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China Property | Asia Pacific

Leading Indicators Worsened Further in July

MORGAN STANLEY ASIA LIMITED+

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CHINA PROPERTY
Asia Pacific
Industry View In-Line

Secondary home prices continued to diverge among cities in July amid a weakening trend in Tier 1 cities. We see the higher secondary listing volume in Tier 2 and below cities, softening visitations, and still-weak resident sentiment boosting home price drops in the coming months amid cooling sales.

Overall steady declines in secondary listing home prices: They fell 0.5% m-m (-9.6% y-y) across the 85 sample cities we track (vs. -0.5% in June), bringing 7M26 to -3.1% y-y. Similar share (~95%) of sample cities recorded m-m declines, but with fewer cities seeing faster declines (49% vs. 56% in June). On the contrary, all Tier 1 cities recorded a faster m-m trend down, to -0.4% on average (vs. -0.1% in June), which we attribute to catching up post their notable outperformance in March-June amid softening secondary home sales. We are concerned about ongoing drops in listing prices exerting stronger pressure on transaction prices in 2H, especially during the low season in summer.

Secondary listing trends continued to diverge: Total listings across ~50 sample cities edged up faster, by 0.5% m-m in July (vs. +0.2% in June), with more cities recording m-m increases (>70% vs. 63% in June). New secondary listings continued to decline, but at the mildest pace YTD (-1% m-m and -9% y-y) amid fewer cities recorded m-m drops (57% vs. 76% in June). Compared to end-2025 levels, total listings increased in more sample cities (>50% vs. 45% in June), with 35% reaching record highs.

Visitations cooled further: Visits to agent shops across 45 sample cities dropped 6% m-m (flat y-y) on average in July due to seasonality. We think lower visitations, together with the still-fragile resident sentiment, could further soften secondary homes sales y-y in major cities in August-September, despite their continued market share gains and easier bases.

Home prices may fall faster: Both new and secondary home sales saw continued weakening in July, as we expected, and the above worsening indicators are pointing to potential further cooling. We remain cautious on physical market recovery and expect slightly faster m-m home price declines in coming months, though select Tier 1 cities may still see a mild but softer uptrend due to their better demand/supply dynamics.

Stay selective with quality alpha plays: Although the market appears to have largely priced in weak 1H26 results, considering potentially softer property sales/ home prices in 3Q and continued fund flow disruption, we suggest sticking with quality players that have credible self-help alpha. Relatively, we think **CR Land (1109.HK, Top Pick)**, **Seazen (601155.SS/1030.HK)**, and **C&D (1908.HK)** offering better risk/reward at current valuations.

Related reports:

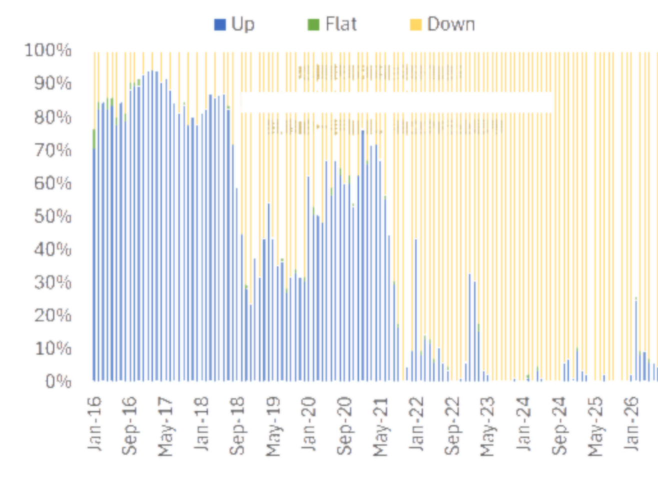
1. An Inflection or Another False Start? (18 May 2026)
2. June-26 AlphaWise Survey: Better Sentiment, but Still Limited Home Purchase Plans (14 July 2026)
3. 1H26 Preview: Weak Earnings amid Further Margin Squeeze (16 July 2026)
4. Managed Housing Downcycle to Last Another Two Years (25 Jan 2026)
5. 2026 Outlook: Physical Market Stays Challenging; Diverging Outperformance of Alpha Plays (10 Dec 2025)

Key Charts – Secondary Market

Exhibit 1: Secondary listing home prices trended down 0.5% m-m in July (vs. -0.5% in June)...

Source: Bingshan, Morgan Stanley Research

Exhibit 2: ...with 95% of sample cities recording m-m decreases (vs. 94% in June)

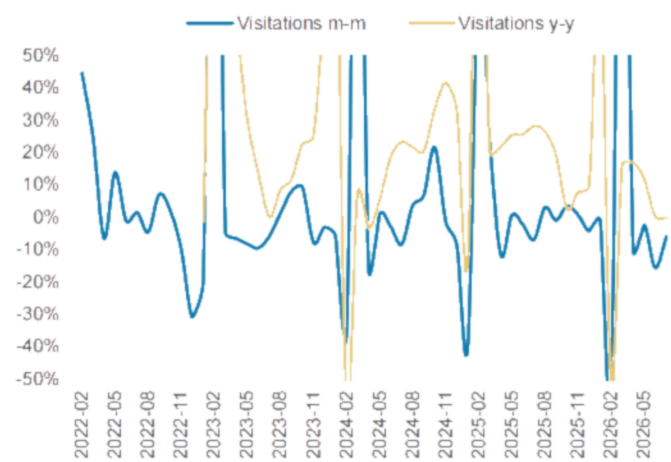


Source: Bingshan, Morgan Stanley Research

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

Source: Beike, Morgan Stanley Research

Exhibit 4: Visits to agents continued to decrease m-m in July on seasonality



Source: Beike, Morgan Stanley Research

Valuation Methodology and Risks

Seazen Group Ltd (1030.HK)

Our HK$4.80/share 2026e NAV comprises HK$3.75 of development properties (DCF, 9.0% WACC), HK$8.93 of investment properties (cap rate 6-9%) and HK$7.88 of net debt. To this we apply a 40% discount based on our developers' scorecard, comprising landbank (with a 5/10 score), execution (7), scale (6), growth (5), profitability (6), financing (7) and leverage (7). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contracted sales
- Stronger-than-expected new IP launches and IP operation
- Faster-than-expected land acquisition

Risks to Downside

- Weaker-than-expected contracted sales growth
- Faster-than-expected margin compression
- Weaker rental growth

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$29.69/share 2026e NAV comprises HK$32.49/share of development properties (DCF, 8.2% WACC), HK$0.93/share of other business and HK$3.73/share of net debt. 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), fina
(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.

Seazen Holdings Company Ltd. (601155.SS)

Our Rmb35.84/share 2026e NAV comprises Rmb15.70 of development properties (DCF, 9.2% WACC), Rmb39.45 of investment properties (cap rate 6-8%) and Rmb20.86 of net debt. To this we apply a 40% discount based on our developers' scorecard, comprising landbank (with a 5/10 score), execution (7), scale (6), growth (5), profitability (6), financing (7), and leverage (7). We use 30-45% discounts in our coverage.

Risks to Upside

- Stronger-than-expected contract sales
- Stronger-than-expected new IP launching and IP operation
- Faster-than-expected land acquisition

Risks to Downside

- Faster-than-expected compression of development margin
- Weaker-than-expected growth of recurring income
- Slower-than-expected divestment of shopping malls into private REITs