China Real Estate Market Report (2025)

Current Market Trends

- Significant downturn in recent years
- Signs of stabilization in top cities in end of year 2024
- Property prices declined from the 2021 peak (average home value 20-30% below the peak)
- Prices continue to fall by 0.6% by late 2024, but are seeing an increase in December of 2024, and improved sentiment again in urban markets
- High supply of inventory, heavy buildings led to oversupply in many cities, leaving unsold housing stock, demand starts to resume in top tier cities but still excessive in many weaker locations
- Sale volumes plunged by around 20% in 2024, showed slight improvement at fourth quarter 2024

Key Companies and Developers

- **China Evergrande Group**:
  Once China's largest developer, Evergrande defaulted under over $300 billion in liabilities in 2021. Ordered into liquidation in early 2023, it became the symbol of the broader real estate crisis, with many unfinished projects across China.
- **Country Garden**:
  The top developer by sales as recently as 2020, focused on lower-tier cities. It fell into a cash crunch in 2023 and narrowly avoided bond defaults. Country Garden is currently restructuring its debt but faces significant pressure from weak small-city demand.
- **China Vanke**:
  A publicly listed firm with partial state ownership, known for more conservative management. Despite posting its first annual loss in 2024, it received a government-led bailout to cover a ¥50 billion funding gap, signaling its importance to market stability.
- **Sunac China**:
  A former top-5 private developer, focused on high-end projects. Sunac defaulted in 2022 and is now undergoing debt restructuring as part of the broader industry collapse.
- **Shimao Group**:
  Another major private developer that defaulted during 2021–2023 as tightening credit conditions hit the sector.
- **Fantasia Holdings**:
  Private developer that also defaulted during the sector's credit crunch between 2021–2023.
- **Kaisa Group**:
  One of the many private developers that defaulted or entered restructuring due to tightening financing conditions.
- **CIFI Holdings**:
  Private developer that similarly faced defaults and restructuring amid the market downturn during 2021–2023.

- **Poly Developments (Poly Real Estate)**:
  A strong, state-owned developer. Despite margin pressures, Poly remained profitable through 2024 and continues expanding, benefiting from strong access to financing.
- **China Overseas Land & Investment (COLI)**:
  A major SOE that managed to stay profitable with ¥15.6 billion in net income in 2024, despite a 40% drop in profit. It has gained market share as private competitors collapsed.
- **China Resources Land**:
  Another leading state-owned developer, strengthened by better financing access and steady market share growth during the downturn.
- **Greentown China**:
  Now partially state-owned, backed by China Communications Construction Company (CCC). Greentown aggressively purchased land in prime cities and is forecasted to nearly double its net income by 2025.
- **Longfor Group**:
  One of the few private developers that survived the crisis without defaulting. Longfor shifted to an asset-light model and expanded its property management services.
- **Seazen Holdings**:
  Another resilient private developer that avoided default. Seazen successfully raised new financing and adjusted to the new, tougher market environment.

Government Policies and Regulations

- **2016–2017: "Housing is for living, not speculation"**
  - Chinese authorities implemented strict purchase restrictions, higher down payments (60–70% for second homes), and home price caps.
  - Aimed to cool overheating prices in tier-1 cities and curb speculation.
- **2020: Introduction of the "Three Red Lines" Policy**
  - Developers faced leverage limits (debt-to-assets, debt-to-equity, and cash-to-short-term debt ratios).
  - Triggered a liquidity crunch for heavily indebted firms like Evergrande.
- **2021–2022: Credit Crunch Deepens**
  - Tightened developer borrowing and shadow banking controls caused funding to dry up.
  - Many developers defaulted; real estate development funding fell 36% from 2020 to 2023.

  - Initial government stance: let market forces discipline companies.
    Later pivot: policymakers began offering support to avoid broader economic instability.
- **Mortgage Restrictions and Demand Management**
  - Prior strict policies limited speculative buying but also delayed genuine homebuyers ("rigid" demand).
  - Minimum mortgage rate floors and resale restrictions were gradually loosened during the downturn.

- **Late 2022–2023: Support Measures Rolled Out**
  - "16-point plan" introduced to ease developer financing and ensure project completions.

    - PBOC cut rates and pushed banks to lower mortgage rates.
    - Down payments lowered to as little as 20% (or even 15%) for first-time buyers.
    - Dozens of cities loosened or removed home purchase restrictions.

- **Late 2024: Direct Intervention and "Historic" Rescue Package**
    - PBOC added ¥1 trillion lending capacity for property loans and ¥500 billion for affordable housing.
    - Local governments instructed to buy unsold housing inventory to support developers' cash flow.
    - Mortgage rates cut significantly (below 4% for first-time buyers).
    - Down payments reduced further; some tax incentives introduced (e.g., lower VAT/sales tax on homes).

- **Focus on Ensuring Project Completion**
    - Regulators created a "whitelist" of financially stable developers eligible for special financing.
    - Construction loan disbursements were accelerated to boost project deliveries.
    - Over 1 million urban renewal units completed in 2024, with further expansion pledged.
- **Overall Policy Shift**
    - The government moved from tightening (2017–2020) to aggressive stimulus (2022–2025).
    - Today, policy firmly supports housing stability — but Beijing avoids full developer bailouts to prevent moral hazard.
    - The aim: engineer a soft landing — stabilize demand without creating another speculative bubble.

Regional Differences: Tier-1 vs Lower-Tier Cities

- **Price Trends**
  Tier-1 cities (Beijing, Shanghai, Shenzhen, Guangzhou) only saw moderate price drops (~5–7% YoY by late 2024).
    - Smaller cities (Tier-3 and Tier-4) experienced much steeper declines (10%+), with weak recovery signs.
    - By early 2025, Tier-1 cities showed small month-on-month price gains, while lower-tier cities remained sluggish.

- **Inventory and Supply**
    - Tier-1 cities: ~20 months of new housing inventory, controlled land supply, and relatively low unsold stock.
    - Lower-tier cities: ~34 months of inventory, widespread "ghost" estates due to overbuilding during 2015–2020.
- **Demand and Demographics**
    - Big cities attract strong migration, better jobs, and have higher purchasing power.

    - Upgrader demand (buyers seeking larger/better homes) is strong in Tier-1.
    - Lower-tier cities struggle with population outflows, slower economic growth, and weak rental yields.
- **Policy Implementation**
    - During the boom, Tier-1 cities had strict purchase restrictions; smaller cities had looser rules.
    - In the downturn, easing policies (lifting restrictions, lower down payments) benefited Tier-1 cities more.
    - Late 2024: Tier-1 cities like Shenzhen and Guangzhou removed second-home purchase limits, boosting sales.

- **Price Gap and Affordability**
    - Tier-1 home prices remain 3–5 times the national average (e.g., ¥50,000/m^2 in Shenzhen vs. <¥10,000/m^2 in Tier-3 cities).
    - Despite stretched affordability, demand in Tier-1 remains robust due to better job prospects and urban appeal.
    - Lower-tier cities remain cheap but suffer from low incomes and limited buyer interest.

- **Commercial Real Estate**
    - Office and retail demand recovered faster in Tier-1 cities post-COVID.
    - Smaller cities face high commercial vacancy rates due to oversupply.

- **Developer Strategies and Regional Divergence**
    - In 2024, top four cities accounted for 31% of major developers' sales, up from 27.6% the previous year.
    - Developers are shifting focus to Tier-1 and strong Tier-2 cities (e.g., Hangzhou, Chengdu) and pulling back from weaker regions.
    - Recovery will be led by large urban centers; many smaller cities may take years to absorb excess housing supply.

Historical Overview (Past Decade)

- Rapid growth from 2013 to 2016
- 2017-2019, cooling and stabilization, government intervened real estate bubble. Real estate in china at the time acocunted for 25% GDP at the time.
- 2020, pandemic shock and policy intervention. COVID disrupts sales. Regulators introduced **“Three Red Lines”** policy (August 2020) to restrict developer leverage. This marked the start of a decisive deleveraging push.
- 2021 is the tipping point was the year the property cycle turned. Sentiment worsened rapidly with the three red lines policy taking effect.
- 2022: Crisis and Contraction, the property sector entered a deep downturn. Many developers ran out of cash as pre-sales slowed and refinancing was unavailable

- 2023: Prolonged Slump and Gradual Response – The market remained frail throughout 2023. Home prices fell steadily month-on-month for most of the year, and property sales were down ~24% YoY by late summer
- 2024: Floor Under the Market? – In 2024, Chinese authorities shifted into high gear to rescue real estate as it became clear that broader economic recovery was hampered by the housing malaise. Early 2024 performance was poor, however, it started to pick up in late 2024.

In summary, the past decade took China's real estate on a roller-coaster ride: a surge of expansion and price inflation in the mid-2010s, followed by regulatory tightening and an ultimate reckoning from 2021 onward.