China Property & Banks

Mortgage subsidies are out - a good gesture, but the magnitude is milder than expected

In line with the earlier market speculation, the government unveiled a new mortgage subsidy policy, which is **the first nationwide policy support for the housing market since September 2024**. Given the tighter-than-expected criteria (GFA: <120 sqm; price: <Rmb1.5M; first-home only), we believe the major beneficiaries are secondary homes and tier-3/4 cities (**nationwide, we estimate 46% of units by volume, or 31% by value may qualify**). The direct impact on the key listed developers is likely limited (we estimate <10% qualify) as most are focused on upgrade demand in top-tier cities. **We estimate the annual funding required is Rmb28bn (or Rmb142bn across five years), equivalent to 0.2% of annual sales value (primary & secondary).** With a cap of Rmb50K per subsidy (or 3.3% of the max. home value), we think this policy is directionally positive, but not a game changer, as the savings might not necessarily move the needle for prospective buyers. The China property sector has risen 12% (HSI: -0.3%) from the bottom mostly driven by market speculation (Figure 10), but **based on our initial discussions with investors, most found the policy to be below their expectations. We thus expect profit-taking in the near term.** The key beneficiary is **KE Holdings** (covered by Daniel Chen). Our other preferred names are **CR Mixc** and **CR Land**; we'd buy on dips. We'd sell distressed names (e.g. **Vanke**) upon rebounds. For China banks, we think this is marginally positive for loan growth but the impact on asset quality may be muted. **PSBC** is likely the key beneficiary.

- **What's new?** On September 29th, the Ministry of Finance, PBOC & NFRA announced a new mortgage subsidy policy (announcement in Chinese). The stated objective is to support first-home demand & relieve families' interest burden. Effective from 1 October 2026, the following types of home purchases will qualify for a 100bps subsidy on mortgage rates (i.e., the effective mortgage rate will be reduced from 3.05% to 2.05%): (1) **first-home purchase** (首套住房); (2) **GFA: <120 sqm**; (3) **home price: <Rmb1.5 million**. The subsidy will last for 5 years. The maximum qualified loan amount is Rmb1 million, which implies **a subsidy cap of Rmb50K in total (not per year)**. The program will tentatively run for 1 year. Note that housing provident fund (HPF) mortgages, which already enjoy a lower interest rate of ~2.6%, do not qualify for this scheme.
- **What's better than expected?** (1) **Secondary homes qualify too:** although the scheme does not apply to existing mortgages (in line with expectations), it applies to new property sales in both the primary & secondary markets; (2) **there is no upper limit to total funding**: we estimate the funding required is Rmb28bn per year (0.2% of annual sales), or Rmb142bn across the five-year period).
- **What's worse than expected?** (1) **Not all properties qualify:** Contrary to the original expectation that all homes may benefit, the 3 criteria set by the government restricts the % of qualified units to 46% by volume, or 31% by value (by our estimates). By simply looking at the two numerical criteria (GFA: <120 sqm; price: <Rmb1.5M), we estimate that the % of units is 22%/8% (by volume/value) in tier-1 cities, 52%/37% in tier-2 cities, & 66%/55% in tier-3/4 cities. Nationwide, the % of units is 61%/42% (by volume/value). However, if we assume 75% of sales are for first-home buyers (the 3rd requirement), then

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we estimate that the % of qualified units would be 46%/31% (by volume/value). See Table 1 for detailed breakdown.

- **Major listed developers may not benefit much:** Most developers under our coverage focus on upgrade demand in top-tier cities, with most of their property sales coming from units valued at >Rmb1.5 million. By our estimates, **<10% of their property sales may qualify for mortgage subsidies**. Relatively, those with (1) lower average home price; (2) more exposure to low-tier cities may benefit more from the new policy. Among major developers, those with a lower contracted ASP (<Rmb10K psm) include: **Seazen**, **Central China**, **R&F**, **Country Garden**, **Evergrande**, **Agile** & **Longfor** (Figure 2).
- **How much monthly savings?** Assuming a 30-year mortgage of Rmb1 million, a 100bps mortgage subsidy would reduce the monthly repayment by Rmb522 (12%) to Rmb3,721. Monthly interest payments in the first year would decrease by ~Rmb830 (33%) to Rmb1.7K. In the first five years, the total interest savings would be Rmb48.3K, equivalent to ~19 months of interest payments, or 3.3% of the max. Rmb1.5 million purchase price.
- **How much funding is required?** We estimate the sales value of qualified units to be Rmb4.3 trillion in total (primary: Rmb1.5T; secondary: Rmb2.8T). Assuming a 67% LTV, the loan amount for qualified units would be Rmb2.8 trillion in total (primary: Rmb1.0T; secondary: Rmb1.9T). Applying the 100bps subsidy to mortgage rates, **the total funding required is Rmb28 billion per year, or Rmb142 billion across the five-year period**. Since 90% of the subsidies (Rmb26 billion per year) will be borne by the central government, this represents 0.6% of annual fiscal expenditure. For the remaining (10%), the funding (Rmb3 billion per year) will be borne by local governments, representing 0.01% of annual fiscal expenditure, which looks manageable. See Table 2 for our estimates.
- **There may not be a near-term impact on home price stabilization (at least not so soon):** While the headline subsidized mortgage rate of 2.05% is already below the 2.3% average rental yield among 50 cities (Figure 3), since the subsidized rate is only applicable for 5 years, **the effective mortgage rate across a 30-year mortgage would be 2.9%, which is still above the average rental yield.** In general, we believe the policy of mortgage subsidies may stimulate some sales volume, but since the inventory in tier-2/3/4 cities remains high, there might not be any noticeable impact on home price stabilization in the near term. For tier-3/4 cities, if we assume annualized sales volume jumps 20%, the implied inventory turnover may improve from 36 to 30 months, but the level would still be far above the optimal level of <12 months. As for tier-2 cities, with the same assumption (20% jump in volume), the implied inventory turnover would improve from 22 to 18 months, but the level would still not be optimal. With the potential supply reduction driven by the "828" policy (report), **we believe 2027 could potentially be a year where we see a broadening of cities with home price stabilization (beyond Shanghai), but it will take time to prove.**
- **A good gesture, at least:** While we do not think the new policy will substantially move the needle, this is after all China's first nationwide policy support since September 2024, and thus there is still some symbolic value, showing that **at least the Chinese government has not totally given up on the housing market** (although we believe their ultimate objective is more to stabilize home prices to support consumption, rather than to boost sales volumes).
- **Will there be more policies?** In our view, **there is a possibility for the government to scale up the subsidy program if the housing market remains weak**, although this may not materialize in the near term, as we believe authorities may first observe the effectiveness of the subsidy program for ~6 months. Separately, just one day before the mortgage subsidy program, the State Council said in a meeting that it would study policies to stabilize the housing market (more in our report). While we are not entirely sure

whether it refers to the policy of mortgage subsidies, we believe other possible policy directions include: (1) HPF mortgage easing; (2) transaction tax cuts; (3) relaxation of home purchase restrictions in tier-1 cities (next is likely Shenzhen); (4) cash compensation in urban village renovation.

Implications for banks (contributed by Katherine Lei, JPM China banks analyst)

- **Marginally positive, with PSBC as the key beneficiary:** This is directionally positive for banks' mortgage loan growth but there should be a muted impact on mortgage asset quality, as this applies to new mortgages only. Note that banks' mortgage loan growth decelerated from 11% y/y in 2021 to a CAGR of -1% during 2022-1H26 (Figure 6). Nonetheless, there could be a marginal easing of asset quality risks for developer loans, as the new measures may help stimulate property sales in tier 3/4 cities. Among the banks we cover, **PSBC** could benefit the most from a pick-up in mortgage demand, with mortgages accounting for 23% of its loan book, the highest among peers (Figure 7). In addition, compared with peers, PSBC is likely to have greater exposure to lower-tier cities. If the policy also leads to lower NPL formation in developer loans, **Minsheng** could see a marginal tailwind as well.

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Impact of Mortgage Subsidies

Table 1: Estimates of Qualified Units for Mortgage Subsidies

	Primary		Secondary		Total	
	Volume	Value	Volume	Value	Volume	Value
% of units which are (1) GFA: <120 sqm; (2) Price: <Rmb1.5M						
Tier-1	8%	3%	27%	11%	22%	8%
Tier-2	36%	27%	63%	47%	52%	37%
Tier-3/4	44%	39%	80%	70%	66%	55%
Nationwide	**41%**	**29%**	**75%**	**53%**	**61%**	**42%**
% of qualified units (assume 75% is first-home)	**31%**	**22%**	**56%**	**40%**	**46%**	**31%**

Source: CREIS, Iceberg Index, J.P. Morgan estimates.

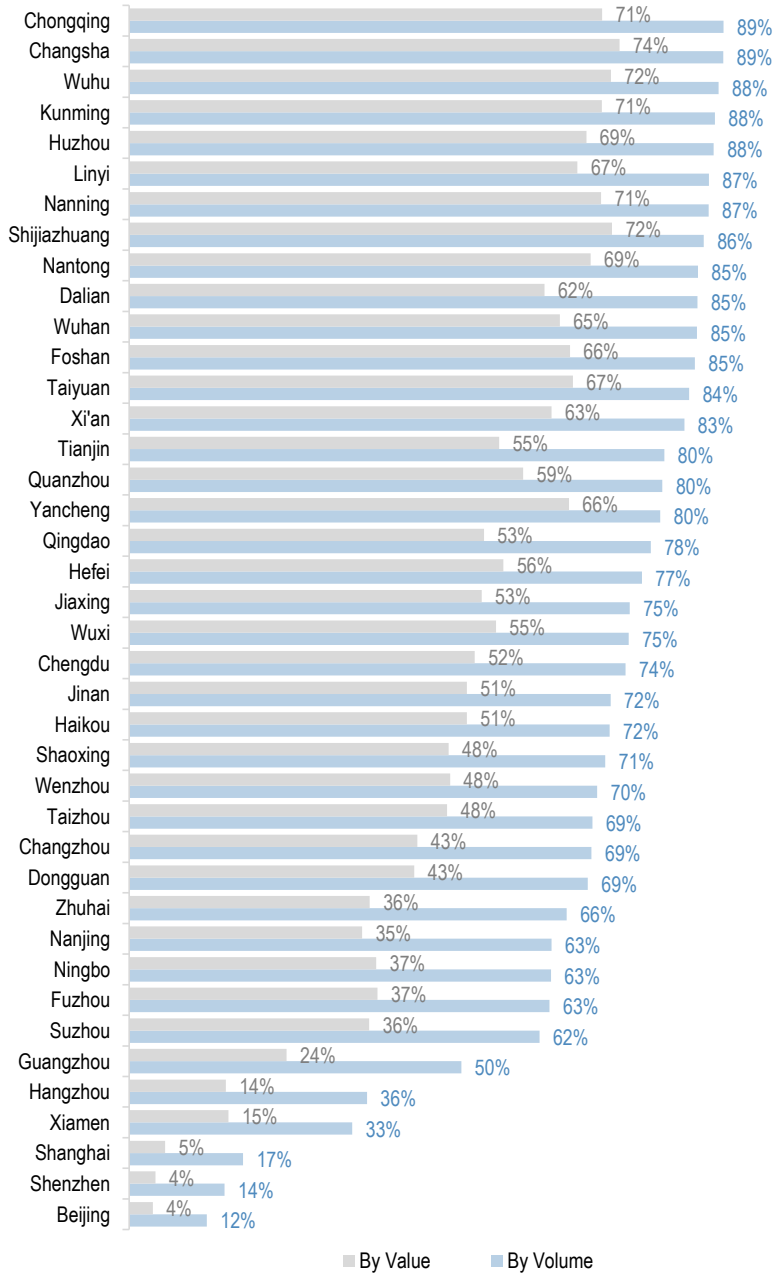
Table 2: Estimates of Funding Required for Mortgage Subsidies

	2026E		
(Rmb billion)	**Primary**	**Secondary**	**Total**
National residential sales value	6,631	7,059	**13,690**
% <120 sqm & <Rmb1.5M	*29%*	*53%*	***42%***
Sales value of units <120 sqm & <Rmb1.5M	1,940	3,750	**5,690**
First-home % assumption	*75%*	*75%*	***75%***
Est. sales value of qualified units	**1,455**	**2,813**	**4,268**
% of qualified units	**22%**	**40%**	**31%**
LTV assumption	*67%*	*67%*	***67%***
Est. loan value of qualified units	**970**	**1,875**	**2,845**
Funding required for 100bps subsidy (annual)	**10**	**19**	**28**
90% borne by central government	**9**	**17**	**26**
% of annual fiscal expenditure	0.203%	0.392%	0.595%
10% borne by local governments	**1**	**2**	**3**
% of annual fiscal expenditure	0.004%	0.008%	0.012%
Funding required for 100bps subsidy (5 years)	**48**	**94**	**142**

Source: CREIS, Iceberg Index, NBS, MoF, J.P. Morgan estimates.

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Figure 1: % of secondary transactions valued at <Rmb1.5mn

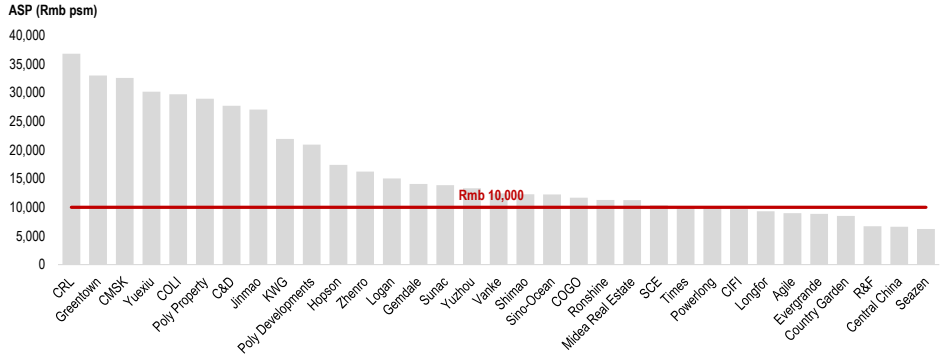


Source: Iceberg Index
Note: The above does not consider the two other criteria to qualify for mortgage subsidies, i.e., (1) GFA <120 sqm; (2) first-home

Developers' ASP

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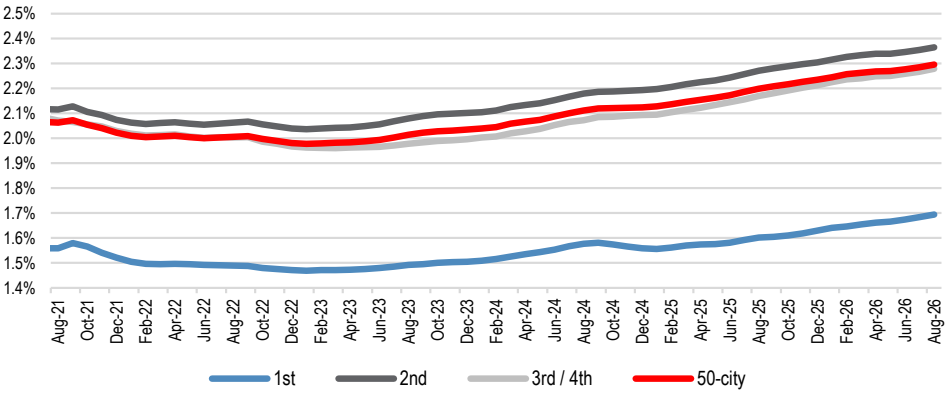
Figure 2: China Property Developers - 2026 YTD contracted sales ASP



Source: Company data, CREIS, CRIC

Rental yield

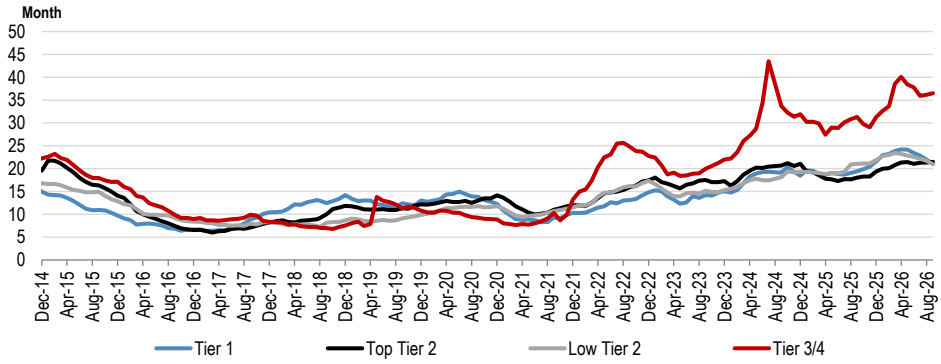
Figure 3: Rental yield by tier



Source: CREIS

Inventory

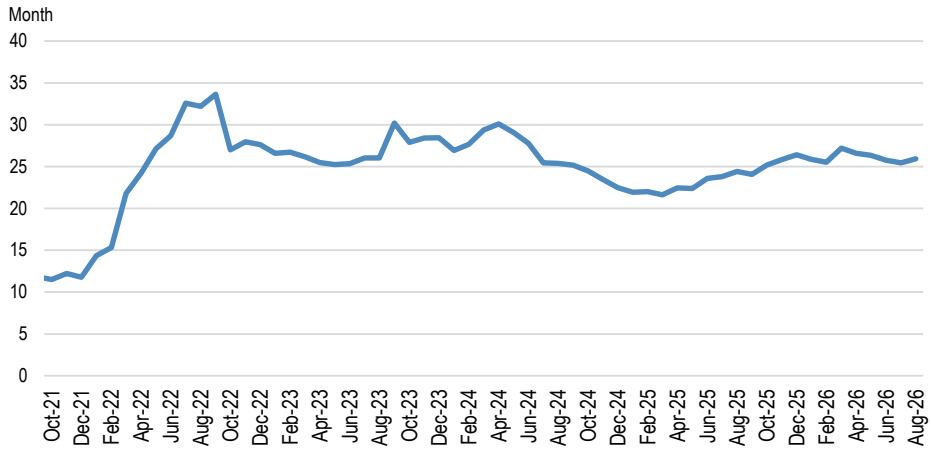
Figure 4: Primary homes - inventory turnover by tier (by no. of months)



Source: CREIS, J.P. Morgan estimates.

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Figure 5: Secondary homes (6-city) - inventory turnover (by no. of months)

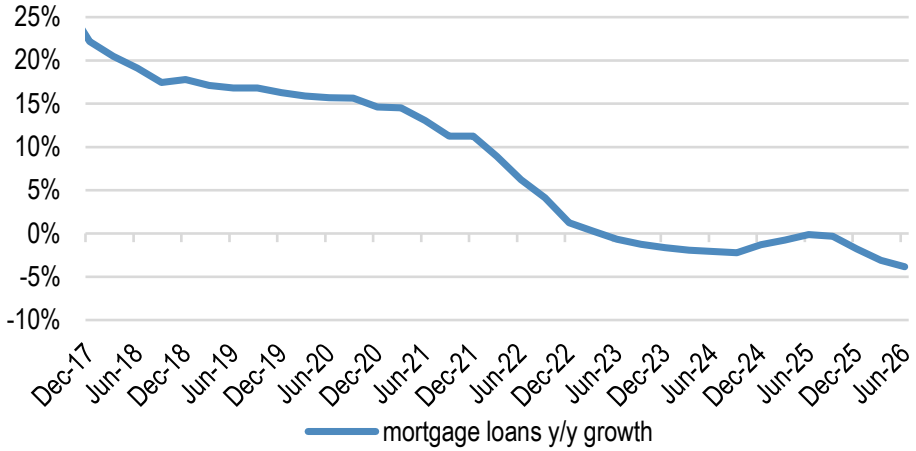


Source: CREIS, Iceberg Index, J.P. Morgan estimates.

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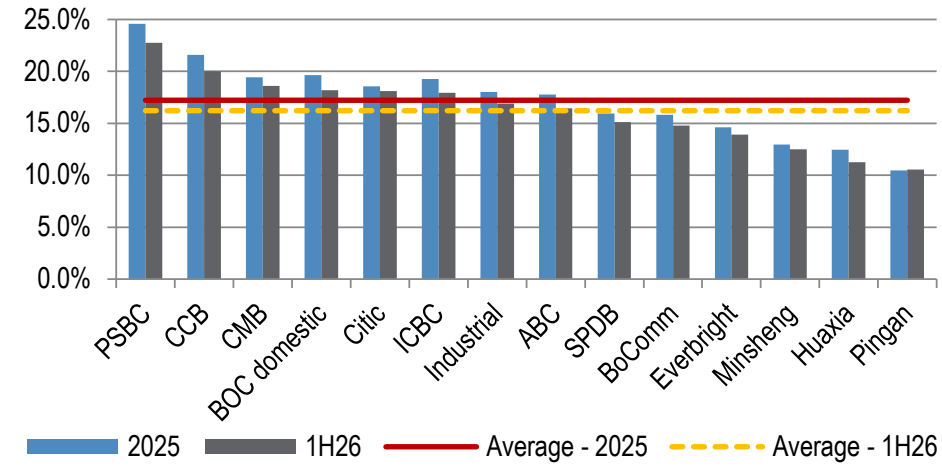
Implications for banks

Figure 6: System mortgage loans contracted by 4% y/y in 1H26



Source: PBOC, CEIC

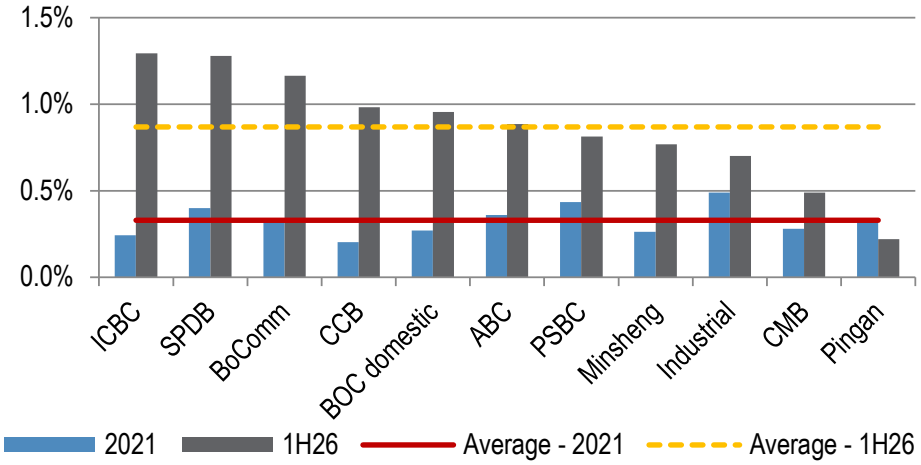
Figure 7: Mortgage loans as % of total loans by bank - PSBC has the highest exposure to mortgage loans



Source: Company reports.

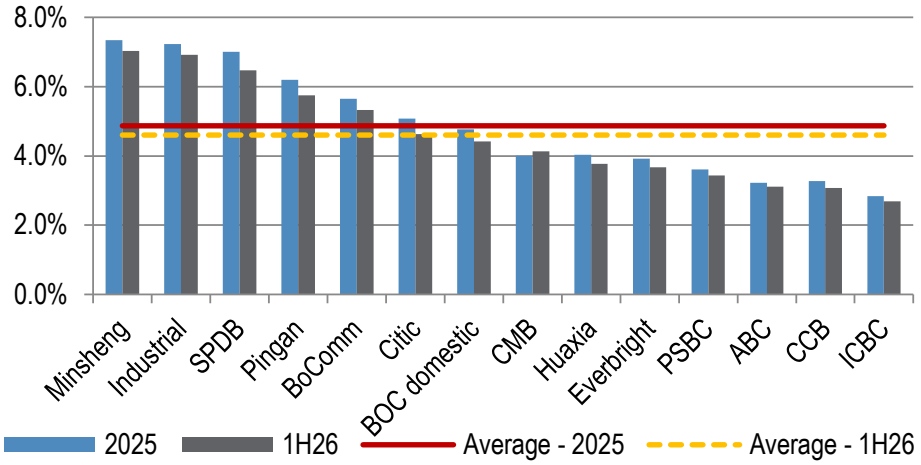
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Figure 8: Mortgage NPL ratio by bank in 2021 vs 1H26



Source: Company reports.

Figure 9: Developer loans as % of total loans by bank - Minsheng has the largest exposure

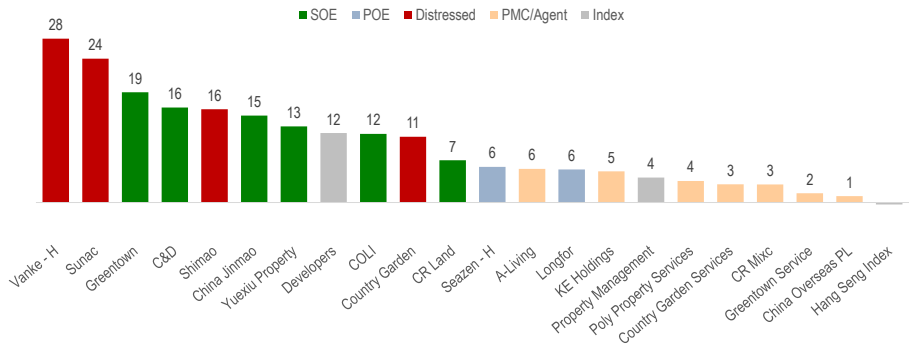


Source: Company reports.

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Share Price Performance

Figure 10: China Property - share price performance (%) by company since the recent trough (17 Sep 2026)



Source: Bloomberg Finance L.P.
Note: As of close on 29 Sep 2026. Past performance is not an indicator of future results.

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Valuation Summary

Table 3: China Property – Valuation Summary

Company	Stock Code	JPM Rating	JPM Price Target	Last Close (HK$)	Mkt Cap US$B	ADV US$M	P/E 1FY (x)	P/E 2FY (x)	Yield 1FY (%)	P/B 1FY (x)	Share price return 5D	1M	YTD	vs. peak
Mainland China Developers														
	1109.HK	OW	**40.00**	30.46	27.7	94.0	9.7	8.7	3.8%	0.6	5%	1%	12%	-21%
China Overseas Land	0688.HK	OW	**16.00**	13.37	18.6	43.3	9.7	8.9	3.8%	0.3	8%	7%	9%	-39%
China Jinmao	0817.HK	N	**1.18**	1.37	2.4	11.4	18.9	10.4	2.6%	0.4	10%	4%	13%	-71%
C&D International	1908.HK	NC	**-**	13.68	4.0	12.4	7.9	7.4	6.7%	0.7	9%	6%	-13%	-34%
Greentown China	3900.HK	NC	**-**	6.70	2.2	9.9	65.1	29.1	1.0%	0.4	11%	7%	-21%	-57%
Yuexiu Property	123.HK	NC	**-**	3.45	1.8	4.2	45.4	21.4	1.5%	0.2	6%	6%	-13%	-68%
COGO	81.HK	NC	**-**	3.06	1.4	2.2	17.3	13.1	1.9%	0.3	9%	15%	54%	-60%
SOEs							**13.3**	**10.0**	**3.7%**	**0.5**	**6%**	**4%**	**8%**	**-33%**
Longfor	0960.HK	N	**5.60**	5.77	5.2	15.5	-	-	-	0.2	2%	-9%	-33%	-86%
Seazen Group	1030.HK	N	**1.40**	1.50	1.4	3.8	-	-	-	0.2	-1%	9%	-27%	-85%
Private							**-**	**-**	**-**	**0.2**	**2%**	**-5%**	**-31%**	**-86%**
China Vanke - H	2202.HK	UW	**1.60**	2.81	6.7	8.8	-	-	-	0.3	12%	17%	-14%	-91%
Country Garden	2007.HK	UW	**0.10**	0.19	1.1	8.2	-	-	-	-	6%	0%	-54%	-99%
Sunac China	1918.HK	UW	**0.30**	0.69	1.8	21.5	-	-	-	0.2	5%	14%	-47%	-98%
Shimao	0813.HK	UW	**0.03**	0.04	0.1	0.3	-	-	-	-	16%	-23%	-77%	-100%
Distressed							**-**	**-**	**-**	**0.3**	**10%**	**14%**	**-25%**	**-93%**
Mainland China Developers (Overall)							**10.4**	**7.8**	**2.9%**	**0.4**	**7%**	**5%**	**0%**	**-46%**
Mainland China Property Management & Services														
	1209.HK	OW	**49.00**	38.34	11.2	24.1	17.1	15.9	5.8%	4.8	2%	-1%	-9%	-21%
China Overseas PH	2669.HK	UW	**2.90**	3.31	1.4	3.2	7.2	7.2	6.4%	1.4	0%	-3%	-27%	-65%
Poly Property Services	6049.HK	OW	**41.50**	27.82	2.0	2.3	8.1	7.7	6.2%	1.2	3%	0%	-13%	-64%
Greentown Service	2869.HK	OW	**5.50**	4.20	1.7	1.6	10.6	9.8	6.8%	1.3	1%	0%	-9%	-62%
Backed by SOE developers							**14.5**	**13.5**	**6.0%**	**3.7**	**2%**	**-1%**	**-11%**	**-34%**
Country Garden Services	6098.HK	N	**5.40**	5.35	2.3	4.4	6.0	6.0	10.0%	0.4	3%	-3%	-3%	-92%
A-Living	3319.HK	UW	**1.50**	1.68	0.3	0.4	2.7	3.0	8.1%	0.2	4%	-4%	-27%	-96%
Sunac Services	1516.HK	UW	**0.70**	0.78	0.3	0.3	4.3	5.1	6.9%	0.4	3%	-7%	-44%	-96%
Backed by POE developers							**5.5**	**5.6**	**9.5%**	**0.4**	**3%**	**-4%**	**-10%**	**-93%**
Mainland China Property Management & Services							**13.1**	**12.3**	**6.6%**	**3.2**	**2%**	**-1%**	**-11%**	**-43%**
KE Holdings	2423.HK	OW	**59.00**	44.42	19.5	59.3	13.9	12.6	1.9%	1.8	4%	-4%	7%	-37%
Mainland China Property Agent							**13.9**	**12.6**	**1.9%**	**1.8**	**4%**	**-4%**	**7%**	**-37%**

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. Note: Companies marked "NC" are not under J.P. Morgan coverage; all estimates for such companies are based on consensus estimates from Bloomberg Finance L.P. Pricing as of close of September 29, 2026.

