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China Property: Prices Stable So Far In 2010, Inventory Cycle To Reverse

Our survey of property prices in 30 major cities indicates **prices remained stable across China** in February and early March. On average, city centre property prices increased 0.3% m-o-m, whilst suburban properties edged up 0.4%. Only Tianjin and Qingdao saw suburban property prices increases above 2%, at 2.3% and 2.1% respectively. No other hot spots appeared.

Residential market **volumes remain soft**. In the table below, we compared the average daily transaction volumes of January and February this year with the corresponding 2009 figures. This comparison captures seasonal changes resulting from the Chinese New Year. On average, major cities saw volumes down 5% compared with last year. Change since the 4Q09 are more dramatic, with average daily volumes down 45%.

Average Daily Transaction Volume					
	Jan/ Feb 2010	Jan/ Feb 2009	%Chg YoY	Jan/Feb 2010 Over 4Q09	%Chg
	sq m	sqm		sq m	
Shanghai	21,700	39,014	(44.2)	77,829	(72.0)
Beijing	38,390	32,131	19.5	61,248	(37.3)
Shenzhen	8,836	18,012	(44.8)	14,875	(38.8)
Hangzhou	11,678	7,560	54.5	35,021	(66.7)
Tianjin	23,847	17,052	40.4	42,508	(43.7)
Chongqing	52,523	4,641	1,031.7	76,014	(30.9)
Xiamen	6,166	11,786	(58.3)	8,924	(42.2)
Chengdu	15,930	na	na	77,720	(79.5)
Suzhou	7,242	na	na	8,532	(15.1)
Guiyang	15,894	na	na	21,312	(25.4)
Average*			(5.1)		(45.3)

*Chongqing excluding in yoy calculation to avoid distortion of average

Source local housing registration bureaus

If the above table does not show it can also be found in an attachment

If the past year was about strong housing demand absorbing 2008 inventory which resulted in supply shortages and new peak prices, **we would expect a reversal in 2010, though in a less drastic fashion. We expect housing inventories to build again.** Below is why:

First, although there is little credible inventory data available, new monthly housing starts have always been a good indicator of new supply. It reversed in July 2009 and grew 61% y-o-y on average in 2H09. The average start-to-presale period is about 10-12 months, meaning from mid-2010 onward, monthly new supply could increase by 50% or more y-o-y.

Second, on the demand side, we now see little speculative demand in the market due to policy tightening and profits having limited upside potential. Regional hot spots, such as Hainan, quickly cooled.

Bank mortgage policy is likely to remain tight throughout 2010. With quarterly lending limits set by the regulators, banks, concerned about their profitability and risks, are now unwilling to grant mortgages at a discount to the PBoC base rate. In practice, the original 30% discount over the PBoC rate is no longer available from most banks, even for first-time home buyers.

Therefore, weak demand is likely to continue in 1H10, though sales may appear stronger in March and April due to seasonality. Property volumes are also likely to increase q-o-q in the second quarter, mostly because of a low Jan/Feb base. Y-o-y volumes growth is unlikely to appear because of the tighter mortgage environment and high prices.

Hence, **the inventory cycle looks set to reverse by mid-2010 at the latest**, when ample new supply comes to the market. **The results would be slower turnover, gradually tightening cash flows for developers and eventually, price cuts.**

Property remains a priority at the early March CPC and CPPC conferences. So far, the government seems to be satisfied with developments in the sector and no further tightening measures have been introduced. Should there be new tightening policies, the developments we stated above should accelerate, as halting construction half way through a project is the last choice developers would make. Supply for 2H10 would remain regardless.

Please see the attached property price tables compiled by Research-Works. Our survey covers 30 major cities, with prices for both city centre and suburban areas. We feel the series is a good indicator of the actual price movements taking place in Chinese cities. **China's NBS recently reported China's average property prices in 2009 increased 1.5%, our survey shows the increase was more like +23%.**

Best wishes,

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