CHINA PROPERTY

Mortgage interest subsidy introduced; scope narrower than expected but potential headroom for expansion

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- On Sep 29, MOF, PBOC and NFRA jointly introduced a nationwide mortgage interest subsidy policy effective Oct 1, following earlier local initiatives in more than 20 cities. This has been long-expected by us and the market since earlier this year.
- However, as the scope is limited to first-time buyers, not existing mortgage borrowers, we expect the impact on consumption will be small vs our prior expectation. For the housing market, while the policy is supportive of affordability and pricing, the narrow eligibility criteria and limited subsidy duration also suggest a modest overall demand boost rather than broad-based support. Our take: **1)** Our scenario analysis suggests the monthly repayment saving from this interest subsidy program could potentially account for c.10% of household disposal income, or up to mid-twenties % if accompanied by longer mortgage tenor; **2)** we estimate roughly an aggregate Rmb15bn of mortgage interest subsidies to households on an annual basis (variable based on the shares of eligible and mortgage-bearing home purchases), as compared to Rmb100bn fund set up earlier this year which was targeted to stimulate domestic demand via interest subsidies, financing guarantees, and risk compensation, etc.; and **3)** potential for some positive impact on ASPs under our price-gap-to-fair-value assessment framework.
- We view the current program as a starting point, rather than an end point, for government support of housing purchases via interest subsidies. Potential headroom for further scaling-up of the program could include, for example, expanding property eligibility (e.g. a wider definition for what qualifies as a "first home" and raising the cap for property prices), extending the subsidy period beyond 5 years, etc. That said, the next round expansion for the program will hinge on physical market performance in the coming 6-12 months, in our view.
- With our covered developers' share prices already up 16% on average (vs. -1%/-2% for MSCI China/CSI 300) since the recent low (Sep 15) - likely driven by expectations for policy stimulus based on our conversations with investors - we see possibilities for near-term share price volatility given the narrower scope of policy support than we expected. That said, with average 0.5X 2026E P/B

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valuation for the coverage and 0.6X for stronger SOEs, we think the valuation has already priced in slower ROE improvement on 828 policy implementation and property price recovery. **Key to watch**: factors that might support more sustainable valuation recovery, including 4Q sales performance (so far encouraging in Sep) and more announcements from local government on 828 policy execution (largely in line with our and market expectation so far). We retain our Buy ratings on CRL, COLI, Jinmao and Greentown and Sell ratings on Seazen and Vanke (A)/(H).

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Quantifying the potential impact

Key policy details include: **1) Eligibility:** Applies to new commercial mortgage loans for first-home purchases issued during the 1-year policy window, capped at GFA120sqm and Rmb1.5mn (excludes refinancing). **2) Subsidy:** Covers a 1% annual interest subsidy for up to 5 years (vs. prevailing mortgage rate of 3% and 1-yr/5-yr HPF loan rates of 2.1%/2.6% for first homes), with eligible loan principal capped at Rmb1mn per household (implying 67% LTV against the Rmb1.5mn property price cap, vs. max LTV of 85% for first homes). **3) Funding:** Split 90%/10% between central and local governments.

Exhibit 1: The monthly repayment saving from the interest subsidy program could potentially account for c.10% of household disposal income, or up to mid-twenties % if accompanied by longer mortgage tenor

Unit household saving of new homebuyers from the interest subsidy program

Assumptions			
Unit housing price	Rmb mn	1.5	
LTV	%	67%	
Mortgage principal	Rmb mn	1.0	(capped)
Original mortgage (annual)	%	3.00%	

Scenario analysis		**Base case**	**Case 1**	**Case 2**
Interest subisidy	bps	0	100	100
Interest rate (annual)	%	3.00%	2.00%	2.00%
Interest rate (monthly)	%	0.25%	0.17%	0.17%
Tenor - Y	yrs	30	30	40
Tenor - M	mths	360	360	480
Monthly repayment (first 5 yr)	Rmb	**4,216**	**3,696**	**3,028**
Change (%)	%	0%	-12%	-28%
Change (Rmb)	Rmb	0	-520	-1,188
Saving as % of 26E HH disposable income	%		10%	24%
Total repayment	Rmb mn	**1.52**	**1.49**	**1.69**
vs. base case (%)	%		**-2%**	**11%**
Implied blended interest rate (annual)			*2.8%*	*2.9%*

We apply 5.8% yoy growth rate for household income in 2026E, aligning with GS economist's for nominal GPD growth forecast

Source: NBS, Goldman Sachs Global Investment Research

Exhibit 2: We roughly estimate an aggregate Rmb15bn mortgage interest subsidies to households on annual basis

Calculation on how much aggregate household saving from the interest subsidy program

New mortgage		**Oct-26 ~ Sep-27**
Home sales - primary	(Rmb tn)	7.2
-- % *Eligible home purchases*	(%)	*20%*
-- % *Applying for mortgage*	(%)	*90%*
Home sales - secondary	(Rmb tn)	5.6
-- % *Eligible home purchases*	(%)	*18%*
-- % *Applying for mortgage*	(%)	*60%*
Total home sales applying for mortgage	**(Rmb tn)**	**1.9**
LTV*	(%)	80%
New mortgage issuance	**(Rmb tn)**	**1.5**
Interest subsidy	*(bps)*	*100*
Mortgage interest subsidy to households	**(Rmb bn)**	**15**

*Assume 80% LTV, which is below the max 85% LTV ceiling, mainly to reflect the Rmb1mn eligible principal cap; we apply 5.8%/5.2% yoy growth rate for household income in 2026E/2027E, aligning with GS economist's for nominal GPD growth forecasts

Source: NBS, Goldman Sachs Global Investment Research

Exhibit 3: A mortgage rate of 2% (though only applicable for 5 years under this program) would suggest headroom for price appreciation especially for lower tier cities and under longer-tenor mortgage scenarios from a price-to-fair-value perspective

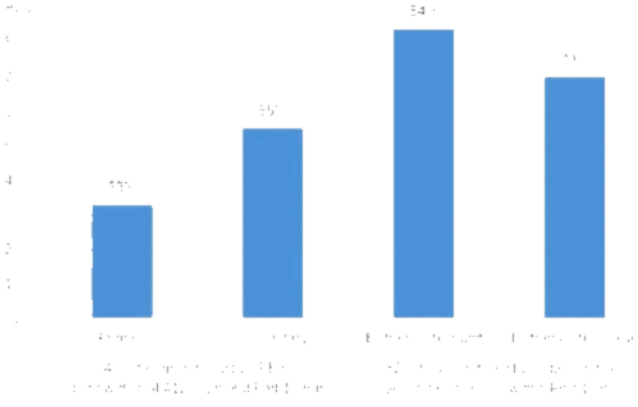
Derivation of gap of housing price to fair value based on our real mortgage rate vs. rental yield framework

Gap to "fair value" ASP									
Mortgage assumption	**Tier-1**	**Tier-2**	**Tier-3**	**Tier-1**	**Tier-2**	**Tier-3**	**Tier-1**	**Tier-2**	**Tier-3**
Nominal mortgage rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
LT Inflation rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Real mortgage rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
LTV	60%	60%	60%	60%	60%	60%	60%	60%	60%
Mortgage duration (years)	20	20	20	30	30	30	40	40	40
Real debt service %	**3.15%**	**3.15%**	**3.15%**	**2.15%**	**2.15%**	**2.15%**	**1.66%**	**1.66%**	**1.66%**
Aug-26 rental yield	1.8%	2.9%	3.0%	1.8%	2.9%	3.0%	1.8%	2.9%	3.0%
Implied ASP gap to "fair value"	**-44%**	**-9%**	**-6%**	**-18%**	**33%**	**37%**	**7%**	**73%**	**79%**

GS economist forecast on inflation rate: 1.02%/1.01%/1.38% for 26E-28E and 1.5% in 29E-36E, as of 9/29/2026; we use 60% LTV here as a common case per banks' observations. More detailed explanation of "fair value" available in our report "2025 Outlook: Bottoming in sight" published on 10/22/2024.

Source: Wind, Goldman Sachs Global Investment Research

Exhibit 4: Share of "eligible" homes (by size and price, and not reflecting whether qualifying as "first homes") among home transactions in 8M26 in monitored cities



Source: CREIS, Iceberg Index

China Property coverage valuation comparison

Exhibit 5: China developers' valuation comparisons

Company	Ticker	Mkt Cap (US$ bn)	Daily liquidity (US$ mn) 1 mth trailing	Type	Rating	Price as of 29 Sep 26	12 mth Price target	Potential upside/ downside (%)	Target price disc. to NAV	End 26E NAV	Mkt price (disc)/ prem to NAV	FD Core P/E (x) 25	26E	27E	28E	P/B (x) (excl. revaluation gain) 25	26E	27E	28E	Dividend yield (%) 25	26E	27E	28E
Developers																							
Stronger SOE developers																							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.70	15	[illegible]	10.25	[illegible]	[illegible]	62.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.7	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	18.7	60	Central SOE	Buy	[illegible]	16.80	29	[illegible]	18.64	[illegible]	[illegible]	10.1	[illegible]	8.4	0.4	0.4	0.4	0.4	[illegible]	4.0	4.2	4.9
[illegible]	[illegible]	[illegible]	140	Central SOE	Buy	[illegible]	36.80	27	[illegible]	43.16	[illegible]	[illegible]	9.9	[illegible]	8.6	0.9	0.9	[illegible]	[illegible]	[illegible]	3.9	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	12	Mixed ownership	Buy	[illegible]	9.50	42	[illegible]	11.12	[illegible]	[illegible]	3.7	[illegible]	[illegible]	0.4	0.4	[illegible]	[illegible]	[illegible]	0.9	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	14	Central SOE	Buy	[illegible]	1.85	35	[illegible]	2.06	[illegible]	[illegible]	23.1	[illegible]	[illegible]	0.6	0.6	[illegible]	[illegible]	[illegible]	2.2	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	176	Central SOE	Neutral	[illegible]	6.10	14	[illegible]	6.74	[illegible]	[illegible]	n/m	[illegible]	[illegible]	0.4	0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average								25	-12%		(28)	10.3	10.1	9.6	8.4	0.6	0.6	0.5	0.5	1.9	2.0	3.3	4.4
Other developers																							
[illegible]	[illegible]	[illegible]	22	[illegible]	Neutral	[illegible]	7.50	30	[illegible]	9.94	[illegible]	[illegible]	n/m	[illegible]	[illegible]	[illegible]	0.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.55	4	[illegible]	3.11	[illegible]	[illegible]	41.1	[illegible]	[illegible]	0.3	0.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	164	Mixed ownership	Sell	[illegible]	3.20	[illegible]	[illegible]	3.50	[illegible]	[illegible]	n/m	[illegible]	[illegible]	0.6	0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	Mixed ownership	[illegible]	[illegible]	2.50	[illegible]	[illegible]	3.82	[illegible]	[illegible]	n/m	[illegible]	[illegible]	0.4	0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Average								0	-30%		(26)	n.m.	n.m.	n.m.	n.m.	0.3	0.4	0.4					
Coverage average								15			(27)	25.0	25.1	15.1	10.3	0.5	0.5	0.5					
H-share average								22			(30)	10.5	17.6	13.9	9.0	0.5	0.5	0.5					
A-share average								(1)			(8)	67.6	62.6	22.0	18.5	0.5	0.5	0.8					

Source: Datastream, Goldman Sachs Global Investment Research

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