China Real Estate

Accelerated supply squeeze yet to be priced in

Equities
REMD

China

- Completed-home reform to accelerate broad inventory contraction by 10-30% to a 11-13% CAGR over 2025-30e
- A supply squeeze coinciding with improved resale liquidity may support primary sell-through and pricing
- Prefer COLI, CRL and KE Holdings (Beike), all rated Buy

Supply squeeze accelerating: We believe China's housing supply squeeze is evolving into a structural theme that could become increasingly relevant from 2027 onwards, even as investors remain focused on policy developments in the near term. New-home supply across 80 key cities fell 17% y-o-y in 8M26, equivalent to just 12% of the 2019 full-year peak, while land acquisitions declined by a further 20% y-o-y, making a meaningful pipeline rebuild unlikely. The completed-home sales reform could tighten supply even further. We estimate developers' annual investment capacity may decline by c23% in the medium term unless they releverage or receive additional cashflow support (*Completed-home sales reform (ii): Repricing the net risk*, 4 Sep 2026). As a result, we expect the pace of broad inventory contraction to accelerate by 10-30% to a 11-13% CAGR decline over 2025-30e, vs a 10% decline over 2023-25. In our view, the supply squeeze is likely to intensify faster than currently reflected in market expectations, with tighter supply and improved confidence in project delivery supporting stronger primary-market sell-through and firmer pricing over time.

Near-term demand likely to shift more towards secondary market: Inventory destocking is broadening, with the number of cities reporting inventory declines of more than 10% y-o-y rising from 17 in 2025 to 21 as of August 2026 (Figure 4). Total housing transactions have stabilised (-2% y-o-y in 8M26), supported by stronger secondary-market volumes (+11% y-o-y). While completed-home sales may divert demand towards the secondary market amid limited new supply, we believe demand will ultimately return to the primary market as the upgrading cycle resumes, supported by better product quality and design (*From 'exit' to 'upgrade': why resale liquidity matters*, 24 March 2026). The supply squeeze should provide firmer support for new launches in more liquid cities such as Shanghai and Beijing, where August secondary transactions rose 16% and 4% y-o-y, respectively.

When it will matter and risks: Despite a more constructive long-term outlook, we expect investors to remain on the sidelines pending policy clarity that rebuilds confidence. This could include meaningful accommodative measures – such as phased land-premium payments and tax deferrals – alongside strong sales momentum and broader price hikes across new projects. These developments could prompt investors to recognise the potential positive impact of a supply squeeze. The primary risk is that sales decline faster than supply, while secondary-market liquidity deteriorates, undermining confidence and preventing a natural recovery without further policy support.

Equity implications: We prefer Buy-rated COLI (688 HK, HKD12.41) and CRL (1109 HK, HKD29.18) for their stronger funding access, financial positions and exposure to leading cities. We also like KE Holdings (BEKE US, USD16.57, Buy), which should benefit from higher secondary-market activity.

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Michelle Kwok*
HD of Asia Property/HK Equity Rsch; Materials Rsch
The Hongkong and Shanghai Banking Corporation Limited
michellekwok@hsbc.com.hk
+852 2996 6918

Oliver Yu*
Analyst, Asia Real Estate and Materials
The Hongkong and Shanghai Banking Corporation Limited
oliver.y.o x yu@hsbc.com.hk
+852 2288 2050

Stephen Wang*, CFA
Analyst, Asia Real Estate and Materials
The Hongkong and Shanghai Banking Corporation Limited
stephen.wang@hsbc.com.hk
+852 2284 1675

Charlotte Ye*
Associate
Guangzhou

** Employed by a non-US affiliate of HSBC Securities (USA) Inc. and is not registered/ qualified pursuant to FINRA regulations*

Less bull, more bite

The 25th edition of the EM Sentiment Survey

Click to view

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

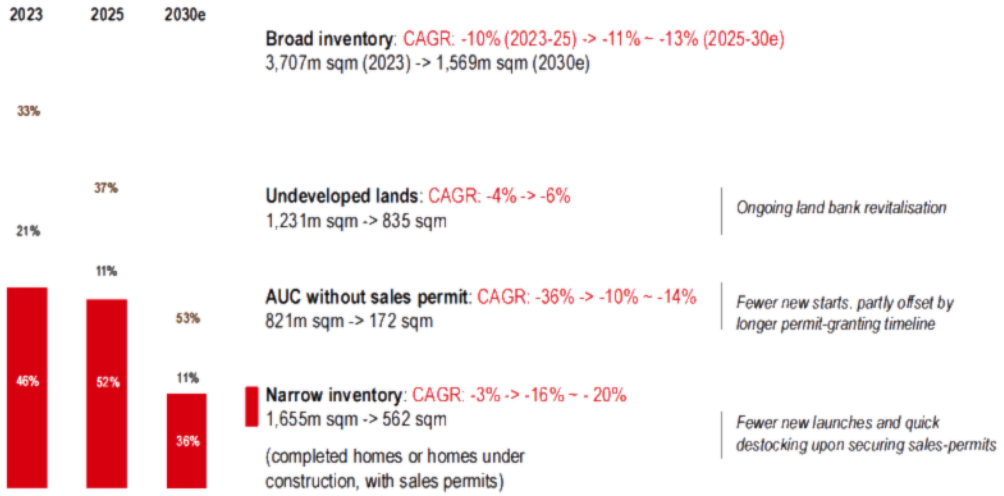
View HSBC Global Investment Research at:
https://www.research.hsbc.com

Completed-home sales accelerate supply squeeze

Four months after our last supply squeeze update (*Construction decline: Less built, less left*, 18 May 2026), the theme is unfolding faster than we previously expected. Our earlier estimates largely reflected a mechanical drawdown as sales consistently exceeded new starts (Figure 2). The completed-home sales reform now adds a further balance-sheet constraint for developers, likely reducing land investment and new starts and, in turn, tightening new-home supply.

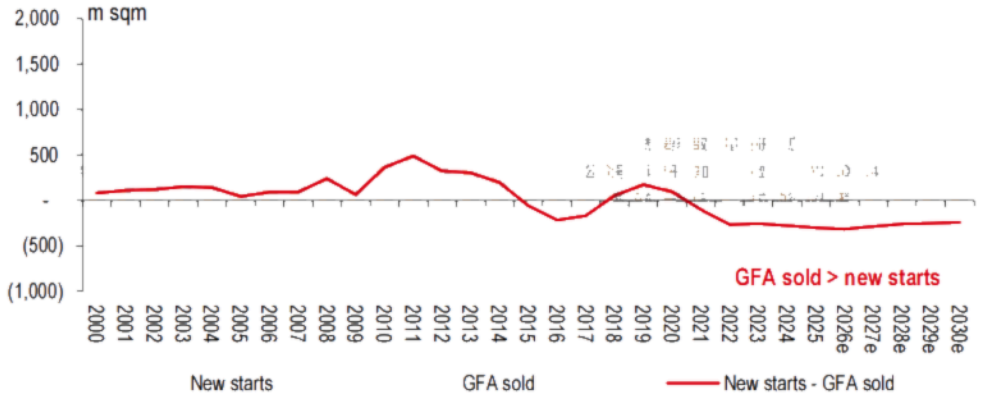
We therefore raise our 2025–30 forecast decline in undeveloped land, reflecting ongoing land bank revitalisation supported by either developer self-funding or government special bonds. We also trim our estimate of area under construction (AUC) without sales permits given fewer new starts, which is partly offset by pent-up projects already under construction as the sales-permit granting timeline lengthens. Most notably, we expect the narrow inventory to shrink materially, driven by fewer new launches and a smaller residual of unsold units post-launch. Taken together, we expect broad inventory to decline at a 11-13% CAGR over 2025–30e, accelerating from 10% CAGR decline during 2023–25.

Figure 1: Narrow inventory is expected to contract more in 2025-30 than 2023-25 under the completed home sales



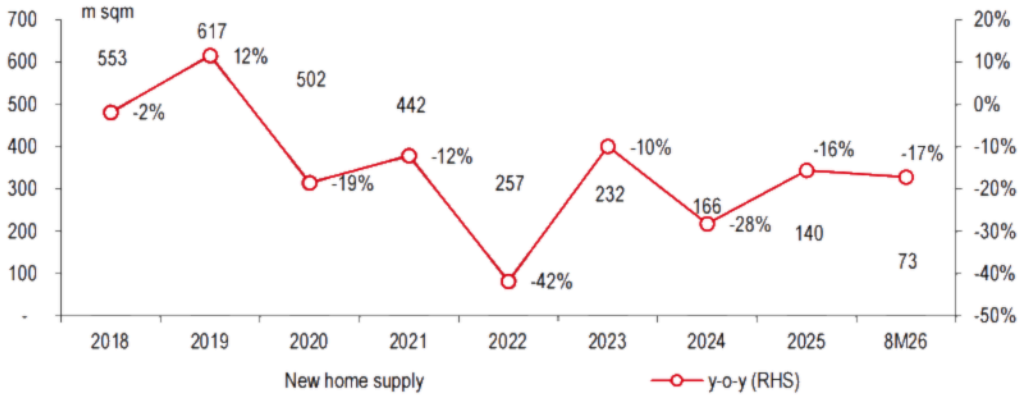
Note: absolute numbers are mid-points of the range estimates
Source: NBS, PTI, HSBC estimates

Figure 2: Accumulated GFA started but not sold declined by 14% y-o-y to 1.9bn sqm as of end-2025



Source: NBS, HSBC estimates

Figure 3: 8M26 new-home supply across 80 key cities fell 17% y-o-y, equivalent to only 12% of the 2019 full-year level

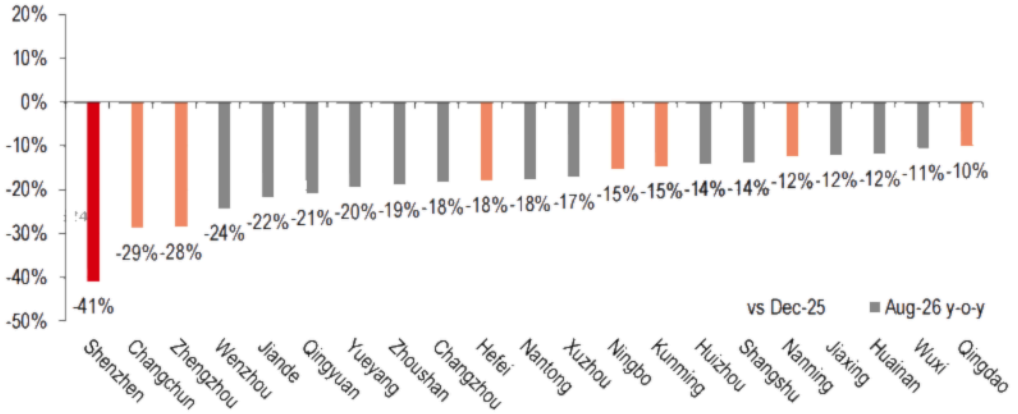


Source: PTI, NBS

Risks to our estimates

- **Weaker-than-expected sales momentum**. Our range estimate is a 13-15% primary sales annual decline in 2027-28 and 2% in 2029-30. If these declines enlarge to 20%/5%, the supply squeeze would be of a smaller scale, where broad inventory would decline at a 2025-30 CAGR of 9.9%, from 11.1-13.2% in the original range. Conversely, if new home sales only contract 10% annually in 2027-28 and rebound by 2% annually in 2029-30, the supply squeeze could accelerate, where broad inventory would decline at a 2025-30 CAGR of 15.4%.
- **Idle land and completed but unsold homes**. In a pessimistic scenario, where idle land remains unchanged throughout 2025-30, and completed but unsold homes only decline 1% annually, the supply squeeze would be slightly slower, where broad inventory would decline at a 2025-30 CAGR of 10.7%, vs 11.1-13.2% in the original range.

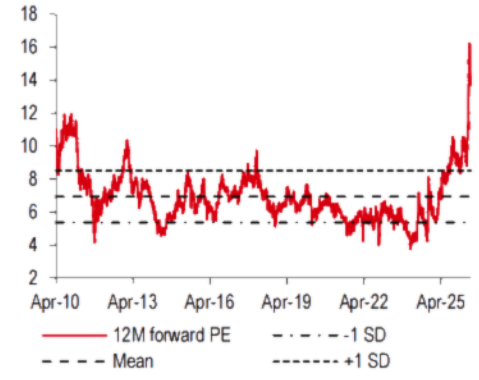
Figure 4: 21 cities with over 10% y-o-y inventory decline in August (17 cities in end-2025)



Note: Red, orange and grey represent tier-1, tier-2 and tier-3 cities, respectively. PTI statistics cover a total of 80 cities
Source: PTI, HSBC

Valuation charts

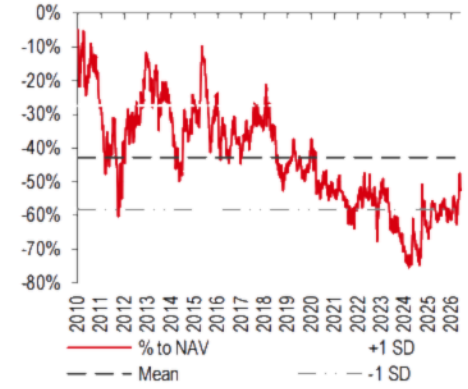
Figure 5: SOE developers' forward P/E (x)



Note: The average forward PE multiples of COLI, CRL, Vanke, Greentown, Yuexiu, C&D Int'l, and Longfor are based on Bloomberg consensus.

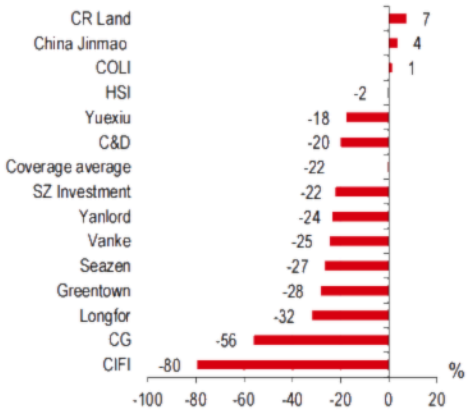
Source: Bloomberg, HSBC estimates

Figure 6: SOE developers' NAV discount (%)



Source: Bloomberg, HSBC estimates

Figure 7: 2026 YTD share price performance



Note: Priced as of 21 September 2026.
Source: Bloomberg, HSBC

Figure 8: SOE developers' trailing P/B (x)



Note: The average trailing PB multiples of COLI, CRL, Vanke, Greentown, Yuexiu, and C&D International are based on monthly data.
Source: Bloomberg, HSBC

Figure 9: Valuation summary

Company	Ticker	Rating	Share Price (HKD)	Target Price (HKD)	Mkt Cap (USDbn)	3M ADTV (USDm)	NAV (HKD/sh)	(Disc)/ Prem (%)	PE (x) 2025a	PE (x) 2026e	PE (x) 2027e	Yield (%) 2026e	PB (x) 2025a	Net Gearing (%)
Property developers														
C&D Int'l	1908 HK	Buy	12.52	16.00	3.7	12.3	38.2	(67)	6.1	5.7	5.0	8.7	0.5	25
COLI	688 HK	Buy	12.41	16.20	17.3	43.5	24.9	(50)	8.9	9.8	9.1	3.9	0.3	33
CR Land	1109 HK	Buy	29.18	38.30	26.5	93.0	51.0	(43)	7.9	7.9	7.5	4.7	0.6	40
China Vanke	2202 HK	Reduce	2.47	2.50	6.0	7.1	5.9	(58)	n.m.	n.m.	n.m.	-	0.3	108
CIFI	884 HK	Hold	0.03	0.08	0.1	0.3	0.5	(93)	n.m.	n.m.	n.m.	-	0.0	81
Country Garden	2007 HK	Hold	0.18	0.30	1.1	8.1	1.9	(90)	1.3	n.m.	n.m.	-	n.m.	n.m.
China Jinmao	817 HK	Buy	1.26	1.60	2.2	11.5	4.3	(71)	20.6	21.1	19.8	2.1	0.4	70
Greentown China	3900 HK	Hold	6.07	6.10	2.0	10.2	14.1	(57)	n.m.	26.5	8.1	1.7	0.4	65
Longfor	960 HK	Hold	5.82	6.00	5.3	15.8	22.2	(74)	n.m.	n.m.	21.1	-	0.2	51
Seazen	1030 HK	Buy	1.51	1.90	1.4	3.8	6.5	(77)	23.8	17.0	8.1	-	0.2	62
Shenzhen Inv	604 HK	Hold	0.62	0.70	0.7	0.5	2.2	(72)	10.9	18.4	12.0	-	0.2	91
Yanlord (SGD)	YLLG SP	Hold	0.53	0.53	0.8	1.1	1.6	(67)	n.m.	14.2	13.3	-	0.2	34
Yuexiu	123 HK	Buy	3.26	3.90	1.7	4.3	11.2	(71)	43.0	23.3	13.2	1.7	0.2	66
Average								**(69)**	**15.3**	**16.0**	**11.7**	**1.7**	**0.3**	**60**
Property brokerage service providers														
KE Holdings (Beike) (USD)	BEKE US	Buy	16.57	23.50	19.0	67.2	n.a.	n.a.	24.3	13.6	11.7	2.9	1.9	net cash
Property managers														
COPL	2669 HK	Hold	3.30	4.30	1.4	3.4	n.a.	n.a.	5.8	5.5	5.1	5.8	1.4	net cash
CR Mixc	1209 HK	Hold	37.88	44.00	11.0	24.3	n.a.	n.a.	18.7	16.9	15.6	5.8	4.1	net cash
CG Services	6098 HK	Hold	5.21	6.40	2.2	4.5	n.a.	n.a.	5.9	5.6	5.1	10.7	0.4	net cash
Greentown Serv	2869 HK	Buy	4.11	5.10	1.6	1.6	n.a.	n.a.	12.5	11.3	10.3	6.3	1.3	net cash
Sunac Services	1516 HK	Hold	0.77	0.90	0.3	0.3	n.a.	n.a.	3.2	5.9	5.7	1.7	0.4	net cash
Average									**9.2**	**9.0**	**8.4**	**6.1**	**1.5**	

Note: Priced at close of 21 September 2026. NA – Not applicable/available. NM – Not meaningful.
Source: Bloomberg, HSBC estimates

Valuation and risks

		Valuation	Risks
CR Land 1109 HK **Buy**	Current price: HKD29.18 Target price: HKD38.30 Upside: 31.3%	**Methodology:** The NAV is calculated by adding up the gross asset values (GAVs) of development projects (DPs) and investment projects (IPs), then subtracting net debt, based on company reports. Our assignment of a target discount is on a relative basis; companies that share similar operational/financial strengths and execution track records should be assigned the same target discount. **Assumptions:** A NAV discount of 25%, set at 0.75 SD above the historical mean, is applied to our NAV per share estimate of HKD51.00 (all unchanged). We use a discount that is 0.75 SD above the historical mean in the valuation to reflect CR Land's increase in sales momentum, strong recurrent income, and solid execution track record. Our unchanged target price of HKD38.30 implies c31% upside to current levels; we therefore maintain our Buy rating on the stock. **Michelle Kwok*** | michellekwok@hsbc.com.hk | +852 2996 6918	**Downside risks** ◆ Inability to maintain sales momentum. ◆ Lower-than-expected margins. ◆ Any material slowdown in the shopping mall segment. ◆ Inability to maintain dividend stability. ◆ Uncertainties related to macroeconomic and property-specific policies.
COLI 688 HK **Buy**	Current price: HKD12.41 Target price: HKD16.20 Upside: 30.5%	**Methodology:** The NAV is calculated by adding up the gross asset values (GAVs) of development projects (DPs) and investment projects (IPs), then subtracting net debt, based on company reports. Our assignment of a target discount is on a relative basis; companies that share similar operational/financial strengths and execution track records should be assigned the same target discount. **Assumptions:** A NAV discount of 35%, set at 0.25 SD below the historical mean, is applied to our NAV per share estimate of HKD24.90 (all unchanged). We used a discount that is 0.25 SD below the historical mean to reflect delays in cash flows due to completed home sales reform and risk-off sentiment within the sector. Our unchanged target price of HKD16.20 implies c31% upside to current levels; accordingly, we maintain our Buy rating on the stock. **Michelle Kwok*** | michellekwok@hsbc.com.hk | +852 2996 6918	**Downside risks** ◆ Slower sales momentum or land purchase. ◆ Lower-than-expected margins. ◆ Slower booking pace. ◆ Significant impairment loss. ◆ Macro uncertainties.
KE Holdings BEKE US **Buy**	Current price: USD16.57 Target price: USD23.50 Upside: 41.8%	**Methodology**: Price-to-earnings (PE) multiple-based valuation. **Assumptions**: Target PE multiple of 18x (unchanged), which is the 2026-27e average of mainland China internet peers of KE Holdings, applied to our unchanged average 2026-27 non-GAAP EPS estimate of RMB8.76. We use a USD-RMB FX rate of 6.72 (unchanged) to derive our unchanged target price of USD23.50. Our target price implies c42% upside to current levels; accordingly, we maintain our Buy rating on the stock. **Secondary listing**: For the local shares (2423 HK, CMP HKD43.34), our TP of HKD61.10 (unchanged) is based on a year-end 2026 USD-HKD forecast of 7.80 (unchanged) and an ADS-to-Hong Kong–listed-share conversion ratio of 1:3 (unchanged). **Oliver Yu*** | oliver.y.o.x.yu@hsbc.com.hk | +852 2288 2050	**Downside risks:** ◆ Slower-than-expected property sales. ◆ Larger-than-expected home price decline. ◆ Slowing growth of new businesses. ◆ Correction in the US stock market. ◆ Macro and policy uncertainties.

Note: Priced at close of 21 September 2026.
*Employed by a non-US affiliate of HSBC Securities (USA) Inc. and not registered/qualified pursuant to FINRA regulations.
Source: Bloomberg, HSBC estimates