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Housing Stress Scenarios Show Asia-Pacific Banks Are Holding Up, China's Developers Are Vulnerable, Says S&P Report

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MELBOURNE (Standard & Poor's) Oct. 19, 2015—Asia-Pacific's residential property boom may be waning as the region's economic growth rate is slipping. That's according to Standard & Poor's Ratings Services in an article published today, titled, "Asia-Pacific Banks Are Holding Up But China's Developers Are Vulnerable Under Housing Stress".

"A slowdown in Asia-Pacific's real estate markets will test the credit quality of the region's financial institutions, property companies, and other related sectors," said Standard & Poor's credit analyst Terry Chan, Managing Director. "To assess the possible impact, we conducted a scenario analysis covering hypothetical falls in residential property prices and household disposable income."

The analysis comprises three scenarios:

- A 10% decline in housing prices with no change in household disposable income;

- A 20% decline in prices and 2.5% decline in household disposable income; and
- A 30% decline in prices and 5% decline in household disposable income.

"Our scenario analysis shows that the credit ratings on Asia-Pacific banks are generally resilient to a 10% decline in housing prices and can largely withstand a 20% decline, but may be widely affected if a 30% decline occurs," said credit analyst Gavin Gunning, Senior Director.

In addition, we believe Hong Kong could be the most resilient among banking systems in Asia Pacific, while India, China, and Japan may be more sensitive compared to some other banking systems to a hypothetical 10% and/or 20% decline in housing prices.

We believe that Chinese developers, however, are highly sensitive under the scenarios evaluated. "Between half and three-quarters of the ratings in this sector could be lowered," said credit analyst Christopher Yip, Senior Director.

The article is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. Ratings information can also be found on Standard & Poor's public Web site at www.standardandpoors.com; under Ratings in the left navigation bar, select Find a Rating. Members of the media may request a copy of this report by contacting Richard Noonan at (61) 3-9631-2152 or richard.noonan@standardandpoors.com.

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