



BBVA 2011 Real Estate Outlook

A Commentary

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"These are the views of the presenter and not those of the IMF, its Executive Board, or its management."

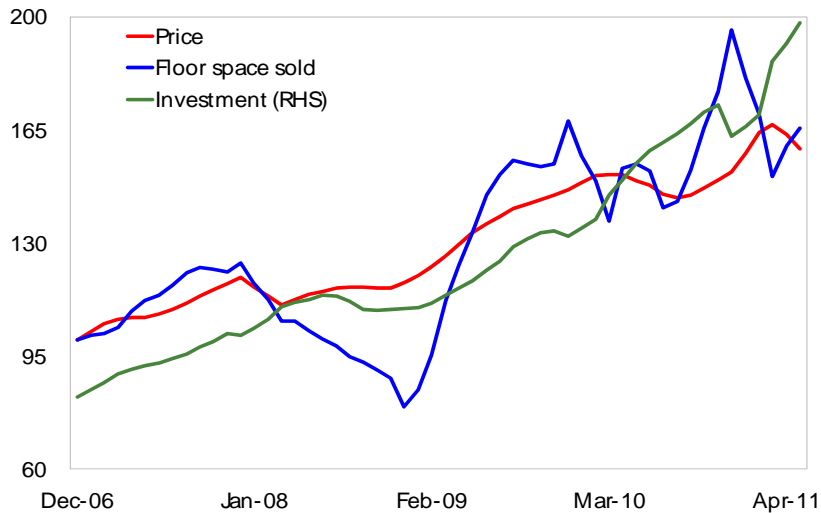
“The property market has moderated over the past year under the influence of government measures...”

Government measures have cooled down the market somewhat but investment remains solid.

The share of bank credit going to the real estate sector has leveled off.

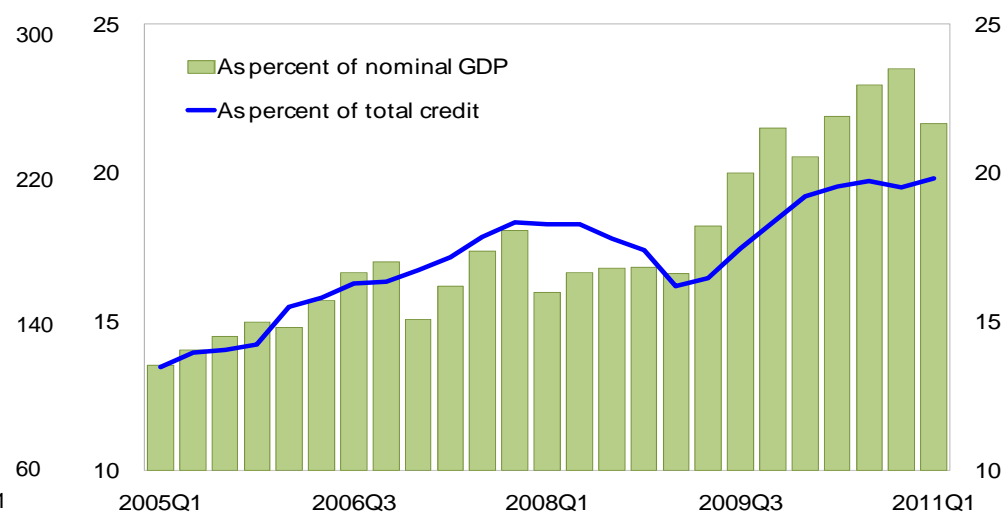
Residential Housing

(Dec 2006 = 100, sa)



Bank Exposure to Real Estate Sector

(Quarterly)



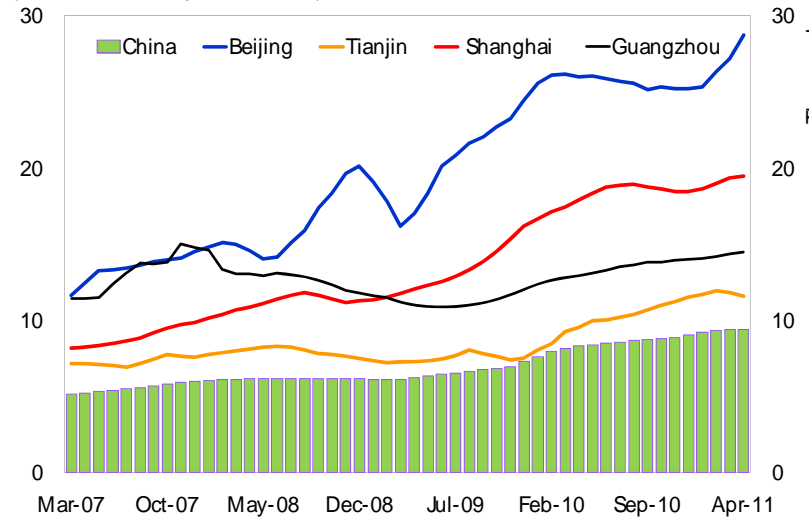
“Price increases have moderated and the market is only slightly over-valued (and less than last year)...”

Property price increases have moderated, particularly in Tier I cities.

At the national level, prices do not appear out of line with fundamentals but certain cities still look “bubbly”...

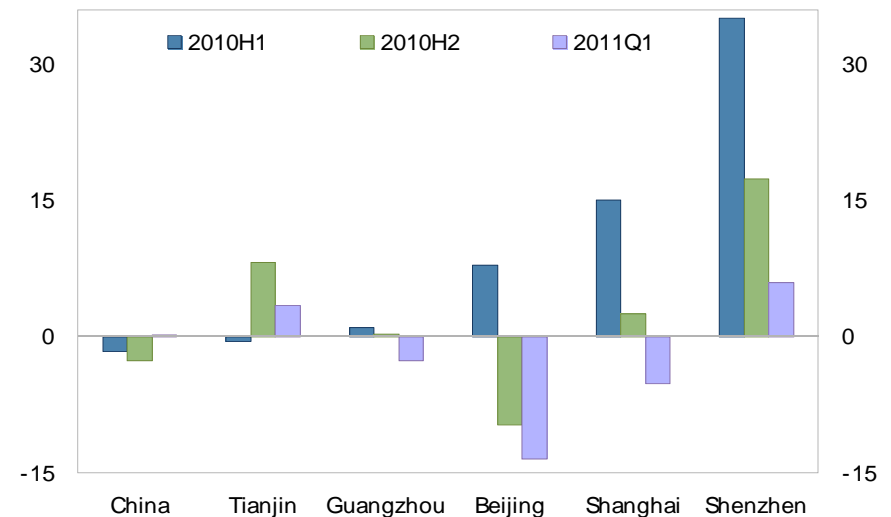
China Property Prices

(Thousand RMB/Sq. m., sa,3mma)



Deviation of Mass-market House Price from Benchmark

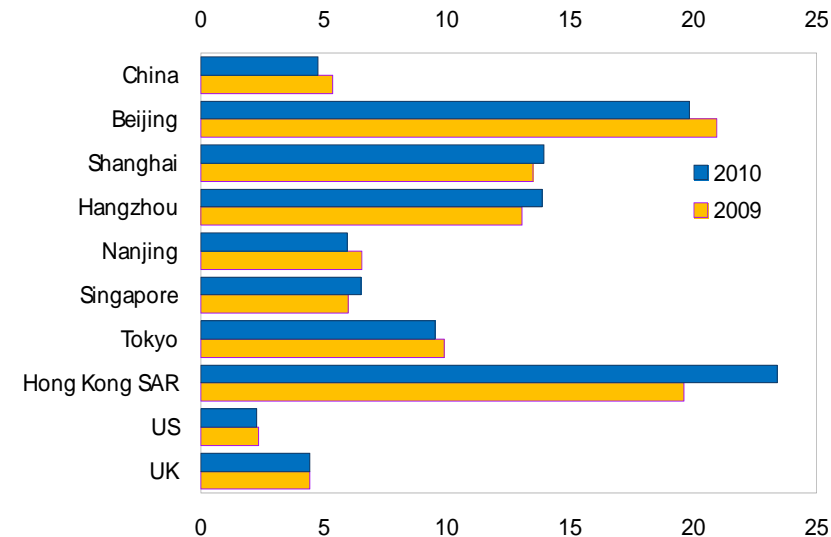
(Percent of benchmark price)



“However, measures of housing affordability have deteriorated and price increases resemble Japan...”

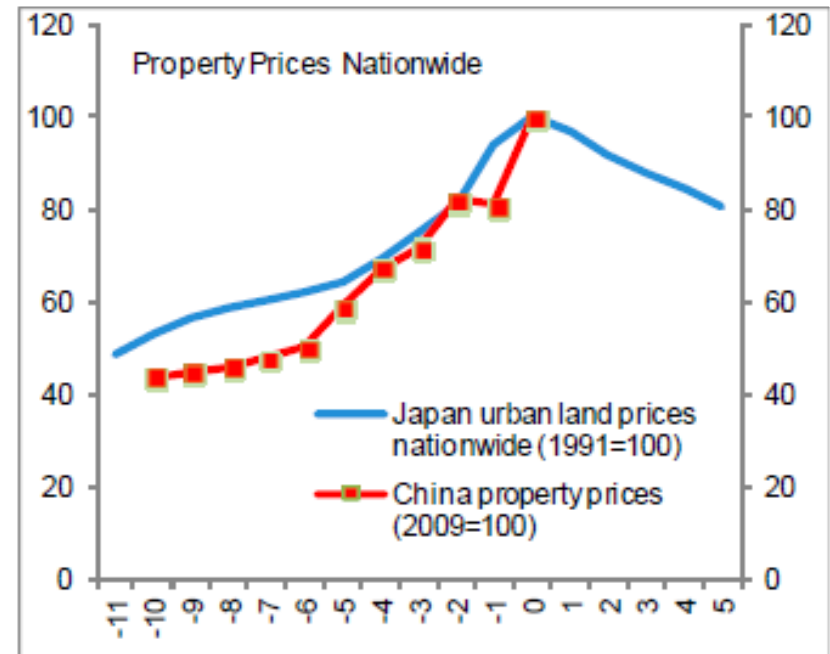
Housing affordability remains a pressing social issue particularly in major cities.

Housing Affordability (Price-to-income ratio)



Note: Price of a 70 sq.m. home as a multiple of annual household disposable income.

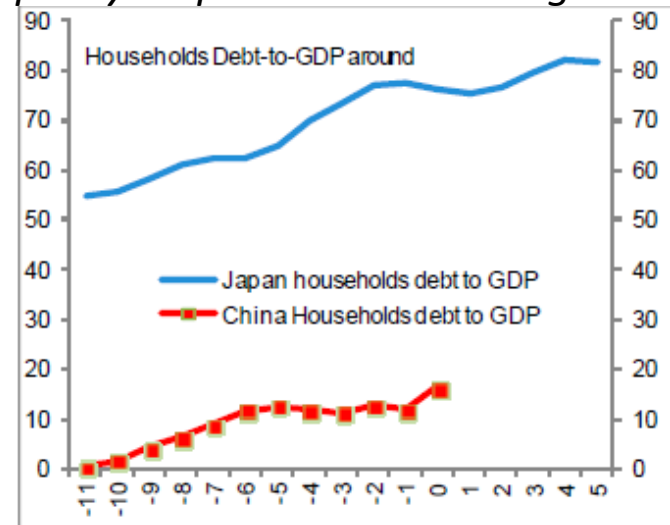
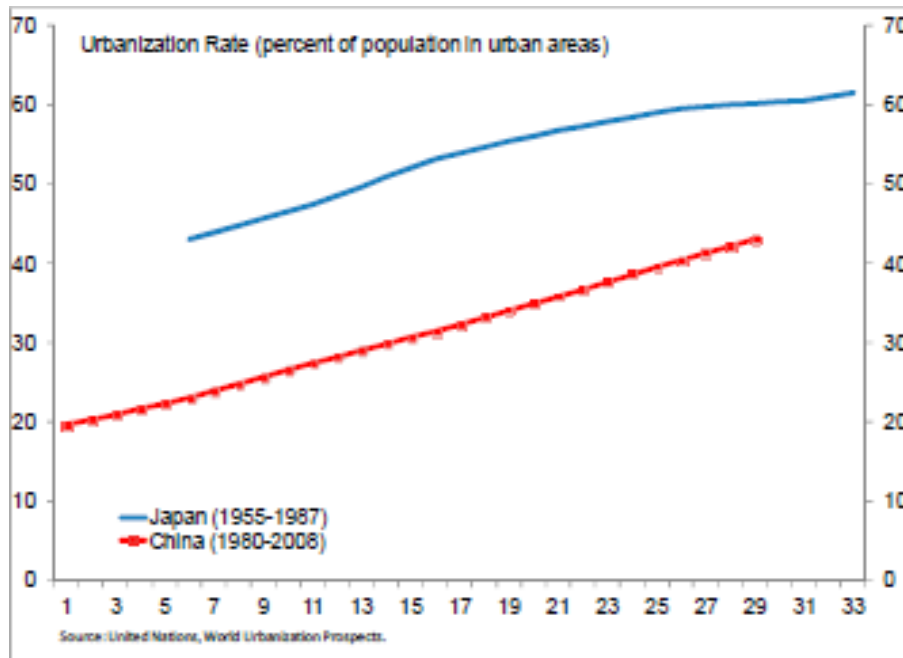
On the face of it, China seems to be following Japan...



BUT JAPAN ANALOGIES SHOULD NOT BE OVER- STATED

Fundamentals are vastly different, including potential growth, stage of development, urbanization...

... policy responses and leverage.



“Modest correction cannot be ruled out but income growth and urbanization will support market over medium-term”

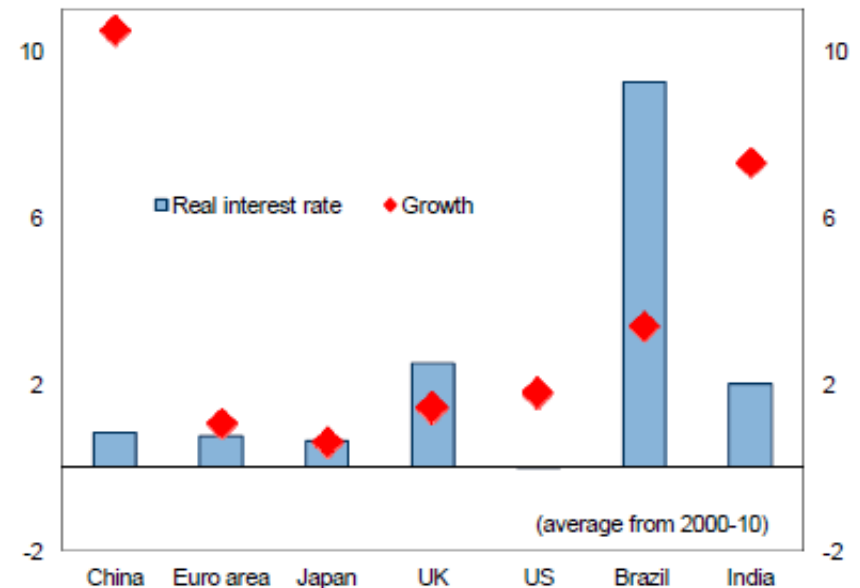
BUT UNDERLYING TENSIONS LEAVE CHINA VULNERABLE

Propensity for housing bubbles due to low deposit rates, few alternatives to banks, and low carrying costs...

... so lasting solution requires higher interest rates, financial sector development, and property tax



Real interest rates are well below the growth rate.



Medium-term Outlook: Some Food for Thought

Demand-side uncertainties

- What would happen under a reform scenario (e.g. rates rise, financial markets develop or property tax introduced)?
- Implications of rebalancing (lower savings)?
- Role of corporate demand in recent price rises and future outlook
- What would a correction imply for expected income growth (endogeneity)?

Supply-side uncertainties

- Land supply, in light of agricultural needs
- Can dependence of local governments on land sales be reduced?
- Funding of social housing

Thank You