



Analyzing Chinese New Housing Starts in 2023 and Expectations for 2024

2023中國新屋開工統計及2024展望

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Introduction

China's housing market stands as a pivotal barometer of its economic health, with new housing starts serving as a key indicator of growth and development. Against the backdrop of a rapidly evolving economic landscape, the hardware and fastener industries play a crucial role in the construction sector, ensuring structural integrity and safety in building projects. This article briefly explores the nuances of China's housing market in 2023 and provides insightful projections for 2024, which might be helpful for those involved in the fastener and hardware industries, offering valuable perspectives on market trends and potential opportunities for strategic positioning.

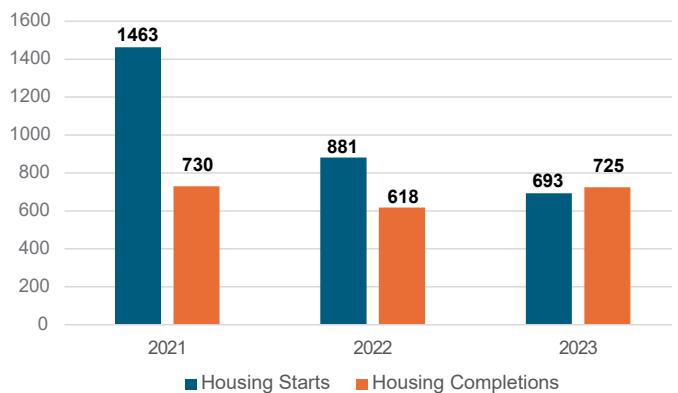
Analyzing Chinese New Housing Starts in 2023

China's housing market woes have gained significant attention in recent years, reaching a climax with fresh reports towards the end of the previous year. These reports indicated that more than half of listed property developers had either defaulted on their obligations or restructured their public debts. **Sales of new residential properties in 2023 were sluggish, amounting to only half the pace witnessed in 2021. Similarly, new residential construction starts experienced a comparable decline.**

However, amidst the bleak outlook portrayed by these reports, there were some encouraging developments that went unnoticed. In 2023, completions of residential properties saw a notable uptick, surging by 17 percent; however, **housing starts have declined by more than 21% compared to 2022.** The total area completed reached nearly 725 million square meters, surpassing

the pace of new residential starts for the first time on record. If this trend persists, it has the potential to instill confidence in the property market, fostering a more sustainable pace of development.

Housing Starts and Completions in China in 2021-2023
(Millions of Square Meters)



The turbulence within China's property sector came into a sharp focus in mid-2021, notably with the emergence of challenges faced by one of the nation's largest property developers. Subsequently, other developers found themselves grappling with similar predicaments.

While these developments posed immediate challenges to China's economic growth, they served to purge risky practices, a crucial step towards fostering a sustainable property market. At the height of the 2021 crisis, a significant portion of the nearly 1.5 billion square meters in residential property purchases were speculative rather than driven by genuine demand.



Sources:

China's Housing Report by Peterson Institute for International Economics

China's Property Investment Report by Reuters

China's Real Estate Sector Report by International Monetary Fund (IMF)

A key obstacle to the establishment of a sustainable property market lies in the timely completion of pre-sold properties, often paid for in full in advance without a deposit or down payment. Concerns over potential non-delivery of purchased units can deter prospective buyers, thereby undermining property sales.

The preceding year marked a pivotal juncture in addressing this challenge. Despite a halving in new construction starts, and a one-fifth decline in property investment compared to 2021, notable progress was made. **A significant factor contributing to this trend is the increasing allocation of property investment towards completing projects initiated in the past, rather than initiating new ones.**

These developments represent predominantly positive news for China's economy. Developers have significantly curtailed new construction starts, acknowledging the end of the property boom, and are channelling the bulk of their efforts and resources into completing pre-sold housing units.

Anticipated Trends for 2024

In early 2024, China's housing market displayed signs of stabilization, with a moderated decline observed in property investment and sales. Governmental efforts to mitigate the sector's downturn, coupled with strategic interventions, contributed to this tempered decline. Property investment fell by 9% year-on-year in the first two months of 2024, compared to a 24% decline in December 2023. Similarly, property sales witnessed a 20.5% slide in January-February, reflecting a slight improvement from the preceding months.

However, challenges persist, as evidenced by the sector's struggle to stabilize home prices, which declined by 0.3% month-on-month in February. Despite the modest slowdown in investment decline, analysts remain cautious, emphasizing the continued downtrend in the real estate sector. The liquidity crisis facing developers and the ongoing struggle for cash flow underscore the underlying challenges confronting the industry.

In the coming years, China's housing market is expected to face additional obstacles due to underlying changes in its population dynamics. The need for more housing is likely to decrease as population growth slows down and the pace of urbanization also

slows. Although significant government subsidies over the past decade facilitated the migration of millions of people to better-quality homes from older, less equipped ones, this demand is anticipated to dwindle. This decline is attributed to reduced revenues from land sales, which constrain local government budgets, along with a decrease in the number of residents occupying older housing units.

Given these changes in both short-term trends and long-term factors, investment in housing is expected to decrease further, remaining low in the near future. **Recent forecasts for real estate investment in the medium term, taking into account different scenarios based on changes in demand and supply-side pressures, suggest a potential decline ranging from 30 percent to 60 percent below the levels seen in 2022.** This decline would lead to a gradual recovery similar to what has been seen in other countries experiencing significant slowdowns in housing construction.

Efforts to strengthen spending on affordable housing and urban redevelopment in the current year may partially alleviate the decline in investment. However, these measures are unlikely to adequately address the substantial housing inventory overhang held by financially distressed developers.

A smoother and more expedient transition for the real estate sector can be achieved through market-driven adjustments in home prices and swift restructuring of insolvent developers. Phasing out regulations allowing banks to defer recognition of bad loans to developers is crucial.

Authorities should extend support to viable developers while tightening regulations to mitigate future risk accumulation. Introducing insurance for homebuyers against the risk of developers' failure to complete purchased homes could enhance confidence and alleviate sales pressures. Strengthening escrow rules for presale financing would offer improved legal safeguards for homebuyers. Implementing a nationwide property tax and enhancing pension or alternative saving schemes would reduce households' reliance on housing investment. Fiscal reforms aimed at bridging the structural gap between local government revenues and expenditure obligations are essential to reduce dependence on land sales and property-related activities.

In reaction to challenges faced by the sector, China has ramped up efforts to breathe new life into the property market. These efforts include cutting benchmark mortgage rates and implementing a "whitelist" mechanism. This mechanism allows city governments to recommend residential projects to banks for financial support. Despite these measures, market sentiment remains muted, with trends such as home purchasing, financing, and construction initiations continuing to decline.

Conclusion

As China's housing market faces the challenges brought by economic changes, regulatory shifts, and technological progress, the construction industry stands as a vital component, deeply integrated into the fabric of development projects. Analyzing the trends in new housing starts in 2023 and predictions for 2024 sheds light on the interconnectedness between construction endeavours and the broader economy. As stakeholders navigate this evolving terrain, adaptability, innovation, and strategic planning are essential for seizing emerging opportunities and tackling obstacles within China's dynamic construction sector. ■

