

China Property: New Curbs A Sign Of Reviving Home Sales

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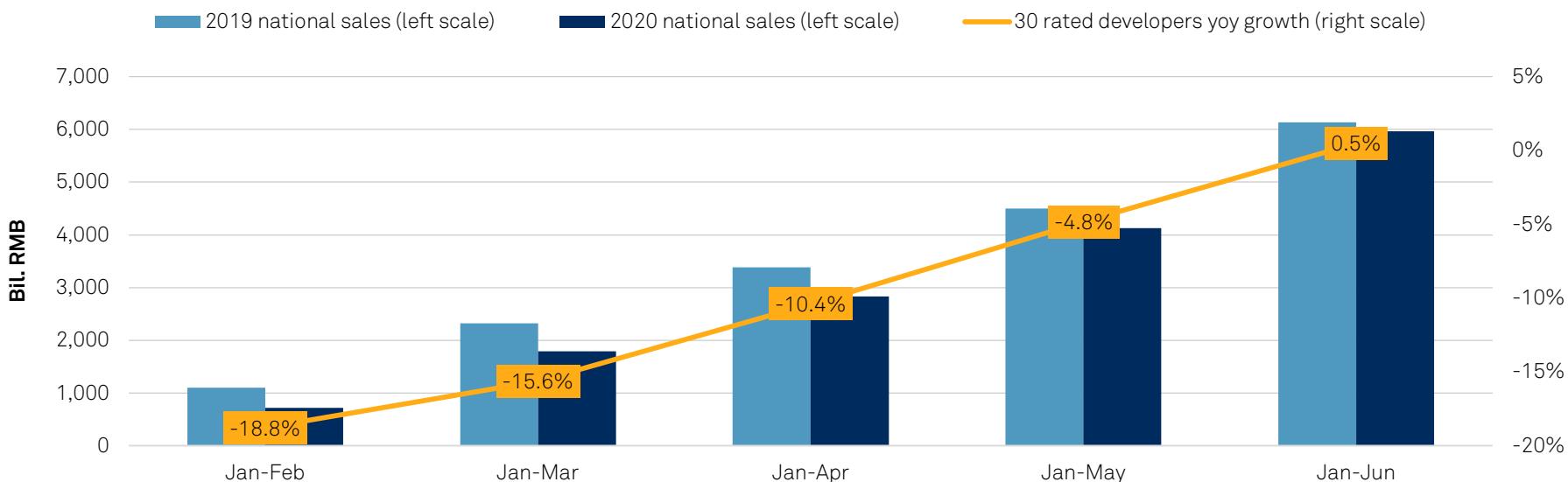
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Property Sales Recovery Solidifying

- National sales down **-2.8%** in the first six months yoy, improved from negative double digits
 - We are revising our forecast for 2020 national sales to **0-5%** growth
 - This compares to previous projection of flat or slight contraction
 - High-tier cities to lead the recovery despite tightening, leading to higher national ASP
- **Outperformance** by top tier, rated developers
 - 30 rated developers' average sales jumped **18%** in June on same month last year, pushing them into positive territory year-to-date

Sales Rebound Trajectory Is Solid



Note: Cumulative national residential property sales. Source: National Bureau of Statistics of China.

Fine-tuning Measures To Cool Down Specific Markets

- While some mid- or lower-tier cities have relaxed homebuyer eligibility, higher-tier cities measures have tightened as prices creep up
- **Shenzhen**'s tightening seen as the most stringent, having reversed some previous loosening (below)

Restrictions	New Measures
Home purchase restrictions	<ul style="list-style-type: none">– 3-years of <i>hukou</i> residency and 36-months of consecutive social security/income tax payment proof now required.– Closing loophole of multiple homes by marriage/divorce falsifications.
Bigger mortgage down payment for luxury homes	<ul style="list-style-type: none">– 10% higher down payments now required for second home or second mortgages, that are luxury/nonstandard dwellings.
Price returns as part of luxury/non-standard home classification	<ul style="list-style-type: none">– Homes priced > RMB7.5 million classified as luxury housing (after such price limits were removed in Nov 2019)
Tax period on quick resales widened	<ul style="list-style-type: none">– Holding period extended from 2 years to 5 years. (5% VAT applicable if resold within the period)

Source: Shenzhen Housing & Construction Bureau announcements.

Attempts To Rein In Speculation May Hurt Some Developers

- Local governments are paying close attention to pricing and speculation
- Stronger tier-2 cities are candidates for potential tightening measures in 2H2020 amid rapid price increases
- Curbs targeted at speculation may limit developers' **price-setting** and **profitability**

Some Cities Already Quelling The Surge

Ningbo

- 50% of presales reserved for first-time homebuyers; 5-year resale ban.
- Raising minimum batch size on presale approvals to limit inventory hoarding.

Nanjing

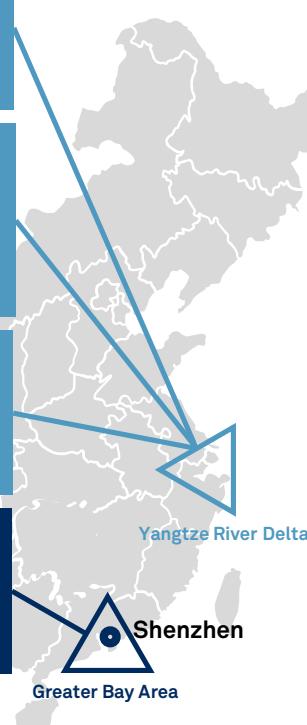
- 30% of presales to be allocated to first-time homebuyers.
- Price caps now applied to all (vs based on average project ASP) to limit high-margin units in select price-capped projects.

Hangzhou

- Buyers can only enter one housing purchase lottery at a time.
- 5-year resale ban for "talent" homebuyers (e.g., doctors, CEOs, etc.).

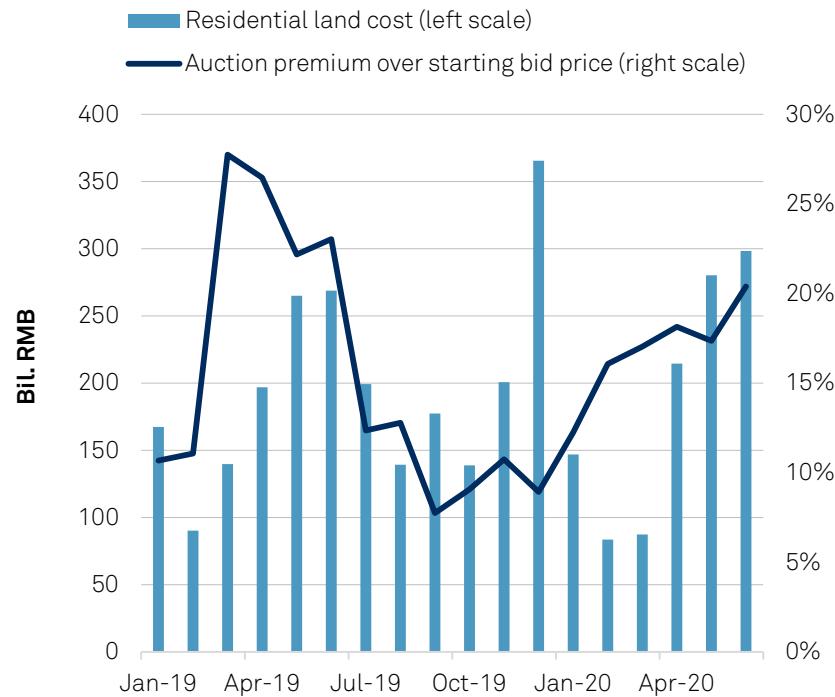
Dongguan

- Cap on price growth of new projects within same district to 10% within three months.
- Owners without *hukou* banned from third home purchases.



Sources: local government announcements.

Land Market Bidding Heating Up

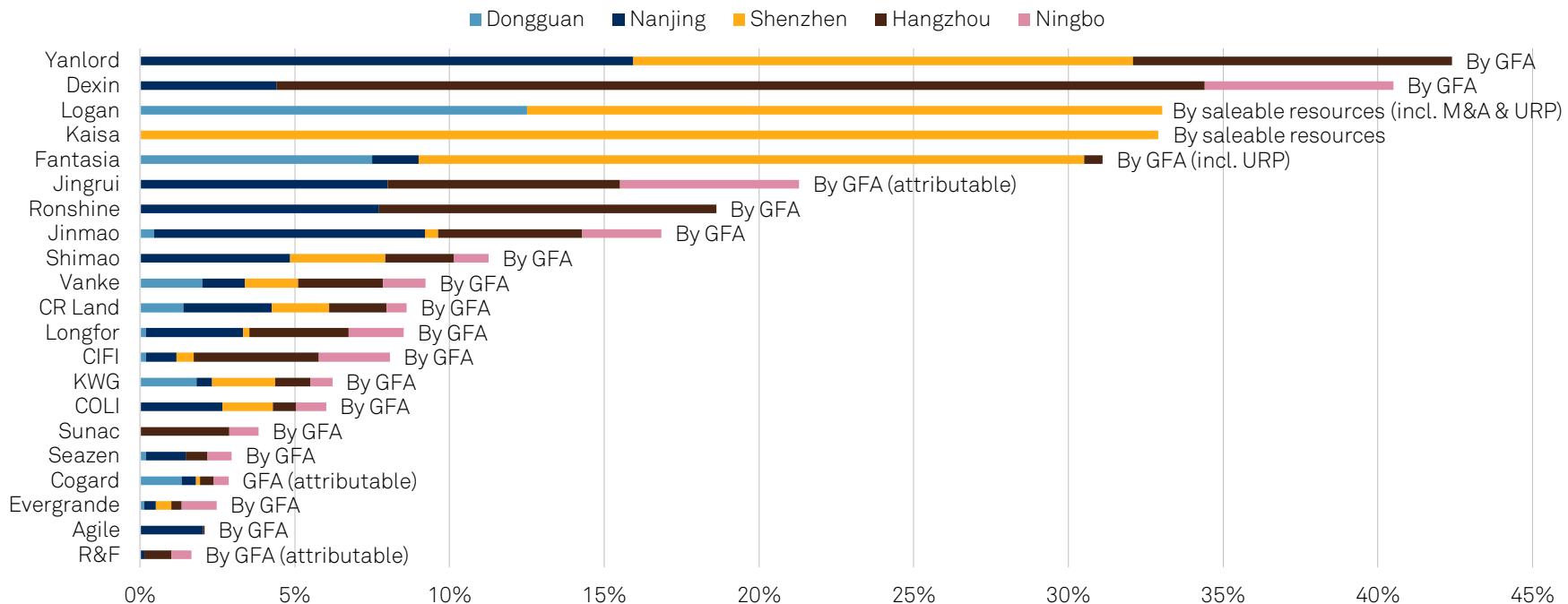


Note: 100 major cities residential land cost and premium over starting bid price. Source: Wind.

Land-Bank Diversity Matters Amid Policy Uncertainty

- Developers with good **national presence** are less susceptible to city-level risks.
- Examples of developers with high single-city concentration:
 - Those with longstanding **urban renewal project** exposure (notably in the Greater Bay Area).
 - Yangtze River Delta-based developers who have **little diversification** beyond home base.

Developers' Land Bank Exposure



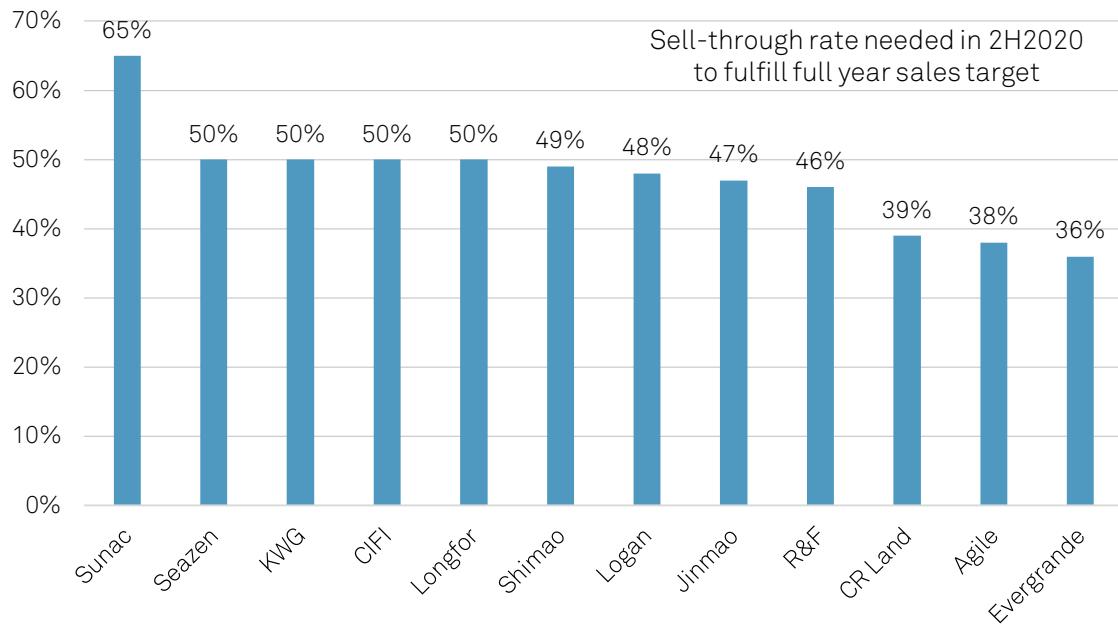
Note: Data as of Dec 2019, except for Evergrande which is as of Jun 2018. URP – urban renewal projects.

Sources: Bloomberg Intelligence report "Chinese Developers' 2020 Targets Within Reach", company filings and presentations, S&P Global Ratings.

Rated Firms' 2020 Sales Targets Largely Achievable

- 30 rated developers reached an average of **39%** of their 2020 sales targets in 1H20
- Project launches are typically second half heavy and all have abundant saleable resources
- 18 developers tracked by Bloomberg need only an average **47%** sell-through rate to hit their full-year targets

Implied Sell-through Rate Is Not Ambitious



Source: Bloomberg Intelligence report "Chinese Developers' 2020 Targets Within Reach".

Developer	1H20 sales completion percentage
Evegrande	54%
Jinmao	51%
COGO	46%
DaFa	46%
Agile	46%
China SCE	43%
Longfor	43%
CR Land	42%
Logan	42%
BCL	42%
Redsun	42%
Powerlong	42%
Zhongliang	40%
Zhenro	40%
Risesun	40%
Times	40%
Seazen	39%
Fantasia	39%
Aoyuan	39%
CCRE	38%
Shimao	37%
Greentown	36%
Kaisa	36%
KWG	36%
CIFI	35%
R&F	34%
Sunac	33%
Jiayuan	32%
Greenland HK	24%
Sunshine100	22%

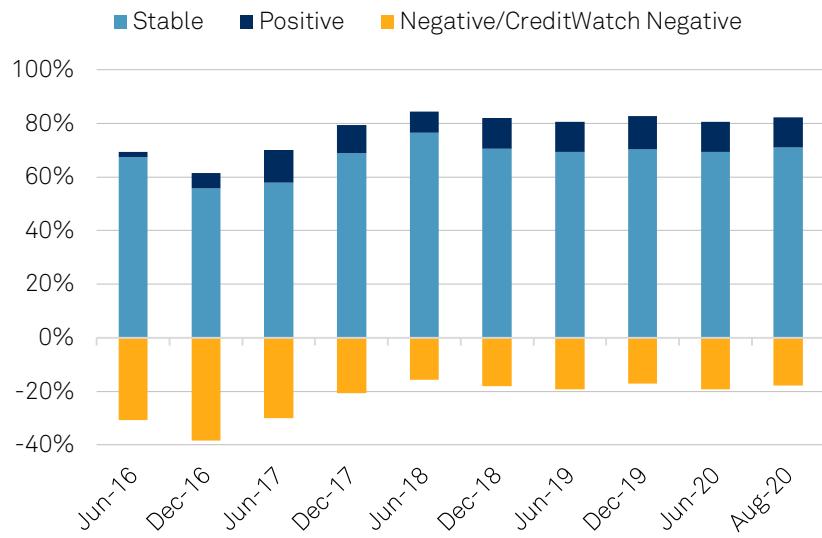
Note: Against company announced sales targets.

Source: Company announcements.

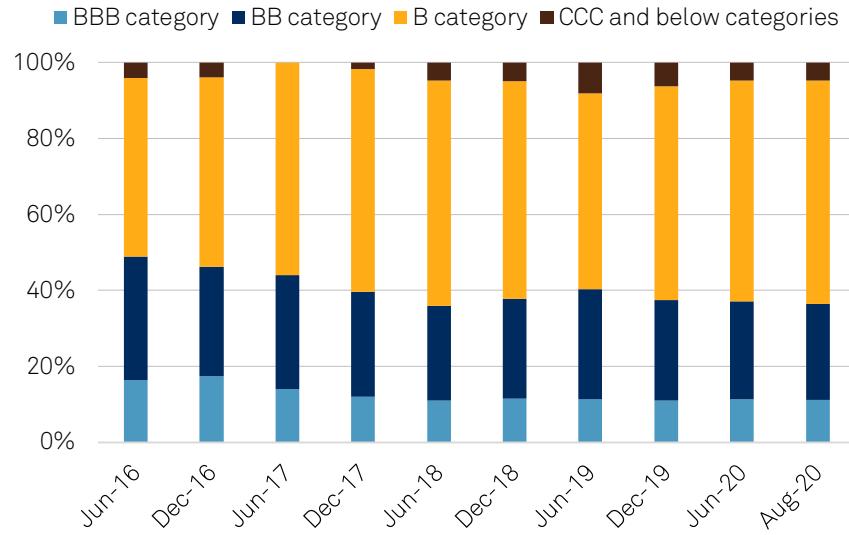
Sales Momentum Likely To Be Steady In 2H 2020

- What to look for in upcoming interim results:
 - **Revenue recognition** will reveal impact from construction halt seen across China
 - **Margin compression** magnitude to guide trend for the full year
- Expect stable performance for most but divergence is intensifying (i.e. debt leverage, liquidity)
 - **More volatility** at the lowest end of the rating spectrum
 - Some credit profiles continue to **strengthen** despite COVID-19 impact

Outlook Bias Only Slightly Negative



>60% Of Developers At The Lower End Of Spectrum



Note: Data as of Aug 6, 2020. Source: S&P Global Ratings.

Thank you

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S&P Global Ratings Related Research

Title	Date
China Developer Joint Ventures: The Case Of The Vanishing Revenue	June 10, 2020
China Developers' 2019 Results Expose Strains Before COVID-19 Crisis Hit	April 8, 2020
China Property Watch: New Virus, Unprecedented Risks For China's Developers	March 2, 2020
China Property Watch: Growth Confined By Funding Bind	November 5, 2019
Hong Kong Protests Push Local Firms Into Unfamiliar Turf	October 9, 2019
Unrest Holds Back But Won't Hold Down Hong Kong Landlords And Developers	October 9, 2019

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