

# *Top 5 charts on China's property crisis*

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## *The bottom line: Stress is easing but still challenging times*

- Financial stress eased a bit last week after Evergrande dodged the default for now and officials have become more vocal about the crisis highlighting that risks can be controlled.
- We may have passed the 'peak stress' levels in the Evergrande crisis but it is still too early to make a final verdict. We doubt that Evergrande will avoid a default but has probably just postponed it.
- The stress level is still high in China's property sector due to falling home sales and financing channels being severely squeezed.
- The Chinese government should have the tools to control the crisis, as it can underpin home sales by moderate easing of housing policies and support financing to healthy developers through state banks.
- We keep a close eye on home sales, though, as it could decline further if buyers become uncertain of buying from developers. Or they could choose to only buy from state-owned developers, that are deemed more safe. This would be a serious blow to private developers.
- The downward pressure on growth from the property crisis, Covid outbreaks and the energy crisis will continue in coming quarters.

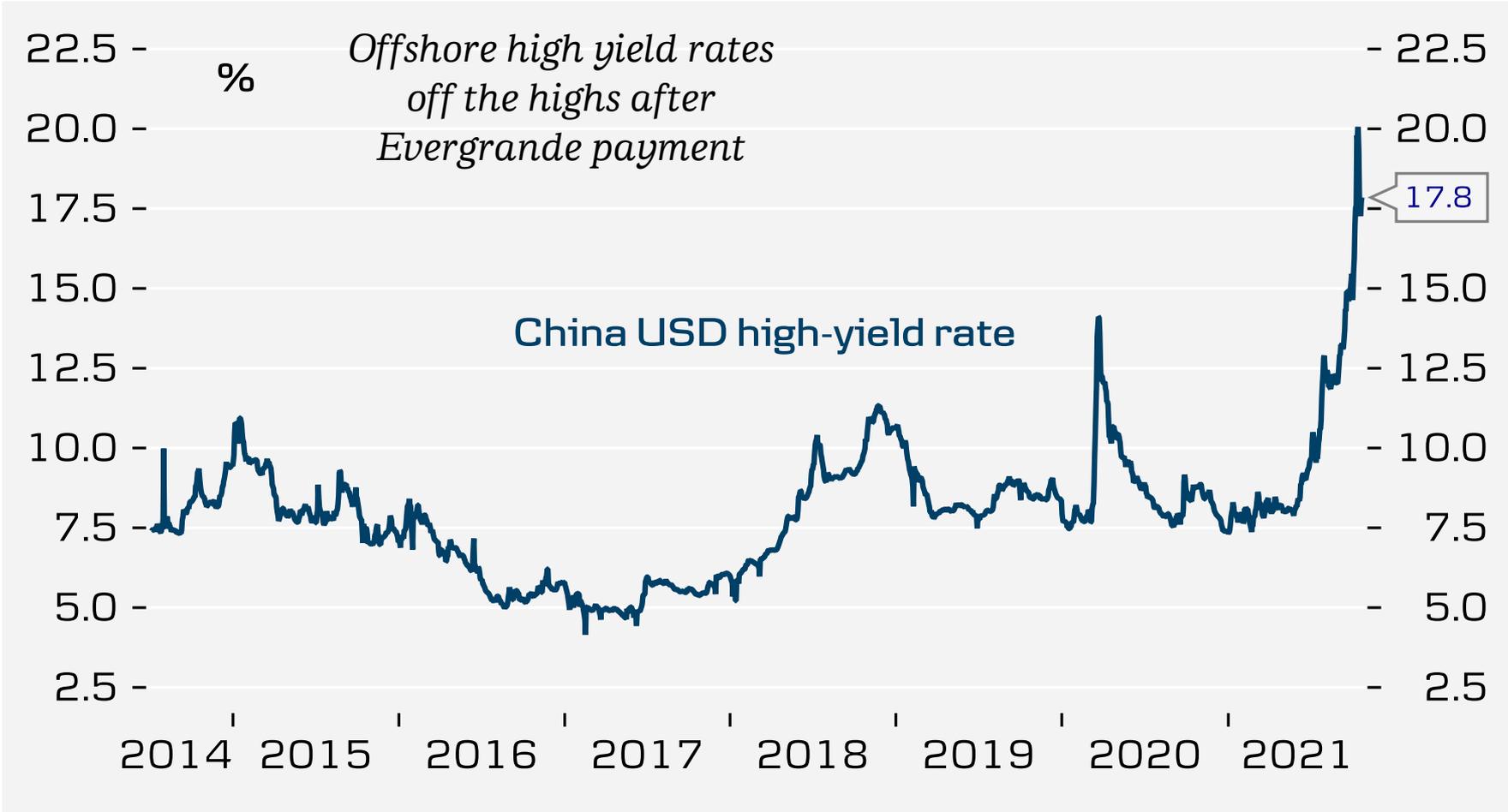
### Recent research on China's property crisis and economy:

[Strategy China - Closer to peak stress, 15 October 2021](#)

[China Macro Monitor - Growth revised lower as property crisis to linger into 2022, 5 October 2021](#)

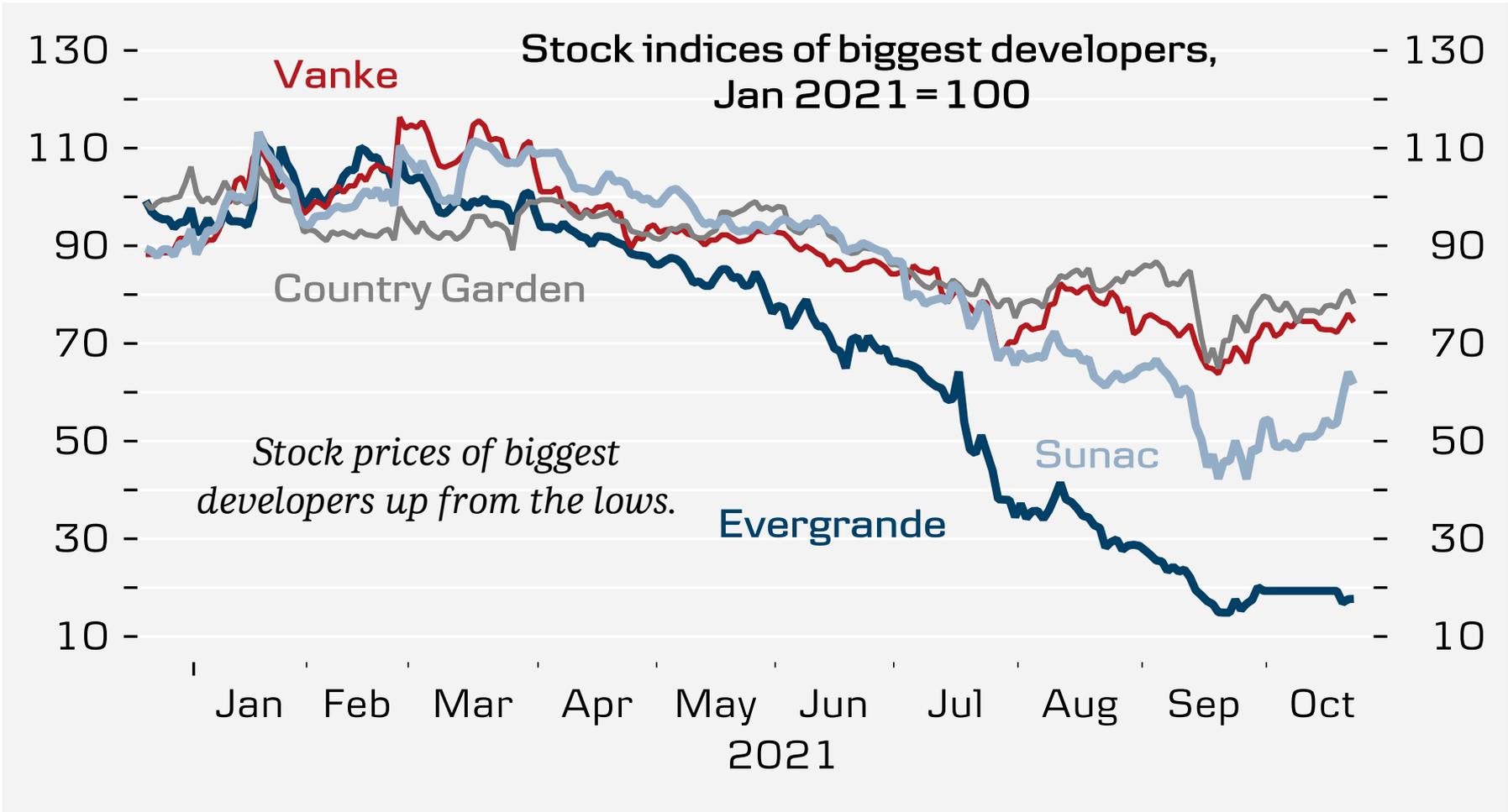
[Research China - No Lehman moment but financial stress is not over, 29 September 2021](#)

# #1 High yield market (dominated by developers)



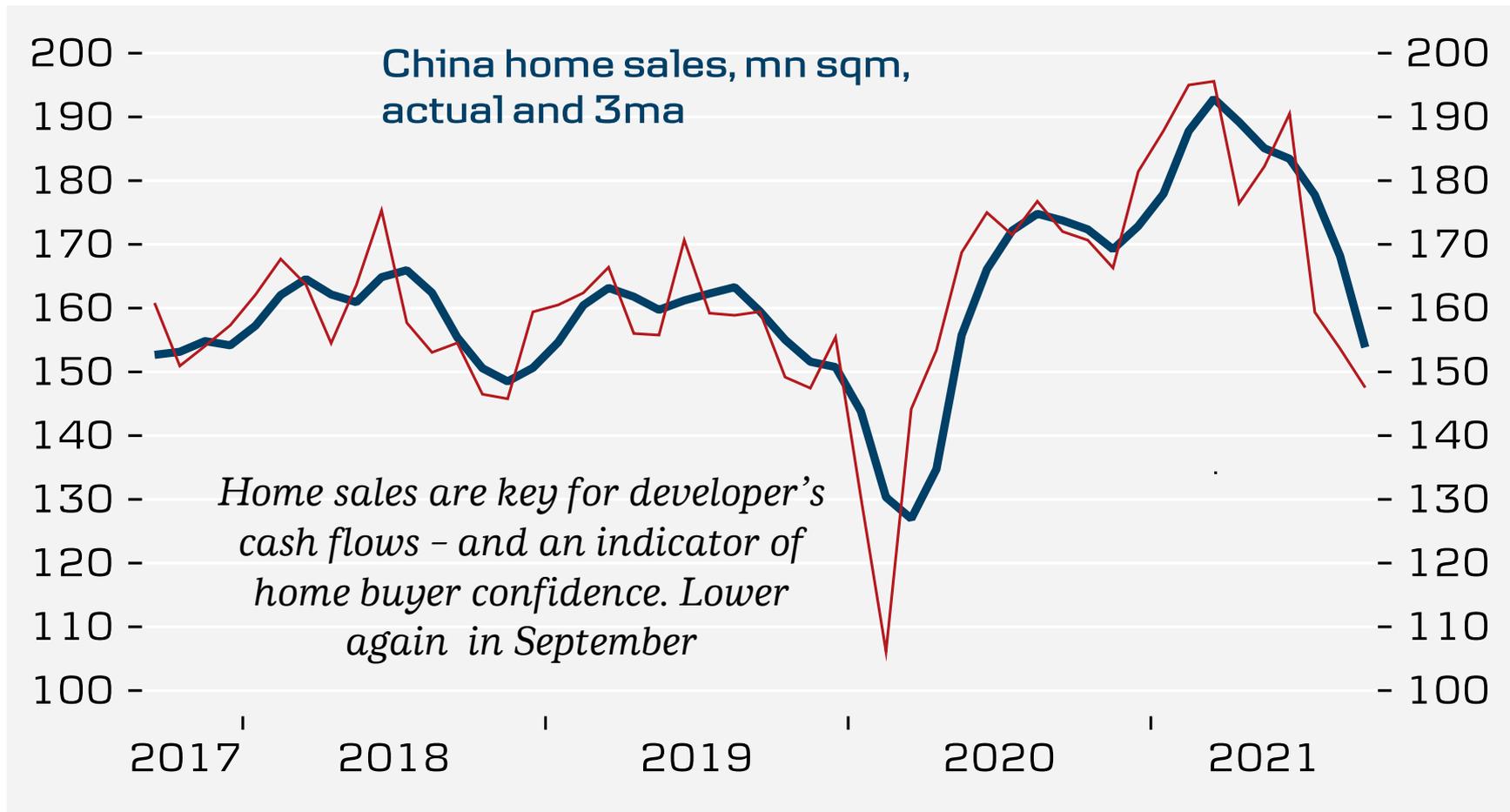
Source: Macrobond Financial, Bloomberg.  
Note: Past or current performance is no guarantee of future performance.

# #2 Stock price of the big developers



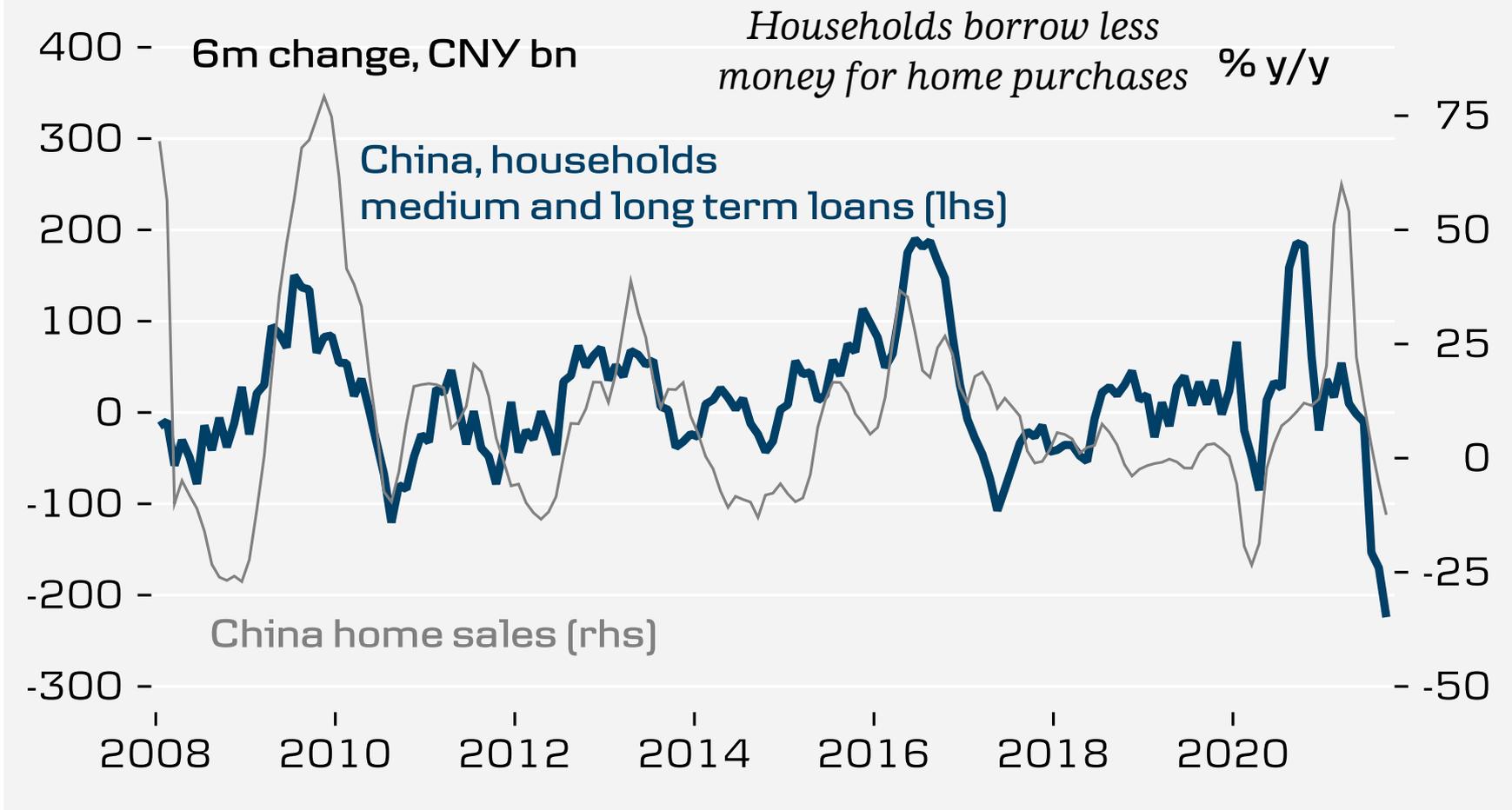
Source: Macrobond Financial, Bloomberg.  
Note: Past or current performance is no guarantee of future performance.

### #3 Home sales



Source: Macrobond Financial, Bloomberg, NBS.

# #4 Lending to households



Source: Macrobond Financial, Bloomberg, NBS, PBoC.

# #5 Lending to developers



Source: Macrobond Financial, Bloomberg, PBoC.

## *Our baseline scenario and key risks*

- **Our baseline:**

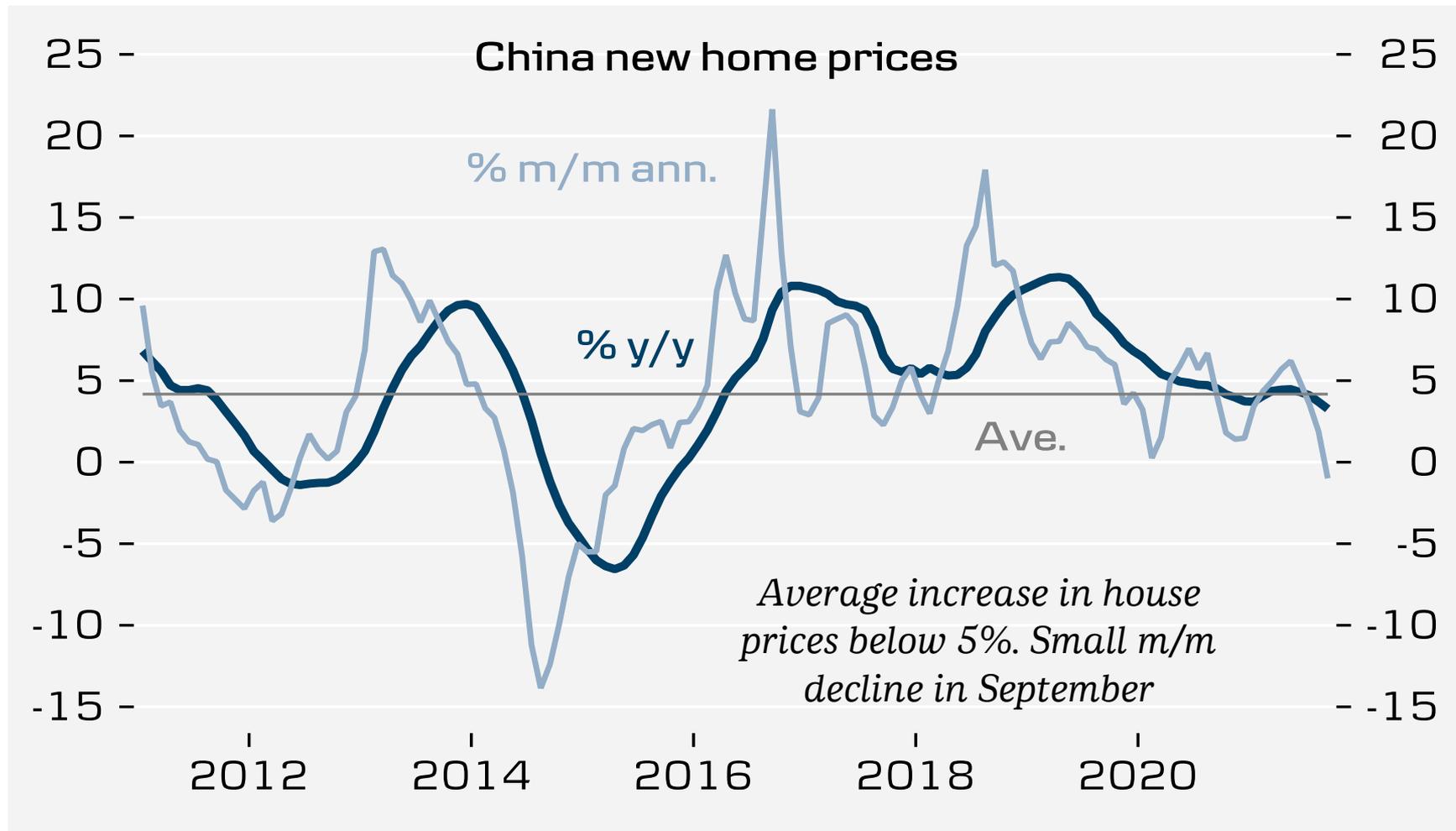
- A messy muddling through
- Evergrande eventually defaults but measures taken to ring-fence it
- Some moderate easing of ‘three red lines’ to reduce stress on sector but the government is not going to ease up significantly
- Bank lending from big state banks to fill funding hole
- Some policy easing to support home sales
- Growth very weak in H2; stimulus coming via RRR cut

- **Key risks:**

- Government helps less than expected
- Other big developers default if bank support comes too late
- Home sales drop further (sales critical source of income currently)
- Refinancing risks in 2022 as many bonds mature

*Other material on China's housing market*

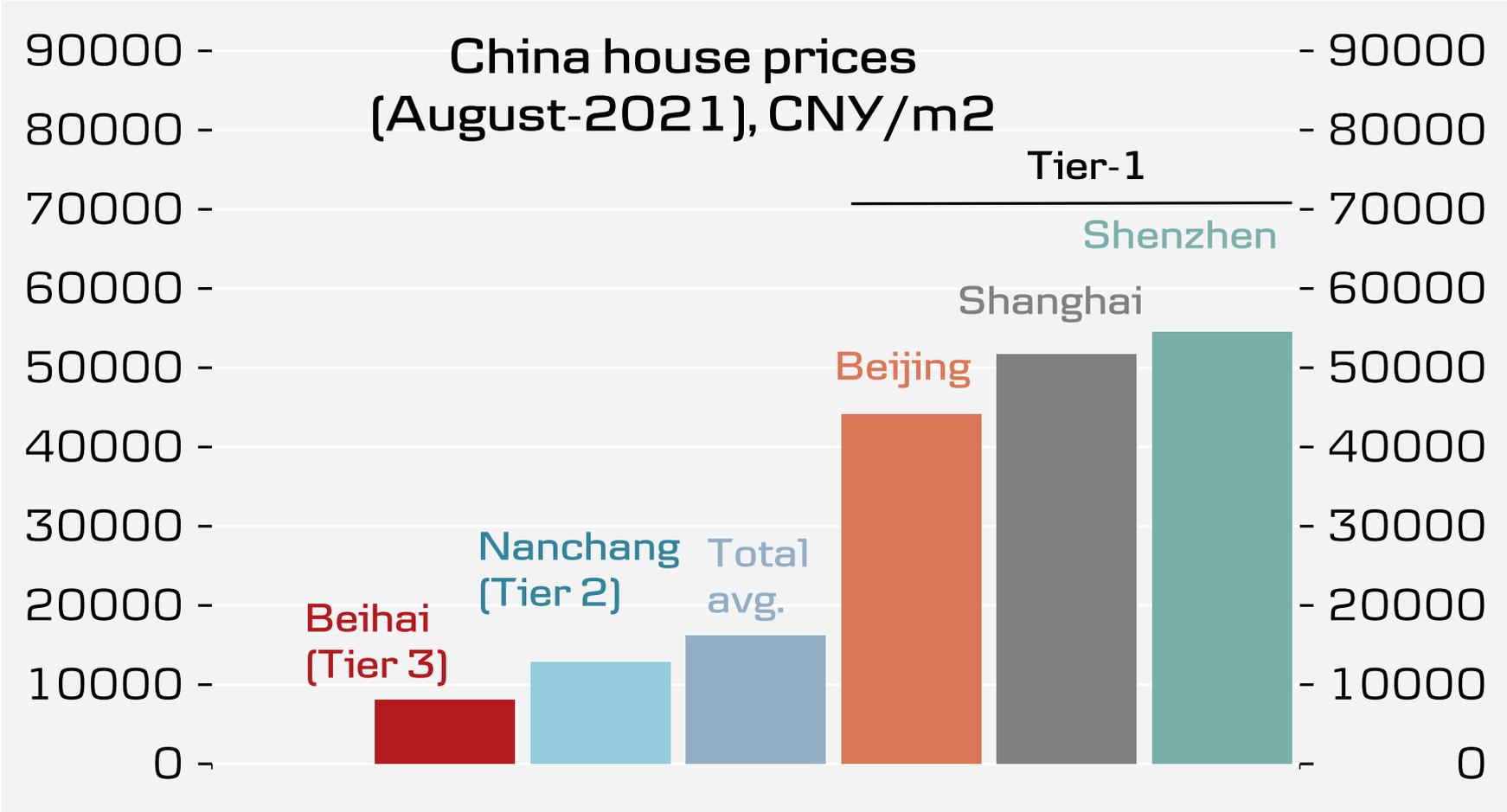
# House prices



Source: Macrobond Financial, NBS

# China house price level

High price level in tier-1 cities but less so in other cities



Source: Macrobond Financial, NBS

# Housing inventories



Source: Macrobond Financial, NBS, Danske Bank

## Regulation tightened in August 2020

### Box: China's tightening of regulation for developers

In August 2020 China introduced a range of measures aimed at reducing financial risks from China's highly leveraged developer sector. Two sets of regulations have led to a significant deleveraging pressure and highlighted the most vulnerable names in the sector.

The first set of regulation was the so-called "three red lines" which puts limits on leverage and minimum requirement on liquidity. The three lines for developers are:

1. Debt-to-asset ratio below 70%
2. Net-debt to equity below 100%
3. Cash to short-term-debt ratio higher 100%

Crossing one red line would restrict developers to only increasing their debt levels by 10%. Crossing two red lines halves that limit to 5%, while developers breaching all three lines would not be allowed to increase debt above June 2019 levels.

The second set of regulation was the '*concentration management system*' (CMS) for banks coming into force in on 1 January 2021. The system puts limits on the share of bank lending to the property sector for banks dividing banks into five tiers. Well-capitalised banks can lend more than smaller underfunded banks. On top of limiting financial vulnerability it also aims at getting banks to lend more to 'productive sectors' such as manufacturing and tech sectors.

Source: Misc. media reports

## Evergrande in own league – but others with high leverage

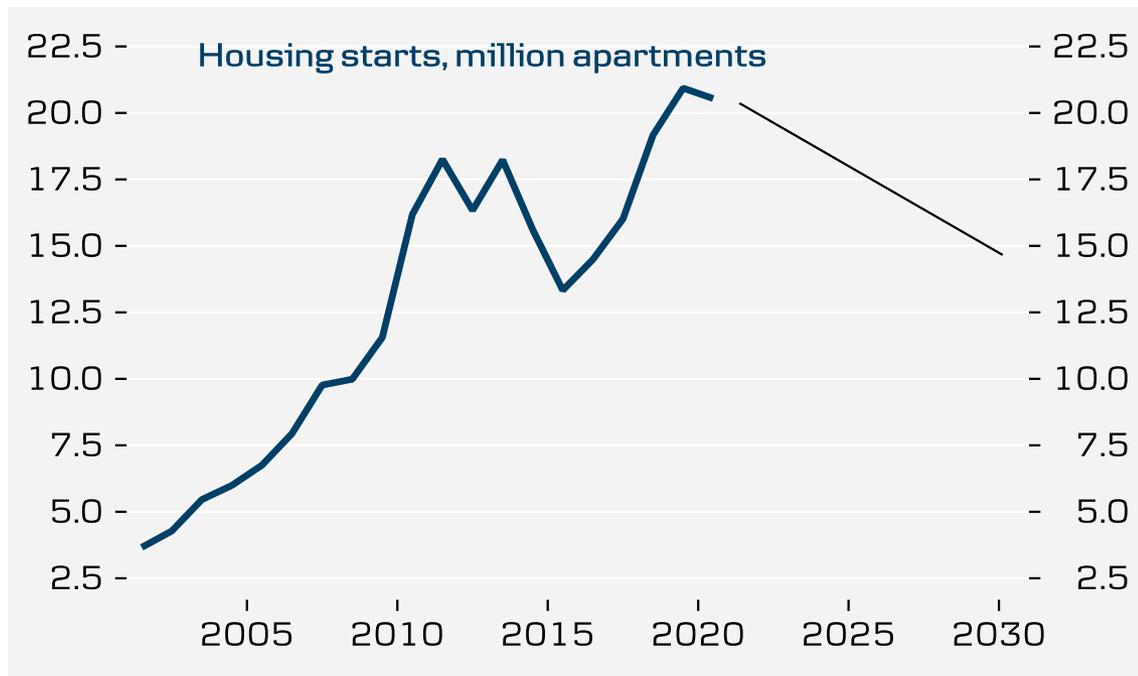
	Revenue	Assets	Total debt	Rating (Moody's)	Net debt/equity	Interest coverage	Quick ratio
Evergrande Group	73,592	352,549	110,578	Ca	160	0.80	0.13
Country Garden	67,151	308,832	50,119	-	60	2.32	0.14
Greenland Holdings	66,166	214,079	52,143	Ba2	155	5.11	0.20
Vanke	60,805	286,367	43,722	Baa1	28	4.26	0.14
Poly Real estate	35,285	191,717	47,762	Baa3	62	8.40	0.20
Sunac China Holdings Limited	33,454	169,813	46,589	Ba3	115	1.55	0.15
Longfor Properties	26,774	117,226	27,742	Baa2	54	5.81	0.20
China Resources Land Limited	26,055	133,142	26,111	Baa1	30	7.15	0.22
Seazen Group	21,199	83,418	16,149	Ba1	55	1.91	0.16
Shimao Property	19,637	90,353	22,248	Ba1	55	3.22	0.21
China Merchants ...	18,805	112,936	24,521	-	28	1.96	0.25

Note: Red color of rating indicates high yield (below Baa3). Quick ratio is a liquidity measure.

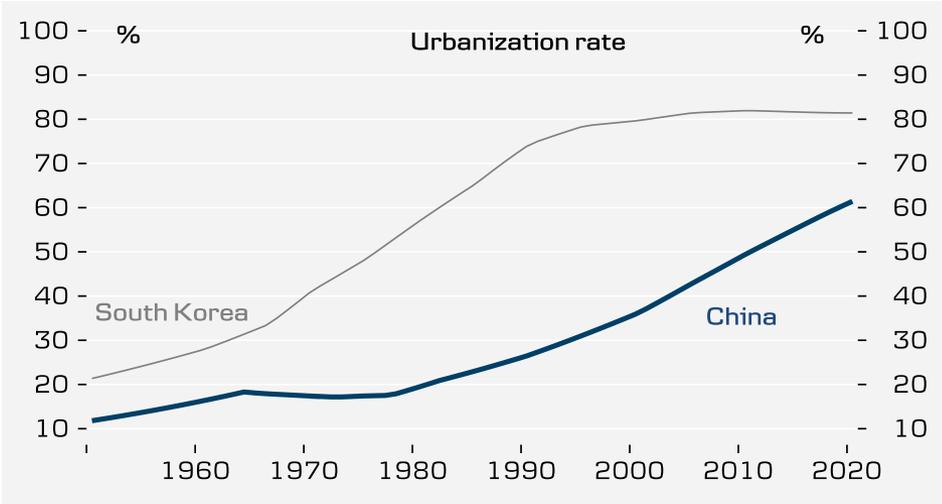
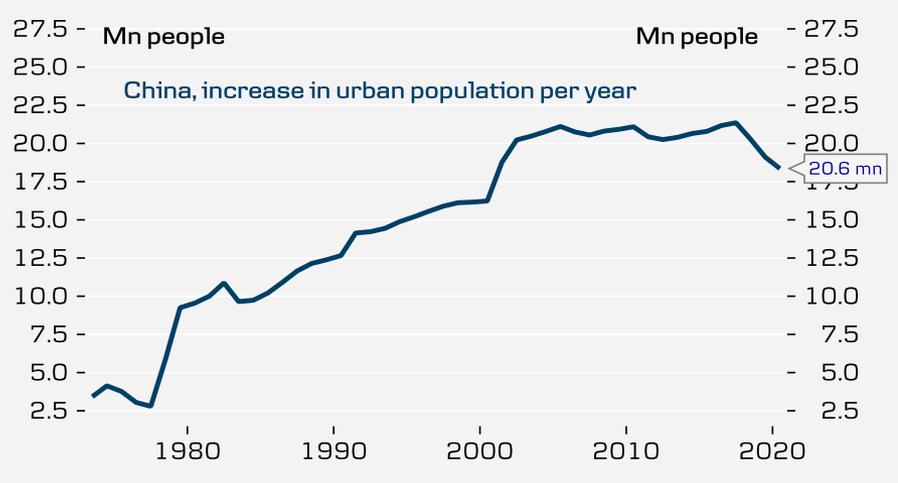
Source: Bloomberg

## We are at 'peak housing'

- Around 20 million apartments per year are currently being built
- Around 13 million are for urbanisation or urban marriages
- Rest is for rental or upgrading of existing housing
- A slowing of urbanisation + inventories is expected to reduce the need for new housing



# China's urbanization rate has peaked



Source: Macrobond Financial, World Bank

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