First Read

China Property

Property x Consumer Expert Lunch Series: #1: Active Tenant Mix Is Needed

Equities

China Emerging

Real Estate

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Potential headwind from tighter social-insurance enforcement

We hosted a luncheon on Nov 2 with senior management from a Greater Bay Area focused mall operator and Anta Sports to discuss China's shopping mall and consumption trend (see our consumer team's note). **Key takeaways:** tighter social-insurance enforcement could create an incremental headwind for mass consumption in 2027; the mall operator is actively refreshing its tenant mix to maintain consumer traffic and engagement; third-party mall-management expansion remains challenging; and RMB appreciation has had a modest negative impact on retail sales due to weaker purchasing power among Hong Kong customers.

Adapting tenant mix to a more challenging consumption outlook

Tighter social-insurance enforcement could create an incremental headwind for mass consumption in 2027, as higher employee contributions reduce near-term take-home pay, while higher employer costs could weigh on wage growth and hiring. Our consumer team expects the impact to be K-shaped, with mass-market discretionary spending and lower-tier retail more exposed, while premium, outdoor and experience-led categories should prove relatively resilient. Against this backdrop, the mall operator has been actively refreshing 20-30% of its tenant mix annually, introducing more experience-led concepts such as rock climbing, collectible toys and differentiated flagship stores targeting younger consumers, while reducing exposure to cinemas and large supermarkets. The operator is also shifting its rental structure toward a greater turnover-linked component, better aligning the interests of landlords and tenants, although this comes at the cost of greater rental-income volatility for landlords.

Third-party mall expansion remains challenging

The mall operator highlighted that third-party mall-management expansion remains challenging, as some property owners lack sufficient cash flow to pay management fees. As a result, the operator is increasingly focusing on opportunities with LGFVs and distressed-asset managers. However, these counterparties are increasingly looking for mall managers to co-invest alongside them, rather than simply provide asset-light management services. Separately, the recent discussion around commercial-property land-use-right renewal has created some uncertainty around property refinancing in Shenzhen. The operator noted that Shenzhen has yet to announce detailed policies governing the renewal of expiring land-use rights.



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Valuation Method and Risk Statement

We base our valuations of China's property developers and managers on PE or P/BV multiples. We believe key downside risks related to the Chinese property market include: 1) government administrative policies that restrict demand and mortgage lending; 2) tight financing for China's developers; 3) lower-than-expected residential growth in China's economy. We believe key upside risks include: 1) material policy loosening that effectively boosts residential property sales, investments and prices to positive YoY growth; 2) large-scale asset disposals at fair prices by some developers to ease liquidity pressures.