HY Research

China property – Is the bottom in?

Shanghai's secondary rebound is skewed to small-ticket units, while Shenzhen's pickup was notably weaker than prior easing. While the worst has likely passed, a nationwide recovery remains uncertain without stimulus: July–August to be key test. Switch into LNGFOR 29s from 28s; OW SHUION 29s

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We conduct a deep dive into secondary transaction data across 30 major Tier 1–3 cities, analysing momentum, market structure, and the effectiveness of housing ladder transmission, following the recent increase in secondary home sales. We also discuss what's missing to form a sustainable recovery by comparing with prior cycles and drawing some lessons from Hong Kong's experience.

Our analysis suggests that the pick up in secondary -market activity is skewed and structurally constrained, with growth in transactions concentrated in lower-end segments with a limited pass-through to upgrade demand. As a result, the housing ladder remains operational but weak, reinforcing a selective, rather than broad-based, recovery trajectory.

Similar to the broader economy[1] , market dynamics are increasingly K-shaped, driven by wealth effects in China's core cities and policy support aimed at select segments, resulting in a narrow and uneven recovery. The housing ladder remains impaired, with widening primary–secondary price gaps limiting equity recycling and upgrade demand.

In our opinion, a sustainable recovery in China's property market requires more than just an active secondary market, but the re-establishment of a full housing cycle—from secondary sales to upgrade demand, new home absorption, and ultimately developer reinvestment. This transmission chain remains incomplete, suggesting the current upturn remains uneven and narrowly biased, rather than a broad-based recovery.

What's missing to form a sustainable recovery?

We assess the key gaps to a sustainable recovery through a comparison with prior cycles, while also drawing on Hong Kong's experience as a relevant reference point, in order to contextualise differences in demand formation, policy transmission, and market dynamics.

[1] China PropertySight on site - Beijing, Shanghai and Hangzhou: Decoding the "surge" in secondary transactions, 29 May 2026

- **Stronger end-demand formation (not yet there)**: Demographics remain a key constraint, with high homeownership and weak population growth limiting incremental buyers. A recent development is local governments in some cities such as Shanghai stepping in to buy second-hand homes for rental housing to support the property market[2] , although the overall scale remains small.

- **Effective upgrade transmission (weak)**: The housing ladder is functioning but diluted, with secondary liquidity not fully translating into primary demand.

- **Positive investment carry (signs of improvement)**: Rental yields remain below financing costs, keeping investors sidelined and limiting capital reallocation into property.Nonetheless, we note that the amount of negative carry has improved following home price declines, rents stabilisation, and falling mortgage rates.

- **Confidence in price stability (fragile)**: Persistent price uncertainty is delaying purchase decisions and weakening credit demand elasticity. However, we note the K-shaped pattern in the property market in China's core cities suggests demand concentrated among higher-income cohorts and select projects, and therefore they are not representative of a broad-based market recovery.

- **Inventory clearance (gradually improving)**: Elevated primary and “hidden” secondary inventory continues to cap price recovery and absorb demand. Nonetheless, the policy-push of building higher-quality “fourth-generation” housing may attract buyers back to the primary market, and this could come at the expense of legacy unsold inventory, increasing the risk of stranded assets and potential writedowns.

- **Broader policy traction (incremental but insufficient)**: While easing is ongoing, stronger and more coordinated stimulus is needed to shift expectations rather than just support volumes at the margin.

Implications for surviving property developers

- **Survivors face a more crowded and fragmented market**, where demand is concentrated in top-tier cities and high-quality projects. National scale is becoming less relevant, with city exposure and product positioning driving differentiation, and some property developers increasingly focusing on the recurring incomes.

- **Business models are shifting structurally**, particularly for private developers, toward asset-light strategies and recurring income (ie, rental), reflecting weaker primary sales visibility. This could lead to a a possible change of rating frameworks (eg, Fitch), which recently reassessed Longfor Group (LNGFOR) as a REIT, rather than a homebuilder previously, with greater emphasis on cash flow stability, asset quality and leverage, and funding access.

- **Cannibalisation risks are rising**, particularly in lower-tier cities where high inventory and overlapping demand segments intensify competition between primary and secondary markets, further constraining pricing power and sell-through.

Analysing market structure and assessing the housing ladder

Stronger secondary transactions should, in theory, unlock upgrade demand by enabling households to recycle proceeds into new home purchases. However, in our view, **the property**

[2] Shanghai to buy second-hand homes for rental housing in pilot to support property market, SCMP, 3 February 2026

ladder transmission is increasingly fractured, following the changes in buyer behaviour and market structures.

On the one hand, a portion of sellers are opting to hold cash, while others are delaying upgrades amid price uncertainty—particularly given the mismatch between larger price declines on the sell side and more resilient new home pricing.

At the same time, ample primary inventory has reduced the urgency to upgrade, further weakening the linkage between secondary liquidity and primary demand. As a result, while secondary volumes are improving, the pass-through to new home sales remains partial and inefficient, limiting the strength of a broader recovery.

The housing ladder remains operational but with reduced efficiency and highly uneven transmission across cities. Our analysis suggests that recent activity so far has been driven more by a wealth effect in core cities than by a broad-based housing upgrade cycle. We believe a sustainable recovery requires not just active secondary market transactions, but the restoration of a full housing cycle—from secondary liquidity to upgrade demand and new home absorption. This transmission remains incomplete, indicating the current upturn is structural and segmented, rather than a broad-based recovery.

Our approach

In our analysis, we quantify the effect of housing ladder dynamics by assessing equity transfers from secondary to primary markets through price differentials and transaction structures.

Based on the the primary and secondary transaction data in 30 major T1, T2, and T3 cites, we calculate the new home/secondary home ratio, in terms of price per unit, as well as ASP. The higher the ratio, the less equity an upgrader can deploy toward a new home purchase.

In Analysis 1, our calculated price differential between primary and secondary markets is based on all secondary data. In Analysis 2, we dig deep into the the secondary market data and first identify the "core segment“, which typically represents 70-80% of transaction volumes in terms of unit sold. By doing so, we minimise the distortion arising from some outlier transactions. Then, we repeat the calculation on the new home/secondary home ratio, in terms of price per unit, as well as ASPs.

FIGURE 1. Housing ladder analysis

Housnig ladder analysis				Analysis 1: Price differential between primary and secondary markets				Analysis 2: Price differential between primary markets and the core segment in the secondary markets					
Tier	Cities	New residential home sales (ex-social housing) in 2M26		Seondary residential home sales in 4M26		New / secondary (x)		Seondary residential home sales in 4M26 - majority transaction range		New / secondary (x)		Majority transaction range	% of secondary transaction
		Home price per unit (CNY mn)	ASP (CNY psm)	Home price per unit (CNY mn)	ASP (CNY psm)	Home prices	ASP	Home price per unit (CNY mn)	ASP (CNY psm)	Home prices	ASP	CNY mn / unit	
		A1	B1	A2	B2	A1 / A2	B1 / B2	A3	B3	A1 / A3	B1 / B3		
Tier 1	Shanghai	9.58	74,438	3.25	39,457	2.95	1.89	2.02	29,202	4.73	2.55	<CNY4mn	73%
Tier 1	Beijing	7.48	57,347	3.50	39,875	2.14	1.44	2.41	31,662	3.10	1.81	<CNY5mn	73%
Tier 1	Guangzhou	3.58	32,172	1.76	19,198	2.04	1.68	1.18	14,229	3.02	2.26	<CNY3mn	76%
Tier 1	Shenzhen	7.07	63,387	4.13	48,579	1.71	1.30	2.75	37,606	2.57	1.69	<CNY6mn	76%
Tier 2	Nanjing	3.76	25,395	1.44	15,989	2.61	1.59	1.04	12,663	3.60	2.01	<CNY3mn	83%
Tier 2	Hangzhou	6.39	40,641	2.59	26,505	2.47	1.53	1.75	20,276	3.64	2.00	<CNY4mn	76%
Tier 2	Suzhou	3.76	25,395	1.75	16,247	2.15	1.56	1.31	13,380	2.87	1.90	<CNY3mn	80%
Tier 2	Ningbo	3.22	22,716	1.52	14,496	2.11	1.57	0.84	9,398	3.82	2.42	<CNY1.6mn	55%
Tier 2	Wuhan	1.87	14,986	0.92	8,953	2.05	1.67	0.67	7,173	2.78	2.09	<CNY1.6mn	82%
Tier 3	Wenzhou	2.02	14,518	1.56	13,516	1.30	1.07	1.26	11,751	1.60	1.24	<CNY3mn	82%
Tier 2	Chengdu	2.33	17,633	1.15	12,038	2.03	1.46	0.91	10,345	2.57	1.70	<CNY2mn	87%
Tier 2	Tianjin	1.97	17,071	1.00	11,551	1.96	1.48	0.78	9,534	2.54	1.79	<CNY2mn	86%
Tier 2	Chongqing	1.60	13,631	0.82	8,187	1.96	1.67	0.61	6,620	2.65	2.06	<CNY1.2mn	83%
Tier 3	Shaoxing	3.10	20,651	1.30	11,648	2.38	1.77	0.93	9,357	3.32	2.21	<CNY2mn	73%
Tier 2	Dalian	1.56	15,331	0.88	9,987	1.77	1.54	0.63	8,025	2.46	1.91	<CNY1.5mn	79%
Tier 2	Qingdao	1.93	15,109	1.18	11,177	1.63	1.35	0.88	8,944	2.20	1.69	<CNY2mn	81%
Tier 2	Jinan	2.03	14,559	1.31	11,866	1.56	1.23	1.02	10,171	1.99	1.43	<CNY2.2mn	80%
Tier 2	Zhuhai	2.30	20,743	1.47	14,206	1.57	1.46	0.97	10,533	2.37	1.97	<CNY2.5mn	76%
Tier 3	Hefei	3.18	22,714	1.07	11,237	2.98	2.02	0.84	9,569	3.80	2.37	<CNY2mn	82%
Tier 3	Huizhou	1.07	9,607	0.78	7,483	1.37	1.28	0.69	7,111	1.56	1.35	<CNY1.2mn	81%
Tier 3	Zhengzhou	1.89	15,019	0.87	8,780	2.17	1.71	0.68	7,603	2.78	1.98	<CNY1.5mn	82%
Tier 3	Xi'an	2.19	16,465	1.07	10,420	2.04	1.58	0.87	9,135	2.53	1.80	<CNY2mn	85%
Tier 3	Changsha	1.99	13,660	0.99	8,464	2.00	1.61	0.75	7,082	2.64	1.93	<CNY1.5mn	77%
Tier 3	Foshan	2.04	16,273	1.11	10,209	1.84	1.59	0.90	8,911	2.25	1.83	<CNY2mn	84%

Housnig ladder analysis				Analysis 1: Price differential between primary and secondary markets				Analysis 2: Price differential between primary markets and the core segment in the secondary markets					
Tier	**Cities**	**New residential home sales (ex-social housing) in 2M26**		**Seondary residential home sales in 4M26**		**New / secondary (x)**		**Seondary residential home sales in 4M26 - majority transaction range**		**New / secondary (x)**		**Majority transaction range**	**% of secondary transaction**
		Home price per unit (CNY mn)	**ASP (CNY psm)**	**Home price per unit (CNY mn)**	**ASP (CNY psm)**	**Home prices**	**ASP**	**Home price per unit (CNY mn)**	**ASP (CNY psm)**	**Home prices**	**ASP**	**CNY mn / unit**	
Tier 3	Harbin	1.28	12,294	0.71	7,633	1.82	1.61	0.50	6,182	2.59	1.99	<CNY1mn	74%
Tier 3	Dongguan	2.18	21,323	1.37	12,757	1.60	1.67	1.00	10,661	2.18	2.00	<CNY2mn	76%
Tier 3	Kunming	1.57	12,194	0.99	8,795	1.58	1.39	0.77	7,680	2.03	1.59	<CNY1.5mn	80%
Tier 3	Nanchang	1.39	11,325	0.92	8,688	1.51	1.30	0.64	6,603	2.16	1.72	<CNY1.4mn	75%
Tier 3	Changchun	0.97	8,431	0.66	6,929	1.47	1.22	0.49	5,846	1.96	1.44	<CNY1mn	80%
Tier 3	Nanning	1.18	10,436	0.95	8,783	1.25	1.19	0.77	7,611	1.54	1.37	<CNY1.5mn	83%
					Average	**1.93**	**1.51**		**Average**	**2.66**	**1.87**		
					# of cities > 2.5x	**3**	**or 10%**		**# of cities > 2.5x**	**18**	**or 60%**		

Remark: We apply a primary-to-secondary price ratio of 2.5x in our analysis, which implies that secondary transaction values represent about 40% of new home values—analogous to the equity (down payment) unlocked by upgraders (assuming no debts attached) upon selling existing homes and used here to assess housing ladder dynamics. The higher the ratio, the lower the equity an upgrader can deploy toward a new home purchase, hence weakening the housing ladder effect. Due to data availability, we use 2M26 new homes sales data in our analysis.
Source: CREIS, Barclays Research

Findings

Our analysis suggests that while the housing ladder remains operational, its effectiveness is increasingly constrained by widening price gaps between new homes and secondary market homes, particularly after adjusting for the core secondary segment.

Example - the new home market becomes a luxury in Shanghai

To illustrate, as shown in Figure 1,the average price for a primary residential home in Shanghai (ex-social housing) was CNY9.58mn per unit at an ASP of CNY74k psm in 2M26. These ratios are 2.95x the average unit price nationally and 1.78x the average selling price of secondary residential units transacted in 4M26.

Moreover, the core segment—accounting for 73% of secondary market transactions—was concentrated in units priced below CNY4mn, typically smaller and older properties. These units transacted at an average price of CNY2.02mn and CNY29k psm. Based on this, new home prices in Shanghai were ~4.7x higher on a per-unit basis and ~2.6x higher in ASP terms versus the secondary market in 4M26.

In effect, the equity unlocked from these transactions (assuming no leverage) would only cover ~20% of the value of an average new home in Shanghai, highlighting the limited purchasing power of upgraders and gaps emerging in the the housing ladder.

Based on our recent Shanghai visit (China Property: Sight on site - Beijing, Shanghai and Hangzhou: Decoding the "surge" in secondary transactions, 29 May 2026), we observed that new home buyers in the city are largely concentrated among higher-income groups, including those employed in the financial and new economy sectors, boosted by stock market and wealth effects, as well as high-net-worth second-generation buyers. Demand has also been supported by an increase in non-local buyers following the relaxation of home purchase restrictions.

The implications are twofold.

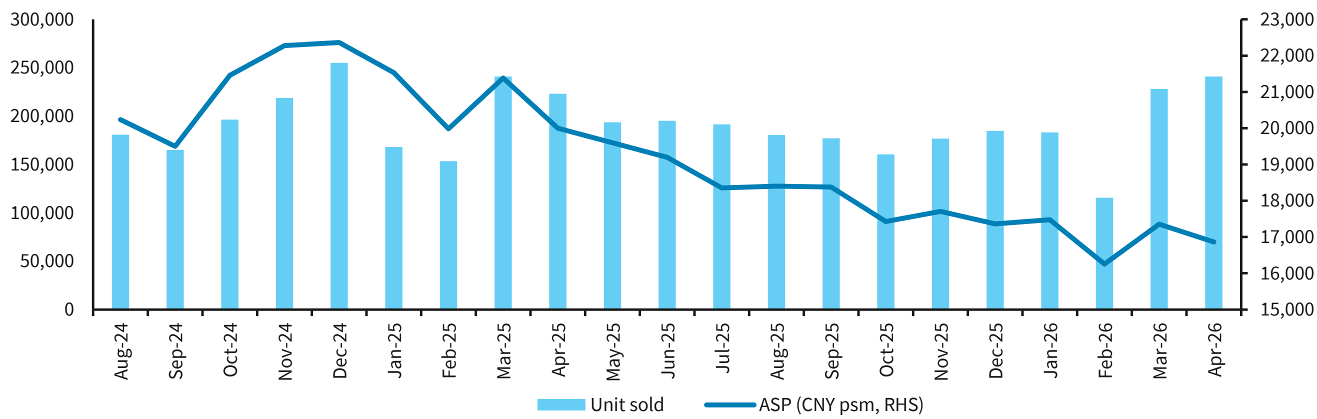
- First, in higher-tier cities where price differentials are widest, the housing ladder is structurally weaker, with limited equity recycling despite active secondary markets.
- Second, recent strength in new home sales in these markets is likely driven less by upgrade demand and more by wealth effects (ie, equity market gains) and demand concentration into high-quality projects.
- At the other end, the secondary market is dominated by low-ticket, ageing units, reinforcing a bifurcated market. Overall, the data point to a fragmented and inefficient upgrade chain, where transaction volumes have improved but are failing to drive a self-sustaining recovery cycle.

A closer look at home prices and sales

Secondary market activity across 30 major Tier 1–3 cities shows improving volumes but weak pricing power. Transaction volumes (units sold) have picked up, supported by policy easing and stronger demand for lower-ticket units, particularly in core cities. However, the recovery is highly skewed toward small-sized, older units, indicating that liquidity is improving at the low end rather than reflecting broad-based demand strength.

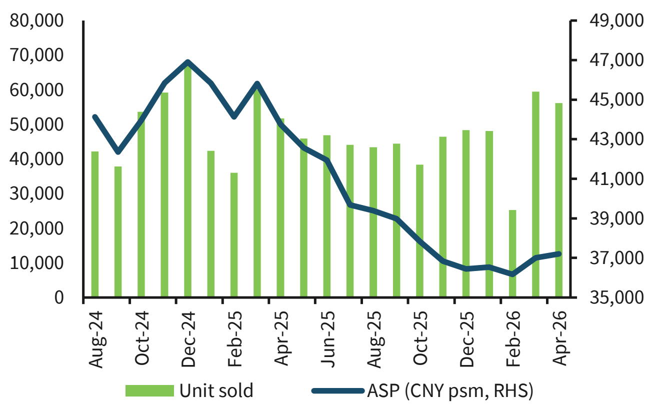
In contrast, secondary home prices remain under pressure, with only modest stabilisation in top-tier cities and continued softness in lower-tier markets. The divergence between rising volumes and weak prices suggests that the recovery is volume-driven rather than price-led, with buyers prioritising affordability amid cautious sentiment. Overall, the data point to a partial and uneven recovery, with improved turnover yet to translate into meaningful price support.

FIGURE 2. Secondary transactions in 30 major T1 - T3 cities rose to more than 200k units over the past two months, the most since March 2025



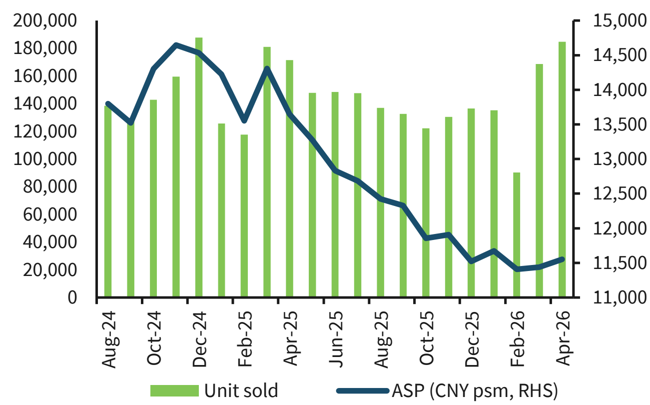
Source: CREIS, Barclays Research

FIGURE 3. Secondary transactions in T1 cities



Source: CREIS, Barclays Research

FIGURE 4. Secondary transactions in 26 major T2 and T3 cities



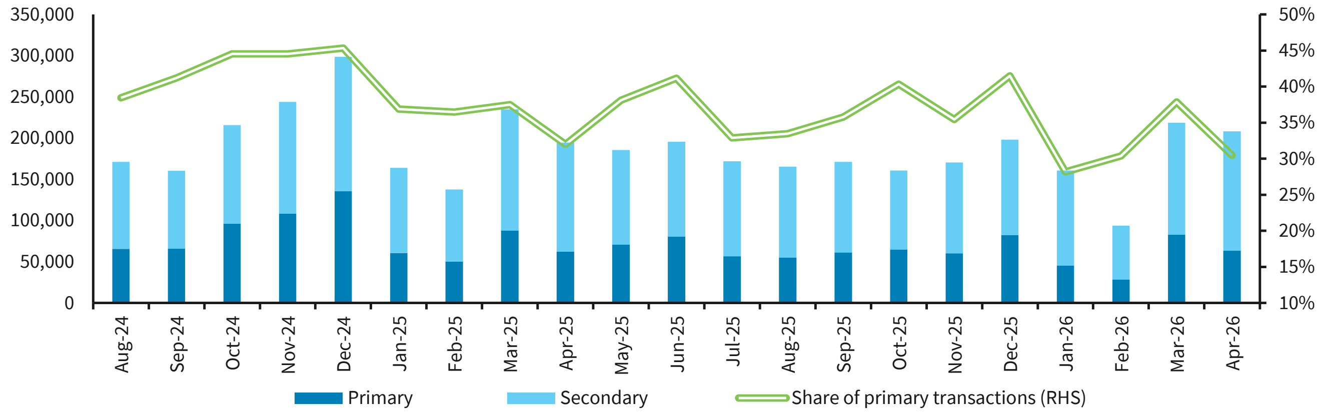
Source: CREIS, Barclays Research

Are new home sales being cannibalised by the secondary market?

In our opinion, secondary market strength is increasingly cannibalising, rather than supporting, new home sales at the margin. Recent policy easing has boosted liquidity in both markets, but demand has tilted toward better-value secondary units, particularly older, small-ticket homes, as evidenced by the surge in these transactions in cities such as Shanghai. At the same time, Shenzhen's secondary volumes have shown a muted response to recent easing (down 2% m/m in May), highlighting that the rebound is both uneven and segment-driven, rather than indicative of broad-based demand recovery.

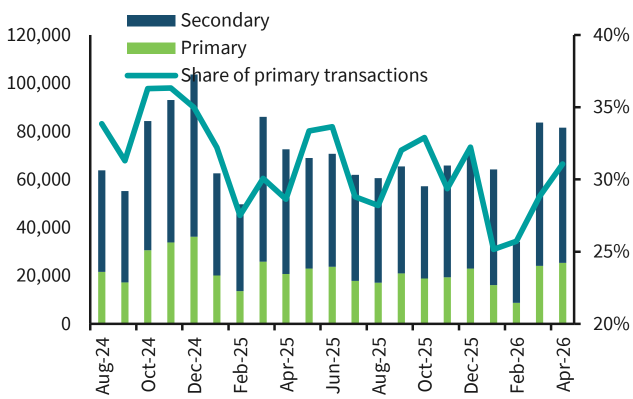
Within the primary market, demand is further fragmented by internal cannibalisation, with sales concentrated in a handful of high-quality "fourth-generation" projects, while legacy inventory remains slow moving. This dual dynamic—substitution toward cheaper secondary units and concentration within select new projects—limits the breadth of recovery in new home sales. As a result, secondary market momentum is not translating into a rising tide, but rather redistributing demand within and across segments.

FIGURE 5. Shares of primary home sales in 16 T1 and T2 cities fell to an average of 24% in March and April 2026, versus an average of 31% in 2024



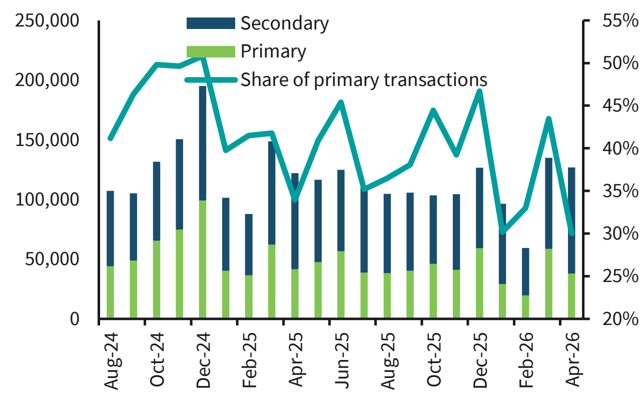
Source: CREIS, Barclays Research

FIGURE 6. Shares of primary home sales in T1 cities fell to an average of 28% in March and April 2026, versus an average of 35% in 2024



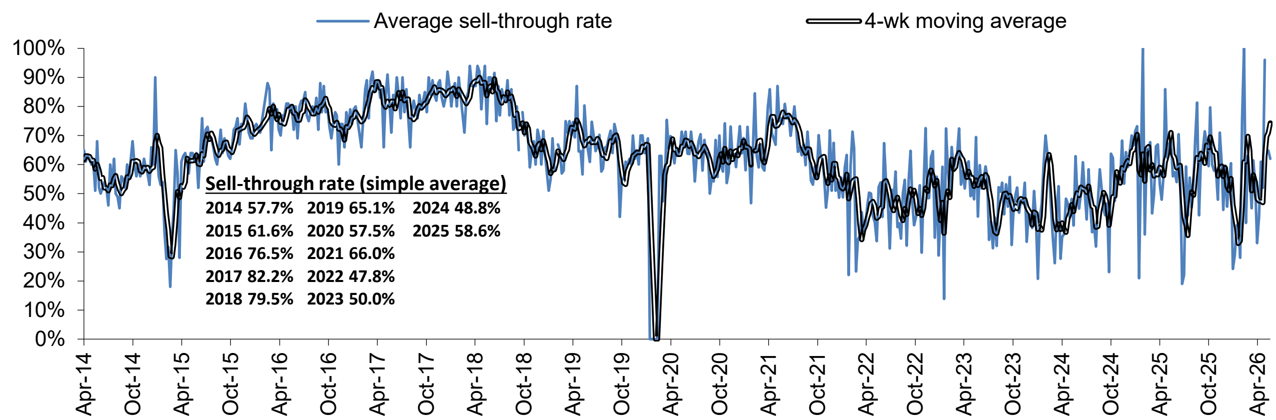
Source: CREIS, Barclays Research

FIGURE 7. Shares of primary home sales in 12 T2/3 cities fell to an average of 20% in March and April 2026, versus an average of 30% in 2024



Source: CREIS, Barclays Research

FIGURE 8. Sell-through rates improved in nine T1/T2 cities in May 2026, led by T1 cities, but were still weak in some T2 cities



Remark: Nine cities are four T1 cities + five T2 cities (Hangzhou, Tianjin, Nanjing, Wuhan, Chongqing, Chengdu)
Source: CREIS, Barclays Research

Purchasing power transmission to new home sales diluted and delayed

Rising secondary transactions can support new home sales, but the spillover is partial and increasingly diluted. While improved secondary liquidity should, in theory, unlock upgrade demand, the transmission is weakened as some sellers hold cash, delay purchases amid price uncertainty, and face reduced urgency given ample primary inventory. At the same time, as we argued in our recent note (Sight on site - Beijing, Shanghai and Hangzhou: Decoding the "surge" in secondary transactions, 29 May 2026), substitution and cannibalisation effects are intensifying—policy easing has tilted demand toward better-value secondary units, while within the primary market, demand is concentrated in a few high-quality projects at the expense of legacy stock. As a result, the uplift to new home sales remains selective rather than broad-based.

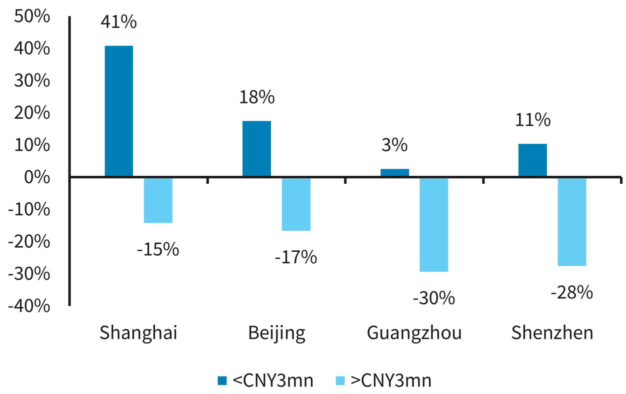
Case Study: Shanghai - Skewed by small units

The strength of the market rebound is extremely uneven and somewhat misleading. Volumes have picked up, particularly in T1 cities such as Shanghai, driven largely by policy-supported demand for lower-priced, small-sized units.

- For instance, in Shanghai, secondary home transactions reached over 25k units in April (+28% y/y). In 4M26, those in Shanghai increased 11% y/y in terms of units, with older, small-sized units, represented by tickets of less than CNY3mn per unit, accounting for nearly 60% of transactions, up significantly from c.40% two years ago.
    - As a breakdown, for the small-ticket-sized units (<CNY3mn), transaction volumes surged 41% y/y in 4M26 (Figure 9), while for those with ticket sizes larger than CNY3mn per unit, transaction volumes declined 15% y/y in 4M26.

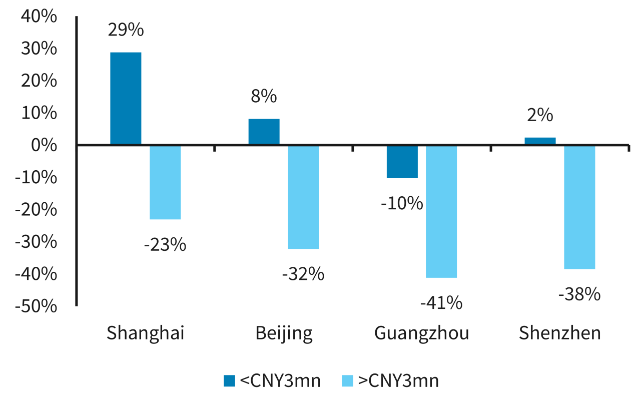
Because of the higher contribution from old and small units, as well as the property price decline, in terms of property sales values, secondary home transactions in Shanghai decreased 12% y/y in 4M26.

FIGURE 9. 4M26 y/y secondary transactions in tier 1 cities (unit sold), by ticket sizes



Source: CREIS, Barclays Research

FIGURE 10. 4M26 y/y secondary transactions in tier 1 cities (sales values), by ticket sizes



Source: CREIS, Barclays Research

Government-led secondary home acquisitions

Moreover, government-led secondary home acquisitions, which are to be converted into rental housing, have helped establish market-based price anchors for ageing housing inventory, thereby stabilising valuation expectations and supporting overall market confidence.

In February, Shanghai launched a pilot program in Xuhui, Jing'an and Pudong to acquire secondary homes, with a total of 523 units purchased as of 21 May. This represents about 0.6% of Shanghai's 2025 secondary transactions for units of less than 70sqm.

Amongst them, Xuhui accounted for 87.6%. The Xuhui model stands out for integrating acquisitions with urban renewal ("old housing, old districts and villages"), targeting ageing units that are unsuitable for redevelopment. These units are repurposed into government-backed rental housing for front-line workers, providing a scalable solution to legacy inventory.

In parallel, the Xuhui district introduced a "city-wide, housing voucher" scheme, which is applicable to both primary and secondary housing units. Under the scheme,proceeds from home sales are issued as vouchers with one-year validity, effectively enhancing upgrade demand. The pilot has since expanded to five additional core districts in 2Q, marking a shift toward city-wide scaling of affordable rental housing supply.

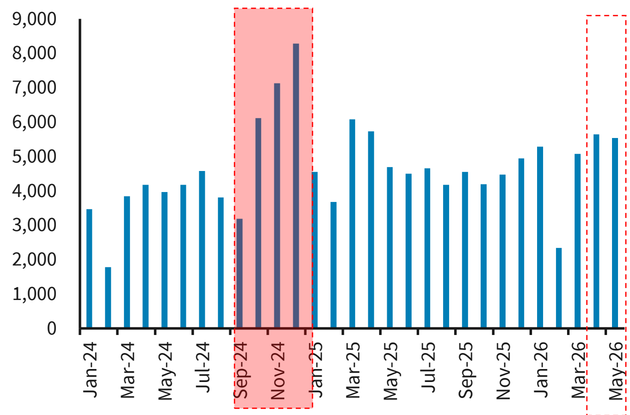
Case Study: Shenzhen - Rebound in May was less appealing than headline

On 29 April 2026, Shenzhen relaxed the purchase restriction. For the first time since March 2025, the combined total of primary and secondary home sales exceeded 10k units, up 11% m/m or 28% y/y. While media headlines reported strong sales, our analysis show that results are less appealing.

- In the secondary market, as shown in Figure 11, residential transactions in Shenzhen's secondary market declined 2% m/m in May 2026, despite the 29 April policy easing, marking a sharp contrast to the 156% m/m surge seen following the September 2024 relaxation.

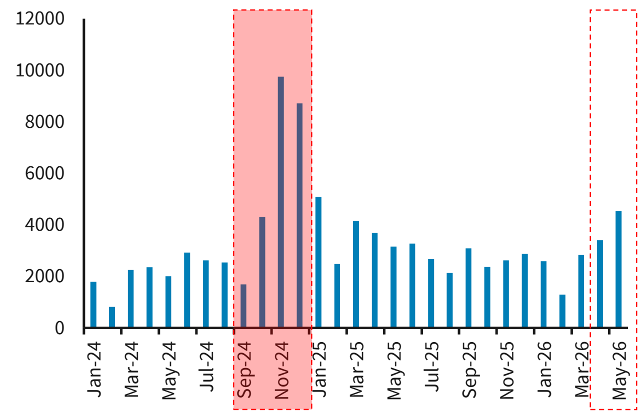
- In the primary market, as shown in Figure 12, new home sales increased by 33% m/m in May 2026, following the 29 April 26 policy relaxation, but the magnitude was weaker than the 156% m/m increase following the September 2024 relaxation.

FIGURE 11. Shenzhen's secondary transaction (number of units) - Residential units sold decreased by 2% m/m in May 2026, despite the 29 April 2026 policy relaxation



Source: CREIS, Barclays Research

FIGURE 12. Shenzhen's primary home sales: Post-policy uptick moderates versus prior surge following the Sep 2024 policy relaxation



Source: CREIS, Barclays Research

Home prices – Greenshoots in T1 cities?

As shown in Figure 13 and Figure 14, new home prices in Tier-1 cities appear to have stabilised, recording three consecutive months of sequential m/m increases despite a weak start in January 2026, with rents also showing signs of stabilisation. Nonetheless, it is too soon to conclude that a durable bottom has been established if policy support fails to sustain momentum. Notably, similar patterns were observed in prior years: prices rose for eight consecutive months in 2022, seven months in 2023, and six months in 2024, before losing steam and reversing.

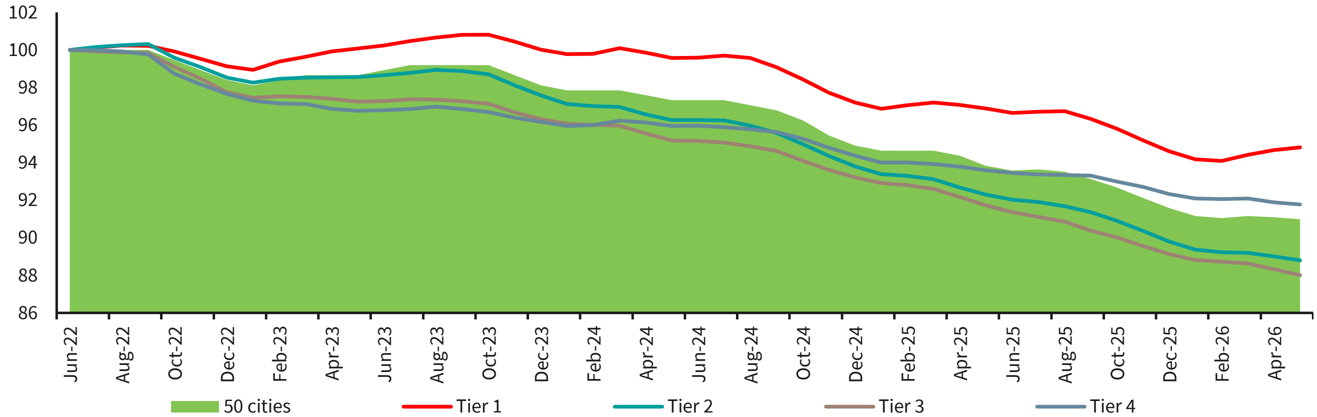
As a result, the recent stabilisation should be viewed with caution, as momentum has yet to demonstrate durability, and the risk of another false start remains if underlying demand and confidence do not improve.

FIGURE 13. New home prices in 70 cities – T1 cities are leading the stabilisation, recording three consecutive months of m/m price increase

	Apr-26	Mar-26	Feb-26	Jan-26	Dec-25	Nov-25	Oct-25	Sep-25
# of Up (LHS)	14	14	10	5	6	8	6	5
# of Down (LHS)	49	54	53	62	58	59	64	63
# of Flat (LHS)	7	2	7	3	6	3	0	2
National m/m (%)	-0.19	-0.21	-0.28	-0.37	-0.37	-0.39	-0.45	-0.41
National y/y (%)	-3.65	-3.59	-3.46	-3.33	-3.05	-2.78	-2.60	-2.66
Tier-1 m/m (%)	0.10	0.20	0.02	-0.32	-0.33	-0.45	-0.32	-0.27
Tier-2 m/m (%)	0.02	-0.16	-0.12	-0.29	-0.35	-0.23	-0.45	-0.44
Tier-3 and others m/m (%)	-0.26	-0.25	-0.35	-0.39	-0.38	-0.42	-0.46	-0.41

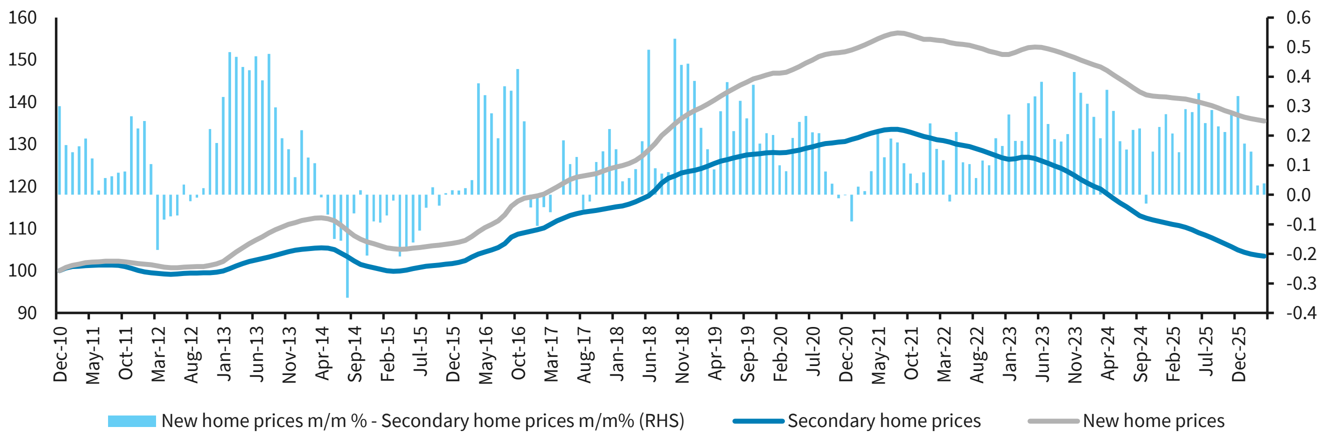
Source: NBS, Barclays Research

FIGURE 14. Residential rents in T1 cities appear to have stablised



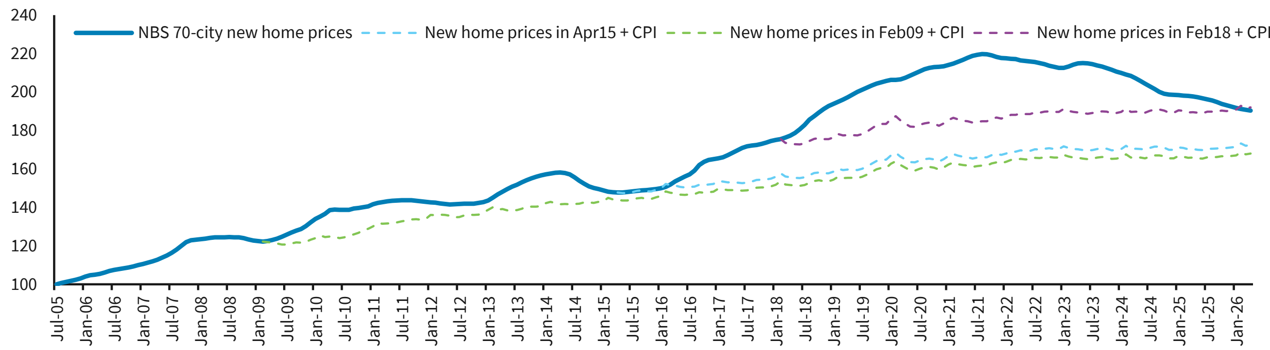
Source: CREIS, Barclays Research

FIGURE 15. NBS property prices in 70 cities – New home prices have been more resilient than secondary home prices with the latter recording merely 3% growth from the end-2010 level



Index was rebased at 100 in December 2010
Source: NBS, Barclays Research

FIGURE 16. **Inflation adjusted home prices – In the previous downturn, the 2015 trough saw prices fall back to inflation-adjusted levels last seen in February 2009. In the current cycle, real price declines have retraced to around 2018 levels on an inflation-adjusted basis. On our estimates, current prices still imply ~9.8% downside to the 2015 real trough, or ~12.2% downside to 2009-adjusted levels.**

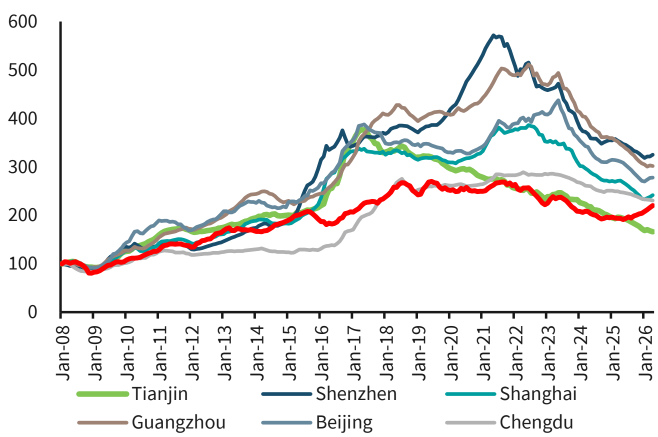


Index was rebased at 100 in July 2005
Source: NBS, Barclays Research

How to lift the property sector: Lessons from Hong Kong

China's ongoing double-dip property downturn contrasts with Hong Kong's recent recovery, where home prices have rebounded by 17% from the March 2025 trough after a cumulative nearly 30% correction from the peak attained in 2021. Hong Kong's experience highlights that a sustained recovery requires not just policy easing, but a coordinated improvement in **demographics, funding conditions, and investment returns**.

FIGURE 17. **Hong Kong's second-hand home prices have bottomed while China's second-hand home prices are still falling**



Note: Indices are rebased to 100 in January 2008
Source: Centaline, Barclays Research

FIGURE 18. **Second-hand home prices in major China T1/2 cities have recorded significant corrections, with price levels reverting to those last seen a decade ago**

	Highest	Recent low	Drawdown	Apr-26	Back to
Tianjin	376	166	-55.8%	166	Oct-12
Shenzhen	572	318	-44.3%	325	Feb-16
Shanghai	386	233	-39.6%	241	Jan-16
Guangzhou	511	300	-41.2%	302	Nov-16
Beijing	437	270	-38.3%	278	Feb-16
Chengdu	289	230	-20.2%	230	Dec-17
Hong Kong	270	190	-29.5%	220	nearly 2-year high

Remark: Indices are rebased to 100 in January 2008
Source: Centaline, Barclays Research

FIGURE 19. Favourable demographics, falling interest rates, and rising rental yields are key factors reversing the property market downturn in Hong Kong

		Mainland China	Hong Kong
	Demographic snapshot		
	Home ownership rate	96% (urban residents, 2019*)	50.4% (2024)
	Population growth in 2025	-0.24%	+0.1%
	GDP growth in 2025	+5.0%	+3.5%
	Residential return profile		
	Rents growth in 2025	-3.5% (top 50 cities)	+5.2%
A	Rental yield	2.37% (3Q25)	3.43% (Dec25)
	Income earners		
B	Fixed deposit rate (1 year)	CNY: 1.5%	HKD: 1.0% - 1.2%
A - B	Return vs rental yields	+0.87%	+2.23% to +2.43%
	Property investors		
C	Mortgage rates	3.1% (Weighted average mortgage rate in 3Q25) 3.0% - 3.15% (first home^)	2.73% (3-year fixed mortgage rate); 3.25% (HIBOR mortgage rate cap^^)
A - C	Yield gap vs rental yields	-0.63% to -0.78%	+0.18% to +0.7%

* PBOC survey data; ^ LPR - 35 - 50bps; ^^ based on HIBOR-based mortgage rate cap.
Source: PBoC, NBS, Census and Statistics Department, CRIC, Centaline, Barclays Research

1) Demand base: Demographics versus saturation

- Hong Kong's recovery has been underpinned by net population inflows, driven by talent schemes and returning residents, which offset natural decline and replenished housing demand. In contrast, China faces structural demand constraints, with a high homeownership rate (>95%) and declining population, limiting incremental end-user demand.

- **Implication:** China needs to rebuild marginal demand, potentially through hukou reform, urban migration policies, and targeted support for new households, rather than relying solely on existing homeowners upgrading.

    - Recent relaxation of home purchase restrictions (HPR) have led to a surge in transaction volumes, but largely through demand reallocation, with stronger markets attracting buyers at the expense of nearby non-core areas and satellite cities.

    - Industrial upgrading, the rise of the new economy, and the evolution of urban clusters have supported job creation and income growth, reinforcing the wealth effect and enhancing the attractiveness of core cities to skilled talent.

    - We note that some leading developers have adjusted their land-banking strategies and scaled down their geographical footprints to only the leading T1/2 cities. Accordingly, their contracted ASP keeps rising amidst shrinking sales values (Figure 20).

FIGURE 20. Rising average selling prices during the market downturn indicates a shift of land-banking strategy of some SOE developers. Except for Shui On Land, most private developers have recorded a decline in selling prices

		2019	2020	2021	2022	2023	2024	2025	4M26
China Reosurces Land	Contracted ASP (CNY psm)	18,304	20,091	17,988	21,140	23,486	23,032	25,324	37,982
	Contracted sales (CNY bn)	242.50	285.03	315.76	301.33	307.03	261.10	233.60	70.00
China Overseas Land	Contracted ASP (CNY psm)	17,866	18,817	19,550	21,255	23,195	27,047	23,788	28,906
	Contracted sales (CNY bn)	320.59	360.72	369.50	294.80	309.81	310.69	251.23	75.71
China Jinmao	Contracted ASP (CNY psm)	21,486	20,468	17,842	19,884	17,047	16,889	23,671	23,762
	Contracted sales (CNY bn)	160.81	231.10	235.60	155.00	141.20	98.26	113.50	31.20
Greentown China	Contracted ASP (CNY psm)	25,939	26,024	28,422	26,835	28,324	29,069	32,918	31,304
	Contracted sales (CNY bn)	135.40	214.70	266.60	212.80	194.30	171.80	153.40	36.00
Yuexiu Property	Contracted ASP (CNY psm)	20,660	25,247	27,570	30,208	31,910	29,204	35,973	29,075
	Contracted sales (CNY bn)	72.10	95.80	115.20	125.00	142.00	114.50	106.20	25.70
Longfor	Contracted ASP (CNY psm)	17,032	16,744	16,975	15,451	16,070	14,194	12,179	8,977
	Contracted sales (CNY bn)	242.50	270.60	290.09	201.59	173.49	101.12	63.16	10.35
Seazen	Contracted ASP (CNY psm)	11,135	10,685	9,928	9,740	7,843	7,455	7,599	6,013
	Contracted sales (CNY bn)	270.80	251.00	233.80	116.00	76.00	40.20	19.30	4.00
China Vanke	Contracted ASP (CNY psm)	15,032	15,086	16,487	15,854	15,252	13,587	13,144	15,388
	Contracted sales (CNY bn)	630.80	704.20	627.80	417.00	376.10	246.00	133.90	21.40
Shui On Land	Contracted ASP (CNY psm)	30,520	57,456	63,793	70,920	32,479	106,056	60,675	n/a
	Contracted sales (CNY bn)	12.50	21.20	30.30	27.20	11.40	15.10	7.90	n/a
China national home sales	Selling prices (CNY psm)	9,287	9,980	10,396	10,185	10,864	10,419	10,005	9,619
	Sales values (CNY bn)	13,944	15,457	16,273	11,675	10,299	8,486	7,334	2,007

Source: Company data, Barclays Research

2) Cost of capital: Rate transmission matters

- Hong Kong benefited directly from US rate cuts via the HKD peg, leading to lower mortgage rates and improved affordability. This drove a return of both end-users and property investors, supported by falling debt servicing costs.

- In contrast, China, while easing domestically, still faces weaker transmission to household borrowing demand, with cautious sentiment dampening take-up. Compared to the past cycles, one stark contrast is that homebuyers are reluctant to take on excessive leverage, even though PBoC announced that it would lower the down payment ratio to a historical low of 15% in September 2024.

- **Implication:** Further easing alone is insufficient. China needs to restore confidence in income and price stability to improve credit demand elasticity.

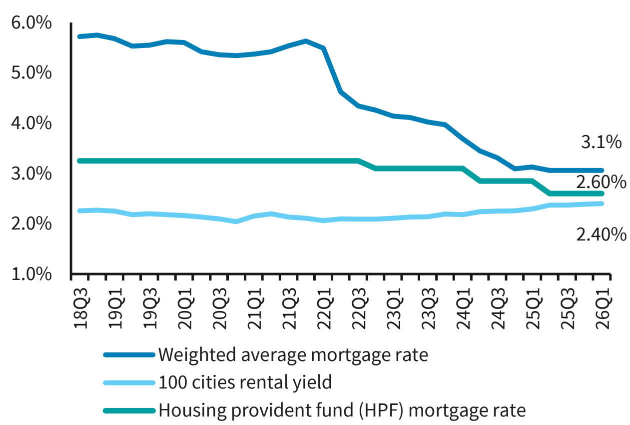
3) Investment case: Rental yield and carry

- A key turning point in Hong Kong was the shift to positive carry, with rental yields (~3.4%) exceeding mortgage costs, making property investment economically attractive again. Rising rents (+5% y/y in 2025) further reinforced returns, drawing capital back into the market.

- In China, rental yields (~2.3%) remain below mortgage costs, resulting in negative carry and weak investor participation.

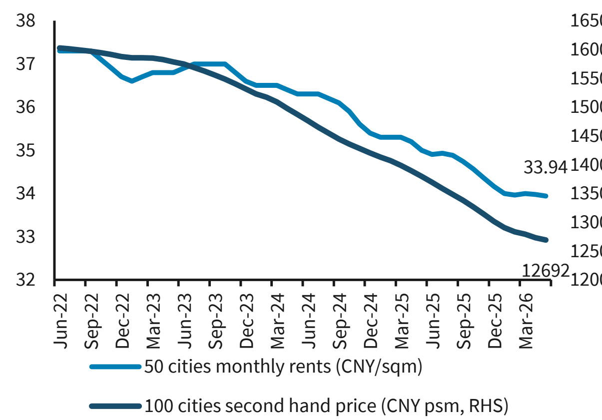
- **Implication:** China needs to improve rental yields and investment returns, through price correction, rental market development, or lower financing costs.
  - It is worthwhile to note that improved rental yields arising from a faster decline in home prices than rents, along with falling mortgage rates, have led to a smaller negative carry, especially for the preferential rates offered by the housing provident funds (HPF) programme.
  - As shown in Figure 21, rental yield in 100 cities improved to 2.4% by the end of 1Q26, from 2.1% three years ago. The weighted average housing mortgage rate fell to 3.1%, from 4.1% three years ago, and HPF mortgage rates declined to 2.6%, from 3.1% three years ago. These have essentially reduced the negative carry to 20-70bp, versus 100-200bp three year ago.

FIGURE 21. China's residential mortgage rate is much higher than rental yields, though the amount of negative carry is declining



Source: NBS, WIND, Barclays Research

FIGURE 22. Average residential rents in top 50 cities (CNY/sqm/month) - Rents fell faster in 2025



Source: CREIS, Barclays Research

4) Capital allocation: Asset attractiveness compared with alternatives

- In Hong Kong, lower deposit rates and an improved income outlook encouraged capital rotation into property assets. China still faces competing low-risk alternatives (e.g., deposits, wealth products) amid uncertain property returns.
- **Implication:** Stabilising price expectations and enhancing yield visibility are critical to re-attract capital flows to property.

What's missing versus past down-cycles

Compared with prior cycles, the current upturn is characterised more by demand redistribution than genuine demand creation. Policy easing has primarily shifted demand toward core cities rather than expanding the overall buyer base. At the same time, the confidence feedback loop remains impaired—unlike in previous recoveries, when rising prices reinforced sentiment and accelerated purchases, weak price expectations today continue to anchor a wait-and-see stance.

On the supply side, developer behaviour remains notably cautious, in sharp contrast to the proactive land-banking and expansion in earlier cycles. This reflects both balance sheet constraints and limited visibility on sales recovery. Meanwhile, although policy support has incrementally increased, its scale and transmission efficiency fall short of the broad-based stimulus seen in 2008 and the demand-creating mechanisms of 2015–16.

We summarise our view in Figure 23

FIGURE 23. What's missing in the current market environment to drive a sustained recovery

Key Drivers	2008 Stimulus Cycle	2015–2016 De-stocking Cycle	Current Cycle
Policy Impulse & Transmission	Aggressive fiscal + credit stimulus, led by the CNY4trn stimulus; Strong and fast transmission to property demand	Targeted easing (e.g. Shantytown redevelopment with monetised resettlement) effectively created incremental demand	Policy easing ongoing but fragmented (i.e. piece-meal measures); transmission to end-demand remains weak
Demand Formation & Buyer Base	Low private home-ownership, strong urbanisation drove broad-based end-demand	Upgrade demand + monetisation of shantytown redevelopment supported demand	High homeownership and weak demographics constrain incremental demand
Affordability & Down Payment & Household Leverage	Down payments and mortgage rates relatively high but rapidly eased; strong income growth supported affordability; Low household leverage due to the short history of private housing market	Lower down payments and credit expansion improved affordability, supported by HPF rates, driving a moderate rise in household leverage.	Down payment floors have been cut to record lows, but affordability remains constrained by weak income expectations and a reluctance to leverage up, alongside already elevated household leverage post-2016.
Buyer Behaviour & Sentiment	Strong confidence in price appreciation; speculative demand returned quickly	Improved sentiment alongside rising prices reinforced upgrade cycle	Cautious sentiment; wait-and-see dominates with weak price expectations
Developer Behaviour & Risk Appetite	Aggressive expansion and landbank accumulation post-stimulus	Active land replenishment amid rising sales and improving cash flow	Highly selective investment; focus on liquidity preservation over expansion
Land Market Dynamics	Rapid recovery in land sales with rising premiums	Land replenishment supported by strong sell-through	Land market remains subdued; SOEs dominate with limited private participation
Sell-through & Liquidity	Rapid improvement in sell-through rates across cities	Strong sell-through rates supported by policy-driven demand, and increased significantly to 77% in 2016 from 62% in 2015	Still lower than the historical average of 70%; Sell-through improving in top-tier cities only; weak in lower-tier markets

Source: Barclays Research

Trade ideas, top picks, and addition of coverage

Switch into Longfor (LNGFOR) 2029s (Overweight) from LNGFOR 2028s (Market Weight)

The trade takes out 8pts in cash at similar yields after factoring the bid/ask, for a 1.6-year maturity extension, moving into the more liquidity 2029s. The 29s are Indicated at 83.75/84.75 (YTM 9.9%/9.5%) and offer a small pickup from the HY China corporates sector with an average yield of 9.4%. We believe the valuation has not adequately reflected Longfor's shift toward a recurring income-led business model, which now accounts for the majority of EBITDA.

On 28 April 2026, Fitch revised the outlook on Longfor's BB- rating to Stable after reassessing the group under its APAC REIT Navigator, rather than its Chinese Homebuilder Navigator previously, becoming the first agency to formally recognise the business model transition. While S&P and Moody's remain more conservative (B2), we view the gap as driven by different methodologies rather than fundamentals. Overall, after having passed the peak of its maturities, we think the 2029s offer value over the HY Asia corporates and HY

We argued in China Property: How to survive in a double-dip downturn, 6 Ma
some developers should be reassessed, given that they "are shifting towards
commercial operators or service providers should be re-assessed through a r
as recurring incomes, not contracted sales, will increasingly define their liqui
levels".

After repaying its CNY 1.6bn onshore bond on 19 May, the outstanding balance for Longfor's onshore bonds amounts to CNY 1.8bn, including c.CNY 1bn due by the end of 2026.

Overweight - Shui On Land (SHUION) 2029s

Indicated at 101.25/102.25 with a YTW of 9.2%/8.8%, the bonds trade slightly inside of the HY China corporate sector at an average yield of 9.4%, but we think the high coupon of 9.75% offers a good carry.

We like SHUION for its asset quality, with a high exposure to the tier 1 city of Shanghai, which offset its smaller operating scale relative to peers. While its capacity to raise cheaper investment-property-backed loans is mostly used up, it keeps exploring alternative financing channels. According to the Shanghai Stock Exchange, on 27 May 2026, it filed an application for a CNY 5.79bn ABS offering, backed by the Wuhan Xintiandi project.

It tapped the 2029s for USD150mn on 27 April 2026 at 100.562, which translates into a 9.5% yield. The proceeds should cover the June 2026s and replenish liquidity. After the tap, the amount of 2029s outstanding increased to USD450mn. which may improve the trading liquidity of the bond.

Key downside risks: 1) Weak sales / delay in project launch schedule; 2) refinancing risks and over-reliance on secured lending.

Add coverage of Greentown (GRNCH) 2029s at Market Weight

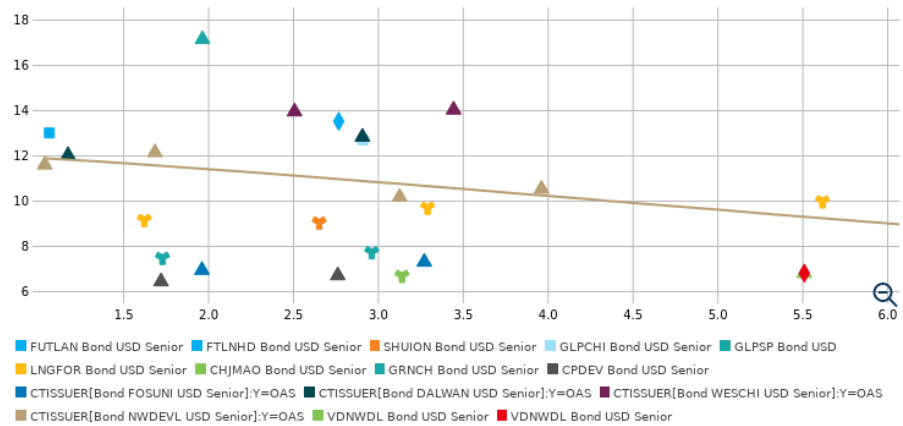
Indicated at 97.875/98.5, the bonds are trading at a YTW of 7.6%. Similar to GRNCH 2028s (OW), the 2029s have a low issuer-call price of 101 that could be exercised anytime on or after 19 May 2028. While the YTW is lower than that of the China HY corporate sector's average yield of 9.3%, we take comfort in the issuer's SOE-linked background, and the bonds also offer yield pickup over some other SOE developers' bonds including CHJMAO 2029s (mid-YTM: 6.8%) and CPDEV 2029s (mid-YTM: 6.7%). The high coupon of 7% should offer good carry.

Greentown’s contracted sales declined 25% y/y in 4M26, underperforming SOE-backed peers mainly because of limited saleable resources this year, though we take comfort in its prudent refinancing strategy. The company issued only USD300mn in offshore bonds in May 2026 for refinancing and allowed the remaining USD140mn NDRC quota to expire unused, reflecting disciplined leverage management. Supported by strong access to low-cost onshore funding, Greentown plans to continue tapping the domestic bond market, targeting about CNY8bn of onshore issuance this year, and recently issued dual-tranche bonds at 2.34% (one-year) and 3.18% (three-year).

Key upside risks: 1) Improvement in contracted sales; 2) faster-than-expected property market stabilisation; and 3) signs of strengthened support by parent China Communications Construction Group (CCCG).

Key downside risks: 1) Weak results and prolonged weakness in contracted sales; 2) negative rating actions; and 3) signs of weakening support by CCCG.

FIGURE 24. Performing China property bonds - YTW



Open in Barclays Live Chart

Source: **Credit** - Barclays Trading, S&P Global Market Intelligence