



July 2020: Hong Kong Residential Market Survey

Third wave, political tension pushes housing market confidence lower

- Prices, volumes deteriorate amid weaker demand
- Outlook for rents, volumes and prices for the next three and twelve months worsens
- Respondents highlight negative impacts of another COVID-19 outbreak, continued political tension

Feedback from contributors to the RICS-Spacious Hong Kong Residential Market Survey points to a sharp deterioration in the housing market in July 2020. The Confidence Index*, shown in Chart 1, fell from +1 in June to -55 in July. This marks the lowest reading since March, and the sharpest month-on-month fall since June 2019. As sentiment declined in all three regions tracked by this survey (the New Territories, Kowloon and Hong Kong Island), several respondents highlighted another outbreak of coronavirus in the city as well as ongoing political tensions as catalysts for the renewal of negative sentiment. Note that survey responses were collected between 21 July and 9 August 2020.

New demand from buyers was said to have contracted in July, after a stabilization in June. This was true for both owner occupiers and investors, though in net balance terms the decline was more pronounced in the latter group (Chart 6). Demand from potential buyers in mainland China was also seen to be subdued (Chart 4), as it has been since the onset of domestic political tensions in June 2019.

As shown by Chart 4, the gap between demand and supply widened considerably in July. This likely contributed to a greater share of respondents (64% in July vs 46% in June) reporting a decline in prices over the past three months (Chart 2). However, the pullback in prices is still seen as being relatively modest, with more than half (51%) of contributors noting that prices declined by 5% or less. This may be a result of the supply of properties for sale remaining more or less stable. Indeed, there has been very little indication of stressed homeowners being forced to dispose of properties thus far in 2020.

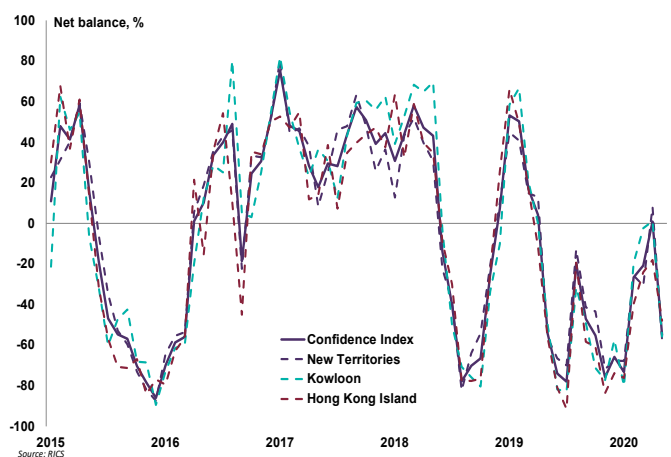
It is unclear how long this can be sustained given the continued pressure on rents. As shown in Chart 5, tenant demand remains weak while the supply of properties available to let has begun to increase in recent months. Against this backdrop, a majority of contributors (63%) continue to report a decline in rents to some degree over the past three months (Chart 3). This has been the case since November of 2019. The pressure on rents appears to be more acute in Hong Kong Island than it does in the New

Territories or Kowloon. Furthermore, access to credit has reportedly tightened for the past 13 months. What's more, credit conditions are also expected to worsen further over the next three and twelve months.

As shown in Chart 7, the near term prospects for recovery remain bleak. Prices, sales volumes and rents are all expected to decline over the next three months. Further afield, expectations for the next year have also been revised sharply lower since the June survey. Although there is some variation between metrics by region, headline prices and rents are each expected to fall 3.1% over the next twelve months (Charts 8 and 12 respectively) and sales volumes are expected to decline 3.8% (Chart 10). However, as can be seen in Charts 9, 11 and 12, very few respondents continue to expect extreme (in excess of 10%) declines in prices, sales volumes and rents over the next twelve months.

The outlook for the next five years has also been revised lower. Accounting for a 3.1% decline in prices over the next year, home price growth is only expected to average +1.7% from 2021 to 2025.

Chart 1: Confidence Index



*The Confidence Index is a composite measure capturing overall market momentum, encompassing variables on short-term

Chart 2: Prices - past 3 months

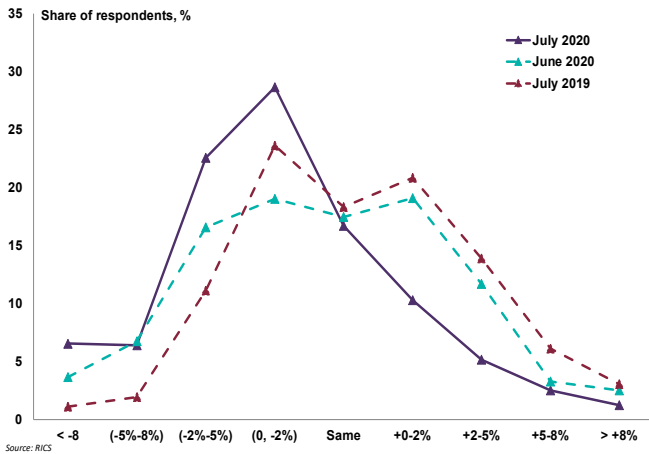


Chart 3: Rents - past 3 months

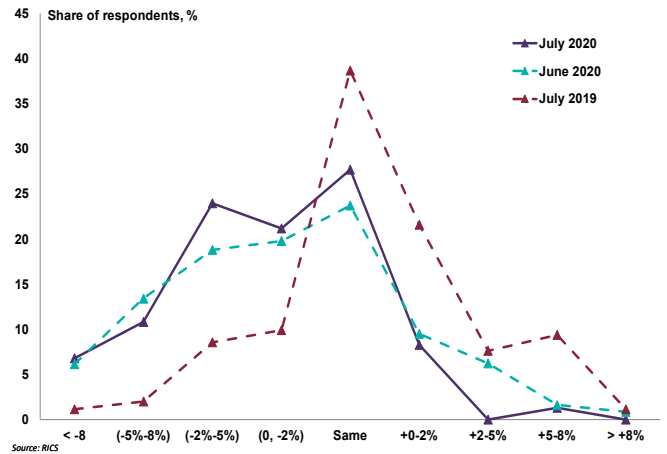


Chart 4: Buyer enquiries and instructions to sell

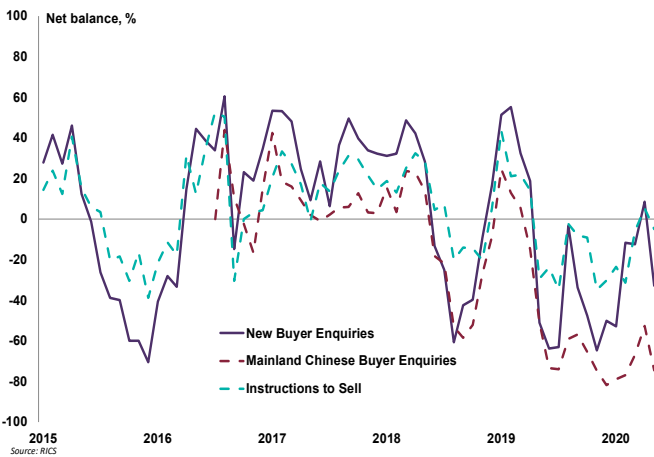


Chart 5: Tenant demand and instructions to rent

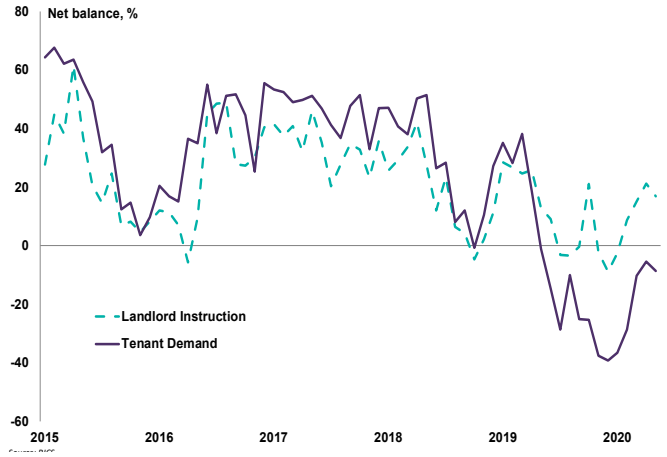


Chart 6: Buyer enquiries by type

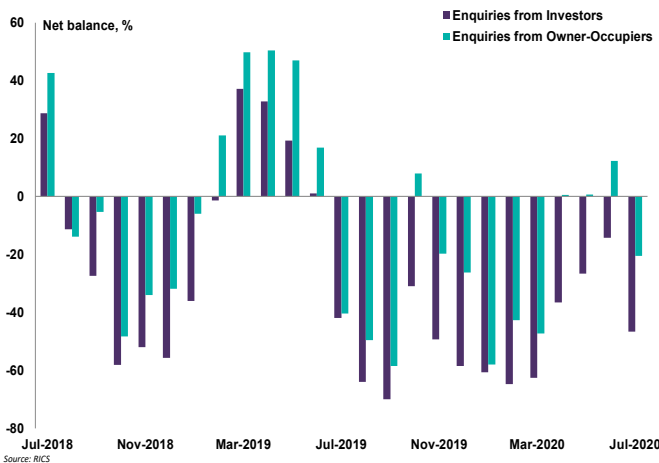


Chart 7: 3 month expectations

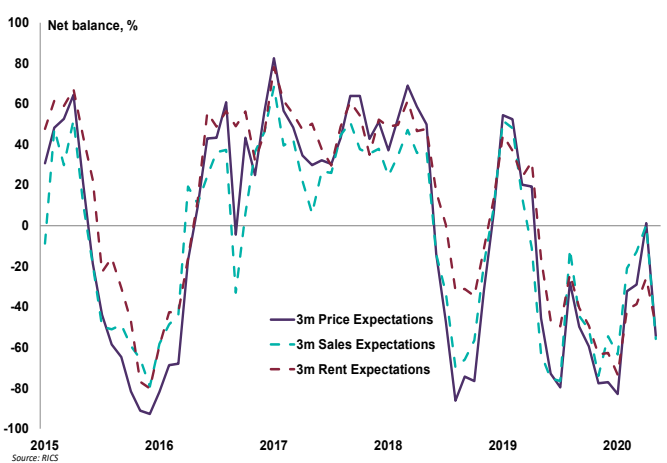


Chart 8: Price expectations - next 12 months

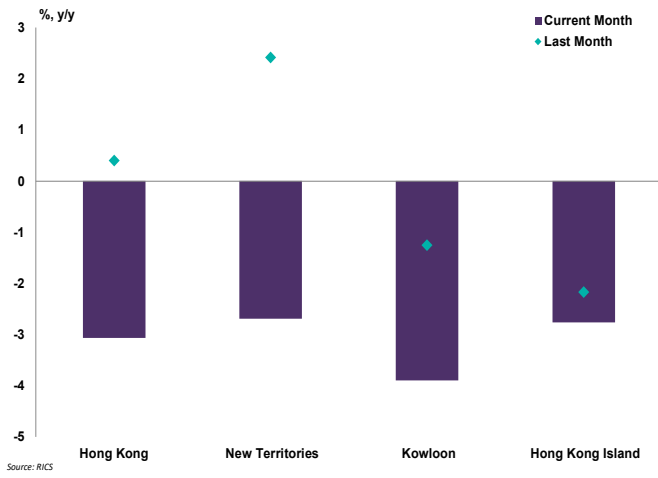


Chart 9: Price distribution - next 12 months

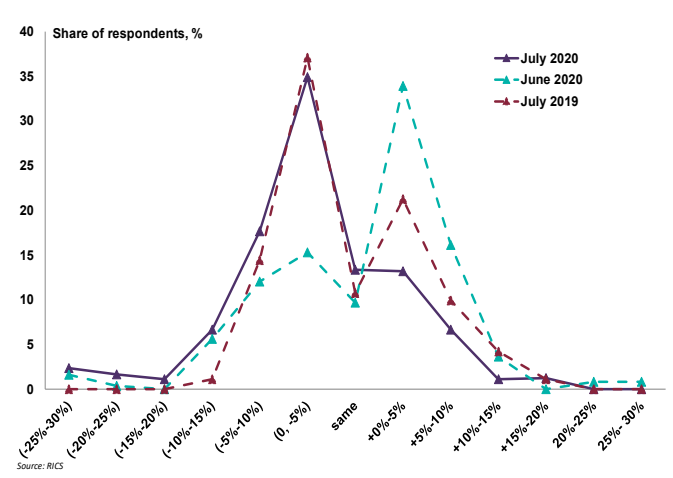


Chart 10: Volume expectations - next 12 months

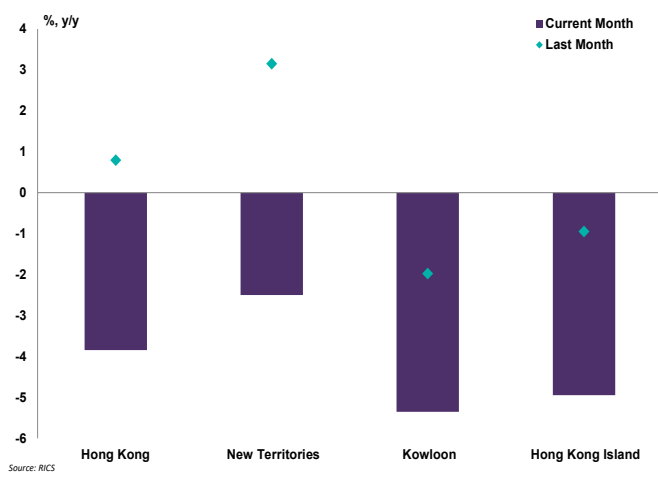


Chart 11: Volume distribution - next 12 months

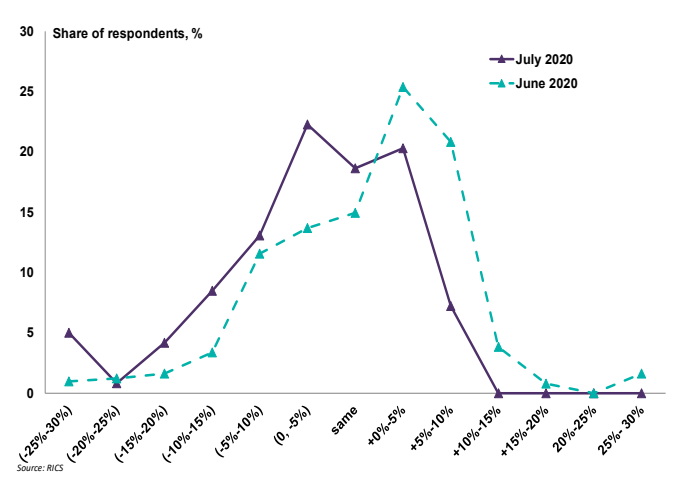


Chart 12: Rent expectations - next 12 months

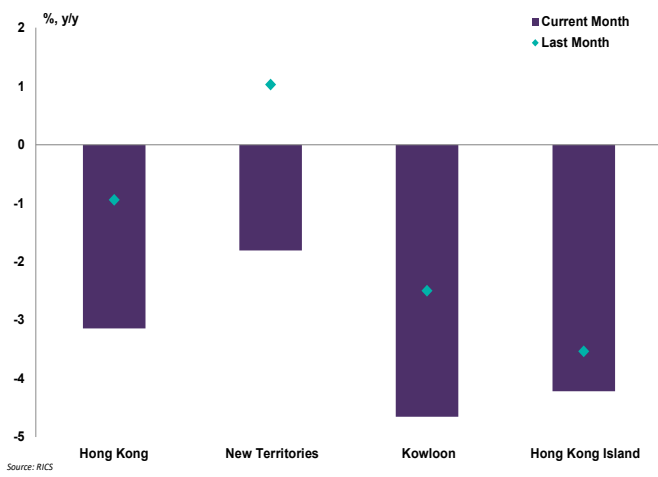
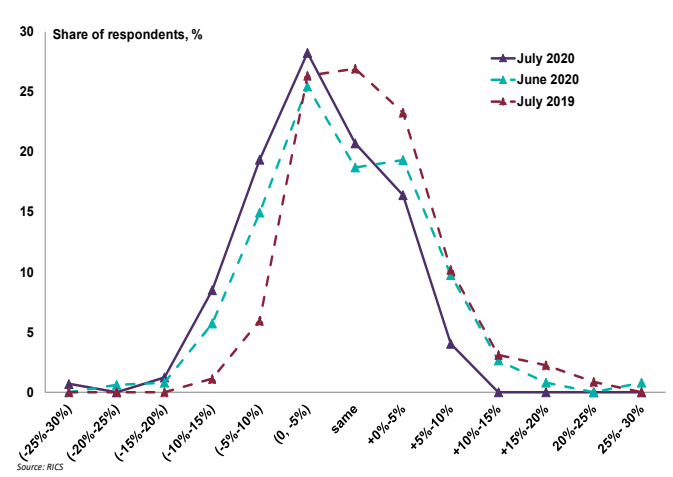


Chart 13: Rent distribution - next 12 months



Information

Hong Kong Residential Market Survey:

RICS-Spacious Hong Kong Residential Market Survey is a monthly guide to the trends in Hong Kong's housing market. The report is available from the RICS website www.rics.org/economics along with other surveys covering global housing, commercial and land markets, as well as construction activity.

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About Spacious:

Spacious is the highest quality online real estate platform in Hong Kong. Spacious is capturing data from real estate searchers and inventory holders and augmenting it with additional data sets to generate real-time, independent, and actionable insights. Spacious' vast property and demographics data can deliver valuable insights for your organization. Contact Spacious to learn more about how your organization can gain additional access to Spacious data.

Methodology:

Survey questions were sent out 21 July 2020 with responses received until 9 August 2020. National (headline) data are a regionally-weighted aggregation of three regions: New Territories, Kowloon and Hong Kong Island. Data is not seasonally adjusted.

Net balance = Proportion of respondents reporting a rise in prices minus those reporting a fall. For example, if 30% of respondents report a rise and 5% report a fall, the net balance will be 25%.

The net balance measures breadth (how widespread e.g. price falls or rises are on balance), rather than depth (the magnitude of e.g. price falls or rises). Net balance data is opinion based; it does not quantify actual changes in an underlying variable.

Therefore, a -100 reading implies that no respondents are seeing increases (or no change), and a +100 reading implies that no respondents are seeing decreases (or no change).

Survey release dates:

August Survey: 22 September 2020

September Survey: 20 October 2020

October Survey: 18 November 2020

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