UOBKayHian

Sector – Update | Greater China

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China Property

Faster Mortgage Contraction Raises The Odds Of A National Rate Subsidy; Maintain UNDERWEIGHT

Highlights

- The market is again abuzz with rumours of a nationwide mortgage-interest subsidy. With mortgage balance contraction having accelerated sharply in 2026, we see a marginally higher possibility of mortgage rate subsidy. A 100bp one-year subsidy scheme covering new first-home loans would cost about Rmb23b a year, which is 0.1% of annual fiscal income.
- We remain cautious about recent rumours that the government has provided window guidance for banks to extend loans to Vanke.
- A potential mortgage-interest subsidy is worth watching out for. However, share prices could correct if the subsidy comes later or is smaller in scale than expected. Maintain UNDERWEIGHT. Our top picks are COLI and CR Mixc.

Analysis

- **Market again abuzz with rumours of a nationwide mortgage-interest subsidy.** There has been market speculation during the past week that the government may introduce a nationwide mortgage-interest subsidy before end-Sep 26. Rumours suggest that combined central and local subsidies could cut effective mortgage rates for first-time buyers of new homes by 40-100bp. Including this latest round, similar rumours have surfaced at least three times since Nov 25.
- **Mortgage rate subsidies have been adopted by a growing number of cities to stabilise their housing markets, but tight local finances limit the size of packages.** So far, around 20 cities have introduced their own mortgage rate subsidy schemes. Many of the schemes mainly target homebuyers who sell their existing homes and use mortgage financing to purchase new homes. The interest subsidy is generally capped at around Rmb25,000–50,000 per buyer. However, the rollout of these policies has so far been relatively limited across cities, with total subsidy budgets ranging from only Rmb100m to Rmb200m per city. This may be mainly because the subsidies are funded and implemented by local governments, and are thus constrained by the tight financing of local governments.

Mortgage Rate Subsidy Schemes In Key Cities

City	Announced	Eligible buyers	Subsidy	Cap	Budget
CD*	2026/8/25	All new-home buyers using HPF	20% of one year's provident fund loan interest	RMB25k;	No explicit cap
SH*	2026/8/21	Sell-old-buy new home outside outer ring	1% of loan	RMB50k per unit	RMB200m
GZ*	2026/5/25	Sell-old-buy new home	1% of loan	RMB30k per unit	RMB200m
NJ*	2026/3/20	Sell-old-buy new home	1% of loan	No explicit cap	RMB100m

**CD=Chengdu; SH=Shanghai; GZ=Guangzhou; NJ=Nanjing*

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 23-Sep-26 (HK$)	Target Price (HK$)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2027F (%)	ROE 2026F (%)	Market Cap. (HK$m)	Price/ NAV ps (x)
China Resources Land Ltd	1109 HK	BUY	29.62	39.60	33.7	12/25	8.1	9.0	8.0	4.3	4.7	211,218.4	0.61
China Overseas Land	688 HK	BUY	12.64	19.88	57.3	12/25	9.1	10.2	9.5	3.9	2.7	138,343.3	0.30
Longfor Properties	960 HK	BUY	5.66	8.76	54.8	12/25	4.6	n.a.	n.a.	0.2	-1.9	40,171.3	0.21
Yuexiu Property	123 HK	BUY	3.27	4.50	37.8	12/25	43.5	45.7	36.1	1.1	0.5	13,142.9	0.21
CR Mixc Lifestyle	1209 HK	BUY	38.08	55.00	44.4	12/25	18.8	17.0	15.3	6.5	26.6	86,917.6	4.60
China Overseas Property Holdings	2669 HK	BUY	3.28	4.20	28.2	12/25	6.8	7.6	7.6	5.6	18.5	10,755.0	1.41

Source: Bloomberg, UOB Kay Hian

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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	12.64	19.88
CR Mixc	1209 HK	BUY	38.08	55.00

Source: Bloomberg, UOB Kay Hian

- **Mortgage contraction accelerated in 2026, which marginally raises the probability of a national interest subsidy.** According to PBOC data, net repayments of mortgage reached Rmb716b in 1H26, which already exceed 2025's full-year decline of Rmb677b. The yoy decline in the outstanding balance deepened to -3.8% by Jun 26, from -1.8% in Dec 25, reflecting higher prepayment rates, despite a 13% yoy drop in new-home sales. To mitigate the impact of a faster mortgage contraction on banks' profitability and limit further pressure on the property market, we believe the likelihood of mortgage rate subsidy policy has marginally increased.
- **Assessing the fiscal cost and affordability.** We estimate that a one-year 100bp subsidy scheme covering new first-home loans would cost about Rmb21b a year, based on the assumptions of: a) Rmb6.4t of primary residential sales, -13% yoy; b) a 40% loan-to-sales ratio; and c) 80% first-home share in new mortgage loans. The Rmb21b is equivalent to 0.1% of the Rmb22.1t of the general public budget revenue for 2026. The cost compounds if the scheme runs for more than one year, because each year's new loans join the subsidised pool. A three-year scheme covering new first-home loans would cost about Rmb62b a year by year three, or 0.3% of fiscal revenue. Covering the Rmb36.3t stock of existing mortgages would cost about Rmb363b a year, or 1.6% of national fiscal revenue. Thus, any national scheme is therefore likely to be restricted to eligible groups and time-limited.

Estimates Of Fiscal Cost Of Mortgage Rate Subsidy

Rate subsidy	Scenario	Loan base (Rmbb)	Annual cost (Rmbb)	% of total revenue (Rmb22.1t)	% of central revenue (Rmb9.6t)
100bp	New first-home loans, year 1	2048	20.5	0.1%	0.2%
100bp	All new loans, year 1	5120	51.2	0.2%	0.5%
100bp	New first-home loans, year 3	6144	61.4	0.3%	0.6%
100bp	All new loans, year 3	15360	153.6	0.7%	1.6%
100bp	All existing mortgages	36300	363.0	1.6%	3.8%
40bp	New first-home loans, year 1	2048	8.2	0.0%	0.1%
40bp	All new loans, year 1	5120	20.5	0.1%	0.2%
40bp	New first-home loans, year 3	6144	24.6	0.1%	0.3%
40bp	All new loans, year 3	15360	61.4	0.3%	0.6%
40bp	All existing mortgages	36300	145.2	0.7%	1.5%

Source: UOB Kay Hian

- **Another rumour to watch for – Vanke.** According to Reuters, regulators have given informal "window guidance" to some banks, mostly the larger ones, asking them not to classify overdue Vanke loans as non-performing, to extend repayment deadlines and, in some cases, to defer interest collection. Bank loans made up Rmb252b, or 72%, of Vanke's Rmb351b of total borrowings as of Jun 26. In our view, this confirms the government's intention to prevent a default by Vanke, which is a major state-backed developer. Since bank debt dominates Vanke's borrowings, forbearance is likely the most meaningful support available ahead of any formal capital injection. However, this provides liquidity relief rather than improving solvency, so a capital injection remains the key catalyst to watch.

Valuation/Recommendation

- **With mortgage contraction accelerating, we believe a potential mortgage interest subsidy is worth watching.** However, share prices could correct if the subsidy comes later or is smaller in scale than expected. Maintain UNDERWEIGHT on China's property sector. We keep a defensive position. Our top picks are COLI and CR Mixc.

Sector Catalyst/Risk

- Stronger-than-expected fiscal and monetary easing.