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Hong Kong Property

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CITI'S TAKE

14 property corporates and global investors (25% based outside HK, vs. 5% last year) attended Citi's Property & Financials Conference. The dominant question was impact of China's ODI regulation on residential as well as office markets – for which listed firms identified no visible impact to date, though some flagged possible short-term volume softening with moderation in home price momentum. Most-attended meetings were SHKP, Hongkong Land and CKA. Many investors have trimmed exposure due to concern on policy execution, higher interest rate expectations, and rotation to other sectors or regions. Investors showed greater focus on company-specific features (DPS, buyback, capital recycling, low-gearing, new IP, new land, etc.) against unfavorable macro beta. We believe sector share prices could remain volatile in Jun-Jul, before the likely strong 1H26 results serve as the next potential catalyst in Aug. Our sector picks are Swire Properties, SHKP, CKA and Link REIT.

Sentiment overhang but no material impact from China's ODI regulation; <10% non-HKID buyer; property sits outside of CRS — Despite sentiment overhang, none of the property firms we met observed any measurable impact from China's capital control. Over the past month, there were 1-2 cases of cancellation or extended completion period (by 1 week); yet such are considered normal and consistent with prior experience rather than being linked to the policy. Non-HKID buyers are within 10% per developers (this is in-line with our own analysis through data from Inland Revenue Department). Per our observation, even for projects in Kai Tak (an area popular among mainland buyers), the share of non-HKID holders is c.15% despite 77% carrying mainland surnames (at *Victoria Voyage*). We see HK property remains an attractive asset allocation, not only to meet living needs or earn rental yield, but also because it falls outside the scope of China's CRS tax enforcement. According to developers, KYC responsibilities rest with financial institutions or agents, while themselves neither hold direct access to nor maintain confidential personal data.

Moderate home price increase is favorable; temporary volume dip on wait-and-see mood & HSI — 1H26E primary registration of c.12.5k units could become a 21-year high, and secondary volume +35%yoy. In Jun-alone, transaction activities had been quieter, reflecting (1) recent correction in HK equities, (2) buyer hesitation as sentiment is clouded by volatile news flow & may take 1-2 months to stabilize, (3) bad weather conditions, (4) slower launches, (5) narrower room for price negotiation in the secondary market after price recovery. We view such cyclical headwinds as unlikely to alter the mid-term home price upcycle given its anchoring to temporary structural under-supply in 2026-28E (completion 15-18k/year).

Margin recovery visible from 1H results; active for new lands — Clear bottoming-out of development margins should crystalize from 1H results, backed by higher-margin inventory sales (e.g., even Kai Tak can achieve mid-teens OPM after 10-15% price hikes YTD). Sales strategy has been adjusted to seek profit through premium units, while balancing with sell-through for mass projects. Strong property sales drives cashflow & lower gearing – for example, on our estimates, HK sales for SHKP at HK$37bn in FY26E (vs. target HK$30bn), Henderson at HK$17bn in 1H26E (vs. FY25 HK$19bn). Developers are active in land replenishment (SHKP, Kerry Prop, etc). (*Continued*)

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

Upside to Central office rent; smooth leasing at IGC — Spot rent for Central super Grade-A offices have been picking up progressively, underpinned by no new supply and rising enquiries amid re-centralization trend, which clearly favors the bargaining power of landlords. Other districts are generally still digesting supplies with high competition, except Admiralty (benefiting from spill-over demand from Central) and West Kowloon (market share gain on high-quality new supplies). Reversion remains negative but narrowing (e.g., HKLD: est. -5% in '26E and flat in '27E). Project highlights: *The Henderson* is 95%-let; *Central Yards* gained privilege to select tenants at its own pace without rush after receiving strong interests, and we think it is on track to be fully committed by 1Q27E; *IGC* showing decent leasing progress riding on its strong transportation connectivity and a largest floor plate in HK (of 78k sqft), and we believe a reasonably high committed occupancy by 2027E appears achievable; *CKC II* is approaching 50% commitment.

Retail: tenant sales improving across luxury & non-discretionary; reversion mixed — Tenant sales growth, ranked from high to low, is Mainland China luxury > HK luxury > 10%yoy > HK non-discretionary > 0%. While luxury retail faces a fade-out of favorable base effect in 2H, we suggest that leasing alpha by key landlords should continue to drive outperformance relative to the broader market (e.g., upside post asset reconfiguration at Swire Properties' BJ Sanlitun & SH HKRI Taikoo Hui; brand (re)openings at Hongkong Land's Central Landmark). For reversion, some luxury landlords are expecting negatives in '26E despite good tenant sales due to the high expiring rents (e.g., *Harbour City*), before turning to positive reversion in '27E. Typical non-luxury malls are seeing less negative retail reversion. Neighborhood malls have spot rent stabilizing, but reversion likely stays at negative high-single-digit magnitude throughout '26E.

Company-specific takeaways

Developers:

- **SHKP**: DPS growth on earnings; FY26E HK sales at HK$37bn; DP margin back to mid-teens in FY26E (1H: 8%) & further recovery in FY27E.
- **CKA**: possibility for a "small candy" special dividend at interim; DPS growth via earnings and favor dividend more than buyback; 30% threshold margin for new lands; Victoria Blossom will launch in 2H26E.
- **Henderson**: govt land resumption likely resumes from mid-27E; stable interim DPS after FY25 result; DP margin recovering to high-teens (incl. the Legacy; excl: mid-teens) in 1H26E (FY25: 8%).
- **Sino Land**: La Mirabelle strong sales; new investment targeting land, student accommodation and Fullerton-brand hotel; continue to assess & explore buyback option.
- **Kerry Properties**: YTD HK sales HK$4.5bn+ (1H25: HK$5.5bn); YTD acquire 3 land sites (20%+ EBITDA margin); look for <30% gearing by end-26E.

Landlords:

- **Swire Properties**: mainland China mall SSSG sustaining 10%+ into Apr-May; PP office spot rent stabilizing and room for less negative reversion.

- **Hongkong Land**: HK office reversion -5% in '26E & flat in '27E, see spot rent upside; exploring SG office investment opportunity; portfolio-centric internal optimization for est. US$40-50m annual cost savings from '27E.
- **Hang Lung Prop**: mainland China mall SSSG at teens in Apr & May (vs. 1Q: +24%); HK retail SSSG +ve; CN office keeping occupancy despite -ve reversion.
- **Wharf REIC:** expect good May SSSG data; retail recovery could bring reversion back to positive from early 2027E; decision on Marco Polo hotel to be made by end-26E with potential to double GFA if redeveloped.
- **Hysan**: 5M25 tenant sales up high-teens yoy; office occupancy stable & mid-teens negative reversion; LG8 OP in early 4Q26E.

REITs:

- **Link REIT**: look for flattish DPU via cost savings and buybacks despite -ve reversion; tenant sales recovering; potential divestment of 100 Market Street and UK office ongoing; ST priority on disposal, HK biz & buyback.
- **Fortune REIT**: narrowing negative reversion; supermarket sales at mild growth in 1Q26; refinancing with HK$3.8bn sustainability-lined loans.
- **Champion REIT**: spot rent c.HK$70s vs. passing rent HK$73 vs. expiring rent HK$80s; yoy stable occupancy; Langham mall retail sales at LSD growth.

Figure 1. HK Property Sector — Valuations (25-Jun-2026 close) Citi Rating: 1 – Buy; 2 – Neutral; 3 – Sell; H – High Risk

		25-Jun-26	Mkt Cap	Citi	Est.	NAV	Target	P/E			P/B			Yield		
Stock	RIC	Price	(USDm)	Rating	NAV	Disc	Price	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Wharf	0004.HK	18.46	7,195	3	47.00	-61%	21.15	13.5	13.3	12.6	0.4	0.4	0.4	2.2%	2.2%	2.2%
Henderson Land	0012.HK	25.82	15,943	1	57.00	-55%	34.20	17.3	15.5	14.2	0.4	0.4	0.4	4.9%	4.9%	4.9%
Hysan	0014.HK	17.02	2,229	1	45.74	-63%	24.30	12.4	11.8	11.4	0.3	0.3	0.3	6.3%	6.3%	6.3%
SHK Properties	0016.HK	116.90	43,204	1	210.00	-44%	168.00	15.0	14.0	12.8	0.5	0.5	0.5	3.3%	3.6%	3.8%
New World Dev	0017.HK	6.88	2,208	2	22.65	-70%	11.32	NM	NM	22.1	0.1	0.1	0.1	0.0%	0.0%	0.0%
Sino Land	0083.HK	10.55	12,899	1	18.93	-44%	14.20	19.5	19.2	18.3	0.6	0.6	0.6	5.5%	5.5%	5.5%
Hang Lung Ppt	0101.HK	7.24	4,804	1	27.99	-74%	11.20	11.6	10.9	10.4	0.3	0.3	0.3	7.2%	7.2%	7.2%
Kerry Prop	0683.HK	18.56	3,435	1	63.87	-71%	25.55	11.0	7.1	4.5	0.3	0.3	0.2	7.3%	7.3%	7.3%
Fortune REIT	0778.HK	4.52	1,189	1	10.37	-56%	6.00	15.6	16.4	16.5	0.4	0.4	0.4	7.4%	7.1%	7.1%
Link REIT	0823.HK	36.18	11,993	1	55.96	-35%	44.80	14.2	14.6	14.6	0.6	0.6	0.6	7.0%	6.9%	6.8%
CK Asset	1113.HK	44.62	19,917	1	99.18	-55%	54.80	12.7	12.5	11.7	0.4	0.4	0.4	4.1%	4.2%	4.4%
Swire Properties	1972.HK	21.00	15,420	1	51.59	-60%	28.80	16.1	12.6	12.4	0.4	0.4	0.4	5.8%	6.0%	6.3%
Wharf REIC	1997.HK	22.56	8,736	1	57.45	-61%	31.60	11.0	10.8	10.5	0.4	0.4	0.4	5.9%	6.0%	6.2%
Champion REIT	2778.HK	2.12	1,664	3	5.09	-60%	2.03	15.8	16.1	16.0	0.3	0.3	0.3	5.7%	5.6%	5.6%
Hongkong Land	HKLD.SI	7.28	15,589	1	14.86	-51%	9.88	33.9	29.8	24.6	0.5	0.5	0.5	3.6%	3.8%	4.1%
Average						**-48%**		**15.9**	**16.2**	**17.0**	**0.5**	**0.5**	**0.5**	**4.5%**	**4.6%**	**4.8%**

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