



October 2020: Hong Kong Residential Monitor

Market confidence remains negative amid flat outlook for prices, volumes

- Confidence Index turns slightly less negative for the fourth consecutive month
- Rents appear under more pressure than prices, especially on Hong Kong Island
- Little change expected for prices and transaction volumes over the next twelve months

Respondents to the RICS-Spacious Hong Kong Residential Monitor saw downward pressure on the housing market persist in October. The Confidence Index*, shown in Chart 1, remained in negative territory as it has for 15 of the past 16 months, since the onset of domestic political unrest in the city. However, the Confidence Index did rise slightly from -44 in September to -29 in October, driven by less-negative sentiment in Kowloon and the New Territories.

Downward pressure on prices appears to have moderated over the past three months. Chart 2 shows that the share of respondents who noted price drops of between 2% to 5% eased from 35% in September to 22% in October. Meanwhile 28% saw more a more modest contraction in prices of between 0% to 2% (up from 20% last time). Furthermore, the share of contributors seeing price increases of up to 5% rose to 21% in October from 12% in September.

Fundamentals appear to be at least partially driving the easing in downside pressure in the sales market. Chart 4 shows that in net balance terms, buyer demand and the supply of new properties were little changed over the past month. This is in contrast to the gap of roughly -30% over the prior three months, and is a result of buyer demand stabilizing from a net balance of -31% in September to -7% in October.

Little change in demand from owner-occupiers appears to be the primary driver. Chart 6 shows that after three consecutive months of contributors highlighting a pullback in demand from owner-occupiers, this metric was flat in October. This seems to be result of an increase in demand from owner-occupiers observed in Kowloon, as respondents in the New Territories and Hong Kong Island continued to report declining demand from this group of buyers. Meanwhile, headline demand from investors as well as buyers in mainland China (which can be seen in Chart 4) continued to contract in October, as they have for the past 16 and 17 consecutive months, respectively.

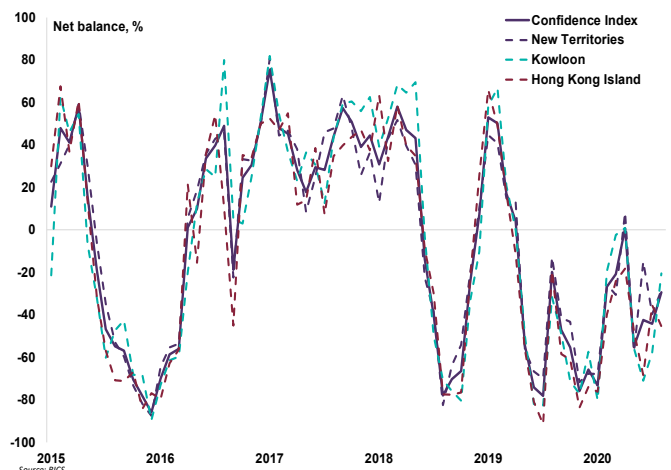
As in recent months, the leasing market appears to be under more pressure than the market for purchases. Chart 5 shows that demand from renters continues to contract,

while the supply of properties available to rent increases. Against this backdrop, rents continue to decline, with two-thirds of respondents noting a fall over the past three months (Chart 3). Survey participants in all three of Hong Kong's regions noted a fall in rents (in net balance terms), though the contraction appears to be especially sharp in Hong Kong Island relative to what was observed in Kowloon or the New Territories.

This is reflected in the outlook for rents to a degree, which can be viewed in Chart 12. Rental values in the New Territories are expected to fall by approximately 1% over the next twelve months, while rents are seen rising slightly in Kowloon. Alongside this, respondents in Hong Kong Island expect a 3.5% contraction in rents over the same period.

Less dispersion is expected in prices and transaction volumes. Chart 8 shows that headline prices are expected to dip by just 0.6% over the next year, while Chart 10 shows that transaction volumes are expected to fall 0.2% over the same period. Beyond this, prices are expected to increase 2.3% on average over the next five years.

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

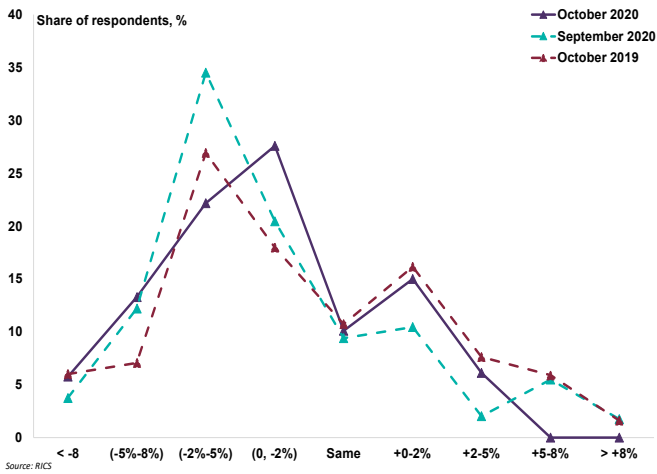


Chart 3: Rents - past 3 months

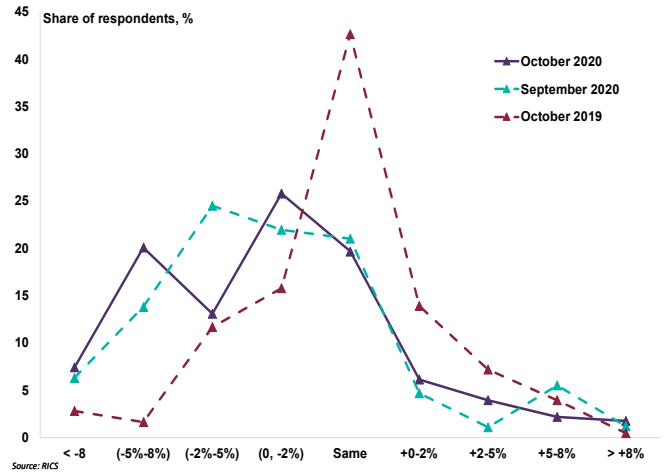


Chart 4: Buyer enquiries and instructions to sell

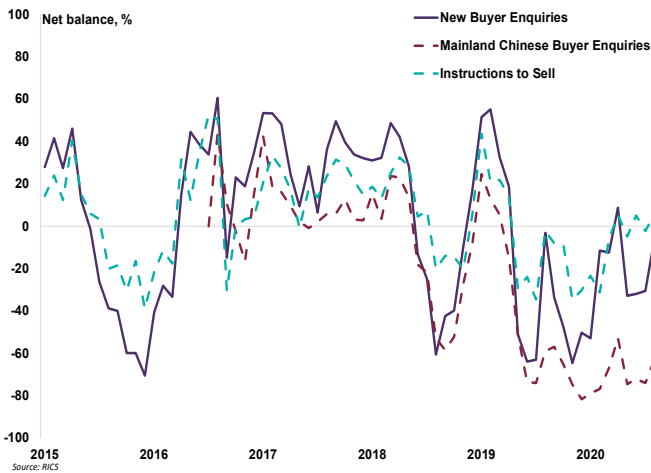


Chart 5: Tenant demand and instructions to rent

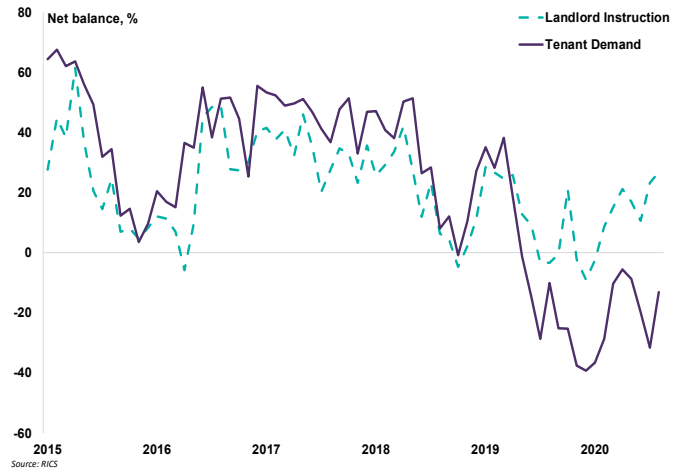


Chart 6: Buyer enquiries by type

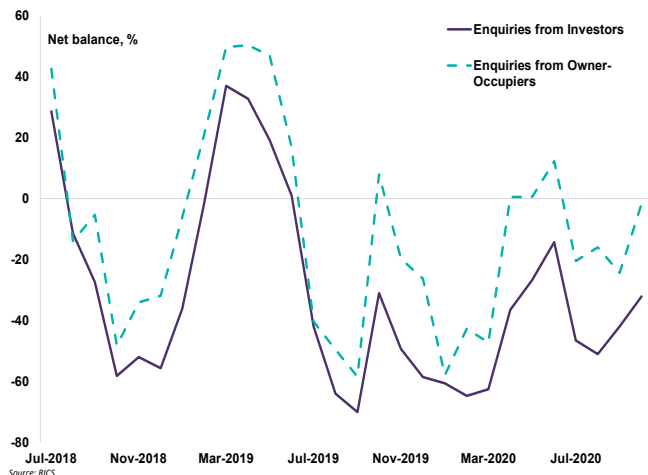


Chart 7: 3 month expectations

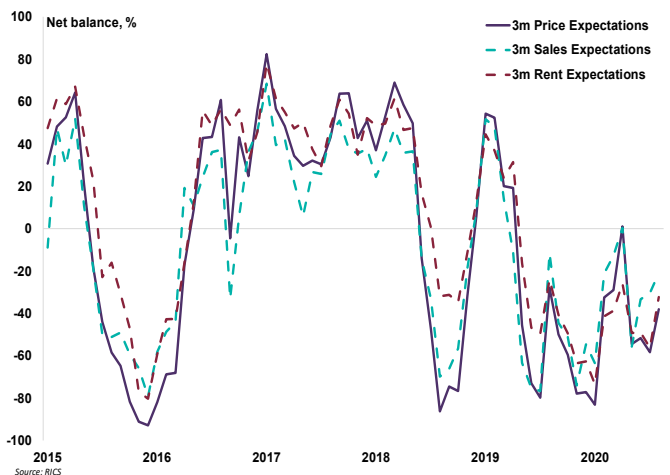


Chart 8: Price expectations - next 12 months

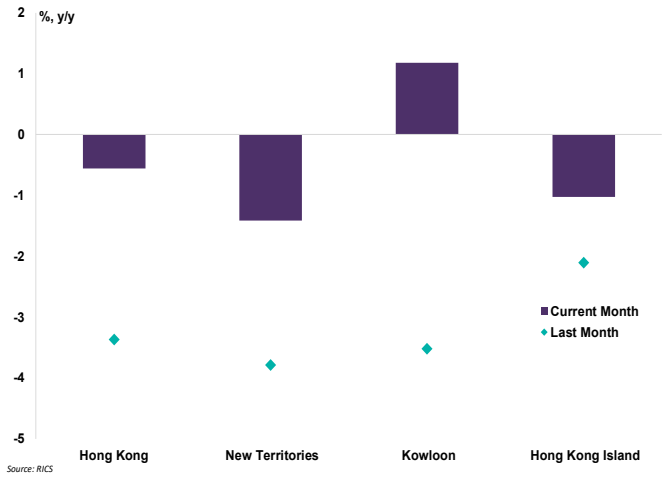


Chart 9: Price distribution - next 12 months

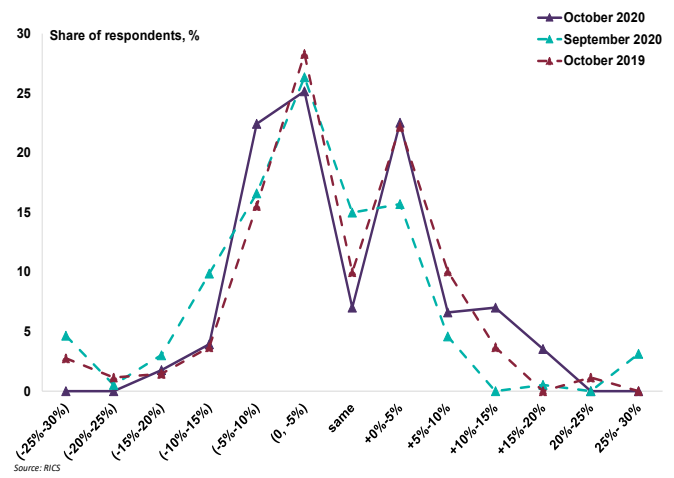


Chart 10: Volume expectations - next 12 months

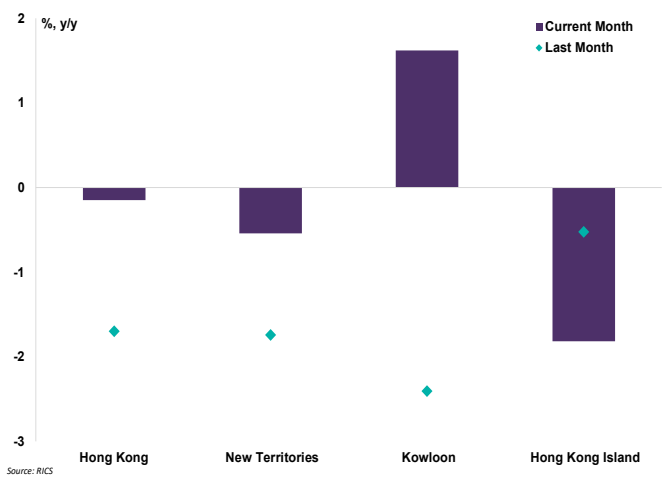


Chart 11: Volume distribution - next 12 months

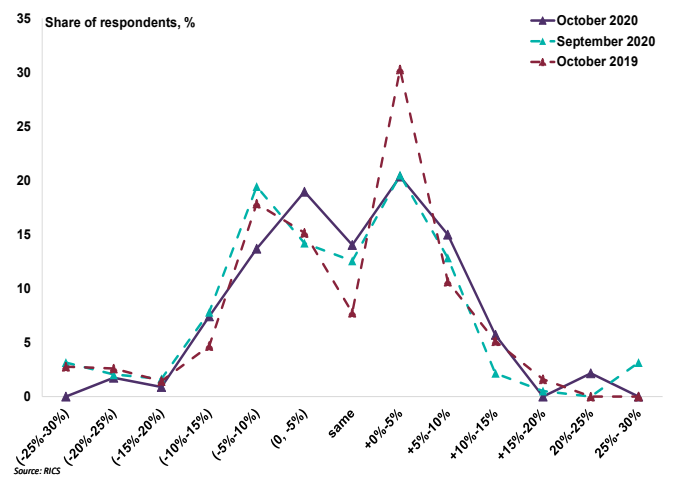


Chart 12: Rent expectations - next 12 months

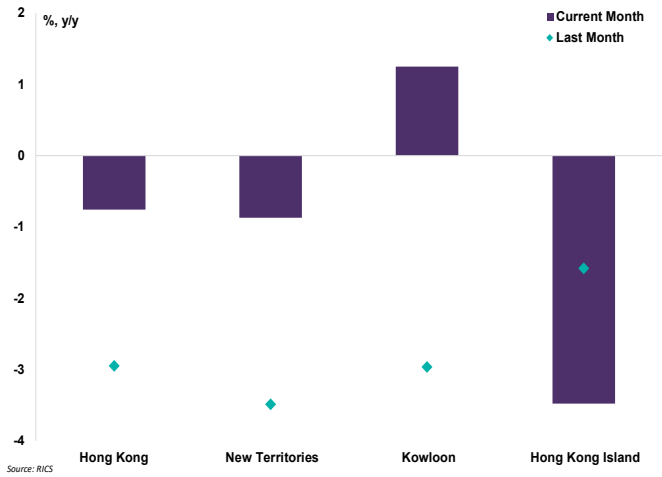
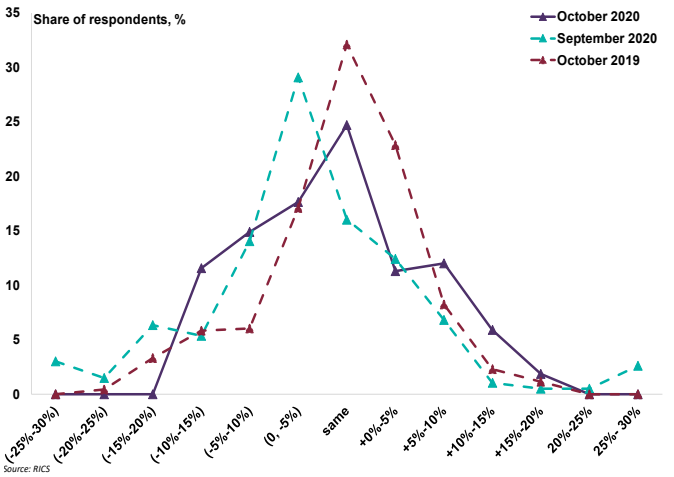


Chart 13: Rent distribution - next 12 months



Information

Hong Kong Residential Monitor:

RICS-Spacious Hong Kong Residential Monitor 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 20 October 2020 with responses received until 11 November 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:

November Survey: 17 December 2020

December Survey: 19 January 2021

January Survey: 18 February 2021

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