+--
--------+

China to Damp Property Prices With ‘Draconian’ Moves (Update1)
2010-04-19 08:23:22.648 GMT

(Closes shares throughout.)

By Chia-Peck Wong

April 19 (Bloomberg) -- China told banks to stop loans for third-home purchases as the government steps up measures to cool property prices with some of the “most draconian” orders yet.
Shares of developers and banks tumbled.

Banks should also suspend lending to buyers who can’t provide tax returns or proof of social security contributions, the State Council said in a April 17 statement. The latest measures come on top of orders to banks this year to set aside more deposits as reserves and raise mortgage rates, and steps to re-impose a sales tax on homes.

“These are the most draconian measures on the property market in history,” Jun Ma, Deutsche Bank AG’s Greater China chief economist, said in a note to clients today. Chinese press reports point to “panic selling” by investors who own more than one home in Shanghai, Beijing and Shenzhen, he said.

China is taking steps to cool its property market as investors including hedge fund manager James Chanos warn of a bubble after prices surged in the world’s third-biggest economy.
The latest data shows prices gained a record 11.7 percent in March, suggesting more severe policies are needed.

Local governments can limit the number of units that can be bought, while senior officials will be held responsible for failing to stabilize property prices, the State Council’s statement said.

The nation’s commercial banks have halted extending revolving loans after regulators began investigating the flow of funds into the stock market, the Securities Times reported on April 16.

Developers Slump

China Vanke Co., the nation’s biggest property developer, fell 8.2 percent, the most since Aug. 17, at the 3 p.m. close in Shenzhen trading. Gemdale Corp. declined 8.5 percent to 11.61 yuan on the Shanghai bourse. The Se Shang Property Index of 34 Chinese developers slid 6.8 percent, the biggest drop since Aug.
19.

In Hong Kong, Evergrande Real Estate Group Ltd., China’s second-biggest developer by sales, dropped 5.2 percent, while Country Garden Holdings Co., the property developer controlled by China’s second-richest woman, lost 6.8 percent at the 4 p.m.
close in Hong Kong.

Industrial & Commercial Bank of China Ltd. dropped 4.9 percent, the biggest decline since October 2008, and China Merchants Bank Co. plunged 6.4 percent in Shanghai. Shenzhen Development Bank dropped 8.8 percent in Shenzhen.

China’s property stocks face “high policy risk,” Goldman Sachs Group Inc. analysts led by Yi Wang wrote in a report today.

The new mortgage policy “if strictly implemented, could effectively curb speculation in select cities and could thus affect the near-term volume and price outlook in those cities.”

‘Reasonable’ Move

The new instructions may lead average home prices to fall as much as 10 percent in the major Chinese cities, while values of mid- and high-end properties may drop 20 percent, Deutsche Bank’s Ma said. Monthly transaction volumes could decline by more than 50 percent in the coming months, he added.

The latest measures are “reasonable” in helping to curb speculation in parts of the housing market, said Shane Oliver, Sydney-based head of investment strategy at AMP Capital Investors, which oversees $90 billion. “Relying solely on monetary policy to cool the housing market could cause wider collateral damage to the broader economy which isn’t necessary.”

Haikou and Sanya, cities on the southern island of Hainan, led the 70 cities that posted the biggest jumps in property prices in March. Overall real estate prices in Haikou, Hainan’s capital city, jumped 53.9 percent, while Sanya, which has hosted the Miss World beauty pageant, followed with a 52.1 percent increase, the National Bureau of Statistics said April 14.

Avoid Property

Shenzhen, a southern Chinese city that is also a manufacturing hub, came third with a 20.1 percent gain in prices.

Following the data, China raised mortgage rates and down payment ratios for second home purchases on April 15. Buyers purchasing their second homes must pay at least a 50 percent deposit, up from 40 percent, and interest rates should be at least 1.1 times benchmark rates, the State Council, the nation’s cabinet, said in a statement.

Investors should “avoid the property, banking, steel and construction material industries,” Morgan Stanley Asia Ltd.’s analysts Jerry Lou and Allen Gui wrote in a research note dated today. “The harsh tone in Saturday’s statement suggests that containing property price is now the top item on Beijing’s agenda.”

The government may introduce more measures to cool the property market, including taxes. China may soon start trials of a tax on property transactions, the China Times reported, citing an unidentified person close to the Ministry of Finance.

‘Further Downside’

The tax would first be imposed on luxury home transactions. Chongqing municipality has been asked to prepare a tax on sales of such properties, the newspaper reported April 16 on its Web site.

The city of Jinan may be the first to tax gains on the sale of existing homes, the report said. Shanghai may also tax individuals who own multiple properties, it said.

There may be “obvious further downside to property share prices in the coming weeks,” Deutsche Bank’s Ma said.

The outlook for China’s property stocks has “dimmed considerably” over the next few months, analysts including David Cui at Merrill Lynch & Co., a unit of Bank of America Corp., said in a report dated April 16.

China’s property market in is in a bubble that may burst by as early as this year, Chanos said in an interview this month.

The country is “on a treadmill to hell,” according to Chanos, who said in January the nation is Dubai times a thousand.
“They can’t afford to get off this heroin of property development. It is the only thing keeping the economic growth numbers growing.”

For Related News and Information:
Top Real Estate Stories: TOP REL <GO>
Most-read stories on China: MNI CHINA 1W <GO> Most-read China economy stories: TNI CHECO MOSTREAD BN <GO> For top China news: TOP CHINA <GO>
Credit crunch page: WCC <GO>

--With assistance from Zhao Yidi, Chua Kong Ho and Jianguo Jiang in Shanghai. Editors: Andreea Papuc, Malcolm Scott.

To contact the reporter on this story:
Chia-Peck Wong in Hong Kong at +852-2977-6532 or cpwong@bloomberg.net

To contact the editor responsible for this story:
Andreea Papuc at +852-2977-6641 or
apapuc1@bloomberg.net