



August 2017: Hong Kong Residential Market Survey

Sentiment surrounding home prices picks up modestly as government officials warn on prices

- Respondents revise headline price and rent forecasts modestly higher from July, though longer-term both continue to trend lower.
- Hong Kong Finance Secretary issues warning on home prices for second time since June amid concerns of onerous mortgage repayments if interest rates normalize.

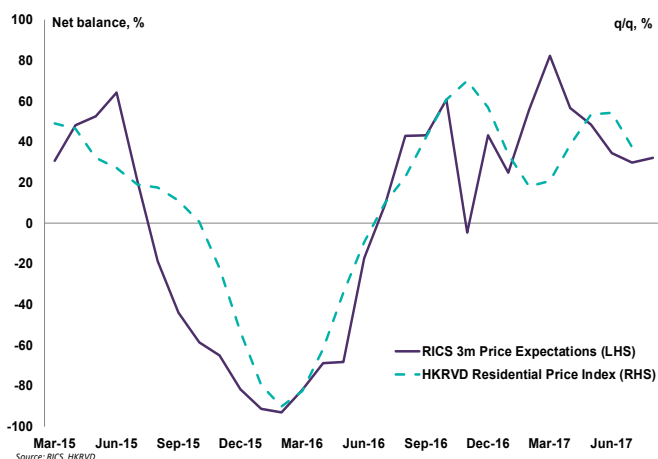
The August Hong Kong Residential Market Survey indicates that sentiment surrounding the housing market has picked up modestly. Respondents continue to report that new buyer enquiries increased in August. The increase in demand was broadly driven by domestic buyers, as enquiries from mainland Chinese buyers remained flat.

The increase in new instructions to sell matched the increase in enquiries, which would appear to minimize the upward pressure on prices from the demand-supply gap. However stripping out Hong Kong Island, where contributors reported flat demand, the gap between demand and supply continues to put upwards pressure on properties in the New Territories and Kowloon.

A substantial majority of respondents continued to report headline price increases over the last month. A modest majority of respondents also reported an increase in sales volumes, which should become visible in Hong Kong government statistics in the coming month.

Against this backdrop a majority of respondents expect both headline prices and sales to increase over the

Chart 1: RICS 3 Month Price Expectations and HKRVD House Prices



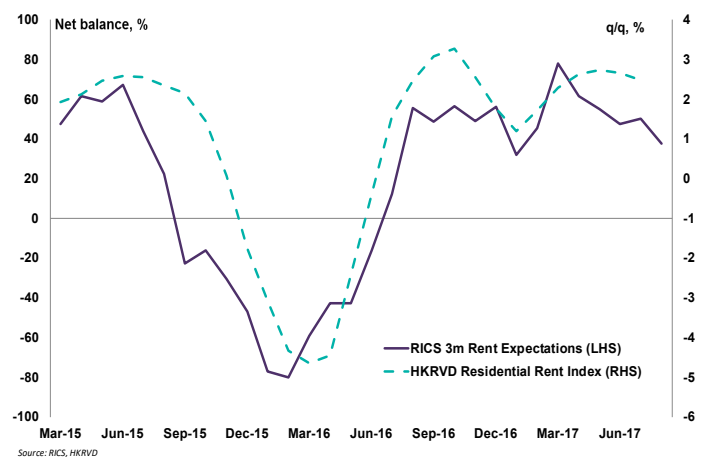
next three-and-twelve month periods, though chart 1 shows that this has trended lower, suggesting a further moderation in the quarter-on-quarter rate of price growth. However home price growth will likely remain positive on a year-on-year basis over the next quarter.

This comes as Hong Kong's Financial Secretary Paul Chan warned on housing price risk, for the second time in four months. Recall that in June Mr. Chan warned that if interest rates were to normalize mortgage payments would take up 86% of income.

Our survey results indicate that there was little change in credit conditions in August. Contributors also reported that they expect conditions to remain little changed over the next three months.

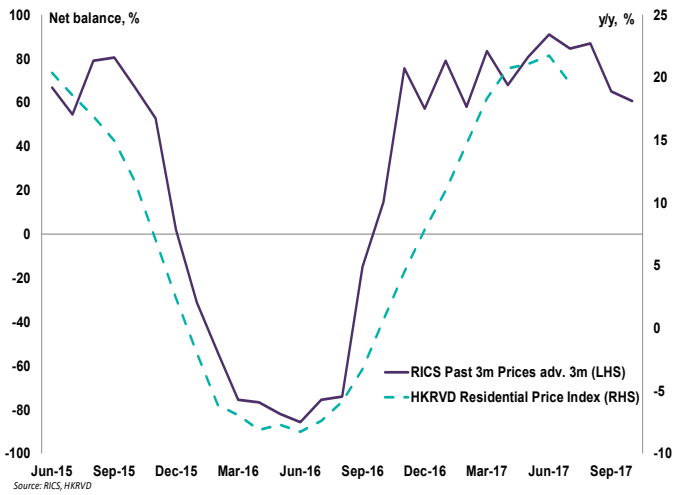
Respondents continued to highlight a robust rental market in August, led by the New Territories and Kowloon. However respondents headline rent expectations continue to trend lower, which as chart 2 indicates is likely an indication of a further slowing of the quarter-on-quarter rate of rental growth in the coming months..

Chart 2: RICS 3 Month Rent Expectations and HKRVD Residential Rents

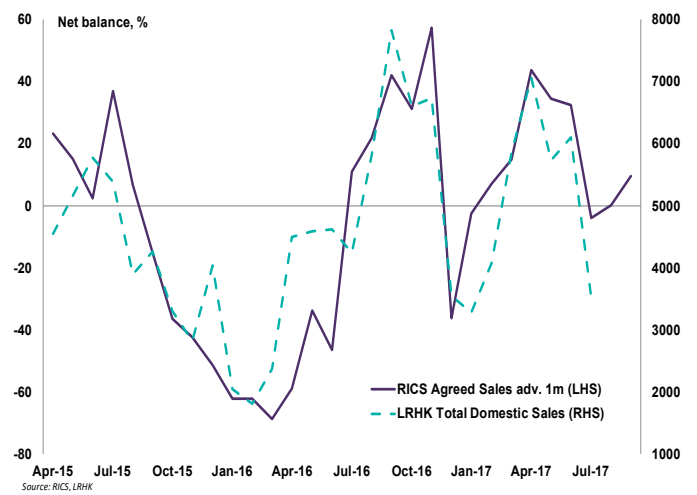


National market charts

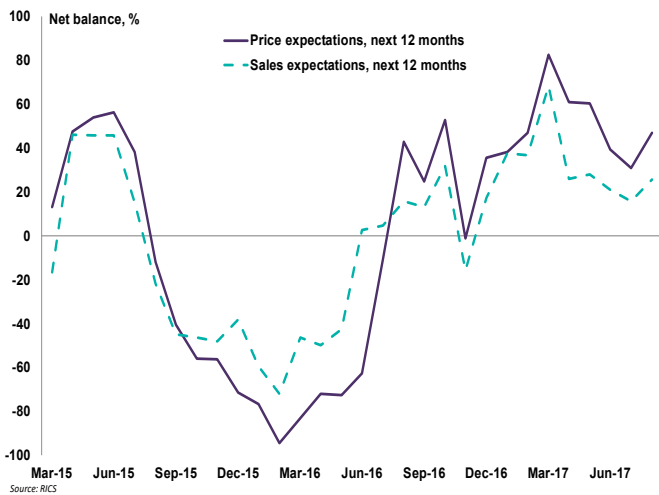
Prices - past month



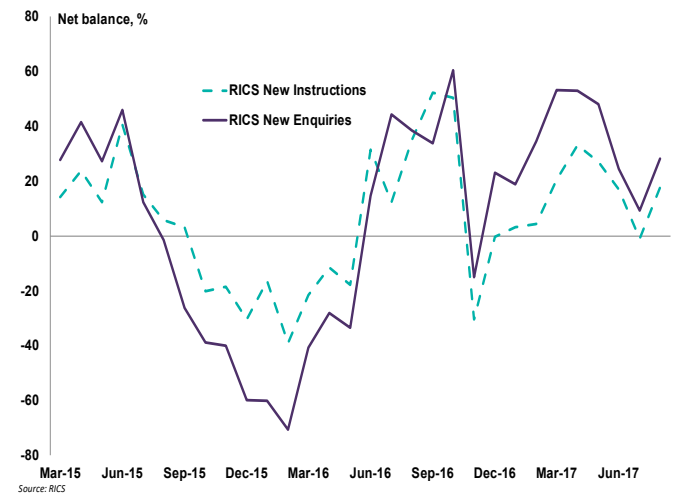
Sales - past month



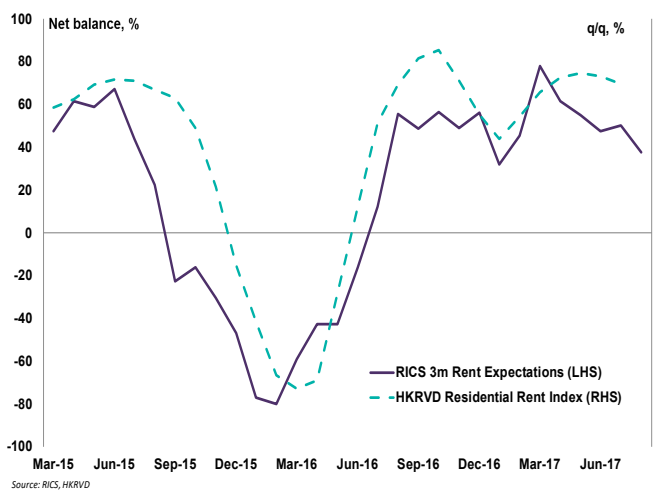
12 Month Expectations - prices and sales



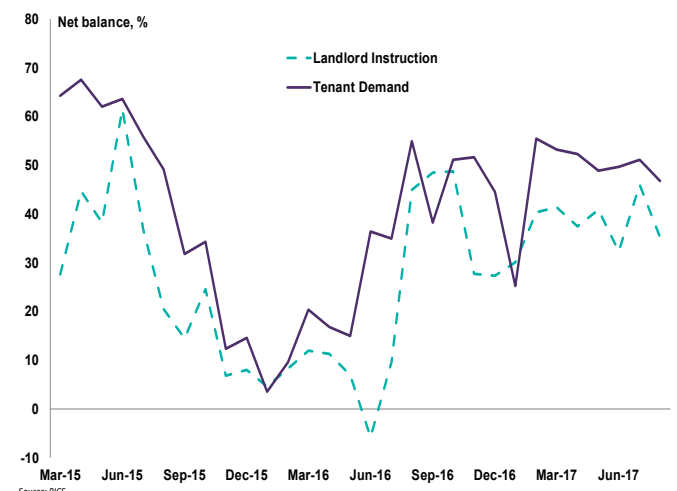
New Instructions to Sell and New Buyer Enquiries - past month



Rent Expectations - next three months

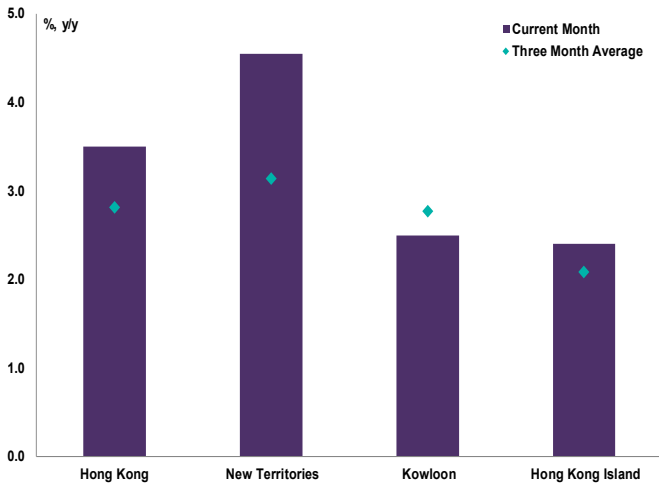


Tenant Demand and Landlord Instructions - past three months

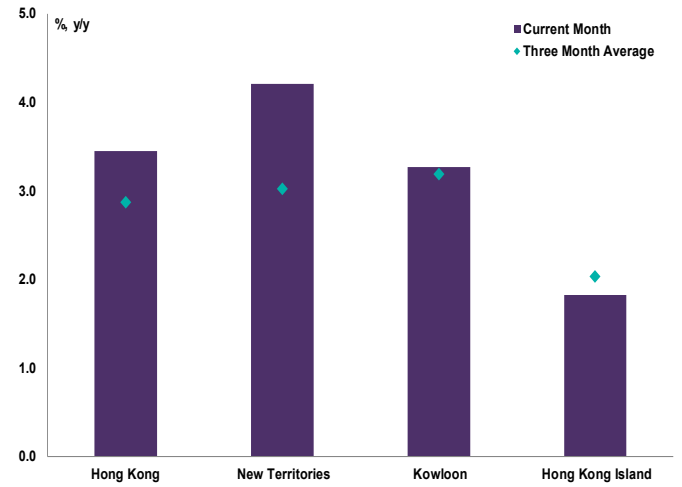


Regional market charts

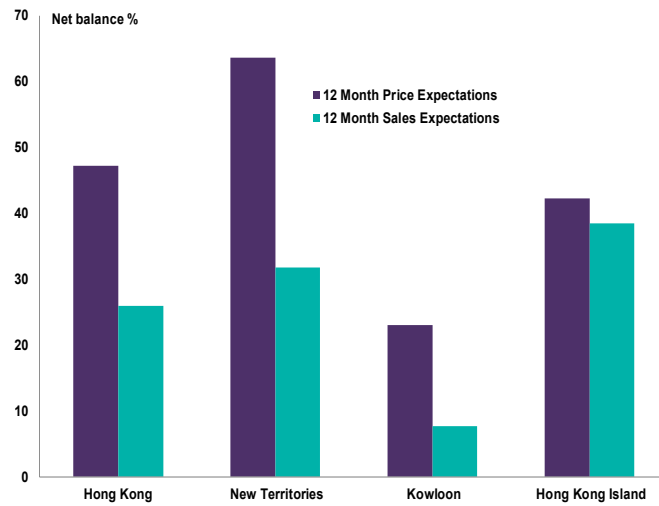
Price Forecasts - next twelve months



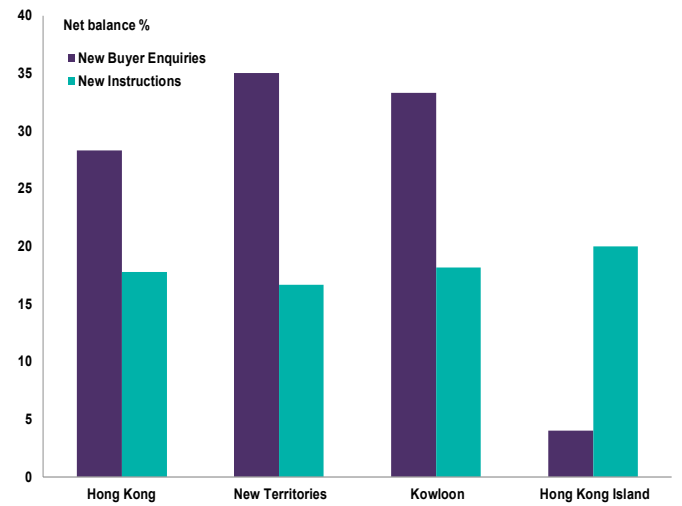
Rent Forecasts - next twelve months



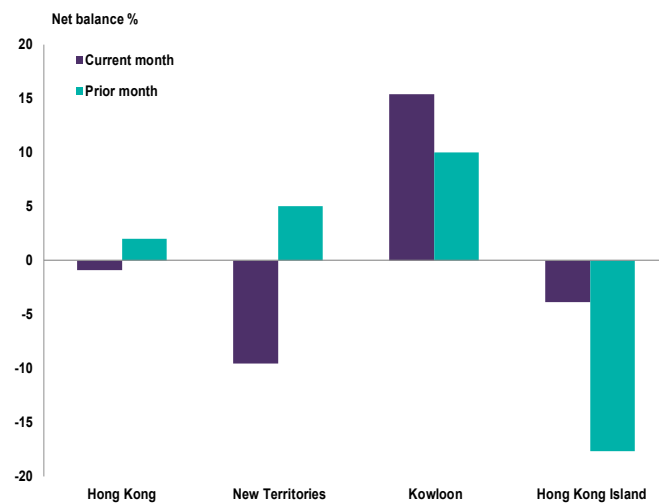
Regional 12 Month Expectations - prices and sales



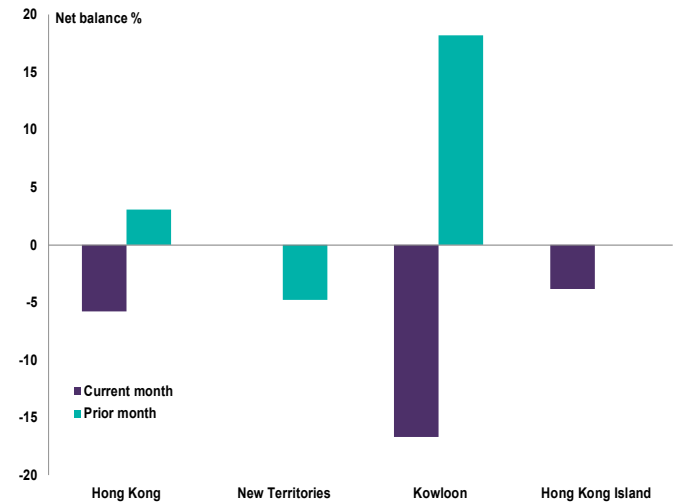
Regional New Buyer Enquiries and Instructions - past month



Regional New Buyer Enquiries from mainland China



Regional 3 Month Expectations - credit conditions



Methodology

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Survey Questions:

1. How have average prices changed over the last 3 months? (down/ same/ up)
2. How have new buyer enquiries changed over the last month? (down/ same/ up)
3. How have new vendor instructions changed over the last month? (down/ same/ up)
4. How have agreed sales changed over the last month? (down/ same/ up)
- 5.. How have buyer inquiries from residents of mainland China changed over the last month? (down/same/up)
6. How do you expect prices to change over the next 3 months? (down/same/up)
7. How do you expect sales to change over the next 3 months? (down/ same/ up)
8. How do you expect sales to change over the next 12 months? (down/ same/ up)
9. How do you expect average house prices, in your area, to change over the next 12 months? (% band, range options)
10. How have credit conditions changed over the past month? (deteriorated/same/improved)
11. How do you expect credit conditions to change over the next 3 months? (deteriorate/same/improve)
12. What do you perceive to be average LTVs currently being offered in the market for buy-to-let landlords? (% band, range options)
13. How has tenant demand changed over the last 3 months? (down/ same/ up)
14. How have landlords instructions changed over the last 3 months? (down/ same/ up)
15. How do you expect rents to change over the next 3 months? (down/ same/ up)
16. How have rents changed over the last 12 months? (% band, range options)
17. How do you expect average rents, in your area, to change over the next 12 months? (% band, range options)

Definitions:

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.

Net balance data can range from -100 to +100.

A positive net balance implies that more respondents are seeing increases than decreases (in the underlying variable), a negative net balance implies that more respondents are seeing decreases than increases and a zero net balance implies an equal number of respondents are seeing increases and decreases.

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).

In the case of the RICS price balance, a reading of +10 should not be interpreted as RICS saying that house prices are going up by 10%, but that 10% more surveyors reported increases rather than decreases in prices (over the last three months).

A change from +30 to +60 does not mean that the variable grew by 30% in one period and by 60% in the next period, but it does indicate that twice as many surveyors reported an increase compared to a decrease than in the previous period.

Likewise, if we get a reading dropping from +90 to +5, this still means that more respondents are reporting increases than decreases overall, but the breadth of those reporting increases has fallen dramatically; meanwhile, a shift in the reading from -90 to -5 still means that more respondents are reporting decreases than increases overall, but the breadth of those reporting decreases has fallen dramatically.

Regions:

- National (headline) data are a regionally-weighted aggregation of three regions: New Territories, Kowloon and Hong Kong Island.

Seasonal adjustments:

- Data is not seasonally adjusted.



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