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UPDATE

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Luxury Goods | Europe

China housing prices continue to decline

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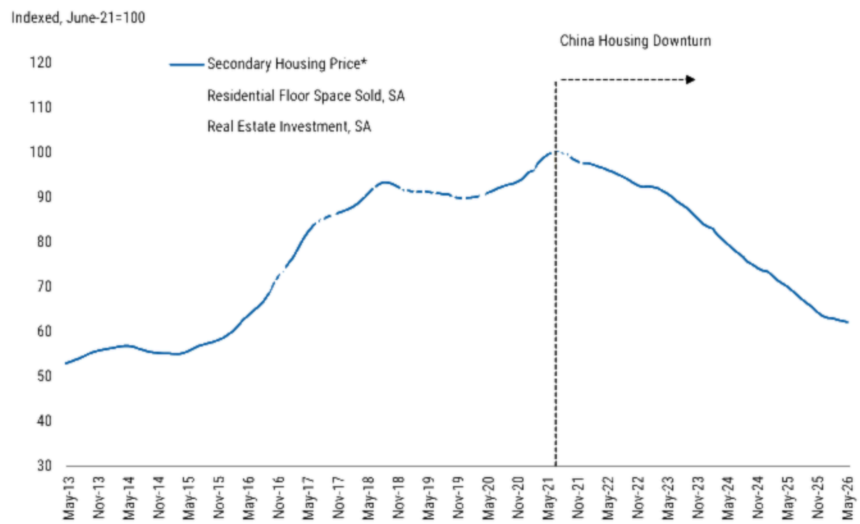
Industry View **In-Line**

Key Takeaways

- In May, secondary home listing prices fell 0.5% MoM (-11.3% YoY), slightly faster than April's 0.4% decline.
- The trend continued to diverge among cities, with a broadly soft home price trend overall, although select Tier 1 cities may still see a mild uptrend.
- Our China Property team maintains a prudent view and suggests waiting for more evidence of a market recovery to turn constructive.

Exhibit 1: Secondary house prices continue to fall from the peak in June 2021



Source: Centaline, NBS, Morgan Stanley Research

Bottom line: As discussed below, the housing market in China remains weak, deteriorating further YoY in May, and that is likely to remain a concern for investors regarding the European Luxury Goods sector. Our colleagues maintain a cautious view and expect the current K-shaped performance to persist, with a broadly soft home price trend overall, although select Tier 1 cities may continue to see a mild uptrend.

What's new? Our HK colleagues published yesterday a note on the Chinese real estate market (here). Given the importance of Chinese demand for the European Luxury sector (>30% of total spend), and that over 70% of Chinese household wealth lies in real estate, we thought it would be interesting to flag a few data points.

In May, secondary home transaction prices were down -0.5% MoM (-11.3% YoY)...

As detailed in our colleague Stephen Cheung's note (here), the decline in secondary home prices in China widened slightly in May, falling -0.5% MoM in the 85 sample cities they track (vs. -0.4% in April). Price weakness was also more broad-based: 93% of sampled cities posted MoM declines, while 64% experienced a faster rate of decline than the previous month (vs. 91% and 19% in April, respectively). By contrast, Tier 1 cities (Beijing, Shanghai, Shenzhen and Guangzhou) continued to show relative resilience, with price broadly flat at -0.1% MoM, supported by strong secondary market transactions and recent easing measures in Shenzhen and Guangzhou. As shown in Exhibit 1, since the peak of June 2021, secondary housing prices are down -38% cumulatively.

… and could see further downside in 2026/2027, though the correction may become more uneven across regions. Our colleagues attribute the ongoing weakness to cautious buyer behaviour, given subdued willingness to take on leverage and a still uncertain income outlook. While policy easing has helped support activity in some top-tier cities, they expect the boost from pent-up demand and earlier measures to gradually fade, potentially leading to slower secondary sales in June and a weaker YoY trend into 3Q. At the same time, elevated listing volumes in many cities may continue to pressure asking prices (~60% of cities recorded a MoM increase in secondary listing in May vs. 49% in April, across ~50 sample cities). With new home sales also constrained by limited saleable supply, our colleagues expect a broadly soft price trend to persist through 2026-27, although better inventory digestion could allow a few Tier 1 markets to outperform.

Primary market home prices declined 0.2% MoM in April (-3.7% YoY), unchanged from March's 0.2% MoM drop (see note published here) – May data is not yet available.

On the other hand, the equity market remains supportive. The weakness in the housing market has been partially offset by the equity market in China over the past 12-18 months. The Shanghai index is now up +22% over the last 12 months, supported by liquidity and policy narratives. To put things in perspective, we estimate that the value destruction in the housing market since December 2024 amounted to approximately RMB 31trn, while the rise in Chinese equity amounted to approximately RMB 39trn over the same period (as of May 2026).