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Topics *How should Chinese housing prices be viewed?*

Commentators arguing that China's housing bubble is about to burst are currently in the minority, with the government's efforts to support prices proving effective, at least in the short term. However, with the imminent decline in the population as the main cause, pressure for a correction of Chinese housing prices looks set to build rapidly, especially in small and midsized cities.

■ First “downward tendency” since 2014

At a glance, the Chinese housing market appears robust. According to the National Bureau of Statistics, in 2021 housing investment increased 6.4% year on year to 11.1 trillion yuan, sales rose 5.3% to 16.3 trillion yuan, and the housing price per square meter jumped 12.9% to 10,139 yuan. Nevertheless, a major reason for the maintenance of positive year-on-year growth was the fact that economic activity stalled in the first half of 2020 as a result of the spread of COVID-19, which meant that the rate of increase in the first half of 2021 was high. The reality is that the market is fragile.

Taking the median percentage change in housing prices in 70 cities, with the previous month's figure set at 100, and looking at the monthly fluctuation in housing prices, we find that the drop in prices since September 2021 is still smaller than it was in 2014. However, because both new and used prices climbed continuously for 75 months from June 2015, the risk of a correction can be said to be high. The recent price drop can be viewed as marking a return to the “downward tendency” of intermittently falling housing prices that emerged in 2014.

Looking at the national average prices of housing in China on an annual basis, we see that they have risen more or less continuously since 1991, with year-on-year negatives only occurring in 1999 (-0.5%) and 2008 (-1.7%). The current tumble in housing prices could well outstrip that of 2008 because real-estate developers need to urgently shore up their finances by shedding debt, and because 2026 is going to see the nationwide introduction of real-estate tax similar to the fixed assets tax imposed in Japan. E-House Real Estate Research Institute, a real-estate think tank, has forecast that housing prices will record an unprecedented drop in 2022.

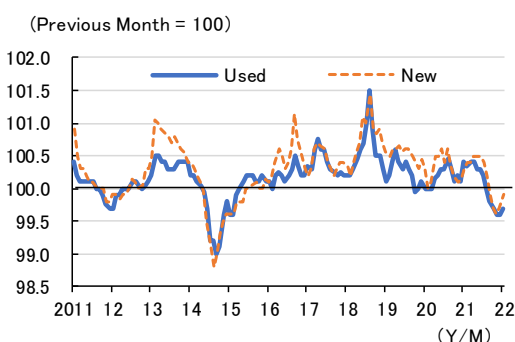
Here in Japan, some have begun to predict that the bubble is about to burst, on the grounds that no one will want to buy a home if the price cannot be expected to rise, or that there is too much housing stock. More and more buyers are predicting that housing prices will fall, and thus deciding to defer purchases, while real-estate developers are stepping up their efforts to secure cash by offering units at reduced prices, so the argument for a bubble collapse is more persuasive than ever before.

■ Those predicting a bursting of the bubble in the minority

Even so, the view that the Chinese housing bubble is going to burst is still a minority one in Western countries. Rating agency Standard & Poor's is projecting 10% drop in housing sales in 2022 and another 5-10% fall in 2023 based on the view that 2022 will see a spate of defaults by real-estate developers and that one-third of companies are facing cashflow problems. Nevertheless, it also predicts that housing prices will only fall 3.0% during the same period. Similarly, Fitch Ratings is not of the view that a collapse in housing prices will occur, as it does not believe that the bottom will fall out of housing demand. As such, it is forecasting an annual drop of 3-5% in each of the years 2022-23.

In fact, according to a survey of urban households conducted by the People's Bank of China, the proportion of people predicting a fall in housing prices in the next quarter was still only 15.2% in the October-December 2021 quarter, keeping it below those who believed that prices would be unchanged (56.7%) and those who said that they would rise (16.8%). One of the reasons for the absence of an increase

<Month-on-month Rate of Change in Housing Prices in 70 Cities>
(January 2011–January 2022)



in the numbers projecting a drop in housing prices is the measures that the national government and local governments have come out with to support housing prices. The measures are numerous and varied, with specific examples being (1) limits on housing price cuts, (2) expansion of bank lending for M&A related to real-estate development projects, (3) expansion of housing purchase subsidies, (4) reduction of housing loan interest rates, (5) easing of restrictions on withdrawals from deposit accounts by real-estate developers, and (6) expansion of lending from the housing provident fund. These moves have encouraged people to believe that the government will not just stand by and let housing prices slide.

■ Housing demand dropping in inland small and mid-sized cities

In China, these housing price support measures are having considerable effect, with the view beginning to emerge that the housing market had begun to exhibit a “warming tendency” at the end of February and could start to see rising prices as early as the first half of this year. However, this would just mean that the price support measures had gone too far, with the risk of falling housing prices just being pushed into the future. In the Chinese housing market, falling demand due to population decline is unavoidable, and if that is ignored and housing development continues, at some point the problem of oversupply will rapidly become serious.

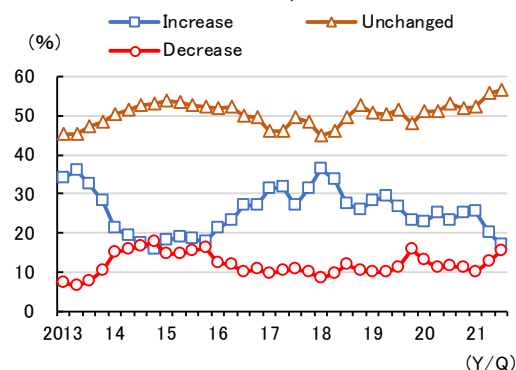
In China, the birthrate is dropping at a faster pace than anticipated, and the country’s population could tip into decline as early as 2022. In 2021, the number of births fell by 1.4 million to 10.6 million, the lowest figure ever recorded. The number of deaths, meanwhile, rose by 160,000 to 10.14 million. So the natural increase was just 460,000 people, and the natural rate of increase also slumped to +0.34‰ (permille). The trend has been the same since 2016, so it can be said to be only a matter of time before the population starts to fall.

The retreat in housing demand in conjunction with the population decline will be amplified by an increase in housing inherited from deceased relatives. 43 years have passed since the introduction of the one-child policy in 1979, and the number of families with a 4-2-1 structure has risen. 4-2-1 means that the family comprises a couple, four parents above them, and one child below them. This means that in the cities a lot of children will inherit three homes.

The first place that the decline in housing demand will appear is inland small and mid-sized cities. Urbanization, namely the inflow of people into cities from the countryside will continue in the future, but the inflow will likely be concentrated in big cities. U.N. data on urbanization based on city population has shown that in 2020 small cities with populations of under 500,000 accounted for 38.4% of the total urban population, dropping 11.1 percentage points from 2000. Large cities with populations of 10 million or more, however, saw their share of the urban population increase by 6.4% to 11.7%. Urbanization is leading to a polarization of the housing market into large coastal cities, which continue to experience population inflows, and small and mid-sized inland cities, from which people continue to flow out. In the latter, the decline in housing demand will expose housing prices to powerful downside pressure.

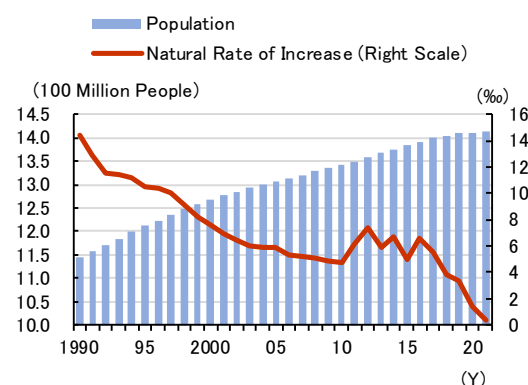
(Yuji Miura)

<Prediction for Housing Prices in Next Quarter from Survey of Urban Households >
(April-June 2013 - October-December 2021)



Source: Prepared by Japan Research Institute from People’s Bank of China survey data
Note: “Don’t know” responses are excluded.

<China’s Population and Natural Rate of Increase >



Source: Prepared by Japan Research Institute based on data from the National Bureau of Statistics

Topics *Southeast Asian startups now in new phase*

In Southeast Asia, if the last decade is seen as having been the initial phase in the development of startups, a new phase has started recently, as a result of improvement in resources for startups such as human capital and funding.

■ Vigorous launch and growth of startups

In Southeast Asia, sustained economic growth resulted in the emergence of a middle class just as the Internet and smartphones came onto the scene, and from around 2010 onwards, startups providing digital services to meet the needs of the new middle class appeared one after another. Venture capital (VC) investment in startups in Southeast Asia was just \$100 million (USD, same below) in 2010, peaked at \$9.6 billion in 2018, and has remained at a high level ever since. There have also been numerous “unicorns,” namely startups that are valued at \$1 billion or above. So far, more than 30 startups have achieved unicorn status in the region, with the bulk of them originating in Singapore and Indonesia.

Southeast Asian startups are growing at a blistering pace, but in many cases their businesses are not based on business models or products that they have developed by themselves. Rather, they tend to have adopted models and products that originated in foreign countries such as the U.S. and China. Part of the reason for this is that various goods and services that are not available in Southeast Asia have been around in the U.S. or China for some time, so there are plenty of opportunities to borrow from these countries. Another factor is that apart from Singapore, there are hardly any universities or research institutes in the region with the ability to produce research outcomes that could lead to highly innovative goods and services.

On the other hand, many Southeast Asian startups are problem-solving enterprises that focus on issues in people’s daily lives. Throughout this region there are a myriad of challenges, and these present business opportunities. There is a widespread view that as long as they can solve problems it does not matter where they originally come from.

■ Exit rush

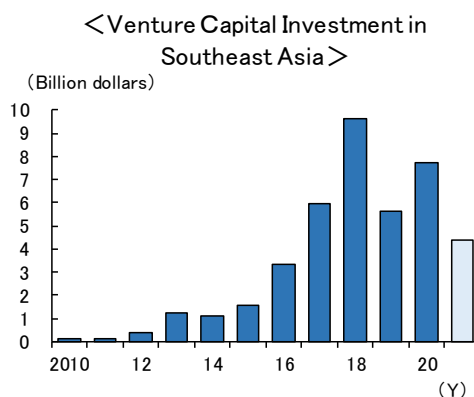
In conjunction with the vitality seen in the launch of startups, the number of exits (investment recouping) via IPOs (initial public offerings) or M&As (mergers and acquisitions), has been gradually increasing. Since last year, around ten unicorns have either completed exits or are planning to do so.

For a startup, an exit allows investors and founders to earn capital gains by selling their equity, and it also means graduating from startup status. Therefore, exits are considered as one of the major goals for startups. Not only that, it also fulfills the role of improving the business environment for startups in the region. In the case of an IPO, the founders usually stay involved in the management of the company. However, in the case of an M&A deal where control of the firm is relinquished, the founders often launch a new startup or aspire to help nurture other startups, shifting to the support side, as investors, for example. And regardless of whether it was an IPO or M&A, startup team members, too, other than join other startups, often use the money they have earned from exercising their stock options to launch a startup of their own, or move to the startup support side. Moreover, founders and team members, whether they are establishing a startup or supporting one, are able to leverage the experience they have accumulated, and offer a way of helping the firm avoid failing or getting sidetracked due to lack of experience.

The recent increase in exits in Southeast Asia, and in particular large-scale exits by unicorns, can be attributed to both a generational shift and moves to further expand the business environment for startups. In light of this, the development of Southeast Asian startups can be said to have moved from the initial phase where everything was new and there were few resources to rely on, to a new phase with more accumulation of resources and knowledge.

■ A better startup business environment

Regarding the startup environment in Southeast Asia, a great number of changes have been seen between



Source: Golden Gate Ventures, “Southeast Asia Startup Ecosystem 2.0”, 2021, Cento Ventures, “Southeast Asia Tech Investment –2021 H1”, 2021
 Note: For 2021 only, figure is for January–June.

ten years ago, the beginning of the initial phase of development, and now, the beginning of the new phase.

To begin with, in the realm of human resources, a decade ago the number of people wanting to launch a startup was limited, and for those that did take the plunge, it was their first foray into entrepreneurship. They had no one to call on for advice, and had to muddle through on their own as they ran their business. But nowadays, startups are recognized by society, and numerous role models have emerged. There has been a big jump in the number of people wanting to become startup founders. And the founders are more varied than before in their backgrounds. As for funding, as mentioned earlier, the amount of money going into startups ten years ago was limited but as the number of startups has increased and expectations regarding their future prospects have risen, the amount of investment money has also climbed through local and overseas VCs. And in the area of support, whereas a decade ago there were hardly any startup development programs or angel investors, these have begun to emerge, and national governments have started to implement measures to promote startups. As a result, the support structure for startups is expanding.

With the business environment for startups in Southeast Asia improving in this way, the business domains that startups operate in are also expanding. Until now, most businesses targeted individuals. They included online shopping, ride-sharing apps, and mobile payment services, and were aimed at alleviating issues individuals face with shopping, getting about, and making payments. Recently, though, a new breed of startups is emerging that try to address the various issues that local companies face by providing support with improving business efficiency and digitalizing operations. Just as Southeast Asian startups have helped boost convenience and freedom of individuals, going forward the hope is that they will also give a lift to corporate productivity.

< Southeast Asian Startup Scene >

		2012 〈Initial Phase〉	2022 〈Second Phase〉
Human Resources	Startup Entrepreneurs	<ul style="list-style-type: none"> • Few would-be entrepreneurs • Lack of experience 	<ul style="list-style-type: none"> • Many would-be entrepreneurs • Experience accumulated
	Role Models	<ul style="list-style-type: none"> • No one familiar 	<ul style="list-style-type: none"> • Many familiar successful entrepreneurs
Funding	Amount Invested	<ul style="list-style-type: none"> • \$380 million (2012) 	<ul style="list-style-type: none"> • \$7.7 billion (2020)
Support	Mentors, Support Organizations	<ul style="list-style-type: none"> • Hardly any 	<ul style="list-style-type: none"> • Many angel investors and mentors • Various startup development programs
	Policy Support	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Expanded overall
Business Opportunities	Problem Solving	<ul style="list-style-type: none"> • Solving problems of individuals 	<ul style="list-style-type: none"> • Solving problems of companies as well as individuals

Source: Prepared by Japan Research Institute based on Golden Gate Ventures, "Southeast Asia Startup Ecosystem 2.0", 2021, United Nations, "World Population Prospects 2019", 2019

(Kaori Iwasaki)