

# China's mortgage boycotts: where to from here?

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**The macro story of this week in China revolved around the quickly growing mortgage boycott throughout the country.**

**ICMYI:** Reports began circulating early last week that homeowners throughout China were issuing “notices of suspension” to banks – threatening to stop making payments on mortgage loans until property developers complete behind-schedule apartment buildings.

- Initial reports indicated the issue was fairly significant but not overly widespread – involving 46,000 homeowners, 14 development projects, and just a couple of developers (initially Evergrande and Shimaos).
- However, we began tracking these developments closely throughout last week, and by last Friday the numbers had reached 220 development projects and millions of homebuyers.
- As of today, our tracking indicates that 331 unfinished projects are involved in these mortgage boycotts, across 26 provinces, involving an ever-growing list of China's top private developers.

So the frustration and boycotts are spreading quite rapidly at this point – and it has gotten the attention of central policymakers in Beijing.

- On Sunday, an official from the banking regulator (CBIRC) indicated that they are doing everything possible to ensure the “guaranteed handover” of contracted housing.
- Local Party committees, as well as various local regulators, are now expected to take the lead in dealing with each boycott individually.
- Banks have also been asked to assess their exposure to the boycotts – which they deem to be manageable – and will also be expected to offer funding to developers so they can finish stalled projects.

**Before we go any further:** Even as things metastasize, at this stage we do not judge that this has – or will – become a systemic issue.

- Policymakers are being proactive – and most of the issues remain localized, even if this is increasingly becoming a national story.
- As such, local government responses should be sufficient to contain the challenges soon.
- That said, the chance of greater and ongoing contagion is certainly not zero – so it is an issue worth closely tracking in the coming weeks.

**Why it all matters:** This is the last thing that the struggling property market needs – and while the boycotts might not work to totally undermine confidence among potential homebuyers, they certainly won't be a positive development for property sales.

- Home transactions have been cratering for months, and finally started to see a turnaround in June – even as they remained deep in negative growth territory.
- June's 23.1% y/y contraction in housing transactions was up from a dismal 41.7% y/y drop in May – so at least things were moving in the right direction.
- But these latest developments threaten to further unnerve

homebuyers, which may keep transactions in contractionary territory for several more months.

- And until transactions pick up, property construction will continue to suffer – with new construction starts having contracted 44.9% y/y in June.

**The upshot:** The headwinds to the property market remain significant and will be long-lasting – even if officials act to quickly address the mortgage boycott issue.

- And the wider the boycotts grow, the more time they will take to address – further delaying any normalization for the property sector.

**So what's next?** We expect local governments to step in and offer funds to struggling private developers, and/or to pressure local SOE developers to takeover and finish these projects.

- Zhengzhou city in Henan province has already moved to set up a fund to bail out local projects and developers.
- While the size of the fund is still unknown, it is being set up by Zhengzhou Real Estate Group – a developer owned by the Zhengzhou government – and Henan Asset Management, one of Henan province's "bad banks" tasked with cleaning up nonperforming loans from financial institutions.
- We very much expect other cities to follow suit soon.

**The bottom line:** In our view these developments are just another reason to expect the Chinese economy to underperform expectations in the second half of the year. Officials are trying to undertake an infrastructure investment stimulus – but much of that will only work to fill the gaping hole left by weak property activity.

- And while we do expect localities to sort these issues out well before a more systemic fallout occurs, it is yet another disruption and distraction for officials looking to get the economy and property market back on track.

**The bigger picture:** Thinking more broadly, this episode is likely to only hasten the SOE takeover of China's property market that has been in motion for months now.

- The good news is that a growing state presence in the sector should provide some level of stability – and ensure that the bottom can never truly fall out.
- The bad news is that activity in China's property market will only become more opaque – making it more difficult both to judge the health of the sector and to project its impact on China's future economic growth cycles.