

China's Property sector will shrink permanently – no cyclical rebound in sight

Event

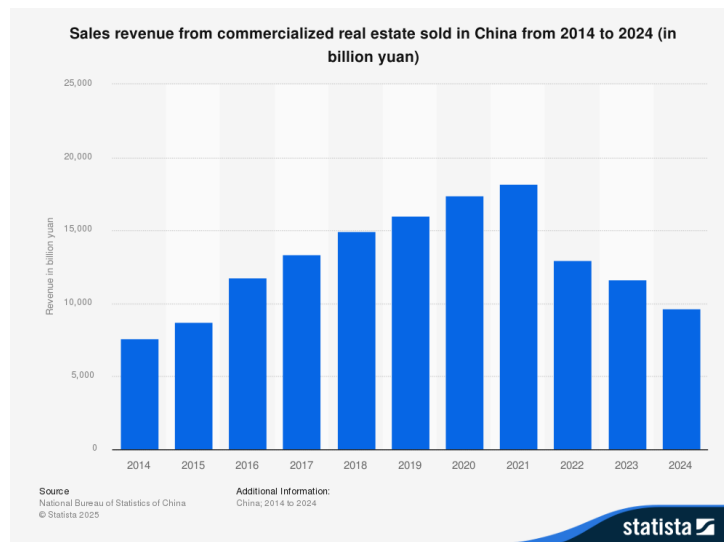
A Reuters December 2025 poll predicts Chinese home prices to fall by 3.7% in 2025 and by a further 2.8% in 2026, with only modest stabilisation by 2027. This confirms a multi-year structural downturn.

Significance

China's property sector shifts from growth engine to drag. For investors, this means weaker domestic demand, credit stress among banks and developers, and reallocation of capital and policy attention toward advanced manufacturing and technology. Simultaneously, the crisis reshapes global property and capital flows: Hong Kong is more tied to mainland buyers, London diversifies away from them, and Chinese capital remains influential in the US housing market.

Analysis

- I. **China's property sector is in decline since 2021 and will continue to shrink in a "lost decade."**
 1. Prices for new homes in China's 70 biggest cities fell by 0.5% month-on-month in October 2025, the sharpest drop in a year, and by 2,2% on a year-by-year basis, [Reuters](#) reports.
 2. Forecasts suggest continued de-growth. Economists expect real-estate investment to contract 15% and national sales 8% in 2025, with further declines in 2026 and only mild stabilisation in 2027. Data on excess supply exacerbates this: S&P [estimates](#) 762m m² of completed but unsold housing; Goldman Sachs values total [unsold inventory](#) at about RMB 30tn.
 3. In real value, the market has already [halved](#) from its peak in 2021: from roughly RMB 18.2tn (EUR 2,2bn) of annual sales to around RMB 9tn (EUR 1,1bn) projected for 2025.
 4. Commercial property faces a similar adjustment. Distressed sales reached RMB 114bn in 2023–24 and accounted for 22% of all transactions. This lead analysts to describe a "[lost decade](#)" in which building values in 2030 are lower than in 2020.

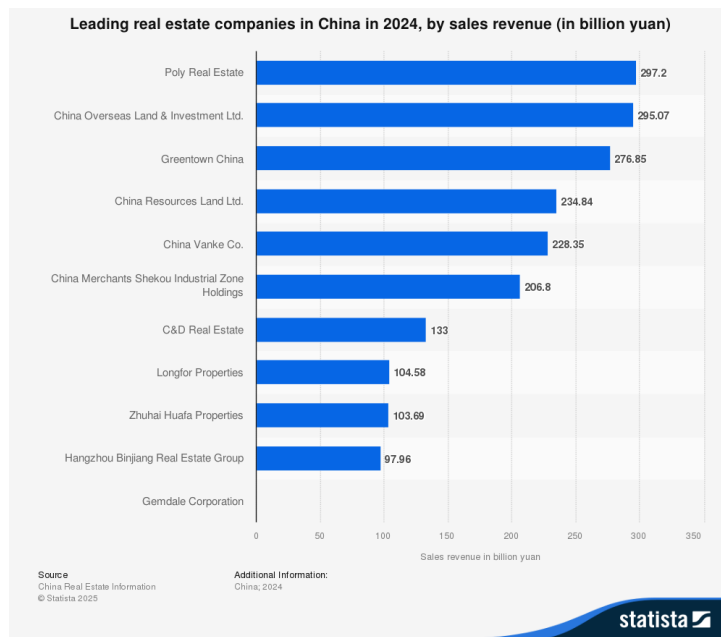


II. Developers face continued solvency issues.

5. What began as a liquidity issue has now become a solvency crisis. Formerly "safe" names are posting record losses: Vanke reported RMB 49.5bn loss for 2024, while Evergrande, Sunac and Country Garden have all [defaulted](#).
6. Evergrande, arguably the most famous case of default, illustrates the problem. Once China's largest developer, it is now in liquidation following a Hong Kong court order; its shares have lost more than 99% of their value, and its [liabilities](#) are estimated at roughly USD 350bn.
7. Offshore bondholders have fared badly after Evergrande's [collapse](#). International bondholders have recovered just 0.6% of an estimated USD 147bn in defaulted bonds. This signals the limits that China's legal and political situation place on the financial market.

H. Marcel Kolb

for questions and comments: hkolb4@jh.edu



III. Households struggle under debt and rebalance their assets.

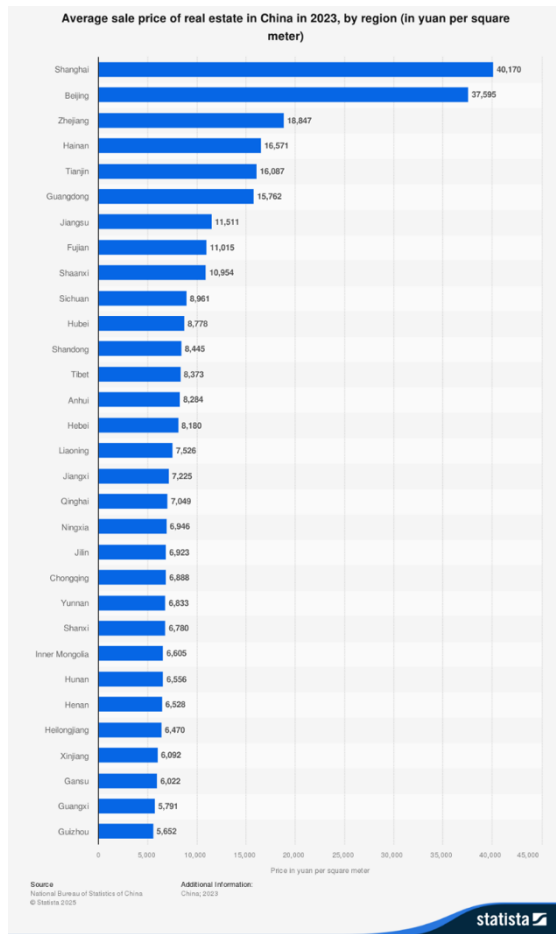
8. Real estate once made up close to 80% of Chinese household [assets](#). Price declines have eroded that wealth and pushed mortgage defaults to their highest level in four years.
9. The shock is visible in Chinese communities overseas. Middle-class families cut back on major purchases and reconsider educational plans; [study-abroad agencies](#) report a collapse in enquiries in 2025. This affects Chinese-American and British-Chinese households that relied on property-backed transfers from China to fund tuition.
10. In mainland China, savings quotas, already high due to mistrust of state-backed social security, rise steadily. Some households [shift](#) from property to equities, bonds, and technology-related investments, but this will not fully offset the loss of demand for housing and related services.
11. As Chinese investors seek out opportunities abroad, exchange rate risks grow. Moving capital from real estate into more flexible asset classes further makes it easier for it to be mobilized politically.

IV. The Chinese domestic crisis also affects foreign property markets.

12. **Hong Kong** is under pressure from falling prices and weaker local demand. Analysts highlight oversupply in some segments and higher borrowing costs. Simultaneously, the market is more attractive to mainland purchasers through tax holidays and looser visa rules. This deepens financial and political integration, but also leaves Hong Kong exposed to shifts in mainland capital controls and sentiment.
13. In the **United States**, Chinese buyers have re-emerged at the top end of the market. Between April 2024 and March 2025 they spent an estimated USD 13.6bn on US homes and became the largest foreign buyer group, with California and other coastal states as key destinations. Purchases are concentrated in [high-value areas](#). This pressures more modest Chinese-American households seeking to purchase in the same neighbourhoods.
14. In the **United Kingdom**, Chinese demand for prime central London property has cooled. Chinese buyers' share of overseas purchases fell to ~ 8% in late 2024. US buyers have overtaken them. This rebalancing reduces UK exposure to Chinese capital but also [removes](#) an important funding channel for some high-end developments.

V. Local governments and banks are under fiscal and debt stress. The downturn is geographically uneven.

15. Land-sale revenue, historically up to 40% of local government income, fell sharply. In smaller cities, land transactions are at their lowest since 2011. Local financing vehicles increasingly [buy](#) land from each other to keep prices from collapsing. Banks absorb much of the pain, feeding risk up the value chain. Combined with the lack of transparency, this means persistent risk for global banks and insurers.
16. First-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen have seen milder price declines and still [attract](#) land bids from state-owned developers. In this, they are supported by stronger labour markets. Growth, consumption and innovation will therefore – even further – cluster in top-tier cities and coastal hubs. As smaller cities search for revenue, they may likely make abrupt policy shifts, thereby adding uncertainty.



VI. The national objective is a “new model” of property development.

17. Beijing has opted for a surgical, targeted response: Through lending facilities to complete stalled projects, relaxed regulations in major cities, mortgage and tax cuts, and regulatory pressure on state-owned banks, they try to [mitigate](#) the crisis.
18. In July 2024, Xi Jinping called for a “[new model](#)” of property development that confirms the goal of structural downscaling. Central government imposed limits on skyscrapers and on urban sprawl. The “new model” includes promoting new technologies, advanced manufacturing and AI.

VII. How can firms reposition?

1. Commodity producers should anticipate weaker demand, with China’s oil consumption growth expected to hit a multi-year low in 2026. Credit risk will remain elevated: exposures to developers, local financing vehicles and lower-tier city projects now mean higher risk. The near-zero recovery for offshore bondholders in Evergreen reveals legal and financial vulnerability.
2. Opportunities will shift toward renovation-focused construction, urban upgrades, and advanced manufacturing sectors such as EVs, batteries, AI and automation, which are absorbing capital and labour exiting property.
3. Overseas, fewer middle-income Chinese families will finance long-term study abroad, thereby reshaping university-town housing markets in the US and UK. Elite and state-linked mobility persists.

Conclusion

China’s property market will permanently shrink. Chinese property is now a structural headwind and credit risk. We recommend a shift away from leveraged expansion in lower-tier cities and asset reallocation towards (a) resilient assets in core locations and (b) the new politically backed sectors of advanced manufacturing and AI.

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