



September 2020: Hong Kong Residential Monitor

Demand from buyers and renters continues to deteriorate

- Confidence Index remains negative for the third consecutive month
- Expectations for New Territories, Kowloon, Hong Kong Island converge
- Rental market under pressure amid rising supply and weak demand

Demand for housing from both buyers and renters continues to decline, according to feedback to the RICS-Spacious Hong Kong Residential Monitor. As can be seen in Chart 1, the Confidence Index* was little changed at -44 in September from -42 in August, indicative of a deterioration in housing market sentiment. Chart 1 also shows sentiment amongst Hong Kong's three regions (New Territories, Kowloon, Hong Kong Island) appears to have once again converged in September after diverging in August.

Similar to the past several months, buyer enquiries continued to decline (Chart 4). Respondents have indicated declining buyer interest in 13 of the past 15 months, with the only two exceptions being June 2020 (amid optimism over a recovery in the COVID-19 pandemic) and October 2019 (following easing of LTV restrictions). Chart 6 shows that in both instances this was driven by an increase in demand from owner-occupiers, as survey respondents have noted that investor demand has declined to some degree every month since July 2019. Access to credit has also been seen to have tightened every month since July 2019, and is expected to continue to do so over the next year.

Demand from buyers from mainland China also remains weak, as it has since June 2019. Against this backdrop, respondents generally observe price declines. Chart 2 shows that a majority (71%) of contributors noted home prices have declined over the past three months, with more than a third observing a fall between 2-5%.

The rental market appears to be under more pressure than the sales market. While the stock of properties available to buy has remained more or less unchanged over the past five months (Chart 4), the supply of properties available to rent has been steadily increasing since April. Pairing this with a pullback in demand that has accelerated over the past two months (Chart 5), and it is perhaps unsurprising that two-thirds of respondents reported a decline in rents over the past three months (Chart 3). What's more, one-fifth of respondents noted a decline in rents of more than 5% over this period.

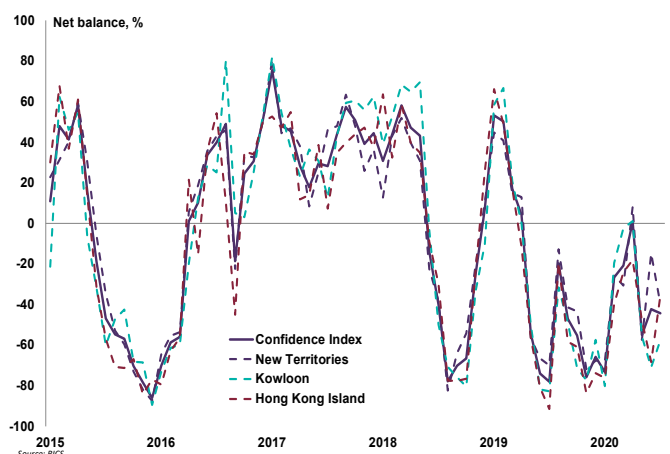
Chart 7 shows that the near-term outlook for prices, sales volumes and rents remains negative. Volumes appear to be

seen as slightly more resilient than rents, as a net balance of 30% of respondents expect sales volumes to fall over the next three months (vs 58% and 56% expecting a decline in prices and rents, respectively).

Over the next year, prices are expected to decline a little over 3%. Chart 8 shows there is less variance in expectations between the three regions than there was in August, though the pullback in prices is expected to be more muted in Hong Kong Island (-2.1% vs -3.5% in Kowloon and -3.8% in the New Territories). Beyond the next year, home prices are expected to increase by roughly 2% annually on average for the next five years.

Aggregate sales (-2%) and rents (-3%) are also expected to decline over the next twelve months (Charts 10 and 12 respectively). Overall macro conditions in Hong Kong remain difficult amid a global economic downturn and continued domestic political tension. However, the continued recovery of the Chinese economy and potential for a Hong Kong-Singapore 'travel bubble' may help to provide some short-term relief for the market.

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

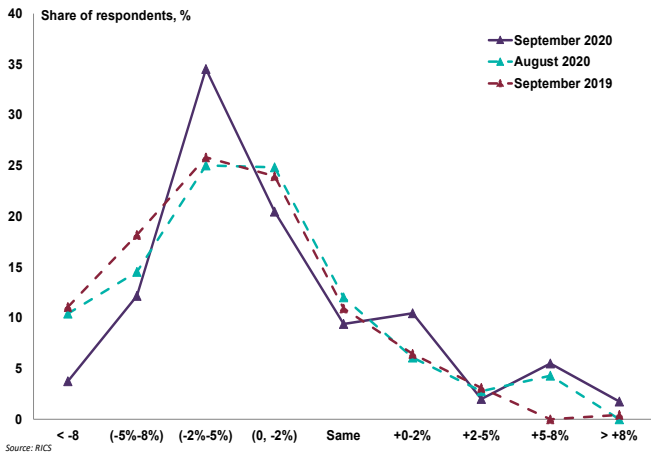


Chart 3: Rents - past 3 months

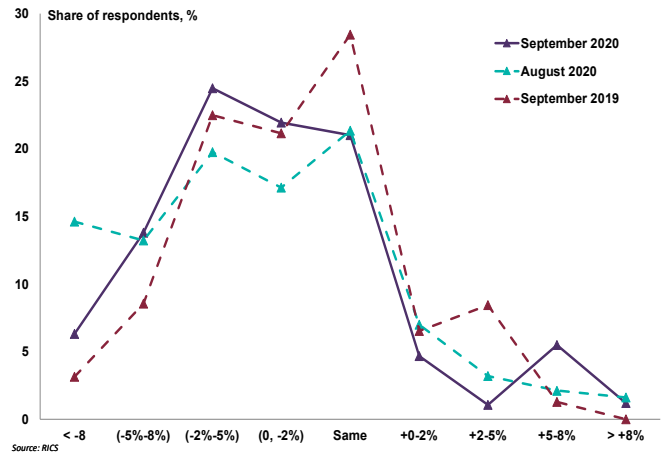


Chart 4: Buyer enquiries and instructions to sell

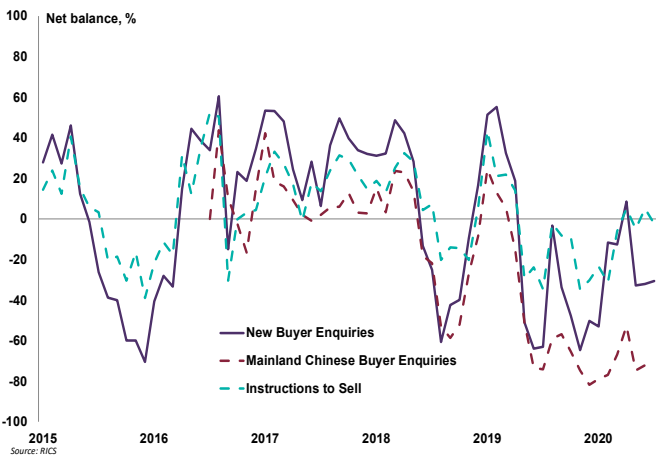


Chart 5: Tenant demand and instructions to rent

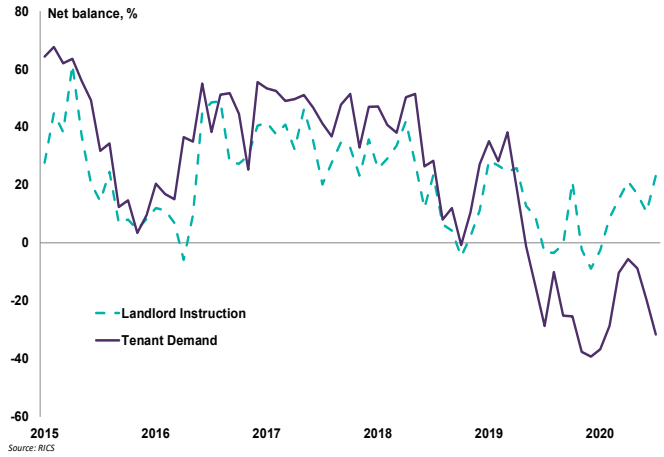


Chart 6: Buyer enquiries by type

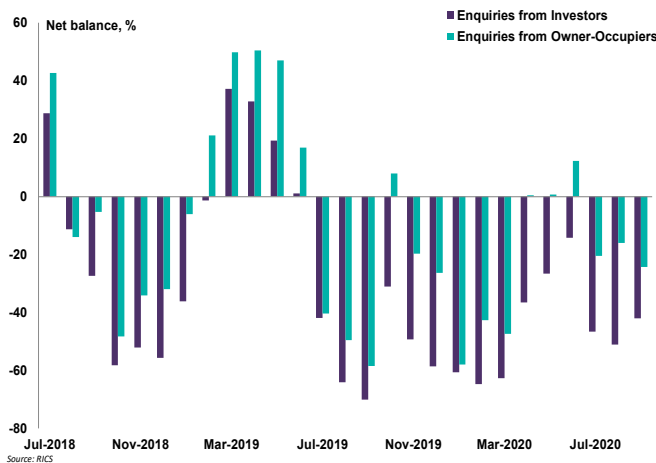


Chart 7: 3 month expectations

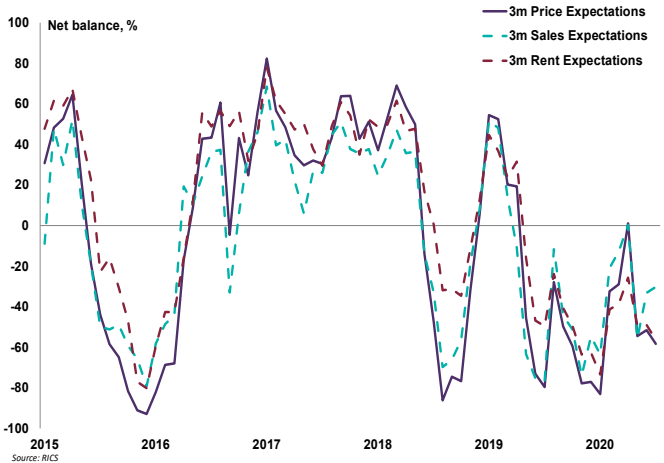


Chart 8: Price expectations - next 12 months

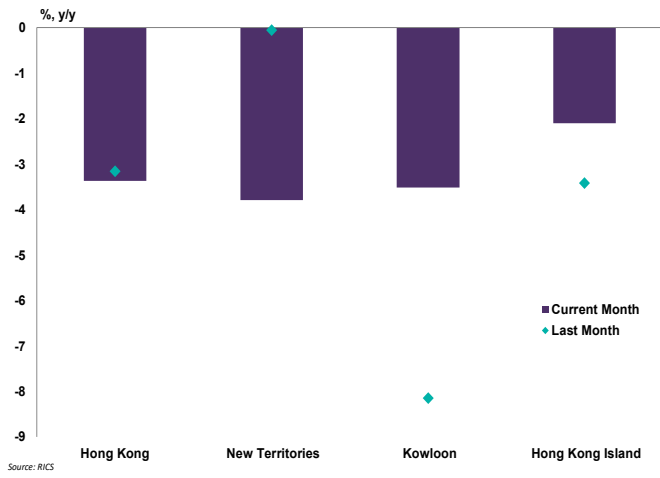


Chart 9: Price distribution - next 12 months

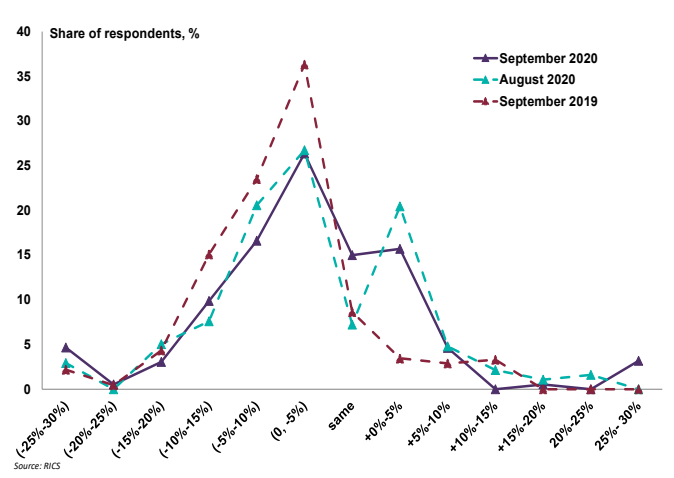


Chart 10: Volume expectations - next 12 months

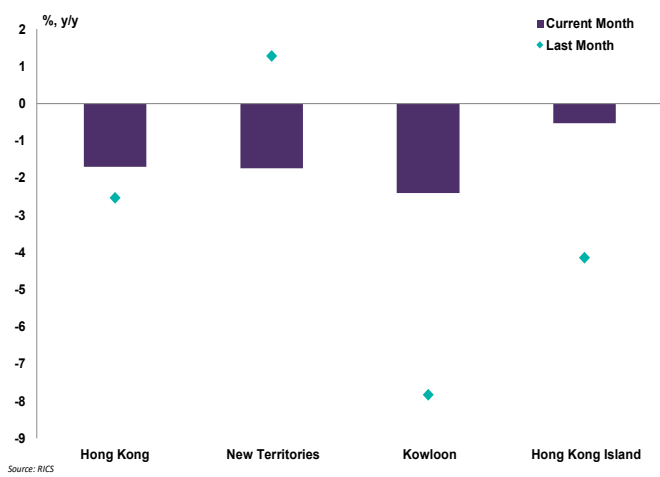


Chart 11: Volume distribution - next 12 months

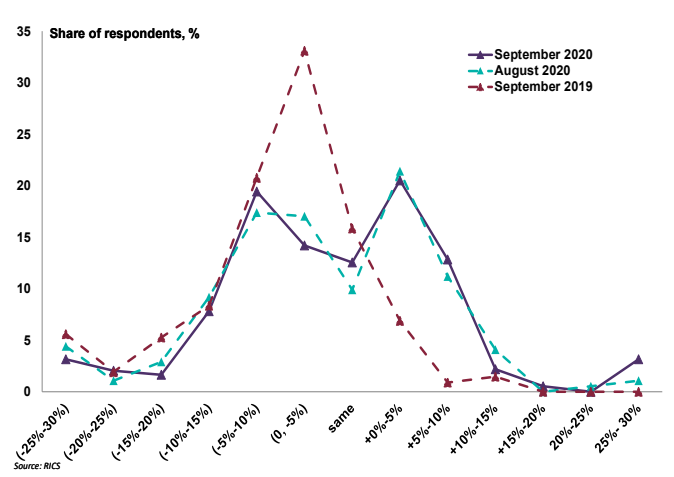


Chart 12: Rent expectations - next 12 months

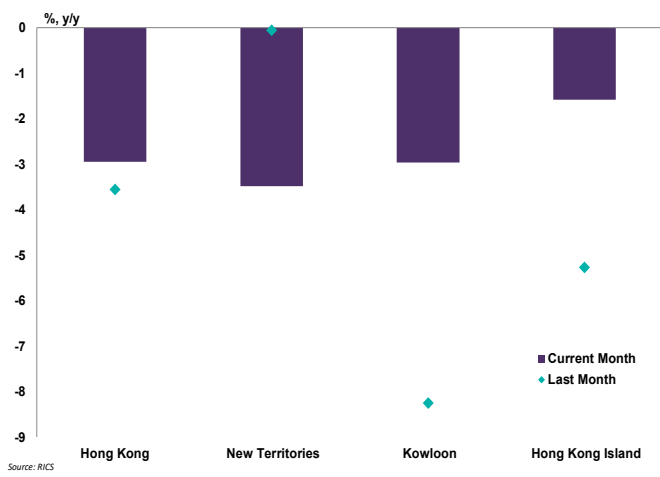
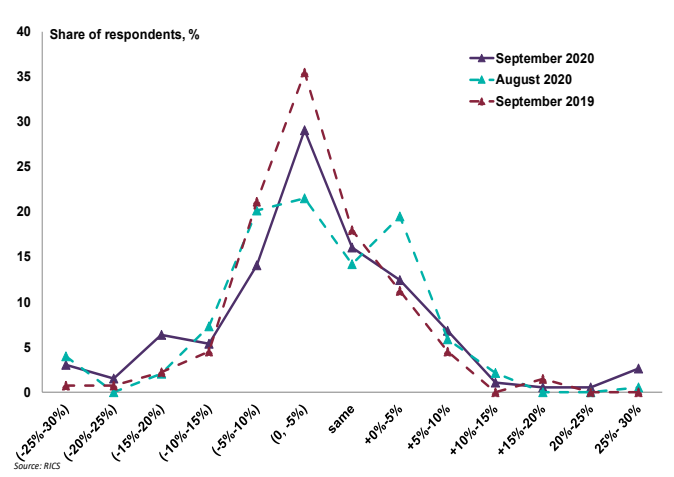


Chart 13: Rent distribution - next 12 months



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 22 September 2020 with responses received until 12 October 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:

October Survey: 18 November 2020

November Survey: 17 December 2020

December Survey: 19 January 2021

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