CHINA PROPERTY

Transition to a new sales model:limited near-term impact,but healthier industry development over the longer term

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On Aug 28,policymakers issued three property-related policies:(i)Notice on Improving the Commodity Housing Sales Model(**"Notice"**),jointly announced by MOHURD,the Ministry of Natural Resources,and NFRA;(ii)Opinions on Reforming and Improving Real Estate Credit **Management to Accelerate the Establishment of a** New Real Estate Development Model(**"Opinions 1"),**iointly announced by the PBOC and NFRA;and(iii)Opinions on Capital Market Support for Building a New Model of Real Estate Development(**"Opinions 2"),**announced by the CSRC.

In short,the Notice mandates local authorities to steadily advance reforms of commodity housing sales from a presales model to a completed property sales model.The two **Opinions** provide frameworks for this transformation and support property purchases by extending the maximum mortgage terms to 40 years(from 30 years currently),and ensuring that mortgage repayments only start once developers hand over properties to homebuyers.

Implications:

- **For the property industry:** Longer term,these new policies will promote a healthier housing market,encourage developer consolidation and better safeguard the banking system.Near-term however,we expect a more mixed impact as 1)we expect a further slowdown in land sales,down 72%/64%from the peak(2020)in terms of 2025 volume/value,followed by 26%/31%yoy declines in the 7M26;2)correspondingly,the supply of new property projects supply willbe further reduced,accelerating the re-balancing between supply and demand.

- **For property developers**:Since 2022,policymakers,especially at the central level,have been considering implementing a completed property sales model. While a broader roll out of such a model would be negative for developers in **terms of cash flow timing and increased** uncertainty around margins,resulting in weaker project IRRs,this would be mitigated by several factors:

  1)since 4021.the government has already tightened controls on presale deposits,effectively containing instances of misuse and their associated risks.As such,this Notice should not be a shock for developers.In addition,since 2022, 30 provinces and cities have already been trialing the transition to a completed

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property sales model,and there has not been a material impact on property sales and prices;

2) the Notice leaves room for flexibility by not taking a One-Size-Fits-Allapproach, using the status of“construction project planning permit”as distinct from"old”and “new”projects.In other words,current projects that have already obtained permits will continue to operate under the original rules.While future projects may still choose to use a presales model,there will be more stringent presales permit requirements and supervision of presales deposits.In addition, **the specific timeline** and scope of implementation in each city willbe determined by local authorities;

3) the lead bank system willbe a core support mechanism with each project designated a single lead bank(or syndicate)to manage all funds and guarantee reasonable financing needs.This closed-loop makes risks controllable and solves current credit bottlenecks.To support the longer time horizon capital needs of the completed property sales model,development loans can be extended up to 7 years (vs.3 years currently).Furthermore,principal repayments can be deferred until after project completion;and

4) the introduction of a sales deposit system willlock in demand as developers will be allowed to sign deposit contracts with homebuyers and legally collect a small deposit to secure a property and lock in its ASP.This willreduce price uncertainty, which we view as the one of the biggest challenges for developers under this new model.The size of deposits remains to be seen,but given slowing and smaller propertv price declines YTD,and our view that property price willstabilize in most cities by late 2027E,a sizable deposit(e.g.10%of the contract value or above) would be enough for prospective homebuyers to remain in their contracts.

- **For homebuyers:This announcement is another measure supporting housing** demand.Hypothetically, **a mortgage borrowing family with a home purchase value** of Rmb1mn,85%LTV and 3%mortgage rate,would see a reduction in monthly mortgage repayments equivalent to a HSD%of household disposable income (assuming a family size of two)by extending the mortgage term to 40 years(from 30 years currently).That said,the jobs market and income outlook remain the key to reviving housing demand and consumption.

Overall,we continue to believe that stronger SOE developers are best placed in the current housing downturn(we are **Buy rated** on CRL,COLI,Jinmao and Greentown),but we expect a more positive impact to select POE developers(such as Longfor)if they can receive more funding support at the project level from the lead bank system.Ultimately, the acceleration of idled,quality land bank/project construction in higher-tier cities is needed to not only support longer-term housing demand in these cities,but is also critical to breaking the current negative feedback loop.

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China developers valuation comparison

Exhibit 1:China developers valuation comparison

Compa	Ticker	MCap US bn	Daily Liquidity ($mm) 3mth trailing	Type	Preferred Rating (B/N/S)	Price	Potential upside/ downside (%)	Target price diff. vs. MM	Shr price End-25F diff vs. prem vs MM	FDCre PE(x) 24E	25E	26E	27E	level	pb revaluation gain 24E	25E	26E	Pershd yeda (%) 25	25E	27E	28
Stronger SOE developer																					
CMSK	0144.HK	97	981	Central SOE	Neutral	7.21	10.10	10	-13%	1.35	0.90	na	12.4	11.0	9.57	1.0	0.8	0.8	0.8	0.7	2.5	3.0	3.6
Cog	688.HK	134		Central SOE	Buy	1.88	16.3	21	10%	12.54	0.25	10.7	10.1	10.0	8.7	0.1	0.8	0.1	0.1	0.5	3.8	1.1	1.7
CR Land	1109.HK	21.1	54	Central SOE	Buy	3.20	36.60		-10%	10.58	0.16	10.0	11.1	10.7	9.8	1.0	1.0	0.9	0.9	0.7	3.5	3.7	4.1
Greentow	3900.HK	2.5	5	Mixed owner	Buy	7.90	0.65	2	15%	1.12	0.20	0.7	1.3	1.6	1.2	0.5	0.5	0.5	0.6		0.8	1.1	2.1
Xinyu	0917.HK	2.0	1.0	Central SOE	Buy	1.5	0.15	2.1	-10%	2.0	0.27	3.4	2.2	1.1	7.1	0.6	0.6	0.6	0.6	2.0	2.0	3.7	6.0
Poly	0119.HK	2.0	1.0	Central SOE	Neutral	0.10	0.10		10%	7.21	0.03	5.5	5.6	5.8	5.1	0.3	0.3	0.3	0.2	0.2			
Average								24	42%		(24)	10.7	11.1	10.7	9.7	0.6	0.5	0.5	0.5	1.8	2.1	3.1	4.2
otardevelopetrs																							
Longfor	0960.HK	60	30	[illegible]	Neutral	60.00	7.50	13	25%	7.51	0.33	na	na	29.5	9.9	0.3	0.3	0.3	0.3	1.2		0.9	1.5
Sunac	1918.HK	1.3	5	[illegible]	Neutral	1.40	1.40	12	50%	1.51	1.61	2.51	1.15	1.55	1.0	0.5	0.5	0.2	0.2				
Sunac SI	000069.SZ	6.1	13	Residential	Sell	2.05	1.63	2.10	10%	1.10	0.20	1.2	1.0	1.0	0.8	0.3	0.4	0.3	0.5				
Poly Dev	2202.HK	0.7	3	Mixed ownership	Sell	2.10	1.60	2.20	10%	1.12	1.13	1.1	1.1	1.1	1.1	0.2	0.2	0.2	0.2				
Average								22	30%		1.23	1.8	1.1	1.1	1.1	0.3	0.3	0.3	0.3	0.2		0.2	0.4
								23			(24)	24.0	17.2	15.3	10.4	0.5		0.5	0.5	1.2	1.8	2.0	
Hshare average								20			(35)	17.1	17.1	15.4		0.5	6.5	6.5	0.5	1.5	14	24	3.3
Ashare average								0			(22	6.5	17.9	14.9	14.9	na	na	n.a	n.a	n.a	n.a	n.a	n.

Source:Datastream,Goldman Sachs Global Investment Research