First Read

China Property

Expert call takeaway: are Shanghai and Shenzhen property prices bottoming?

Equities

China

Real Estate

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Transaction volume is picking up with policy support...

On May 8, we hosted an expert call with the General Manager of Centaline Eastern China and Centaline Shanghai. Secondary transaction volumes in tier-1 cities have rebounded following policy easing, particularly the relaxation of Housing Provident Fund borrowing, which has essentially lowered interest rates. In Shanghai, the expert observed a "dumbbell-shaped" market reaction. Demand for secondary homes, old and small residential properties has risen meaningfully, as the uptick is largely driven by genuine end-user demand. At the same time, high-quality luxury homes are also seeing strong interest, as financially capable buyers selectively acquire scarce assets for asset allocation.

...but yet to see full-on recovery in market sentiment

A broad-based recovery in sentiment has yet to materialize. The expert sees around half of the sellers will upgrade for another home after selling their properties. The remainder tend to stay cautious, either observing market developments or put the proceeds in other investments. A similar dynamic applies to developers: despite marginal improvement in primary sales in April, most have remained cautious and focused on clearing inventory rather than pursuing price growth; only a limited number of developers have clawed back discounts.

Change in homeowners' attitude

On the decline in secondary listings in tier-1 cities, the expert attributed this to the gradual digestion of listings with good bargains since Dec last year, alongside a shift in homeowners' sentiment. Some owners have raised their asking prices amid a more active market, while some have withdrawn listings. However, he has yet to observe a similar shift in tone on the demand side, as buyers remain price-sensitive and simply do not make a purchase if the price is too high.

Rent or buy?

The expert believes that the large volume of housing built over the past decade has resulted in abundant supply, leading to a dynamic in China where property prices tend to drive rents, instead of rents driving prices. Rather than valuing homes based on rental yields, rental levels often adjust in response to price movements. He also highlighted that younger generations are increasingly reluctant to take on mortgages amid broader social changes, particularly as some expect to inherit properties from their parents. Regarding social rental housing supply, the expert emphasized its fundamentally different role versus commodity housing, viewing it primarily as a transitional solution for those with near-term fundamental housing needs.

Stock implications:

We like CR Land and Seazen (H) on business model transformation and accelerated capital recycling that enhance ROE. We also like CR Mixc due to its rising competitive advantages over peers on the rising number of third party managed projects in the next five years.

Valuation Method and Risk Statement

Our CR Land price target is based on PE. We believe the key risks to CR Land include: 1) a slowdown in China's property market, especially in lower-tier cities; 2) increasing competition in the M&A market leading to higher land costs and lower margins; and 3) delays in the conversion progress of its urban redevelopment projects. Key risks related to China's property market include: 1) government administrative policies that restrict demand and mortgage lending; 2) tight financing for China's developers; and 3) economy and income pressures, especially brought on by the COVID-19 outbreak.

Our valuation for CR Mixc is based on 2027E PE multiples. We believe the key upside risks for CR Mixc include: 1) CR Land becoming more aggressive in shopping mall development, driving GFA growth for CR Mixc's commercial management services; 2) stronger-than-expected growth in retail sales; and 3) CR Land achieving faster-than-expected contract sales and property delivery, driving property management GFA growth and sales-related VAS for CR Mixc. Key downside risks for CR Mixc include: 1) a negative macro environment, which could deteriorate retail sales, discourage developers to pursue shopping mall developments, and affect CR Mixc's expansion of its management portfolio and tenant sourcing; and 2) the failure to enhance or maintain its high occupancy rate due to inappropriate positioning, which could deteriorate profitability of mall management.

We use P/BV method to value Seazen Group. We believe key risks to Seazen include: 1) a slowdown in the China property market, especially in lower-tier cities; 2) increasing competition for shopping malls in lower-tier cities, which may inflate land cost and/or lead to oversupply of shopping malls in these cities; 3) weak retail market performance in lower-tier cities; 4) loss of competitive edge in land acquisition upon the Chairman's exit; and 5) early redemption of bonds or loan recalls causing financial distress. Key risks related to the China property market include: 1) government administrative policies that restrict demand and mortgage lending; 2) tight financing for China developers; and 3) weaker-than-expected growth of China's economy.