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China property development

EQUITY: PROPERTY

Structural policy changes amid sector downcycle

Reinforcing sales of completed housing and extension of mortgage maturity are two major policy changes

A new round of policies announced for property sector

The Chinese government has announced a slew of *property-related policies* (28 August), aiming to improve the sector structure and optimize the demand/ supply dynamics of a sector which has been suffering the downcycle for more than five years, in our view. The new structural policy changes can be summarised from three perspectives:

- Changes to the existing housing sales system (mainly the pre-sales system) by reinforcing sales of completed housing and lifting the requirements for pre-sales;
- Restructuring the credit system of the property sector by adjusting the implementation requirements of development loans, personal mortgages, commercial property loans, urban renewal project loans, and property-related trust loans; and
- Providing more support to developers from the capital markets (refer *Fig. 1*, *2* and *3* for more details).

Among all the policies, we believe two policies will have more profound implications for the property sector, namely reinforcing sales of completed housing and extension of personal mortgage loan maturity by 10 years (from 30 years to 40 years).

- **Reinforcing sales of completed housing/ lifting requirements for pre-sales.** The policy change is the regulators' response to the previously mainstream developers' business model of "three highs (high debt/ high leverage/ high turnover)" that has triggered major privately-owned developers' credit default and the crisis of uncompleted properties since mid-2021. On one hand, we expect this new policy requirement will extend the cash return cycle of property developers and thus reduce the internal rate of return of cash flows. On the other hand, this policy could also reduce the supply of new apartments on the market and thus push more housing demand towards secondary markets, under our projection; Beike (BEKE US, Buy) as the leading property agency across the country should benefit from this structural change of the sector, in our view.
- **Extension of mortgage loan maturity to 40 years.** The government has altered the maturity of personal mortgage loans (last update was made in September 1999) from the current 30 years to 40 years. We believe the policy's intention is to ease homebuyers' monthly mortgage repayment burdens, leaving more disposable income to home loan borrowers (though at the cost of higher total mortgage interest payments throughout the loan's lifecycle). In the meantime, with reduced monthly mortgage payments and unchanged rental income, homebuyers who have rented their apartments out may face more favourable net rental yields after the mortgage loan maturity extension policy, in our view. In all, homebuyers may get more incentivized to purchase apartments, under the government's projection. However, in our view, given homebuyers' weak sentiment towards the housing market, they might not turn bullish in the short term.

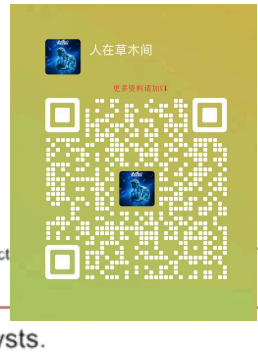
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Implications for the consumer sector

We see limited implications for the consumer sector from the new round of property policy changes:.

- The property sector's dynamics (e.g., housing prices and mortgage payments) can change consumers' spending behaviours by shifting household wealth perceptions (wealth effect), and changing disposable income allocations/ dictating savings goals (crowding-out effect), in our view.
- We believe the new property policies may alleviate homebuyers' monthly mortgage burdens, but is unlikely to have any direct and immediate impact on strengthening homebuyers' expectations about future housing prices, not to mention altering their expectations for job security and future income. Meanwhile, the sustained decline in housing prices across most Chinese cities over the past five years and households' weakening income expectations should be regarded as two major overhangs on China's lukewarm consumption sentiment, in our view. We believe the latest policy changes for the property sector may have limited impact from these perspectives.

Fig. 1: Changes to China's housing sales system

Section	Comparison Dimension	Old Rules	New Rules
Improve Presale Management	Presale Conditions	[illegible] implementation varies in Tier 1 cities. Shanghai requires the main structure of commercial housing projects to be topped out.	[illegible] specific conditions to be determined by each region.
	Presale Funds Supervision Entity	Varies by region: some are supervised by the Construction Committee/Housing and Construction Bureau, while some involve tripartite supervision including the Housing Management Bureau/CDB, etc.	[illegible] through dedicated accounts: open special deposit accounts in commercial banks; sign fund supervision agreements with approved enterprises; and the three parties each open a fund supervision account.
	Deposition of House Purchase Funds	In some regions, down payments go into the supervision account while mortgage loans may not enter or not all enter the same supervision account.	[illegible]
	Timing of Releasing Fund Supervision	Obtaining the record form of completion acceptance is often the trigger for release mode standards vary by region with significant inter-regional differences.	Fund supervision accounts can only be applied for revocation after the [illegible]
	Handling of Overdue Delivery	Buyers face difficulties in defending their rights; concerns exist over defining breach of contract and returning the house and getting a refund is difficult to execute.	If the developer breaches the contract and fails to deliver on time, [illegible] the buyer may demand a house return and refund; the developer must refund the paid purchase money and interest.
	Scope and Scale of Existing Home Sales	Mainly stock existing home sales as supplementary pilots in many places. Hainan Hengan Jiangbei New Area Hefei Fuzhou all carried out pilots. Guangzhou issued a case of converting specified new plots to existing home dwellings in July 2025.	[illegible]
Strengthen Existing Home Sales	Management Method of Existing Home Sales	None	[illegible] Upon completion and acceptance, it must be filed with the municipal and county housing and urban-rural development departments; the property and its associated construction land use rights must be free from any transaction restrictions, such as mortgages or seizures.
	House Purchase Deposit System	None	[illegible] Upon obtaining the construction permit, a home purchase deposit contract may be signed and a small deposit collected; the deposit must enter an escrow account and supervision will be lifted upon delivery.
	Land Supply and Transfer	Land transfer plans vary, with transfers mostly conducted according to planning conditions; supervision of land purchase funding sources is inconsistent.	Optimize planning and land use rationally, determine land supply scale, allow transfer with planning proposals, [illegible] and transfer fees may be paid in installments (proportions and time limits to be determined by each county governments).
Policy Coordination and Supporting Measures	Development Loan System	Development loans are disbursed separately by various banks, with multiple projects undermined creditors' rights and varying degrees of matching between loan disbursement and construction cycles.	[illegible] designate one lead bank per project to provide development loans independently or by leading a syndicate, achieve matching between loan disbursement and the project construction cycle.
	Land Mortgage Method	Mortgage is primarily set on land use rights of an entire parcel.	For development loans applied for with land use rights as collateral, [illegible] specific measures to be formulated separately.
	Diversified Financing	Financing relies mainly on bank development loans, while equity and bond financing is restricted.	[illegible]
	Development and Construction Management	Group - Region - Project management structure.	[illegible] assign primary responsibility for engineering quality to the project development company, plus primary responsibilities to survey, design, construction, and supervision entities; optimize approval procedures and shorten time limits; build "good houses."
	Simultaneous Delivery of Property and Title Deed	Many localities pilot "delivery with certificate," but this not yet uniformly mandated, a hiatus/grace time gaps often exist between delivery and certificate issuance.	[illegible] optimize online contract signing, registration, and mortgage processes; promote home buyers obtaining real estate property certificates simultaneously upon delivery.

Source: Ministry of Housing and Urban-Rural Development (MOHURD), Ministry of Natural Resources (MNR), National Financial Regulatory Administration (NFRA), Nomura research

Fig. 2: Supporting policies from PBOC and NFRA

Supporting Policy I: PBOC/NFRA 'Opinions on Reforming and Improving Real Estate Credit Management to Accelerate the Construction of a New Model for Real Estate Development' and other related measures for loans.		
Policy Module	**Policy Direction**	**Main Content**
Real Estate Development Loans	[illegible]	[illegible] The project company shall open a capital account with the lead bank. During the life of the project, except for presale funds, deposits, and other funds subject to regulation requirements as prescribed, all funds related to the project, including real estate development loans, the project company's own funds, and funds from ready-built housing sales, shall be managed through capital accounts opened with the lead bank. The project's presale fund supervision account and deposit account shall be opened with the lead bank as required. The project company shall inform the lead bank in advance of any major matters affecting financial debt security, such as external liabilities and investments.
	[illegible]	The fence of real estate development loans shall match the project construction and sales cycle, covering the entire process from project commencement to completion filing. [illegible] The first principal repayment date shall, in principle, occur after the project's completion filing, and repayment of loan principal may be made upon mutual agreement.
	Loan Disbursement	Banking financial institutions shall disburse real estate development loans in tranches based on project construction progress and risk conditions, and shall make entrusted payments through capital accounts opened with the lead bank or the transaction counterparty's accounts of the project company.
	Affordable Housing Development Loans	Lenders shall determine loan interest rates and repayment methods on a cost-recovery and modest profit basis. Loan interest rates shall generally be lower than those for commercial housing development loans.
	Housing Rental Development and Construction Loans	Housing rental development and construction loan terms are generally 3 years, up to a maximum of 5 years.
House Purchase Loans	[illegible]	[illegible]
	[illegible]	[illegible]
	Loan Disbursement Method	Individual housing loans shall be disbursed through entrusted payment. For ready-built housing sales, payment shall be made through entrusted payment to the capital account opened by the project company with the lead bank; for presale housing, payment shall be made through entrusted payment to the project's presale fund supervision account. For resale housing purchases, payment shall be made through entrusted payment to the borrower's transaction counterparty account as stipulated in the loan contract.
	Loan Interest Rate	For floating-rate individual housing loans already disbursed, when the loan interest rate level deviates from the national average interest rate for newly disbursed individual housing loans by a certain margin, the borrower may negotiate with the banking financial institution to modify the contractually agreed interest rate every year or apply for a newly disbursed floating-rate individual housing loan to replace the existing loan; the method shall be selected at the borrower's discretion. The interest rate markup for the modified or newly disbursed loan shall be determined through autonomous negotiation between the banking financial institution and the borrower, and shall not be lower than the lower limit of the individual housing loan interest rate markup in the LPR at the time of modification or replacement; if an... The loan amount shall not exceed the remaining principal of the original loan.
	Asset Securitization	Eligible banking financial institutions are encouraged to issue credit asset-backed securities using individual housing loans as underlying assets to diversify credit risk, enhance loan disbursement capacity, and improve the market-based formation mechanism for real estate loan interest rates.
	Commercial Property Purchase Loans	Commercial properties purchased with loans shall be properties that have already undergone completion filing. The fence of commercial property purchase loans shall generally not exceed 10 years, and shall not exceed 15 years at the longest.
	Housing Rental Group Purchase Loans	Properties purchased with housing rental group purchase loans shall be commercial housing, commercial properties, etc., with clear legal relationships and completion filing; during the life of the loan, the rental use of the property shall not be changed. The tenor of housing rental group purchase loans shall not exceed 30 years at the longest, and the loan amount shall, in principle, not exceed 80% of the property's appraised value.
Operating Loans	Operating Property Loans	The tenor of operating property loans shall not exceed 15 years at the longest, and the loan amount shall, in principle, not exceed 70% of the property's appraised value. The primary source of repayment shall be the operating income of the property securing the loan.
	Housing Rental Operating Loans	For housing rental enterprises operating long-term rental housing with self-owned property rights, the tenor of housing rental operating loans shall not exceed 20 years at the longest, and the loan amount shall, in principle, not exceed 80% of the property's appraised value. For non-self-owned rental housing formed by housing rental enterprises through lawful and compliant renovation of industrial plants, commercial properties, urban villages, etc., the tenor of housing rental operating loans shall not exceed 5 years at the longest, and the loan amount shall, in principle, not exceed 70% of the total rental income receivable during the loan tenor.
Real Estate Finance Macro-prudential Management	Competent Department	PBOC shall implement macro credit regulation for real estate in accordance with the law, take the lead in establishing a macro prudential policy framework for real estate finance, jointly formulate real estate financial macro-prudential policies with relevant departments, and conduct macro-prudential management. The NFRA shall supervise and regulate real estate loan business of banking financial institutions in accordance with the law.
	Policy Tools	The PBOC, in conjunction with the NFRA, shall determine the minimum down payment ratio policies for national individual housing loans and commercial property purchase loans; the PBOC, in conjunction with the NFRA, shall implement real estate loan concentration management for banking financial institutions; individual housing loan interest rate policies shall be separately stipulated by the PBOC based on market conditions; financial institution risk profiles; systemic financial risk conditions; etc.; the PBOC shall, in conjunction with relevant departments, establish other counter-cyclical adjustment mechanisms for real estate finance. The PBOC shall conduct macro prudential monitoring and assessment of real estate credit business of banking financial institutions. Based on monitoring and assessment results, it may, in conjunction with relevant departments, adjust the parameters of applicable real estate financial macro-prudential management.
	Statistical Monitoring	The PBOC, in conjunction with financial regulation departments, shall reform and improve the full-scope real estate financial statistical indicator system covering real estate credit, bonds, stocks, asset management, and overseas financing, in response to the needs of the new development model for real estate, and conduct statistical monitoring. Relevant departments shall conduct statistical monitoring on real estate financing in their respective areas of responsibility in accordance with the division of duties.

Source: The People's Bank of China (PBOC), National Financial Regulatory Administration (NFRA), Nomura research

Fig. 3: Supporting policies from CSRC

Supporting Policy II: CSRC 'Opinions on the Capital Market Supporting the Building of a New Model for Real Estate Development'.		
Policy Module	**Policy Direction**	**Main Content**
Supporting Reasonable Financing for Real Estate Development Enterprises	[illegible]	[illegible] funds raised shall be invested in market-oriented real estate projects that meet policy requirements. For refinancing by real estate development enterprises listed overseas, relevant filing work shall be continuously carried out in accordance with applicable regulations.
	[illegible]	[illegible] for use in real estate projects meeting policy requirements and for payment of consideration for the restructuring transaction, etc.
	Supporting Real Estate Development Enterprises in Issuing Corporate Bonds and Asset-Backed Securities (ABS)	Striving to meet the reasonable bond financing needs of real estate development enterprises of all ownership types, including state-owned and private enterprises; further improving review efficiency; supporting real estate development enterprises to issue corporate bonds with raised funds mainly used for real estate projects meeting policy requirements; for existing corporate bonds, allowing rolling renewals; supporting real estate development enterprises to issue commercial mortgage-backed securities (CMBS) and real estate ABS backed by stable operating, cash flow-generating real estate projects; encouraging professional institutions to support real estate development enterprises in bond financing through guarantees, credit protection instruments, and other means in accordance with market-oriented principles.
	Promoting High-Quality Development of REITs	Revitalizing existing assets and broadening equity financing channels for real estate development enterprises; supporting the issuance of REITs based on eligible rental housing, urban renewal, and other projects; or using them as expansion assets to be injected into listed REITs; researching and optimizing regulatory requirements for original equity holders of rental housing and net cash flow distribution rules of projects to support the construction of a rental housing system [illegible]
	Continuously Advancing Pilot Work of Real Estate Private Equity Investment Funds	[illegible] introducing institutional capital and investing in real estate projects meeting policy requirements.
Optimizing Regulatory Work for Real Estate Securities Issuers	[illegible]	Strictly controlling the entry gate for securities issuance by real estate development enterprises; [illegible]
	Optimizing Information Disclosure Regulation	Consolidating the primary responsibility of real estate securities issuers for information disclosure, urging them to disclose information that is true, accurate, complete, timely, and fair.
	Strengthening Regulation of Raised Funds	Urging real estate development enterprises to use raised funds and recovered funds in accordance with prescribed or agreed purposes, and not to change the purposes without authorization or in disguised forms; strictly prohibiting controlling shareholders and actual controllers from illegally occupying raised funds or recovered funds.
	Resolutely Cracking Down on and Curbing Illegal and Non-Compliant Behaviors	Strictly guarding against and severely cracking down on fraudulent issuance, false information disclosure, misappropriation of raised funds, and other illegal and non-compliant behaviors by real estate securities issuers; increasing penalties for systematic and organized fraud.
Focusing on Preventing and Resolving Capital Market Risks in the Real Estate Sector	Strengthening Monitoring of Real Estate-Related Risks	Implementing requirements for early identification, early warning, early exposure, and early disposal; establishing and improving a mechanism for pre-research and pre-judgment of capital market risks related to the real estate sector; further strengthening real estate risk monitoring and regulatory coordination; intensifying tracking and assessment of cross-cutting risk points in stocks, bonds, asset management products, and other areas related to real estate development enterprises; effectively preventing systemic risks.
	Prudently Preventing and Resolving Real Estate Related Risks	Strictly implementing the delisting system; prudently and orderly carrying out delisting regulation of listed real estate development enterprises; smoothing diversified delisting channels; properly handling delisting of listed real estate development enterprises and related investor protection work; for real estate development enterprises with bond defaults, cooperating with the municipal government of the registration place to urge enterprises and major shareholders and actual controllers to raise funds through multiple channels, following market-oriented and rule-of-law principles to steadily promote disposal and clearance of defaulted bonds; researching and improving the liquidity resolving and disposing of bond default risks; enriching diversified real estate bond risk disposal mechanisms.
	Strengthening Expectation Guidance and Policy Coordination	Strengthening policy interpretation, clarifying implementation requirements, and stabilizing market expectations; strengthening policy coordination and actively cooperating with industry regulatory authorities and local governments; establishing a risk joint prevention and control mechanism with local governments to jointly promote stable and healthy development of the real estate market.

Source: China Securities Regulatory Commission (CSRC), Nomura research