China Property

Presale System Reform Trades Near-term Pain For A Healthier Development Path

Highlights

- The China government announced polices to reform housing pre-sale mechanism. Pre-sale funds now contributing to over 30% of developers' funding. Thus, financial regulators have updated financial policies to align with the new development model.
- Near term, the reform tightens developers' funding channels and is negative on balance and P/L; over the medium to long term, it improves demand and supply dynamics – a positive on property price and developers' margins.
- Maintain UNDERWEIGHT on near-term headwinds to developers' financials. Greater clarity on the near-term earnings impact could provide a catalyst for a sector re-rating. Our top picks are COLI and CR Mixc.

Analysis

- **The China government announced polices to reform housing pre-sale mechanism.** On 28 Aug 26, MOHURD, the Ministry of Natural Resources and the NFRA jointly issued the Notice on Improving the Commodity Housing Sales System, marking a key step towards the reform of China's presale system. The key policy changes include:
  a) **Promoting completed-home sales.** Newly granted land parcels and projects that have not yet obtained construction planning permits will be prioritised for completed-home sales;
  b) **Tightening presale requirements for residential projects.** The requirement will be raised from the previous national standard of "all four permits obtained and more than 25% of construction and installation investment completed" to requiring "each building to have completed structural topping-out";
  c) **Tightening presale fund supervision.** All home-purchase funds, including buyers' down payments and individual mortgage loans, must be deposited into designated escrow accounts. Funds may only be released to developers after project completion acceptance and once supporting utilities and infrastructure are ready for delivery;
  d) Projects already under construction will be allowed to follow the existing presale framework to ensure a smooth policy transition.

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UNDERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
China Property	UNDERWEIGHT (Maintained)
Property management	UNDERWEIGHT (Maintained)

Source: Bloomberg, UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
COLI	688HK	BUY	13.42	19.88
CR Mixc	1209 HK	BUY	40.00	55.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 28 Aug 26 (HK$)	Target Price (HK$)	Upside To TP (%)	Last Year End	PE 2024 (x)	PE 2025F (x)	PE 2026F (x)	Yield 2025F (%)	ROE 2025F (%)	Market Cap. (HK$m)	Price/ NAV ps (x)
China Resources Land Ltd	1109 HK	BUY	33.96	39.60	16.6%	12/25	9.3	10.3	9.2	3.8	4.7%	242,166.7	0.70
China Overseas Land	688 HK	BUY	13.42	19.88	48.1%	12/25	9.7	10.9	10.1	3.7	2.7%	146,880.3	0.32
Longfor Properties	960 HK	BUY	6.48	10.12	56.3%	12/25	5.3	N.A.	N.A.	0.2	-1.9%	45,955.7	0.24
Yuexiu Property	123 HK	BUY	3.71	4.50	21.5%	12/25	49.3	51.9	40.9	1.0	0.5%	14,914.1	0.23
CR Mixc Lifestyle	1209 HK	BUY	40.00	55.00	37.5%	12/25	19.8	17.8	16.0	6.2	26.6%	91,300.0	4.8
China Overseas Property Holdings	2669 HK	BUY	3.37	4.20	24.6%	12/25	7.0	7.8	7.9	5.5	18.5%	11,066.9	1.4

Source: Bloomberg, UOB Kay Hian

- **The reform is expected to rebuild developers' funding structure.** According to NBS 7M26 data, deposits and advance receipts were 31.4% of developers' funds raised, against 13.8% from domestic loans and 36.2% from self-raised funds. Looking ahead, we expect the contribution from domestic loans and self-raised funding to increase meaningfully.
- **Financial regulators align financial policies with the new development model.** The People's Bank of China and the National Financial Regulatory Administration jointly issued the Opinions on Reforming and Improving Real Estate Credit Management and Accelerating the Establishment of a New Development Model for the Property Sector, together with a series of detailed policy measures, to align the financing system with the new development model. The key changes include:
  a) Banks must separate developer group risk from single-project risk, with credit approval centred on the project itself – project-based lending under a lead-bank model, with ring-fenced project management.
  b) Development loan tenor extended from the typical three years to a maximum of five years (presale projects) or seven years (completed-home projects).
  c) Maximum personal mortgage tenor extended from 30 years to 40 years.
  d) For presold homes, the mortgage disbursement point moves from structural topping-out to completion filing.
- **A policy positive on industry supply-demand dynamics and developers' margins in the medium term.** We expect the presale reform to result in: a) new-home supply delayed by 12-18 months; b) slower sales cash inflow; c) shrinking contract liabilities, ie deleveraging at the operating level; d) upward pressure on developers' net gearing ratios; e) developers' investment tightening; f) lower land premium rates overall; and g) less new supply plus lower land premiums lifting developers' margins. Near term, the reform tightens developers' funding channels and is negative on balance and P/L; over the medium to long term, it improves demand and supply dynamics – a positive on property price and developers' margins.

Valuation/Recommendation

- **Maintain UNDERWEIGHT on China's property sector.** The near-term pain from presale reforms is unavoidable: Tighter access to presale proceeds and a delayed sales-to-cash conversion cycle will increase balance sheet and earnings recognition pressure for developers. However, the policy package will benefit the sector's medium-term development by resulting in a sharper decline in new-home supply and supporting pricing of new homes and developers' margin. In view of near-term headwinds to financials, we maintain UNDERWEIGHT. Greater clarity on the near-term earnings impact could provide a catalyst for a sector re-rating, in our view. Our top pick for the China property sector is COLI.
- **COLI remains our top pick.** We view the ratio of contract liabilities to cash as a useful high-level indicator of a developer's reliance on presale proceeds. Based on FY25 data, COLI's ratio stood at 1.11x, the lowest among major developers. We therefore expect COLI to be among the most resilient developers as funding conditions tighten. In addition, its strong exposure to Tier 1 cities should position it to benefit earlier from sales recovery and margin stabilisation.

Sector Catalyst/Risk

- Stronger-than-expected recovery in property prices.

Developers' Sources Of Funding, FY2025 VS 7m26

	----- FY2025 -----		------ 7M26 ------		
Source of funds	Rmb b	% of total	Rmb b	% of total	7M26 yoy (%)
Domestic bank loans	1,409.4	15.1	630.0	13.8	-32.1
Foreign capital	2.5	0.0	0.4	0.0	-77.3
Self-raised funds	3,314.9	35.6	1,654.4	36.2	-18.5
Deposits and advance receipts	2,808.9	30.2	1,437.6	31.4	-14.4
Personal mortgage loans	1,285.2	13.8	604.0	13.2	-23.5
Other (residual)	490.8	5.3	248.4	5.4	n.a.
Total funds raised	9,311.7	100.0	4,574.8	100.0	-20.3

Source: NBS

Contract Liabilities To Cash On Hand, FY2025 VS FY2024

Company	CL (Rmb m)	Total cash (Rmb m)	--- CL / cash (x) ---	
			2025	2024
COLI (688 HK)	114,720	103,628	1.11	0.98
CR Land (1109 HK)	143,592	116,989	1.23	1.62
Vanke (2202 HK)	93,057	67,241	1.38	2.18
Yuexiu (123 HK)	63,058	45,356	1.39	1.76
Jinmao (817 HK)	64,198	32,389	1.98	1.51
Longfor (960 HK)	73,128	29,201	2.50	1.86

Source: company FY2025 annual reports, UOB Kay Hian.
CL = contract liabilities. Total cash = all cash and deposit balances carried in current assets.

Key Changes – Notice On Improving The Commodity Housing Sales System (28 Aug 26)

Area	Previous rule	New rule (original text quoted)
Presale eligibility	"Four certificates" (land-use right certificate with land premium paid in full, construction planning permit, works permit, presale permit) plus construction progress: "投入开发建设的资金达到工程建设总投资的25%以上" (Administrative Measures for the Presale of Urban Commodity Housing, Art. 5).	"商品住房项目实行预售的，单体建筑应完成主体结构封顶，具体条件由各地根据实际情况确定" – the individual building must top out before presale; cities set the detail.
Presale proceeds	City-level escrow of a locally-set "key supervision quota" only, released against construction milestones; the surplus was freely usable and up to 30% of the quota could be swapped for a bank guarantee (2022 rule).	"购房人支付的首付款、个人住房贷款等购房资金应全部存入资金监管账户"; escrow is released only after completion inspection and utilities are delivery-ready.
Completed-home sales	Local pilots only; the national language was orderly promotion of completed-home sales, not a requirement, and such parcels were a small share of land supply.	"新出让土地的商品住房项目和已出让土地未取得建设工程规划许可证的商品住房项目，优先选择现房销售".
Deposit system (new)	No national framework; developers could not collect any deposit-type payment before obtaining a presale permit.	"在取得建筑工程施工许可证后，房地产开发企业可与购房人签订购房定金合同，依法收取少量定金"; the deposit is escrowed at the project's lead bank.
Policy for projects under construction	n.a.	"本通知施行之日前已取得建设工程规划许可证的商品住房项目，实行预售的，预售条件、预售资金监管等按原有政策规定执行".
Land supply and financing support	Self-funded land purchases and instalment payment of land premium were already allowed; project lending was spread across several banks.	"须用自有资金购地，可按国家规定分期缴纳土地出让价款"; land may be sold with a planning scheme attached; "房地产项目实行主办银行制"; land-use rights may be mortgaged on a pooled per-unit basis.

Source: MOHURD, Ministry of Natural Resources, NFRA, UOB Kay Hian

Financial Regulators' Property Policy Package, 28-30 Aug 26

Date	Issuer	Document
28 Aug	PBOC, NFRA	Opinion on Reforming and Improving Real Estate Credit Management and Accelerating the Building of a New Real Estate Development Model (36 articles)
28 Aug	NFRA	Measures for the Administration of Commodity Housing Development Loans (Trial)
28 Aug	NFRA, PBOC	Measures for the Administration of Personal Housing Loans (Trial) (Jin Gui [2026] No. 5)
28 Aug	NFRA	Measures for the Administration of Commercial Property Loans (Trial)
28 Aug	NFRA, MOHURD	Measures for the Administration of Urban Renewal Project Loans (Trial)
28 Aug	NFRA	Measures for Trust Companies Conducting Real Estate Trust Business (Trial)
28 Aug	CSRC	Opinion on Capital Markets Supporting the Building of a New Real Estate Development Model (4 parts, 12 articles)

Source: PBOC, NFRA, CSRC, UOB Kay Hian.