Hong Kong Property

MARKET WEIGHT
(Maintained)

Sales Slowing; Balance Sheets Strengthening; Dividend Support Building

Highlights

- Prices rose 7.4% YTD in 5M26, but June primary sales fell 60% mom and the first week of July saw the largest weekly CCL Index drop of 2026. We expect price growth to slow in 2H26.
- Retail sales are recovering (+10.6% yoy in 5M26) though spot rents still lag; in offices, Central and TST are recovering while Kowloon East stays weak.
- Maintain MARKET WEIGHT. Strong contracted sales, deleveraging and falling HIBOR should improve sector dividend sustainability. Top picks: SHKP and Link REIT.

Analysis

Update on Hong Kong property market:

- **Price momentum held up in June, but signs of market slowdown have emerged.** The Centaline City Leading Index (CCL) reached 159.54 points as of 5 Jul 26, representing a YTD gain of 10.7%. In June, the CCL Index rose 1.79% mom in Jun 26, similar to the mom growth pace of 1.64% /2.01%/1.85%/1.99%/1.77% in Jan/Feb/Mar/Apr/May 26, respectively. However, according to an update on 10 July, the CCL fell 0.77% wow, its largest weekly decline of 2026. The Centaline Valuation Index (CVI), which tracks large banks' property price expectations, has held steady at above 80 since Feb 26. Another clear sign of market slowdown is in the primary market: According to Midland Realty and Sales of First-hand Residential Properties Authority, Hong Kong recorded only about 850 new-home sales in Jun 26, down 59.6% mom and the first month below 1,000 units in 16 months. We expect growth in residential property prices to slow down notably in 2H26.
- **Smaller units continued to lead the price gain of residential properties...** According to the Rating and Valuation Department (RVD), the overall private domestic price index reached 321.9 in May 26, up 1.42% mom and up 7.44% YTD. By class, Class A/B/C/D/E price indices recorded 5M26 changes of 7.20%/7.88%/6.78%/5.57%/4.12% respectively, with the smaller mass-market units still outpacing the larger units.
- **…but with compression of rental yield.** The overall rental index went up 1.80% in 5M26 and up 5.10% yoy. By class, 5M26 YTD rental growth registered 0.36%/2.26%/4.34%/5.16%/3.46% for Class A/B/C/D/E units, respectively, with larger units (Class D-E, +4.54%) leading and the smallest Class A units flat (+0.36%). With prices running hardest at the small end and rents at the large end, we expect yields to compress fastest on smaller units: The Class A gross yield is 3.4%, down from 3.6% at end-25. It still clears the 3.25% mortgage rate. That positive spread remains a key structural support for housing demand.

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Segmental Rating

Segment	Rating
Hong Kong Property	MARKET WEIGHT (Maintained)
Hong Kong Landlords	MARKET WEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
SHKP	16HK	BUY	118.00	143.80
Sino Land	83 HK	BUY	10.31	13.50
Link REIT	823HK	BUY	37.44	44.30

Source: Bloomberg, UOB Kay Hian

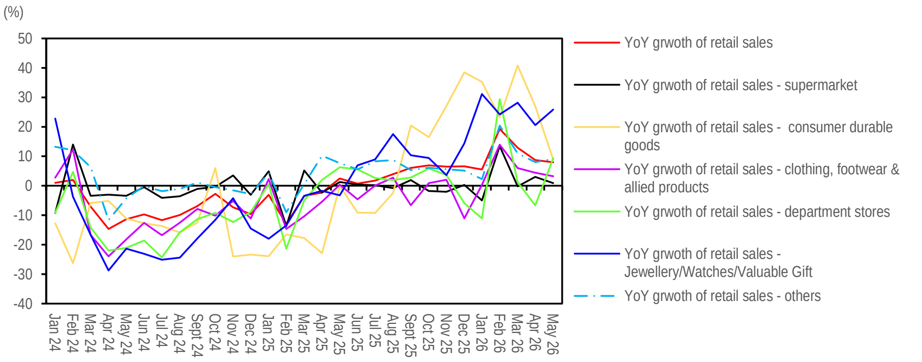
Peer Comparison

Company	Ticker	Rec	Price 10 Jul 26 (HK$)	Target Price (HK$)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2027F (%)	ROE 2026F (%)	Market Cap. (HK$m)	Price/ NAV ps (x)
New World Development	17 HK	HOLD	6.48	9.60	48.1%	6/25	N.A.	N.A.	-4.7	0.0	-2.5%	16,307.8	0.1
Sun Hung Kai Properties	16 HK	BUY	118.00	143.80	21.9%	6/25	15.7	15.6	14.9	3.4	3.6%	341,938.1	0.6
Sino Land	83 HK	BUY	10.31	13.50	30.9%	12/24	22.8	20.6	20.4	5.6	2.8%	98,833.1	0.6
Kerry Properties	683 HK	BUY	18.15	27.80	53.2%	12/24	6.6	12.3	10.5	7.4	1.8%	26,341.2	0.3
Wharf Real Estate Investment Co Ltd	1997 HK	BUY	22.84	28.80	26.1%	12/24	11.3	11.7	10.9	5.7	3.3%	69,347.4	0.4
Link REIT	823 HK	BUY	37.44	44.30	18.3%	3/25	N.A.	15.0	15.5	6.4	3.9%	96,684.9	0.6
Hysan Development	14 HK	HOLD	17.34	20.70	19.4%	12/24	11.6	9.0	8.8	6.5	3.0%	17,808.3	0.3

Source: UOB Kay Hian

- **Retail sales are recovering, but the pass-through to spot rents has yet to arrive.** According to the RVD, the retail rental index fell 1.42% YTD in 5M26. Hong Kong's total retail sales went up 10.6% yoy in 5M26, with discretionary and non-discretionary categories growing 14.2% and 0.4% yoy respectively, of which jewellery/watches (+26% yoy) and consumer durables (+27%) were the standouts. In May 26, retail sales grew by 7.9% yoy, stronger than expected but decelerating from 12.8% in Mar 26 and 8.7% in Apr 26, partly due to a higher base. We expect retail sales growth to slow in the second half due to a higher base, but remain in positive territory, thanks to a stronger renminbi and tourism. We reiterate our full-year retail sales growth forecast of 5% and full-year forecast of +1% for the retail rental index.

Monthly Retail Sales yoy Growth – By Category



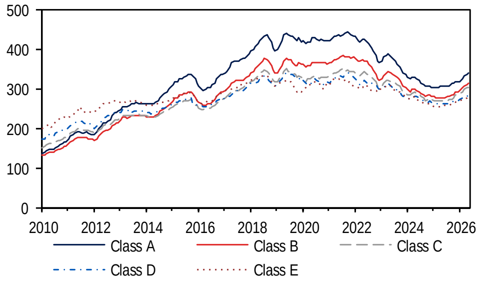
Source: C&SD, CEIC, UOB Kay Hian

- **Update on office rents.** Hong Kong's Grade A office market was broadly flat in 5M26. According to RVD data, the 5M26 YTD spot rental index change for Grade A offices was -0.14%, while Grade B and Grade C offices each recorded -0.05%. In 5M26, the rental index for Grade A offices in Sheung Wan & Central/Wanchai & CWB/TST changed by -0.13%/+5.33%/+1.81% respectively. JLL's June report points to clear outperformance of office in Central: Grade A spot rents in Central grew 0.7% mom, while Wanchai/Causeway Bay Grade A spot rents rose 0.3% mom. Vacancy fell to 13.3%: Central 9.2%, Tsimshatsui 7.1% and Wanchai/CWB 9.8% are all tight, against Kowloon East at 20.5%.

We recently had preview calls with four developers and landlords. Feedback is consistent with market trends. Key takeaways are:

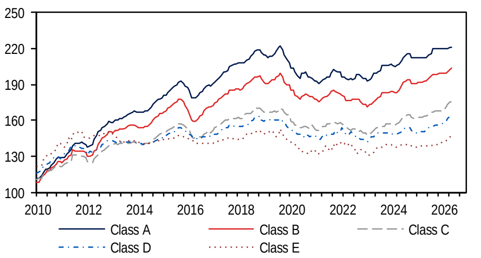
- **Retail tenant sales are recovering, but rents lag.** Our 1H26 preview calls with Kerry Properties, Sino Land, Wharf REIC and Hysan are expected to see a broad-based retail recovery, driven by rising tourism and a stronger renminbi. We expect both Wharf REIC and Hysan's luxury retail portfolios outperforming the wider market, with Hysan is expected to see high teens yoy growth in tenant sales. Though, retail rental reversions are expected to remain negative everywhere except for Hysan.
- **Residential – strong contracted sales, but cautious on booking margin in the coming results season.** Sino Land sold about 1,340 residential units in Hong Kong in 1H26, against just 139 a year earlier, with La Mirabelle and Grand Mayfair Phase 3 beating the market in terms of pricing performance. Kerry Properties is expected to achieve HK$5.5b of contracted sales, broadly flat yoy, with better sales at La Montagne. We expect developers will continue to seek for better balance between margin and volume – Kerry's latest La Montagne phase achieved an ASP roughly 40% above a year ago. Booking margins are the soft spot: We expect Kerry Properties' booking margin for Hong Kong property sales to slightly fall below the 9.2% booked in 1H25, as trough-priced units are recognised and Mont Verra bookings skew to lower-

Property Price Index Of Residential Units By Class



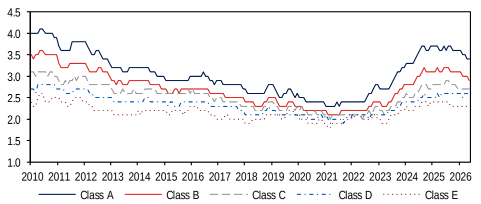
Source: RVD, CEIC, UOB Kay Hian

Rental Index Of Residential Units By Class



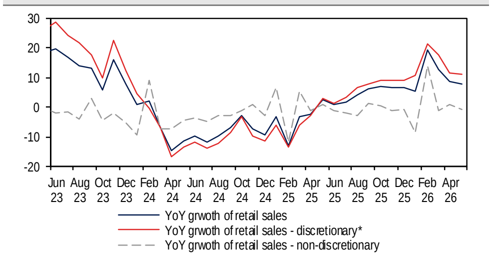
Source: RVD, CEIC, UOB Kay Hian

Rental Yield Of Residential Units By Class



Source: RVD, CEIC, UOB Kay Hian

Monthly Retail Sales YOY Growth – Discretionary And Non-discretionary



Source: C&SD, CEIC, UOB Kay Hian

ASP apartments, recovering to the teens in 2H26 as the higher ASP La Montagne is booked, while Sino Land is expected to see development margins to hold near the 7.2% seen in 1HFY26 before improving from FY27.

- **The office sector remains a mixed bag.** While Central and Tsim Sha Tsui are seeing some spot rent recovery, Causeway Bay continues to face downward pressure. We expect the developers and landlords we checked to maintain stable occupancy rates despite continued negative rental reversions.
- **Financially, deleveraging is a common theme.** We expect Hysan, Kerry Properties and Wharf REIC to see lower gearing ratio in 2026, which, along with falling HIBOR, will provide support to earnings. We believe lower gearing, will result in improved sustainability of dividend payout.

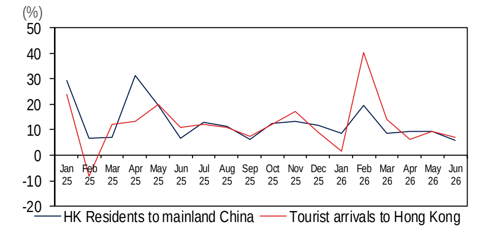
Valuation/Recommendation

- **Maintain MARKET WEIGHT on the Hong Kong property sector.** The market did show signs of sales slowdown. Our reiteration of +7% residential price growth forecast shows our cautious view of price performance in 2H26. However, with stronger sales strengthening balance sheet of major developers and landlords, we expect higher sustainability of dividend of the sector. Our top pick remains SHKP and Link REIT. We also like Sino Land for its net cash position and decent yield of 5.4%.

Sector Catalyst/Risk

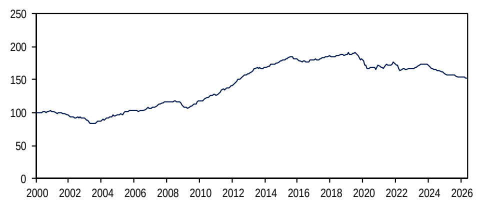
- Lower-than-expected HIBOR.

Monthly Tourists Arrivals To Hong Kong And Hong Kong Residents Travelling to China – YOY Growth



*Source: Hong Kong Immigration, CEIC, UOB Kay Hian. * Note: tourist arrivals to Hong Kong include visitors from both Mainland China and other countries*

Retail Rental Index



Source: RVD, CEIC, UOB Kay Hian