

China property prices rise more-than-estimated 12.4%

Written by Bloomberg

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June 10 (Bloomberg) -- China's property prices rose at the second-fastest pace on record in May, showing little sign yet that the government crackdown on speculation will work to avert an asset-price bubble.

The 12.4 percent gain compared with a record 12.8 percent increase in April from a year earlier, the National Bureau of Statistics said in a statement its website. The data series, covering 70 cities, began in 2005. The value of sales slid 25 percent.

"So far the property tightening measures are mainly cooling transactions" rather than prices, said Xiong Peng, a Shanghai-based analyst at Bank of Communications Co., the nation's fourth-largest lender by market value. "A property tax is the other shoe that has yet to drop."

Officials may introduce a trial property tax after already tightening sales rules for developers, raising some down payment requirements and restricting loans for multiple-home buyers, according to state media. China's benchmark stock index is down 21 percent this year on concern a slowdown in property sales and construction, along with Europe's debt crisis, will damp the nation's growth.

First Slowdown

Sales in Beijing, Shanghai and Shenzhen, the nation's wealthiest cities, fell as much as 70 percent in May from the previous month and land sales for residential development projects in 70 Chinese cities fell 14 percent, the official Shanghai Securities News reported earlier this month.

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An index tracking 34 real-estate companies has plunged about 28 percent this year, the worst performer among five subgroups of Shanghai's stock benchmark.

Sales by China Vanke Co., the nation's biggest publically traded property developer, dropped 20 percent in May from a year ago, and Guangzhou R&F Properties Co.'s contracted sales last month shrank 48 percent on year, according to the developers' stock exchange filings.

Bank Loans

"These exceptionally low transaction volumes are partly a result of banks' unwillingness to lend and also the result of buyers taking a step back" to wait and see what the government's next measures may be, Michael Klibaner, head of research for Jones Lang LaSalle in China, said earlier this week.

Besides industry-specific measures such as requirements for larger down-payments for some homes, the government on May 2 raised banks' reserve requirements for the third time this year to contain overheating risks after first-quarter economy expanded at the fastest pace in almost 3 years.

China's housing market is "prone" to a bubble because of immigration to the nation's cities and high savings, according to economists at Barclays Capital. Chinese savers lack the breadth of investment and financial options available in developed countries, and U.S. policy makers have pushed their counterparts to help develop more options.

"The government's recent measures to cool the housing market focus on limiting investment and increasing the supply of public and low-cost housing," Barclays economists Peng Wensheng and Chang Jian wrote in a June 7 report. "This represents a regime shift in housing policy" and more measures are likely to come, they wrote.

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Prices May Tumble

Prices may tumble between 20 percent and 30 percent in coming quarters, according to the Barclays analysts' projections. The impact on the economy will be cushioned by rising public housing construction, they wrote.

Investment in real estate rose 38 percent to 1.39 trillion yuan (\$203 billion) in the first five months of this year, after a 36.2 percent gain in the January-April period, according to the statistics bureau.

Property investment accounts for about 10 percent of gross domestic product and construction work consumes half of the nation's output of steel and 36 percent of the aluminum produced, JPMorgan estimates.

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Property Construction

Property sales by area rose 22.5 percent in the first five months to 302 million square meters (3.25 billion square feet), the statistics bureau said today. The pace is compared with an increase of 32.8 percent between January and April. The area under construction rose 72.4 percent from a year earlier to 615 million square meters, the statistics bureau said.

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For the full year, property sales may shrink 30 percent from 2009, Jing Ulrich, Hong Kong-based chairwoman of China equities and commodities at JPMorgan Chase & Co., said before today's release.

"China's property market is one of the top concerns of global investors as transactions have tumbled," Jing said. "About 50 sectors in China, especially the steel, cement and aluminum industries, are closely tied with property-market growth."