

Takeaways from the Two Sessions on China Housing Policy: Focus on Long-term Stability and Healthy Industry Development

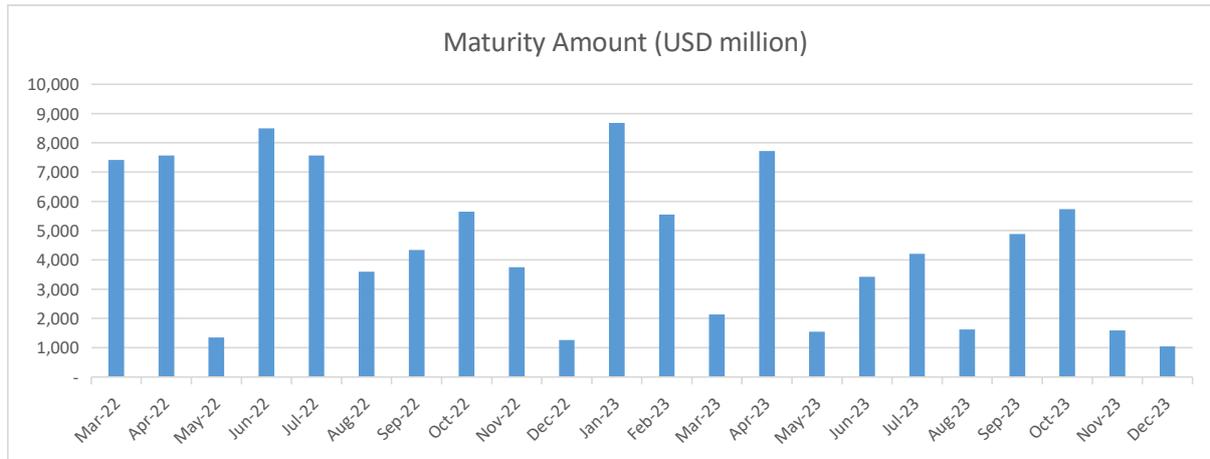
During the opening meeting of the National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC) sessions, which were collectively known as the Two Sessions, Premier Li Keqiang delivered the annual work report with the following highlights on the property industry:

- Reiterate the theme of “Properties for living and not for speculation” (房住不炒) and satisfying the housing demand of the mass public
- Explore new development modes for the property industry, such as encouraging rentals along with purchases (租購並舉), accelerating the development of the long-term rental market, promoting the supply of affordable housing and supporting the commodity housing to meet the reasonable housing demand of homebuyers
- Stabilize land price, home price and expectation management
- Encourage the city-specific policies implemented by local governments (因城施策) to promote the healthy development of the property industry

There was no mention of the property tax during the Two Sessions. We believe that the contribution of the property industry remains essential to the mission of a stable economic growth in China. Thus, we believe more local governments will adopt policy relaxation for their local property markets, such as partial loosening on purchase restrictions and mortgage applications. Also, the People's Bank of China (PBOC) reiterated that it would support the healthy development of the property industry in the long run. We expect there will probably be some accommodative policies to be launched in 2022, such as increasing financial support for rental housing market and affordable housing constructions, loosening mortgage approval for first-time homebuyers, lowering mortgage rates, etc.

However, we believe homebuyers' sentiment to remain cautious in the near to medium term, and contracted sales to remain sluggish in 2022. We maintain our expectation that contracted sales will drop by c. 20% year-on-year in 2022. Also, we expect the refinancing channels in both the onshore and offshore markets for property developers to remain challenging in 2022, as there is no major policy support in this aspect during the Two Sessions. Property developers have to rely on internal resources, asset disposals, cash inflow from contracted sales and bank loans for their debt repayments. We expect more property developers to face repayment pressure in the near to medium term. We remain cautious on the near-term credit outlook for the Chinese property developer industry.

Exhibit 1: Maturity Distribution of China Offshore USD Public Bonds issued by Chinese Property Developers



Source: Bloomberg, Lianhe Global calculations

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