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China Property | Asia Pacific

Diverging Home Price Trends Continued in May

Secondary home prices and listing volumes continued to diverge among cities in May amid a longer-than-expected pick-up in home sales in top-tier cities. We expect this K-shaped sales performance to persist, leading to a broadly soft m/m home price trend, with a mild uptrend in select Tier 1 cities.

Secondary listing home price declines widened slightly in May: They fell 0.5% m/m (-11.3% y/y) across the 85 sample cities we track (vs. -0.4% in April), bringing 5M26 to -2.2% y/y. 93% of sample cities recorded m/m declines, with 64% seeing faster declines (vs. 91% and 19% in April, respectively). In contrast, Tier 1 cities remained stable at -0.1% m/m, which we attribute to stronger secondary home sales, partly driven by policy easing (e.g., Shenzhen and Guangzhou in late April). We expect lower listing prices to exert pressure on transaction prices in coming months.

Diverging secondary listing trends: Total listings across ~50 sample cities edged up 0.1% m/m in May (~60% of cities recorded m/m increases vs. 49% in April). New secondary listings continued to decline (-4% m/m and -10% y/y), although fewer cities recorded m/m declines (67% vs. 96% in April). Versus end-2025 levels, total listings increased in 51% of sample cities, with 31% reaching record highs (vs. 53% and 20% in April, respectively).

Visitations cooled: Contrary to m/m increases seen in prior years, visits to agent shops across 45 sample cities declined 2% m/m on average in May (though still up 12% y/y), following strong secondary sales in March–April. We expect secondary homes to gain further market share, supported by more competitive pricing and a better offering of lower-lump-sum housing, which have driven recent sales.

Home prices may continue soft downward trend: Given limited appetite for leverage and a cautious income outlook, secondary sales volume may decelerate further in June and potentially turn y/y negative in 3Q, as policy effects and pent-up demand fade. New home sales may continue to post y/y declines due to reduced saleable resources among developers. We expect a broadly soft m/m home price downtrend in 2026–27, although select Tier 1 cities may see a mild uptrend, supported by better destocking progress.

Be selective: With uncertainty around sales sustainability, we still see industry risk-reward skewed to the downside despite a ~10% share price pullback since mid-May (vs. HSI -1%). We recommend closely monitoring sales volumes, home prices, secondary listing volumes, transaction mix, and rental rates in June–August to assess whether a market inflection is forming. In the interim, we favor beneficiaries with both industry beta and self-help alpha. We maintain **CR Land (1109.HK)** as our Top Pick, followed by **C&D (1908.HK)** as both offer solid EPS outlooks, attractive dividend yields, and medium-term re-rating potential.

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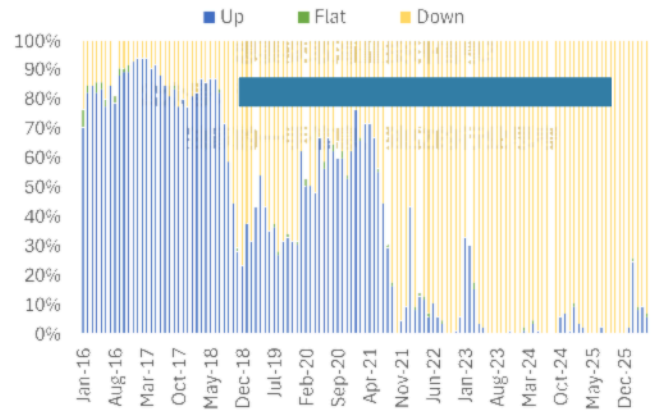
Key Charts – Secondary Market

Exhibit 1: Secondary listing home prices trended down 0.5% m-m in May (vs. -0.4% in April)...



Source: Bingshan, Morgan Stanley Research

Exhibit 2: ...with 93% of sample cities recording m-m decreases (vs. 91% in April)



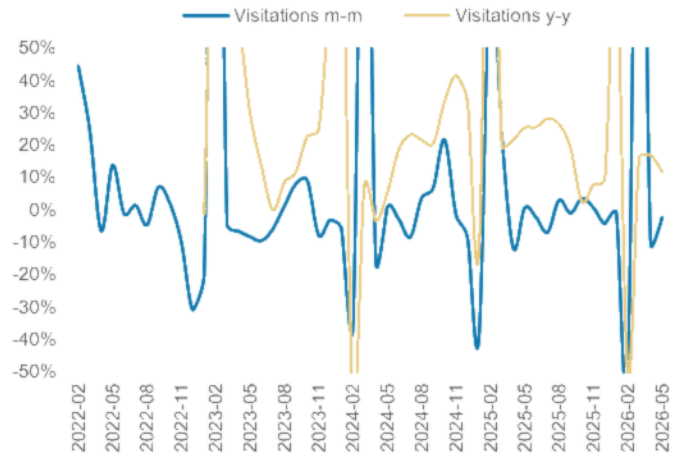
Source: Bingshan, Morgan Stanley Research

Exhibit 3: New secondary listings continued to decrease m-m in May



Source: Beika, Morgan Stanley Research

Exhibit 4: Visits to agents decreased m-m in May post-strong sales in March-April



Source: Beika, Morgan Stanley Research

Valuation Methodology and Risks

China Resources Land Ltd. (1109.HK)

Our HK\$60.88/share 2026e NAV comprises HK\$15.62 of development properties (DCF, 8.0% WACC), HK\$55.22 of investment properties (cap rate 5-8%) and HK\$9.96 of net debt. To this we apply a 30% discount based on our developers' scorecard, comprising landbank (with a 8/10 score), execution (8), scale (9), growth (8), profitability (8), financing (10) and leverage (10). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contracted sales.
- Accelerated openings of new malls.

Risks to Downside

- Weaker-than-expected contracted sales.
- Slower-than-expected openings of new shopping malls.

C&D International Investment Group Ltd (1908.HK)

Our HK\$32.59/share 2026e NAV comprises HK\$25.65/share of development properties (DCF, 8.2% WACC), HK\$1.14/share of other business and HK\$5.79/share of net cash. To this we apply a 35% discount based on our developers' scorecard, comprising landbank (with a 8/10 score), execution (8), scale (8), growth (8), profitability (7), financing (9), and leverage (8). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contracted sales.
- Stronger-than-expected gross margin.

Risks to Downside

- Weaker-than-expected gross margin.
- Slower-than-expected land acquisitions.

