

CHINESE PROPERTY MARKET



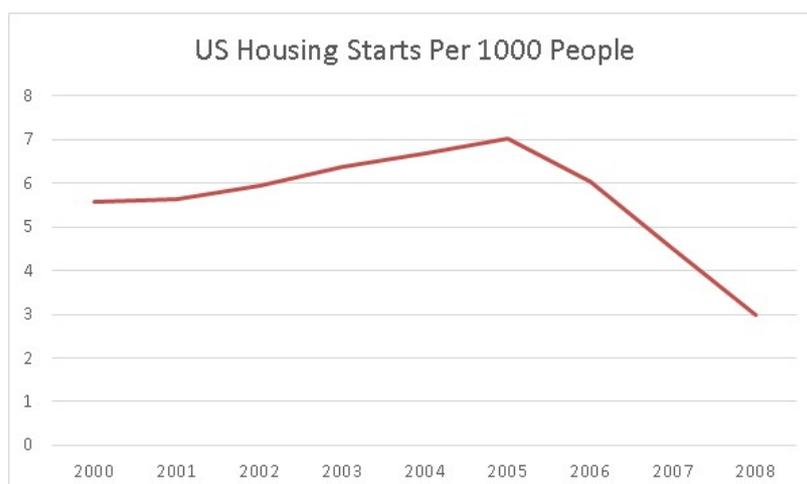
Russell Clark's
Market Views

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In the last few years China has seen a significant increase in the rate of housing construction. Housing space that it is building has grown from 945m sqm in 2007 to 2012m sqm in 2013. Annualising year to date starts gives a rough number of 1.7 bn sqm for 2014. One way I like to look at the Chinese property market is housing starts per 1000 people, assuming an average property size of 100sq m.

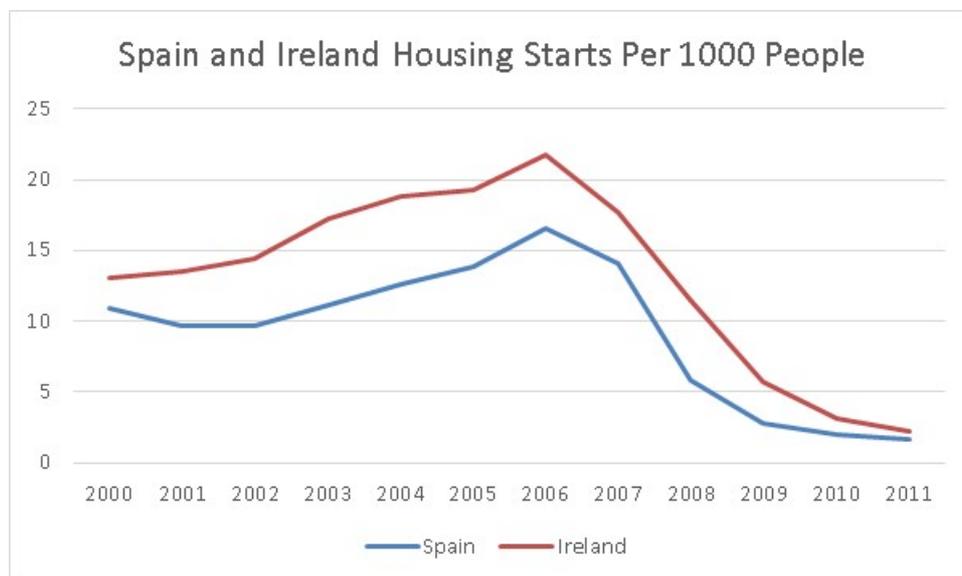
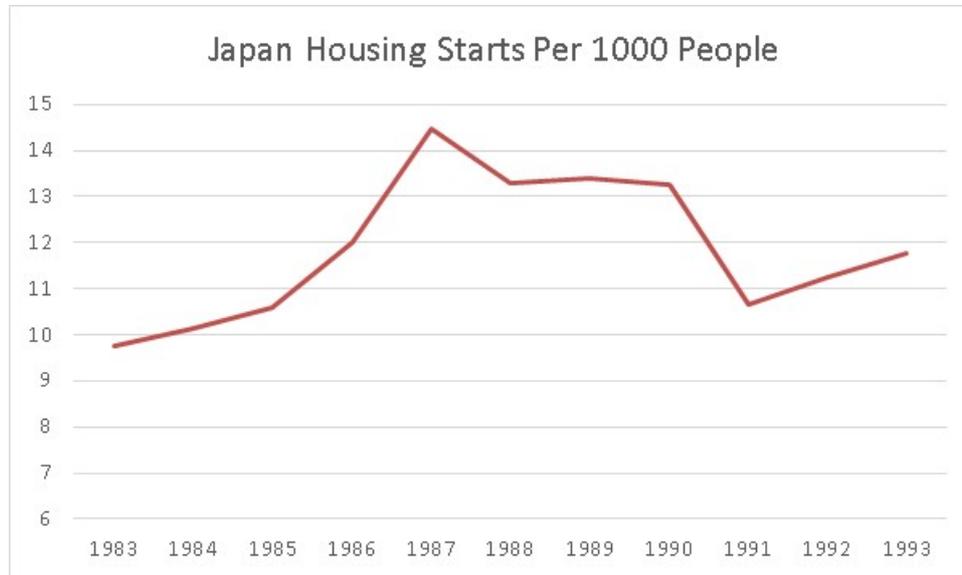


If we look at property markets in this way, it offers a simple way of gauging excess supply in a market that is comparable over time. It is a way to analyse property markets without looking at demand, which requires taking a view on interest rates, wages and leverage. It seems to me that a potential buyer who sees a large amount of property being built may seek to get a better price by delaying a purchase to see if property prices fall. This slows sales, causing inventory to spike and construction to slow dramatically.



For reference, the US housing boom ended at a far lower level of supply relative to population – but if we assume the average US house is twice the size of a Chinese property, then it makes sense that US housing tops out at half the level of Asian or European economies.

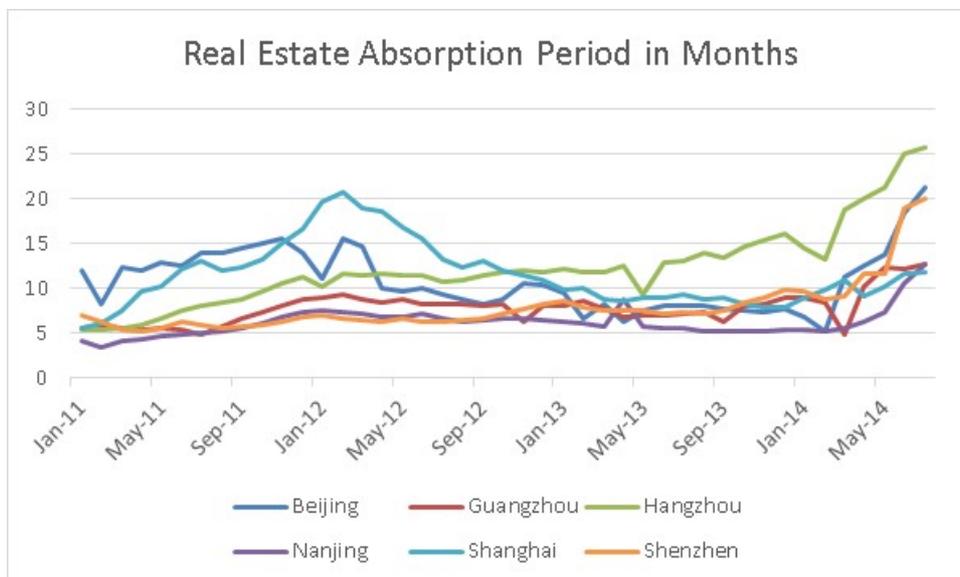
Oddly enough, the Chinese level of construction at 15 units per 1000 people puts it on a par with the three most stupendous housing bubbles of modern times – Japan, Spain and Ireland.



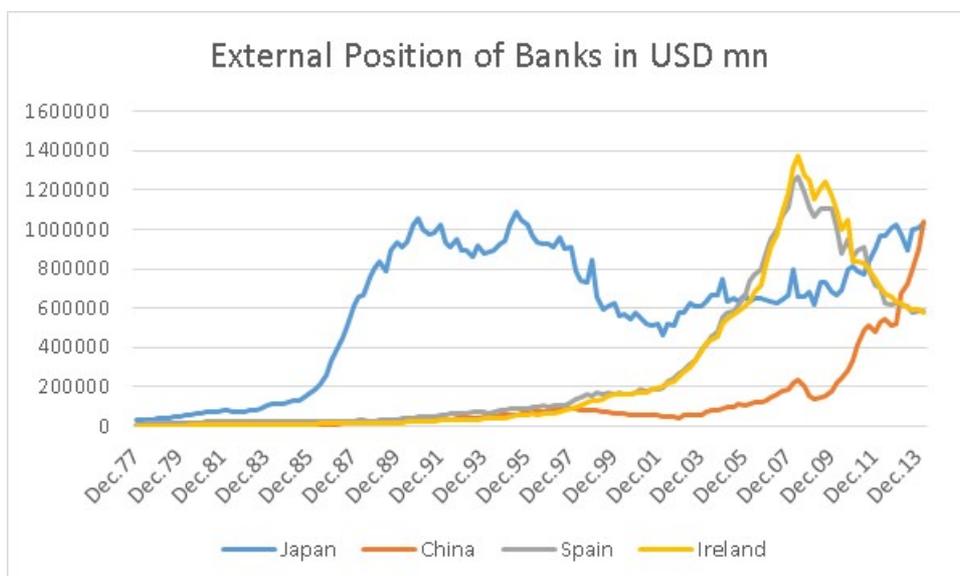
If this analysis is correct, then we would expect to see a surge in inventory as measures in monthly sales. That is because potential buyers put off buying to see how much prices fall as more and more property is completed. It was certainly a feature of the US housing market.



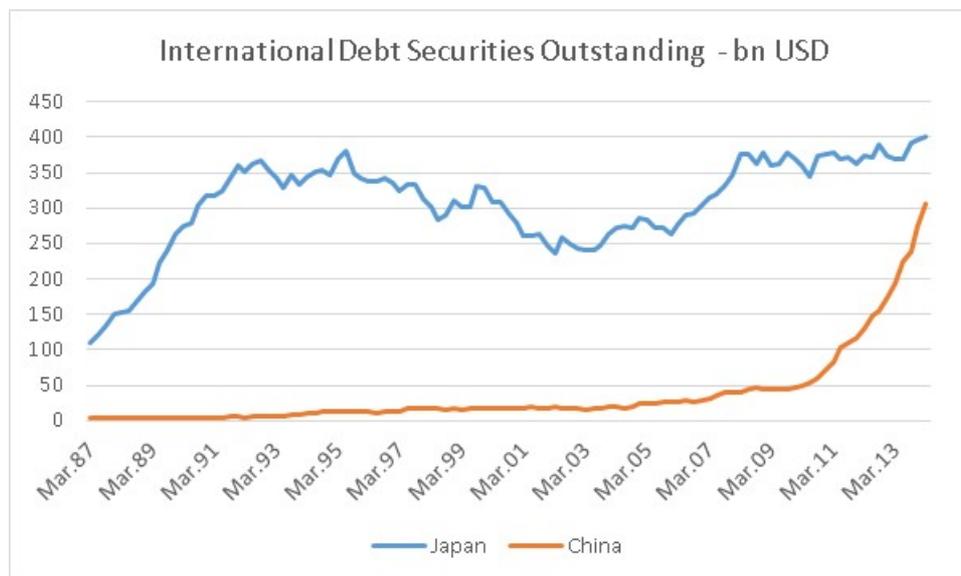
And there are signs of similar build up occurring in China.



Intriguingly, China shares some other features in common with Japan in the 80s and Spain and Ireland in the 2000s – and that is a big build-up of foreign currency loans in its banking sector. This is data in USD millions, and taken from BIS data.



Another feature that China shares with Japan in the late 80s is a rapid increase in the use of international debt. Data is taken from BIS.



I would exercise extreme caution in any asset that may be affected by a slowdown in the Chinese property market.

INFORMATION

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