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China: The shift to a new property model

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On 28 August, China's housing and financial regulators jointly released a comprehensive package of eight documents to revamp the housing sector. Under the new regime, presales will be largely dismantled, the risk of home delivery will be essentially eliminated, and commercial banks, capital markets and developers will take on more financial risk from homebuyers. As part of the policy package, some credit easing measures were also introduced for homebuyers and developers, including a longer tenor for mortgage loans, flexible policies for mortgage extensions and a designated loan for urban renewal projects.

Overall, we see more long-term structural benefits than a near-term impact from this policy package. The shift to a completed-sales model should help rebuild homebuyers' confidence in home delivery in the long run. However, in the near term, private developers might be too financially stretched to transition smoothly to the new model, their situation could be worsened further and Beijing may still have to address the substantial non-performing debt caused by the property bust over the past five years. The mortgage payment extension could improve short-term affordability and reduce forced selling at distress prices, but it could incur more interest payments. In our view, some temporary interest subsidies could make this policy more effective. The new dedicated urban renewal loan signals Beijing's rising concerns about deteriorating declines in property investment. However, the scale of the earmarked loan is not yet clear.

A major financing revamp for property development

The notice released by the PBoC made it clear that the policy package is to accommodate reform of the sales system in the property sector and improve the fundamental systems for housing development, financing and sales.

Despite the damage to confidence over the past few years, presales is still the dominant property business model in China (Figure 1), as it accounted for 68% of new home sales by floor space in 2025. Under this model, homebuyers are expected to pay the full price for a new home and start repaying mortgages even before the project is completed. This model, on the one hand, has prompted rapid urbanization in China, but on the other hand, it has led to significant leverage risks among developers and heightened home delivery risks for homebuyers (we have written extensively on the risks of China's presales system, see *2026*, *2025*, *2024*, *2023*, *2022*, *2021*, *2020*, *2019*, *2018*, etc.).

As urbanization in China has passed its fastest phase, and to eradicate the long-standing risk of delayed home delivery and homebuyers' legal interests, the authorities have now made a decisive shift away from the presales model to the completed-sales model. Buyers are only required to begin servicing their mortgages when a home is completed, meaning development loans will likely become the major funding source for developers to carry out construction. Consequently, banks will face greater challenges in discerning project quality and are likely to bear more financial risks in the property sectors, although other funding channels through capital markets might help mitigate part of the burden.

Deferring mortgage disbursement: "Guaranteed delivery, before repayment"

For presale homes, the disbursement triggers of mortgage funding to developers will move from "structural topping-out" to "completion filing". Previously, developers might have had access to presales funding even before the topping-out, and funding from home sales is the largest source for property development. Presales related funds, including advance deposits, down payments and mortgage loans, now still account for about 45% of developers' funding sources for property construction (Figure 2). Deferring the release of the funding after home completion effectively dismantles the financing function of presales. Developers can no longer rely on early mortgage proceeds to fund construction.

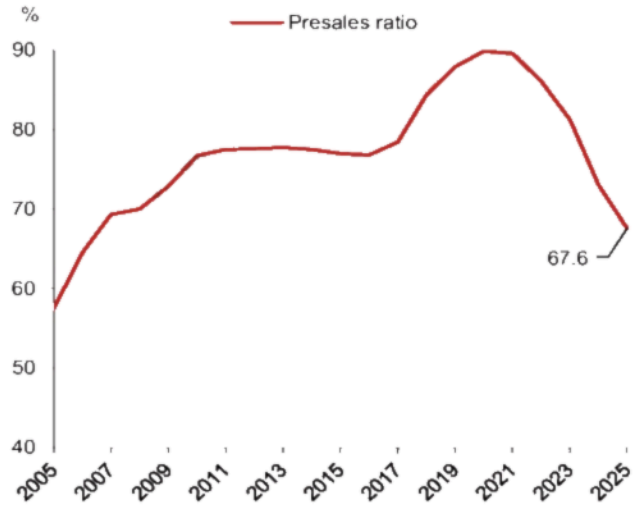
Construction-phase funding must come from developers' own funding, development loans

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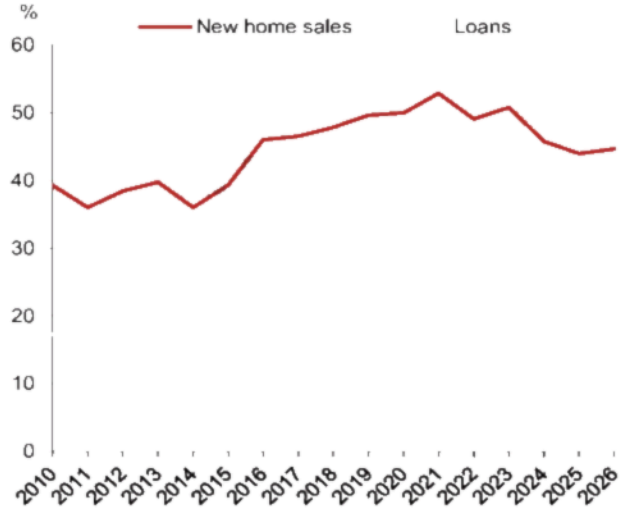
and other financing channels from the capital markets, similar to the financing feature of the completed-sale model. That is to say, the delivery risk, i.e. the overdue risk of home delivery, is largely eliminated, with commercial banks, capital markets and developers likely taking on more financial risks from homebuyers.

Fig. 1: The ratio of presales over total new home sales



Note: Presales only refer to presales of residential properties by floor space. Data after 2025 are no longer available.
Source: NBS, Wind, Nomura Global Economics.

Fig. 2: Funding composition of property development



Note: The 2026 ratios refer to estimates based on the first seven months.
Source: NBS, Wind, Nomura Global Economics.

The new dominant funding source: Development loans

Under the new model, development loans will likely become the major funding channel for developers to carry out construction. It is a project-focus, lead bank model. Each property project has one lead bank, which either lends alone or leads to a syndicate loan, with close-loop management of project funds. The project company opens a fund account at the lead bank; development loans, project equity and sale proceeds all flow through this account. The lead bank and the account cannot in principle change before the loan is fully repaid. Loan tenors are matched to the construction/sales cycle and cover the full span from start of construction to completion filing.

- **Presales**: up to 5 years, in principle no more than 3 years;
- **Completed-sales**: up to 7 years, in principle no more than 5 years, which is an explicit lengthening from the previous cap of 5 years.

It is important to note that the first principal repayment of a development loan is only required for developers after the project is completed, while prepayment is also allowed upon mutual agreement through negotiation. In other words, during the phase of construction, banks might only receive interest payments of development loans, with the principal payment pending, leading to non-negligible risks for banks.

Supplementary financing channels through capital markets

To complement development loans, the CSRC's new opinion establishes a comprehensive framework for property-related financing across equities, bonds, ABS and REITs.

- **Equity**: Support refinancing by listed developers (private placements, targeted convertible bonds) with proceeds directed towards eligible projects; support M&A of property-related assets via shares, convertible bonds or cash, with supporting fundraising.
- **Bond/ABS**: Support bond issuance by developers of all ownership types on an equal footing, with proceeds mainly for eligible projects and allowance for rollover refinancing of existing bonds; support CMBS and real-estate ABS backed by stable-yielding projects; encourage credit-enhancement tools.



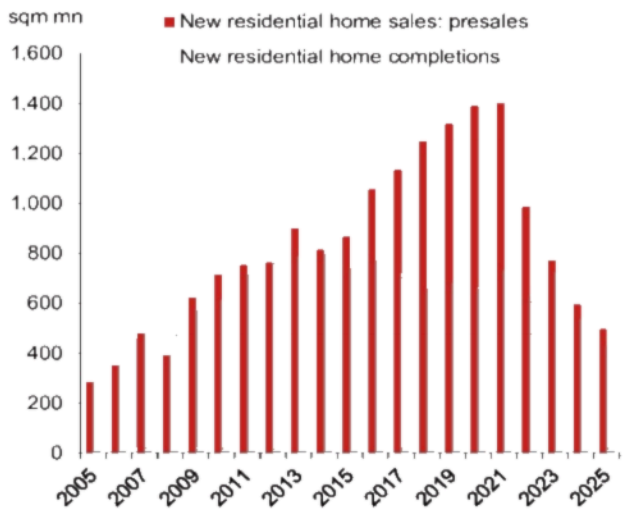
- **REITs**: Support rental-housing and urban-renewal REITs and their use as expansion assets; prudently advance commercial-property REITs; and continue the private real-estate fund pilot.

The revamp of the sales system

Before the release of the substantial financing revamp, the Ministry of Housing and Urban-Rural Development of China (MOHURD), the Ministry of Natural Resources (MND) and National Financial Regulatory Administration (NFRA) jointly issued a notice to promote the completed-sales model. The notice raised the presales threshold to "topping-out of the main structure of the project", required all funding from down payments and mortgage proceeds to be deposited into escrow accounts, and established a deposit scheme for the completed-sales model.

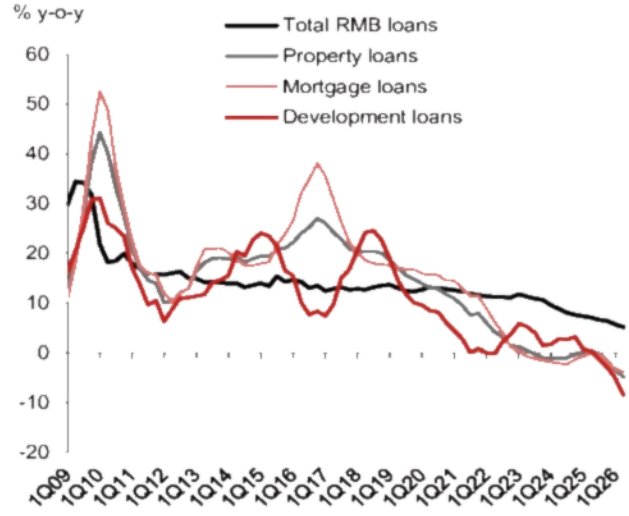
Under the new deposit scheme, developers can sign a deposit contract with homebuyers and collect a small deposit. The contract specifies the deposit amount, home price, delivery date and breach of contract responsibilities. The deposits will be strictly overseen by the authorities until the project is delivered. If a developer fails to deliver on time, the buyer can cancel the contract and the developer must return the deposit and bear penalties. In our view, the new deposit scheme, to some extent, might help banks discern the quality of the project when evaluating the approval of development loans. However, setting the right deposit amount and terms to gauge real housing demand remains a challenge.

Fig. 3: New residential properties: sales and completions



Source: NBS, Wind, Nomura Global Economics.

Fig. 4: Growth of outstanding loans to the property sector



Source: PBoC, Wind, Nomura Global Economics.

Credit easing measures for homebuyers and developers

Within the large policy package, some credit easing measures were also introduced to improve mortgage affordability of households and boost funding support for developers. The extension of the maximum mortgage terms to 40 from 30 years and flexible mortgage extensions might improve short-term affordability and reduce forced selling at distress prices, but it could also increase total interest payments. In this regard, this policy could become more effective if some temporary interest subsidies are introduced, in our view. The new dedicated urban renewal loan signals Beijing's rising concerns about deepening declines in property investment, but the actual scale and execution remain unclear.

Mortgage terms extended to 40 from 30 years

The maximum mortgage tenor has been raised to 40 years, with the specific term negotiated between borrowers and banks. Longer amortization lowers the monthly installments for any given loan size, directly improving affordability, but it also increases total interest payments.

Mortgage extensions are allowed for borrowers in temporary difficulties

Existing mortgage borrowers that experience repayment difficulties due to a temporary

loss of income sources, could negotiate with banks to adjust their repayment plans by postponing the repayment time, extending the loan maturity period or deferring principal repayments. In line with the new policy for the maximum mortgage term, the extension cannot exceed half of the original term and the new overall mortgage term after the extension cannot exceed 40 years.

To some extent, the mortgage extension policy is analogous to the Home Affordable Modification Program (HAMP) introduced by the US government during the subprime mortgage crisis to address the rapid rise in delinquencies on mortgages and home foreclosures. As a key part of the program, the HAMP allowed borrowers to restructure their mortgage arrangements to reduce monthly mortgage payments to 31% of gross income. In the case of China, the new policy might provide a financial lifeline for some middle-class families in large cities that are temporarily financially strained but still have a strong intent to honour their debt. Although the new policy might have a limited impact on encouraging more purchases of homes, families in temporary financial distress will face less pressure to force-sell their properties at distressed prices.

Debt-to-income (DTI) ceiling: 55% to 60%, with the 50% mortgage cap unchanged

The new measures have two binding ratios: the monthly mortgage payment-to-income ratio at no more than 50%, which is unchanged from the 2004 guidelines, while the ceiling of total debt to income ratio has been raised to 60% from 55%. In practice, the 50% mortgage cap remains the binding constraint for borrowers without other debt, so the relaxation mainly helps buyers that also service auto loans, consumer credit or credit-card debt. Strictly speaking, this is a calibration of household leverage tolerance rather than a pure property-easing measure.

A dedicated urban-renewal loan product for developers

The NFRA and MOHURD established a dedicated "urban-renewal project loan" category, with defined eligibility, use of proceeds, repayment sources and fund-management rules, and encourages banks to design comprehensive financial services for urban renewal projects. Urban renewal is increasingly treated as a key lever for stabilizing property investment. On 28 August, the Housing Minister Ni Hong attended an unusual national conference on boosting investment, held by the NDRC. At the conference, urban renewal was highlighted as one of the key areas for lifting investment, alongside technology innovation, industrial upgrading, rural vitalization, new infrastructure, public welfare and green low-carbon transition.

Fig. 5: Property policy package announced on 28 August

	Policy dimension	New	Old
Homebuyers	Mortgage terms	Max 40 years. Extensions: cumulative no more than half of original term; total no more than 40 years	Max 30 years
	Debt-to-income (DTI)	Monthly mortgage payment no more than 50% of income (unchanged); Total monthly debt service no more than 60% of income	Total monthly debt service no more than 55% of income
	Mortgage extensions	Banks may negotiate deferral / loan extension / principal rescheduling for borrowers with temporary income loss	Limited discretion
Developers	Urban-renewal financing	Dedicated "urban-renewal project loan" category	No dedicated product
	Mortgage disbursement trigger (presale)	Deferred to after project completion	After topping-out of the main structure of the project
	Development loan model	Project credit based; One lead bank per project; Closed-loop fund management; First principal repayment after completion	Developer credit based
	Development loan tenor	Presale: 3-5 years; Completed-sale: 5-7 years; Rental housing: 3-5 years; Commercial real estate: no more than 7 years	3-5 years

Source: PBoC, NFRA, CSRC, MOHURD, Nomura Global Economics.