China Property Developers Outlook 2024

Gradual Stabilisation but Sector Divergence Remains

Fitch's Sector Outlook: Deteriorating

Fitch Ratings expects Chinese property developers' operating environment to remain challenging in 2024. However, we see the pace of decline moderating to a 0-5% drop in contract sales, implying full-year sales of CNY10 trillion-10.5 trillion.

Fitch believes the sector's diverging performance will continue. Housing markets in the economically vibrant regions and cities will stabilise gradually over the next 12 months, supported by relaxing of government policy to remove previous purchase restrictions. These cities also benefit from stronger long-term economic fundamentals and domestic migration flow. However, the local housing market for lower-tier cities may take time to digest the large stock of unsold inventory.

Diverging operating and financing conditions amongst property developers is also likely to persist in 2024. State-backed developers continue to benefit from robust funding access, and their operations also tend to be geared towards higher-tier cities which exhibit healthier demand and supply dynamics. On the other hand, for most private developers the difficult funding environment is likely to persist, and continue to restrict their financial and business flexibility.

Government's supportive measures remain measured and targeted. Fitch believes this approach will continue as government is committed to stabilising the sector, and is averse to downside disruptions caused by unfinished property projects as well as high volatility in home prices.

Rating Outlook Distribution

At the time of publication, one (or 9%) of our rated issuers in the Chinese homebuilding sector is on negative rating outlook. The intensity of negative rating action has dissipated as many private operators have defaulted and/or entered into debt restructuring. As a result, most no longer participate in the rating process, leading to their ratings being withdrawn as Fitch will no longer have sufficient information to maintain the ratings.

Most issuers on a stable outlook are state-owned enterprises (SOEs), which Fitch believes buyers will continue to prefer, and their access to domestic funding access should also remain intact.

What to Watch

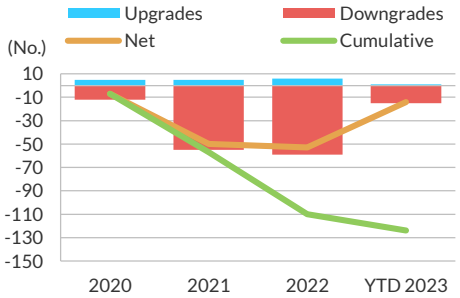
- A weaker-than-expected economy affecting homebuyers' sentiment even in higher-tier cities
- Progress of delivery in unfinished projects
- Direction and pace of home-price movement
- Negative development in the debt restructuring at some distressed developers
- Surprises in government policies

Tyran Kam, Senior Director

"Fitch believes the sector's diverging performance will continue. The market in the higher-tier cities will stabilise gradually, supported by government policy and stronger long-term economic and demographic fundamentals. However, more time is needed for the lower-tier cities to absorb their large stock of unsold housing inventories."

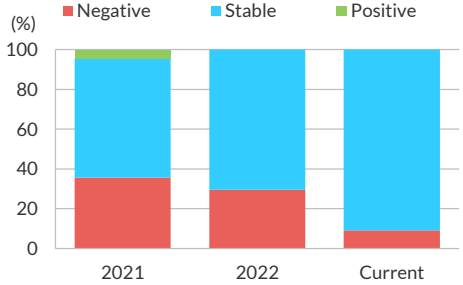


China Property - Rating Changes



Note: eg: Includes public ratings and private ratings .
Source: Fitch Ratings

China Property Rating Outlooks



Note: eg: Includes public ratings and private ratings.
Historical periods represent same time 12 months ago.
Source: Fitch Ratings

China Property Developers - Median Credit Metrics

(%)	2022	2023F	2024F	2025F
Revenue growth	-5.1	-0.9	-10.0	3.5
EBITDA margin	15.1	15.3	15.7	15.8
FCF margin	-5.7	-3.0	0.5	2.3
Leverage (%)	42.5	41.3	40.8	40.3

Source: Fitch Ratings. Fitch Solutions

Higher-Tier Cities to Drive Recovery

Gradual Steadying in Higher-Tier Cities Sales

Fitch believes the stabilisation in primary property sales can persist. New home sales have showed signs of stabilisation in September and October 2023 following an intensive round of local policy easing since late-August. These moves included relaxation in purchase and mortgage restrictions in many cities, which are especially helpful in unlocking pent-up demand in the top-tier cities – as they often have the harshest and longest-standing housing policy restrictions.

New home sales in these cities may only account for a small share of the national total, although historically a recovery in sentiment and activity in the leading markets has proved necessary to drive a more broad-based recovery.

Government Committed to Contain Property Sector Stress

The prolonged property-market distress is having a second-order impact on the overall economy, as well as threatening the financial health of some local governments and financial institutions. We believe government is committed to containing sector stress from threatening systematic stability, and evidence suggests that government may respond more aggressively towards any downside disruption – such as a large number of unfinished property projects and/or heavy volatility in home prices.

Persistent Home-Price Pressure

Government policies to help restore market confidence in the higher-tier cities are likely, however, to pull demand away from many lower-tier cities in the near term. Furthermore, these lower-tier cities' housing markets are often saddled with unfinished projects, large unsold inventory, and unfavourable demographics. Prices may have to fall more sharply to clear the market, however this may require a higher level of government tolerance towards declining property prices.

Government has so far prioritised home-price stability ahead of transaction volume, as it sought to contain property-sector stress from affecting systematic financial stability. However, with a large part of the housing market in oversupply that may persist in the medium term, government may be more willing to tolerate a sharper-but-controlled home-price contraction. This would be likely to have a large knock-on impact on the balance sheets of households, banks and local governments, and a large negative impact on consumption and homebuyers' sentiment.

Progress of Delivery in Unfinished Projects

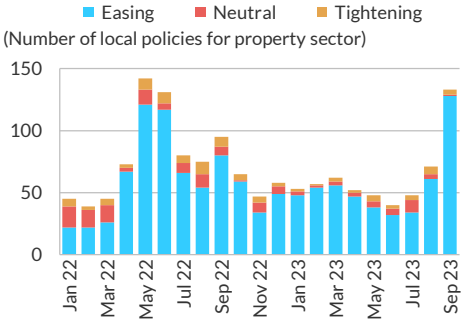
- Delivery of pre-sold homes is an ongoing area of focus. Government intervened in 2022 when many homebuyers stopped paying their mortgages in protest against delayed or suspended construction. As more private developers become distressed, the issue of home delivery and mortgage boycott may resurface, which would lead to further deterioration in homebuyer confidence and pose a significant downside risk to our sales forecast.

China Property Developers – Key Assumptions

	2021	2022	2023F	2024F
New home sales				
Sales (CNYbn)	16273	11675	10500	9,975-10,500
Gross floor area sold (million sq m)	1565	1146	950	903-950
Average selling price (CNY/sq m)	10396	10185	11053	11053

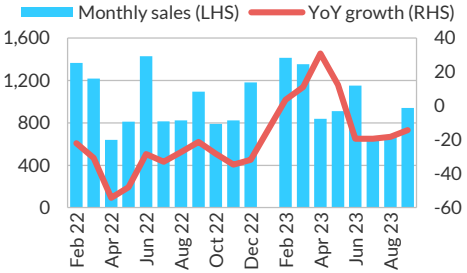
Source: Fitch Ratings, National Bureau of Statistics

Local Policies for Property Sector



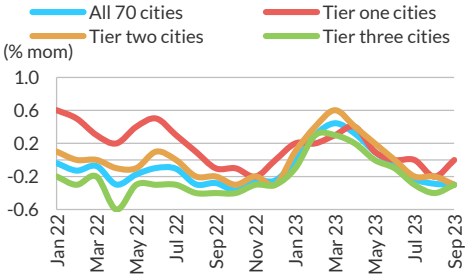
Source: Fitch Ratings, China Real Estate Association

Monthly Residential Property Sales



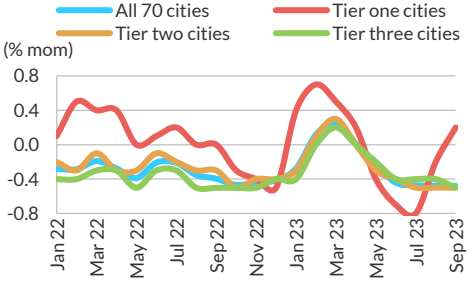
Note: Feb for Jan-Feb due to Chinese New Year; extrapolated from YTD data
Source: Fitch Ratings, National Bureau of Statistics

Avg. MoM Change in 70 Major Cities' New Home Prices



Based on official registration with local regulators, normally less than 30 days from signing sales contract
Source: Fitch Ratings, National Bureau of Statistics

Avg. MoM Change in 70 Major Cities' Secondary Home Prices



Based on property agency filings, regulators' data and on-site investigation
Source: Fitch Ratings, National Bureau of Statistics

State-Backed Enterprises Retain Advantages

SOE Advantages Extend Beyond Funding Access

Fitch believes state-backed developers' stronger market positions may become entrenched. The SOE developers' uninterrupted funding access over the past 18 months has meant that they have retained healthier liquidity. Their stronger reputation and financial stability also contributed to their superior sales performance as solvency worries plagued their private-owned enterprise (POE) counterparts.

This expectation of divergence between high- and lower-tier cities is concentrating land banking demand amongst many developers into a handful of cities. Under this scenario, current evidence suggests SOE developers with stronger balance sheets and funding access can compete more effectively in these cities' land auctions. Meanwhile, private enterprises are being increasingly priced out of the higher-tier cities and unable to replenish their sellable resources effectively. This could have a dramatic impact on their longer-term business profiles.

Elevated Sector Leverage

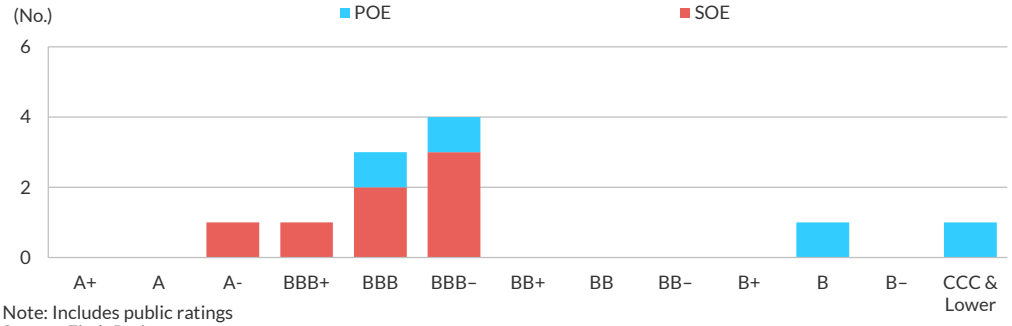
The slower-than-expected sales – see "Fitch Ratings Cuts Forecast for 2023 New Home Sales in China", published on 31 August 2023 – have affected developers' cash generation and developers' deleveraging efforts. Fitch estimates average leverage for rated developers (as measured by net debt/net property assets) will remain high at 44% (2022: 44%). Many developers are exploring other funding options, such as onshore REIT listing, however the timing and its potential impact on leverage remains uncertain.

Rising Completed Home Sales Affects Working Capital

Presales remain the dominant sales channel for Chinese developers, accounting for over 80% of YTD 2023 sales. Widespread homebuyer concern over POE developers' financial health, and on the quality of the homes they can deliver, meant that POE developers' sales have continuously under-performed the broader market over the past 18 months regardless of their solvency status. Fitch believes the share of completed home sales, especially for private developers, will continue to rise in the medium term as homebuyers' concern lingers, which is likely to have a negative impact on the developers' working-capital requirement.

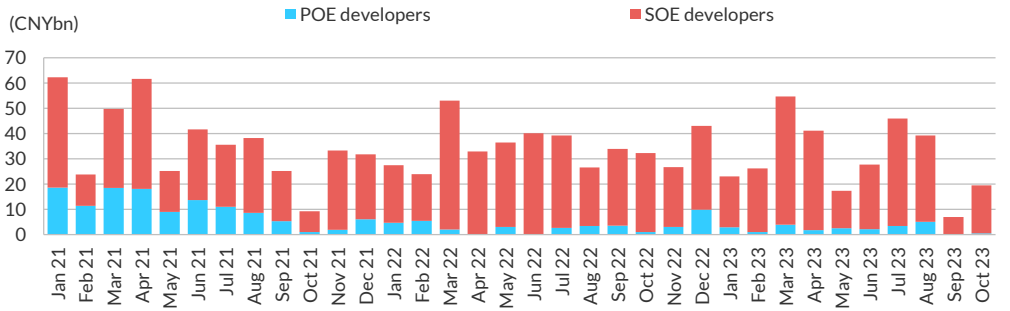


China Property Developers - Rating Distribution



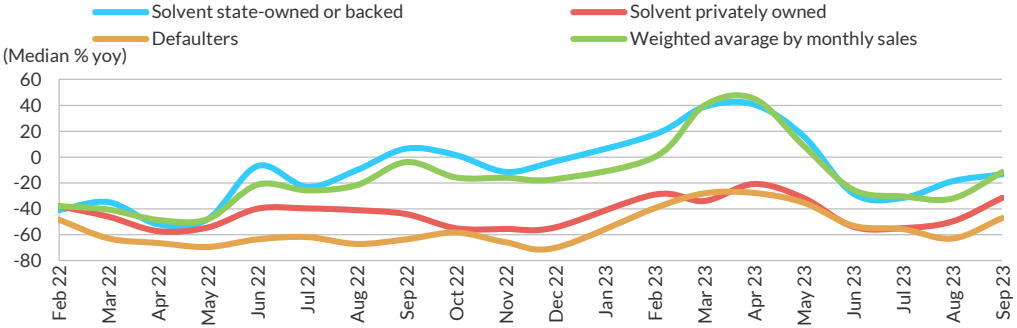
Note: Includes public ratings
Source: Fitch Ratings

Onshore Bond Issuance by Chinese Property Developers



Source: Fitch Ratings, iFinD

YoY Change in Developers' Monthly Contracted Sales



Based on 51 listed developers; 14 solvent state-owned or backed, 12 solvent privately owned and 25 defaulters (all privately owned). Fewer state-owned or backed developers make the median more volatile. Excludes listed subsidiaries & entities that ceased reporting data post default, causing survivorship bias.
Source: Fitch Ratings, companies, China Index Holdings Ltd

Appendix

China Property - Issuer Level Forecasts

			Revenue growth				EBITDA margin				FCF margin				Leverage (%)			
Issuer	IDR	Outlook	2022	2023F	2024F	2025F	2022	2023F	2024F	2025F	2022	2023F	2024F	2025F	2022	2023F	2024F	2025F
Beijing Capital Development Holding (Group) Co., Ltd.	BBB-	Stable	-26.9	-2.8	-26.0	-13.3	10.7	7.6	8.8	9.6	-5.4	-2.2	2.8	4.7	52.6	57.0	57.4	58.0
Beijing Capital City Development Group Co., Ltd	BBB-	Stable	-29.4	-15.3	-9.5	-22.0	1.1	-3.9	-2.2	-0.1	7.2	2.3	2.9	8.5	49.0	50.1	51.8	53.2
China Jinmao Holdings Group Limited	BBB-	Stable	-7.8	-8.6	-11.1	4.2	8.8	8.4	10.0	10.1	-8.9	-5.5	-0.9	0.2	46.0	47.2	47.7	47.9
China Overseas Land & Investment Ltd	A-	Stable	-25.6	30.0	-0.8	7.2	18.3	17.3	17.1	16.1	-22.0	4.8	-7.3	-3.5	31.1	29.2	30.4	30.9
China Overseas Grand Oceans Group Ltd	BBB	Stable	6.8	-14.5	-28.3	3.3	11.0	13.3	13.4	13.4	-3.1	2.0	-2.9	-2.6	36.1	34.1	34.0	34.2
China Resources Land Ltd	BBB+	Stable	-2.4	7.9	1.7	6.3	21.1	21.1	21.1	21.1	-18.9	-7.3	-6.8	-5.6	30.2	31.5	32.8	33.6
China Vanke Co., Ltd.	BBB	Stable	11.3	-10.4	-20.5	-5.2	15.2	15.1	14.7	13.8	-7.2	-8.5	0.6	1.6	35.7	36.8	36.4	35.8
Hopson Development Holdings Limited	B	Stable	-11.3	9.4	4.0	3.6	14.9	25.6	26.7	27.6	37.1	16.1	14.5	3.1	41.8	39.5	38.2	37.8
Longfor Group Holdings Limited	BBB-	Negative	12.2	-32.8	-3.4	5.6	16.2	13.8	15.7	16.9	-5.9	1.3	7.2	4.6	41.9	42.1	40.2	38.4
Poly Developments and Holdings Group Co., Ltd	BBB	Stable	-1.2	1.6	-10.5	1.9	17.2	15.5	15.6	15.5	-8.8	-3.8	3.1	3.0	46.8	49.0	47.9	46.7
Yuexiu Property Company Limited	BBB-	Stable	26.2	1.0	5.5	3.7	15.7	15.9	16.8	16.9	1.5	-11.2	-3.0	-2.7	43.0	40.4	41.4	42.2
Xinhu Zhongbao Co., Ltd.	CCC+		-23.6	12.4	-11.3	-6.2	13.1	29.2	27.5	25.8	14.3	-16	0.4	3	75.7	68.4	69.4	70.0
Sector median			-5.1	-0.9	-10.0	3.5	15.1	15.3	15.7	15.8	-5.7	-3.0	0.5	2.3	42.5	41.3	40.8	40.3

Source: Fitch Ratings. Fitch Solutions

Sector outlooks are a general forward-looking assessment of the underlying operational and business conditions of the sector compared to the previous calendar year. A neutral outlook is an assessment that these conditions will remain mostly unchanged. Sector outlooks are distinct from Rating Outlooks.

Outlooks and Related Research

2024 Outlooks

Global Economic Outlook

Non-Defaulted Listed Developers' Short-Term Liquidity Wanes; Gross Margins Narrow (October 2023)

Significant Boost to New Home Sales Appears Unlikely Despite Policy Changes (September 2023)

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