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China Property | Asia Pacific

Completed Sales: Recent Land Auctions Point to Lower Profitability

Our first read of post-policy land auctions reinforces our view of completed sales structurally weakening project returns despite higher margins. Land-price adjustment will be key to restoring project economics, but price discovery will take time.

Key Takeaways

- Recent land auctions imply 36% lower project returns vs. pre-sales despite selective land buying and seemingly healthy margins.
- We would not extrapolate the low land premiums in recent auctions as the new norm; land-price adjustment could take months or quarters.
- Upcoming Beijing and Shanghai auctions are key signposts for local implementation and could provide better visibility on future project returns.

Post-policy land auctions point to weaker project returns despite more selective land buying. Among 12 major land transactions MTD in Tier 1 and Tier 2 cities, nine were sold at base prices, while developers continued to pay premiums for selected prime plots. Smaller project sizes and lower plot ratios also suggest a preference for premium projects with shorter construction cycles. We estimate median net margin of 16.5% and levered IRR of 9.8%, translating into an "IRR × net margin" 36% below our pre-sales benchmark. The wide dispersion in estimated returns also suggests limited bidding competition alone does not guarantee attractive project economics.

We would not extrapolate recent low land premiums as the new norm under completed sales. Recent subdued bidding partly reflects developers awaiting implementation details, while land-price adjustment could take months or quarters, particularly considering local governments' likely limited incentive to cut prices in Tier 1 cities. Upcoming Beijing and Shanghai land auctions should provide important visibility on implementation and future project economics, and could serve as a reference for other cities. We recommend investors closely monitor these auctions.

Stock ideas: 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)** at current levels, as robust mall operations should provide an earnings buffer. CR Land is trading at ~13x estimated forward recurring profit with limited valuation for its profitable development business, which we view as defensive. We think Seazen's 7-8x recurring profits materially under-appreciates its improving liquidity and business outlook, as well as dividend potential.

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Recent Land Auctions: Early Evidence of Developer Adaptation, but Returns Remain Challenged

Developers stayed selective in recent post-policy land auctions amid uncertainty over detailed implementation rules

We analyzed 12 major residential land transactions in Tier 1 and Tier 2 cities MTD (Exhibit 1), with a median project GFA of 63k sqm and plot ratio of 1.6x. Developer participation was generally limited as most remained on the sidelines awaiting further policy details, resulting in 9 of the 12 plots being sold at base prices with limited bidding competition. However, developers were still willing to pay premiums for scarce, prime land: Xi'an Qujiang, Beijing Shunyi and Guangzhou Tianhe were transacted at 40%, 17% and 16% premiums over base prices, respectively, suggesting developers are becoming increasingly selective rather than broadly retreating from land investment.

The relatively small project size and low plot ratio are also consistent with our expectation that developers would increasingly favor low-density, premium projects under completed sales. As discussed in our Five Most Frequently Asked Questions report, low-plot-ratio projects are generally better suited to high-end/luxury products and, importantly, require shorter construction periods, allowing developers to monetize capital earlier and partly mitigate the longer cash-conversion cycle under completed sales.

Project profitability remains materially below pre-sales levels despite seemingly healthy margins, with a wide dispersion in returns

Based on current home prices and assuming flat ASPs through project launch, we estimate the 12 projects could generate a median 16.5% net margin and 9.8% levered IRR, translating into an "IRR × net margin" of 160, 36% below our benchmark of 25% IRR and 10% net margin under pre-sales. Importantly, these estimates are subject to greater-than-usual uncertainty as projects will be launched only after completion: actual selling prices in two to three years could be materially different from today's home prices, creating both upside and downside risks to our estimated returns.

The dispersion is also wide, with estimated net margins ranging from 9.6% to 19.3% and levered IRRs from 5.8% to 13.1%. In our view, this highlights that less bidding competition does not necessarily translate into better project returns: if local governments have limited incentive to lower reserve prices, developers may acquire land at or close to base prices but still earn inadequate returns considering the structurally longer capital cycle.

We would not extrapolate the low land premiums as the new norm under completed sales, with upcoming Tier 1 land auctions likely to provide a more meaningful test

As discussed above, subdued bidding partly reflects developers waiting for detailed implementation rules rather than land prices having already adjusted to the new economics. We continue to expect land-price adjustments to be a gradual price-discovery process between developers and local governments: developers need wider margin buffers to compensate for slower asset turnover, while local governments need to balance

land-sale volumes against land prices and fiscal revenues. We therefore believe meaningful land-price declines could take months or even a couple of quarters to emerge. This could be particularly evident in Tier 1 cities, where relatively healthy fiscal positions, scarce prime land supply and stronger housing demand leave local governments with less incentive to materially lower land prices.

Upcoming land auctions in Beijing and Shanghai over the next few weeks should therefore be important signposts, providing greater visibility on how leading Tier 1 local governments intend to implement completed sales — including land pricing and other potential mitigating measures — and could serve as a reference for other cities' subsequent implementation. Greater clarity on these parameters should also allow investors to more reliably assess the profitability and capital efficiency of future projects. We highly recommend investors closely monitor these upcoming auctions, which we believe could represent the next important catalyst for price discovery under the completed-sales model.

Exhibit 1: We estimate the profitability ("IRR x net margin") of major post-policy land auctions to be 36% lower than the average level under pre-sales

			Residential Land Details					MS Estimated Profitability				
Date	City (District)	City tier	GFA (k sqm)	Plot ratio (x)	Land cost (Rmb/sqm)	Premium over base price	Developer	ASP (Rmb/sqm)	Net margin (%)	Levered IRR (%)	IRR x Net margin	Variance vs. 25% IRR & 10% NPM
1-Sep-26	Hangzhou (Linping)	T2	38.9	1.5	7,350	0%	CCCG Real Estate (中交地产)	25,000	16.4%	12.3%	201	-20%
1-Sep-26	Xi'an (Xincheng)	T2	254.9	1.2-2.5	5,424	0%	Poly Development (保利发展)	18,000	16.7%	9.9%	165	-34%
2-Sep-26	Xi'an (Qujiang)	T2	53.4	1.2-2.5	15,067	40%	COLI (中国海外)	35,000	17.8%	11.4%	203	-19%
2-Sep-26	Xi'an (Weiyang)	T2	239.0	1.9-2.5	6,908	0%	CMSK (招商蛇口)	20,000	15.9%	9.8%	156	-38%
2-Sep-26	Tianjin (Wuqing)	T2	57.1	1.6	5,026	0%	Local POE (天津汇华置业)	13,000	9.6%	5.8%	56	-78%
3-Sep-26	Beijing (Shunyi)	T1	201.3	1.0	41,241	17%	CR Land (华润置地)	85,000	15.7%	9.1%	143	-43%
3-Sep-26	Chengdu (Wenjiang)	T2	72.2	1.8	4,550	0%	Local SOE (成都隆科兔兴置业)	16,000	19.3%	6.8%	131	-48%
4-Sep-26	Guangzhou (Tianhe)	T2	67.8	2.1	36,589	16%	Yuexiu (越秀地产)	65,000	12.9%	7.3%	95	-62%
4-Sep-26	Qingdao (Licang)	T2	20.2	1.0	11,230	0%	Local POE (华新园置业)	32,000	16.9%	11.6%	197	-21%
4-Sep-26	Shenyang (Hunnan)	T2	77.0	1.0-1.1	6,700	0%	COLI (中国海外)	17,000	14.1%	9.0%	127	-49%
8-Sep-26	Changsha (Yuhua)	T2	57.0	3.0	2,350	0%	LGFV (长沙市雨花城市建设)	13,000	16.8%	13.1%	221	-12%
8-Sep-26	Beijing (Tongzhou)	T1	57.7	1.1	17,251	0%	China Green (中国绿发)	45,000	17.7%	11.9%	210	-16%
Median			**62.8**	**1.6**		**0%**			**16.5%**	**9.8%**	**160**	**-36%**
Max			*255*	*3.0*		*40%*			*19.3%*	*13.1%*	*221*	*-12%*
Min			*20.2*	*1.0*		*0%*			*9.6%*	*5.8%*	*56*	*-78%*



Valuation Methodology and Risks

Seazen Group Ltd (1030.HK)

Our HK$3.83/share 2026e NAV comprises HK$3.38 of development properties (DCF, 8.9% WACC), HK$8.31 of investment properties (cap rate 6-9%) and HK$7.86 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

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 Rmb29.34/share 2026e NAV comprises Rmb13.81 of development properties (DCF, 8.9% WACC), Rmb36.15 of investment properties (cap rate 6-8%) and Rmb20.62 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