BBVA Experts Speak to CEIBS on Outlook for Chinese Property Market

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June 3, 2009. CEIBS-Lujiazui International Financial Research Centre. -- "The Chinese Property Market: Latest Development and Outlook" was the topic presented today in a seminar at the CEIBS Lujiazui International Financial Research Center. Keynote speakers were BBVA's Chief Emerging Market Economist Dr Alicia Garcia-Herrero and Chief Economist for Greater China Dr Li-Gang Liu. BBVA is the second-largest banking institution in Europe.



*BBVA's Chief Economist for Greater China Dr Li-Gang Liu*

Dr Liu introduced findings from a recent study conducted by BBVA in collaboration with China CITIC Bank, in four Tier 1 and several Tier 2 cities. He told the 60-plus attendees of the forum that China's residential property market has "bright long-term investment potential," mainly because it is supported by "fast income growth, rapid urbanization, and a high depreciation of housing stocks". While near term "adjustments" are unavoidable, he said, pointing to price decreases of up to 20 percent in some Tier 1 cities, Dr Liu added that China can still protect itself from a "hard landing". The factors maintaining relatively strong demand for housing in China, compared to other markets, are: high savings ratio, an expected GDP of 7 to 8 percent over the next 10 years, and rapid urbanization that will lead 56 million people to enter the urban sector in the

coming years. Finally, Dr Liu pointed out that housing prices in Hong Kong run more than 3 times higher than those of Shanghai, showing the potential for upward movement. Dr Liu said that "Shanghai is going to gain position as an international financial center over the coming decade. Therefore, it is still a very good place to invest in real estate".



*BBVA's Chief Emerging Market Economist Dr Alicia Garcia-Herrero*

Dr Garcia-Herrero next took the podium to discuss two issues of importance in China: House Financing and Affordable Housing. In her presentation, she drew from data collected in BBVA's Real Estate reports -produced for major markets worldwide- of which, the first issue for China has been launched this year, in cooperation with China CITIC Bank.

In introducing key real estate financing methods, she highlighted the benefits of "covered bonds," which BBVA defines as "debt instruments secured by a cover pool of mortgage loans (property as collateral)". This tool, she explained, offers a safeguard against non-performing loans because the cover pool must provide sufficient collateral to cover bondholder claims throughout the whole term of the covered bond and investors have a preferential claim in the event of default. The concept has gained popularity in Europe, where 2 trillion Euro in covered bonds have been issued, especially in Denmark, Germany and Spain (40 percent of financing for real estate used this method).

In Asia, the concept is still new but has recently begun in Singapore. Dr Garcia-Herrero expects strong potential for this finance method in China, where the tool could add a badly needed source of real estate financing and could help develop China's bond market.

Turning to the issue of "affordable housing", Dr Garcia-Herrero began by profiling Spain. That country's policy promoting affordable home ownership, launched in the 1970s, transformed the country into a "middle-income economy," she said. Today, 97% of Spanish families own their own home. This provides a "snowball effect: toward building wealth since home owners also gain collateral to start their own businesses. She next shared lessons learned in introducing affordable housing in emerging countries such as Mexico, Brazil, Chile, Peru, and Colombia, recommending that China adopts such practices as lower down payments and rewards for good mortgage payment records.

In the lively Q&A session that followed, CEIBS students, alumni, and corporate guests asked for further guidance into tracking China's real estate market. Both Dr Garcia-Herrero and Dr Liu were flooded with questions after the formal talk ended.