

2019 Credit Outlook for China Property Developer Sector

China Lianhe's Viewpoints on the Chinese Property Developer Sector

- Amid the spectre of the Sino-US trade tension, a slowing economy and a teetering property market, we believe the policy stance is likely to moderate from the current over-tightening stance with an aim to stabilize land and property prices and manage expectations. The overall policy stance of 'houses are built for living but not for speculation' remains unchanged. But some policies are likely to be fine-tuned based on the actual circumstances of each city. We expect that the restrictive purchasing policies in first- and second-tier cities may be loosened further in 2019 but with limited room. For third- and fourth-tier cities, we expect they may continue to face downward price pressure owing to the weakened policy support for monetized resettlement (or reconstruction) of shanty towns.
- Propelled by active land acquisition activities, investments in the Chinese real estate remained resilient in 2018. However, as we witnessed a number of failed land auctions in the second half of 2018, we expect investment amount in the real estate sector to fall in 2019. On the other hand, as many Chinese property developers are forced to replenish their depleted land bank, new constructions are likely to gain momentum which would give support to investments in the real estate sector.
- The Chinese property market has been cooling precipitously since October 2018. Many buyers are taking a wait-and-see sentiment. We expect the Chinese property market continues to slide in terms of sales, and home price divergence among cities to become more pronounced. We believe sales in terms of the gross floor area in the first- and second-tier cities may have bottomed out after nearly two years of draconian measures which have led to the accumulation of substantial latent demands but with limited room for any major policy loosening. At the same time, we expect sales in the third- and fourth-tier cities continue to slide given the weakened policy support on monetized resettlement (or reconstruction) of shanty towns where elevated property prices have outpaced affordability.
- We believe property developers with high leverages, aggressive expansions, weak profitability and a high level of short-term debt are likely to face liquidity challenges amid a tightened financing environment which may increase their propensity to default. On the contrary, the credit profiles of large property developers with a high-quality land bank, diversified financing channels, and a lower cost of funding/capital, are likely to remain stable.

In summary, we expect the Chinese property developer sector to remain stable in 2019. However, amid the spectre of a tightening financing environment and a busy redemption schedule of maturing bonds in 2019, we expect a credit divergence among Chinese property developers is likely to emerge.

For more details, please refer to the Chinese report:

《2019 年中国房地产行业信用风险展望》

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