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China Property | Asia Pacific

First Take on Cancellation of Housing Pre-sales

MOHURD have issued a policy to regulate home sales, with all new projects encouraged to sell at completion, and pre-sales deposits of existing projects to be locked in escrow accounts until delivery. This may notably harm developers but benefit agents amid a likely sharp decline on new supply next year.

The policies are consistent with regulator's call for a "long-term mechanism", and could impact the housing market in the below areas:

- (+) Protect home buyers better on housing delivery, lowering their concerns about new homes, especially those developed by private players.
- (+) Boost destocking (especially secondary supply) in cities with over-supply, alleviating home prices pressure with better demand-supply dynamics. Tier 1 cities may see a stronger home price uptrend.
- (-) Lowering developers' sales, ROE and IRR given slower asset turnover and larger capitalized interest, which will unlikely be offset by better margins without notable home price increases. This could lead to an industry de-rating.
- (-) Developers could reduce landbanking (harming new starts and real estate investment), and factor in higher margin buffer for land bidding, weighing on local governments' (LGs) land sales income, especially in low-tier cities.

We expect the policy to hamper investor sentiment on the overall industry, but could unevenly impact fundamentals among different players.

- **Developers:** 1) players with thin landbanks and large legacy inventory could underperform on sales in the short-term; 2) SOEs with low leverage and strong capital access may gain market share at a faster pace in the medium term; 3) those with high-end/luxury positioning would be less impacted given their usual later launching timelines than mass-market products; and 4) those with robust recurring income could see less volatile earnings.
- **Property agencies:** Beneficiaries from potentially higher share of existing home sales amid significantly reduced new supply starting from next year (developers on average with landbank life of 2+ years).
- **PMCs:** Immune in the short-term, but could see even weaker GFA transfer from developers in the medium term, likely intensifying the competition for less-profitable existing housing. Commercial operators could see more robust revenue/earnings growth, making them more favored by investors.

Signposts to watch: 1) policy details to be set by LGs in Tier 1/2 cities; 2) policy execution; and 3) land sales and prices of upcoming auctions. **See stock implications and recommendations below.**

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Stock Implications and Recommendations

We believe developers could be meaningfully negatively impacted, while secondary property agents could benefit. Stocks with relatively crowded positioning (e.g., CR Land and COLI) and high development beta (e.g., COLI, C&D, Jinmao, and Greentown) could see deeper share price corrections in the near term despite their solid fundamentals.

In terms of fundamentals, among our coverage, developers in the below categories could potentially see deeper y-y declines in property sales in 2027.

- **Thin landbank:** C&D, Greentown, and Jinmao
- **Large legacy projects:** Greentown and Longfor
- **Limited landbanking YTD:** COLI, CMSK, Yuexiu, and Longfor

We suggest accumulating **KE (BEKE.US)** now given it is the key beneficiary of existing homes sales, and buying the potential dips on **CR Land (1109.HK)** and **Seazen A/H (601155.SS/1030.HK)** given their robust mall operations could reduce earnings volatility. On the contrary, we are cautious on Greentown (3900.HK), Vanke A/H (000002.SZ/2202.HK) and Gemdale (600383.SS) given their low landbank quality and weak execution.

Policy Details

On August 28, the Ministry of Housing and Urban-Rural Development (MOHURD), the Ministry of Natural Resources (MNR), and the National Financial Regulatory Administration (NFRA) jointly released guidelines to accelerate transition from the pre-sale model towards the completed-home sales model.

Push towards completed-home sales:

- For newly auctioned land projects and projects that have not yet obtained construction planning permits, authorities will prioritize completed-home sales.
- Existing projects that already obtained planning permits before the policy announcement will continue to follow previous pre-sale rules, but are encouraged to adopt completed-home sales.
- Completed-home sales will be subject to filing and regulatory oversight.
- Buyers are entitled to refunds and compensation if delivery obligations are not fulfilled.

Tighter pre-sale requirements:

- For projects adopting the pre-sale model, building structure must be completed before pre-sales.

Stronger escrow supervision:

- 100% of home purchase funds, including down payments and mortgage proceeds, must enter supervised escrow accounts.
- Escrow funds can only be released after project completion and delivery conditions are met.
- If a developer fails to deliver on time, homebuyers have the right to terminate the purchase agreement and receive a full refund, with the developer bearing contractual liabilities.

