

China Property

Minor relaxation on commercial property operating loans

Industry Overview

Minor relaxation on commercial property operating loans

On Jan 24th, PBoC (People's Bank of China) and NFRA (National Financial Regulatory Administration) jointly announced a guideline regarding commercial property operating loans. In our view, there are minor relaxations as below:

- The guideline indicated that the loan-to-value could be as high as 70% (vs. below 50% effective loan-to-value ratio before, but whether to raise the ratio is still subject to bank discretion and credit worthiness, in our view).
- The guideline indicated that before the end of 2024, the proceeds of the operating loans could be used to repay open-market bonds and other loans, while the proceeds were mainly for construction capex before.
- In the meantime, the guideline reiterated to strengthen the risk control measures, so we remain cautious on policy benefits.

We believe the constraints on operating loan proceeds were not onerous previously. Again, key names to potentially benefit include the names with sizable investment properties including Longfor, CRL, and Seazen (maintain our Underperform given larger drag from weaker contracted sales).

Home price poses a larger headwind than refinancing

Though we think this measure may help developers' refinancing, we see the sector is facing a more serious headwind at this stage. The recent deepening drop in home prices and crowding out of primary sales by secondary sales have further weakened home sales, which could lead to larger operating cash flow shortfall compounding the refinancing problems.

Weak start of 2024: YTD, the primary home sales volume in 33 major cities dropped by 40% YoY. Besides, YTD comparison might be partially aided by the early Chinese New Year holiday last year. Across different cities, Tier-1 cities outperformed with sales volume +48% YoY (-25%/-36% in tier-2/3 cities). Secondary home transaction volume in 11 cities we track continued outperforming (up by 21% YTD), suggesting more significant market share gain for the secondary market thus far in 2024.

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Karl Choi, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3108
karl.choi@bofa.com

Eric Du >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3329
eric.du@bofa.com

Summer Wang, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 4351
summer.wang@bofa.com

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