Mining Expert Calls

#1 China Property: Presale policy change = another headwind

Equities

Global

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We hosted UBS's John Lam in Part 1 of our China Expert Call series

The downturn in China's property market has been the key drag on commodity demand over the past 4-5 years. Our China property team had turned more positive on the property outlook in May-26, seeing signs of early stabilisation (note); however, the recent proposed change to move from the long-standing presale housing model to a sale-upon-completion model (note) is likely an incremental headwind which could result in new sales/gross floor area starts declining by as much as ~50% over the next two years (if implemented strictly).

- **Shift away from the presale framework**: China's decision to move from its long-standing presale housing model to a sale-upon-completion model marks one of the most significant property market reforms in decades. The policy, jointly announced by the Ministry of Housing and Urban-Rural Development, Ministry of Natural Resources and National Financial Regulatory Administration, is designed to **1)** restore buyer confidence following the Evergrande crisis, **2)** reduce disputes over unfinished projects, and **3)** improve price stability in the market. China property developers' shares fell 10-15% following the announcement, reflecting concerns around implications on profitability/cash flow. This is despite conditions in the physical market being more constructive.
- **Developer economics deteriorates**:Under the revised rules, developers may only begin presales once a building structure has been topped out, extending the typical period from land acquisition to presale from ~6 to ~9-11 months. The new regime has a meaningful impact on the cash flow cadence of the developers, and shifts a larger portion of future property price risk from the buyers to the developers who now face higher funding requirements throughout the construction period. Our China team expects developers' project IRRs could potentially fall from ~15-17% previously to ~7-8%. Against this backdrop, we also expect further industry consolidation as leveraged/distressed developers exit the market, favouring SOE developers (~75% of the market by land sales) with more robust balance sheets and favourable financing conditions.
- **...although price stabilisation could accelerate**: However, the reforms could stabilise residential property prices sooner than previously expected - particularly in Tier 2 cities. Physical market signals in the two weeks following the policy announcement were encouraging with increased transactions (in both new and secondary listings) and increased prices (~1-2%) in prime cities/districts, which have been positive for inventory absorption and pricing.
- **Sharp contraction in new starts/sales over next two years under new framework**: Whilst there is still some uncertainty over the details/implementation of the change by local governments, our China team sees potential for new sales/GFA starts to decline by a further ~50% *over two years* under the new regime (if implemented strictly); land sales are also expected to fall sharply, impacting local government financing. Developers would likely shrink their contract sales size, reduce land purchases and focus on accelerating the construction cycle (from 2 years to ~1.5 years) in order to preserve returns and recycle cash. Long-term residential housing demand of ~800m sqm however remains unchanged (with ~600m sqm from new starts and ~200m sqm from vacant property).
- **Local government flexibility remains the key swing factor**: While the framework establishes a national objective of gradually transitioning all regions towards completed-home sales, the pace and specific mechanisms will be

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determined by local governments. In our view, local governments may seek to soften the impact on land sales; the first implementation by Wuhan government was more lenient than expected (note), with the government allowing land premiums to be paid in instalments, encouraging banks to provide letter of guarantee/release mortgage earlier - which would in turn support developer IRRs (our team expects IRR to only reduce by ~100bps). We see potential upside to overall property activities under such scenarios.

- **Incrementally negative for commodity demand**: Our China team expects the slowdown to reflect lower *overall* construction activity, rather than a shift between early vs late-cycle construction phases. With most suspended projects now resolved and limited remaining backlog, completions are set to fall ~20% pa over next three years (reflecting the decline in starts over the past three years). Steel demand could face additional structural pressure from changes to development density (on building heights and plot ratio), reducing steel intensity per square metre of construction. Nonetheless, commodity demand has so far proven surprisingly resilient during the property downturn, supported by growth in infrastructure (e.g. EV charging), home appliance subsidy programmes and renovation activity which are not fully captured in headline property statistics. Non-residential construction activity (now ~40% of total market with Residential ~60%), including offices and shopping malls, has been oversupplied; this is expected to be broadly stable over the next few years with IRRs reasonable.
- **Housing Provident Fund (HPF)**: The State Council approved the biggest revision of the HPF regulations since the rules were formalized in 1999, effective September 2026, allowing broader withdrawal opportunities (e.g. for home renovations, not just purchases/retirement); the fund has increased to ~RMB11trn so has the potential to support the housing market (albeit it is not seen as enough to drive a market rebound). The most effective tool to support housing demand, in our view, remains lowering mortgage-related rates; our team believes there is room to reduce Provident Fund rates and notes that this has only been lowered three times in the past decade (vs the benchmark policy rates nine times).

Key China Property Charts

Selected slides from John Lam's latest sector deck (28-Aug):

Figure 1: UBS expects a -3%/-9%/-25% decline in new home sales/starts/completions in 2026E, moderating to 0%/0%/-15% in 2027E - before changes to the presale system

	NBS Residential Statistics									Residential Investments					Top 100 developers contract sales				
	Residential GFA sold		Residential new starts		GFA under construction		GFA completed		Starts / sales	Residential Investments		Residential value sold		Inv / sales	Gross		Attributable		
	m sqm	YoY	m sqm	YoY	m sqm	YoY	m sqm	YoY	%	Rmb bn	YoY	Rmb bn	YoY	%	Rmb bn	YoY	Rmb bn	YoY	% of national
2010	931	8%	1,295	40%	3,149	26%	612	3%	139%	3,404	33%	4,395	15%	77%					
2011	970	4%	1,460	13%	3,884	23%	717	17%	151%	4,431	30%	4,862	11%	91%					
2012	985	1%	1,307	-11%	4,290	10%	790	10%	133%	4,937	11%	5,347	10%	92%					
2013	1,157	18%	1,458	12%	4,863	13%	787	0%	126%	5,895	19%	6,769	27%	87%					
2014	1,052	-9%	1,249	-14%	5,151	6%	809	3%	119%	6,435	9%	6,240	-8%	103%					
2015	1,124	7%	1,067	-15%	5,116	-1%	738	-9%	95%	6,460	0%	7,275	17%	89%					
2016	1,375	22%	1,159	9%	5,213	2%	772	5%	84%	6,870	6%	9,906	36%	69%					
2017	1,448	5%	1,281	11%	5,364	3%	718	-7%	88%	7,515	9%	11,024	11%	68%	7,405		5,571		
2018	1,479	2%	1,534	20%	5,700	6%	660	-8%	104%	8,519	13%	12,639	15%	67%	10,007	35%	8,031	44%	64%
2019	1,501	1%	1,675	9%	6,277	10%	680	3%	112%	9,707	14%	13,944	10%	70%	11,604	16%	8,527	6%	61%
2020	1,549	3%	1,643	-2%	6,556	4%	659	-3%	106%	10,445	8%	15,457	11%	68%	13,046	12%	9,446	11%	61%
2021	1,565	1%	1,464	-11%	6,903	5%	730	11%	94%	11,117	6%	16,273	5%	68%	12,632	-3%	8,872	-6%	55%
2022	1,033	-34%	881	-40%	6,397	-7%	625	-14%	85%	9,241	-17%	10,957	-33%	84%	7,294	-42%	5,112	-42%	47%
2023	946	-8%	693	-21%	5,899	-8%	724	16%	73%	8,496	-10%	10,299	-4%	82%	6,006	-18%	4,244	-17%	41%
2024	**807**	**-15%**	**537**	**-23%**	**5,132**	**-13%**	**537**	**-26%**	**66%**	**7,588**	**-11%**	**8,429**	**-18%**	**90%**	**4,186**	**-30%**	**3,083**	**-27%**	**37%**
Jan-25	46	-4%	24	-29%	4,214	-10%	32	-18%	52%	403	-9%	458	-1%	88%	242	-5%	180	-1%	39%
Feb-25	46	-4%	24	-29%	4,214	-10%	32	-18%	52%	403	-9%	458	-1%	88%	198	0%	143	2%	31%
Mar-25	93	-1%	47	-19%	4,272	-10%	32	-8%	50%	708	-9%	920	-1%	77%	345	-12%	254	-11%	28%
Apr-25	54	-2%	37	-18%	4,319	-10%	19	-26%	68%	605	-11%	550	-7%	110%	309	-9%	226	-7%	41%
May-25	59	-5%	39	-17%	4,354	-10%	19	-21%	67%	655	-11%	625	-6%	105%	318	-10%	232	-10%	37%
Jun-25	86	-7%	52	-13%	4,412	-9%	29	-4%	60%	804	-12%	873	-13%	92%	371	-21%	267	-26%	31%
Jul-25	49	-7%	36	-9%	4,451	-9%	18	-31%	74%	544	-14%	474	-14%	115%	228	-25%	166	-26%	35%
Aug-25	49	-10%	34	-19%	4,485	-10%	18	-28%	70%	517	-19%	485	-14%	107%	220	-19%	154	-22%	32%
Sep-25	70	-11%	40	-18%	4,522	-10%	24	-5%	57%	566	-20%	688	-12%	82%	266	-3%	198	3%	29%
Oct-25	52	-20%	27	-30%	4,553	-10%	26	-31%	51%	455	-23%	536	-25%	85%	277	-41%	201	-42%	37%
Nov-25	55	-19%	32	-27%	4,576	-10%	32	-28%	58%	384	-29%	532	-28%	72%	244	-37%	184	-36%	35%
Dec-25	75	-18%	38	-19%	4,601	-10%	147	-21%	51%	308	-36%	733	-26%	42%	342	-28%	262	-29%	36%
Jan-26	39	-16%	18	-23%	3,713	-12%	23	-27%	48%	364	-11%	358	-22%	102%	182	-25%	129	-29%	36%
Feb-26	39	-16%	18	-23%	3,713	-12%	23	-27%	48%	364	-11%	358	-22%	102%	125	-37%	91	-36%	25%
Mar-26	83	-10%	37	-20%	3,755	-12%	24	-26%	45%	625	-11%	776	-15%	81%	283	-18%	207	-19%	27%
2025	**733**	**-9%**	**430**	**-20%**	**4,601**	**-10%**	**429**	**-20%**	**59%**	**6,351**	**-16%**	**7,333**	**-13%**	**87%**	**3,359**	**-20%**	**2,466**	**-20%**	**34%**
2026E	**708**	**-3%**	**392**	**-9%**	**4,371**	**-5%**	**320**	**-25%**	**55%**	**6,095**	**-4%**	**6,824**	**-7%**	**89%**	**3,036**	**-10%**	**2,221**	**-10%**	**33%**
2027E	**708**	**0%**	**392**	**0%**	**4,153**	**-5%**	**272**	**-15%**	**55%**	**6,095**	**0%**	**6,961**	**2%**	**88%**	**3,188**	**5%**	**2,332**	**5%**	**34%**

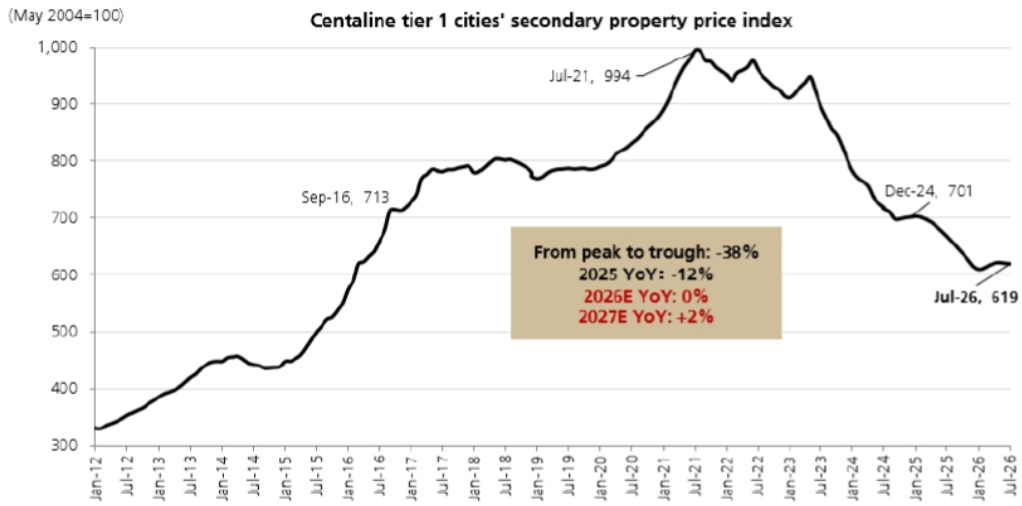
Source: CEIC, NBS, CRIC, UBS estimates

Figure 2: Primary and secondary sales including transaction mix - secondary continue to contribute >50% of housing transactions in 2026-28E

	Secondary sales value		Secondary sales GFA		Secondary ASP		Primary sales value		Primary sales GFA		Primary ASP		Rental transaction		Secondary transaction value mix (secondary / primary + secondary)
	Rmb bn	YoY	m sqm	YoY	Rmb/sqm	YoY	Rmb bn	YoY	m sqm	YoY	Rmb per sqm	YoY	Rmb trn	YoY	
2018	6,500		395		16,456		12,639	15%	1,479	2%	8,544		1.5		34%
2019	6,700	3%	390	-1%	17,179	4%	13,944	10%	1,501	1%	9,287	9%	1.7	13%	32%
2020	7,500	12%	390	0%	19,231	12%	15,457	11%	1,549	3%	9,980	7%	2.0	18%	33%
2021	7,000	-7%	362	-7%	19,356	1%	16,273	5%	1,565	1%	10,398	4%	2.2	10%	30%
2022	5,462	-22%	396	9%	13,798	-29%	10,957	-29%	1,033	-29%	10,607	2%	1.9	-15%	33%
2023	7,100	30%	570	44%	12,456	-10%	10,299	-6%	946	-8%	10,891	3%	2.2	18%	41%
2024	7,200	1%	718	26%	10,026	-20%	8,429	-18%	807	-15%	10,443	-4%	2.2	0%	46%
2025	6,700	-7%	786	9%	8,522	-12%	7,333	-13%	733	-9%	10,006	-4%	2.3	5%	48%
2026E	7,149	7%	865	10%	8,267	-3%	6,824	-7%	708	-3%	9,637	-4%	2.4	5%	51%
2027E	7,729	8%	917	6%	8,432	2%	6,961	2%	708	0%	9,637	0%	2.5	5%	53%
2028E	8,120	5%	944	3%	8,601	2%	6,620	-5%	687	-3%	9,637	0%	2.7	5%	55%
2029E	8,531	5%	973	3%	8,773	2%	6,421	-3%	666	-3%	9,637	0%	2.8	5%	57%
2030E	8,963	5%	1,002	3%	8,948	2%	6,228	-3%	646	-3%	9,637	0%	2.9	5%	59%

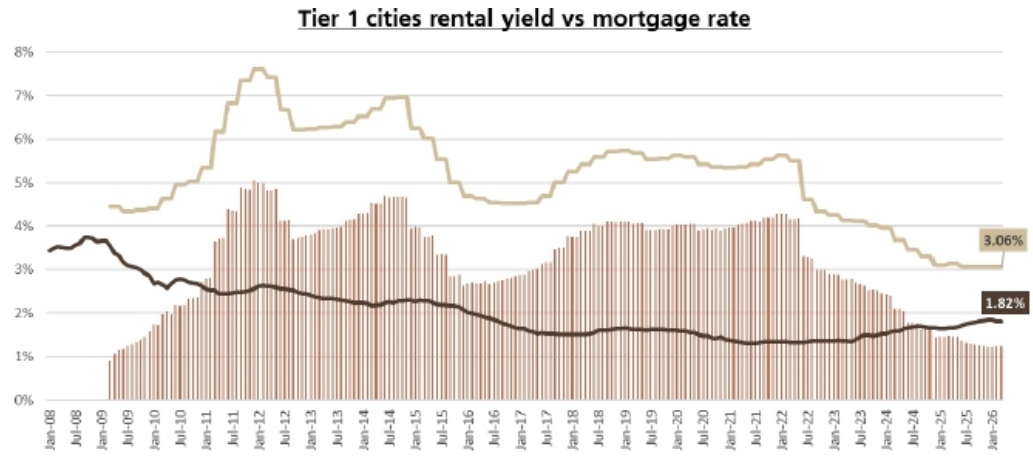
Source: CEIC, BEKE, NBS, UBS

Figure 3: Secondary prices to stabilise in 2026E, and +2% y/y in 2027E



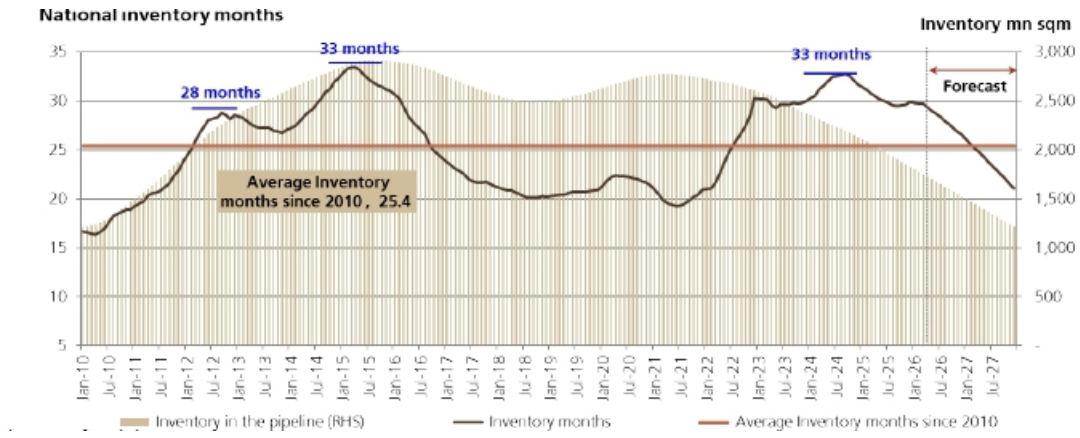
Source: Centaline, UBS estimates

Figure 4: Tier 1 cities rental yield vs national mortgage rates



Source: PBoC, Centaline, UBSe

Figure 5: Inventory levels - UBS expects destocking in 2026E, with an earlier normalisation in inventory by Feb-2027 potentially



Source: CEIC, NBS, UBSe

Valuation Method and Risk Statement

We point out to investors the potential risks inherent in the mining sector including, but not limited to, the volatile nature of commodity prices and currencies, which may differ materially from expectations. Furthermore, the sector is exposed to political, financial and operational risks, each of which has the potential to significantly impact company/industry performance.