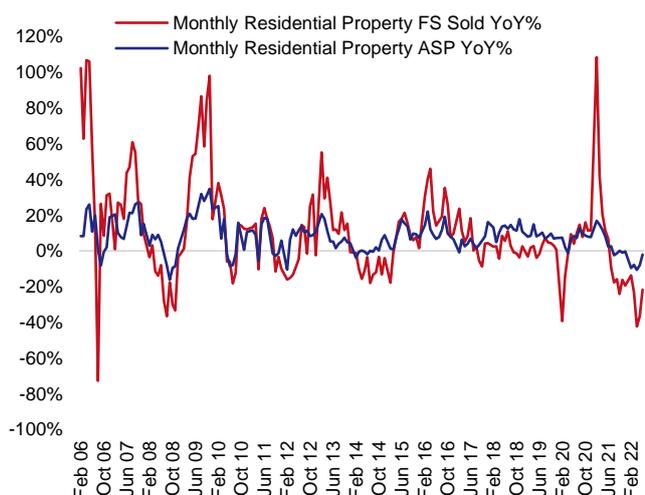


## Non-rating Action Commentary: Market restructure continues

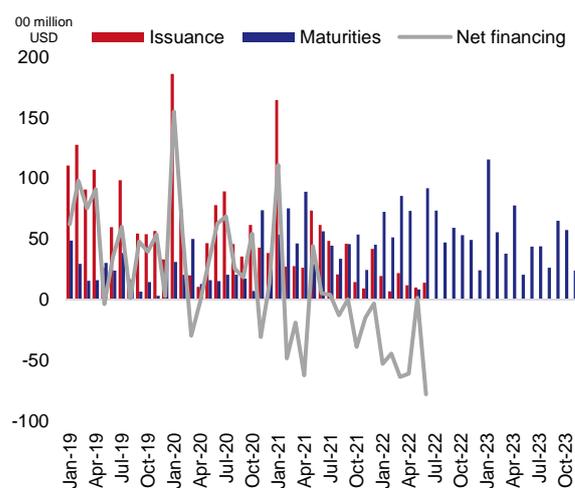
**Property sales decline eased.** China's property sales decline eased for the first time this year in the cities where supportive policies were introduced. Property sales saw some recovery in the months of May and June, reversing a decline in the first four months of the year. However, the recovery was not able to sustain itself in the first three weeks of July. We expect the decline in property sales to stabilize further in the second half of 2022. In our view, the worst of the housing market downturn may be over, although the market is still a long way from a full recovery. The property industry's supply-demand dynamics are likely to improve gradually over the next three to five years, in our view.

Exhibit 1: Residential property sales



Sources: National Bureau of Statistics of China, Pengyuan International

Exhibit 2: Property financing



Sources: DMI, Pengyuan International

**More supportive policies to be introduced.** The Chinese government has introduced a series of measures to stabilize the real estate market since the beginning of 2022, including making it easier for developers to obtain escrow funds for presales; reducing down payment ratios for first-time home buyers; and allowing commercial banks to lower their mortgage rates. Some other supporting policies include relaxing merger and acquisition financing and encouraging quality developers to acquire distressed assets. In July, thousands of homebuyers across China refused to pay the mortgages on the properties they purchased. We expect the government to take further steps to announce more policies to avoid the spread of risk and market panic. It is reported that China will launch a real estate fund of around RMB300 billion to assist real estate developers to reduce financial burdens and restore market confidence.

**Consolidation and restructuring of the market continue.** We expect further consolidation and restructuring of the Chinese real estate market, with state-owned developers taking over from financially distressed developers. The government is likely to participate in (if not lead) the restructuring. This will increase market concentration and reduce the economy's reliance on the real estate sector. In the first half of 2022, the financing pressure on Chinese property developers remains, with private-owned developers largely cut off from all funding channels. Real estate financing declined during this period, with real estate development funding down 25% year on year. In the first half of 2022, the total amount of real estate bond issuance in the offshore market was USD7 billion, accounting for only 24% of the total amount of offshore real estate bonds due in the same period, indicating the majority of the maturities are due and cannot be refinanced. For weaker property developers, especially those with shorter offshore maturities, access to financing is further restricted.

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