China’s property market

End of the golden era

China’s property market is cooling off, at long last

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AFTER years of talking up China’s gravity-defying property markets, local land kings are now singing a darker tune. On May 26th Yu Liang, the president of Vanke, China’s biggest developer, declared that the “golden era” in which “everybody makes money out of property is gone.” That came on the heels of comments by Pan Shiyi, the boss of Soho China, another property firm, likening the country’s real-estate sector to the Titanic: “It will soon hit an iceberg.”

Official data show the country’s property market is indeed coming down to earth. During the first four months of this year, the value of residential sales fell by nearly 10% versus a year ago,
and construction activity on new homes fell by a quarter. The decline on a month-to-month basis is even more striking (see chart).

Why is the market losing steam? One explanation is that there is too much building going on. Until recently this argument was dismissed by property bulls, who pointed to wave upon wave of rural migrants moving to cities and soaking up supply. Gavekal Dragonomics, a consultancy, estimates that China has been at or near its sustainable level of “peak supply” of housing for many months.

Cooling demand is another culprit. Despite a cultural affinity for property—no bachelor can hope to win over a desirable bride if he does not own a home—it seems that punters may now be ready to put off their purchases. After years of double-digit growth, the economy is slowing. More importantly, recent price cuts of a third or more being offered by developers in some markets have started to worry would-be buyers. These bargains are now available in wealthy coastal cities and not just in smaller cities in the boondocks.

Zhiwei Zhang of Nomura, an investment bank, acknowledges the problem of structural oversupply but still believes that recent policy shifts are the main factor. Pointing to a close correlation between property-market behaviour and money supply, he says the market correction was triggered mainly by the monetary-policy tightening that began in the middle of 2013.

Not everyone is worried. “This is clearly the beginning of a downturn, the third in eight years, but it is not a bubble bursting,” insists Michael Spencer of Deutsche Bank. Joe Zhou of Jones Lang LaSalle, a property-services firm, points to previous weak periods near the end of 2011. In 2012 the central bank cut the lending rate and nudged state-run banks to make mortgages more readily available. Coming on top of price cuts, this led to a strong rally in sales volumes and prices.

Some think the price cuts will lead to another market rebound. Others hope policy easing will do the trick. Cities are starting to reverse previous bans on owning multiple homes, for example, and the central bank has once again recently encouraged banks to extend mortgages. Many big cities still enforce policies to curb purchases, argue optimists, so there may yet be pent-up demand. That is a theory that may soon come to be tested.

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