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Economics Research
25 October 2026 | 11:23PM HKT

ASIA IN FOCUS

China: Property Downturn Deeper Than Previously Anticipated, But Its Growth Drag Should Still Ease Gradually in the Years Ahead

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- China's property downturn is now in its sixth year. While we had projected the property sector's drag to real GDP growth to narrow somewhat from last year to this year, most housing activity indicators have been much weaker than anticipated so far this year. In addition, the recently announced shift from presales to completed-home sales implies tighter developer funding and lower property investment over the next few years. In this note, we update our estimates of the property sector's contribution to real GDP growth to reflect the year-to-date data and this policy change.
- Our updated estimates suggest that the property market's share of China's real GDP will decline from around 15% currently (vs. nearly 30% at its peak) to around 8% from 2030 onward. Adding up five direct channels – construction, real estate services, upstream effects (through commodity demand), move-in related consumption and land sales related fiscal channels – we estimate a 1.8pp drag on real GDP growth in 2026, slightly larger than 1.7pp in 2025. We expect this direct drag to narrow by around 0.5pp to 1.3pp in 2027 and largely fade by 2030. Including the indirect housing wealth effect amplifies the estimated growth impact, but this does not change our conclusion that the property sector's drag on real GDP growth should gradually diminish over the coming years.
- This year's property data and policy developments have three macro implications. First, the property construction downturn is deeper and more protracted than we previously anticipated as the government aims to significantly reduce new home supply. Second, in top-tier cities such as Shanghai and Shenzhen where inventory is already low, home prices may begin to recover soon. But for the rest of the country – particularly in lower-tier cities with still-significant inventory overhang, prices may continue to decline over the next few years. Third, based on developer cashflows, our property research team projects a more than 90% decline in residential land sales volume from 2025 to 2035. This means that local government financing pressures are likely to persist, requiring alternative revenue sources or spending cuts to ensure fiscal sustainability.

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China: Property Downturn Deeper Than Previously Anticipated, But Its Growth Drag Should Still Ease Gradually in the Years Ahead

China's unprecedented property downturn is now in its sixth year. While we had projected the property sector's drag to real GDP growth to narrow somewhat from last year to this year, most housing activity indicators have been much weaker than expected so far this year. In addition, the recent policy announcement to shift from presales to completed-home sales implies tighter developer funding and lower property investment over the next few years. In this note, we update our estimates of the property sector's contribution to real GDP growth by onboarding the year-to-date data and incorporating the impact of the policy change, as well as adjusting some underlying estimation methodology in our housing model.

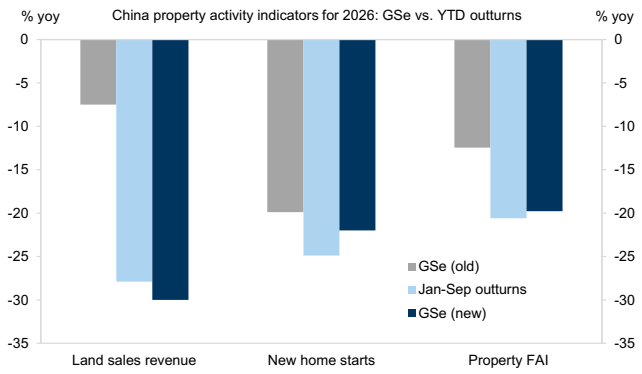
A recap of our housing model set-up

We decompose the property sector's contribution to China's year-over-year real GDP growth into five main direct channels: construction, real estate services, upstream effects (primarily through commodity demand), move-in related consumption, and land sales related fiscal effects. The estimates draw on a broad set of property indicators—including new home starts, sales, floor space under construction, property fixed asset investment (FAI), and land sales revenue—and their historical relationships with activity in the relevant parts of the economy. Aggregating these channels allows us to estimate the sector's annual growth impact and project its future path using our in-house forecasts for key property indicators. We introduced this framework in 2018 and have been updating it subsequently over the past few years (see here, here and here as recent examples).

Many housing activity indicators have declined by more than expected so far this year

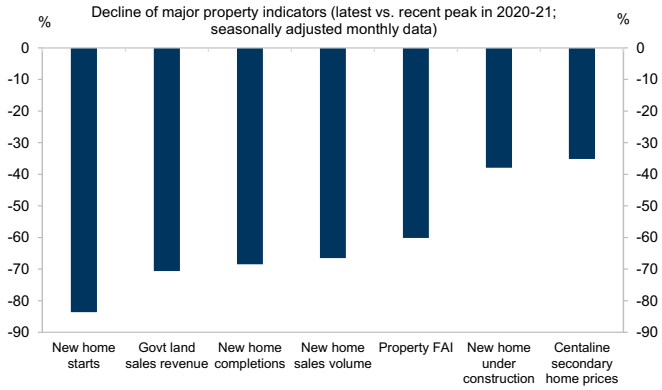
In January-September 2026, land sales revenue fell 28% yoy, new home starts dropped 25% yoy, and property FAI declined 21% yoy, all of which were weaker than we anticipated at the start of this year (Exhibit 1). By now, most activity indicators – such as new home starts, sales, and property FAI – are down 60-90% from their 2020-21 peaks (Exhibit 2).

Exhibit 1: Many property activity indicators have fallen more than expected so far this year



Source: Goldman Sachs Global Investment Research

Exhibit 2: Most property activity indicators have contracted by more than 60% from 2020-21 peaks as of September 2026



Source: NBS, Centaline, Wind, Data compiled by Goldman Sachs Global Investment Research

Lowering our projections for major property activity data in coming years

At the same time, recent property policies are accelerating the transition from a presales-led business model with high turnovers to a completed-home sales model with strengthened project-level fund supervision, which may add further downward pressure to the above-mentioned property indicators in the next few years, in our view. Our property research team has recently lowered their forecasts for a majority of property indicators, especially new home starts, completions, sales and property FAI in their 2027 outlook, by factoring in the impact of recent policy changes on developer cashflows. For example, they expect new home starts to drop another 30%, completions to drop another 46%, property FAI to drop another 61%, and new home sales to drop another 70% from 2025 to 2035.

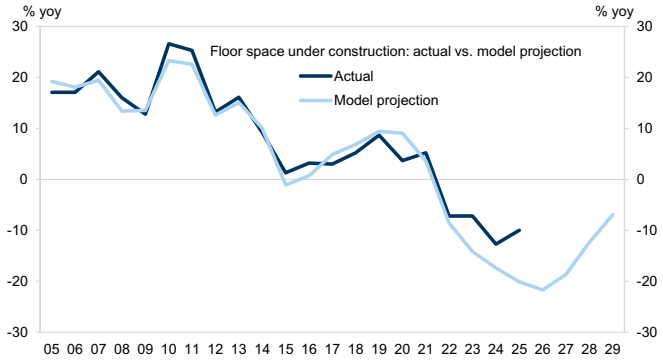
We have refreshed the assumptions in our estimates to be broadly in line with our China property research team's latest projections. Note that our inputs may deviate somewhat from those of our property research team because we need to adjust qualitatively for differences between 300-city land sales value and local government land sales revenue and differences between commodity property construction and overall property construction. In our new baseline, land sales revenue, new home starts, new home sales and property FAI will decline another 20%, 20%, 10% and 17%, respectively, in 2027 after their 30%, 22%, 8% and 20% drops expected in 2026.

A few technical adjustments to our model

In addition to onboarding the 2026 year-to-date data and incorporating the impact of presales policy change, we also make a few technical adjustments in this update. For example, severe funding shortages in recent years have left many developer projects suspended or terminated. These "stuck" inventories remain in the NBS floor space under construction statistics, making the reported construction decline less pronounced than new home starts imply (Exhibit 3). To address these distortions, we re-estimated floor space under construction using new home starts. Moreover, we previously used the NBS developer land-purchase volume to calculate local governments' land sales revenue. Since the NBS has stopped publishing the series, we are replacing developer land-purchase volume and land-price inputs with the Ministry of Finance's (MOF) land

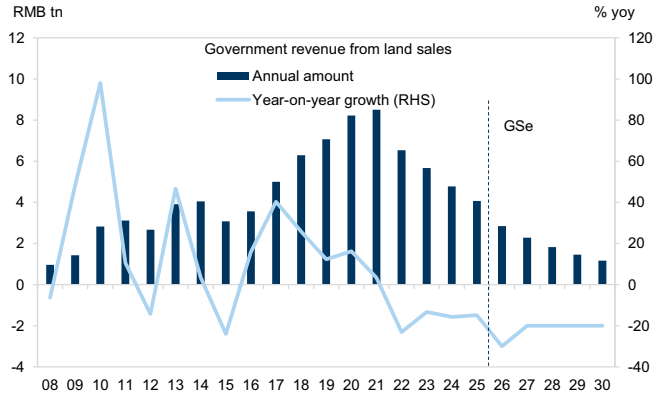
sales revenue series (Exhibit 4).

Exhibit 3: New home starts were historically a good leading indicator of floor space under construction, but this relationship has weakened markedly since 2023



Source: NBS, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 4: The downtrend in land sales revenue should continue in coming years



Source: MOF, Wind, Goldman Sachs Global Investment Research

Property's growth drag should still ease gradually in the years ahead

At the peak, we estimate that the property sector accounted for around 30% of China's GDP during 2010-2021, but its share fell to around 15% by 2025.[1] In our new baseline, we expect its share to decline further before stabilizing at around 8% from 2030 onward, gradually reducing the sector's systemic importance to the Chinese economy (Exhibit 5).

Based on our updated assumptions, we estimate that the property sector will subtract 1.8pp from China's real GDP growth in 2026, slightly more than the 1.7pp drag in 2025 and notably above our previous estimate of 1.5pp for this year (Exhibit 6). As the property sector's share of GDP continues to decline, we expect the drag to narrow by around 0.5pp to 1.3pp in 2027 and largely fade by 2030.

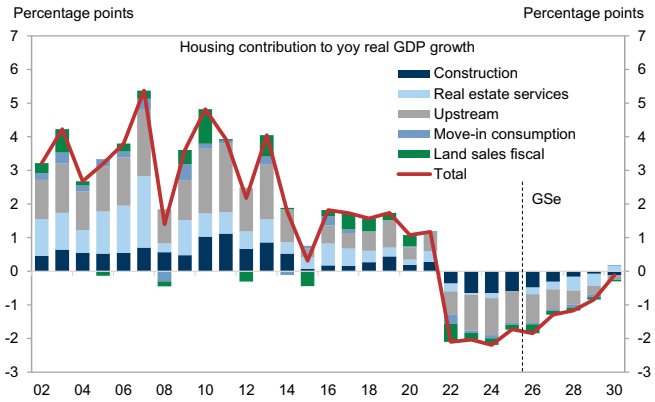
[1] When gauging the property's sector impact on China's real GDP growth based on our housing model, we use a slightly broader definition of the property sector than our previous bottom-up estimates using input-output table published in 2021, as we further consider move-in consumption and land sales-related fiscal channels. Both methodologies present similar trends of the property sector's share in China's GDP in recent decade.

Exhibit 5: Property sector's share in China's GDP may continue to decline in coming years, and stabilize around 8% in early 2030s



Source: Goldman Sachs Global Investment Research

Exhibit 6: We expect the property sector to subtract 1.8pp from China's real GDP growth in 2026, but this drag should narrow to 1.3pp in 2027



Source: Goldman Sachs Global Investment Research

The indirect housing wealth effect has amplified the property sector growth impact

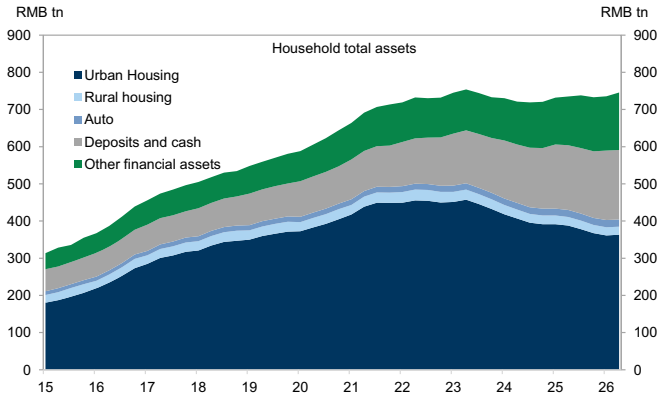
Our estimates above primarily capture the property sector's direct impact on real GDP growth, but second-round effects—particularly through housing wealth—also matter. As property represents more than half of Chinese household assets, changes in home values can materially affect confidence and consumption (Exhibit 7). Building on our previous household balance-sheet study, we estimate this indirect channel from 2017 onward (due to data availability constraints).

Specifically, we multiply urban property values by the change in our constructed secondary-market property price series to calculate the annual change in household housing wealth. We then apply our estimated wealth-effect coefficient, under which a RMB1 change in property value is associated with a RMB0.01 change in annual household consumption in the same direction, to gauge the GDP impact through this indirect channel.

Based on our estimates, the negative housing wealth effect peaked in 2024-25. Assuming nationwide existing home prices bottoming in 2030 as our property research team expects, this negative housing wealth effect should gradually subside in coming years before fully disappearing in early 2030s (Exhibit 8). Including the indirect housing wealth effect amplifies the estimated growth impact, but this does not change our conclusion that the property sector's drag on real GDP growth should gradually diminish over the coming years.

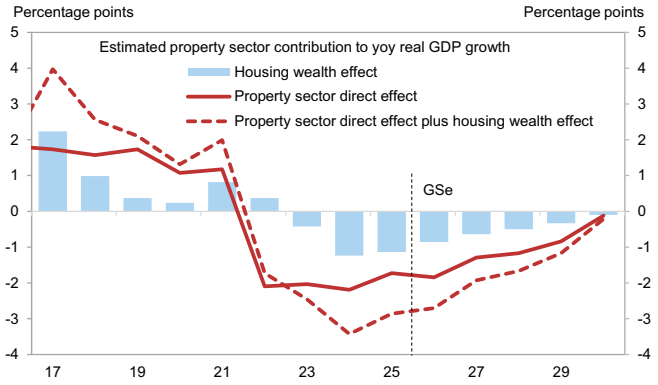
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Exhibit 7: Property accounts for around half of household assets as of now



Source: Wind, CEIC, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 8: The negative wealth effect peaked in 2024-25 and is expected to fade in early 2030s



Source: Goldman Sachs Global Investment Research

Implications for property construction, prices and local government finances

Taken together, this year's property data and policy developments have three macro implications:

First, the property construction downturn is deeper and more protracted than we previously anticipated as the government aims to significantly reduce new home supply. This means a larger growth drag from the property sector over the next few years, although the drag should gradually ease from this year's level in the years ahead.

Second, in top-tier cities such as Shanghai and Shenzhen where inventory is already low, home prices may begin to recover soon. But for the rest of the country – particularly in lower-tier cities with still-significant inventory overhang – prices may continue to decline over the next few years.

Third, based on developer cashflows, our property research team projects more than 90% decline in residential land sales volume from 2025 to 2035. This suggests persistent local government financing pressures — especially in regions more dependent on property-related revenue — requiring alternative revenue sources or spending cuts to ensure fiscal sustainability. We therefore see scope for a nationwide property tax expansion toward the end of the 15th Five-Year Plan (FYP; 2026-30) or during the 16th FYP (2031-35), broadening the local tax base and partly offsetting lost land sales revenue. The timing and extent of any expansion will likely depend on housing market conditions and domestic market confidence.

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The authors would like to thank Samson Yau, an intern on the Asia Economics team, for his contribution to this report.

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