China Property Developers' Contracted Sales Outlook Remains Weak in 2022

The weak contracted sales trend since the second half of 2021 continued at the beginning of 2022. According to the National Bureau of Statistics, the total contracted sales rose by 4.8% year-on-year to RMB18.2 trillion in 2021, while the contracted sales GFA rose by 1.9% year-on-year to 1.8 billion square meters during the same period. Nevertheless, the sales growth slowed down significantly from the 38.9% year-on-year increase achieved in the first half of 2021. Moreover, according to China Real Estate Information Corp., contracted sales of the top 100 property developers dropped on average by 39.6% year-on-year in January 2022. The contracted sales will likely remain stagnant in the first quarter of 2022, given the weak sentiment in the Chinese property market during the Chinese New Year. According to China Index Academy, contracted sales GFA for the cities under observation dropped 51% during the Chinese New Year holiday, compared with the same period last year.

We believe the policy outlook is crucial to the contracted sales performance in the next 12 months. For instance, policies on accelerating mortgage loan approval or lowering mortgage rate will boost the purchasing power of property buyers. The urge for policy relaxation or differentiation across cities from central government may also boost buyers' sentiment. On the other hand, in view of tight land purchase expenditure, the limited life span of property developers' land banks will slow the supply of newly-built homes by some of them to meet the demand. Thus, policies on property developers' refinancing capability and requirements on their financial positions will have an influence on property developers' abilities and appetites for land replenishment, which affect their supplies to the property market in the long term.

Separately, property buyers' expectation on property price will affect their propensity to purchase properties. The expectation of weak property price caused some potential buyers to hesitate or delay their property purchases. We believe supportive policies, stabilizing contracted sales and financial position of property developers will help to restore buyers' expectation on property price. The turnaround of property buyers' confidence will accelerate their property purchases and hence facilitate the contracted sales recovery.

Overall, we expect contracted sales to drop by c. 20% in 2022, mainly due to the weak sentiment and tight financing environment for both property buyers and developers. Given the weak demand from buyers and limited life span of land bank, we expect property developers to announce their contracted sales targets for 2022 with c. 10-20% decrease on average compared with their actual contracted sales in 2021. Property developers with relatively high quality of land bank and long life span of their land bank are likely to achieve better contracted sales performance in 2022. We expect that some cities may remove or relax their policy restrictions in 2022, which would lead to better contracted sales performances in the second half of 2022, compared with the first half of 2022.

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