

China Property

Centaline expert takeaways: conservative on both home pricing and sales volume

Industry Overview

Centaline expert call key takeaways

On 15th Jan, as part of our Greater China Property Call Series, we hosted a conference call with Mr. Liu Yuan, who serves as the Director of Research at Centaline. Mr. Liu sees rather large downside in 2024 home sales volume and pricing, and believes some top-down easing rather than local-level relaxations are needed to reverse the weak sentiment.

Conservative view on 2024 physical market

- First of all, after further policy relaxation in tier 1 cities in late Nov, volume improved but at the cost of faster home price drop. Tier 1 cities' home price weakened by 2-3% per month since Nov. compared to 1% per month before.
- Mr. Liu projects the national new home sales volume to decline by 10% in 2024 (BofA: 5%-10%) to 850mn sqm GFA. The primary + secondary combined transaction volume in tier 1 & 2 cities would stabilize; hence the national volume decline would be largely driven by the lower tier cities.
- Mr. Liu continues to see a large downside potential in tier 1 cities' home price in future. In his view, in order to make home ownership more attractive than leasing as an option for residents, the rental yield (1.5% gross rental yield among tier 1 cities) needs to grow to narrow the gap vs. the mortgage cost (around 4%). Tier 2 cities' rental yield could be higher but there is more uncertain leasing demand, and hence their home price performance is more dependent on tier 1 cities' prospects.
- Mr. Liu projects the national new starts to drop by more than 10% (BofA: 9%-15%) and completion to drop 10-20% (BofA: 5%-10% decline) in 2024.
- Mr. Liu believes urban village refurbishment initiative would only have small impact on national home sales volume vs. the shanty town redevelopment as urban villages are concentrated in tier 1&2 cities, which only represent 20%-30% of the national home sales volume. He remains cautious on house coupon's prospects (as a resettlement option) since home buyers only prefer it when home price is in upward trend and developers would only accept if the local governments have the financial resources to meet the redemption. He also believes the local government still have low incentive to build for-sale social housing.

What more does the policymakers' toolkit contain?

Mr. Liu believes if the central government rolls out more coordinated easing, this could somewhat offset the downward pressure on home prices. The potential easing may include more cuts in mortgage rate (including the existing mortgage loans), tax deductibility for mortgage interest, and more cut in property transactional tax (personal income tax, value-added tax and deed tax). However, Mr. Liu doesn't expect these easing measures to happen in the near-term; further, in his view, policy makers may have underestimated the market downward pressure so far.

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