China Property

Macro Tour Feedback: Flexibility on the new presale policy

Equities

China Emerging

Real Estate

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Five key takeaways

We hosted a China macro, financial and property tour in Dongguan, Shenzhen and Beijing on Sept 2-4 2026, visiting residential property projects, property agents, and consultant who provides policy advice to central and local governments, with five key takeaways on the presale model change. First, local governments have flexibility in implementation (e.g., land premium by instalment, and more complimentary area (i.e., area not counted as GFA) to offset land price decline). Second, the economics of urban redevelopment becomes less favourable, i.e., less land supply and positive to housing price in core districts. Third, tier 1-2 cities' suburb districts and lower tier cities oversupply remains. Fourth, developers are likely to accelerate construction such that they can collect sales proceeds earlier, but this may be a negative to building quality. Fifth, local unlisted developers may exit, positive for sector consolidation.

Our four-scenario analysis towards project IRRs under new presale policy

To address the potential upside from local governments' implementation flexibility, we conducted a four-scenario analysis of project-level IRRs with different assumptions in relation to higher property price, lower land price and land premium by instalment, and our conclusion is that project-level IRR is most sensitive to whether land premium by instalment is permitted, instead of margin, due to land appreciation tax. Scenario 1) Under the original pre-sale model, our hypothetical project generates 17% IRR with 11% net margin. Scenario 2) Under the new presale model framework, assuming no offsetting measures, the same project would generate only a 7% IRR and a 10% net margin. Scenario 3) For project IRRs to remain unchanged at 17%, either selling prices would need to increase by 29% or land acquisition costs would need to decline by 27%, and the net margin will increase to 20%. Scenario 4) If developers are permitted to pay land premiums in instalments, assuming a payment schedule of 40%/30%/30% over a two-year sales cycle, our analysis suggests project IRR would decline to only 13%, while net margin would decline to 10%. See Figure 1-5 for details. We think the eventual scenario could be a combination of lower land price (e.g., decline by 5%) and land premium by instalment. Our analysis suggests that project-level IRR may decline only modestly from 17% to 15%.

Key to watch: Physical market response and local government implementation

What remains uncertain is physical market response, as some investors expect property price may stabilize earlier than expected because of this policy. Our on-the-ground feedback suggests sell-through rate has increased for high end projects in core districts, due to expectation of reduced supply in future. However, mass market products' sell-through rate remains largely the same as inventory remains high. Second, secondary listing provides a useful gauge of housing price expectation from home owners. As of Sept 2nd, secondary listing in 50 cities declined by 0.4% WoW, and slowed to +0.8% YoY, vs +1.0% YoY one week before, although we think it is still early to draw a conclusion.

Stock implication

We believe the change of presale model will be positive to **KE Holdings**, due to demand spillover to existing home transactions, and relatively positive to **CR Land**, as 80% of its NAV come from shopping malls and CR Mixc. However, this may be a headwind for developers relying on high asset turnover, i.e., **Greentown, C&D, Jinmao**.

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PROJECT IRR SCENARIO ANALYSIS

We conducted a case study using a hypothetical COLI project to assess the potential impact of the new pre-sale policy on project-level net margins and IRRs. We selected COLI because it is one of the top developers with the largest scale and sales, and one of the companies most exposed to property development.

Assumptions: Based on historical averages and the assumptions used in our model, we assume the project originally sells at a ASP of RMB30k per sqm, with a land premium of RMB18k per sqm (60% of ASP), construction cost of RMB4k per sqm, funding cost of 2.7%, SG&A expense at 2.7% of sales and effective tax rate of 32% (past three-year average) or 38% (2017-19 average, if net margin improves to 20%+ level, due to progressive tax regime in mainland China).

Scenario 1: Under previous presale framework, we estimate the project could generate a net margin of 11.6% and IRR of 16.8%.

Scenario 2: New presale policy with no other changes

Under new presale policy, cash collection years would be extended from 1 year to 2 year. If housing prices and land prices remain unchanged, net margin would deteriorate by 1.4ppt to 10.2% while IRR would deteriorate by 9.8ppt to 7.0%.

Scenario 3: Lower land price/higher housing prices to offset IRR impact

We assume developers to bid lower for land to neutralize impact towards IRR while housing prices remain unchanged. Land price would need to decline by 27% to only 44% of housing price, while net margin would improve by 8.3ppt to 19.9%. If absolute value of land price remains unchanged, housing price would need to go up by 29% to keep IRR neutral. Net margin would improve by 8.5ppt to 20.1% while the implied land price as % of housing price would decline to only 46% from originally 60%.

Scenario 4: Land premium to be paid in instalments

We assume local governments to receive land premium payment by instalment in a schedule of 40%/30%/30% over a two-year period. If housing ASP and land price remain unchanged, net margin would only decline by 1.4ppt to 10.2% while IRR would only decline by 4.2ppt to 12.6%.

Figure 1: Scenario 1 - In our case study, under the old presale policy, COLI may achieve net margin of 11.6% and IRR of 16.8% respectively

Scenario 1 - Old presale policy		
Housing price ASP	30,000	Rmb/ sqm
VAT	5%	
Land price ASP	18,000	60% of housing price
Construction cost	4,000	Rmb/ sqm
Interest cost	2.7%	
SG&A	2.7%	As % of sales
Effective tax	32%	Past three-year average
Cash collection years	1	1-year sell through to breakeven cash flow
Net margin	11.6%	
IRR	16.8%	

Source: UBS estimates

Figure 2: Scenario 2 - Net margin and IRR would deteriorate to 10.2% and 7.0% under the new presale policy

Scenario 2 - New presale policy		
Housing price ASP	30,000	Rmb/ sqm
VAT	5%	
Land price ASP	18,000	60% of housing price
Construction cost	4,000	Rmb/ sqm
Interest cost	2.7%	
SG&A	2.7%	As % of sales
Effective tax	32%	Past three-year average
Cash collection years	2	Withdrawl upon two-year completion

Under new presale policy		Compared to old presale policy
Net margin	10.2%	-1.3%
IRR	7.0%	-9.8%

Source: UBS estimates

Figure 3: Scenario 3 - Land price would need to decline by 27% or housing prices need to increase by 29% to maintain an unchanged IRR

Scenario 3 - Assume IRR unchanged with land price decline		
Housing price ASP	30,000	Rmb/ sqm
VAT	5%	
Land price ASP	13,125	44% of housing price
Construction cost	4,000	Rmb/ sqm
Interest cost	2.7%	
SG&A	2.7%	As % of sales
Effective tax	38%	2017-19 Average
Cash collection years	2	Withdrawl upon two-year completion

Under new presale policy		Compared to old presale policy
Net margin	19.9%	8.4%
IRR	16.8%	0.0%

Land price decline	-27.1%

Scenario 3 - Assume IRR unchanged with ASP hike		
Housing price ASP	38,760	Rmb/ sqm
VAT	5%	
Land price ASP	18,000	46% of housing price
Construction cost	4,000	Rmb/ sqm
Interest cost	2.7%	
SG&A	2.7%	As % of sales
Effective tax	38%	2017-19 Average
Cash collection years	2	Withdrawl upon two-year completion

Under new presale policy		Compared to old presale policy
Net margin	20.1%	8.6%
IRR	16.8%	0.0%

Housing price increase	29.2%

Source: UBS estimates

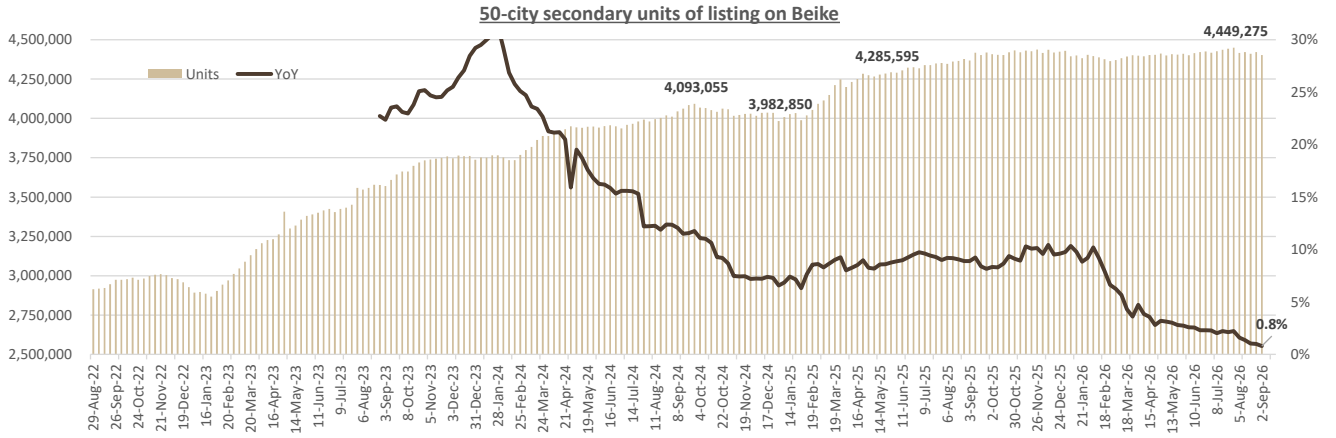
Figure 4: Scenario 4 - If land premium can be paid by instalment, net margin and IRR would only decline to 10.2% and 12.6% respectively

Scenario 4 - Assume land premium payment by instalment		
Housing price ASP	30,000	Rmb/ sqm
VAT	5%	
Land price ASP	18,000	60% of housing price
Construction cost	4,000	Rmb/ sqm
Interest cost	2.7%	
SG&A	2.7%	As % of sales
Effective tax	32%	past three years average
Cash collection years	2	Withdrawl upon two-year completion

Under new presale policy		Compared to old presale policy
Net margin	10.2%	-1.3%
IRR	12.6%	-4.2%

Source: UBS estimates

Figure 5: Secondary listing has slightly declined and growth has slowed down in the first week after new presale policy announcement



Source: BEKE, UBS

Figure 6: Valuation comps - China developers

Company (EN)	Ticker	Rating	Price (LC)	Price target (LC)	Price target upside (%)	Market cap (US$ bn)	3M avg trading value (US$ m)	PE 26E (x)	PE 27E (x)	P/BV 26E (x)	P/BV 27E (x)	Dividend yield 26E (%)	Dividend yield 27E (%)	26E NAV discount (%)	25-27E EPS CAGR (%)	NDER FY25A	ROE 26E
CN developers (H-share)																	
CR Land	1109.HK	Buy	29.86	45.00	51%	27.2	102.1	8.5	8.2	0.60	0.57	4.4%	4.5%	N/A	-1%	39%	7%
COLI	0688.HK	Buy	12.93	25.00	93%	18.1	49.0	10.4	9.1	0.31	0.30	3.5%	4.0%	N/A	1%	34%	3%
Longfor	0960.HK	Neutral	6.02	10.20	69%	5.4	16.9	-	-	0.23	0.23	0.0%	0.0%	N/A	-7%	52%	-1%
C&D International	1908.HK	Buy	12.22	21.00	72%	3.5	12.4	8.2	7.8	0.78	0.79	6.0%	6.3%	N/A	-7%	54%	10%
Vanke (H)	2202.HK	Sell	2.41	2.60	8%	3.6	6.6	-	-	0.22	0.33	0.0%	0.0%	N/A	-2%	125%	-36%
Jinmao	0817.HK	Buy	1.32	2.30	74%	2.3	11.7	18.6	18.4	0.40	0.39	2.0%	2.0%	N/A	9%	107%	2%
Greentown China	3900.HK	Buy	5.95	13.00	119%	1.9	11.0	190.2	13.6	0.37	0.36	0.0%	3.0%	N/A	266%	66%	0%
Yuexiu Property	0123.HK	Neutral	3.26	4.40	35%	1.7	4.6	65.9	38.5	0.20	0.20	0.6%	1.0%	N/A	342%	55%	0%
Seazen	1030.HK	Buy	1.45	2.30	59%	1.3	4.0	17.4	16.0	0.19	0.18	0.0%	0.0%	N/A	20%	59%	1%
Wgt avg - H-share					**66%**			**17.7**	**10.2**	**0.44**	**0.44**	**3.2%**	**3.5%**	**0%**	**16%**	**48%**	**2%**
CN developers (A-share)																	
China Merchants Shekou	001979.SZ	Buy	6.89	12.00	74%	9.3	92.5	53.5	21.7	0.63	0.57	0.8%	2.1%	N/A	100%	72%	1%
Poly Developments	600048.SS	Neutral	5.21	6.60	27%	9.3	113.9	129.8	487.4	0.33	0.33	1.5%	0.4%	N/A	-87%	66%	0%
Vanke (A)	000002.SZ	Sell	3.19	3.14	-2%	5.7	66.5	-	-	0.34	0.51	0.0%	0.0%	N/A	-2%	125%	-36%
Wgt avg - A-share					**38%**			**70.2**	**195.3**	**0.45**	**0.46**	**0.9%**	**0.9%**	**0%**	**4%**	**82%**	**-8%**
Wgt avg - A + H share					**56%**			**27.5**	**63.9**	**0.42**	**0.43**	**2.8%**	**2.9%**	**0%**	**3%**	**56%**	**-1%**

Source: Company data, UBS estimates. Date as of 7 Sep 2026

Figure 7: Valuation comps - China property managers and brokers

Company (EN)	Ticker	Rating	Price (LC)	Price target (LC)	(%)	Market cap (US$ bn)	3M avg trading value (US$ m)	PE 26E (x)	PE 27E (x)	P/BV 26E (x)	P/BV 27E (x)	Dividend yield 26E (%)	Dividend yield 27E (%)	Net cash as % of market cap 2025A (%)	25-27E EPS CAGR (%)	Net cash/ (debt) 2025A (Rmb m)	ROE 26E
China property management companies																	
CR Mixc	1209.HK	Buy	39.80	55.00	38%	11.6	25.2	17.8	16.2	4.90	4.77	5.6%	6.2%	14%	10%	10,778	28%
Onewo	2602.HK	Neutral	18.86	20.00	6%	2.8	3.4	8.4	7.9	1.45	1.41	3.6%	3.8%	64%	6%	12,090	16%
CG Services	6098.HK	Sell	5.59	2.00	-64%	2.4	4.6	18.5	18.7	0.46	0.47	9.4%	9.4%	94%	20%	15,252	2%
Poly Property Services	6049.HK	Neutral	28.08	36.50	30%	2.0	2.7	8.2	7.9	1.17	1.09	6.1%	6.3%	97%	4%	12,949	15%
Greentown Service	2869.HK	Buy	4.29	5.70	33%	1.7	1.8	11.4	9.9	1.41	1.36	6.6%	7.6%	65%	15%	7,541	13%
China Overseas Property	2669.HK	Neutral	3.51	3.90	11%	1.5	3.5	7.9	8.3	1.50	1.36	5.5%	5.2%	63%	-7%	6,234	20%
Weighted average					**20%**			**14.7**	**13.6**	**3.13**	**3.04**	**5.9%**	**6.3%**	**44%**	**9%**	**11,072**	**21%**
China property brokers																	
Beike	2423.HK	Buy	45.74	66.00	44%	19.1	65.6	14.9	13.1	1.74	1.56	5.5%	6.7%	54%	43%	68,732	12%
Beike	BEKE.N	Buy	17.92	25.30	41%	19.6	17.7	15.3	13.4	1.78	1.60	2.1%	2.5%	52%	43%	68,732	12%
Weighted average					**43%**			**15.1**	**13.3**	**1.76**	**1.58**	**3.7%**	**4.6%**	**53%**	**43%**	**68,732**	**12%**

Source: Company data, UBS estimates. Date as of 7 Sep 2026

Valuation Method and Risk Statement

We base our valuations of China's property developers and managers on PE or P/BV multiples. We believe key downside risks related to the Chinese property market include: 1) government administrative policies that restrict demand and mortgage lending; 2) tight financing for China's developers; 3) lower-than-expected residential growth in China's economy. We believe key upside risks include: 1) material policy loosening that effectively boosts residential property sales, investments and prices to positive YoY growth; 2) large-scale asset disposals at fair prices by some developers to ease liquidity pressures.