

SECTOR UPDATE

Property – China

Monitoring Sales Recovery In Tier 1 Cities; Expect Narrower Gap Between Mortgage Rates And Rental Yields Of China's Major Cities

In the first three weeks of Oct 24, property transactions in Tier 1 cities have yet to fully exceed the volume observed in the three weeks following the 17 May policy combo. The National Day holidays might be a key factor affecting sales. The first-home mortgage rate in Guangzhou fell to 2.75%, and is moving closer to the city's average rental yield of 2.34%. However, we have yet to see further updates on destocking. Maintain MARKET WEIGHT.

WHAT'S NEW

- Financial data Terminal (iFind) released property sales data for 14-20 October.
- Ice Index released the average listing prices of major cities for the second week of Oct 24.
- On 21 Oct 24, the PBOC announced that it would be lowering the one-year/five-year loan prime rate (LPR) by 25bp to 3.1%/3.6% respectively.

ESSENTIALS

- Comparing market responses to 17 May policy and 26 September policy.** At the Politburo meeting on 26 September, President Xi vowed to stabilise the property market. Beijing/Shanghai/Shenzhen relaxed housing purchase restrictions (HPR) on 29-30 September while Guangzhou removed all HPRs. In the first three weeks of Oct 24, the average weekly transactions of the primary and secondary property markets in Tier 1 cities increased 5.3%/18.9% mom respectively. Note that Shenzhen's weekly transaction volume of the secondary market reached a new high for this year. Compared with the three weeks after the 17 May policy combo, the transaction volume of primary and secondary property markets during the three weeks after the 26 September policy combo is 3.7% higher/14.8% lower. The 1 October National Day Holiday might be a key factor affecting sales.

AVERAGE WEEKLY SALES DATA OF THE FIRST THREE WEEKS FOLLOWING THE 26 SEPTEMBER POLICY COMBO VS THAT OF 17 MAY POLICY COMBO

	----- New-home transaction volume (sqm) -----			----- Secondary-home sales units (units) -----		
	Three weeks after 26 Sep policy	Three weeks after 17 May policy	Change (%)	Three weeks after 26 Sep policy	Three weeks after 17 May policy	Change (%)
	[a]	[b]	[a/b-1]	[c]	[d]	[c/d-1]
Beijing	15,711	21,061	-25.4	3,402	4,260	-20.1
Shanghai	28,322	28,179	+0.5	5,001	6,030	-17.1
Guangzhou	31,598	22,879	+38.1	1,987	2,348	-15.4
Shenzhen	7,087	7,676	-7.7	1,309	1,089	+20.2
Total	82,718	79,795	3.7	11,699	13,727	-14.8

Source: iFind, UOB Kay Hian

- Some cities showed signs of property price stabilisation.** According to the Ice Index, among the 16 major cities we closely monitor: a) Shanghai/Beijing/Xi'an/Foshan showed signs of stabilisation with 0.2%/0.2%/1.2%/0.1% wow growth respectively, and b) Qingdao/Nanjing/Shanghai reported the largest declines of 1.9%/1.0%/0.9% mom respectively. However, due to the relatively high supply, we expect the secondary market in most cities to face downward pressure on property price in the near term. Since Jan 24, the average listing price of secondary homes in 16 major cities has decreased 3.9%, with the worst performances seen in Wuhan (-4.7%) and Guangzhou (-4.5%).

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside/(Downside)	Market Cap	----- PE -----		----- P/B -----		----- Yield -----	
			22 Oct 24 (HKD)	Price (HK\$)	to TP (%)		2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
China Resources Land	1109 HK	BUY	26.25	37.67	43.5	187,187.2	6.4	6.2	0.7	0.7	5.6	5.7
Sunac China Holdings	1918 HK	SELL	2.50	1.06	-57.6	21,572.5	n.m	n.m	0.0	0.0	0.0	0.0
China Overseas Land	688 HK	BUY	15.30	19.20	25.5	167,456.7	6.8	6.7	0.4	0.4	4.6	4.6
Longfor Properties	960 HK	BUY	12.54	17.20	37.2	86,317.4	7.5	7.5	0.5	0.5	4.0	4.0

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

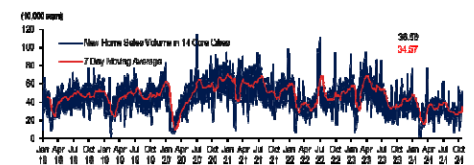
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CR Land	1109 HK	BUY	26.25	37.67
Longfor	960 HK	BUY	12.54	17.20

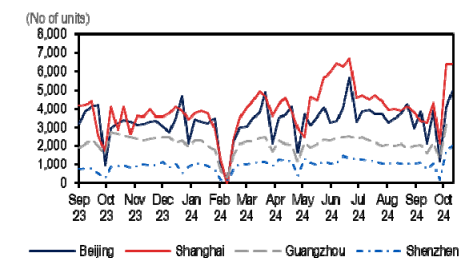
Source: UOB Kay Hian

16 CITIES DAILY NEW HOME SALES



Source: iFind, UOB Kay Hian

SECONDARY HOME SALES UNITS IN TIER 1 CITIES



Source: iFind, UOB Kay Hian

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- **Gap between first-time mortgage rate and rental yield is gradually narrowing.** On 21 Oct 24, the PBOC announced that the five-year LPR for Oct 24 will be 3.6%, down 25bp compared with the previous month. With the latest LPR, first-home/second-home mortgage rates in Guangzhou will be lowered to 2.75%/2.95% respectively, inching closer to the city's rental yield of 2.34%. Looking forward, we expect a narrower gap between mortgage rates and rental yields in China's major cities, which will be a positive factor driving the market.

ACTION

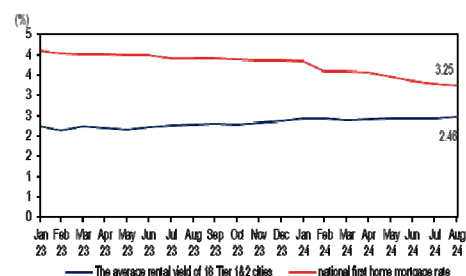
- **Maintain MARKET WEIGHT on China's property sector.** We expect the property sector to be a key beneficiary of this round of monetary and fiscal policies. The narrower gap between mortgage rates and rental yields in major cities will be a positive factor driving the market. The destocking policy will be a critical policy tool at this time, and gives us more hope for a recovery in fundamentals. We maintain MARKET WEIGHT because we think there are still uncertainties surrounding policy implementation. For the next 3-6 months, we reiterate that the focus will be on the sales recovery as well as implementation of the destocking policy, which can be reflected through changes in PSL balance, the issuance of destocking bonds, and the recovery of property sales. Our top picks are CR Land and Longfor.

MAJOR POLICIES ON PROPERTY SECTOR ANNOUNCED DURING 24 SEP – 17 OCT 24

Government departments	Date	Policies on property sector
PBOC	24 Sep	The proportion of PSL funding for destocking can be increased from 60% to 100%.
Politburo meeting	26 Sep	XI urged to stabilise the property market and allowed further relaxation of HPRs
T1 cities	29-30 Sep	Beijing/Shanghai/Shenzhen relaxed HPRs while Guangzhou removed HPRs
Ministry of Finance	12 Oct	Local government special bonds can be used in destocking programme.
Ministry of Housing	17 Oct	In addition to ongoing urban village redevelopment projects, the MOHURD vowed to begin redeveloping 1m units of aged residences in urban villages/shanty towns. The government will provide cash subsidies to support residents purchasing replacement homes. The whitelist loan will be expanded to include all types of developers, from mainly covering distressed and defaulted developers

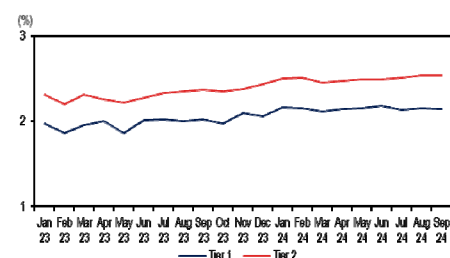
Source: Xinhua, UOB Kay Hian

MORTGAGE RATE VS RENTAL YIELD



Source: iFind, UOB Kay Hian

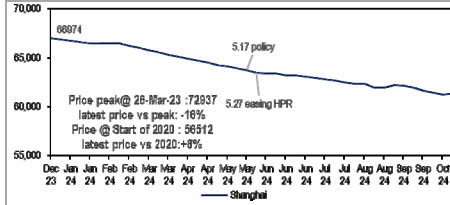
RENTAL YIELD IN TIER1&2 CITIES



Source: iFind, UOB Kay Hian

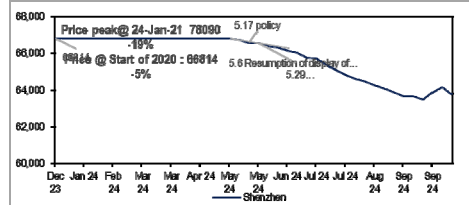
ICE INDEX – UPDATE ON 13 OCT 24

HOME PRICES IN SHANGHAI (RMB/SQM)



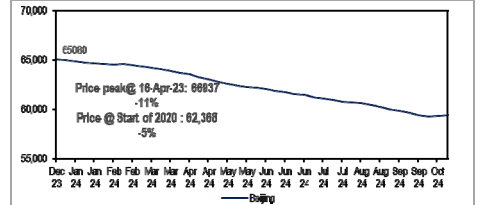
Source: Ice Data

HOME PRICES IN SHENZHEN(RMB/SQM)



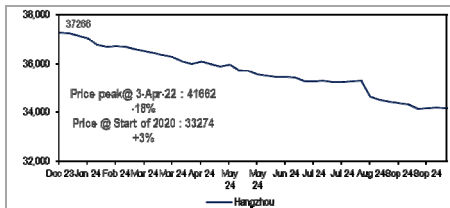
Source: Ice Data

HOME PRICES IN BEIJING(RMB/SQM)



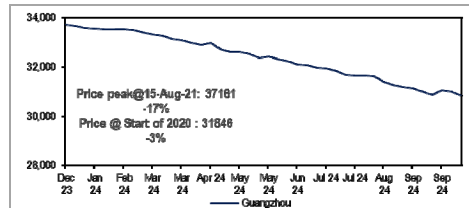
Source: Ice Data

HOME PRICES IN HANGZHOU(RMB/SQM)



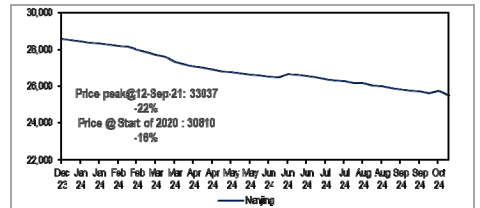
Source: Ice Data

HOME PRICES IN GUANGZHOU(RMB/SQM)



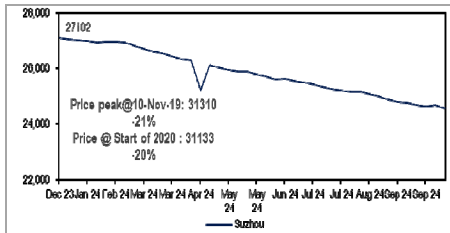
Source: Ice Data

HOME PRICES IN NANJING(RMB/SQM)



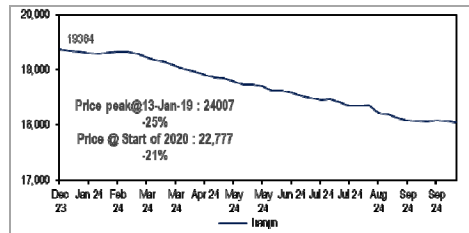
Source: Ice Data

HOME PRICES IN SUZHOU(RMB/SQM)



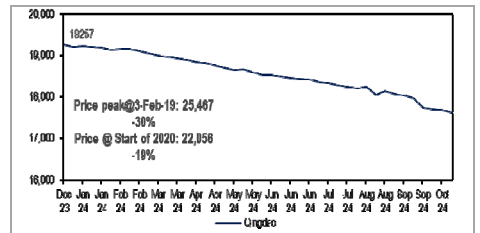
Source: Ice Data

HOME PRICES IN TIANJIN(RMB/SQM)



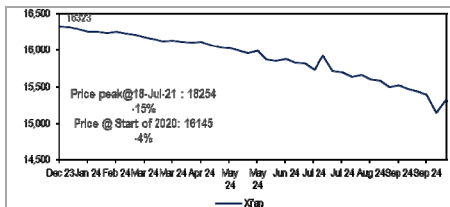
Source: Ice Data

HOME PRICES IN QINGDAO(RMB/SQM)



Source: Ice Data

HOME PRICES IN XI'AN(RMB/SQM)



Source: Ice Data

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