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ASIA IN FOCUS

China: Property Downturn Keeps Straining Local Government Finances

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- Local government funding conditions have deteriorated substantially since the property downturn began in 2021, due mainly to weaker land sales revenue, which has fallen 70% from its mid-2021 peak. Including both off-budget land sales and on-budget property-related taxes, property-related revenue declined from 37% of gross local government revenue in 2020 to 20% in 2025, and may fall further to around 16% this year.
- Tighter local government funding has created multiple headwinds, including weaker fiscal support for final demand, rising corporate arrears, delayed civil servant salaries, stricter tax and fee collection, and higher LGFV credit risks. These pressures have weighed on local investment and consumption and reinforced a negative feedback loop.
- Recent property policies that require local authorities to steadily shift commodity housing sales to a completed-property sales model could further weigh on land sales and deepen the property construction downturn over the next few years. We now expect land sales revenue to fall by 30% or more this year, much faster than the 17% annualized decline during 2022-25. We believe the downturn will likely extend into 2027 or beyond, with revenue ultimately falling 80-90% from its mid-2021 peak.
- Overall, at the national level, falling property-related revenue would have reduced gross local government expenditure by roughly one quarter in 2025 compared to a counterfactual scenario without the property downturn, while other channels offset around 80% of the drag, based on our estimates.
- The combined fiscal impact of falling property-related revenue and other offsetting factors differs sharply across provinces: Jiangsu, Zhejiang, and Guangdong — which are among more developed, coastal provinces — experienced some of the largest drags, while higher central transfers and other offsets more than absorbed the decline in Tibet, Ningxia, and Inner Mongolia which are among less developed, inland provinces. Less developed provinces with still-high fiscal exposure to the property sector may face greater fiscal pressure if land sales revenue declines further and offsets remain limited, in our view.

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China: Property Downturn Keeps Straining Local Government Finances

Local government funding conditions have deteriorated substantially since the unprecedented property downturn began in 2021, due mainly to weaker land sales revenue. Escalating fiscal challenges have weighed on local investment and consumption, and reinforced a negative feedback loop. Policymakers have responded by increasing central government transfers and raising funds through other channels, but these measures have only partly offset the fiscal drag from falling property-related revenue at the national level, with significant variation across regions. In this note, we analyze recent land market dynamics in China, discuss major factors that affect land sales revenue, and estimate the impact of falling property-related revenue on local government spending at the national and provincial levels.

The property downturn has weighed on local government finance for over five years… Despite continued local housing easing in recent years, land sales revenue has continued to fall, declining 31% yoy in the first seven months of this year and by a cumulative 70% from its mid-2021 peak (estimated based on quarterly data for different land sales measures; Exhibit 1). Combining off-budget land sales revenue with on-budget property-related tax revenue[1], we estimate that property-related revenue accounted for 37% of gross local government revenue in 2020[2], but this ratio dropped to 20% in 2025, and may decline further to around 16% this year (Exhibit 2)[3].

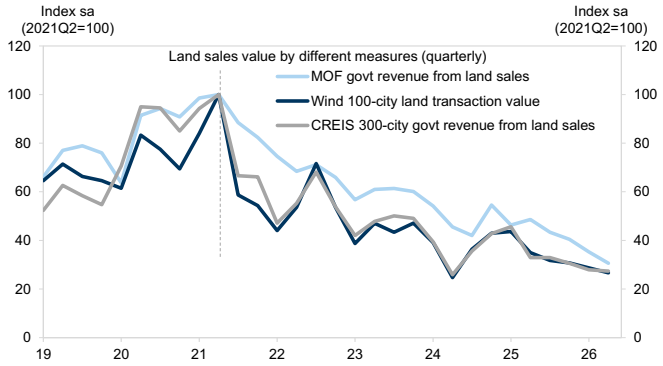
Tighter local government funding has created multiple headwinds, including weaker fiscal support for final demand, rising corporate arrears and delayed civil servant salaries, stricter tax and fee collection, and higher local government financing vehicle (LGFV) credit risks. These pressures have weighed on local investment and consumption, reduced fiscal resources for spending, and reinforced a negative feedback loop. Despite the September 2024 policy pivot and RMB10tn local government debt resolution plan (for 2024-28), policy easing has remained measured and targeted in recent years; many local governments in less developed inland regions remain fiscally constrained, while the property downturn continues to weigh on growth and the local fiscal system.

[1] Property-related taxes include property tax, deed tax, land appreciation tax, urban and town land use tax and farmland occupation tax.

[2] Gross local government revenue includes local government revenue from the general public budget and government-managed fund budget, as well as transfer payment from the central government. Within the RMB5.9tn property-related revenue in 2025, land sales revenue accounted for 70% (RMB4.2tn), and on-budget property-related tax revenue accounted for the remaining 30% (RMB1.8tn).

[3] Under China's tax-sharing system, both on-budget property-related tax revenue and off-budget land sales revenue accrue entirely to local governments.

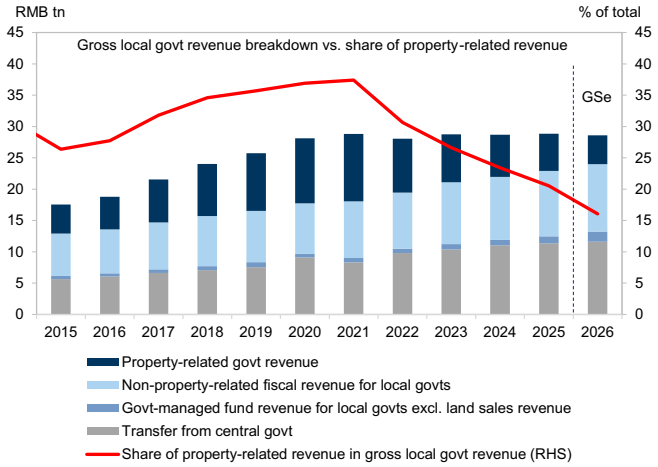
Exhibit 1: Land sales revenue has declined by more than 70% from its mid-2021 peak



Q2 2026 prints refer to the latest quarterly data available.

Source: MOF, Wind, CREIS, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: The share of property-related revenue in gross local government revenue may fall to around 16% this year



Property-related local government revenue includes on-budget property-related tax revenue and off-budget revenue from land sales for local governments. 2026 prints refer to GS projection after onboarding year-to-date outturns.

Source: Wind, MOF, Goldman Sachs Global Investment Research

...and the drag is not over yet

Media reports suggest some large Chinese cities—especially those with fast-growing new economy sectors, such as Guangzhou, Shenzhen and Suzhou—have recently recorded new "Land Kings" (地王), or record-high land auctions in value terms.[4] This reflects some local governments releasing more prime lots. However, we do not think these cases are representative of the nationwide land market or a reliable signal for local government funding conditions.

First, LGFVs have accounted for 60-70% of land purchases by volume and around 40% by value in recent years; some purchases likely reflect indirect efforts to inflate local government revenue rather than genuine construction demand, with acquired land left idle instead of being used for new home starts (Exhibit 3). Second, policymakers have tightened restrictions on local government land supply for commercial real estate development this year,[5] and recent property policies that accelerate the transition to a completed property sales model will add further pressure on land sales.

More specifically, recent property policies require local authorities to steadily shift commodity housing sales from a presales model to a completed-property sales model, extend maximum mortgage tenors to 40 years from 30 years previously, and delay mortgage disbursement for presold homes until project completion to better protect homebuyers and reduce delivery risk. While these measures appear designed to support supply-demand rebalancing in the property sector—and the share of presales in new home sales has been declining since 2022 (Exhibit 4)—they may also len[illegible] developers' cash payback cycle for land purchases by 1.5-2 years, raise

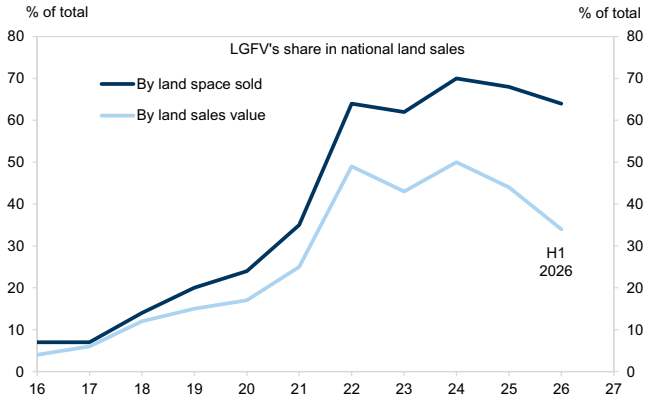
[4] "Land King" is a term coined during China's property boom in the past decade to describ[illegible] and builders that bid aggressively and pay very high prices in land auctions.

[5] See Document #38, jointly issued by Ministry of Natural Resources and National Forestr[illegible] Administration in March 2026.

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financially stretched developers to acquire land, and deepen the property construction downturn over the next few years.

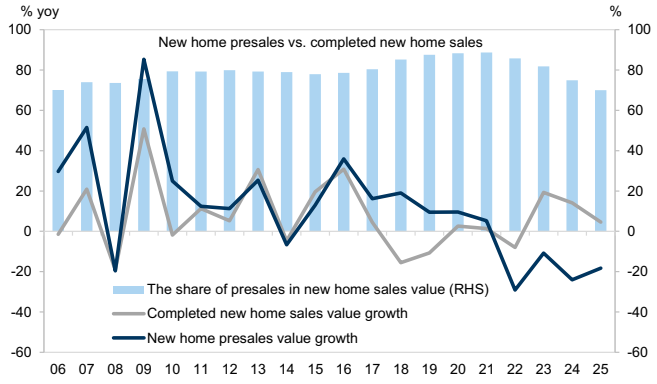
Exhibit 3: LGFVs gained a much larger share in land purchases over the past decade



Besides LGFVs, other land buyers include central SOEs, local SOEs excluding LGFVs, mixed ownership, and POEs.

Source: Wind, CREIS, Goldman Sachs Global Investment Research

Exhibit 4: The share of presales in China's new home sales has been declining since 2022, reaching 70% in 2025



The NBS suspended the release of new home sales breakdown between presales and sales of completed new homes in early 2026.

Source: Wind, Data compiled by Goldman Sachs Global Investment Research

Land sales downturn to continue, likely at a faster pace

Taken together, we now expect land sales revenue to fall by 30% or more this year (vs. our previous projection of a 20% decline), much faster than the 17% annualized drop during 2022-25. This would imply land sales revenue will continue to contract at roughly the same pace as the 31% yoy decline in January-July through the rest of this year, despite a low base, with risks skewed toward a further deterioration. We expect the downturn to extend into 2027 or beyond, with land sales revenue ultimately falling around 80-90% from its mid-2021 peak, by which point local government finances may have largely decoupled from the property sector. Our forecast is broadly in line with our China Property equity research team's analysis that land sales could fall two-thirds or more from the current level when developers' current land bank is largely depleted.

With sharp land sales contraction still underway, we see a downside risk to our 2026-27 forecasts for augmented fiscal deficit (AFD), which is our proprietary, catch-all gauge of China's fiscal stance (our current AFD forecast for 2026/27: 11.5%/10.5% of GDP). That said, weaker land sales do not necessarily translate one-for-one into tighter local government funding. Land acquisition and redevelopment costs have typically accounted for around 70% of gross land sales revenue, leaving the remaining 30% available for other local government spending. This is why our AFD metric treats 30% of gross land sales revenue as net financing from land sales for local governments. In addition, we also caution that timing mismatches between upfront land acquisition/redevelopment costs and eventual land sales revenue can make the recorded decline in land sales uneven, especially when local governments struggle to sell existing land reserves.

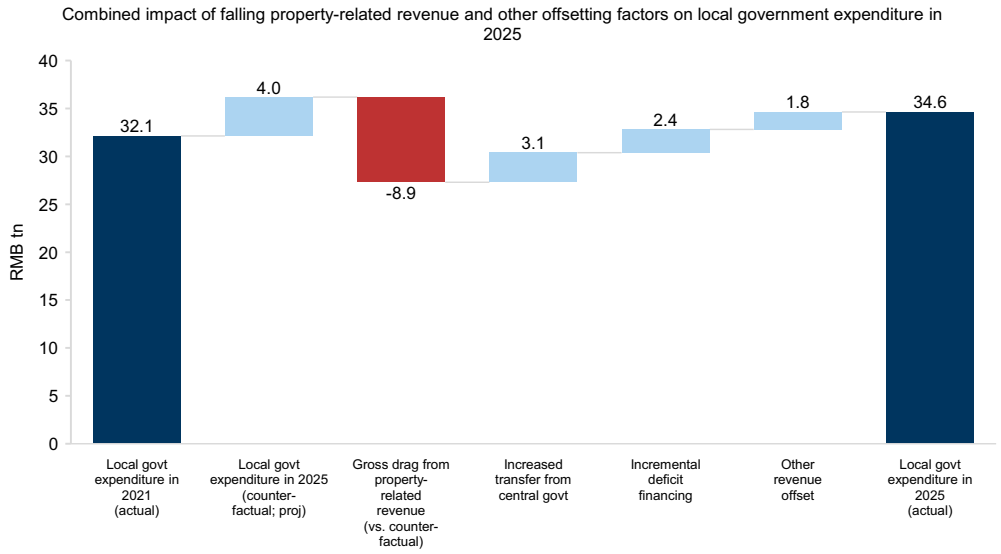
Estimating the impact from falling property-related revenue on local government spending

Before the unprecedented and still-ongoing property downturn, property-related revenue — including off-budget land sales revenue and on-budget property-related tax

revenue — rose by 18% annually during 2016-20, slowed to 4% growth in 2021, and then contracted at an annualized 14% pace during 2022-25. At the national level, this headwind has been partly cushioned by other channels, including higher central government transfers,[6] incremental local government deficit financing, and increases in other revenue sources. Although counterfactual local government spending is difficult to estimate, we conservatively assume it would have grown at a 3% annualized pace since 2022 without the property downturn, broadly in line with central government expenditure growth during 2020-25.

Under this assumption, local government expenditure would have reached RMB36.1tn in 2025 in a counterfactual scenario without the property downturn, compared with the actual outturn of RMB34.6tn (Exhibit 5).[7] Falling property-related revenue created an RMB8.9tn gross drag on local government spending, but this was partly offset by higher central government transfers (RMB3.1tn), incremental local government deficit financing (RMB2.4tn), and gains from other revenue sources (RMB1.8tn). Overall, at the national level, falling property-related revenue reduced gross local government expenditure by roughly one-quarter in 2025 compared to a counterfactual scenario without the property downturn, while other channels offset around 80% of the drag, based on our estimates.

Exhibit 5: Falling property-related revenue reduced gross local government expenditure by roughly one-quarter nationwide in 2025, but offsets absorbed roughly 80% of the drag



Our local government expenditure metric covers the general public budget and the government-managed fund budget for local governments. We assume local government expenditure would have grown at a 3% annualized pace since 2022 in the counterfactual scenario without the property downturn, close to the annualized growth in central government expenditure during 2020-25.

Source: MOF, Wind, Goldman Sachs Global Investment Research

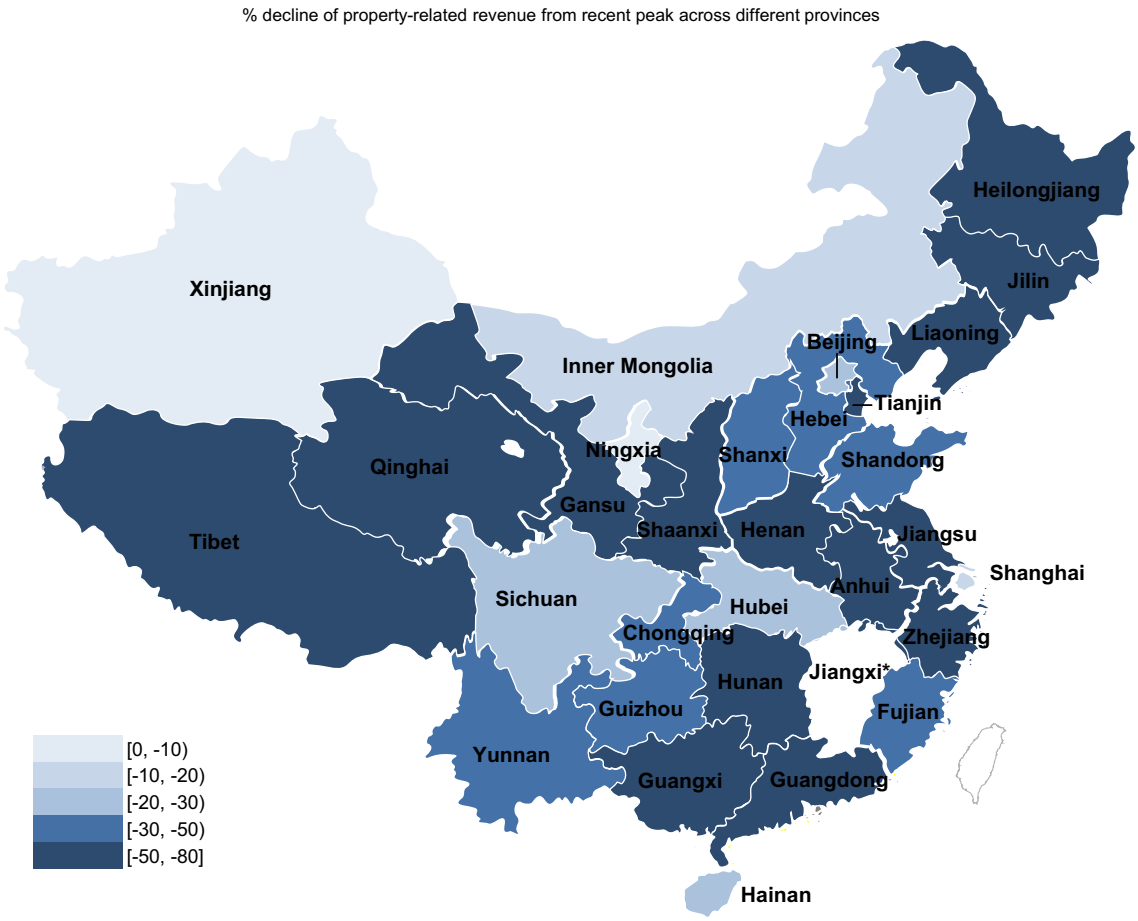
[6] According to the MOF budget reports, annual central government transfer payments to local governments rose steadily from RMB7.5tn in 2019 to RMB11.4tn in 2025, and are planned to increase further to RMB11.6tn in 2026.

[7] Local government expenditure covers both the government public budget and government-managed fund budget for local governments.

Property-related revenue declined unevenly across regions

Property-related revenue declined broadly across regions, but the scale varied widely by province, with no clear divide between less developed inland areas and more developed coastal regions (Exhibit 6). Based on local government annual budget reports, which provide detailed prior-year revenue and expenditure breakdowns, we estimate that national property-related revenue was 45% below its 2021 peak by 2025 (on an annual basis). Among the 30 mainland Chinese provinces in our sample (excluding Jiangxi due to unavailable data), Guangxi and Qinghai recorded the largest percentage declines, with property-related revenue falling around 70% from their respective annual peaks (Exhibit 7). By contrast, Ningxia and Xinjiang outperformed, with peak-to-date declines of less than 10%.[8] Divergence was also pronounced among more developed coastal regions, with Shanghai materially outperforming Guangdong, Zhejiang and Jiangsu (Exhibit 8).

Exhibit 6: Property-related revenue contracted broadly across provinces, spanning both more developed coastal regions and less developed inland areas

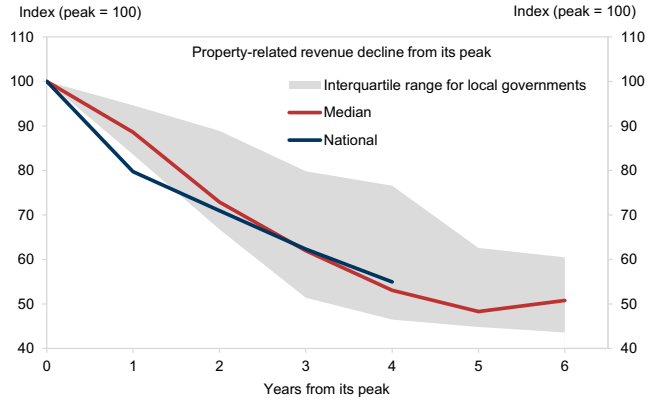


*Property-related government revenue data for Jiangxi province are unavailable in our sample. Shading indicates each province's percentage decline in property-related revenue from its recent peak, generally reached during 2017-21; darker shading denotes a larger decline.

Source: Goldman Sachs Global Investment Research, National Bureau of Statistics, local government budget reports.

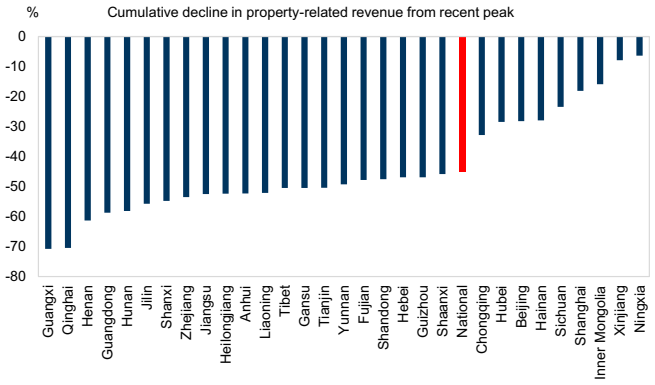
[8] Despite broad economic similarities, Ningxia and Qinghai have seen property-related revenue diverge sharply in recent years, with Ningxia materially outperforming, as Ningxia's 2021 local land market reform helped cushion the decline in land sales revenue and supported property-related tax revenue.

Exhibit 7: The magnitude of property-related revenue decline varies across provinces...



Source: MOF, Local government budget reports, Wind, Goldman Sachs Global Investment Research

Exhibit 8: ...with no clear divide between less developed inland areas and more developed coastal regions



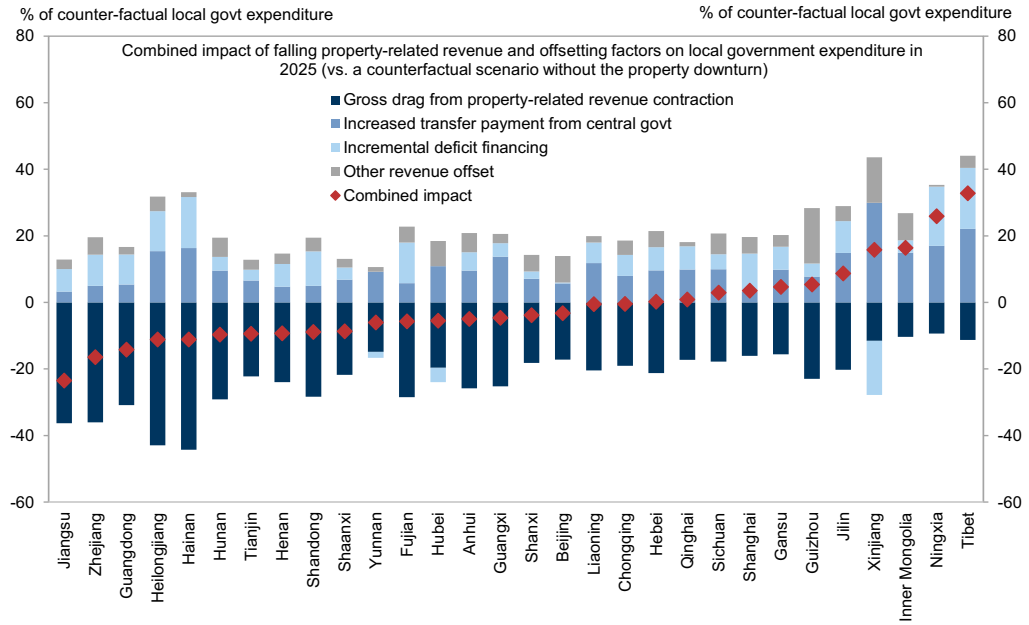
Source: MOF, Local government budget reports, Wind, Goldman Sachs Global Investment Research

Gauging the combined impact of falling property-related revenue and some offsets across provinces

Applying our national-level methodology to individual provinces, we estimate the combined impact of falling property-related revenue and some offsets on local government spending in 2025. Jiangsu, Zhejiang, and Guangdong — which are among more developed, coastal provinces — saw the largest drags on local government spending (Exhibit 9). By contrast, in Tibet, Ningxia and Inner Mongolia which are among less developed inland provinces, increased transfer payments from the central government and other offsetting factors have more than fully absorbed the property-related revenue decline, resulting in a positive combined impact on local government spending.

In the case of Jiangsu, falling property-related revenue reduced local government expenditure by 36% in 2025 relative to a counterfactual scenario without the property downturn, with other channels offsetting about one-third of the drag. In the case of Tibet, property-related revenue declines reduced local government expenditure by 11% in 2025, but offsetting factors — especially higher central government transfers and incremental deficit financing — more than absorbed the drag, leaving local government spending one-third above the counterfactual level in 2025, based on our estimates.

Exhibit 9: Jiangsu, Zhejiang and Guangdong saw the most negative combined fiscal impact from falling property-related revenue and other offsetting factors

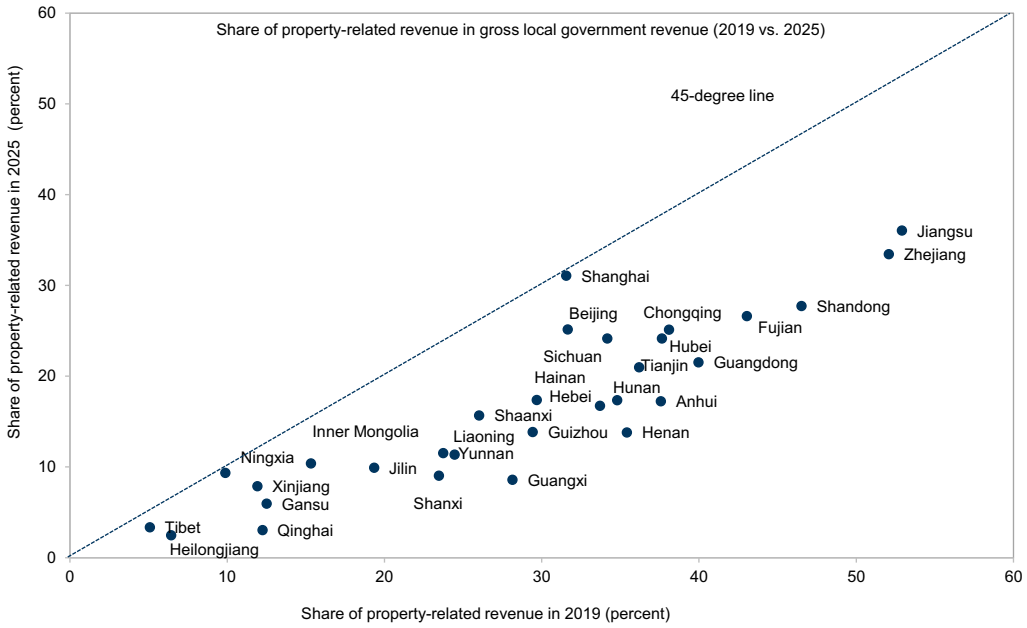


Source: Wind, Local government budget reports, Goldman Sachs Global Investment Research

Assessing regional exposure to further declines in property-related revenue

Although the prolonged property downturn has reduced local governments' reliance on property-related revenue, regional exposure remains uneven (Exhibit 10). Among provinces with high fiscal exposure to the property sector, more developed provinces such as Shanghai, Beijing and Anhui may benefit from expanding new economy sectors and related policy support (including the new policy-based financial instrument which favors high-tech investment in major economic powerhouse provinces). By contrast, less developed provinces such as Guizhou, Liaoning, and Yunnan may face greater fiscal pressure if land sales revenue declines further and offsets remain limited. We expect policymakers to step up support through policy banks and official budget channels to cushion the fiscal drag from further land sales contraction and stabilize domestic demand in coming years.

Exhibit 10: Property-related revenue as a share of gross local government revenue declined in most provinces



Source: Wind, Local government budget reports, Goldman Sachs Global Investment Research

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