Deutsche Bank
Research

Economics
China Macro

Date
31 August 2026

A New Era Begins: Rewriting China's Property Model

Yi Xiong, Ph.D.
Chief Economist
+852-2203-6139

- China's August 28 property package is a comprehensive redesign of the sector's institutional framework. Five central authorities coordinated reforms across the full project cycle. The measures could end the high-leverage, high-turnover development model that has shaped the sector since the early 2000s.
- Completed-home sales are intended to become the norm for future projects, although pre-sales will remain available under tighter conditions. Developers must fund land purchases themselves and wait longer to receive sales proceeds. In return, they will have access to longer development loans and a broader range of capital-market financing instruments.
- Homebuyers will receive stronger protection. Completed-home sales, supervised pre-sale funds, later mortgage disbursement and title registration at delivery should significantly reduce their exposure to non-delivery. The extension of the maximum mortgage maturity from 30 to 40 years will also lower monthly payments for a given loan amount and interest rate.
- What are the economic implications? In the near term, lower monthly payments and reduced delivery risk should support new home sales. Tighter financing requirements, however, will likely constrain new housing projects, weighing on property investment and local-government land-sale revenue.
- The longer-term goal is a slower, more quality-driven and sustainable property sector. Projects will become more capital-intensive, and developers will compete more on individual-project quality and less on corporate scale. Homebuyers should benefit from safer purchases and more reliable delivery, while financial institutions take a larger role in financing projects and managing risk. The remaining challenge is how local governments can replace the loss of land-sale revenue.

Deutsche Bank AG/Hong Kong
IMPORTANT RESEARCH DISCLOSURES AND ANALYST CERTIFICATIONS LOCATED IN APPENDIX 1. UNTIL 19th MARCH 2021 INCOMPLETE DISCLOSURE INFORMATION MAY HAVE BEEN DISPLAYED, PLEASE SEE APPENDIX 1 FOR FURTHER DETAILS.

1. What Happened

On August 28, five central authorities—the PBOC, NFRA, Ministry of Housing and Urban-Rural Development, Ministry of Natural Resources and CSRC—jointly released rules covering land acquisition, project financing, construction, pre-sales, mortgage disbursement and capital-market financing. Taken together, the documents redesign the funding and risk allocation of residential development rather than merely easing one part of the existing system.

The degree of coordination suggests that the framework was prepared over an extended period and released only once policymakers were ready to move beyond several years of incremental adjustment. Its breadth therefore signals a shift from piecemeal support toward an institutional redesign of the sector.

2. What Are Policymakers Trying to Achieve?

We see three objectives, operating at the developer, household and financial-system levels.

1. **Policymakers aim to reduce leverage in property development**. Over the past two decades, developers often financed projects with borrowed money and used proceeds from one project to fund the next before construction was complete and homes were delivered. This model made rapid expansion possible, but it also became a major source of sector risk.
2. **Policymakers aim to protect homebuyers.** During the five-year property downturn, many buyers paid for homes and took on mortgages only to face delayed delivery, project funding shortfalls and, in some cases, unfinished developments. The new framework seeks to prevent a recurrence by moving sales toward completed homes and imposing tighter controls on project funds.
3. **Policymakers want professional financial institutions to bear more construction-stage financing risk**. Individual homebuyers are poorly placed to assess and absorb that risk. Banks and capital-market investors have greater capacity to price, monitor and manage it, and should therefore provide more of the funding required during development.

3. What Changed?

What has changed? Almost everything. From land acquisition to home delivery, every stage of the residential development cycle will operate under new rules. The changes are best understood by following a project through that cycle.

First, the project begins with more developer equity. Developers could previously use borrowed funds to acquire land. They must now pay for land with their own capital, while banks are prohibited from financing land-transfer payments and related taxes. More equity is therefore committed before construction begins, reducing the number of projects that a given amount of developer capital can support.



Second, pre-sale proceeds will arrive much later in the construction cycle. China adopted its pre-sale system from Hong Kong in 1994, and pre-sales accounted for roughly 87% of new-home transactions by 2021. Under that model, developers could start construction, launch sales at an early stage and use buyers' down payments and mortgage proceeds to fund the remaining work. Pre-sale projects will now generally have to reach structural completion before sales begin, and mortgage proceeds will generally be withheld until completion has been formally registered. Customer funding will consequently cover far less of the early construction period.

Third, longer development loans and broader capital-market financing are intended to fill the resulting gap. Project funds will be ring-fenced under a lead-bank system, while loan maturities will be aligned more closely with the sales cycle. Development loans will generally run for no more than three years for pre-sale projects and five years for completed-home projects, with maximum terms of five and seven years respectively. Initial principal repayment will generally fall due after completion filing. Equity financing, M&A financing, bonds, ABS and other forms of institutional capital should provide additional funding.

Fourth, the sales model will move toward completed homes. Completed-home sales are to be prioritized for newly auctioned residential land and projects that have yet to obtain construction planning permits. Pre-sales will remain permitted. For buyers, the transaction should increasingly take place when the property is complete or close to completion. Critically, banks will disburse mortgages for pre-sold homes only after formal completion filing, sharply reducing the risk that households service debt on delayed or unfinished homes.

Across the cycle, several accompanying rules will reduce buyers' exposure before delivery. Down payments and mortgage proceeds for pre-sold homes must enter the project's supervised account at the lead bank and remain under supervision until the project passes completion inspection. If the developer fails to deliver on schedule, the buyer may terminate the agreement and recover the deposit, with the developer liable for breach. The policy also promotes delivery and title registration at the same time, allowing buyers to receive their property ownership certificates when they take possession.

Finally, household financing becomes more supportive once the project reaches the buyer. The maximum mortgage maturity has risen from 30 to 40 years. For a RMB2m mortgage at 3.5% with equal monthly principal-and-interest payments, extending the term from 30 to 40 years reduces the monthly payment from about RMB8,980 to RMB7,750—a decline of roughly RMB1,230, or 14%. Separately, the August 18 amendment to the Housing Provident Fund regulations, which takes effect on September 20, expands the ways in which the Fund can be used to lower housing purchase and maintenance costs.

In short, the funding sequence has been reordered. Developer equity finances the start of the project; banks and capital markets carry more of the construction phase; and homebuyer mortgage funds arrive close to completion. Developers must commit capital for longer, while households bear much less project-completion risk.

4. Implications

The new framework is designed to bring the high-leverage, high-turnover development model that shaped China's property sector for much of the past two decades to an end. Future projects will proceed more slowly, with more capital committed upfront, tighter financing discipline and greater emphasis on construction quality and delivery. The result should be a more mature and better-regulated market, with wide-ranging effects on developers, financial institutions, homebuyers and local governments.

Near-term market impact

The package should provide some support to new home sales in the near term. Longer mortgage maturities reduce monthly payments, while later mortgage disbursement and greater use of completed-home sales reduce delivery risk. The price effect will vary by market: improved sales could support prices in major cities, while excess supply, weaker demographics and poor income expectations will continue to weigh on structurally weaker locations.

However, property investment will likely remain weak. Developers must finance land purchases themselves and fund a larger share of construction before recovering cash from buyers. Higher capital requirements mean that a given amount of developer equity can support fewer projects. A recovery in housing sales may therefore precede any improvement in land purchases or new starts.

Longer-term structural effects

Over time, the reforms will redistribute capital, risk and incentives across four groups: developers, financial institutions, homebuyers and local governments.

Property development will become more capital-intensive and slower. Developers must use their own funds for land purchases and wait longer to receive cash from homebuyers, so the same equity base will support fewer projects. Competition should depend more heavily on project quality and capital efficiency, with corporate scale carrying less weight. This may create opportunities for capable regional developers, although higher capital requirements will continue to favor well-capitalized firms and exclude financially weak ones.

Financial institutions will assume more construction-stage risk and exercise greater control over projects. Banks will provide funding for longer periods, while the lead-bank system and ring-fenced accounts should improve visibility over project cash flows. Greater exposure to construction and completion risk may initially make banks more selective. Equity, bonds, ABS and private capital will therefore need to share more of the financing burden. Credit allocation should increasingly reflect the risk-adjusted return of individual projects, with issuer size carrying less influence.

Home purchases should become safer and more transparent. Later mortgage disbursement, supervised pre-sale funds, greater use of completed-home sales and delivery alongside title registration all reduce the risk that households pay for homes that are delayed or unfinished. Longer mortgage terms lower monthly payments and may improve near-term affordability, but they also slow principal repayment and raise lifetime interest costs. Over time, buyers should place more weight on completed properties, construction quality and delivery performance.

Local governments will face further pressure to reduce their dependence on land sales. Higher equity requirements and slower developer turnover will constrain both the capacity to acquire land and the prices developers can afford to pay. Even if housing transactions stabilize, land-sale revenue is unlikely to recover its former role in financing local investment. Recurring revenues linked to the holding and use of existing property could therefore become more important. Broader property taxation and more effective taxation of rental income are possible directions, although neither is part of the August 28 package.

5. A New Era for China's Property Sector

Property played a central role in China's rapid growth after 2000. The high-leverage, high-turnover model accelerated economic growth and urbanization, but it also contributed to overheating, rising local-government debt, accumulating financial risk and inadequate protection for homebuyers.

After five years of property downturn, policymakers are now attempting to address these problems through a coordinated set of reforms. If implemented effectively, the measures could bring the old development model to a close. Lower leverage, slower turnover and tighter control of project funds should contain sector risk more effectively and substantially reduce the threat of non-delivery for homebuyers.

The adjustment could carry near-term economic costs. The new rules may weaken property investment, reduce local-government land revenue and further diminish the sector's contribution to growth. Longer mortgage maturities and broader Housing Provident Fund support should help demand, although we expect the restrictive effects to dominate initially while domestic demand remains weak.

We nevertheless expect the long-term benefits to outweigh the near-term costs. Higher developer equity, ring-fenced project funding and later mortgage disbursement should reduce leverage and non-delivery risk. Developers should compete more on project quality, homebuyers should gain confidence in new-home purchases, and financial institutions should manage and price project risk more effectively. The reforms therefore reflect policymakers' willingness to accept weaker short-term property activity in exchange for a safer and more sustainable sector.

One major issue remains unresolved: how should local governments replace lost land-sale revenue? The answer lies beyond the property sector, in a broader reform of China's fiscal and tax system.

