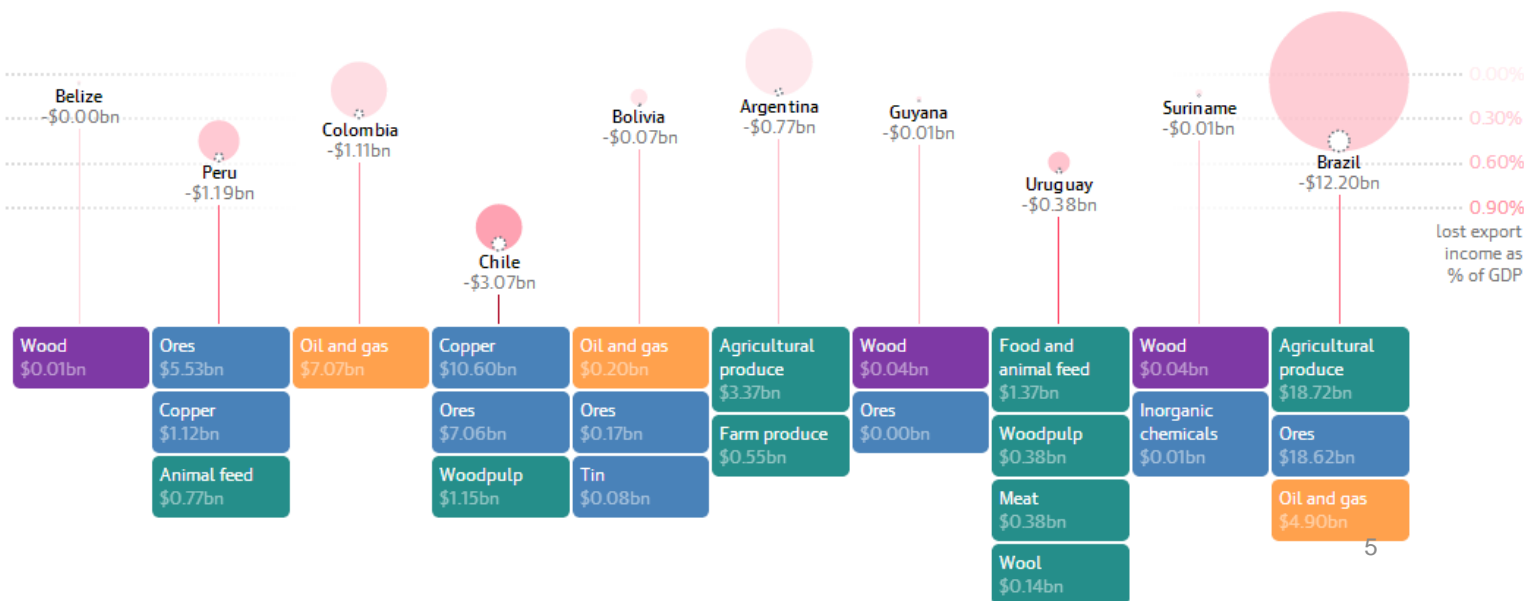


A drop in China's demand could drag these countries down ...

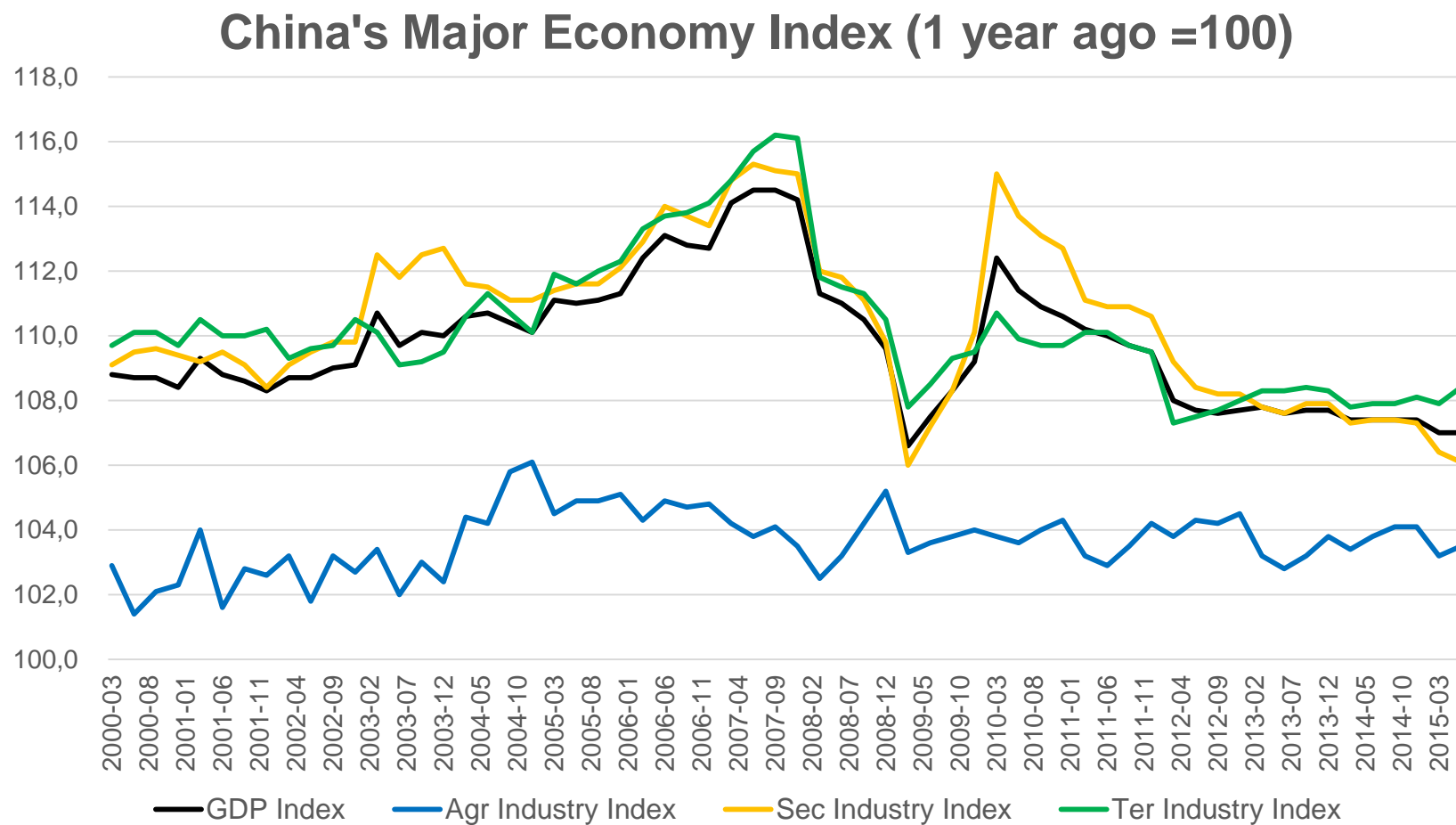
South America

The most exposed South American country is Chile, which exports copper. Elsewhere the main division is between extractive industries in the Andes - especially soya - from the southern cone.

- Food and agriculture
- Manufactures
- Primary materials
- Energy
- Other



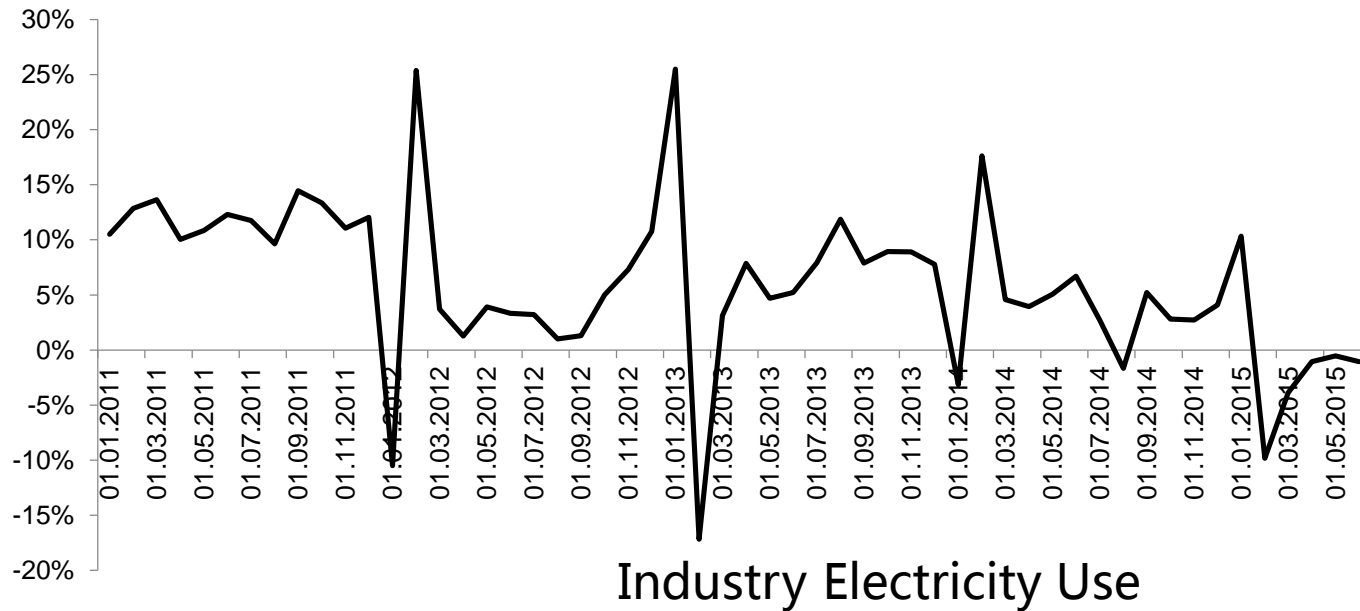
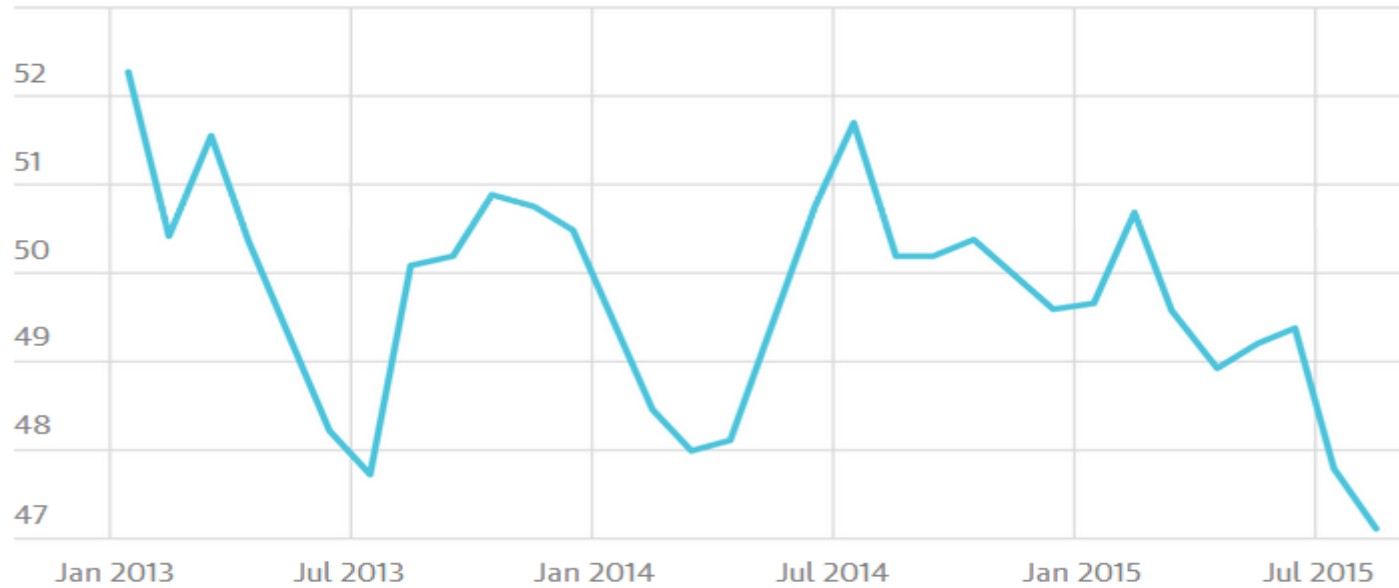
Poor Economy Performance



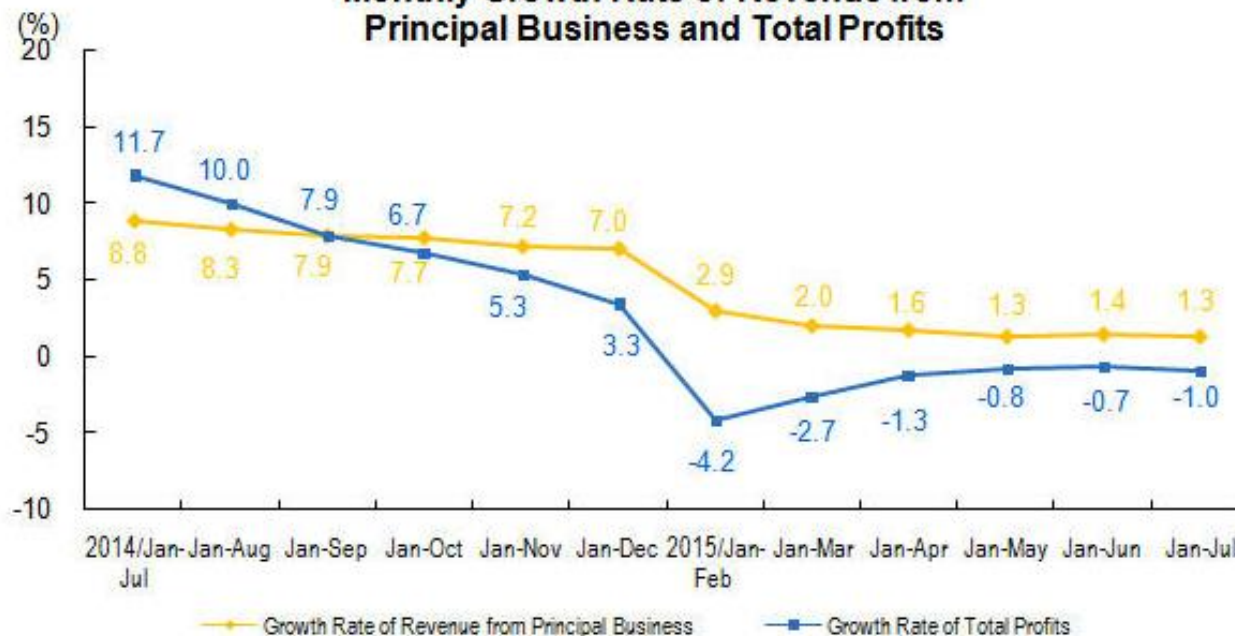
Manufacturing PMIs

Caixin, Index

53

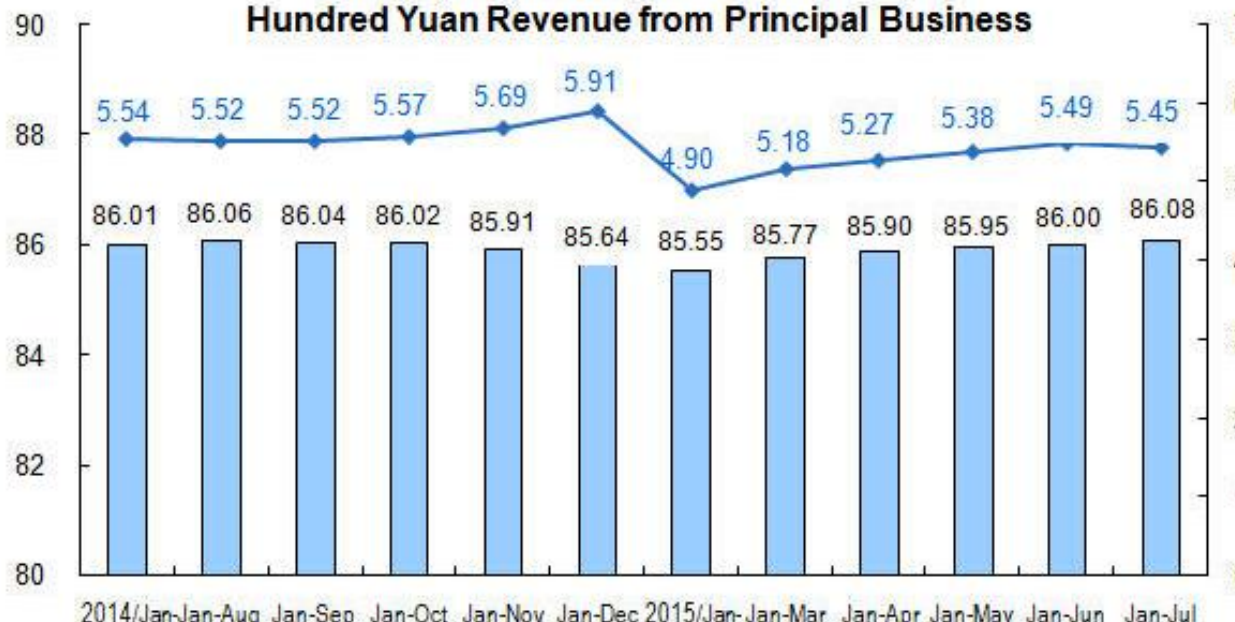


Monthly Growth Rate of Revenue from Principal Business and Total Profits



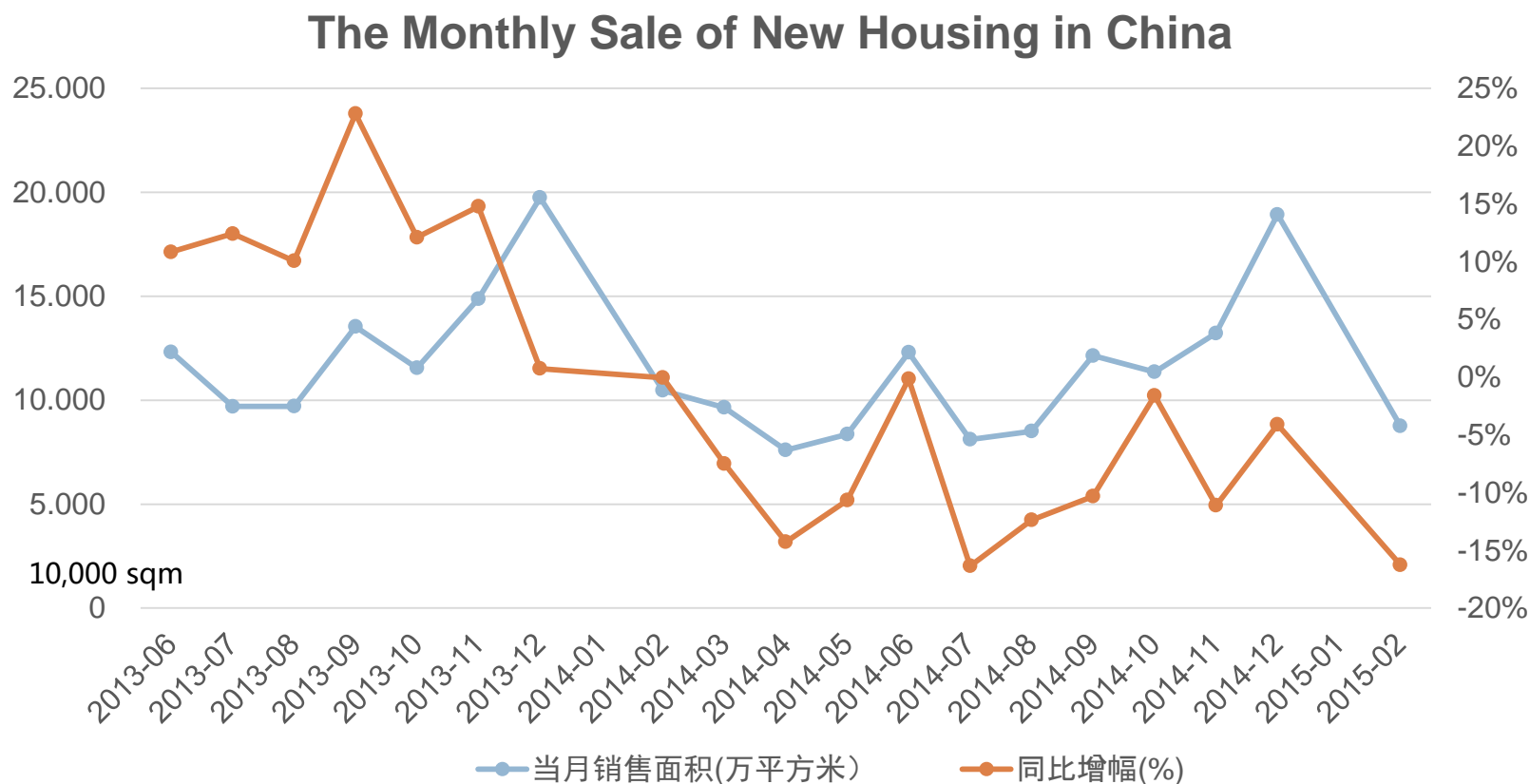
From January to July, the industrial profits of enterprises above designated size achieved 3317.31 billion RMB, a year-on-year decrease of 1.0 percent.

Monthly Profit Margin and Costs of per Hundred Yuan Revenue from Principal Business



From January to July, the profit margin from principal business of industrial enterprises above designated size hit 5.45 percent

The Housing Market Going Down



In 2014, the sale space of new commodity housing in China was 1.21 billion s.q.m, which was 7.6% lower than one year ago. Among it, the sale space of new residential housing dropped 9.1% . In terms of sale value, the total housing dropped by 6.3% while residential housing dropped by 7.8%.

The hardest time?

- Many property developers reported higher debt levels and thinner margins amid the slowing economy.
- *“We are definitely facing the most challenging years for our mainland investment property business in 15 years,”* said Ronnie Chan, chairman of commercial property developer Hang Lung Properties Ltd., in his letter to shareholders dated March 24.
- *“The time to recovery might be even longer than we had expected. Frankly, we cannot see the end of it at this stage,”* he added.

Series of rescue packages

- In September 2014, the PBC allowed purchasers of second homes to be considered first-time buyers if they have paid off mortgages. Banks are encouraged to offer as much as a 30% discount on benchmark rates for mortgages.
- On May 30, 2015, as part of efforts to encourage upgraders to take the plunge, the **PBC and the Housing Ministry**:
 - The minimum down payment of buyers of second homes was lowered to 40%, down from the previous 60%;
 - The minimum down payment of first-home buyers was lowered to 20%, as opposed to 30% previously.
- Same day, Property owners will be exempt from a business tax (5.5%) on the sale of an ordinary home if they have owned it for at least 2 years, down from 5 years previously.
- Interest rates have been cut down 4 times since November 2014.

Housing sale get a boost but mainly in the East

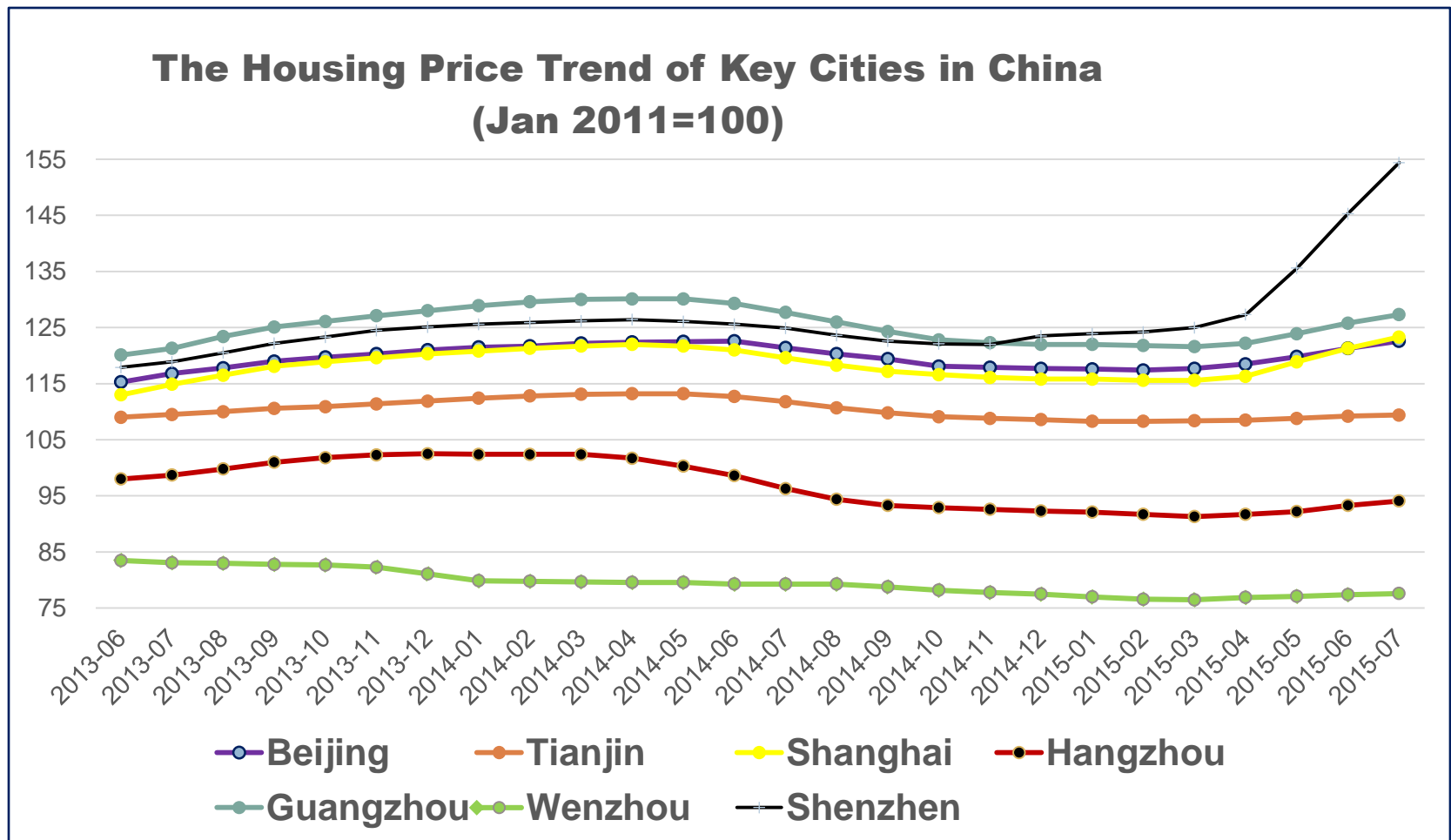
Sales of Commercial Buildings in Eastern, Central and Western Regions for January-July

Regions	Floor Space of Commercial Buildings Sold		Sales of Commercial Buildings	
	Absolute Value (1000 Sq.m)	Growth Rate Y/Y (%)	Absolute Value (100 million yuan)	Growth Rate Y/Y (%)
National Total	59914	6.1	41171	13.4
Eastern	28710	8.6	25146	19.6
Central	15698	3.3	8057	5.8
Western	15506	4.4	7968	3.8

Real Estate Investment in Eastern, Central and Western Regions for January-July

Regions	Investment (100 million yuan)	Residential Buildings	Growth Rate Y/Y (%)	
			Growth Rate Y/Y (%)	Residential Buildings
National Total	52562	35380	4.3	3.0
Eastern	30186	20254	4.7	3.8
Central	10781	7506	3.9	2.1
Western	11596	7621	3.8	1.6

The price trend shows recovery but diverges...

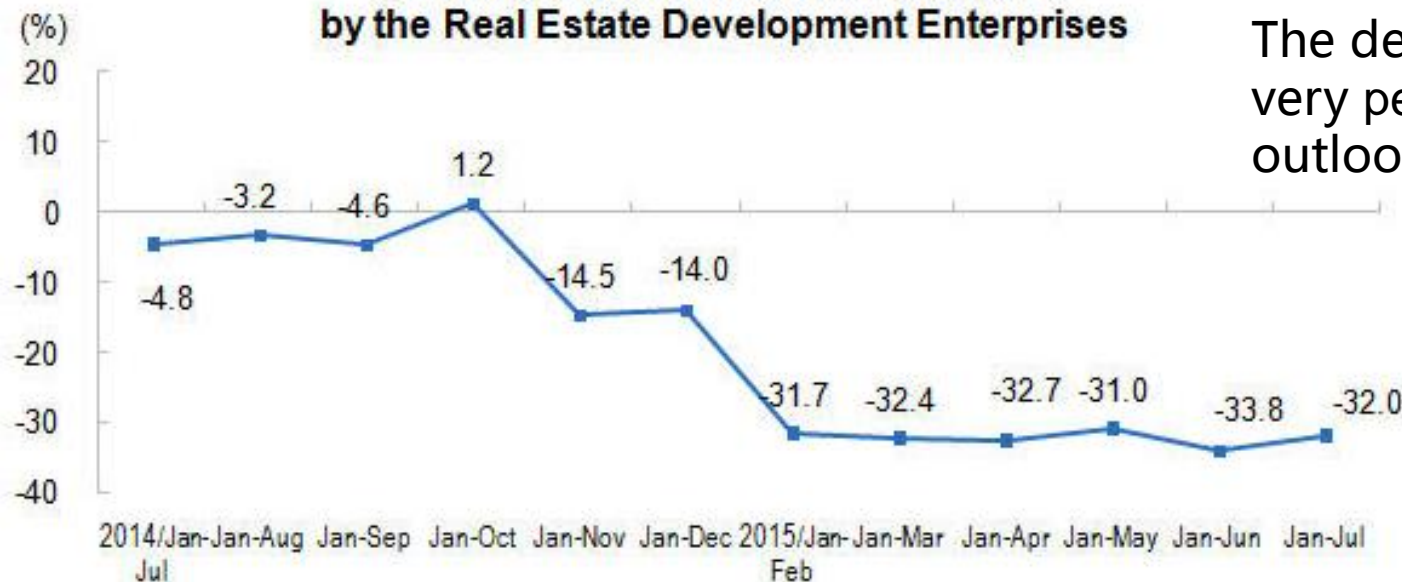


Growth Rate of Investment in Real Estate Development



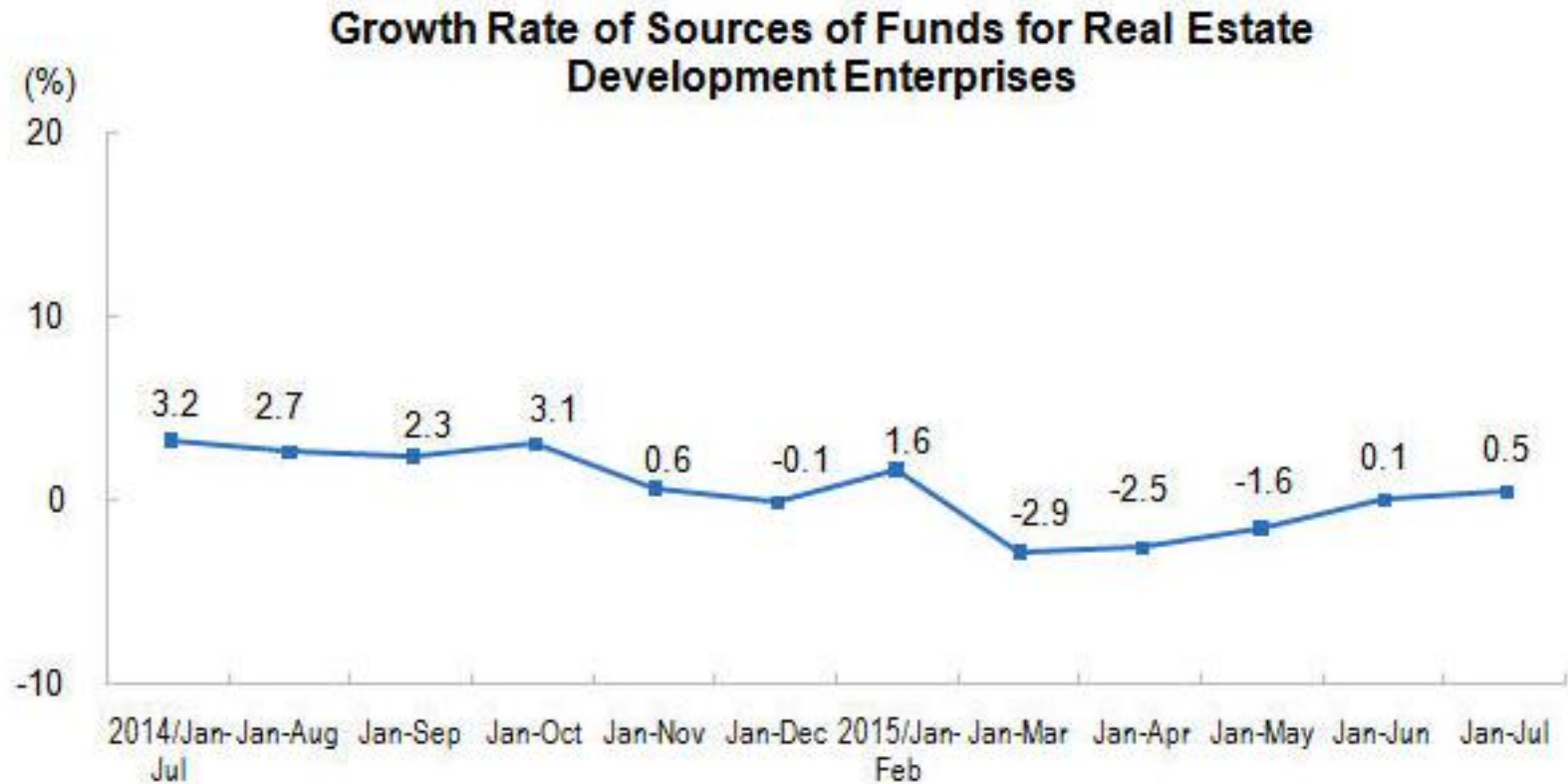
The growth rate of real estate investment is record low since 1998

Growth Rate of Land Area Purchased by the Real Estate Development Enterprises



The developers are very pessimistic for the outlook of the market

The funds hesitate to flow in the real estate market



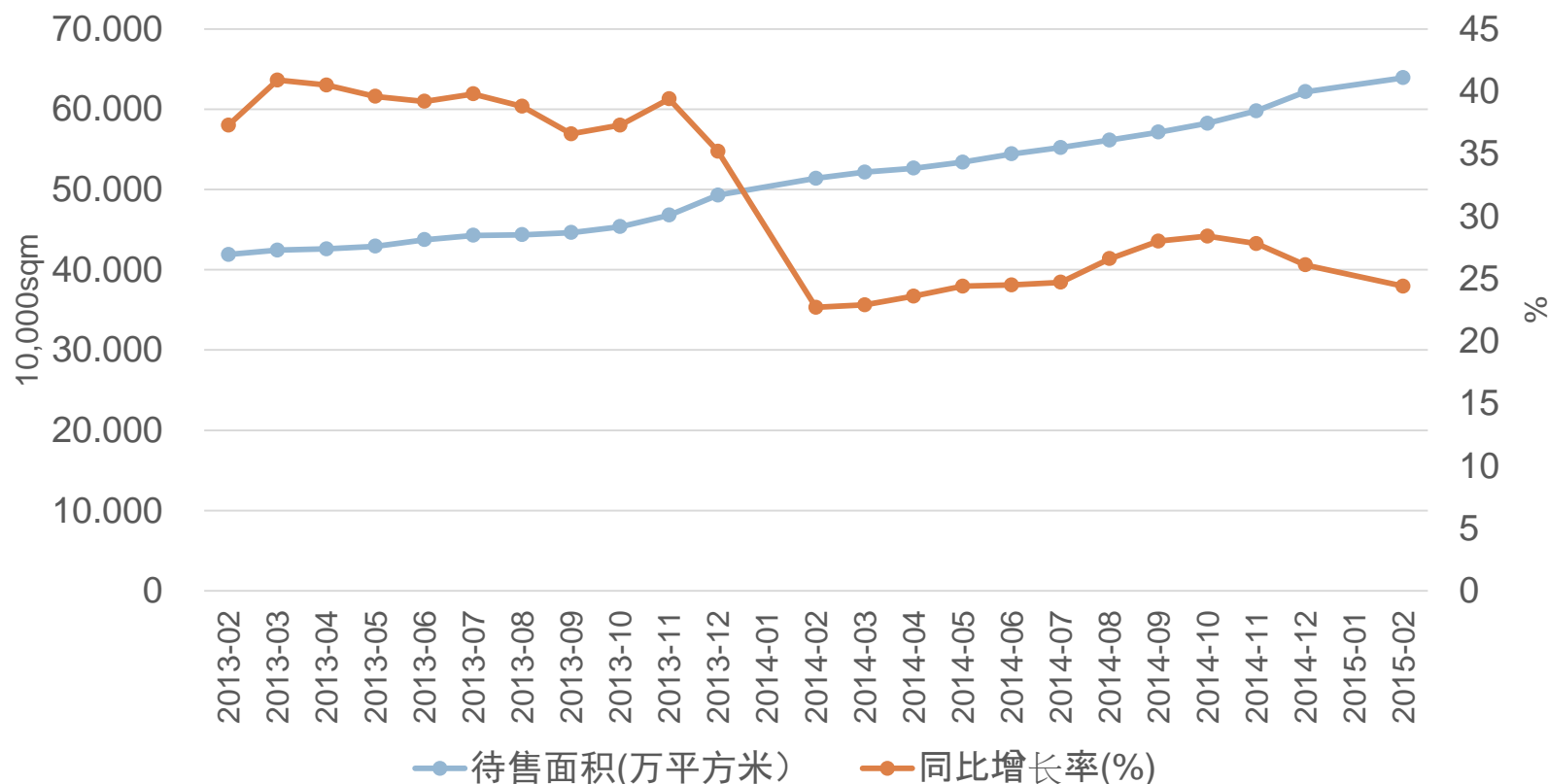
The structure of funding for developers (Jan- July, 2015)

The total funds for real estate development enterprises reached 6,930.1 billion RMB, up by 0.5%:

- the domestic loans stood at 1,251.5 billion RMB (18.1%), decreased 4.5%
- foreign investment stood at 18.5 billion RMB, down by 24.5%
- self-raising funds was 2,776.1 billion RMB (40.1%), down by 1.1%,
- other sources stood at 2,884.0 billion RMB(41.6%), up by 4.7%.
- deposits and advance payments was 1,696.5 billion RMB, up by 2.4%;
- personal mortgage loans totaled 860.8 billion RMB, up by 12.5%.

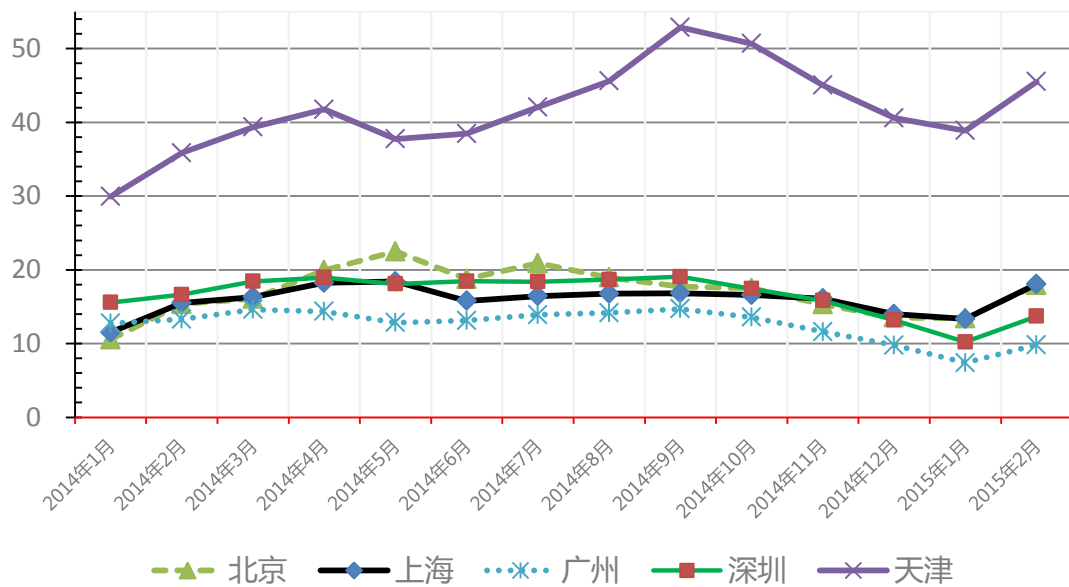
The high inventory

The real estate inventory in China

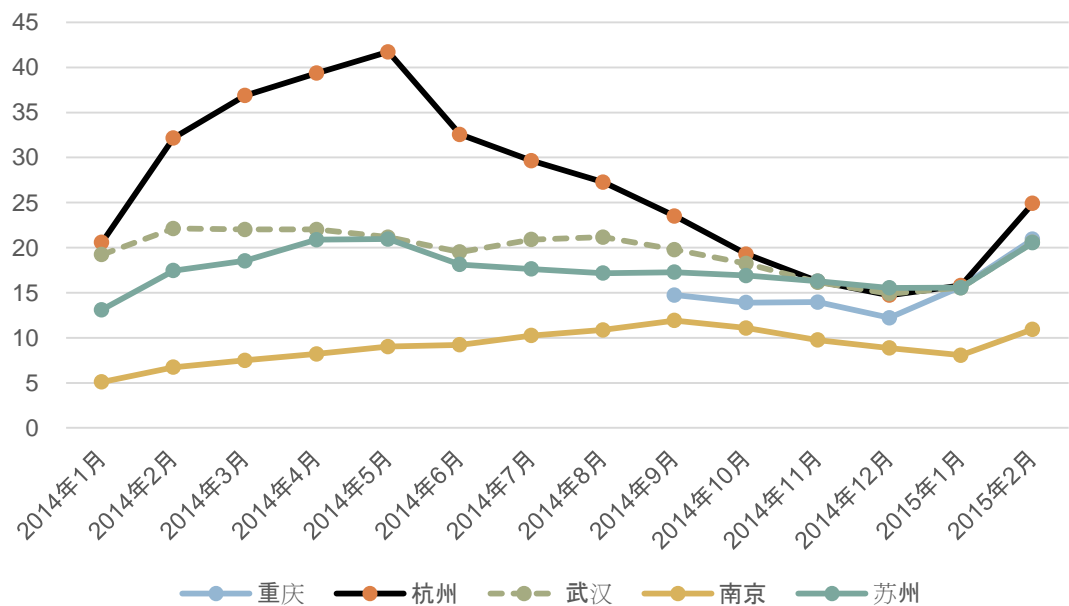


- Feb 2015, the real estate inventory is 0.639 billion sqm, 24.4% higher than one year ago;
- Feb 2015, the housing inventory is 0.421 billion sqm, 24.4% higher than one year ago;

Months to absorb inventory in first-tier cities



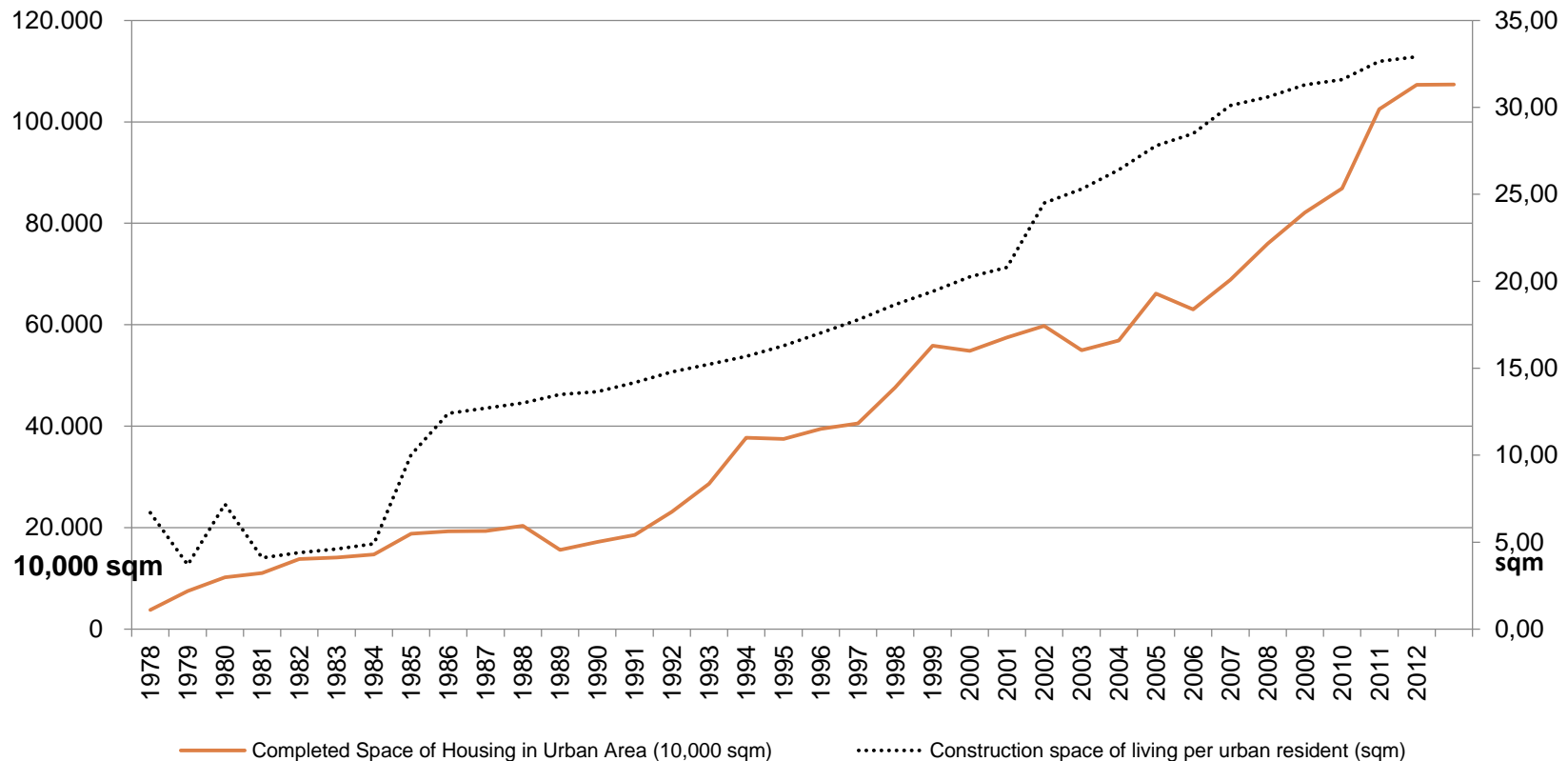
Months to absorb inventory in second-tier cities



Enormous incoming supply

- 2014, the national-level real estate space that under construction is 7.26 billion sqm (5.15 billion for residential housing)
- 2014, the newly finished real estate space is 1.07 billion sqm (0.81 billion for residential housing)
- The incoming supply of real estate (under construction plus inventory) is 7.88 billion sqm (5.56 billion for residential housing).
- Implication 1: Each individual in urban would have 10.5 sqm real estate and 7.4 sqm residential housing in the next few years.
- Implication 2: It will take 6.5 years and 5.3 years to sell off the incoming supply (at 2014 sale level).

The long-run excessive supply

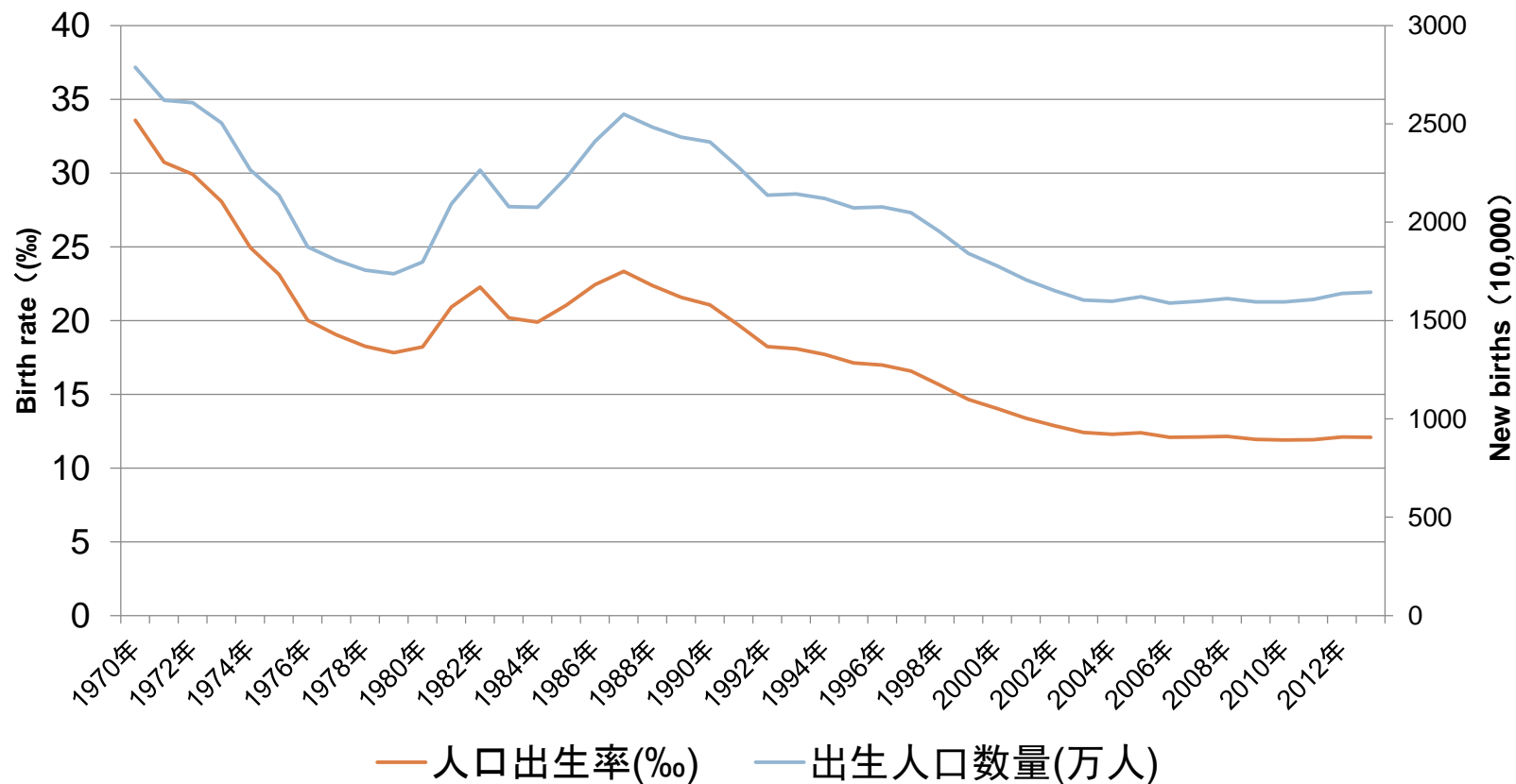


- 1999-2014, 23.8 billion sqm of real estate was completed (12 billion for housing)
- Since 2011, every year 1 billion sqm or 10 million units of housing was completed.
- By the end of 2014, the total housing stock in urban China is 23.2 billion sqm, 53% is completed after 2000 and 90% after 1990.

The excessiveness of housing supply is non-reversible

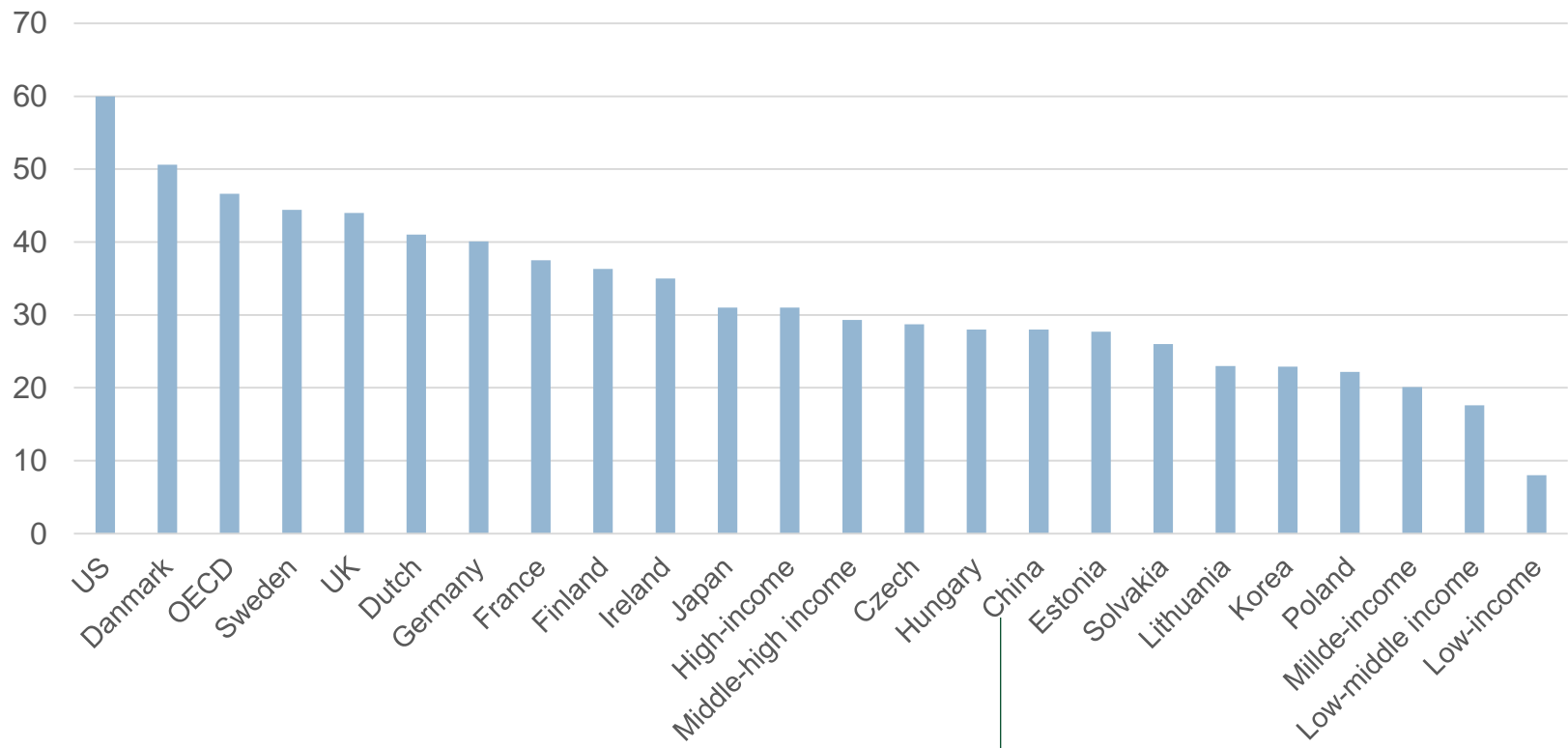
- In 2014, the net addition of urban population was 18 million, lower than 20 million in previous years, suggesting the urbanization speed is slowing down.
- Even all newly-arrived urban population can afford 34 s.q.m housing space per person, they will just consume 0.6 billion s.q.m of housing space, leaving half of new construction space of housing space to be consumed by existing urban residents.
- With existing incoming housing supply, the housing stock in urban China will reach 30 billion sqm in 2020. At that time, the urban population is estimated to 0.84 billion, and housing space per person will rise to 36 sqm, higher than most middle-income countries.
- If every year 1 billion new housing space will be started in the future years, the housing stock in urban China will rise to 36 billion sqm, implying housing space per person reach 43 sqm.

The declining population trend



Housing space: international comparison

Housing space per person (2008)



Long-term prediction of the supply-demand balance/imbalance of housing sector in China

Total demand (billion s.q.m)	Lower band	Middle	Upper band
2015-2020	5.21	5.98	6.81
2015-2025	10.23	11.82	13.47
2015-2030	15.92	18.53	21.12
Total supply (billion s.q.m)	Sum		
2015-2020	7.64		
2015-2025	14.01		
2015-2030	20.38		

It is highly likely that the demand is much less than the supply capacity.

Solutions?

- Let the market decides
 - Clear up the excessive supply by price mechanism
 - Opportunities for urbanization
- Reform the Hukou system and land system
- Reform the local fiscal system
- Deleverage as soon as possible
- Reform the housing finance system
 - Shifting indirect financing to direct financing
 - REITs (Real Estate Investment Trusts)
 - ABS, Mortgage Securitization...

Conclusions

- Gloomy outlook of residential housing market
- Not directly due to “the new normal”
- It is just the punishment from the market force
- Long-run excessiveness
- National convergence vs. regional divergence
- How to avoid market collapse? => Market
- Housing finance system reform