

# China Property Sales Expected to Decline by 15% in 2024

June 20, 2024

## Key Takeaways

- We expect China property sales to decline by 15% YoY to 9.5 trillion RMB to 10 trillion RMB in 2024,
- We lower our expectation on property sales in 2024 mainly because of waning confidence from homebuyers amid decreasing house prices, eroded new house market due to increasing supply of pre-owned homes and affordable houses, and elevated inventory and inadequate demand among lower-tier cities.
- In our view, the government has strong commitment to shoring up the property market. The supportive policies issued on May 17 would become a starting point following which these policies would continue to be improved and reinforced. This should help improve homebuyers' expectation to some degree.

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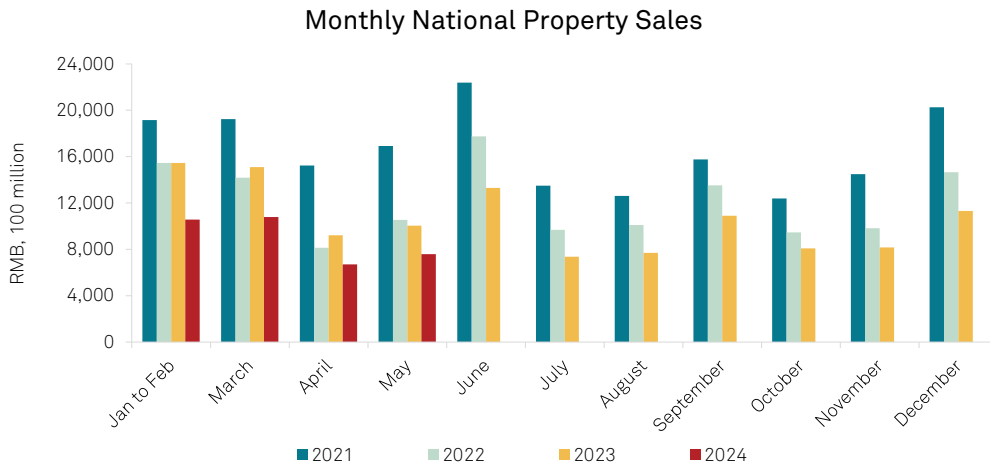
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## We Lower Our Expectation on China's Property Sales in 2024, Projecting a 15% Decline

We expect China's property sector to continue to bump along the bottom amid the fresh round of policy guidance in 2024. Property sales would fall further by about 15% from the 2023 level, a decline that's greater than our previous forecast of 5% at the end of 2023. Overall sales throughout the year would decrease to 9.5 trillion RMB to 10 trillion RMB, nearly down by half from the peak of 18 trillion RMB in 2021.

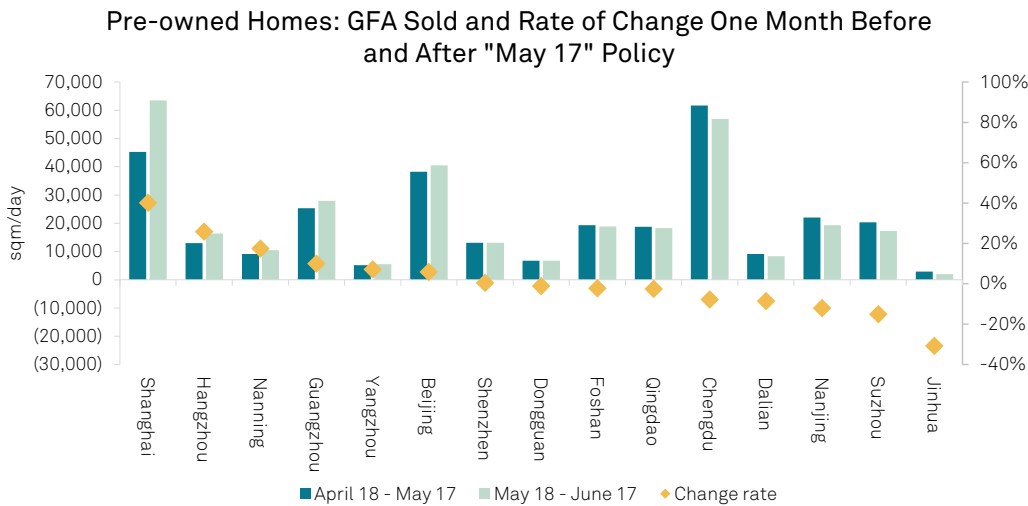
Chart 1



Note: Historical monthly sales data are not base-adjusted.  
 Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings.

The “May 17” new policy has boosted market confidence and driven narrower market decline, but regions seeing positive outcomes are limited and it takes time for such stimulus to make an impact. Property sales from January to May 2024 slipped by 27.9% on a cumulative basis. The launch of new policies on May 17 has decelerated the market slump while transaction trends begin to diverge. Pre-owned home GFA sold in first-tier cities such as Shanghai, Beijing and Guangzhou has been elevated, whereas new home GFA sold in these cities continues the downward trend, indicating the secondary market heat hasn’t spilled over to the new house market. However, for second- or lower-tier cities, new home GFA sold has picked up but pre-owned home sales have seen various degrees of decline. In our view, the new pro-property policies haven’t received across-the-board positive reaction from the market, since regions benefiting from such stimulus are limited and it takes time for these measures to make an impact. Nonetheless, we believe homebuyers’ confidence would be somewhat enhanced by the package of market incentives. Given the substantial decrease in property sales from January to May, the new policies would provide a weaker boost to the full year sales assuming they would gradually ease decline in new house sales in the second half of the year. The sales decline throughout the year is projected at around 15%.

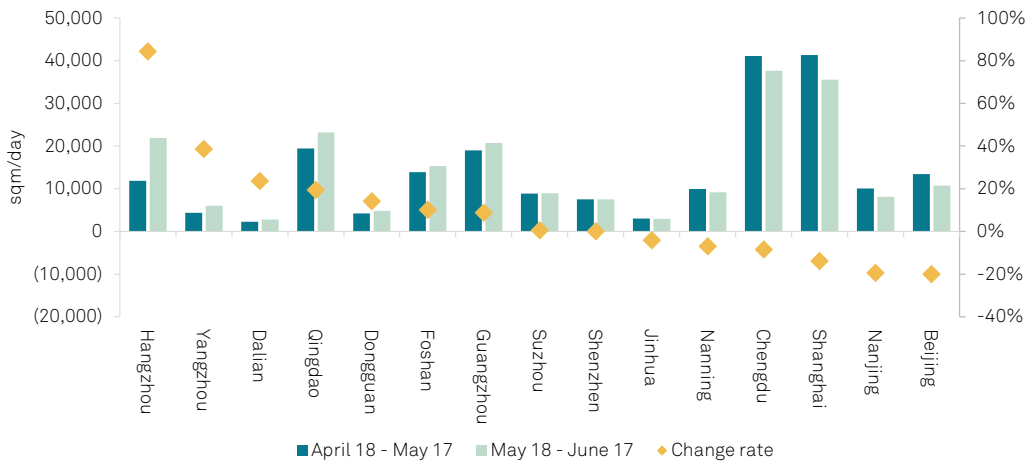
Chart 2



Note: Local housing management bureaus, Wind, S&P Global (China) Ratings.  
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Chart 3

New Homes: GFA Sold and Rate of Change One Month Before and After "May 17" Policy



Note: Local housing management bureaus, Wind, S&P Global (China) Ratings.  
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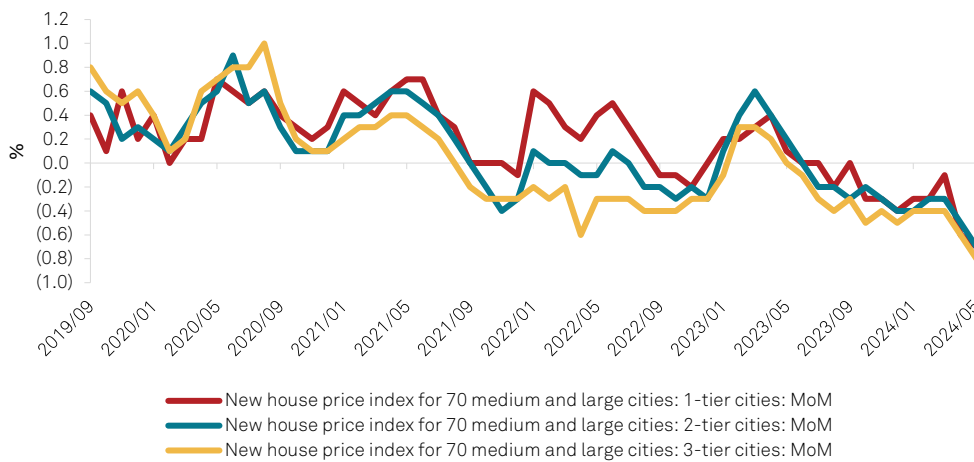
2024 Property Sales Faced with Multiple Pressures Before Recovering

The reasons behind our downward adjustment to property sales forecast for 2024 include:

Pessimistic sentiment has spread toward eastern cities and higher-tier markets, with homebuyers' confidence weakened by declining house prices. Following the rollout of the new policies, trading activities begins to increase but prices for new houses and pre-owned homes are still on the downswing across all city tiers. We view house price rebound as a critical precondition for the property market to stabilize, and the continuously falling prices for pre-owned homes would delay house purchases in a direct way and dampen homebuyer's confidence.

Chart 4

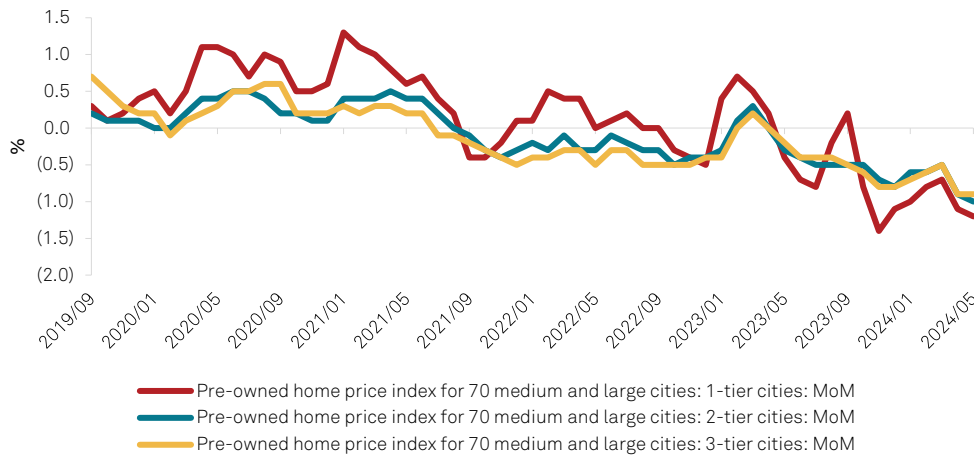
New House Price Index for 70 Medium and Large Cities: MoM



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Chart 5

Pre-owned Home Price Index for 70 Medium and Large Cities: MoM

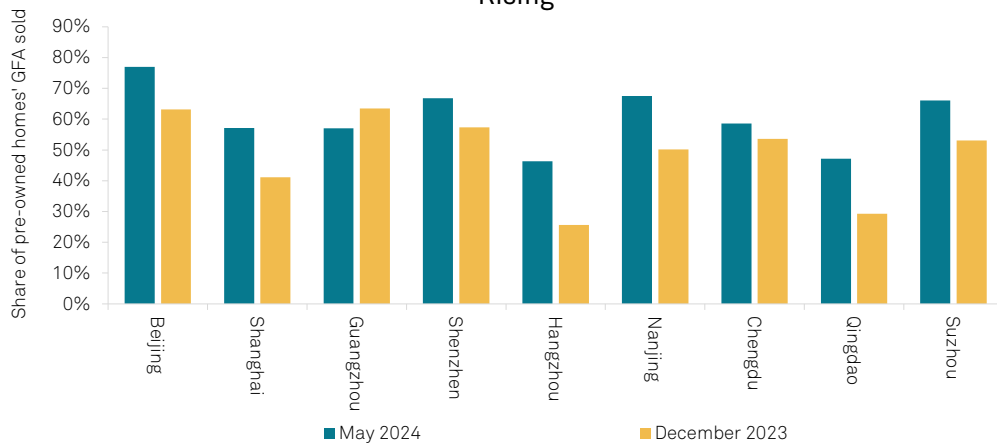


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Supply of pre-owned homes, affordable houses, and other house resources has significantly squeezed out new house demand. We've noticed a change in the composition of property transactions in China, where pre-owned home GFA sold accounts for nearly 40% of total GFA sold and this proportion is even higher for higher-tier cities. Looking ahead, the scale of affordable house delivery would considerably rise, which would bring a certain level of competition against new house sales. Along the process, a structural change in the market has taken place due to homebuyers' concern over the safety of new houses to be delivered and the more supply of pre-owned homes relative to new houses in higher-tier cities.

Chart 6

Proportion of Pre-owned Home Sales in Core Cities Continues Rising



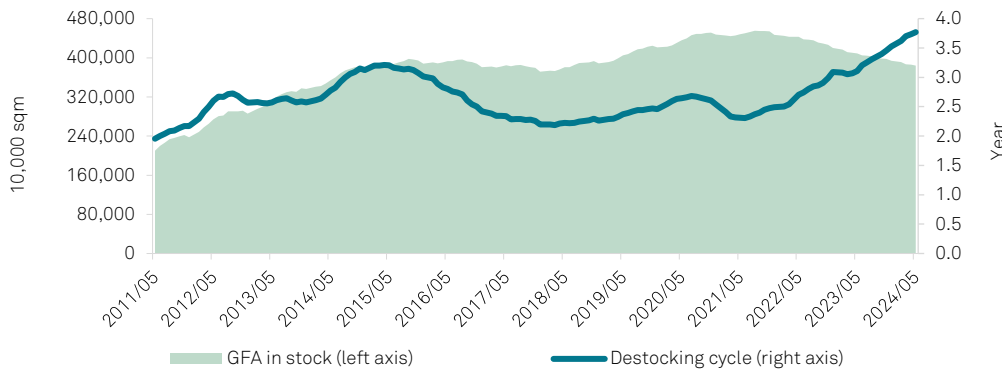
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Elevated inventory among lower-tier cities and inadequate demand bring uncertainty over policy outcomes. In our view, the gross property inventory nationwide remains high, and lower-tier cities face greater difficulty in destocking. Considering the tepid demand for affordable houses in these cities, they are unlikely to benefit from the market-oriented measure where existing houses would be acquired and transformed to affordable houses. Therefore, we may not see a significant progress in destocking at the national level. Meanwhile, the inadequate demand from lower-tier cities may be siphoned further due to the relaxed purchase limit and active trading in higher-tier

cities, making it very difficult for these cities to improve the demand remarkably. Imbalance between supply and demand in lower-tier cities and insufficient confidence remain the main obstacles for a market rebound.

Chart 7

**Destocking Cycle Still on Upward Trend amid Decreasing Sales**



Note: Inventory (t) = Monthly GFA of New Starts (t) \*0.9 - Monthly GFA Sold (t) + Inventory (t-1), assuming inventory in February 1999 is 0. Destocking Cycle = Monthly Inventory/Total GFA Sold in the Past 12 Months.  
 Source: National Bureau of Statistics, Wind, S&P Global (China) Ratings.  
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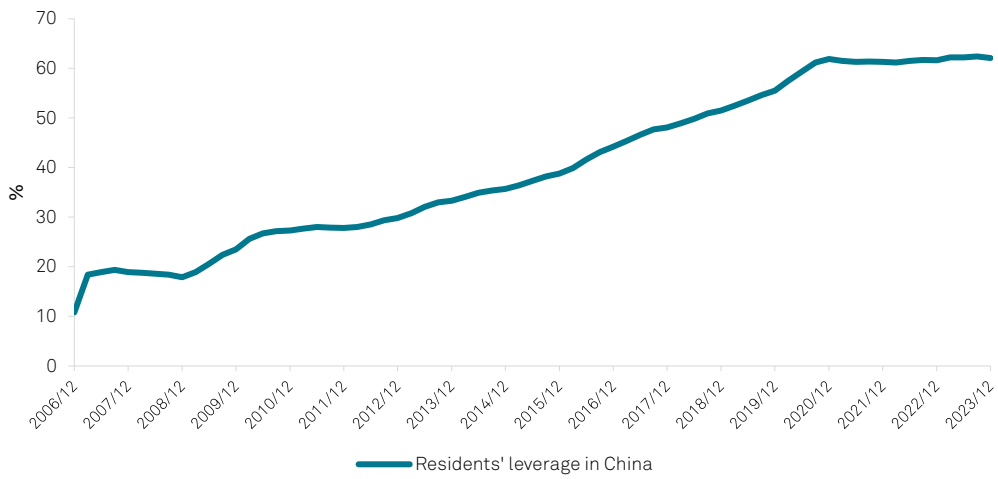
**Strong Government Commitment to Shoring up Property Market, New Policies Signal More Support Ahead**

We think the government has strong commitment to providing aid to the property market and new stimulus policies issued on May 17 will mark the start of a series of continued support going forward. Following the package of pro-property policies in May, the standing committee of the State Council reiterated property sector recovery in the June meeting and pledged to continue exploring new measures for destocking and stabilizing the market. This means the new measures introduced on May 17 would be the starting point after which more favorable policies would be issued, reinforced, and extended based on dynamic property market situation. We believe the government has strong motivation to reinvigorate the property market, which would help improve homebuyers’ expectation to some extent.

This round of policy stimulus has made some impact in boosting market confidence and alleviating new house sales decline, but whether it could fundamentally change market expectation and reverse the downturn in new house sales remains to be seen. The major curb for property market demand still lies in residents’ limited ability to take on more leverage and homebuyers’ weak confidence. However, these factors are closely linked to residents’ expectation on economic growth, employment trends, and income prospects, and any improvement in these factors would not happen overnight. In addition, market trends in different cities will diverge further. This round of policy stimulus would be implemented more effectively in higher-tier cities enjoying adequate demand from first-time and move-up homebuyers, stronger affordability from residents, and more demand for affordable houses.

Chart 8

### Residents' Elevated Leverage Restrains Their Ability to Borrow More



Source: International Bank of Settlements, Wind, compiled by S&P Global (China) Ratings.  
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