Home sales: Home demand remains strong, despite a handful of cities tightening. Support includes relatively easy liquidity conditions and improved market confidence with sales up yoy since May.

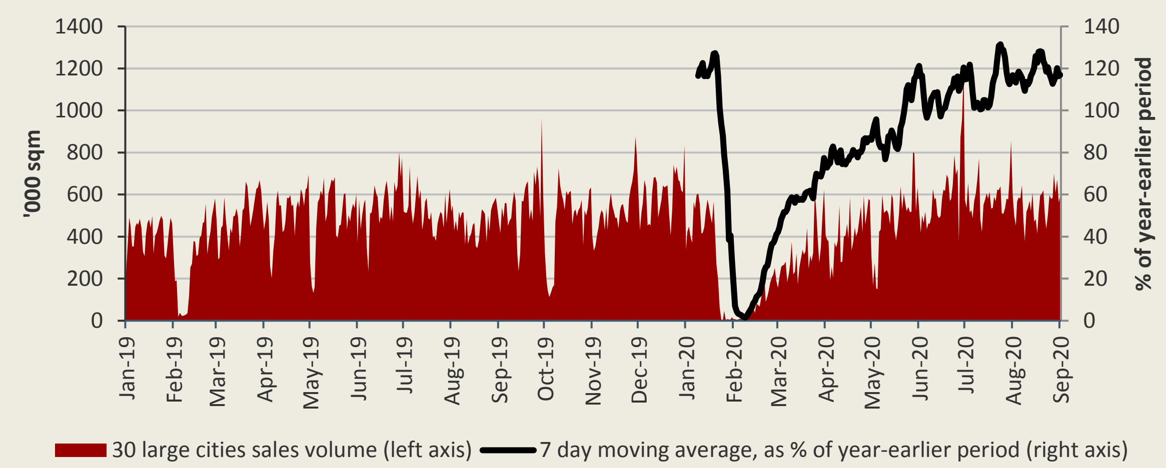
Inventories: Unsold housing stock slightly fell as sales have picked up again since late July.

Policy: Tier-2 cities and satellite cities/outer districts in major city clusters are supporting short-term developer funding conditions and providing market support.

EBSHK view: Maintained as Positive as leading developers, except the highly leveraged ones, expected to benefit from policy tweaks targeted at easing cashflow pressure, local market support measures and industry consolidation.

China Property Weekly: 28 August – 3 September

30 large city property sales & vs year-earlier period



Source: Wind; EBSHK

Top 30 city home sales stood at 17% above year-earlier levels this week, while sales in our 52 city-basket increased by 18% yoy in the full month of August, rising from 8% yoy growth in July. With home sales hovering in the range of 100-130% of last year's levels since May, we expect underlying home demand to remain robust on greater market confidence in the economic outlook and eased liquidity conditions, including capital inflows into China. We therefore maintain our **Positive policy call on Property**, despite a handful of cities such as Shenzhen enhancing

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purchase restrictions or Nanjing seeking to boost land/home supply. As a few cities tighten, we expect city rotation in terms of price growth rankings, but overall the sector outlook is positive with most cities still earlier in the recovery cycle. Large national developers have the flexibility to reorient their sales strategy accordingly.

There have been **clear signs of a liquidity easing cycle. Average first-home mortgage rates fell 1bp to 5.25% in August**, the eighth month in a row of decline, according to Rong360. The mid-year Politburo meeting at end-July confirmed expectations that liquidity conditions would remain relatively easy in H2, given the previous liquidity easing and capital inflows into China. Home buyer mortgage availability should continue to be relatively easy in the rest of the year.

Real estate developer financing policy, however, may tighten after PBOC/MOHURD met with 12 developers on 20 August to discuss 3 red lines for developer financing; under this under-consideration mechanism developers will be put into 4 risk levels and annual leverage growth capped at 0 to 15%, according to risk level. This guidance will affect highly leveraged developers' funding and land purchase capacity. Land markets already showed cooling signs in August. Developers should still be able to access construction loans.

For more details on our thinking on the state of the property market, please see the following reports: Improving operating fundamental supports constructive view in 2H20, Quarterly Property Webinar

High-frequency sales data from 52 cities show growth widened in August from July. Home sales rose 18% yoy in the full month of August, rising from 8% yoy in July. Sales should stay robust as economic activities slowly pick up amid relatively easy liquidity conditions.

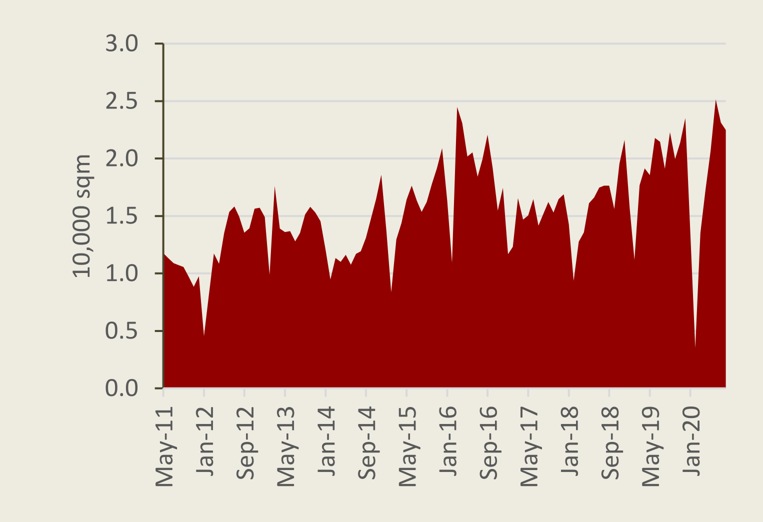
By tier: Transactions in Tier 1 cities are leading with 44% yoy growth in the full month of August, improving from a 10% yoy rise in July. Meanwhile, transactions in Tier 2 cities picked up 6% yoy in the same period, remaining at the same level in July; Tier 3 cities saw a 25% yoy increase in sales in the same period, advancing from a 15% yoy rise in the previous month.

Inventories slightly fell in August as sales pick up, matching new supply in the presale market.

Home sales: growth widened

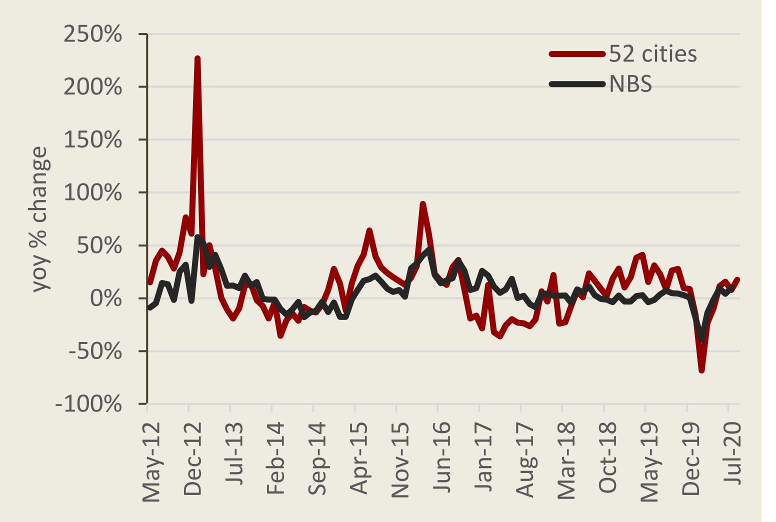
- Residential floor space sold in 52 cities increased by 18% yoy in the full month of August, widening from 8% yoy growth in July.
- Home sales growth yoy has remained strong through the summer lull.

Average daily home sales in 52 cities



Source: Local property bureaus, EBSHK

Home sales growth, 52 cities vs NBS national



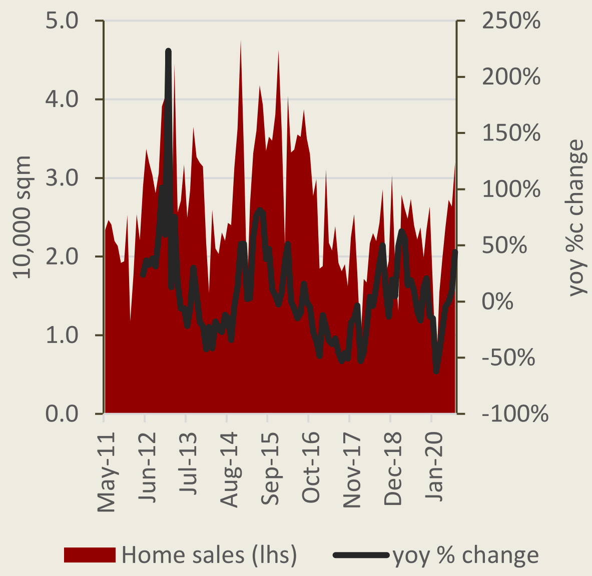
Source: NBS, local property bureaus, EBSHK

Data up to 31 August 2020

Home sales by city tier: tier-1 cities leading the surge

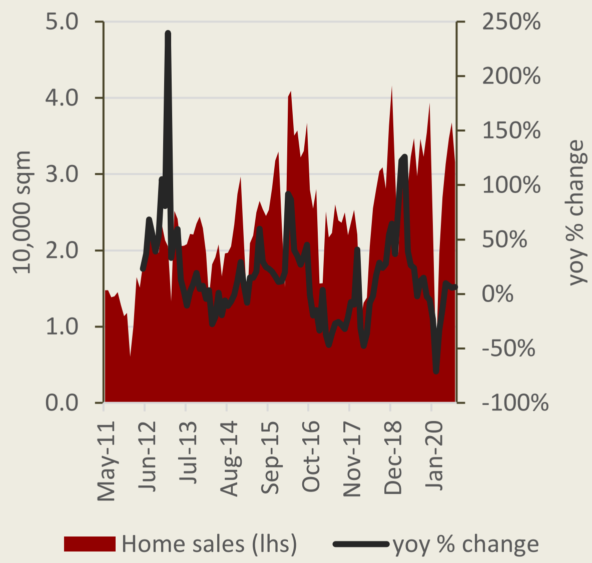
- **Tier 1 cities:** home sales in Tier 1 cities grew 44% yoy in the full month of August, jumping from 10% yoy growth in July.
- **Tier 2 cities:** sales in non-Tier 1 provincial capitals and municipalities rose 6% yoy in August, flat from July.
- **Tier 3 cities:** sales in smaller cities (non-provincial capitals) increased 25% yoy in August, rising from a 15% yoy increase in July.

Average daily home sales in tier 1 cities (4)



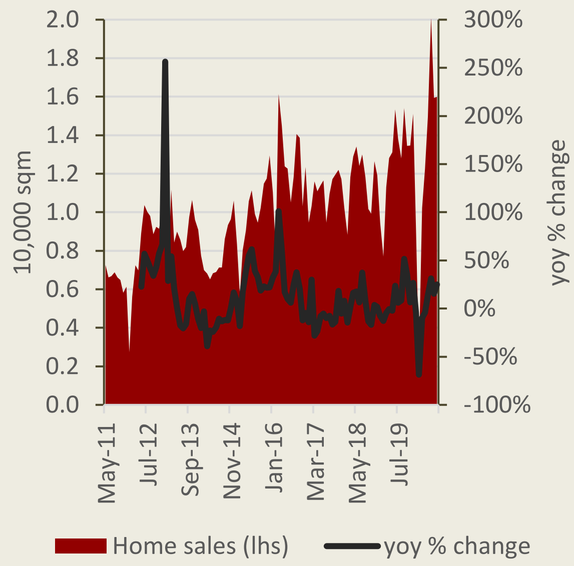
Source: Local property bureaus, EBSHK

Average daily home sales in tier 2 cities (14)



Source: Local property bureaus, EBSHK

Average daily home sales in tier 3 cities (34)



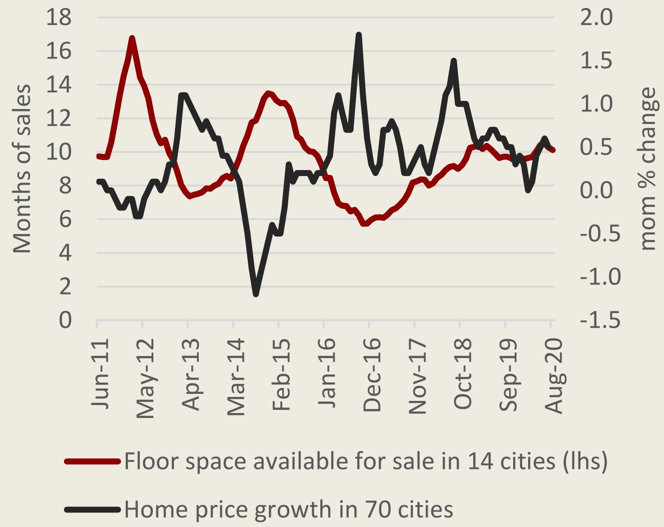
Source: Local property bureaus, EBSHK

Data up to 31 August 2020

Housing inventories: continue falling as sales remain solid

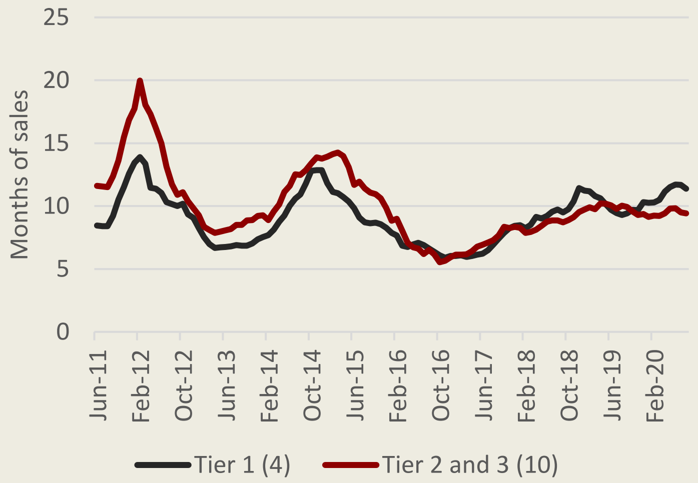
- Residential floor space available for sale in 14 cities was the equivalent of 10.1 months of sales as of 31 August, down from 10.3 months in July.
- Inventories in Tier 1 cities were the equivalent of 11.4 months of sales as of 31 August, down from 11.7 months in July, but still at a high level compared with 9.3 months in August 2019. Inventories in Tier 2 and 3 cities were the equivalent of 9.4 months of sales as of 31 August, inched down from 9.5 months in July, and the previous peak of 10.0 months in August 2019.

Floor space available for sale vs home prices



Source: Local property bureaus, NBS, EBSHK

Floor space available for sale in 14 cities



Source: Local property bureaus, EBSHK

Data up to 31 August 2020

Policy review: policies lean towards tightening and supply

National

- **MOHURD** summoned city mayors and local MOHURD officials to a meeting at end-August putting pressure on local officials of those cities to rein in home prices growth. The cities included Shenyang, Changchun, Chengdu, Yinchuan, Tanghan, and Changzhou. The Mayor of Yingchuan responded with a speech on the long-term property market mechanism.
- **MOHURD** pledged to better interpret real estate policies and strengthen information disclosure related to market supervision and regulation, as well as housing security measures. The implementation of temporary supportive home accumulation fund measures should be monitored so as to guide local governments to better implement such policies and evaluate the effectiveness.

Local government

- **Wuxi** of **Jiangsu** province tightened home purchase restrictions:
  - If one purchases a property within two years after his/her divorce, the number of units owned by his/her household before divorce shall be counted as his/her property ownerships
  - Home owners should hold a property for five years, from two years previously, before they can resell it free of VAT
  - The minimum down-payment ratio for purchasing a second home is increased from 40% to 60% if the mortgage for the first home is yet to be paid up
  - Increases residential land supply by at least 50 hectares this year vs. 2019
  - Suspends relief measures including eased requirements for presales permits and funds custody that are designated to support the market during virus outbreaks
  - Financial regulators are required to strictly investigate sources for home purchase funds, monitor flows of consumption loans and business loans, and prohibit such funds from being diverted to the property market

- Increases rental housing supply and encourages conversion of vacant and less-utilised commercial and office buildings into rental housing

◢ Zhang Xuefan, director at the local MOHURD in **Shenzhen** of **Guangdong** province, pledges to learn from Singapore in the area of social housing, and vows to achieve a 60:40 ratio between social housing and commodity housing in future, without giving a time table.

◢ Yang Yujing, mayor of **Yinchuan**, capital of **Ningxia** Autonomous Region, urges to take into consideration of population, industry distribution, and space layout in appropriately controlling land supply and timing alongside the 14th five-year plan, in order to ensure the healthy development of the real estate market.

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