Property optimist now foresees extended slump

Fitch says the situation could deteriorate further

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SHANGHAI: John Lam, UBS Group AG's head of China property research and a longtime contrarian, is retreating from his earlier bullish calls and joining his Wall Street peers in predicting that the country's four-year real estate downturn is far from over.

Lam said in an interview that he expected home prices to fall for at least another two years before a recovery in China's beleaguered residential property market can take hold.

One reason is that potential buyers are increasingly opting to rent properties while prices are declining, he noted in a report earlier this month.

"People who bought homes in the past decade may all be loss making," he said in a recent interview, adding that this has "fundamentally changed housing price expectations".

The Swiss bank has turned more bearish on China's housing market just months after Lam predicted that home prices could "turn stable" as soon as early 2026, led by a revival in top-tier cities.

The longtime analyst is known for downgrading China Evergrande Group at the start of 2021, 11 months before the nation's most indebted developer defaulted on its debt. Lam also took a bold stance last year by turning bullish on the property sector.

Global banks mostly have dim outlooks for China real estate, which has been experiencing a renewed sales slump since the second quarter.

That was reflected in the steepest price declines in at least a year in October.

Fitch Ratings said last month that the situation could deteriorate further next year, as new home sales by area could decline 15% from their current level before the sector stabilises.

Second-hand home prices have also been dropping across China, and are down more than a third from their peak levels in major metropolitan areas.

Lam said he anticipates used-home prices in top-tier Chinese cities to decline another 10% in 2026 and 5% in 2027, unless Beijing introduces major stimulus measures. Policymakers are weighing new measures to turn around the property sector, including subsidising mortgage interest payments nationwide for the first time, *Bloomberg* reported last week.

Fundamental changes: Residential buildings in Shanghai. An outspoken former Finance Minister in China also warns that households' bleak outlook, driven by falling home values, will worsen deflationary pressures in the country. — Reuters

An outspoken former Finance Minister in China also recently warned that households' bleak outlook, driven by falling home values, will worsen deflationary pressures in the country.

Lam's previous forecast of an impending housing recovery was predicated on an easing of residential oversupply after many cash-strapped developers stopped buying land.

Last year, housing starts by builders tumbled 63% from the onset of the downturn in 2021, more than the 48% drop in home sales by area. That trend has continued this year.

While the basis of his earlier call remains unchanged, Lam said he expected more prospective homebuyers to stay on the sidelines as the slump in home prices has shaken their long-standing beliefs that real estate is a safe bet.

He said more people will also prefer renting over buying while rental yields in top-tier cities are significantly lower than mortgage rates.

In October, the average rental yield in China's Tier-1 cities was 1.81%, compared with an average nationwide mortgage rate of 3.07%, his research report noted.

Lam said rental prices could be an early indicator of demand-supply dynamics in the housing market, "as the reading is free of government intervention".

He predicted that after housing rents stabilise, home prices ought to stop declining. — Bloomberg