This Week in China

C-REITs Research II: Regulatory regime differences and return features

Topic of the week:

Factors including the differences in REITs' establishment motives lead to differences in the regulatory regimes. The REITs market in the United States, Japan, Hong Kong, etc. took the responsibility of revitalizing the real estate market and the economy at the beginning of its establishment. The motivation for establishing C-REITs is more inclined to promote economic growth by guiding the inflow of social capital into infrastructure construction. Differences in establishment motives have led to the differences between C-REITs and other REITs: **1) Regulatory regime**: The overseas regulatory regimes are looser and more complete, which can attract social capital to a greater extent. **2) Underlying asset sectors**: C-REITs' underlying assets are more focused on infrastructure industries encouraged by policies, and there are more commercial real estate in the overseas REITs market. **3) Investor restrictions**: The overseas REITs markets have smaller restrictions on investors, while most of the shares of C-REITs are placed to sponsors and professional institutional investors.

The return structure of the management-right REITs is closer to bonds, and the expected distribution yield is attractive. The return structure of the management-right REITs may be more similar to bonds and may be more affected by interest rates. Higher distribution yield (21E 8.5%-11.8%) constitutes a certain complement to its investment attractiveness,: management-right C-REITs provide a 21E distribution yield of 5.4pct-8.6pct higher than the current 10-year government bond yield, while the distribution yields of REITs in Japan, Singapore, and Hong Kong in 2019 are 4.0pct, 4.5pct and 3.8pct higher than 10-year government bonds, respectively.

The return structure of property rights REITs is more similar to equity assets, and the operation and management capabilities are more critical. Property rights REITs will dispose of the underlying assets in the market at the end of the closed period. The final value and rent level of the underlying assets will be significantly affected by operation and management, and will be reflected in the price of the corresponding REITs. The quality of the current underlying assets does not represent the investment value of REITs. the space and ability to increase the value of the underlying assets and rents are more critical. The operating institutions of C-REITs are all related to the sponsors. The management capabilities of GLP and other external managers have been recognized by the market and are expected to have a positive effect on the return rate of corresponding REITs.

Data points:

As of Jun 4th, new house transaction area in 42 major cities this week increased 7% WoW, and cumulative transaction area in 2021 increased 56% YoY.

As of Jun 4th, saleable area (inventory) in 13 major cities this week decreased 5% WoW; average inventory period was 13.5 months, average WoW change was -9%.

As of Jun 4th, second-hand housing transactions in 15 major cities this week decreased 15% WoW, and cumulative transaction area in 2020 increased 37% YoY.

Suggestion:

The Politburo meeting proposed to implement the three-child policy, which is expected to form a certain hedge against the decline in population growth in the short term. At the local level, 8 cities in the Yangtze River Delta will pilot the use of provident funds for house purchases in different places, and will gradually cover more cities in the region, which may further promote the population flow between cities in the Yangtze River Delta and boost the demand for housing purchase in some cities. Maintain "Overweight" rating.

Overweight
(Maintain)

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1. C-REITs Research II: Regulatory regime differences and return features

In our last report "C-REITs: Investment value and analysis", we focused on the investment characteristics, income sources and investment value of publicly offered REITS as an asset class. In this report, we continue to sort out the differences between C-REIT and overseas REITs markets from the perspective of the regulatory regime, and analyze the return of the first batch of C-REITs the perspective of return features and levels.

1.1 The regulatory regime differences between C-REITs and overseas REITs markets

Establishment motives and strategic positioning: The establishment of some developed REITs markets is intended to boost the real estate market, and the establishment of C-REITs is more inclined to guide the flow of funds to encouraging fields. The REITs market in some countries and regions took the responsibility of revitalizing the real estate market and the overall economy at the beginning of its establishment. REITs were launched in the United States in 1960, with an motivation of revitalizing post-war real estate market to revitalize the economy. Similarly, the macroeconomic and real estate market turmoil after Japan's bubble economy was also one of the reasons for Japan's launch of REITs in 2001. Hong Kong REITs were launched after SARS in 2003 to hedge the impact of health incidents on real estate and the macro economy to a certain extent. The motivation for establishing infrastructure REITs in China is different from that of overseas markets. It is more inclined to promote economic growth by guiding the inflow of social capital into some infrastructure construction fields that require capital while keeping the real estate market stable. The differences in construction motives between China and overseas REITs markets have led to differences in REITs' regulatory regimes, underlying assets, and investor restrictions.

Regulatory regime: The overseas institutional framework is relatively loose and complete, which can attract social capital investment to a greater extent. From the perspective of the motivation of building REITs market, some overseas countries and regions hope to achieve the goal through REITs, that is, to boost the macro economy, which requires a richer and wider source of funds to achieve. Therefore, the regulatory regime of the overseas market is also relatively looser. For example, C-REITs must be listed, but REITs are not investment products that must be listed in the United States, Japan, Singapore and Australia; C-REITs impose restrictions on the operating time and income stability of underlying assets, while overseas restrictions are mainly for the scope of underlying asset operations. On the other hand, the tax incentives in the overseas REITs market are also more complete, which is an important attraction for underlying asset holders to issue REITs and investors to enter the REITs market; C-REITs have not yet involved specific tax incentives and tax arrangements, and this may become an important direction for C-REITs to improve the REITs system. Also, the differences in the current regulatory regime comes from the maturity of the REITs market.

Table 1: The current regulatory regime C-REITs is more restrictive than developed overseas markets

Country/Region	Legal form	Must be Listed	Restriction on investments	Distribution requirements
Mainland China	Fund investing in asset-backed securities	**Yes**	**Only allowed to hold 80%+ in infrastructure projects that generate stable income with 3+ years of operations**	90%+ of audited distributable profits
United States	Trust or Corporation	No	75%+ of profits from real estate-related income; 75%+ of assets from real estate assets, cash items and government securities	90%+ of taxable income
Hong Kong	Trust	Yes	75% of gross asset value of real estate that generates recurrent rental income; Combined value of minority-owned properties, property developments, financial instruments and other ancillary investments shall not exceed 25% of gross asset value	90%+ of audited net income after tax
Japan	Trust or Corporation	No	Not allowed to engage in activities other than asset management	90%+ of distributable profits
Singapore	Trust	No, but listing is necessary to qualify for tax concessions	Prohibited from investing in vacant land or mortgages; 10%- of deposited property can be invested in property development and uncompleted property	90%+ of taxable income to enjoy tax concessions
Australia	Trust or Company	No	Not allowed to carry out trading business, such as developing land for sale, otherwise the flow through treatment will not be received	No mandatory distribution requirement, but undistributed earnings may be taxed at the highest marginal tax rate at 49%. To mitigate this, it is standard practice to distribute 100% of the taxable income of the REITs.

Source: FSDC HK, Regulatory agencies, CWSI Research

Table 2: There is currently no specific taxation arrangement for C-REITs, and overseas tax incentives can attract REITs market participants

Tax treatment (at REIT level)			
Country/Region	**Income tax**	**Tax on capital gain and dividend income**	**Transaction tax at acquisition of properties**
Hong Kong	Authorised REITs are exempted from profits tax, while the SPVs through which investments are made are subject to profits tax.	No tax on capital gain and dividend income	Transfers of properties in the form of sale and purchase of the shares of the asset holding SPVs are subject to stamp duty of 0.1%. Stamp duty of up to 4.25% on direct transfer of non-residential properties
Singapore	REITs can enjoy tax transparency treatment so that no tax will be levied on REITs level.	No tax on capital gain and dividend income	Stamp duty of up to 3% on transfer of non-residential properties
Australia	Income taxes are passed through to the investors.	Capital gain taxes are passed through to the investors.	Stamp duties apply, depending on the location, character and scale of lands
Japan	Income will be subject to corporate tax; however distributions paid to investors are deductible for corporate income tax.	Capital gain will be subject to corporate tax; however distributions paid to investors are deductible for corporate income tax.	0.6% to 1.6% of concessionary acquisition tax
United States	Corporate level taxes apply on taxable income that is not distributed and deduction is allowed for dividend paid to shareholders.	Capital gain and dividend income are subject to corporate income tax.	Real property acquisition tax and registration tax apply depending on the location of properties

Tax treatment (at investor level)				
Country/Region	**Tax on distribution to domestic investors**	**Tax on distribution to foreign investors**	**Tax on transferring REITs**	**Income tax rates**
Hong Kong	No further tax to pay	No withholding tax	Stamp duty of 0.2%	16.5%
Singapore	Taxable at prevailing income tax rate at 17% for corporate, while exempted for individuals	10% withholding tax on foreign corporate; (under a tax concession arrangement expiring in December 2025) exempted for non-resident individuals	No stamp duty	17.0%
Australia	Taxable at investors' prevailing tax rate according to the income characters	30% withholding tax in general; 15% withholding tax applies on qualified Managed Investment Trusts; and 10% withholding tax applies on certain newly constructed "green buildings"	Capital gain tax at investors' prevailing tax rates	30.0%

Japan	Withholding tax of ~20% to individual and ~15% to corporate investors (including surtax), which can be credited against investors' final tax payable	Withholding tax of ~20% to individual and ~15% to corporate investors (including surtax)	Capital gain tax at ~20% (including surtax)	23.2%
United States	Taxable at prevailing income tax rate at up to 37% for individuals and 21% for corporate	30% withholding tax on general dividend and 35% withholding tax on capital gain dividend	15% withholding tax on proceeds if REITs are not US-controlled	21.0%

Source: FSDC HK, Regulatory agencies, CWSI Research

Underlying assets: Due to differences in establishment intentions and institutional frameworks, the scope of underlying assets of C-REITs is narrower compared to overseas. On the one hand, C-REITs'investment are currently limited to infrastructure and do not involve residential and commercial real estate. Other countries and regions have fewer restrictions on the types of underlying assets in the initial stage of REITs market construction, and include more commercial real estate. For example, among the equity REITs included in the FTSE NAREIT index at the end of March 2021, the total market value of residential, retail and office sector REITs accounted for 33.2%. The underlying assets of H-REITs, except for SF REIT, are almost all commercial real estate. On the other hand, the definition of "infrastructure" in C-REITs is different from that of some countries and regions. For example, C-REITs includes municipal facilities, pollution control, industrial parks, and transportation facilities, while the underlying asset types in the US REITs' infrastructure sector are mostly optical cables and wireless infrastructure, telecommunications towers, energy pipelines, etc.

Table 3: The U.S. REITs market is large in scale and rich in underlying asset sectors

US REITs Sectors	No. of constituents	Market Cap. (USD tn)	%
Infrastructure	4	0.21	16.8%
Residential	20	0.19	14.6%
Retail	32	0.15	11.7%
Industrial	13	0.14	11.2%
Data Centers	5	0.12	9.2%
Health Care	17	0.12	9.2%
Office	19	0.09	6.9%
Self Storage	5	0.08	6.1%
Specialty	10	0.06	4.4%
Diversified	15	0.05	4.0%
Lodging/Resorts	13	0.04	3.1%
Timber	4	0.04	2.8%
FTSE Nareit Equity REITs Total	**157**	**1.27**	**100.0%**

Source: NAREIT, CWSI Research

Most of the underlying assets of the first batch of C-REITs are excellent infrastructure in the policy encouraged fields. The scope of the first batch of REITs' underlying assets includes property rights (2 warehousing and logistics, 3 industrial parks) and management rights (2 toll roads, 1 municipal facilities, and 1 pollution control). The underlying assets of the above projects are all policy encouraged shortcomings and key development fields. Take warehousing logistics as an example, although the total storage area in China continued to increase with the rapid development of e-commerce, high-standard warehouses account for less than 10% of the total storage, and there is still a shortage of supply (according to the data of DTZ, the market supply of China's high-standard warehouses exceeded 60 mn sqm, and DTZ expected that the market demand for high-standard warehouses will reach more than 140 mn sqm in 2020).

Table 4: Most of the underlying assets of the first batch of C-REITs are excellent infrastructure in the fields of policy encouragement

REIT	Infrastructure project type	Underlying asset		City
		Type	Asset	
Yantian Port REIT	Property right	Warehouse Logistics	Modern logistics center project	Shenzhen
CICC GLP REIT	Property right	Warehouse Logistics	7 GLP logistics parks	Kunshan, Suzhou, Foshan, Guangzhou, Beijing
Soochow-Suzhou Industrial Park REIT	Property right	Industrial Park	International Science and Technology Park Phase V B area project, 2.5 Industrial Park Phase I and Phase II project	Suzhou
Shekou Industrial Park	Property right	Industrial Park	Wanrong Building, Wanhai Building	Shenzhen
Zhangjiang Everbright Park REIT	Property right	Industrial Park	Zhangjiang Everbright Park Project	Shanghai
Shougang Green Energy	Management right	Pollution control	Beijing Shougang Lujiashan Residue Temporary Storage Site Project, Beijing Shougang Food Waste Integrated Project (Phase I), Beijing Shougang Biomass Energy Project	Beijing
Fullgoal-BJCapital water REIT	Management right	Municipal facilities	1 Hefei Sewage Treatment Plant project, 3 Shenzhen Water Purification Plant projects	Hefei, Shenzhen
Guangzhou Guanghe	Management right	Toll road	Guangzhou-Heyuan Expressway (Guangzhou Section)	Guangzhou
Shanghai-Hangzhou-Ningbo Highway REIT	Management right	Toll road	Hangzhou-Huizhou Expressway (Zhejiang Section)	Hangzhou

Source: Prospectus, CWSI Research

Investor restrictions: The overseas REITs market has relatively small restrictions on investors, and the current public participation in C-REITs is limited. Differences in establishment motivations and institutional frameworks also lead to differences in the degree of public participation. When the overseas developed REITs market was established, it hoped to attract investors by lowering the threshold of real estate investment, and the public participation was relatively high. According to the "Guidelines for Infrastructure Funds", among the investors of C-REITs, strategic placement (sponsors and professional institutional investors) must account for more than 20%, and at least 70% of the shares after deducting the strategic placement must be allocated to offline professional institutional investors, the remaining part will be sold to public investors. If both the strategic placement and offline placement ratios are calculated at the lower limit, the public placement accounted for up to about 24%. Compared with overseas, C-REITs has made certain restrictions on the participation of public investors. The reasons are not only different establishment backgrounds, but also because of the consideration of market stability in the initial stage of REITs construction. A high proportion of professional institutional investors can make the REITs market participants relatively mature, and make the REITs market have a certain degree of controllability in the initial stage of exploration. The holding period restrictions of strategic placements can also bring a certain positive effects to the stability of the REITs market.

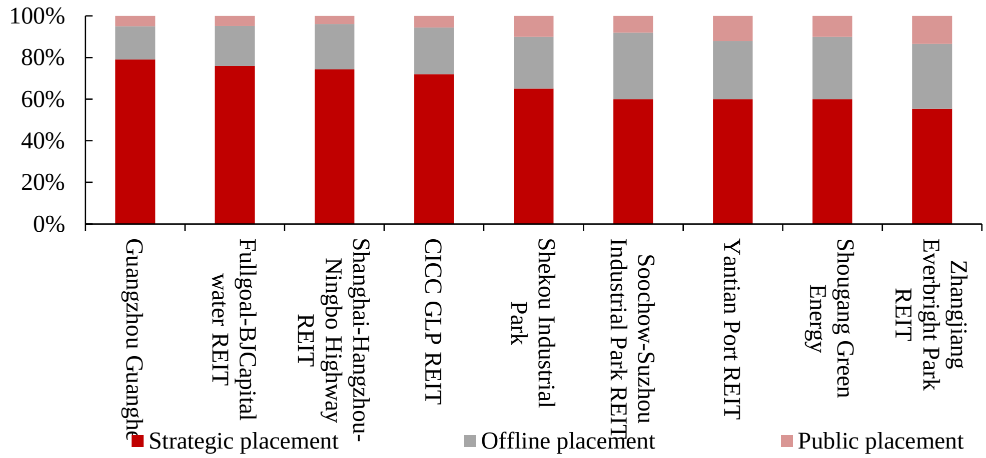
Table 5: The investor restriction of C-REITs has made the sponsors and professional institutional investors more involved

Placing stage	Investors	Placing ratio
Strategic placement	Sponsors of infrastructure projects, professional institutional investors	≥20%
Offline placement	Professional institutional investors	70% and above after deducting part of allotment to strategic investors
Public placement	Public investors	The remaining part, up to 24%

Source: Government website, CWSI Research

The actual strategic placement ratio of the first batch of C-REITs is much higher than the lower limit, and most C-REITs' public investors account for no more than 10%. Judging from the actual placement situation, the strategic placement ratio of the first batch of 9 C-REITs ranged from 55.4% (Zhangjiang Everbright Park) to 79.0% (Guangzhou Guanghe). Only Zhangjiang Everbright Park REIT (13.4%) and Yantian Port REIT (12.0%) had a public placement ratio of more than 10%, which are also the only 2 C-REITs where the share of offline placement is at the prescribed lower limit (70% after deducting the allocation to strategic investors). On the whole, the main participants of the first batch of REITs are still sponsors and institutional investors, and the participation of public investors is relatively limited.

Chart 1: The strategic placement ratio of the first batch of C-REITs ranges from 55.4% to 79.0%, which is much higher than the lower limit



Source: Wind, CWSI Research

1.2 How is the expected return of the first batch of C-REITs?

REITs with property rights and management rights as the underlying assets have different return structures, and the price return of management rights REITs may be weaker. From the perspective of absolute valuation, the price of REITs should also be a discount of future cash flows, but it should be noted that REITs are not sustainable operations. The value of management rights assets will be amortized to zero when they expire, and the value will continue to decline during the operation period; at the same time, the nature of the public utilities-like business also brings certain restrictions on their price increases. Therefore, the return on asset prices of REITs with management rights as the underlying assets may be relatively weak. Property rights REITs will dispose the underlying assets in the market at the end of the closed period. The final value and rent level of the underlying assets will be reflected in the price of the corresponding REITs. Therefore, the operation and management capabilities will have a certain impact on the price benefits of property rights REITs.

The difference in return structure also makes the management right REITs set a higher distribution yield to enhance the attractiveness of investors. The difference in investment return structure has been reflected in the expected distribution yield of the first batch of REITs. It can be seen that among the first batch of C-REITs, infrastructure REITs with operating rights as the underlying assets have higher expected distribution yield. For example, Guangzhou Guanghe and Shanghai-Hangzhou-Ningbo Highway REIT have higher 2021E distribution yield of 10.1% and 11.7%, far higher than the 4.7% expected distribution yield in the property right sector. To a certain extent, the higher distribution yield has made up for its inferiority in terms of price gains and increased its attractiveness to investors. The income characteristics of more similar bonds may make the income of management right REITs more affected by interest rates.

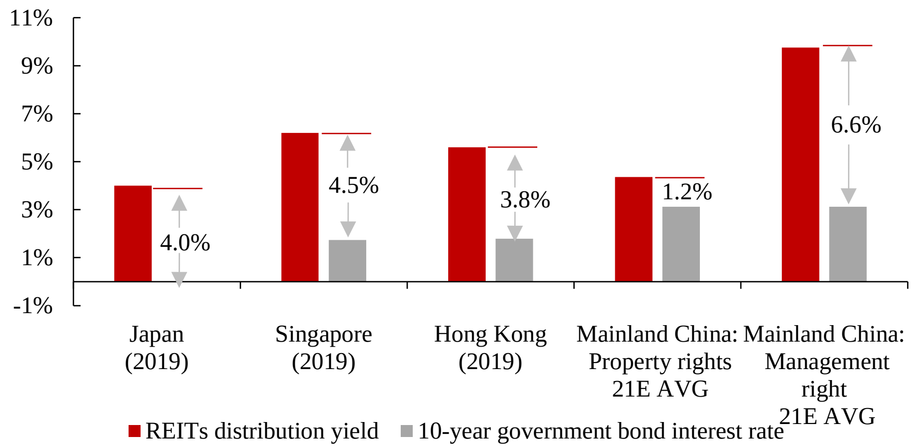
Table 6: Management rightC-REITs have a higher expected distribution yield

REIT	Infrastructure project type	Underlying asset type	Expected distribution return		Closed period (years)
			21E	22E	
Yantian Port REIT	Property right	Warehouse Logistics	4.15%	4.40%	36
CICC GLP REIT	Property right	Warehouse Logistics	4.29%	4.31%	50
Soochow-Suzhou Industrial Park REIT	Property right	Industrial Park	4.31%	4.36%	40
Shekou Industrial Park	Property right	Industrial Park	4.39%	4.46%	50
Zhangjiang Everbright Park REIT	Property right	Industrial Park	4.66%	4.04%	20
Shougang Green Energy	Management right	Pollution control	8.52%	7.63%	21
Fullgoal-BJCapital water REIT	Management right	Municipal facilities	8.67%	9.08%	26
Guangzhou Guanghe	Management right	Toll road	10.13%	6.87%	99
Shanghai-Hangzhou-Ningbo Highway REIT	Management right	Toll road	11.71%	9.91%	20

Source: Prospectus, Wind, CWSI Research

Compared with other Asian REITs markets, the distribution yield of the first batch of management rights C-REITs is attractive. According to data from DTZ, the distribution yields of Asian countries have obvious advantages over 10-year government bonds: in 2019, the distribution yields of REITs in Japan, Singapore, and Hong Kong were 4.0 pct, 4.5 pct and 3.8 pct higher than 10-year government bonds, respectively. According to data from Chinamoney, China's current 10-year government bond yield is about 3.12% (data on June 4, 2021). The difference between the 2021 expected distribution yield of property right REITs and management right REITs is respectively 1.02%-1.54% and 5.40%-8.59%; from the perspective of the distribution yield, the attractiveness of China's first batch of management right REITs is not weaker than that of other major Asian REITs markets.

Chart 2: The distribution yield of management right C-REITs is attractive



Source: DTZ, Prospectus, CWSI Research

The return of property rights REITs is more affected by operating conditions, and the current quality of underlying assets does not represent the quality of REITs. Compared with management rights REITs, the return structure of property rights REITs is more similar to equity assets; accordingly, the operation of the underlying assets of property rights REITs is an important factor affecting the price of REITs. The quality of the current underlying assets does not represent the investment value of REITs. the space and ability to increase the value of the underlying assets and rents are more critical. For example, Link was spun off by the Hong Kong Housing Authority to raise financial funds, the initial properties only included 180 retail and parking properties in public housing, and the property qualifications and management were not good; the subsequent outstanding operational capabilities has made significant contributions to the outstanding performance of Link's price.

Table 7: Link's initial underlying assets are not of high quality, and factors such as active management have driven the increase in portfolio valuation

	Property Type	Property situation
Older facilities	Shops located on the ground floor and in some instances first floor of domestic residential buildings	Typically service local shopping needs and are often disjointed from a traditional retailing perspective, **with the design and layout producing difficulties in guiding trade and achieving maximum rental growth**.
	Retail properties with adjoining market buildings and auxiliary buildings	Definitely older style, with their **tired appearance often overstating their actual age**; now **forced to trade as secondary facilities** to dominant private retail centres which are typically located at the junction of local transport infrastructure and either built over or adjacent to MTR stations.
New facilities	Retail centres typically designed to service developing estates	**Provide the focal point of the estate**; centres in more distant locations may offer limited local fashion and sport outlets.
	Larger new centres in larger estates and catchments	The bulk of these centres are still anchored or underpinned by one, possibly two supermarket chains, branded/chain fastfood outlets and large Chinese restaurants.
The best of the Link REIT portfolio	Approximately 10 to 15 centres (the portfolio includes 180 properties) which are typically new or dominant in their catchment or are situated in locations which benefit from potential tourism.	
Market Value	HKD 33.8 bn (as of 2005)→ HKD 195.1 bn (as of Sep 2020)	

Source: Prospectus, company announcement, CWSI Research

The operating institutions of the first batch of C-REITs are all related to the sponsors, and the management capabilities of some managers are recognized by the market. From the perspective of product structure, the 9 REITs all use external managers to manage the underlying assets, and all external managers are related to the sponsors and have a full understanding of the operation and management requirements of the underlying assets. The management capabilities of some managers are recognized by the market. For example, CICC GLP REIT is operated and managed by GLP as an external manager. GLP, as a leading logistics real estate developer and operator, has management capabilities recognized by the market with strong certainty. The excellent operating capabilities of external managers can also have a positive effect on the return of REITs.

Table 8: The first batch of 9 C-REITs all adopt an external management model, and the external managers are all related to the sponsors

REIT	External manager	Sponsor
Yantian Port REIT	Yantian Port Logistics	Shenzhen Yantian Port Group
CICC GLP REIT	Shanghai GLP	GLP China
Soochow-Suzhou Industrial Park REIT	Technology companies, housing construction companies	Technology companies, housing construction companies
Shekou Industrial Park	China Merchants Entrepreneurship (Operation Management), China Merchants Property (Property Services)	China Merchants Shekou
Zhangjiang Everbright Park REIT	Jizhi Consulting (Zhangjiang Group, Guangkong Anshi, and Guojun Zhengyu jointly funded and established)	Shanghai Guangquan Investment Center (Limited Partnership), Guangkong Anshi (Beijing) Investment Management Co., Ltd.
Shougang Green Energy	Shougang Ecology	Shougang Environment
Fullgoal-BJCapital water REIT	BJ Capital	BJ Capital
Guangzhou Guanghe	Guangzhou Traffic Investment and Guangzhou Express Operating Company	Guangzhou Traffic Investment
Shanghai-Hangzhou-Ningbo Highway REIT	Shanghai-Hangzhou-Ningbo Company	Zhejiang Shanghai-Hangzhou-Ningbo Expressway, Hangzhou Transportation Investment Group, Hangzhou Lin'an District Transportation Investment, Hangzhou Yuhang Transportation Group Co., Ltd.

Source: Prospectus, Wind, CWSI Research

1.3 Summary: REITs regulatory regime differences and return features

Factors including the differences in REITs' establishment motives lead to differences in the regulatory regimes. The REITs market in the United States, Japan, Hong Kong, etc. took the responsibility of revitalizing the real estate market and the economy at the beginning of its establishment. The motivation for establishing C-REITs is more inclined to promote economic growth by guiding the inflow of social capital into infrastructure construction. Differences in establishment motives have led to the differences between C-REITs and other REITs.

REITs with property rights and management rights as the underlying assets have different return structures. From the perspective of absolute valuation, the price of REITs should also be a discount of future cash flows, but it should be noted that REITs are not sustainable operations. The value of management rights assets will be amortized to zero when they expire, and the value will continue to decline during the operation period; at the same time, the nature of the public utilities-like business also brings certain restrictions on their price increases. Therefore, the return on asset prices of REITs with management rights as the underlying assets may be relatively weak. Property rights REITs will dispose the underlying assets in the market at the end of the closed period. The final value and rent level of the underlying assets will be reflected in the price of the corresponding REITs. Therefore, the operation and management capabilities will have a certain impact on the price benefits of property rights REITs.

The expected distribution yield of management right C-REITs is attractive. Higher distribution yield (21E 8.5%-11.8%) constitutes a certain complement to its investment attractiveness,: management-right C-REITs provide a 21E distribution yield of 5.4pct-8.6pct higher than the current 10-year government bond yield, while the distribution yields of REITs in Japan, Singapore, and Hong Kong in 2019 are 4.0pct, 4.5pct and 3.8pct higher than 10-year government bonds, respectively.

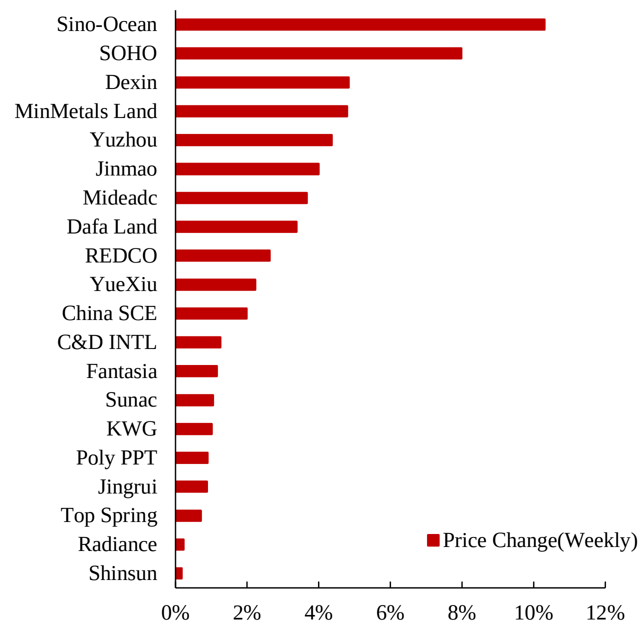
The return structure of property rights REITs is more similar to equity assets, and the operation and management capabilities are more critical. The space and ability to increase the value of the underlying assets and rents are more critical. The operating institutions of C-REITs are all related to the sponsors. The management capabilities of GLP and other external managers have been recognized by the market and are expected to have a positive effect on the return rate of corresponding REITs.

2. Sector Performance

2.1 Performance of developer sector

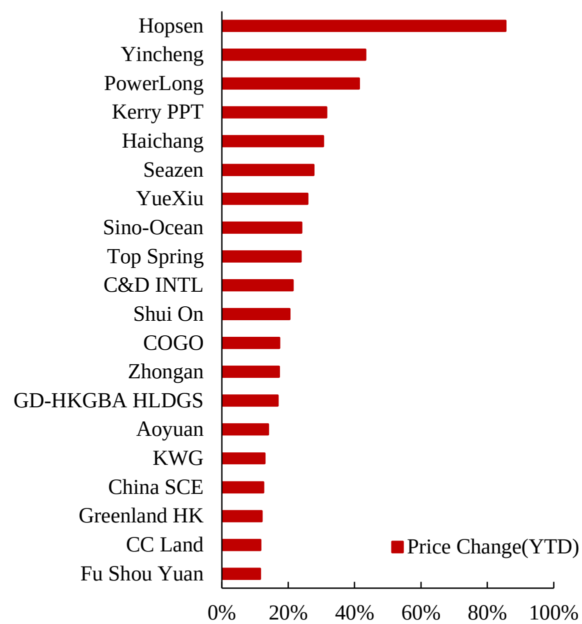
This week, Sino-Ocean, SOHO and Dexin had larger price increase than peers. Hopsen, Yincheng and PowerLong had better share price performance, YTD.

Chart 3: This week, Sino-Ocean, SOHO and Dexin had larger price increase than peers



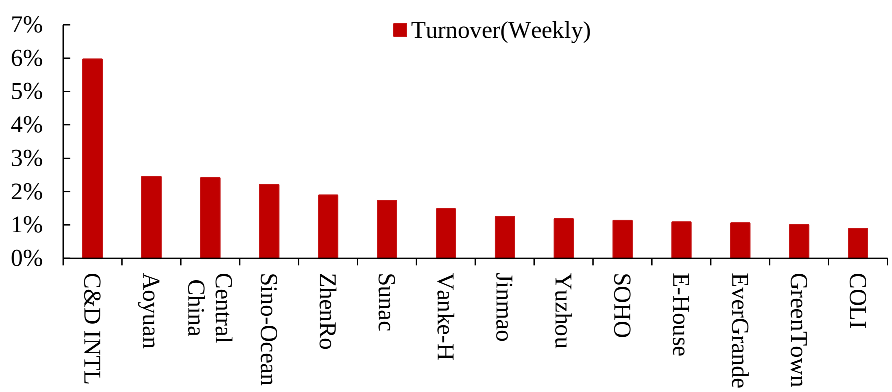
Source: Wind, CWSI Research

Chart 4: Hopsen, Yincheng and PowerLong had better share price performance, YTD



Source: Wind, CWSI Research

Chart 5: C&D INTL, Aoyuan and Central China were most actively traded this week

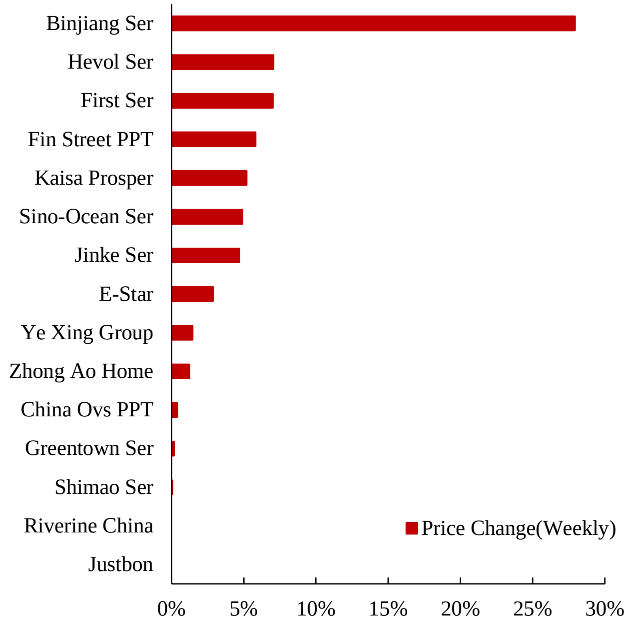


Source: Wind, CWSI Research

2.2 Performance of property management sector

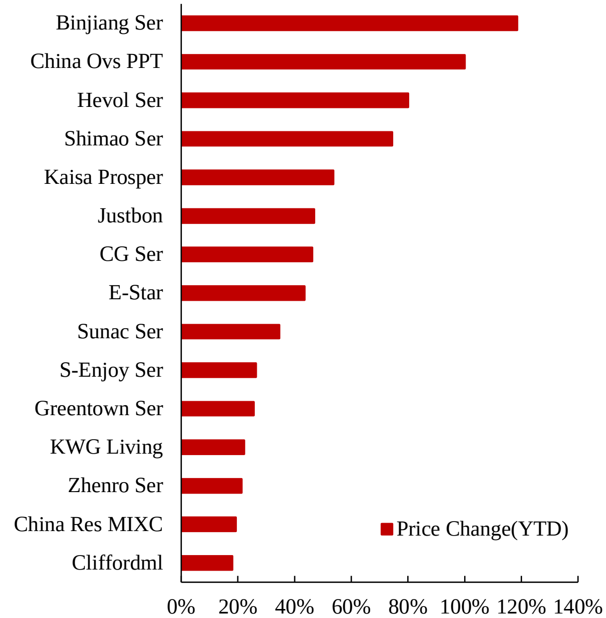
This week, Binjiang Ser, Hevol Ser and First Ser had larger price increase than peers. Binjiang Ser, China Ovs PPT and Hevol Ser had better share price performance YTD.

Chart 6: This week, Binjiang Ser, Hevol Ser and First Ser had larger price increase than peers



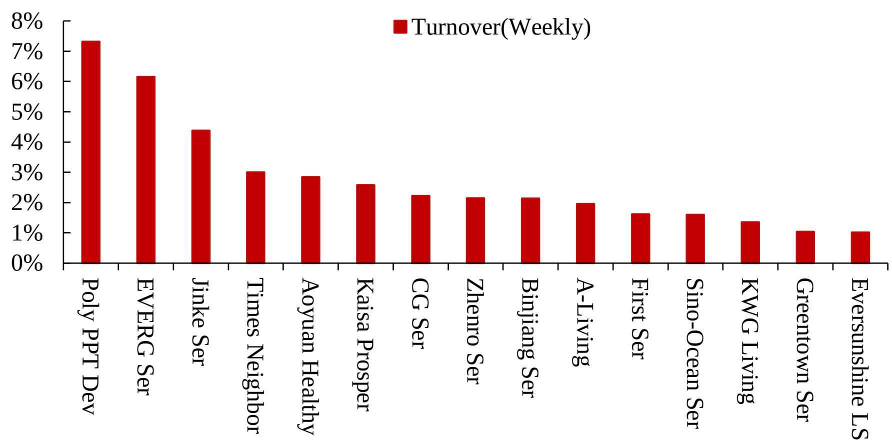
Source: Wind, CWSI Research

Chart 7: Binjiang Ser, China Ovs PPT and Hevol Ser and had better share price performance YTD



Source: Wind, CWSI Research

Chart 8: Poly PPT Dev, EVERG Ser and Jinke Ser were most actively traded this week



Source: Wind, CWSI Research

3. Major cities transaction performance

3.1 New house transaction data

Table 9: Major cities new house transactions volume increased WoW this week

	Last 7 days			Last 30 days			Month to date			Year to date	
City & Region	**sqm**	**wow**	**yoy**	**sqm 000**	**mom**	**yoy**	**sqm 000**	**mom**	**yoy**	**sqm 000**	**yoy**
Beijing	259,964	60%	149%	835	-3%	35%	247	2694%	221%	3,991	91%
Shanghai	328,400	13%	-3%	1,204	-6%	-6%	234	230%	52%	6,692	64%
Guangzhou	193,349	-16%	-8%	1,000	-16%	25%	73	-25%	-10%	5,849	119%
Shenzhen	65,485	-2%	-33%	277	-8%	-18%	39	89%	-42%	2,226	60%
Tier 1	**847,197**	**13%**	**13%**	**3,315**	**-9%**	**9%**	**593**	**200%**	**56%**	**18,757**	**83%**
Tier 2	**3,159,561**	**17%**	**7%**	**13,827**	**8%**	**14%**	**1,888**	**162%**	**12%**	**60,514**	**57%**
Tier 3	**2,122,957**	**-7%**	**-24%**	**10,556**	**7%**	**-7%**	**1,193**	**104%**	**-20%**	**51,506**	**48%**
Beijing	259,964	60%	149%	835	-3%	35%	247	2694%	221%	3,991	91%
Qingdao	339,175	-9%	2%	1,518	-1%	8%	177	265%	2%	6,690	34%
Jinan	298,434	-20%	3%	1,455	0%	10%	169	157%	15%	5,043	30%
Dongying	46,231	-16%	-61%	231	29%	57%	29	560%	-69%	1,156	-4%
PBR	**943,804**	**-2%**	**12%**	**4,038**	**0%**	**16%**	**622**	**388%**	**26%**	**16,879**	**39%**
Shanghai	328,400	13%	-3%	1,204	-6%	-6%	234	230%	52%	6,692	64%
Nanjing	281,699	8%	-11%	1,513	-3%	29%	210	71%	-19%	6,845	93%
Hangzhou	402,430	20%	34%	1,525	44%	66%	206	457%	5%	5,632	79%
Suzhou	318,995	-23%	-22%	1,333	36%	-5%	198	311%	33%	4,927	29%
Wuxi	189,800	52%	-13%	597	1%	10%	-	-	-	2,763	40%
Yangzhou	29,382	-44%	-17%	260	13%	45%	29	207%	-17%	1,431	91%
Jiangyin	88,091	-25%	3%	371	14%	2%	24	68%	-26%	1,554	59%
Wenzhou	304,582	22%	6%	942	9%	-23%	135	87%	-5%	4,424	61%
Jinhua	39,721	-37%	-44%	229	56%	-9%	27	2909%	-33%	1,294	84%
Changzhou	62,136	53%	-15%	254	26%	-11%	30	599%	-38%	1,136	5%
Huaian	74,929	36%	-18%	351	-12%	-21%	61	138%	4%	2,651	66%
Lianyungang	143,251	4%	-5%	661	15%	-5%	78	98%	-30%	4,154	86%
Shaoxing	20,541	-26%	-79%	307	19%	-4%	14	-58%	-79%	1,135	26%
Zhenjiang	116,281	-26%	-8%	668	-10%	-5%	60	106%	-2%	3,175	48%
Jiaxing	29,398	12%	-64%	149	-1%	-46%	27	269%	-53%	751	-8%
Wuhu	139,496	7%	211%	745	-4%	278%	92	341%	264%	3,582	446%
Yancheng	19,086	-1%	-77%	99	-58%	-77%	-	-	-	1,710	15%
Zhoushan	27,637	-46%	-35%	180	28%	11%	10	147%	-56%	641	26%
Chizhou	26,730	65%	69%	120	47%	32%	22	329%	84%	504	44%
Ningbo	109,679	6%	-58%	785	6%	-8%	91	213%	-47%	3,843	57%
YRD	**2,752,264**	**3%**	**-12%**	**12,290**	**8%**	**4%**	**1,547**	**91%**	**-9%**	**58,845**	**64%**
Guangzhou	193,349	-16%	-8%	1,000	-16%	25%	73	-25%	-10%	5,849	119%
Shenzhen	65,485	-2%	-33%	277	-8%	-18%	39	89%	-42%	2,226	60%
Fuzhou	150,635	28%	300%	685	53%	299%	105	274%	833%	2,221	184%
Dongguan	95,608	13%	-31%	429	47%	-22%	39	927%	-31%	2,168	27%
Quanzhou	4,060	-24%	-95%	78	-27%	-67%	2	-94%	-96%	595	-8%
Putian	25,797	-24%	-53%	172	-8%	17%	11	-1%	-14%	951	63%
Huizhou	90,225	72%	45%	263	31%	10%	60	8882%	56%	1,266	65%
Shaoguan	23,915	-23%	-49%	134	11%	-41%	6	-20%	-66%	637	-4%
Foshan	217,212	-8%	-26%	1,229	18%	-1%	146	19%	18%	5,595	37%
Zhaoqing	33,334	-21%	-40%	215	5%	-16%	12	31%	-46%	1,145	41%
Jiangmen	25,203	-27%	-30%	159	12%	-9%	12	-8%	-30%	768	69%
PRD & Southern China	**924,822**	**-1%**	**-17%**	**4,640**	**10%**	**6%**	**507**	**48%**	**2%**	**23,421**	**61%**
Taian	56,798	51%	-3%	260	34%	-5%	35	276%	-4%	1,196	65%
Northern China	**56,798**	**51%**	**-3%**	**260**	**34%**	**-5%**	**35**	**276%**	**-4%**	**1,196**	**65%**
Wuhan	634,732	10%	456%	2,663	14%	102%	396	273%	665%	10,516	199%
Yueyang	50,037	32%	5%	197	17%	-16%	26	77%	27%	861	16%
Baoji	60,483	-40%	-36%	419	21%	-18%	40	1464%	-41%	1,862	81%
Central China	**745,252**	**4%**	**191%**	**3,278**	**15%**	**59%**	**462**	**274%**	**229%**	**13,238**	**150%**
Chengdu	438,266	227%	-23%	1,699	-23%	-31%	329	3458%	-30%	10,025	21%
Liuzhou	69,967	-26%	-73%	411	-3%	-47%	35	22%	-49%	2,288	1%
Nanning	198,541	9%	-23%	1,082	6%	-17%	138	168%	-7%	4,886	9%
Western China	**706,774**	**72%**	**-35%**	**3,192**	**-13%**	**-30%**	**502**	**462%**	**-27%**	**17,198**	**15%**
Total	**6,129,715**	**7%**	**-6%**	**27,698**	**5%**	**4%**	**3,675**	**144%**	**3%**	**130,778**	**56%**
Num. of cities Up		**21**	**12**		**27**	**17**		**34**	**14**		**38**
Num. of cities Down		**21**	**30**		**15**	**25**		**6**	**26**		**4**

Source: Local governments, CWSI Research; Note: Till 2021/6/4

Table 10: Major cities inventory period was 13.5 months this week

City	Inventory (sqm 000)	wow	yoy	Inventory period	Last week	wow	yoy
Beijing	11,984	-1%	6%	14.4	16.8	-14%	-22%
Shanghai	5,121	-14%	-29%	4.3	5.1	-17%	-24%
Guangzhou	8,573	-1%	6%	8.6	8.2	5%	-15%
Shenzhen	1,857	-3%	-11%	6.7	7.7	-13%	9%
Tier 1 Average		**-5%**	**-7%**	**8.5**	**9.4**	**-10%**	**-13%**
Hangzhou	2,302	-36%	-38%	1.5	2.9	-47%	-63%
Nanjing	6,873	-3%	23%	4.5	4.9	-8%	-4%
Suzhou	8,388	-2%	29%	6.3	7.2	-12%	36%
Fuzhou	6,765	-2%	14%	9.9	11.8	-16%	-72%
Nanning	8,727	-1%	12%	8.1	8.5	-5%	36%
Wenzhou	10,892	-2%	0%	11.6	13.0	-11%	30%
Quanzhou	6,849	-1%	-3%	88.3	62.3	42%	192%
Ningbo	3,151	0%	18%	4.0	4.2	-5%	28%
Dongying	1,856	-1%	27%	8.0	9.2	-13%	-19%
Overall Average		**-5%**	**4%**	**13.5**	**12.4**	**-9%**	**9%**

Source: Local governments, CWSI Research; Note: Till 2021/6/4; Average WoW and average YoY are defined as average change of each city

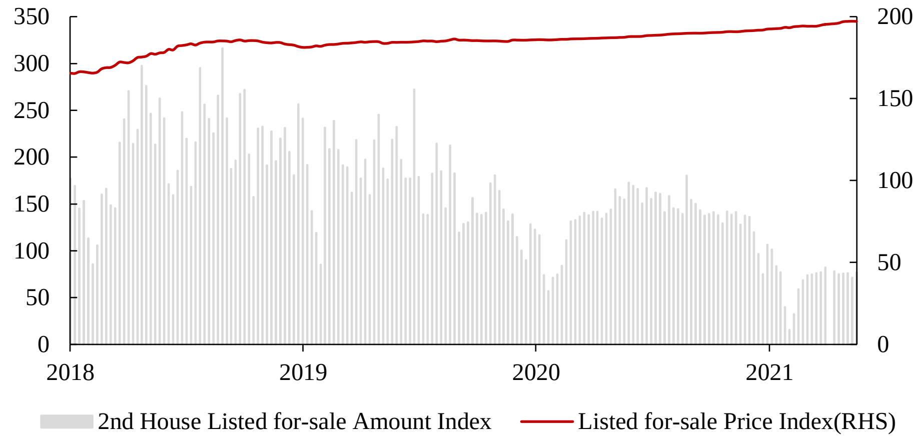
3.2 Second-hand house transaction and price data

Table 11: Major cities Second-hand house transaction volume, Xiamen and Beijing rose significantly YTD

	Last 7 days			Last 30 days			Month to date			Year to date	
City	sqm	wow	yoy	sqm 000	mom	yoy	sqm 000	mom	yoy	sqm 000	yoy
Beijing	401,664	-19%	7%	1,958	16%	19%	264	2166%	4%	8,414	82%
Shenzhen	64,840	-6%	-68%	324	-16%	-62%	48	-	-68%	2,204	-26%
Hangzhou	132,800	-13%	-13%	657	7%	-2%	62	258%	-18%	2,992	54%
Nanjing	224,619	-15%	-8%	691	-40%	-37%	164	-	-6%	4,557	37%
Chengdu	65,849	95%	-50%	291	-21%	-50%	50	-	-51%	1,660	-19%
Qingdao	153,694	-10%	18%	714	5%	19%	118	4297%	21%	2,905	62%
Wuxi	143,164	-9%	-15%	644	8%	-16%	104	7685%	-15%	2,428	5%
Suzhou	132,365	-21%	-4%	769	0%	34%	97	-	-6%	3,434	62%
Xiamen	80,127	-14%	49%	401	-13%	21%	55	-	3%	2,085	83%
Yangzhou	21,283	-34%	-20%	130	10%	-1%	15	-	-27%	539	41%
Dongguan	25,799	-14%	-63%	130	2%	-57%	20	6677%	-63%	727	-25%
Nanning	31,499	0%	-77%	127	-28%	-60%	20	2730%	-81%	733	-18%
Foshan	145,077	-8%	-5%	692	-3%	9%	103	606%	4%	3,230	78%
Jinhua	54,070	-46%	-58%	415	48%	-9%	38	-	-67%	1,598	57%
Jiangmen	14,534	-42%	-19%	89	0%	-8%	10	-	-27%	389	44%
Total	**1,691,383**	**-15%**	**-21%**	**8,033**	**-2%**	**-11%**	**1,170**	**2305%**	**-24%**	**37,895**	**37%**
Num. of cities Up		**1**	**3**		**9**	**5**		**7**	**4**		**11**
Num. of cities Down		**14**	**12**		**6**	**10**		**0**	**11**		**4**

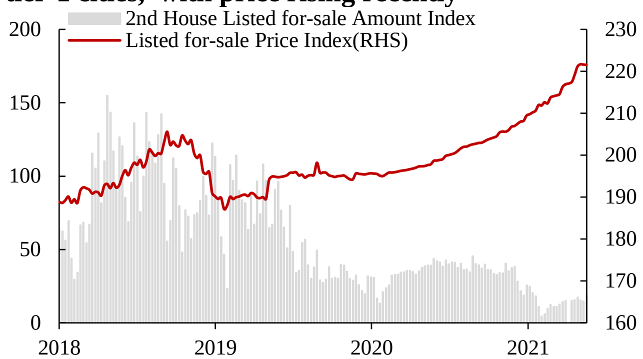
Source: Local governments, CWSI Research; Note: Till 2021/6/4

Chart 9: 2nd house listed for-sale price index rose slightly recently



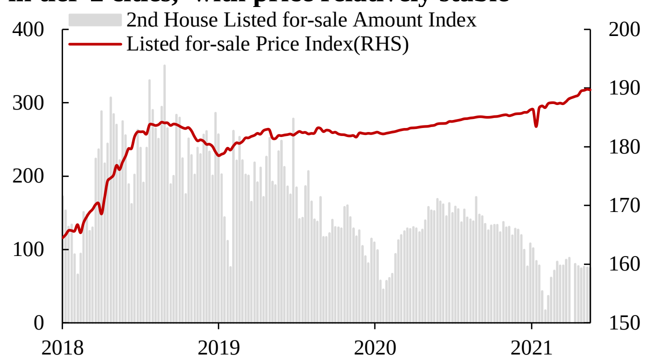
Source: Local Government, CWSI Research; Note: Till 2021/5/30

Chart 10: 2nd house listed for-sale amount index rose in tier-1 cities, with price rising recently



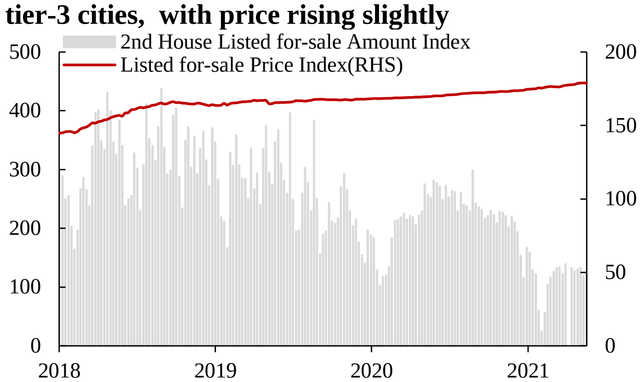
Source: Local Government, CWSI Research; Note: Till 2021/5/30

Chart 11: 2nd house listed for sale amount index rose in tier-2 cities, with price relatively stable



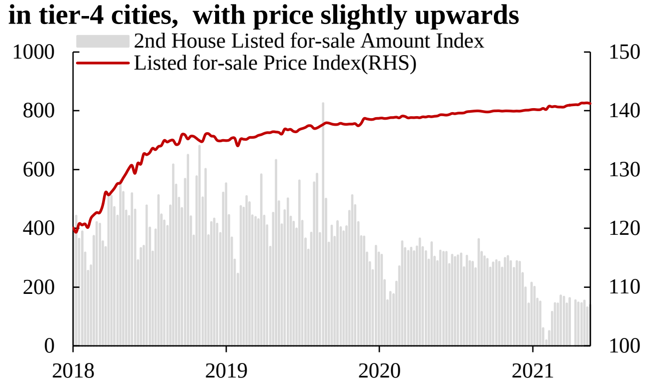
Source: Local Government, CWSI Research; Note: Till 2021/5/30

Chart 12: 2nd house listed for-sale amount index rose in tier-3 cities, with price rising slightly



Source: Local Government, CWSI Research; Note: Till 2021/5/30

Chart 13: 2nd house listed for-sale amount index rose in tier-4 cities, with price slightly upwards



Source: Local Government, CWSI Research; Note: Till 2021/5/30

4. Important Policies and News

4.1 Important Industry Policies News This Week

Table 12: Important Industry Policies News This Week: The Politburo meeting proposed the implementation of the three-child policy

Date	Region / Institution	Summary
2021-05-31	Political Bureau meeting of the CPC Central Committee	Further optimize the childbirth policy, implement the policy that one couple can have three children.
2021-05-31	Nanjing	The age equirement for undergraduate to settle down in Nanjing will be relaxed to 45 years old.
2021-05-31	Nanjing	Raised the threshold for households without a house to purchase a house, requiring one or two years without self-owned housing registration information and transaction records, and continuous payment of Nanjing urban social security or personal income tax for 12 months.
2021-06-02	Shanghai	Established an urban renewal fund of RMB 80 bn, which is currently the largest urban renewal fund in the country.
2021-06-03	Shaoxing	The linkage mechanism for housing and land prices will be improved; regional purchases will be restricted; the sales restriction period in the original urban area will be increased from 2 years to 3 years.
2021-06-03	Ministry of Culture and Tourism	Encourage financial institutions to develop financial products and services suited to the characteristics of cultural and tourism enterprises. Promote the inclusion of cultural and tourism infrastructure in the pilot scope of REITs.
2021-06-05	Yangtze River Delta	The housing provident fund is paid in 8 pilot cities of Shanghai, Nanjing, Hefei, Suzhou, Wuxi, Jiaxing, Quzhou, and Wuhu, and those who purchase a house in the above-mentioned pilot cities and meet the withdrawal conditions of the provident fund payment location, the housing provident fund can be withdrawn regardless of whether the place of purchase and the place of payment are in the same city.

Source：Wind, Government website，CWSI Research

4.2 Company news and announcements

Table 13: Company news and announcements: Agile, ZhenRo, Shinsun, etc. issued USD senior notes; Link acquired Guangzhou property

Date	Company	Summary
2021-06-01	Agile	Issued additional USD 150 mn 5.5% senior notes due 2026 (to be combined with the USD 300 mn 5.5% senior notes due 2026 issued on May 17, 2021 and form a single series).
2021-06-02	ZhenRo	Issued USD 340 mn 7.1% senior notes due 2024.
2021-06-03	Jinke	Signed a strategic cooperation framework agreement with Huayuan. In the future, the two parties will fully cooperate in the fields of urban renewal, industry-city integration, business travel and health care, property services, etc.
2021-06-04	Link	Acquired Guangzhou Happy Valley Shopping Mall at a total consideration of RMB 3.205 bn.
2021-06-04	Shinsun	Issued USD 200 mn 10.5% senior notes due 2022.

Source：Company announcements，CWSI Research

4.3 Key sales data of May 21

Table 14: In Jan-May, Jingrui, Hopsen achieved faster cumulative sales growth

Company	RIC	2021 Jan-May contracted sales		2021 Jan-May contracted GFA		May contracted sales		May contracted GFA	
		(RMB bn)	YoY	(000 sqm)	YoY	(RMB bn)	YoY	(000 sqm)	YoY
Vanke	000002.SZ	286.8	16.1%	17956	14.0%	57.6	-6.1%	3827	-1.1%
EverGrande	3333.HK	285.2	4.5%	33832	12.5%	63.9	6.0%	7817	22.8%
Jinmao	0817.HK	110.2	68.8%	6609	74.4%	23.3	15.8%	1194	-0.8%
CIFI	0884.HK	110.1	97.9%	6495	94.4%	26.9	33.2%	1592	40.2%
Seazen	601155.SH	94.6	32.4%	9038	38.2%	24.2	8.1%	2187	7.2%
Zoina	000961.SZ	88.7	59.3%	6440	54.3%	20.2	8.9%	1488	5.5%
Mideadc	3990.HK	69.1	89.4%	5782	69.5%	16.1	29.8%	1283	16.4%
Ronshine	3301.HK	68.1	67.3%	2622	36.3%	13.9	9.1%	614	-13.1%
ZhenRo	6158.HK	54.7	33.8%	3286	22.1%	14.7	40.1%	899	28.7%
R&F	2777.HK	52.5	43.5%	3951	27.4%	12.2	15.0%	909	3.1%
KWG	1813.HK	45.9	59.8%	2379	38.9%	11.3	23.5%	636	25.0%
Risesun	002146.SZ	44.4	34.3%	4049	35.9%	11.4	0.0%	970	4.4%
BJ Capital Development	600376.SH	39.7	22.2%	1195	7.9%	12.0	33.6%	325	-4.2%
Times	1233.HK	37.3	51.5%	1925	8.7%	9.0	19.7%	468	-9.7%
BJ Capital Land	2868.HK	30.6	55.6%	1422	127.5%	5.5	-37.8%	293	8.1%
Central China	0832.HK	29.5	0.4%	4177	3.1%	7.6	-10.0%	982	-11.7%
COGO	0081.HK	26.4	68.3%	2325	55.0%	8.3	75.1%	686	56.0%
Fantasia	1777.HK	21.9	90.4%	1315	30.8%	6.0	56.9%	434	47.7%
Hopsen	0754.HK	18.2	179.0%	501	-10.3%	3.2	61.7%	83	-44.4%
Modern Land	1107.HK	16.9	62.7%	1652	65.3%	4.1	23.7%	374	18.7%
Jingrui	1862.HK	15.3	179.9%	779	250.6%	2.9	62.9%	-	80.4%
Sunshine 100	2608.HK	1.8	2.7%	172	5.6%	0.7	4.9%	137	7.5%

Source：Wind, company announcements, CWSI Research

Note:

1. Certain uncertainties in the industry regulation and financing policies may affect the sales performance of listed companies;

2. Macroeconomic fluctuations may have certain impact on business operations within the industry;

3.Uncertainties in the control of COVID-19 spread.

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