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China Property | Asia Pacific

Five Most Frequently Asked Questions About Completed-Sales Model

We summarize the key investor concerns from our recent discussions and provide our responses below. In our view, recent share-price performance suggests the market may be underestimating the impact on developers' asset turnover while overestimating the potential for margin expansion.

Key Takeaways

- The new model could gradually support home-price stabilization, while destocking should primarily benefit the existing-home market.
- Structurally lower capital efficiency could leave normalized sales notably below 2026 levels. We believe "IRR × net margin" better captures profitability.
- Liquidity pressure could rise without triggering broad-based defaults; higher funding barriers may further concentrate new-home development among stronger SOEs.
- Developers could partly reduce the impact via higher margins, capital efficiency and leverage, while land discipline and low-cost funding become more critical.
- Even with better land terms, higher home prices and leverage, normalized sales/ earnings could stay lower. Consolidation may still mean lower ROE and valuations.

Q1. Would the new model lead to home price stabilization? If so, when?

Q2. How much would the new model impact developers' sales and earnings?

Q3. Would any developers face renewed liquidity challenges?

Q4. How could developers mitigate the impact?

Q5. How much has the market priced in the impact?

Stock recommendation: We remain guarded on pure-play developers while favoring **KE (BEKE.N)** as a key beneficiary of a higher share of existing-home transactions. We would also accumulate **CR Land (1109.HK)** and **Seazen A/H (601155.SS/1030.HK)**, where robust mall operations should provide an earnings buffer.

CR Land is trading at ~13x its forward recurring profit, with limited valuation for its profitable development business, which is defensive in our view. Seazen's 7-8x recurring profits materially underappreciate its improving liquidity and business outlook, as well as dividend potential.

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1. Quantifying the Impact of a Completed-Sales Model (30 August 2026)
2. First Take on Cancellation of Housing Pre-sales (28 August 2026)

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Our Answers to the Key Concerns about Completed-Sales Model

Q1. Would the new model lead to home price stabilization? And when?

Yes, but we expect the impact to be gradual. Unlike demand-side stimulus, which can translate into stronger transaction volumes relatively quickly, the completed-sales model is primarily a supply-side reform, and its impact on housing supply should take time to materialize, in our view. Existing projects with construction planning permits can continue under the previous pre-sale framework, while completed sales are prioritized for newly auctioned land and projects without such permits. As such, we expect the reform to improve demand-supply dynamics over time, but not to drive an immediate nationwide stabilization in home prices.

We expect destocking to be more evident in the existing-home market than in the new-home market. As developers reduce land replenishment and future new-home supply declines, a greater share of housing demand could shift toward existing homes. By contrast, a meaningful portion of current new-home inventory, particularly projects held by defaulted developers, could remain difficult to clear due to less-favored locations, weaker product quality or unattractive pricing. Therefore, while lower future supply should gradually improve overall market balance, the digestion of legacy new-home inventory could take considerably longer.

The timing of home-price stabilization should vary materially by city tier. We expect most Tier 1 cities to see home prices stabilize by end-2026, supported by more favorable demand-supply dynamics and faster inventory absorption. Tier 2 cities could stabilize in 2027, likely in 2H27, as inventory takes longer to digest and the reduction in new supply becomes more meaningful. Lower-tier cities could take materially longer, given more severe structural oversupply and weaker underlying housing demand.

Demand conditions remain the key determinant of the home-price trajectory. Home-price trends will continue to depend on macro conditions, affordability and demographics. A reduction in future supply can help restore market balance, but is unlikely to fully offset weak household income expectations, affordability constraints or demographic headwinds. Stronger demand-side stimulus and an improvement in the macro environment could therefore bring forward our expected stabilization timeline, while sustained demand weakness could delay it.

Q2. How much would the new model impact developers' sales and earnings?

We believe the impact could be significant, although the magnitude remains subject to considerable uncertainty at this stage. The central government has so far provided a policy framework, while we expect detailed implementation rules to be finalized and announced by local governments in the coming months. We believe local implementation could provide some flexibility in areas such as land-payment terms, project launch timelines and tax-payment schedules, partly mitigating the impact. Our estimates below should therefore be viewed as a relatively strict implementation scenario rather than an assumption that all other parameters remain unchanged.

Absent mitigating measures, we expect the most significant impact to be on project IRR, reflecting materially slower asset turnover. For a standard-size mass-market project in a Tier 1 city, our analysis suggests project IRR could fall from ~22% under pre-sales to only 4-5% under completed sales. A key difference is the timing of monetization: projects can typically be launched around 6-9 months after land acquisition under pre-sales, versus around 24-30 months under completed sales, given the substantially later launch timing. Factoring in a further 12-18 months after launch for project cash flow to turn positive, we estimate the overall cash-conversion cycle could lengthen to 3-4 years under completed sales, versus ~2 years under pre-sales.

The compounding effect of slower capital recycling could result in an increasingly pronounced sales impact over time. Later project monetization reduces the cash available for subsequent land replenishment, while lower land acquisitions in one year constrain saleable resources in subsequent years, creating a cumulative drag on sales capacity. This explains the progressively larger impact embedded in our forecasts: under strict implementation, we estimate covered developers' contracted sales could decline 17% in 2027 and 35% in 2028, implying a 24% CAGR decline over 2026-28.

Land replenishment in 2027-28 will be critical in determining developers' saleable resources and sales capacity from 2029 onward. We believe developers' ability to acquire new land will depend not only on cash inflows from contracted sales, but also on their existing liquidity buffers, near-term debt repayment obligations, remaining construction capex for pre-sold projects and accounts-payable pressure. Developers with stronger balance sheets and better access to financing should be better positioned to sustain landbanking and potentially gain market share, while weaker players may need to prioritize debt servicing and project completion over new investment. More importantly, even after the transition period, we estimate the sector's normalized property sales scale under the completed-sales model could remain a mid-to-high-double-digit percentage below 2026 levels, absent a meaningful increase in leverage or other mitigating factors. Structurally slower asset turnover should constrain developers' ability to replenish land and recycle capital at the pace achievable under pre-sales.

For earnings, home and land prices remain the key swing factors. We discuss our home-price outlook in Q1. For land prices, we expect the adjustment to involve a gradual price-discovery process between local governments and developers. Developers are likely to require higher margin buffers to compensate for slower asset turnover, while local governments will need to balance land-sale volumes against pricing and fiscal considerations. We therefore believe it could take months or even quarters for a

meaningful adjustment in land prices to emerge.

We also expect material divergence across cities. We see limited scope for meaningful land-price declines in most Tier 1 cities, given their relatively healthy fiscal positions, scarce prime land supply and stronger underlying housing demand. By contrast, weaker Tier 2 and lower-tier cities could see more meaningful downward adjustments, given softer housing demand and their relatively high reliance on land sales and other property-related fiscal revenues.

Unless materially higher home prices and/or lower land prices restore project economics, we believe the drag from slower asset turnover will be difficult to fully offset. Traditional margin analysis could therefore become less informative under the completed-sales model: developers may continue to generate reasonable accounting margins while delivering substantially weaker economic returns as capital remains tied up for longer.

We therefore suggest investors increasingly assess developers using an "IRR × net margin" matrix. Net margin captures project profitability, while IRR reflects the efficiency and speed of capital recycling. Under pre-sales, rapid asset turnover allowed developers to generate attractive returns despite moderate margins; under completed sales, the combination of IRR and net margin should provide a more relevant measure for differentiating developers' underlying profitability and sustainable growth capacity, in our view.

Q3. Would any developers face renewed liquidity challenges?

Yes, although we do not expect a repeat of the broad-based developer defaults seen in 2022-23. The completed-sales model, together with significantly tighter restrictions on the use of pre-sales proceeds, would materially weaken developers' operating cash flows and capital efficiency. Under the new framework, 100% of home purchase funds, including down payments and mortgage proceeds, are required to enter supervised escrow accounts, with funds released only after project completion and delivery conditions are met. This would materially reduce developers' flexibility to recycle customer proceeds across projects and increase capital tied up during construction.

Sector balance sheets are nevertheless in a better position than they were during the previous liquidity crisis. Developers that have remained in normal operations have generally improved their leverage and liquidity positions over the past few years through deleveraging, more disciplined land acquisitions and tighter cash management. We therefore see a lower probability of another sector-wide default cycle, with liquidity pressure likely to be more differentiated across developers.

Developers still in normal operations could face a larger incremental cash-flow impact, while those with sizable near-term debt maturities and weak refinancing access remain most vulnerable in the short term. Healthy developers continue to rely on pre-sales proceeds as an important source of project funding and capital recycling, making the change in funding model more material for them on an incremental basis. However, developers with large upcoming public debt maturities and constrained refinancing capacity, such as Vanke, could face more acute liquidity pressure given weaker operating cash inflows alongside continued debt-servicing requirements.

Developers with high accounts payable and sizable undeveloped landbanks could also face renewed liquidity pressure. Under strict implementation, pre-sales proceeds from new projects would remain in escrow until completion, constraining developers' ability to use customer collections to fund construction, settle supplier payables or support other projects. For developers already facing elevated accounts-payable pressure, the higher upfront funding requirement could further tighten working capital and limit new investment capacity.

Incremental bank financing could provide some support, but we expect the benefit to be limited. The National Financial Regulatory Administration (NFRA) has encouraged banks and financial institutions to assess financing support more on project economics rather than solely on developers' credit profiles. However, we believe the effectiveness of such support could be constrained by financial institutions' still-cautious risk appetite toward the property sector, particularly private developers. Project-level financing could therefore alleviate part of the liquidity pressure, but is unlikely to fully replace the funding flexibility previously provided by pre-sales.

The completed-sales model could further delay the recovery of private developers' development businesses. Private developers that have already materially reduced land acquisitions may require a longer period to rebuild liquidity, restore financing access and resume meaningful land replenishment. In our view, the likelihood of these developers returning to their previous scale of normal operations could decline further under the new model.

Over the medium term, we expect new-home development to become increasingly concentrated among a relatively small group of financially stronger SOE developers. Developers with strong balance sheets, diversified funding access and established brand equity should be better positioned to absorb the longer cash-conversion cycle and higher upfront capital requirements. By contrast, weaker private developers may remain focused on project completion and balance-sheet repair, accelerating the structural concentration of the new-home market.



Q4. How could developers mitigate the impact?

We see two main levers for developers to mitigate the impact of the completed-sales model: protecting project margins and improving capital-use efficiency. Both should become increasingly important as the cash-conversion cycle lengthens materially, although we do not believe either could fully offset the structural decline in asset turnover.

First, developers could protect project margins through greater land-acquisition discipline. We believe developers will need to incorporate wider margin buffers into land bidding, factoring in a more prudent home-price outlook, higher capitalized interest expenses and higher targeted gross margins to compensate for slower asset turnover. This should translate into lower acceptable land prices for a given project. However, as discussed in Q2, we expect land-price adjustment to be a gradual price-discovery process between developers and local governments. Land transactions could therefore remain sluggish over the coming quarters, as developers become more disciplined in bidding while local governments may initially be reluctant to materially lower reserve prices or land-sale proceeds.

Second, developers could improve capital efficiency through more selective land and product positioning. We expect greater preference for low-plot-ratio projects, which are generally better suited to high-end and luxury products such as low-rise apartments, villas, townhouses and duplexes. Such projects could offer both stronger product differentiation and pricing power, as well as shorter construction periods, allowing developers to monetize capital earlier. This could further reinforce developers' focus on premium projects in higher-tier cities, while reducing their appetite for large-scale, high-density mass-market developments with longer construction and cash-conversion cycles.

Developers could also optimize the timing of construction-related cash outflows. Potential measures include negotiating longer payment terms with contractors and suppliers or making greater use of discounted bank bills, thereby shifting a larger portion of construction payments closer to, or beyond, project launch. The ability to manage accounts-payable timing without materially increasing construction costs or compromising project execution could become an increasingly important differentiator under completed sales.

On the sales side, payment incentives could help accelerate cash collection after project launch. Developers could, for example, offer greater discounts to buyers opting for higher down-payment ratios, increasing upfront cash collections and reducing reliance on mortgage proceeds, which typically take longer to receive. While this involves a trade-off between project margin and cash conversion, the timing of cash collection could become increasingly important alongside headline ASP under the completed-sales model.

Higher leverage could provide another partial offset, although we expect the magnitude to be measured. Additional project-level borrowing could partly compensate for the loss of pre-sale funding and support equity returns under a longer cash-conversion cycle. However, we see limited scope for aggressive releveraging across the sector. Private developers remain in a deleveraging process and generally have constrained access to incremental borrowing, while major SOE developers already operate at an average net gearing ratio of around 40%. State-owned Assets Supervision and Administration

Commission of the State Council (SASAC) requirements should also constrain SOEs' capacity and willingness to materially increase leverage. Additional leverage could therefore provide some cushion, but is unlikely to restore the capital efficiency achievable under pre-sales.

Cash-flow management should consequently become an increasingly important competitive differentiator. As developers commit capital for substantially longer before monetization, differences in capital access, borrowing costs, payment terms and cash-flow management should have a greater bearing on project returns and earnings. Developers with strong balance sheets and diversified access to low-cost funding should therefore be better positioned not only to navigate the transition, but also to replenish land selectively as more capital-constrained competitors retreat.

Q5. How much has the market priced in the impact?

We think the market may have underestimated the structural impact of the completed-sales model. Sector share prices have declined by only a mid-single-digit percentage on average since the policy announcement, with larger corrections concentrated among selected developers with thin landbanks and greater reliance on current-year land acquisitions for current-year saleable resources, such as C&D, Greentown and Jinmao.

In our view, the relatively modest sector correction suggests investors may be underestimating the impact of slower asset turnover, while being overly optimistic about potential margin expansion. Recent news flow around price increases at selected new-home projects, improving existing-home prices in some cities and lower land prices has raised expectations that higher development margins could largely offset the impact of the new model. We think this underestimates the more fundamental change in project economics: even if margins recover, developers will need to commit capital for materially longer before generating cash returns.

Our updated project cash-flow analysis suggests the structural impact remains material even after incorporating reasonable mitigating assumptions. Factoring in more favorable land-payment terms, lower land prices, a measured increase in leverage and low-single-digit annual home-price appreciation, we estimate developers' normalized property sales under completed sales could still be a mid-to-high-double-digit percentage below current levels. The mitigating measures discussed in Q4 could therefore narrow the impact, but are unlikely to restore the asset turnover or sales capacity achievable under pre-sales.

The completed-sales model should accelerate industry consolidation and improve the competitive landscape for the survivors. Higher capital requirements and tighter restrictions on pre-sales proceeds should further raise barriers to entry, making it increasingly difficult for financially weaker developers to replenish land and rebuild their development businesses. We therefore expect new-home development to become increasingly concentrated among a smaller group of developers with strong balance sheets, diversified funding access and established brand equity. The survivors should benefit from a more rational competitive environment, potentially supporting project margins and market-share gains.

However, we do not believe industry consolidation necessarily warrants higher sector valuations. The surviving developers could ultimately operate in a better competitive environment, but at a materially smaller sales scale, with lower asset turnover and ROE and potentially higher leverage than under the pre-sales model. In our view, this represents a structurally less attractive return profile for the development business and could drive a medium-term sector de-rating, even if home prices stabilize and development margins recover.

Valuation Methodology and Risks

Seazen Group Ltd (1030.HK)

Our HK$3.83/share 2026e NAV comprises HK$3.39 of development properties (DCF, 8.8% WACC), HK$8.39 of investment properties (cap rate 6-9%) and HK$7.96 of net debt. To this we apply a 40% discount based on our developers' scorecard, comprising landbank (with a 5/10 score), execution (7), scale (6), growth (5), profitability (6), financing (7) and leverage (7). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contracted sales
- Stronger-than-expected new IP launches and IP operation
- Faster-than-expected land acquisition

Risks to Downside

- Weaker-than-expected contracted sales growth
- Faster-than-expected margin compression
- Weaker rental growth

China Resources Land Ltd. (1109.HK)

Our HK$60.54/share 2026e NAV comprises HK$18.44 of development properties (DCF, 8.0% WACC), HK$55.72 of investment properties (cap rate 5-8%) and HK$13.62 of net debt. To this we apply a 30% discount based on our developers' scorecard, comprising landbank (with a 8/10 score), execution (8), scale (9), growth (8), profitability (8), financing (10) and leverage (10). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contracted sales.
- Accelerated openings of new malls.

Risks to Downside

- Weaker-than-expected contracted sales.
- Slower-than-expected openings of new shopping malls.

Seazen Holdings Company Ltd. (601155.SS)

Our Rmb29.38/share 2026e NAV comprises Rmb13.98 of development properties (DCF, 8.9% WACC), Rmb36.51 of investment properties (cap rate 6-8%) and Rmb21.10 of net debt. To this we apply a 40% discount based on our developers' scorecard, comprising landbank (with a 5/10 score), execution (7), scale (6), growth (5), profitability (6), financing (7), and leverage (7). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contract sales
- Stronger-than-expected new IP launching and IP operation
- Faster-than-expected land acquisition

Risks to Downside

- Faster-than-expected compression of development margin
- Weaker-than-expected growth of recurring income
- Slower-than-expected divestment of shopping malls into private REITs

KE Holdings Inc (BEKE.N)

Base case, derived from our DCF model. Key assumptions include 12% WACC and 3% terminal growth rate, in line with our Chinese Internet coverage.

Risks to Upside

- More demand-side policy relaxations in higher-tier cities to accelerate market recovery
- Better-than-expected sales efficiency improvement, driving accelerated adoption from third-party agency stores

Risks to Downside

- Property developers' liquidity crunch affecting the company's earnings and market sentiment
- Slower-than-expected further easing policies
- Resurgence of competition during the recovery cycle