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Fresh woe for China’s property sector: mortgage boycotts

Homebuyers’ protests could push risk on to banks

Jul 21st 2022 | SHANGHAI

Mr Peng is still paying the mortgage on the flat he bought in northern Shanghai last year—for now. The property’s developer, Kaisa Group, began construction on the site in July 2021 but halted work just three months later, presumably because it could no longer pay for labour and supplies. Mr Peng’s new home, which was scheduled for delivery in September next year, has become a *lanweilou*—one of thousands of housing projects sitting unfinished and abandoned.

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This has been a common phenomenon for years. But for the first time ever people across China are halting mortgage payments on such homes in protest. Buyers have stopped payments on at least 319 projects in 93 cities, according to documents that have been collected by volunteers and published online.

The boycotts add more trouble to a property market that was already in turmoil. Regulators have put strict limits on the amount of debt developers can take on, leading many firms to miss interest payments. Evergrande, the most indebted of them all, defaulted last year. Many others have followed. While panic swept over offshore bond markets, the onshore financial system had, before the boycotts, been relatively shielded. Now the risks might be shifted onto China's banks.

Pre-payments are one of the most important sources of liquidity for homebuilders. About 90% of new properties in China were pre-sold in 2021, up from just 58% in 2005. The funds are virtually interest-free and are used to pay for construction. But they have also been poorly regulated and often misused. Many homebuyers fear the money they have put up for flats has been squandered and will be irrecoverable.

Analysts at Deutsche Bank put the size of mortgages affected so far by the boycotts at 1.8trn-2trn yuan ($270bn-300bn), or 4-5% of the stock of mortgage lending. If that is the full extent of the crisis, then banks can absorb it. The government has reportedly considered giving grace periods on mortgage payments while also pressing banks to keep lending to developers.

A bigger concern is that the boycotts deliver yet another blow to sentiment, and could further sap liquidity from the sector. Housing sales were already down by about 35%, year on year, in the first five months of 2022. News of the boycotts, though heavily censored, has spread via social media and may put potential buyers off, starving developers of new pre-sales funds.

More buyers could also stop paying mortgages. Just 60% of homes that were pre-sold between 2013 and 2020 have been delivered, reckon analysts at Nomura, a bank. A fall in cement output suggests that building at up to 20% of sites may have slowed or stopped since the start of 2021.

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Should the boycotts spread, some banks, especially smaller ones, could experience distress. Mr Peng is part of a group of buyers that has sent a letter to Kaisa Group demanding a resumption of construction and asking how the developer has spent their money. He says he is prepared to pay his mortgage as he awaits the scheduled delivery date for his flat. The fate of the property market could hang on what he, and others in his situation, do next. ■

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This article appeared in the Finance & economics section of the print edition under the headline "No delivery, no payment"

From the July 23rd 2022 edition

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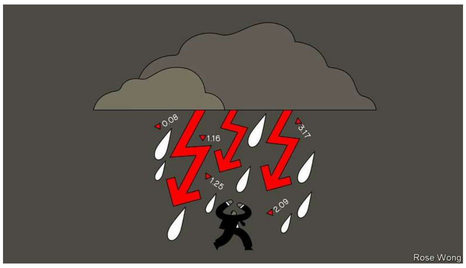

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