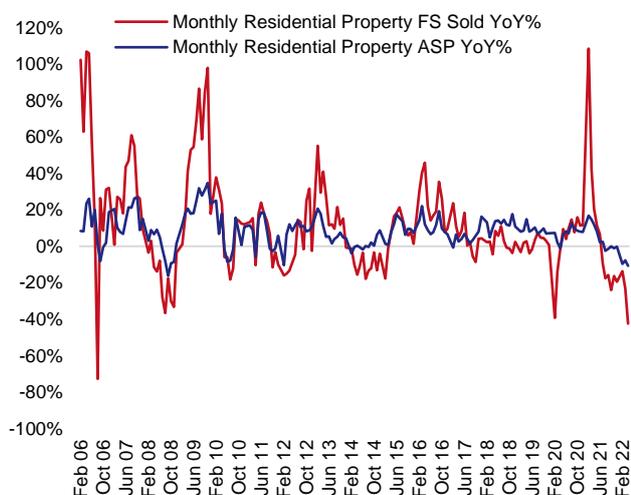


Non-rating Action Commentary: Restructure and Consolidation in the China's Property Market Continues

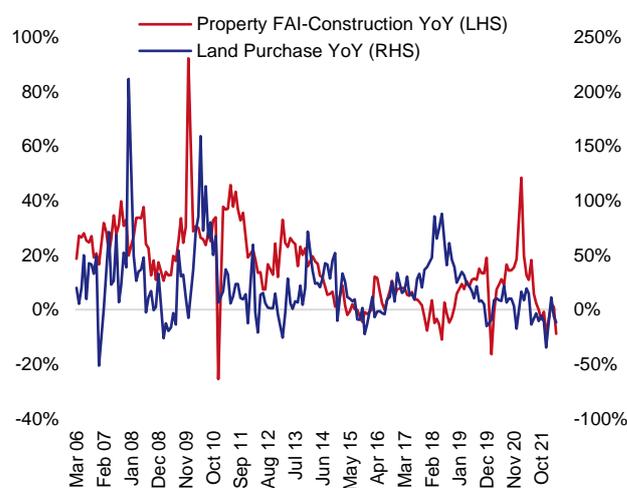
Property sales declined at a slower pace. Property sales fell rapidly in the first four months of the year, caused by the weak market sentiment and the spread of COVID-19. In addition to the impact of the pandemic, the decline in people's purchasing power, increase in the unemployment rate and weakening expectations have dampened market demand as a result. In April 2022, residential property sales declined by 49% year on year, following a 29% decline in March. In May, some moderate recoveries have been seen in the cities where supportive policies were introduced, such as Changsha and Hangzhou. However, such a recovery has not been seen across the entire market. In the northern cities such as Tianjin, property sales remained weak. We expect the decline of property sales to further stabilize in June 2022.

Exhibit 1: Residential property sales



Sources: National Bureau of Statistics of China, Pengyuan International

Exhibit 2: Land purchase and property fixed-asset investment (FAI)



Sources: National Bureau of Statistics of China, Pengyuan International

Land acquisition slowed. According to the China National Bureau of Statistics, the total land purchased by property developers was 18 million square meters in the first four months of 2022, representing a year-on-year decrease of 47%. The decline in property development investment accelerated in April, with cumulative investment declining 3% in the first four months. Property construction starts and completions were also dropping. In the first five months of the year, major cities have completed their first round of land auctions with a growing proportion of land withdrawn due to a lack of interest, indicating that developers are pulling back on land investments amid tight financing and declining contracted sales.

Financing pressure persists. In the first five months of 2022, the financing pressure persists for the Chinese property developers, with private owned developers being largely cut off from all funding channels. Property financing has declined with property development funding declined by 26% year on year during this time period. In the first five months of 2022, the total size of property bond issuance in the offshore market was USD6 billion, which accounted for only 22% of the total offshore property bonds maturing during the same time, indicating the majority of the maturities were not able to be refinanced. Funding access has been further constrained for weak property developers, especially those with shorter tenors offshore.

Supportive policies introduced. The Chinese government has introduced a series of measures to stabilize the property market since the beginning of 2022, including giving developers' easier access to presale funds held in escrow, 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 addition, some quality developers have obtained new quotas to issue bonds supported by credit protection instruments. In May 2022, Longfor Group, Country Garden and Midea Real Estate issued onshore bonds totaling an amount of RMB2.4 billion. We expect quality developers to be able to source more financing from different channels and more supportive policies are likely to be implemented if property sales remain weak.

Consolidation and restructure of the market continues. China's property market is undergoing further consolidation and restructuring, with state-owned developers taking over the 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 property industry.

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