Property investment still hot

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By Hu Yuanyuan (China Daily)

Sector rises 32.9% year-on-year to $407b despite tighter regulations

BEIJING - Despite rigorous policies to curb real estate speculation, property investment in China continued its rapid growth in the first half year, fueled by the construction of affordable housing.

Investment in the property sector rose 32.9 percent year-on-year to 2.63 trillion yuan ($407 billion), of which 1.86 trillion yuan went into housing, a 36.1 percent increase from the same period last year, the National Bureau of Statistics (NBS) announced on Wednesday.

A row of public housing buildings in Beijing. With the supply of low-cost housing picking up and the continued tighter regulations governing the commercial residential sector, most experts said property prices could be expected to drop in the third quarter. [Photo/Agencies]

China's fixed-asset investment rose 25.6 percent year-on-year to 12.46 trillion yuan in the first half of 2011, indicating that one of the country's three economic engines - with export and consumption - remains firmly on track.

In June, fixed-asset investment fell 1.04 percent from May, according to the NBS.

"We believe that the large-scale construction of low-cost housing will be a major driver for the country's economic growth," Jing Ulrich, JPMorgan Chase & Co's managing director and chairman of global markets for China, said in a research note.

The central government reaffirmed earlier this month that 10 million low-cost housing units would be built this year. This amount, the largest on record, is expected to address the difficulty some 30 million people have in finding affordable housing.

Meanwhile, the National Development and Reform Commission has given financial institutions and enterprises approval to launch bonds to finance the development of low-cost housing.

"The big increase in low-cost housing will change the country's property market format, and property developers need to quicken their transformation to adapt to this change," Zhu Zhongyi, vice-secretary-general of the China Real Estate Association, said at a Sino-Japanese real estate forum in Beijing.

With the supply of low-cost housing picking up and the continued tighter regulations governing the commercial residential sector, most experts said property prices could be expected to drop in the third quarter.

The average new-home price in 100 major Chinese cities increased by 0.41 percent in June to 8,856 yuan a square meter, down from 0.53 percent growth in May, according to the China Real Estate Index System, a Beijing-based real estate data provider.

Century 21 China said in a research note that the country's property prices will drop in the third quarter, though a dramatic decrease is unlikely.

The country's property inventory will surge in the second half of the year, thus prompting developers to further cut prices as tightening

measures continue.
According to Stephen Green, head of research at Standard Chartered Bank (China) Ltd, oversupply will remain the story in China's property market in the second half of 2011 and in 2012.
Meanwhile, the continuous interest rate hikes will further cut into property developers' already tight cash flow and squeeze demand in the market.
The central bank announced on July 6 that it will raise interest rates, the third time this year, by 25 basis points.
Most economists estimated that the central bank would hike interest rates again in the second half of the year.
"Industry consolidation will accelerate in the second half of the year, because property development is a capital-intensive sector," said Joan Wang, research head of Savills Property Services (Beijing) Co Ltd, an international real estate service provider.