

# China Property/PM Sector

## If we could build mansions to put smiles on faces of all in need

As argued in the report ([Pandemic, Policy and Political Bureau Meeting](#)), the continuous epidemic has brought extra pressure on property sales and PM firms. In order to have a long-term solution, we think government would boost rental housing (target 2.4mn in 2022E, +150% YoY) and branded PM firms consolidation to 1) support property investment without spurring property price (2.4mn units would boost 13% property investment). 2) Narrow the supply shortage in Tier 1/2 cities as house ownership remains low especially in Tier 1 cities (house unit/family only at 0.97). 3) Better meet residents' needs and implement government's policies within the resident community. So eventually, this could be the right model for social harmony (adequate housing supply plus better property management services). **Potential Catalysts to watch:** 1. Announcement of 1:1 ratio of annual supply between commercial and social housing in high tier cities (imply 4-5mn social housing units per year). 2. Raising of PM standards to promote consolidation: positive for market leaders and premium players: **COPH, CR Mixc, Greentown services, CGS.**

- **Regardless of property crisis, the demand is turning downward trend.** Even without this deleveraging-led crisis, we think the demand would decline as two key drivers – upgrade demand and urbanization rate are both turning weaker. **For upgrade demand**, China has built enough urban houses with existing residential GFA at 36bn sqm or 40sqm/urban capita according to NBS. This is already the second highest in the world, just behind USA's 65sqm/capita. We can see the growth of average urban living space per capita has slowed down to 0.8sqm in 2019 vs 1.1sqm during 2015-2018. Therefore, it is much harder to re-boost again. **For the urbanization rate**, the growth has also decreased to 0.8ppt in 2021 vs. average 1.3ppt during 2016-20. If we use 75% target by 2035, it would imply 0.7ppt per year. Therefore, **we think the property sales in medium-to-long term would normalize to 1.2bn sqm (vs. 1.6bn sqm in 2021)** as 1) majority will come from upgrade demand which may bring 800mn sqm per year (900mn urban residents \* annual 0.85sqm increase in urban housing area per capita). 2) The urbanization would bring additional 400mn sqm (by assuming 0.7% urbanization rate/year).
- **Then how to softland the property sector without spurring property price? Long-term solution is social rental housing.** Separating the social and commercial market would be the possible way to solve multiple questions. **1) From property investment perspective**, MOHURD has announced to build 2.4mn units of rental housing in 2022 (up 158% YoY). This would account for 11%/13% of 2021 residential new starts and property investments. **2) High property price and supply shortage in Tier 1/2 cities.** Facing continuous population inflow, we think affordable housing would be the key to meet the demand of new immigrants. Also, it will not impact the commercial property market as these housing are for rents only up to 3 years so eventually they will want to buy. In the long run, we think central government would strongly boost social housing and we believe their target is to reach 1:1 ratio of annual supply of commercial and social housing in high tier cities. This would imply 4-5mn units of social housing per year.
- **Branded property management is still of the people, by the people, for the people:** Amid the pandemic in Shanghai and other cities, our channel

**OUTPERFORM**  
(Maintain)

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check has shown the branded property management (such as CGS, Ever Sunshine) has been outperforming as they almost covered all the heavy tasks like foods delivery, deep sanitizing, garbage processing and COVID test assisting without enough resources. Their workload has increased exponentially as the average managed area per staff is 6000 sqm. However, not only market leaders like CGS (350 projects in Shanghai including acquired ones, already the biggest PM firm in Tier 1/2 cities), but also those with parents in trouble (Sunac services, Shimao Services and so on) are trying their best to help. This has shown their determination for the long term as the additional cost would bring at least 1ppt impact on their GP margin and this time we do not expect much government subsidies. In the long run, we do think central government would introduce policies to promote these branded PM firms taking over smaller ones so they can better cooperate to help implement government policies. Therefore, the consolidation would continue in our views.

Figure 1: MOHURD targeted 6.5mn units of social rentable housing

	No. of units ('000)	GFA (k sqm)
2021	942	65940
2022E	2400	168000
2023E and beyond	3158	221060

Source: MOHURD, CMBIGM

Figure 2: 2022E social housing would boost new starts/REI by 11%/13%

City tiers	Number of cities	No of Social housing ('000 units)	New start in 2022E ('000 units)	New start in 2022E (mn sqm)	Land costs (RMB/sqm)	Construction costs (RMB/sqm)	REI (Rmb bn)
Tier 1	4	2,000	738	52	7,000	4,000	568.62
Tier 2	15	3,000	1,108	78	5,000	3,000	620.31
Tier 3	21	1,500	554	39	3,000	3,000	233
<b>Total</b>	<b>40</b>	<b>6,500</b>	<b>2,400</b>	<b>168</b>			<b>1,422</b>

2021 Resi new starts	1,464	2021 Resi REI	11,117
2022 social housing accounts for	11%		13%

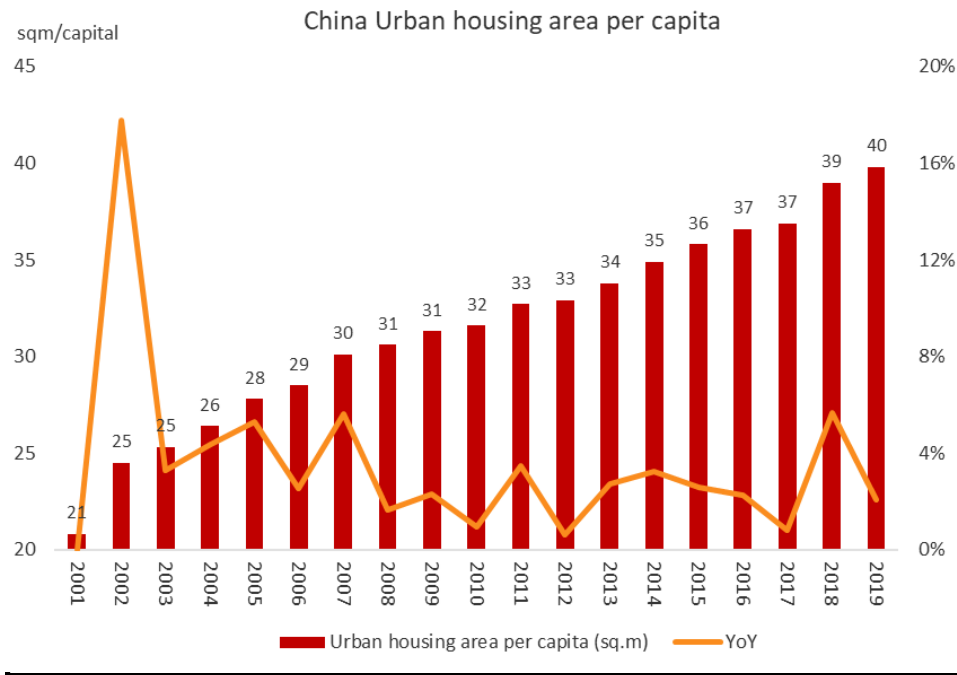
Source: Company data, CMBIGM, \* means unaudited results or estimates for FY21

Figure 3: Managed GFA/capita is improving but may see shortage during COVID

Company	Average Management GFA (000'/person)			
	2018	2019	2020	2021
Country Garden Services	5.4	5.1	5.2	5.9
CR MixC Lifestyle	NA	NA	4.4	5.7
Powerlong Commercial	3.3	3.7	4.3	4.0
Excellence CM	NA	1.9	2.8	3.4
New Hope Services	NA	NA	3.0	5.1
Redsun Services	NA	4.3	6.6	8.6
Sunac Services	NA	NA	4.8	5.6
A-Living*	5.0	6.1	6.7	5.6
Greentown Services	6.8	7.3	7.8	8.1
Ever Sunshine	6.6	8.6	9.0	10.2
Poly Services	5.7	7.4	8.6	10.5
S-Enjoy	8.5	9.9	8.4	7.7
<b>Weighted Average</b>	<b>5.9</b>	<b>6.0</b>	<b>6.0</b>	<b>6.7</b>

Source: Company data, CMBIGM, \*unaudited results or estimates for FY21

**Figure 4: Urban living area per capita is already the second highest in the world, below USA's 65sqm/capita**



Source: NBS, CMBIGM

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