

China Property

More destocking efforts; tepid response to first house coupon

Industry Overview

More destocking efforts

According to media reports, PBoC granted an RMB100bn loan to local governments to purchase commodity housing stocks to be used for rental housing in eight cities, including Tianjin, Chengdu, Qingdao, Chongqing, Fuzhou, Changchun, Zhengzhou and Jinan. We believe this news referred to loans that were granted in 2023. Per our ground check with Centaline, such funds/loans granted in 2023 could be as large as RMB200bn – if all drawn down, would have translated into 2% national home sales or 8% among tier 1+2 cities. Those funds were likely mainly redirected to LGFVs (local government financing vehicles) and local SOEs' projects. According to PBoC's disclosure, those loans were likely largely drawn down in 4Q23, which may explain the weaker sales for the top-100 developers vs. the key cities in 4Q23.

In our view, given those stocks would be leased out to accommodate housing demand later, this policy could be rather neutral or only slightly positive to the home demand-supply dynamics, but have a more meaningful impact on local SOEs/LGFVs' liquidity profile.

In 2024, we believe a similar campaign would carry on. Earlier this week, PBoC published the drafted guidelines that aim to promote commercial bank loans to finance the corporate/government purchase of home stocks to be used as rental housing. The loan could have a 30-year maturity with loan-to-value up to 80%. If those loans are granted more to corporates rather than governments, there could be more waterfall to regular developers vs. LGFVs, but the developers may need to offer more attractive discounts, in our view.

UVR progress: first house coupon lacks attractiveness

For urban village redevelopment (UVR), Guangzhou issued its first batch of house coupons during the Shiweitang village redevelopment in the Liwan district. However, so far, only 8 out of 491 households have opted for house coupons (less than 2% of the total households). Per our ground check, villagers' tepid reaction to the coupon could be due to (1) limited eligible projects accepting the coupon; (2) uncertainties about the developers' pricing discount and related tax expense. Guangzhou government later optimized the relevant rules by allowing one-time transfer of the coupon and cash redemption for the remaining value after the purchase, which may enhance the villagers' interest on house coupons, but the available home projects remain quite limited and mainly located in suburb districts, in our view.

Our previous estimates for the house coupon' potential boost to the national home sales volume came to be 1%-5% by assuming 10-50% of the villagers opt for house coupons. The boost seems to be around our low-end estimates from the Guangzhou' case.

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

Per the cities preliminary targets, 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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