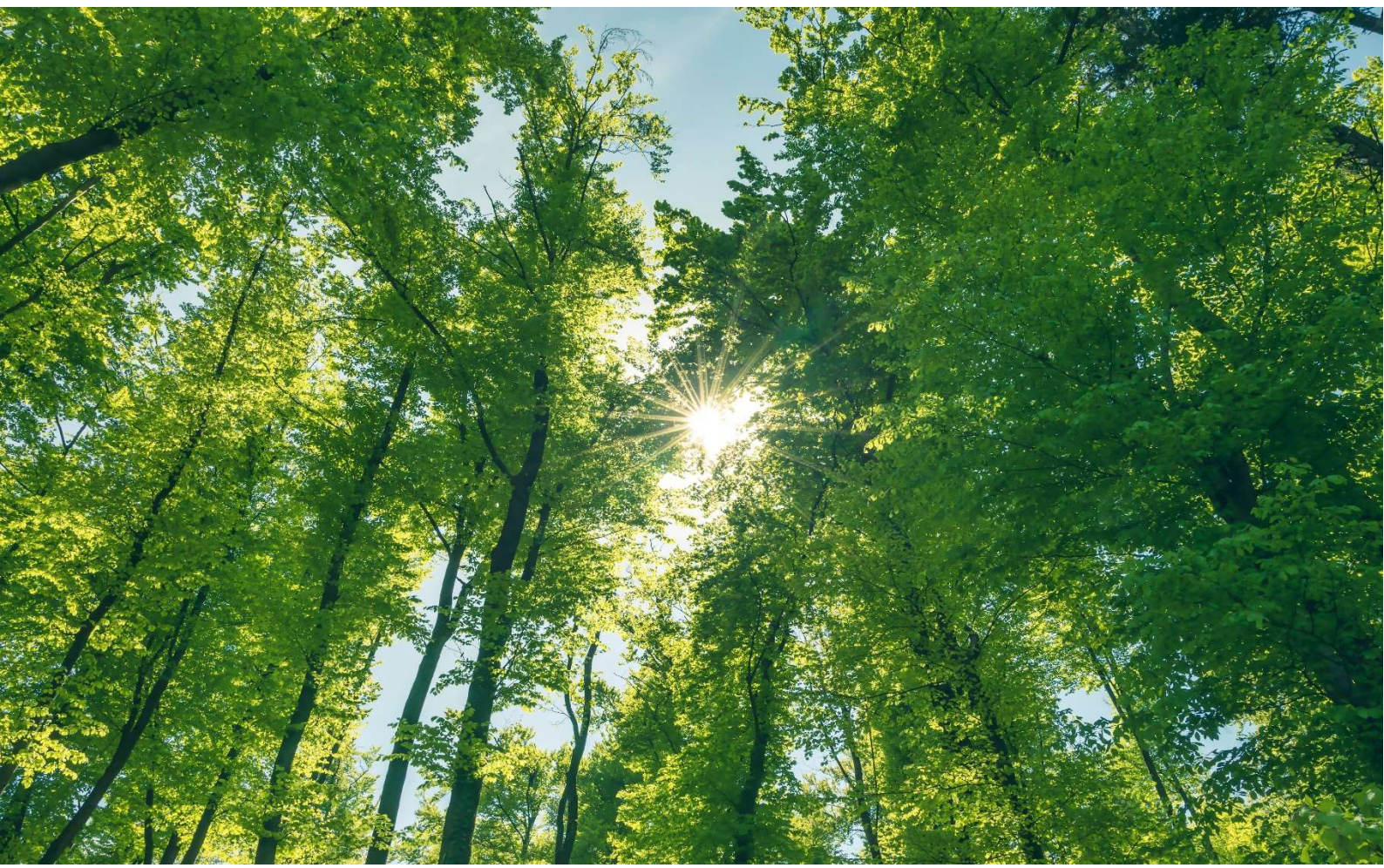




CIO Insight – Cusson Leung, Chief Investment Officer

“We Are Bullish on Hong Kong Properties”



Adding Hong Kong Property Developers to diversify in a global portfolio

For global investors seeking genuine diversification without sacrificing return potential, Hong Kong property stocks stand out. Lower US interest rates will amplify purchasing power, commercial headwinds are fading, and residential fundamentals are firmly in upswing. At current levels, the sector offers an unusual confluence of defensive characteristics and cyclical upside.

Percentage Change, Weekly, 1 Year

	S&P 500 INDEX	S&P/ASX 200 INDEX	FTSE 100 INDEX	NIKKEI 225 INDEX	Euro Stoxx 50 Pr INDEX	HANG SENG INDEX	CSI 300 INDEX	HSP INDEX
S&P 500 INDEX	1.00	0.55	0.55	0.53	0.66	0.15	0.16	0.06
S&P/ASX 200 INDEX	0.55	1.00	0.63	0.43	0.55	0.16	0.15	0.12
FTSE 100 INDEX	0.55	0.63	1.00	0.45	0.73	0.36	0.26	0.31
NIKKEI 225 INDEX	0.53	0.43	0.45	1.00	0.70	0.28	0.24	0.22
Euro Stoxx 50 Pr INDEX	0.66	0.55	0.73	0.70	1.00	0.50	0.30	0.32
HANG SENG INDEX	0.15	0.16	0.36	0.28	0.50	1.00	0.60	0.62
CSI 300 INDEX	0.16	0.15	0.26	0.24	0.30	0.60	1.00	0.36
HSP INDEX	0.06	0.12	0.31	0.22	0.32	0.62	0.36	1.00

Percentage Change, Weekly, 3 Year

	S&P 500 INDEX	S&P/ASX 200 INDEX	FTSE 100 INDEX	NIKKEI 225 INDEX	Euro Stoxx 50 Pr INDEX	HANG SENG INDEX	CSI 300 INDEX	HSP INDEX
S&P 500 INDEX	1.00	0.61	0.52	0.56	0.64	0.29	0.19	0.20
S&P/ASX 200 INDEX	0.61	1.00	0.62	0.48	0.59	0.29	0.16	0.21
FTSE 100 INDEX	0.52	0.62	1.00	0.38	0.74	0.40	0.18	0.30
NIKKEI 225 INDEX	0.56	0.48	0.38	1.00	0.48	0.29	0.24	0.23
Euro Stoxx 50 Pr INDEX	0.64	0.59	0.74	0.48	1.00	0.46	0.26	0.32
HANG SENG INDEX	0.29	0.29	0.40	0.29	0.46	1.00	0.70	0.82
CSI 300 INDEX	0.19	0.16	0.18	0.24	0.26	0.70	1.00	0.56
HSP INDEX	0.20	0.21	0.30	0.23	0.32	0.82	0.56	1.00

Percentage Change, Weekly, 10 Year

	S&P 500 INDEX	S&P/ASX 200 INDEX	FTSE 100 INDEX	NIKKEI 225 INDEX	Euro Stoxx 50 Pr INDEX	HANG SENG INDEX	CSI 300 INDEX	HSP INDEX
S&P 500 INDEX	1.00	0.66	0.65	0.63	0.70	0.40	0.31	0.33
S&P/ASX 200 INDEX	0.66	1.00	0.62	0.59	0.62	0.41	0.27	0.34
FTSE 100 INDEX	0.65	0.62	1.00	0.58	0.83	0.47	0.27	0.38
NIKKEI 225 INDEX	0.63	0.59	0.58	1.00	0.66	0.48	0.32	0.35
Euro Stoxx 50 Pr INDEX	0.70	0.62	0.83	0.66	1.00	0.50	0.31	0.38
HANG SENG INDEX	0.40	0.41	0.47	0.48	0.50	1.00	0.69	0.82
CSI 300 INDEX	0.31	0.27	0.27	0.32	0.31	0.69	1.00	0.54
HSP INDEX	0.33	0.34	0.38	0.35	0.38	0.82	0.54	1.00

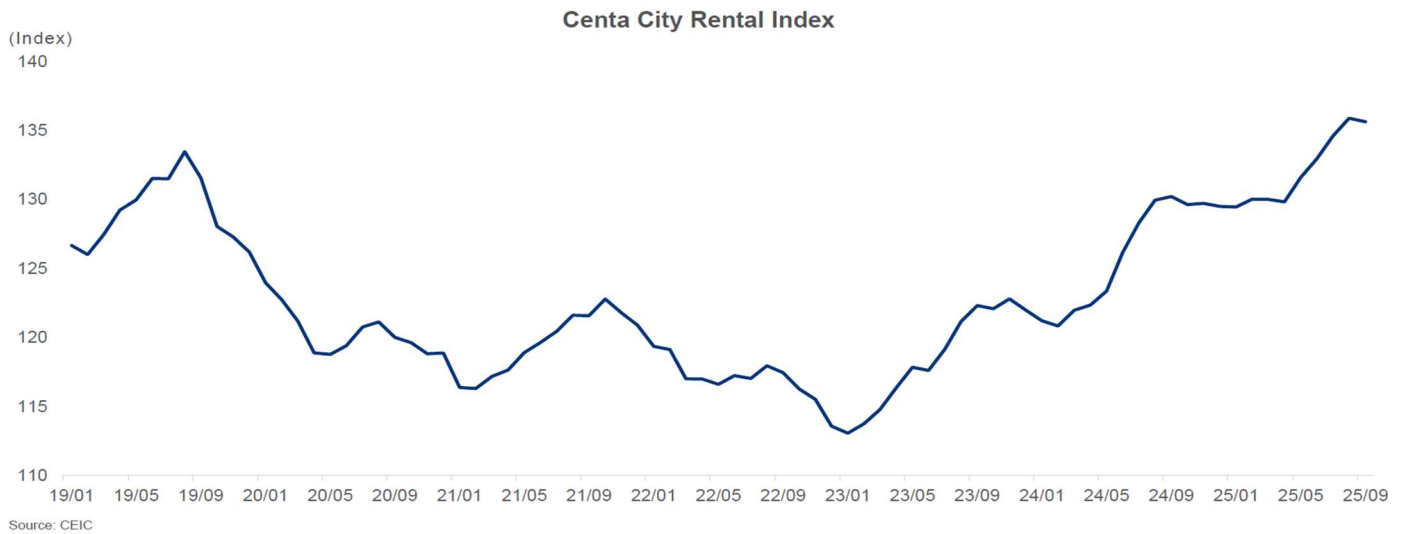
Correlation data across one-year, three-year and five-year rolling periods consistently show Hong Kong property stocks registering readings as low as 0.15–0.30 against the S&P 500, Euro Stoxx 50 and Nikkei 225. In an environment where traditional diversification benefits have eroded when correlation between different asset classes is rising, few assets deliver such genuine low-correlation exposure while simultaneously exhibiting clear cyclical recovery.

Improving fundamental in sharp contrast with earlier market expectation

The residential market has defied widespread expectations of further declines at the start of 2025. To date, the primary-market transactions have surged, driving year-to-date residential price gains of 2.5 per cent. Developers have prioritized sales volume over margin, clearing inventory at a rapid pace. Both primary and secondary transaction volumes and values rose more than 10–30 per cent year-on-year in the first nine months of 2025, underpinned by a pronounced wealth effect from the rebound in local equities.

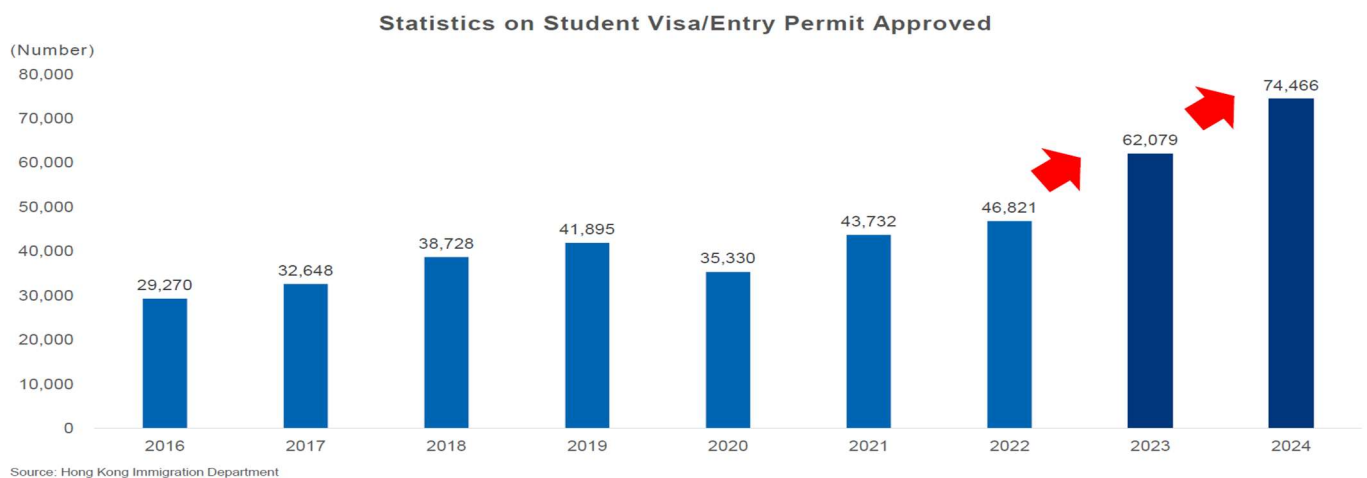
Centa City Leading Index





Rental increase continue to be supported by strong demand

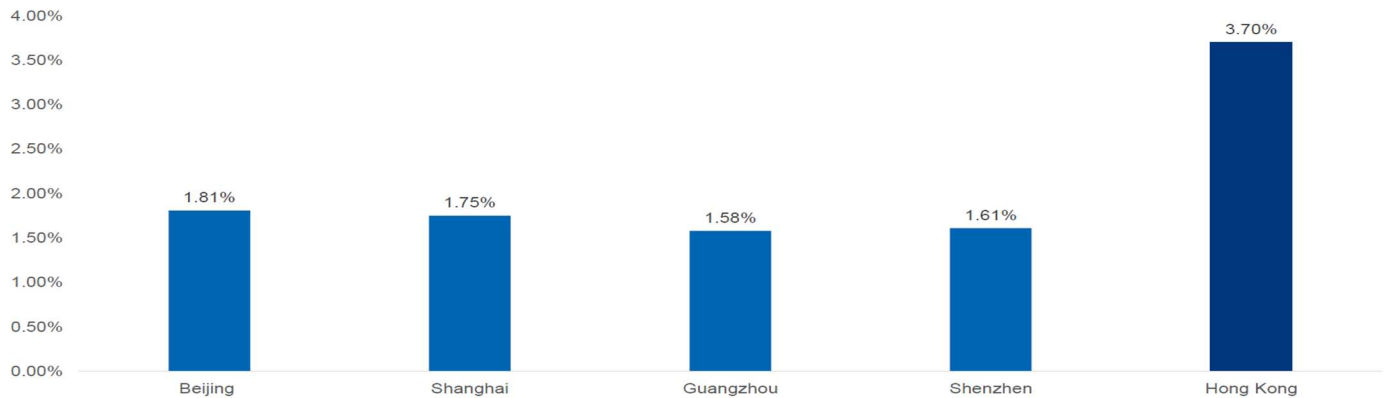
Rental dynamics provide further support. Centaline's rental index has climbed more than 20 per cent over the past two years, propelled by the strong inflow of foreign students as Hong Kong is growing role as an Asian education hub. Approved non-local student visas reached 74,466 in 2024, with the government set to raise the overseas student quota at universities from 40 per cent to 50 per cent in 2026. Demand for family-sized accommodation from incoming talent is intensifying as well.



Rental yield induced investment demand and end-user demand

Hong Kong now offers the highest gross residential rental yield among China's tier-one cities at close to 3.7 per cent. More importantly, the market has returned to positive carry for the first time in years, with yields exceeding mortgage rates. Local buyers, historically the smartest allocators of capital in the city, have responded decisively, increasing investment purchases ahead of further anticipated US rate cuts and continued rental growth. Mainland Chinese buyers have also returned in force: one in every four units sold this year has gone to non-local purchasers, the highest proportion since the post-QE period.

Rental Yields of the tier one Cities



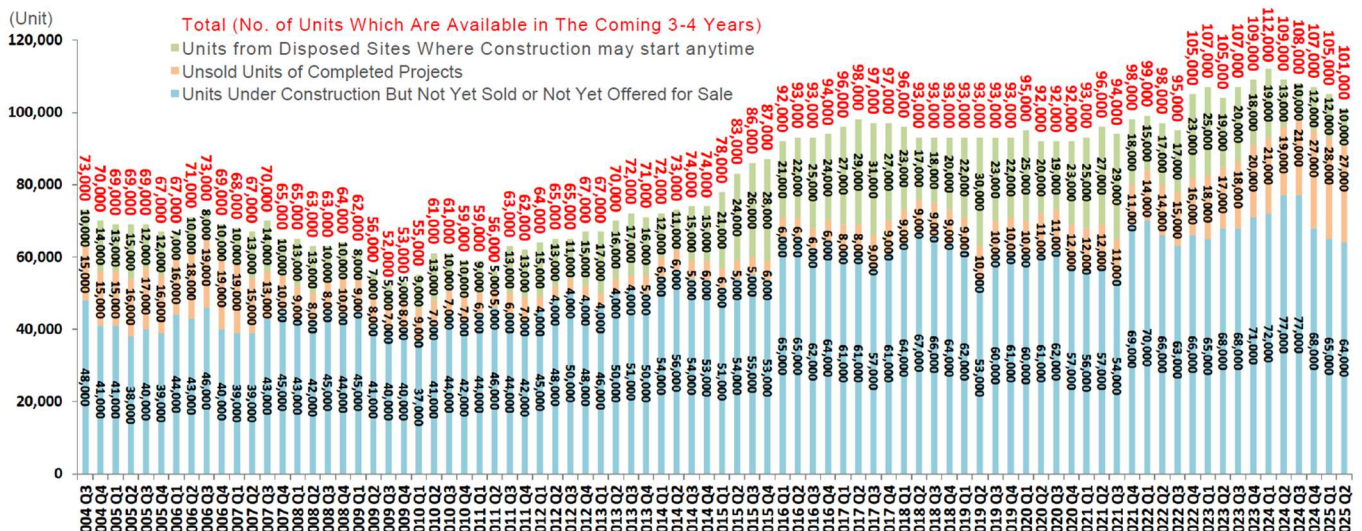
Source: Midland Holding



Source: Midland Holding

Supply constraint will become apparent in pre-sales pipeline in 2 years

Supply-side constraints reinforce the bullish outlook. New land sales have fallen sharply from a peak of 25,000 units annually to roughly 10,000 units, while unsold inventory from earlier cycles is being absorbed quickly. Once the destocking is largely completed, the structural undersupply of private residential units will become evident.



Commercial real estate is no longer a significant drag

We were cautious on the developers earlier on because of their commercial real estate exposure but we now see these drags are stabilizing. Office absorption has turned improved, driven by financial-sector expansions, mainland firms establishing regional headquarters and upgrading demand toward prime Central buildings as rents have become affordable after years of correction. Retail sales continue to recover at a gradual pace, bolstered by inbound tourism and a stronger renminbi. We expect negative rental reversion to fade from 3Q26. So long as the CRE is not a drag, we believe the incremental upside for the developers will come from the continued improvement and the path of interest rate cuts from the US.

Obtaining attractive dividend yield to achieve the diversification benefit

Some of these improvement prospects are reflected in share prices, yet valuations remain compelling. While the market was narrowly focusing on the AI/tech sector so far in 2025, major listed developers — Sun Hung Kai Properties, Henderson Land, Sino Land and Kerry Properties — have outperformed the Hang Seng Tech index this year. Pure-play landlords such as Hongkong Land and Hysan Development have staged even sharper recoveries from deeply depressed levels. Dividend yields across the sector exceed 5 per cent in many cases.

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