CHINA REAL ESTATE

Quantify the impacts from a completed property sales model

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Over the past decades,China introduced several key measures that materially impacted developer industry's profitability(egland appreciation tax(LAT)in 2007), room for leverage(eg.bank loans can not be used for land pavment in 2008)and asset turnover(eg."70/90"rule in 2006).But with decades of bull run during 1998-2021,developers'profitability and returns are still managed at a level far above their cost of capital.But the new"828"policy could potentially lead to a significant impact to developers'investment return outlook.Our recent conversations with investors focused on the quantitative assessment of the impact as well as the potential mitigation.Given local authorities'implementation details/practice still need to be seen(such as land payment terms,deposit rate, under which conditions sales proceeds might be withdrawn before completion etc.), we have not factored in the new policy in our estimates for now but willfollow up once city level implementation details become available.

The impact and potential mitigation at project level:if the new policy is strictly implemented,new project's IRR willbe significantly hurt(from mid-to-high teen level to mid-single digit)in the current downturn which could lead to a soon frozen land market.Though implementation details have not been disclosed yet,we estimate in order to restore IRR to 10%or above,one of below scenarios need to happen:1) government base land price needs to be reduced by 15%or more;2)land payment needs to be back-end loaded in year 2 or 3 after year 1 acquisition;3)ASP needs to increase by 10%or more;4)construction cycle needs to be shortened by a year(eg., from 3 years to 2 years).Nevertheless,even IRR could be restored,the cash available for land banking will still be substantially reduced,suggesting a shrinking DP portfolio for our coverage in 2-3 years time,after their current land bank are mostly depleted.

Which developers might see lower near-term impact:on a relative basis,the near-term earnings and growth impact willbe smaller for developers with 1)**higher** saleable resources against their run-rate; 2)higher exposure in top-tier cities (see our city-level impact summary in Exhibit 2);mortgage extending requisite is also already tighter than in lower-tier cities;3)construction cycle is shorter due to either efficiency or product type (lower rise ones);4)lower financing cost and leverage;5) significant share of recurring income.We summarized these points for our coverage in Exhibit 5.Among our coverage,we estimate COLI's DP portfolio will be least

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impacted by the new policy.

Is much lower supply supporting property price recovery:Yes.But we expect the coming 1-2 years'price recovery path to stay largely the same as if there was no “828” policy as the current saleable inventory remains high.In addition,we also estimate today's sell-through improvement in the primary market is largely concentrated at new generation products built since 2024,not the vintage inventory.That said,we expect impacts at different city tiers to be divergent as summarized in Exhibit 2.

How much land sales and new starts could fall:in the strictest implementation scenario,we believe land sales could fall 2/**3 or more from current level when** developers'current land bank are largely depleted,implying about GFA200mn new starts level or less down the road,from our 2026E/2027E estimate of GFA458mn/435mn sqm.

Post the policy announcement,**the share** price of the sector has corrected by 10%, implying 0.4X2026 P/B against 4%average ROE(excl China Vanke).We expect **near-**term share prices to remain volatile until more clarity of implementation details. That said,taking the example of CRL(1109.HK,Buy),our analysis suggests negative valuation is assigned to its DP **business** anyway.While the return and growth outlook remain to be seen,the long-term industry consolidation outlook remains intact and valuation already looks depressed.Retain Buy ratings on CRL,COLI,Jinmao and Greentown.

Exhibit 1:Quantify the impact from 828 Policy on project level IRR,net margin,AP and total leverage

At project level	Current presale model	More regulated presale model	Completed sale model	Comments
IRR	High-teen to low-twenties %	Mid-teen %to high-teen%	MSD %	The impact mainly comes from DTiming of cash inflow from sales and close-loop cash inflow supervision,i.e.developers are unable to withdraw any cash for new investment.Land needs to be paid by using own capital instead of debt.
Net margin	HSD%	HSD %	MSD%	Mainly due to higher financing expenses on reduced cash inflow during construction period
AP	High	Medium	Low	Account payables will be reduced as cash inflow will be more likely paid to contractors/suppliers
Total liabilities/total assetsHigh		Medim	Low	lower new project investment,lower AP

Source:Goldman Sachs Global Investment Research

Exhibit 2:Summary of city level impacts

City type	2ndary as %of total market	Completed project sales as %total	Impact from new model			
			Overall	Total sales vol	ASP	Land competition
Tier-1	60%-80%	35%-45%	-			--
Strong tier-2	45%-70%	10%-15%	--	--	-	
Weaker tier-2 &tier-3 cities	10%-60%	20%-50%	--	--	-	-
Rest China	Mostly below 50%	c.30%				---

"-"denotes smallest negative impact

Source:NBS,CREIS,Goldman Sachs Global Investment Research

Related research

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

China Propertv:New development on land tenure renewal.long-term positive for stronger players

China Propertv:New policv easing in Beiiing could support 4O sales outlook and stock

valuation

China Property:Positioning ahead(No.2):Share rally-what's priced in

China Property:Positioning ahead of Tier-1 cities turnaround

China Property:What would it take to clear China's housing inventory(No.3):Forming a positive feedback loop is the key

Comparison of the three sales models

Below Exhibit summarized the cash flow comparison of three sales models based on "828"announcement.

Exhibit 3:Comparison of three models

Phase	Item	Current presale model	More regulated presale model	Completed sale
Land		Month0	Month0	Month0
Outflow	Land premium payment	Lump sum or short-term installment(250% in1month,remaining in1year)	Lump sum or short-term installment(250% in1month,remaining in1year)	Pending details,select pilot cities allow2-year installment(e.g.Guangzhou)
Construction		Month6	Month6	Month6
Inflow	Developer loan	Tenor:Max3yrs Multiple banks possible per project	Tenor:Upto 3 yrs normally,max5yrs Single lead bank per projec;all funds in closed-loop management	Tenor:Upto 5yrs,max7 yrs Single lead bank per project,allfunds in closed-loop management
Outflow	Construction cost	Even monthly outflow until completion	Unchanged	Unchanged
Outflow	Developer loan repayment	Principal repaid during construction	Principal repayment deferred until after project completion	Principal repayment deferreduntil after projectcompletion
Presale/Sale		Month 12 Requirement varies by city:foundation/±0	Month 18 Structural topping-out required	Month 36 Completion inspection and filing required
Inflow	Deposit	Nounified deposit mechanism	New deposit system:developer may sign deposit contracts to lock in buyers and ASP	Deposit system applies
Inflow	Down-payment	Down-payment ratio,min.15%/25%for first/second home,varies by city -Fund into escrow;partially withdrawable upon meeting construction milestones→can fund new land acquisitions	-Down-payment ratio:Unchanged -Fund into escrow;fully locked until delivery→no withdrawal for reinvestment	-Down-payment ratio:Unchanged -Fund received directly post-completion;no escrow needed
Mortgage		Month 18	Month36	Month 36
Inflow	Mortgage disbursement	-Disbursed upon topping-out Paid to developer;surplus withdrawable for reinvestment -For home buyer:max30 yrs,repayment starts upon disbursement,debt service ratio cap 55%	-Disbursed upon completion filing -Fund into escrow;fully locked until delivery For home buyer:max40 yrs;repayment starts upon delivery;debt service ratio cap 60%	-Disbursed upon salefiling -Paid directly to developer -For home buyer:max10yrs;repayment starts upon disbursement,debt service ratio cap 60%
Completion and delivery		Month 36	Month36	Month 36
Inflow	Escrow release*tail payments	Most funds already withdrawn earlier at milestones;remaining escrow+buyer tail payments settled	Full escrow balance released at delivery→developer gets access to all sales proceeds	No escrow to release;tail-end buyer payments settled
Outflow	LAT	Prepaid on each sales receipt,final settlement after completion-2%sold	Unchanged	Pending details

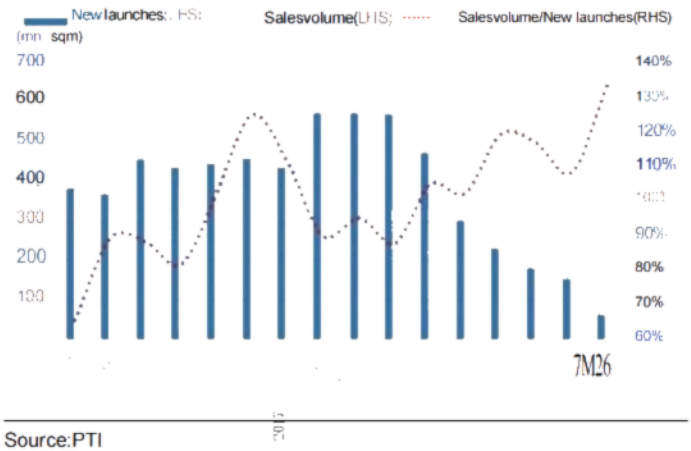
Red text denotes key changes

Source:NFRA,MOHURD,PBOC

Better sell-through for new generation products &summary of developers'existing DP portfolio; COLI's DP portfolio willbe least impacted, in our view

Exhibit 4:Sell-through has been improving meaningfully since 2024,reflecting better sales from new generation products,in our view

New launches and sales volume in 80 cities monitored by CRIC



Source:PTI

Exhibit 5:We see COL's DP business as most defensive among our coverage universe given higher saleable resources, shorter construction cycle,low leverage and financing cost

Assessing the near-term impact

		Landbank(mn sm)			Salable resources (Rmb bn)		Contract sales (2026E)		Contruction cycle (months)	Finanengcost	Totat teverage	Net gearing	Recuring revenue%	Recuringgross profit%
		1H26	Rmn	City tier	For 2H26E	Citytier	Value(Rmbn)	GFA (mn sqm)	1H26	1H26	1H26	1H26	2026	2026E
Stronger SOEdevelopers														
CMSk	001979.SZ	20	Unsold	na	280	na.	83	27		2.61%	67%	52%	17%	8%
COL	0688HK	34	Total, ttl 100+	na	160	5%of T-1	113	4.8	27	2.76%	52%	27%	3%	12%
CR Land	1109HK	47	Total	15% of T-1	190	43%of T-1	118	32		2.68%	61%	11%	11%	39%
Sreenen	2009.HK	41	Unsold	14%of T-1	120	na.	63	20	21for sample project	3.20%	76%	n/a	19%	19%
Jinmao	0817.HK	23	Ttl 100+	15%of T-1	190	26.5%of T-1	63	23	24 for sample project	2.80%	74%	6A	12%	28%
Poly	600048.SS	47	Total	n.a.	n.a.	na.	90	4.3		2.03%	72%	40%	9%	10%
Otherdevelopers														
Longfor	0960.HK	70	Total	3%of T-1	80	11%of T-1	20	21		3.30%	52%	58%	37%	217%
Senzen	1030.HK	39	Ttl 100+	15%	100	na.	7	11		6.00%	68%	58%	33%	99%
Vanke.	000025/2202HK	53	Total	15%	150	na.	54.	43.	21-36	2.90%	78%	122%	26%	8%

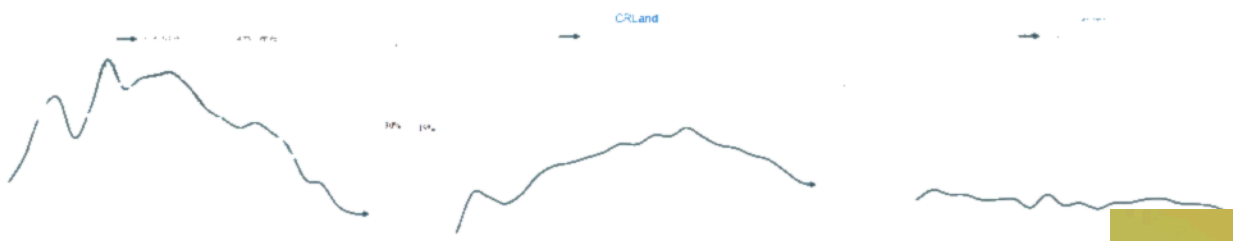
Recurring gross profit %above 100%indicates loss-making DP business.

Source:Company data,Goldman Sachs Global Investment Research

Valuation:already depressed valuation on developers'DP business

Exhibit 6:PB valuation already depressed to reflect weaker ROE outlook

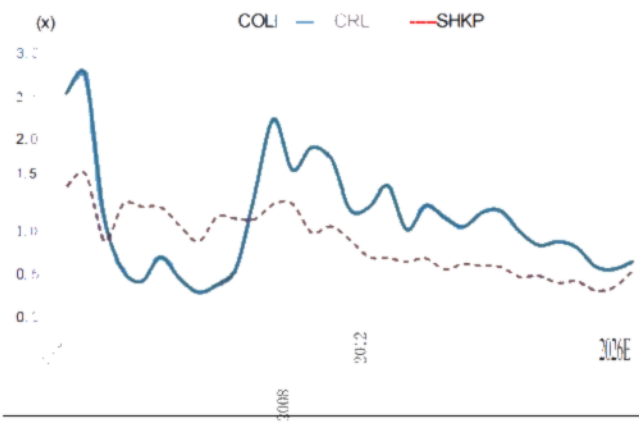
Summary of ROE and GPM of COLI,CR Land and SHKP



Source:Company data,Goldman Sachs Global Investment Research

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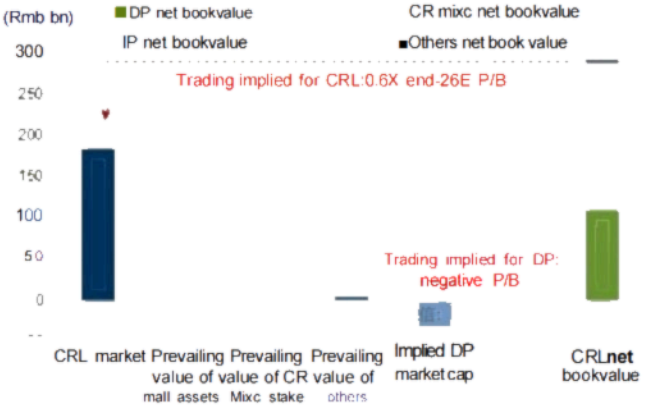
Exhibit 7:Trailing P/B of COLI,CR Land and SHKP



Source:Datastream

Exhibit 8:We see current share price of CR Land implying negative valuation for DP business

Derivation of trading implied DP valution for CR Land



Source:Datastream,Company data,Goldman Sachs Global Investment Research

China developers'valuation comparisons

Exhibit 9:China developers'valuation comparisons

Company	Ticker	Mkt Cap (US$ mn)	Daily Liquidity Limit (US$ mn)	Trading Rating	Type	Rating	Price (HK$)	Mkt Cap (HK$ mn)	Potential upside/ downside (%)	Target price/ (Discount) to NAV (%)	Net debt/ (cash) (HK$ mn)	Net debt/ (cash) to total assets (%)	PE (x) 25A	PE (x) 26F	PE (x) 27E	PE (x) 28E	PB (x) 25A	PB (x) 26F	PB (x) 27E	PB (x) 28E	Dividend yield (%) 25A	Dividend yield (%) 26F	Dividend yield (%) 27E	Dividend yield (%) 28E
Stronger SOE developers																								
CMSK	00197.HK	92	11	Certain SOE	Neutral	n/a	10.10	10.10	18	-15%	18.1	(12)	na	16.0	11.0	12.9	0.6	0.6	0.6	0.6	0.7	2.7	3.2	3.5
COLI	0688.HK	180	54	Certain SOE	Buy	12.5	16.50	16.80	71	-10%	18.54	(11)	9.6	9.2	9.3	8.1	0.4	0.4	0.4	0.4	3.8	4.1	4.1	5.0
CR Land	1109.HK	268	93	Certain SOE	Buy	29.4	37.50	36.50	24	-10%	40.58	(28)	8.6	9.5	9.2	8.1	0.9	0.9	0.8	0.8	1.3	4.1	4.3	4.7
Greentown	3900.HK	1.9	1.5	Mixed ownership	Buy	7.56	9.50	9.50	62	-17%	11.12	(17)	2.7	2.2	2.4	2.1	0.4	0.4	0.4	0.4		1.0	5.0	6.2
Jinmao	0817.HK	22	16	Certain SOE	Buy	1.4	1.85	1.85	32	-10%	2.06	(17)	3.3	2.2	10.1	6.2	0.2	0.2	0.2	0.2	2.3	2.3	4.2	6.9
Poly	6049.HK	91	128	Certain SOE	Neutral	8.09	6.50	6.50	28	-10%	7.21	(10)	8.9	n/a	n/a	n/a	0.3	0.3	0.3	0.3	6.7			
Average									39	-12%		(26)	9.9	9.7	9.3	8.1	0.5	0.5	0.5	0.5	2.0	2.4	3.7	4.9
Other developers																								
Sunac	0016.HK	5.1		POE	Neutral	5.8	(0.45)	7.50	29	23%	9.94	(12)	n/a	n/a	34.5	17.5	0.1	0.3	0.3	0.4	1.1		0.9	1.8
Seazen	1030.HK	13		POE	Sell	1.80	(0.85)	1.80	29	-30%	2.81	(5)	27.6	3.4	16.3	9.2	0.3	0.3	0.3	0.2				
Yuexiu (A)	000827.SZ	15	6.1	Mixed ownership	Sell	3.11	(0.15)	3.70	18	-10%	4.10	(22)	n/a	n/a	n/a	n/a	0.4	0.4	0.4	0.5				
Yuexiu (O)	0123.HK	0.7	1.1	Mixed ownership	Sell	2.52	(0.85)	2.80	35	-30%	4.17	(18)	n/a	n/a	n/a	n/a	0.2	0.2	0.3	0.3				
Average									25	-30%		(14)	n/a	n	n/a	n/a	0.3	0.3	0.3	0.3	0.3		0.2	0.5
																	0.4	0.4	0.4	0.4		1.4	2.3	
Hshare average									35			(42)	8.8	15.9	13.8	8.3	0.4	0.4	0.4	0.4	1.7	1.5		4.0
Ashare average									31			(22)	58.9	16.9	14.0	12.9	0.4	0.4	0.4	0.5	0.5	1.9	1.1	1.2

Source:Datastream,Goldman Sachs Global Investment Research