

China Property

Centaline policy outlook call key takeaways: UVR still faces challenges

Industry Overview

Policy outlook call key takeaways

On 8th Jan, as part of our Greater China Property Call Series, we hosted a conference call with Mr. Gao Fei, who serves as a senior consultant at Centaline. In this call, Mr. Gao focused on the policy outlook regarding urban village redevelopment (UVR) and social housing supplies. We summarize our key takeaways from the call.

Urban village refurbishment still faces many challenges

According to Mr. Gao, the total scale of urban village is about 2.0bn sqm GFA, which is much larger than CRIC & CREIS' estimates (700mn to 1.0bn sqm), partially because Mr. Gao factored in the adjacent districts to be jointly redeveloped. However, the size with redevelopment feasibility should be much smaller - about 1.0bn sqm.

Guangzhou, Shenzhen and Shanghai have seen faster progress, while other tier-2 cities saw lagged progress, because: (1) many villages in Tier 2 cities had already been redeveloped during the shanty town campaign, or (2) tier-2 cities' projects lack feasibility because of the property market downturn. House coupon may not apply to all cities, and it works better in cities with moderate home price and abundant inventories.

Government-led redevelopment may face long process and poses many challenges as well. Further, compared to the developer-led redevelopment, the government may lack incentives. The large construction groups such as CSCEC & China Railway Construction Corporation could be hired as the vendor for preliminary services (including compensation negotiation, resettlement housing constructions, land preparation)

Local cities filed targets for subsidized-for-sale housing

Local governments have so far adopted a cautious stance on subsidized-for-sale housing. Per their preliminary targets, Shanghai and Beijing's targets are set at 10k units each per year, while other cities set at several thousand units each per year. Those targets would be met by (1) new construction; (2) government purchase from existing stock; (3) conversion from office buildings. Per Mr. Gao, government purchases were already widely adopted in 2023. In total, RMB200bn funds were granted to local governments for purchasing existing stocks (may translate into 0.2mn units) to be used as rental housing. Those funds had been mainly redirected to local SOEs.

Subsidized-for-sale housing's impact more manageable

In our view, based on those preliminary targets, the total scale of subsidized-for-sale housing could be around 0.2mn units per year among 35 eligible cities, which may represent 8% of those eligible cities' new home sales volume in 2023. The preliminary target of subsidized-for-sale housing is also more manageable compared to subsidized rental housing' 1.7mn units per year. The potential impact on REI, new starts and home sales, please see Exhibit 1.

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CRIC: China Real Estate Information Corporation

CREIS: China Real Estate Index System

CSCEC: China State Construction Engineering Corporation

MoHURD: Minister of Housing and Urban-Rural development

REI: real estate investment

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Exhibit 1: social housing & URR's potential impact on home sales, new starts and REI

Per the cities preliminary target, subsidized-for-sale housing is about 0.2mn units per year

		Social housing (for lease+for sale)		Urban Village Refurbishment	
Target cities		35 eligible cities		largest 22 cities	
Total size (mn sqm per year)		120		95	
Total size (mn units per year)		1.5mn rental + 0.2mn for sale		1.4mn units (redevelopment + renovation)	
REI (RMB tn)	low end	0.11	0.4mn units from new constructions	0.17	40% to be redeveloped
	high end	0.20	0.7mn units from new construction	0.26	60% to be redeveloped
New starts (mn sqm)	low end	28	0.4mn units from new constructions	38	40% to be redeveloped
	high end	49	0.7mn units from new construction	57	60% to be redeveloped
Contribution to home sales (mn sqm)	low end	14	0.2mn units conversion from primary home stocks	10	10% electing to house coupon
	high end	28	0.4mn units conversion from primary home stocks	48	50% electing to house coupon
% of REI (Ex. land sales) (2023E)		1.5-2.5%		2-3%	
% of residential new starts (2023E)		4-7%		5-8%	
% of commodity housing sales (2023E)		1.5-3.0%		1%-5%	
% of commodity housing sales in tier 1-2 cities (2023E)		6-12%		4%-20%	

Source: BofA Global Research

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