HSBC Global Research

16 November 2022

China's property easing

A game changer

Free to View
Economics - China

- Beijing's slew of housing market stabilisation measures since last week are a game changer …
- … as the focus now turns to supporting property developers, an important shift from project-centric measures up to now
- Market sentiment is improving and private capital will likely return, a big step forward to stabilising the housing market

Jing Liu
Chief Economist Greater China
The Hongkong and Shanghai Banking Corporation Limited

Erin Xin
Economist, Greater China
The Hongkong and Shanghai Banking Corporation Limited

Our view in a nutshell

We think Beijing's decisive actions in the past week to stabilise the housing market are a game changer. The moves are likely to improve market sentiment, attract private market participation, and eventually stabilise the housing market. Together with the gradual relaxation in COVID-19 restrictions and other housing measures in recent weeks and months, we see all this supporting the overall growth picture.

Saving property developers now takes precedence

Financial regulators' sweeping measures to support financing in the property sector now go two steps beyond just 'ensuring deliveries of the stalled housing projects'. That's because they are injecting much-needed funding for property developers rather than following a piecemeal approach on a project-by-project basis. This is a central government-supported package that will go a long way towards reviving sentiment in and around the sector. Aside from direct funding support, the implicit backing of Beijing in aiming to stabilise the sector means not only that local governments will be willing to act, but that private players can be more confident of bringing the funding back, as the policy direction is clearer.

The top-down policy tailwind offers light at the end of the tunnel. It is set to start with construction resuming on stalled housing projects; then, a broader stabilisation in the real estate sector market can lift subdued activity in related upstream and downstream sectors. Meanwhile, retail sales should get a direct boost from the rise in spending on related goods such as furniture and decoration, which account for about 10% of total retail sales. Combined with the COVID-19 policy calibration, we expect a boost to a broader category of household consumption by both the housing wealth effect and the 're-opening' theme.

While the slew of measures will be helpful to support the sector and lift sentiment, it is important to keep in mind that full implementation will take time – so, we believe a V-shaped recovery is unlikely. We expect a broader stabilisation of the housing market to help put growth back on track, with GDP growth surpassing 5% in 2023.

This is a Free to View version of a report with the same title published on 16-Nov-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

View HSBC Global Research at:
https://www.research.hsbc.com

A big, bold plan by Beijing

- Sweeping measures have been rolled out by China with a view to stabilising the housing market
- Unlike the previous easing efforts, the focus has shifted towards supporting property developers
- It's a game changer likely to boost market sentiment, attract private market participation, and eventually stabilise the housing market

Singles' Day is usually full of surprises, but this time it was for a different reason. Regulators rolled out 20 calibrated measures on COVID-19 policies and 16 measures that eased the housing market policy. The market rallied in response. Has there been a fundamental change, or are investors getting carried away?

Our short answer is: it's a game changer. The long-awaited holistic solution is finally here. We explain why in this note.

The long-awaited housing stabilisation plan is here

We have written extensively on China's property stumble and the related stress since this summer. Given the importance of the broad housing sector to China's economy, we hold the view that authorities want to stabilise the market turmoil and facilitate long-term healthy development. The key questions are how and when? We've argued that a comprehensive bailout plan is needed to restore market confidence. HSBC banking analyst Gary Lam has elaborated that a possible solution that attracts private market participation is key, with banks offering funding support and the government offering credit enhancements. Obviously, the earlier the solution is introduced, the better, because the pain has spread beyond property developers and dragged down related sectors and weighed on household consumption.

There had been high hopes since July, when mortgage boycotts surfaced, about a centrally initiated housing stabilisation plan, yet we've only seen substantial progress in recent weeks: from further support for POEs issuing bonds onshore to the 16 measures to support the healthy development of the housing market. Why are these measures fundamentally different from the earlier ones? The focus has shifted from solely emphasising 'ensuring delivery of stalled housing projects' (保交楼) to supporting property developers (see a summary of housing easing measures in Table 1).

Table 1: Recent property easing measures initiated at the central government level

Date	Department / meeting	Main content
16 Mar 2022	Financial Stability and Development Committee under the State Council	Regarding real estate enterprises, it is necessary to issue timely research and propose effective response plans for preventing and resolving risks, and propose supporting measures for the transition to a new development model.
29 Apr 2022	Meeting of the Political Bureau of the CPC Central Committee	Support all localities to improve real estate policies based on local conditions, support rigid and improved housing needs, optimise the supervision of pre-sale funds for commercial housing, and promote the stable and healthy development of the real estate market.
15 May 2022	The People's Bank of China, China Banking and Insurance Regulatory Commission	Based on the corresponding tenor of benchmark loan prime rates, or LPRs, first-time home buyers can receive home loan interest rates that are 20 basis points below the lower limit from commercial banks.
28 Jul 2022	Meeting of the Political Bureau of the CPC Central Committee	Stabilise the real estate market, ensure the delivery of buildings, and stabilise people's livelihood.
29 Sep 2022	The People's Bank of China, China Banking and Insurance Regulatory Commission	Differentiated housing credit policies will be adjusted in stages. Eligible city governments can decide on their own to maintain, lower or cancel the lower limit of the local new first-home loan interest rates by the end of 2022.
30 Sep 2022	The People's Bank of China	The interest rate on the first set of personal housing provident fund loans was lowered by 0.15 percentage points, and the interest rates for loans less than or equal to five years and more than five years were adjusted to 2.6% and 3.1%, respectively.
30 Sep 2022	Ministry of Finance of the People's Republic of China, State Taxation Administration	From 1 October 2022 to 31 December 2023, taxpayers who sell their own houses and repurchase houses in the same city within 1 year after the sale will receive tax refunds for their personal income tax they have paid for selling their existing houses.
16 Oct 2022	Report to the 20th National Congress of the Communist Party of China	Adhering to the principle that housing is for living in and not for speculation, the report aims for China to move faster to build a housing system featuring multiple suppliers and various channels of support that encourages both housing rentals and purchases.
8 Nov 2022	NAFMII	Continue to promote and expand the bond financing support tools for private enterprises ('the second arrow'), including real estate companies. The measure is expected to support about RMB250bn of bond financing for private enterprises, and the follow-up will be further expanded depending on the situation.
11 Nov 2022	The People's Bank of China, China Banking and Insurance Regulatory Commission	1. Support the issuance of real estate development loans 2. Support the reasonable needs of individual housing loans 3. Stabilise the credit supply of construction enterprises 4. Support the reasonable extension of stock financing such as development loans and trust loans 5. Maintain that bond financing will be basically stable 6. Maintain stable financing of trust and other asset management products 7. Support policy development banks to provide special loans for 'guaranteed delivery of buildings' 8. Encourage financial institutions to provide financing support 9. Provide financial support for mergers and acquisitions of real estate projects 10. Actively explore market-oriented support methods 11. Encourage banks to postpone the repayment of principal and interest for mortgage repayments 12. Effectively protect buyers' credit scores 13. Extend the transitional period arrangement of the real estate loan concentration management policy 14. Phased optimisation of real estate project merger and acquisition financing policies 15. Optimise credit services for rental houses 16. Broaden the diversified financing channels in the rental market
12 Nov 2022	China Banking and Insurance Regulatory Commission	After the funds in the supervision account reach the supervision quota stipulated by the housing and urban-rural development department, the real estate enterprise may apply to the commercial bank for issuing a letter of guarantee to replace the funds within the supervision quota. The letter of guarantee can only be used to replace the funds within the supervision limit of the pre-sale fund supervision account established in accordance with laws and regulations. The replacement amount of the letter of guarantee shall not exceed 30% of the funds required to ensure the completion and delivery of the project in the supervision account, and the replacement supervision funds shall not be lower than 70% of the funds required to ensure the completion and delivery of the project in the supervision account.

Source: Xinhua news, PBOC, State Taxation Administration, HSBC

An important shift towards supporting property developers

Large amount of funding needed to ensure timely delivery of unfinished housing projects
Until recently, the supply-side stabilisation efforts had prioritised 'ensuring delivery of stalled housing projects', including policy banks' special loans to local governments to support project completions and funds raised by local governments to support local property project completions. But such efforts felt like they were chasing a growing shadow as the problems just kept growing. As of late September, substantial fresh funding is still needed to complete housing projects under construction by 34 Chinese developers that have either already defaulted or extended payments on their offshore dollar bonds or onshore RMB bonds. The funding gap is growing as more developers struggle to make their ends meet.

More than RMB1trn in funding support from banks and provincial governments has been offered since July. But that's not enough even for the above-mentioned 35 developers. Understandably, the growing shadow has created a growing concern for policymakers. At the Global Financial Leaders' Investment Summit hosted by the Hong Kong Monetary Authority on 2 November, PBOC Governor Yi Gang explained that the measures were to support the healthy development of the housing sector, and said 'we hope the housing market can achieve a soft landing'.

'Three arrows' to support POE developers
The easing, that some have described as like a bazooka in strength, started on 8 November with a second version of the bond financing support tools for private enterprises. This came from the National Association of Financial Market Institutional Investors (NAFMII). The key differences from the earlier version introduced in 2018 are (i) that real estate companies are now eligible and that (ii) professional institutes can obtain funding via the PBOC's relending scheme to provide support to POE bond issuance, now including direct bond purchase. NAFMII announced a programme called 'the second arrow' ('第二支箭'延期并扩容, NAFMII, 8 November 2022), using the metaphor the PBoC invented in 2018 to describe the triple policy mix of credit supply, bond financing and equity financing to boost support for POEs and small and micro businesses. In Governor Yi Gang's words, the first arrow is credit supply, the second is the POE bond financing support tool, and the third is the POE equity financing support tool.

The market didn't have to wait long for the first and the third arrows. Over the weekend, the PBOC and CBIRC jointly announced 16 measures to support the housing market's healthy development. The sweeping measures signal a change of focus from projects to developers while continuing to support project completion. This turns the light to green for developer financing via various sources, including the extension of bank loans and shadow loans. On 15 November, one Chinese developer announced a plan to issue US$500mn worth of shares to finance its offshore debt repayment (*Reuters,* 15 November 2022).

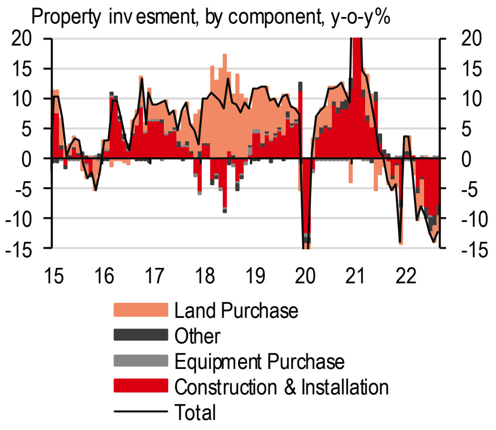
This is a game changer. The policy stance of supporting property developers too could achieve the goal of facilitating 'a soft landing' with a smaller price tag than targeting project completion only. This is because boosting market confidence can stop the vicious cycle of falling asset values and increasing bankruptcy risks, and also attract price market participation. There's finally light at the end of the tunnel.

What to expect next?

Stabilisation of the housing market is in sight, but this is no immediate cure. Property investment has fallen at an accelerated pace in recent months amid weak sentiment and relatively piecemeal easing for the sector. These new, sweeping measures aim to support property developers, including funding unfinished housing projects, and will have a beneficial knock-on effect in terms of stabilising related industries. First, direct property investment, mainly comprising land purchases (about a third) and construction and installation (about two-thirds), will likely see some kind of a recovery. The near-term focus will be on the completion of already started but unfinished property projects, which should benefit construction and related commodity production industries such as steel, copper, and cement. We think a broader boost to confidence around the property sector will likely follow as the government's policy backing 'crowds in' funding – encouraging private sector participation – and the risk of property developers defaulting is reduced.

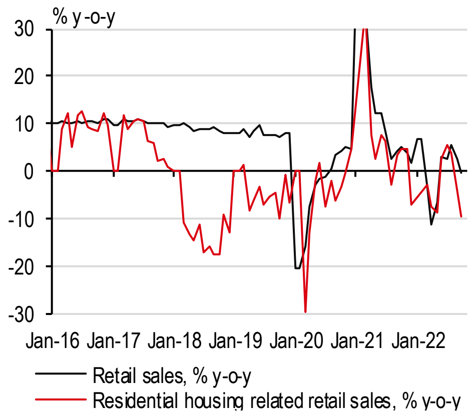
In addition, as housing construction projects are completed, consumers will likely turn to buying residential housing-related goods including decorations, furniture and household appliances. These have historically made up about 10% of retail sales. Recent weakness around the property sector and uncertainty about completions has dragged on these sales, with the most recent data showing a fall of 9.6% y-o-y. We find that the property sector has a beneficial wealth effect on retail sales, where stronger home sales tend to precede a pick-up in retail sales. Thus, we may see a gradual recovery of retail sales in the coming quarters as the housing market stabilises.

Chart 1. Construction and installation has been the main drag on property investment



Source: CEIC, HSBC

Chart 2. Housing-related retail sales have underperformed broader retail sales



Source: CEIC, HSBC

The gradual relaxation of COVID-19 restrictions will likely also provide a much-needed boost to household sentiment. Together with demand-side housing easing, including mortgage rate cuts and the loosening of home purchase controls, we see the housing market stabilising in the coming year and supporting the overall growth picture.

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Jing Liu and Erin Xin

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

1 This report is dated as at 16 November 2022.

2 All market data included in this report are dated as at close 15 November 2022, unless a different date and/or a specific time of day is indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Issuer of report
The Hongkong and Shanghai Banking Corporation Limited

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither The Hongkong and Shanghai Banking Corporation Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority.

[1203806]