Mining Expert Calls

#3 China Property: a divergent recovery

Equities

Global

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We hosted UBS's John Lam in Part 3 of our China Expert Call series

Signs of recovery in Tier 1 cities is encouraging; but given the larger share of GFA (proxy for commodity demand) in lower tier cities; the outlook for commodity demand from China property remains challenging. However, the drag on commodity demand from China property is moderating as the base gets smaller; we may be approaching the bottom of the cycle for commodity demand from China property; but near-term inflection seems unlikely.

Our China team recently turned more positive on the property outlook (note), believing that the market is moving from a prolonged downturn towards early stabilisation, albeit the recovery is modest and uneven between Tier 1 & 2 vs lower tier cities. The team sees growth in the 'new economy', particularly AI-linked manufacturing and exports, beginning to support the property market indirectly through employment and equity-driven wealth effects. Policy easing, especially through lower-cost borrowing from the Housing Provident Fund, has further boosted affordability and underpinned a pickup in secondary (resale) transactions; although primary (new build) activity remains weak. However, the pick-up is predominantly focused in Tier 1 & 2 cites that benefit from positive wealth effects and 'new economy' and the team forecasts overall China residential property sales to fall -3% y/y in 2026 and remain flat in 2027; new starts to decline 9% in 2026 & completions to decline 25% in 2026 and a further 15% in 2027.

- **Tier 1 vs Tier 2 cities**: UBS expect Tier 1 cities to lead the recovery: secondary transaction volumes are expected to hold at the current improved levels, with tightening market balance from higher sales/lower listings supporting a stabilisation in prices in 2026 before modest growth (~2%) in 2027; at the same time, there are no clear signs of a rebound in lower tier cities. We note that lower-tier cities still account for ~60% of total GFA (sales/start) and are therefore a proxy for commodity demand; as demand in lower-tier cities continues to structurally weaken, the mix of land transactions and new starts will continue to shift towards Tier 1-2 cities. This is marginally positive for commodity demand given the higher commodity intensity per unit of construction in urban areas.

- **Secondary vs primary markets**: UBS expect the secondary sales (and rental) market to continue outperforming primary markets, increasing from ~50% of the transaction mix in 2025 to ~60% by the end of the decade; this continues to impact commodity consumption by slowing new home sales/starts. Over the past year, the price gap between primary vs secondary properties has widened, driven by a more significant decline in secondary properties especially in Tier 1 cities (~35-40% from the peak in 2021); at the same time, new home prices were stable on reported data due to government controls that limit how much developers can cut official prices. As a result, new homes are now priced at a visible premium to comparable secondary units.

- **Rental yields vs mortgage rate**: The structural gap between rental yields (1-2% in Tier 1 cities) and average mortgage rate (~3%) has justified a preference to rent vs own in recent years; whilst the negative carry has not disappeared entirely, we note that this is becoming less of a binding constraint especially with the Housing Provident Fund offering lower borrowing rates and effectively reducing financing costs. In particular, smaller and older units (where transaction volumes are the highest) tend to offer rental yields closer to the level where buying makes incremental sense economically.

- **Resi vs non-resi**: Whilst the residential property downturn has been severe, the broader construction activity - and by extension commodity demand - has held up better with public or quasi-public construction cushioning the decline in residential. However, non-resi segments have also shown signs of weakness, with social housing construction declining as the government is increasingly opting to convert existing unsold housing into social housing rather than building new units, and commercial & retail construction is also deteriorating.
- **Inventory**: UBS expect continued destocking in 2026E and inventory turnover months to return to ~25 months from from the current level of ~27 months by Feb-2027. Whilst developer inventory has declined in absolute terms due to reduced new starts but remains elevated relative to demand, the 'shadow inventory' (ie. under-occupied housing stock) remains high in lower-tier cities and may never be fully be absorbed by the market. Given the regionalised nature of the markets, we do not expect this to weigh on Tier 1&2 recovery.
- **Potential policy support**: Allowing buyers to partially fund home purchases using the Housing Provident Fund (a mandatory savings pool) has supported recovery by effectively lowering mortgage costs for households and improving affordability; but most other policy options are becoming more limited with most demand-side easing measures already implemented, and broad-based rate cuts unlikely. Incremental support could come through further adjustments to the Housing Provident Fund, for lower-tier cities; however, with structural challenges of excess supply and population outflows from these areas, recovery will likely depend more on gradual inventory absorption than new policy stimulus.

Key China Property Charts

Selected slides from John Lam's latest sector deck (14-May):

Figure 1: UBS expect a -3%/-9%/-25% decline in new home sales/starts/completions in 2026E, moderating to 0%/0%/-15% in 2027E

	NBS Residential Statistics									Residential Investments					Top 100 developers contract sales				
	Residential GFA sold		Residential new starts		GFA under construction		GFA completed		Starts / sales	Residential Investments		Residential value sold		Inv / sales	Gross		Attributable		
	m sqm	YoY	m sqm	YoY	m sqm	YoY	m sqm	YoY	%	Rmb bn	YoY	Rmb bn	YoY	%	Rmb bn	YoY	Rmb bn	YoY	% of national
2010	931	8%	1,295	40%	3,149	26%	612	3%	139%	3,404	33%	4,395	15%	77%					
2011	970	4%	1,460	13%	3,884	23%	717	17%	151%	4,431	30%	4,862	11%	91%					
2012	985	1%	1,307	-11%	4,290	10%	790	10%	133%	4,937	11%	5,347	10%	92%					
2013	1,157	18%	1,458	12%	4,863	13%	787	0%	126%	5,895	19%	6,769	27%	87%					
2014	1,052	-9%	1,249	-14%	5,151	6%	809	3%	119%	6,435	9%	6,240	-8%	103%					
2015	1,124	7%	1,067	-15%	5,116	-1%	738	-9%	95%	6,460	0%	7,275	17%	89%					
2016	1,375	22%	1,159	9%	5,213	2%	772	5%	84%	6,870	6%	9,906	36%	69%					
2017	1,448	5%	1,281	11%	5,364	3%	718	-7%	88%	7,515	9%	11,024	11%	68%	7,405		5,571		
2018	1,479	2%	1,534	20%	5,700	6%	660	-8%	104%	8,519	13%	12,639	15%	67%	10,007	35%	8,031	44%	64%
2019	1,501	1%	1,675	9%	6,277	10%	680	3%	112%	9,707	14%	13,944	10%	70%	11,604	16%	8,527	6%	61%
2020	1,549	3%	1,643	-2%	6,556	4%	659	-3%	106%	10,445	8%	15,457	11%	68%	13,046	12%	9,446	11%	61%
2021	1,565	1%	1,464	-11%	6,903	5%	730	11%	94%	11,117	6%	16,273	5%	68%	12,632	-3%	8,872	-6%	55%
2022	1,033	-34%	881	-40%	6,397	-7%	625	-14%	85%	9,241	-17%	10,957	-33%	84%	7,294	-42%	5,112	-42%	47%
2023	946	-8%	693	-21%	5,899	-8%	724	16%	73%	8,496	-10%	10,299	-4%	82%	6,006	-18%	4,244	-17%	41%
2024	**807**	**-15%**	**537**	**-23%**	**5,132**	**-13%**	**537**	**-26%**	**66%**	**7,588**	**-11%**	**8,429**	**-18%**	**90%**	**4,186**	**-30%**	**3,083**	**-27%**	**37%**
Jan-25	46	-4%	24	-29%	4,214	-10%	32	-18%	52%	403	-9%	458	-1%	88%	242	-5%	180	-1%	39%
Feb-25	46	-4%	24	-29%	4,214	-10%	32	-18%	52%	403	-9%	458	-1%	88%	198	0%	143	2%	31%
Mar-25	93	-1%	47	-19%	4,272	-10%	32	-8%	50%	708	-9%	920	-1%	77%	345	-12%	254	-11%	28%
Apr-25	54	-2%	37	-18%	4,319	-10%	19	-26%	68%	605	-11%	550	-7%	110%	309	-9%	226	-7%	41%
May-25	59	-5%	39	-17%	4,354	-10%	19	-21%	67%	655	-11%	625	-6%	105%	318	-10%	232	-10%	37%
Jun-25	86	-7%	52	-13%	4,412	-9%	29	-4%	60%	804	-12%	873	-13%	92%	371	-21%	267	-26%	31%
Jul-25	49	-7%	36	-9%	4,451	-9%	18	-31%	74%	544	-14%	474	-14%	115%	228	-25%	166	-26%	35%
Aug-25	49	-10%	34	-19%	4,485	-10%	18	-28%	70%	517	-19%	485	-14%	107%	220	-19%	154	-22%	32%
Sep-25	70	-11%	40	-18%	4,522	-10%	24	-5%	57%	566	-20%	688	-12%	82%	266	-3%	198	3%	29%
Oct-25	52	-20%	27	-30%	4,553	-10%	26	-31%	51%	455	-23%	536	-25%	85%	277	-41%	201	-42%	37%
Nov-25	55	-19%	32	-27%	4,576	-10%	32	-28%	58%	384	-29%	532	-28%	72%	244	-37%	184	-36%	35%
Dec-25	75	-18%	38	-19%	4,601	-10%	147	-21%	51%	308	-36%	733	-26%	42%	342	-28%	262	-29%	36%
Jan-26	39	-16%	18	-23%	3,713	-12%	23	-27%	48%	364	-11%	358	-22%	102%	182	-25%	129	-29%	36%
Feb-26	39	-16%	18	-23%	3,713	-12%	23	-27%	48%	364	-11%	358	-22%	102%	125	-37%	91	-36%	25%
Mar-26	83	-10%	37	-20%	3,755	-12%	24	-26%	45%	625	-11%	776	-15%	81%	283	-18%	207	-19%	27%
2025	**733**	**-9%**	**430**	**-20%**	**4,601**	**-10%**	**429**	**-20%**	**59%**	**6,351**	**-16%**	**7,333**	**-13%**	**87%**	**3,359**	**-20%**	**2,466**	**-20%**	**34%**
2026E	**708**	**-3%**	**392**	**-9%**	**4,371**	**-5%**	**320**	**-25%**	**55%**	**6,095**	**-4%**	**6,824**	**-7%**	**89%**	**3,036**	**-10%**	**2,221**	**-10%**	**33%**
2027E	**708**	**0%**	**392**	**0%**	**4,153**	**-5%**	**272**	**-15%**	**55%**	**6,095**	**0%**	**6,961**	**2%**	**88%**	**3,188**	**5%**	**2,332**	**5%**	**34%**

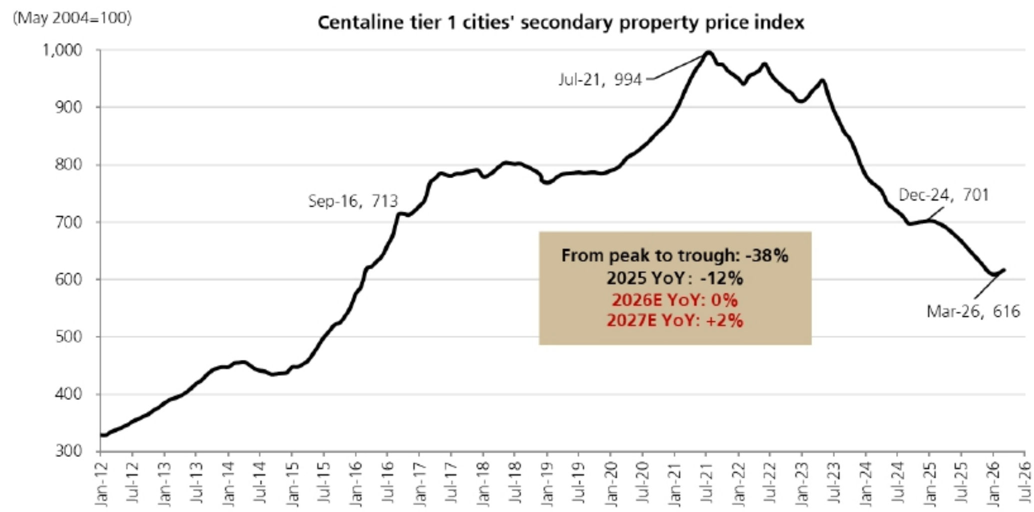
Source: CEIC, NBS, CRIC, UBS estimates

Figure 2: Primary and secondary sales including transaction mix - secondary continue to contribute >50% of housing transactions in 2026-28E

	Secondary sales value		Secondary sales GFA		Secondary ASP		Primary sales value		Primary sales GFA		Primary ASP		Rental transaction		Secondary transaction value mix (secondary / primary + secondary)
	Rmb bn	YoY	m sqm	YoY	Rmb/sqm	YoY	Rmb bn	YoY	m sqm	YoY	Rmb per sqm	YoY	Rmb trn	YoY	
2018	6,500		395		16,456		12,639	15%	1,479	2%	8,544		1.5		34%
2019	6,700	3%	390	-1%	17,179	4%	13,944	10%	1,501	1%	9,287	9%	1.7	13%	32%
2020	7,500	12%	390	0%	19,231	12%	15,457	11%	1,549	3%	9,980	7%	2.0	18%	33%
2021	7,000	-7%	362	-7%	19,356	1%	16,273	5%	1,565	1%	10,398	4%	2.2	10%	30%
2022	5,462	-22%	396	9%	13,798	-29%	10,957	-29%	1,033	-29%	10,607	2%	1.9	-15%	33%
2023	7,100	30%	570	44%	12,456	-10%	10,299	-6%	946	-8%	10,891	3%	2.2	18%	41%
2024	7,200	1%	718	26%	10,026	-20%	8,429	-18%	807	-15%	10,443	-4%	2.2	0%	46%
2025	6,700	-7%	786	9%	8,522	-12%	7,333	-13%	733	-9%	10,006	-4%	2.3	5%	48%
2026E	7,149	7%	865	10%	8,267	-3%	6,824	-7%	708	-3%	9,637	-4%	2.4	5%	51%
2027E	7,729	8%	917	6%	8,432	2%	6,961	2%	708	0%	9,637	0%	2.5	5%	53%
2028E	8,120	5%	944	3%	8,601	2%	6,620	-5%	687	-3%	9,637	0%	2.7	5%	55%
2029E	8,531	5%	973	3%	8,773	2%	6,421	-3%	666	-3%	9,637	0%	2.8	5%	57%
2030E	8,963	5%	1,002	3%	8,948	2%	6,228	-3%	646	-3%	9,637	0%	2.9	5%	59%

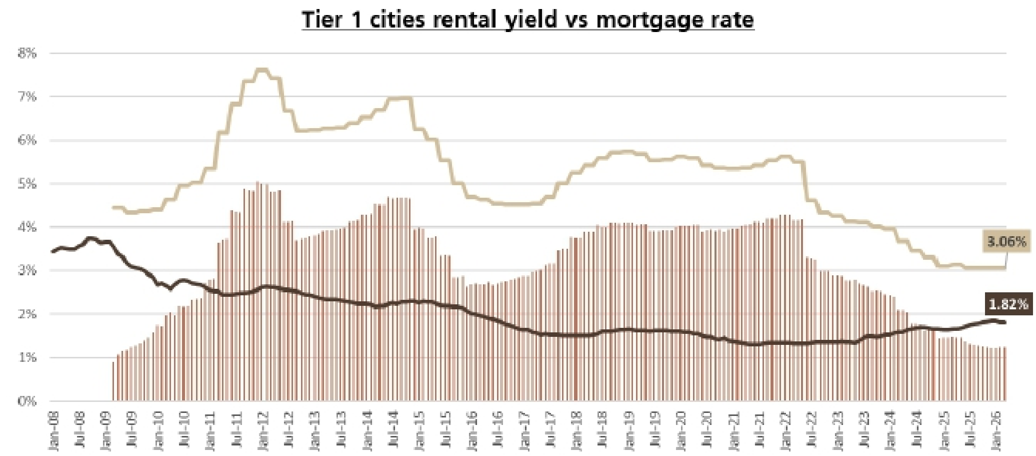
Source: CEIC, BEKE, NBS, UBS

Figure 3: Secondary prices to stabilise in 2026E, and +2% y/y in 2027E



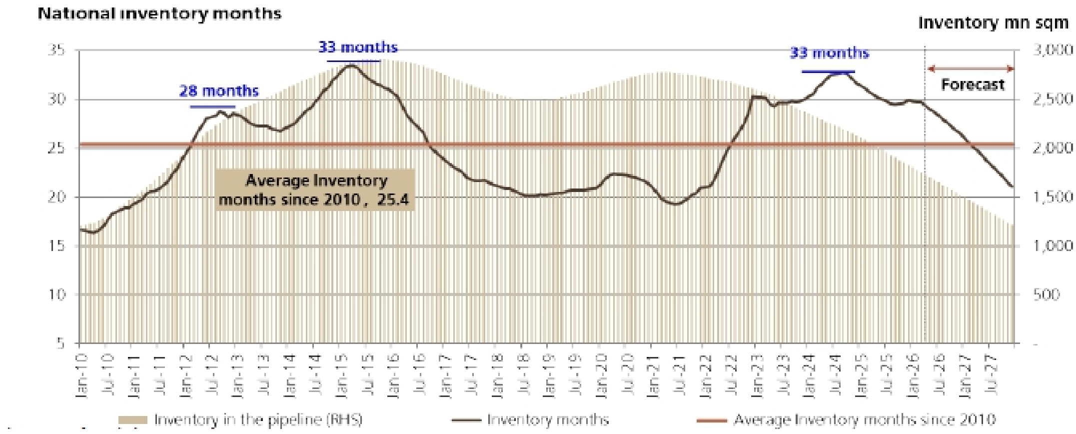
Source: Centaline, UBS estimates

Figure 4: Tier 1 cities rental yield vs national mortgage rates



Source: PBoC, Centaline, UBSe

Figure 5: Inventory levels - UBS expect destocking in 2026E, with an earlier normalisation in inventory by Feb-2027 potentially



Source: CEIC, NBS, UBSe

Valuation Method and Risk Statement

We point out to investors the potential risks inherent in the mining sector including, but not limited to, the volatile nature of commodity prices and currencies, which may differ materially from expectations. Furthermore, the sector is exposed to political, financial and operational risks, each of which has the potential to significantly impact company/industry performance. Valuation methods for stocks in the sector include forward EV/EBITDA estimates.