



February 2018: Hong Kong Residential Market Survey

Fundamentals of Hong Kong's housing market remain robust

- Supply and demand conditions continue to support the outlook for prices
- Demand from mainland Chinese buyers little changed at the headline level for the second consecutive month
- Housing affordability, limited supply cited as factors supporting lettings market

The February Hong Kong Residential Market Survey shows that momentum in the housing market remains robust. The Confidence Index, an amalgamated measure of short-term price and sales expectations, rose to 44 in February from 39 in January, indicative of continued positive momentum in the residential market.

Fundamentals remain supportive as respondents reported increases in both prices and agreed sales (albeit less so for the latter), as shown in Charts 2 and 3 respectively. The gap between new buyer enquiries and instructions to sell widened in February in net balance terms. Chart 12 shows that this gap is particularly pronounced in Kowloon.

This continues to offer support to short-term price expectations, as shown by Chart 4. However, respondents are tempering their longer-term price forecasts. Chart 9 is indicative of this, as respondents' one year price forecasts, although still strongly positive, have fallen below the three month moving average.

The increase in demand from mainland Chinese buyers participants reported in the December survey appears to have been transitory, as respondents reported minimal pickup in mainland demand for the second consecutive

month in February. Although, as shown in Chart 13, when broken down by region there appears to be more interest from mainland buyers in Kowloon and Hong Kong Island than in the New Territories.

Participants also appear to be more subdued on the outlook for credit conditions over the next quarter (Chart 14). After expecting some tightening in January, the February results indicate that respondents see little change in credit conditions in three months time.

Chart 7 shows that tenant demand continues to outpace the supply of new properties to rent, while Chart 8 indicates that this fundamental support continues to support growth in rents. Participants cited limited supply as putting upwards pressure on rents. Housing affordability was also seen as a factor supporting rental demand, as residents who have been priced out of the investment market have few other options but to rent.

However, similar to prices, expectations for rental growth over the next year have moderated slightly. Chart 10 shows that respondents have pared rent forecasts back below the three month moving average across all regions (New Territories, Kowloon and Hong Kong Island).

Chart 1: Confidence Index

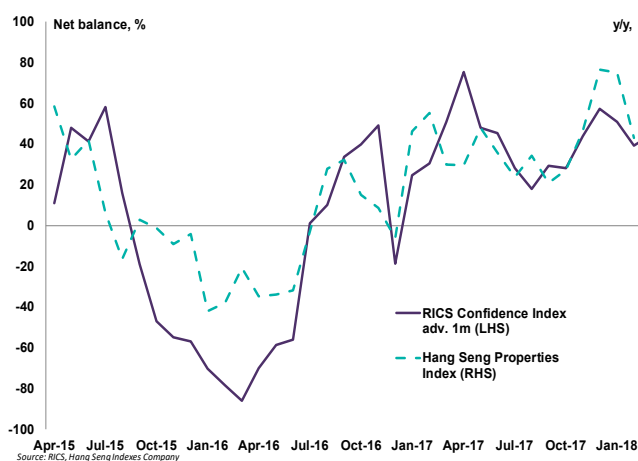
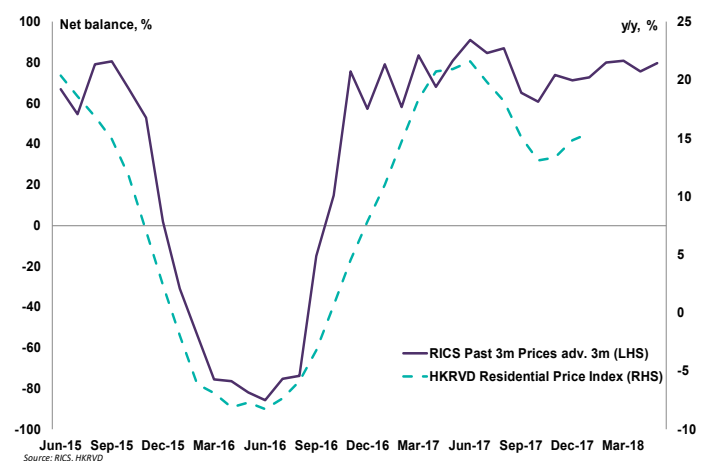


Chart 2: Prices - past month



National market charts

Chart 3: Sales - past month

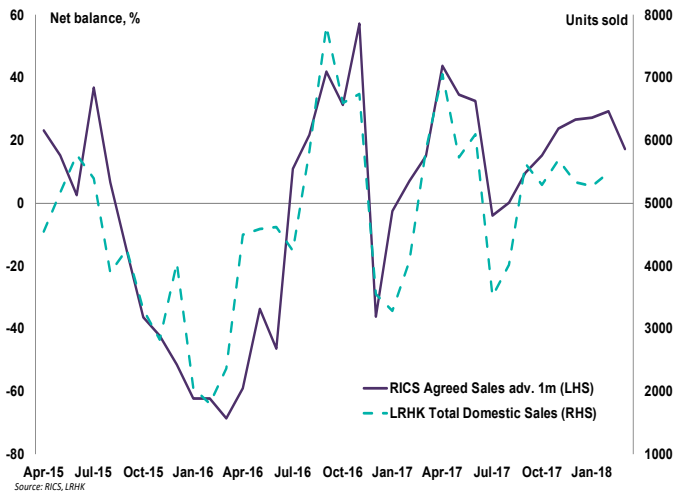


Chart 4: Price expectations - next 3 months

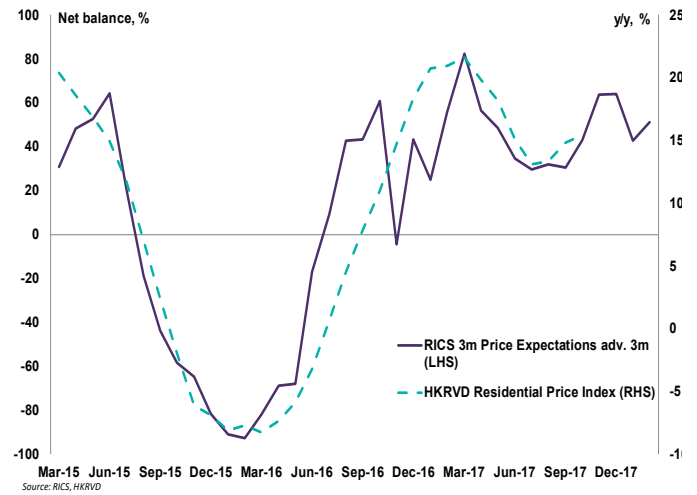


Chart 5: Sales expectations - next 3 months

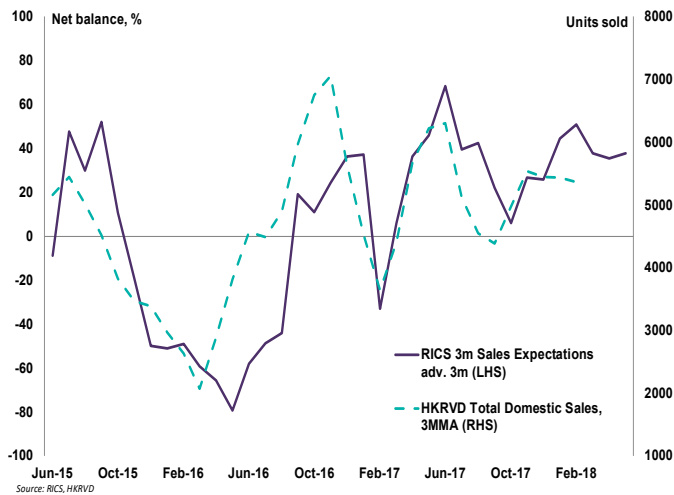


Chart 6: 12 month expectations - prices and sales

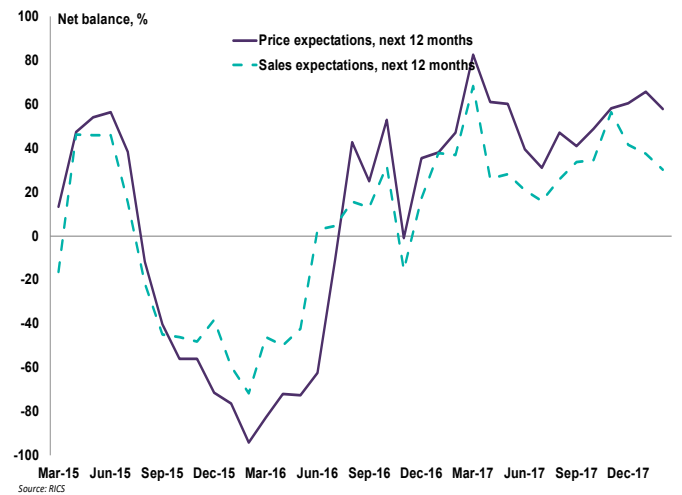


Chart 7: Tenant demand and landlord instructions - past three months

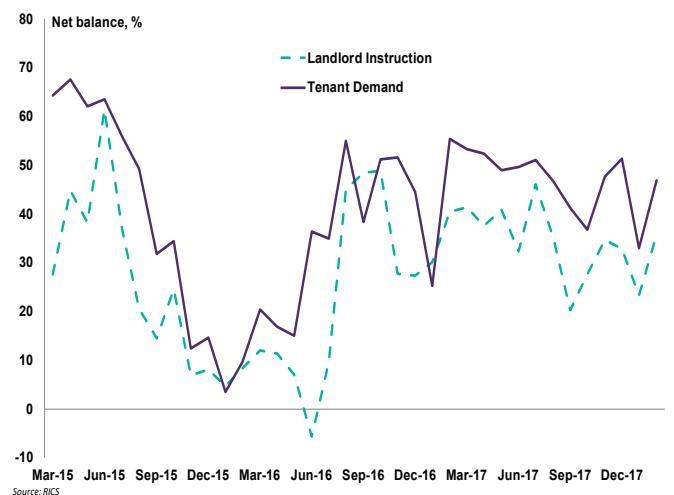
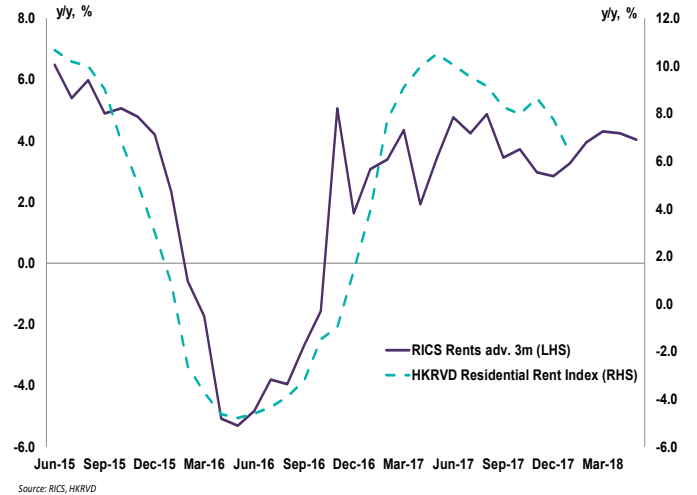


Chart 8: Past rents



Regional market charts

Chart 9: Price forecasts - next twelve months

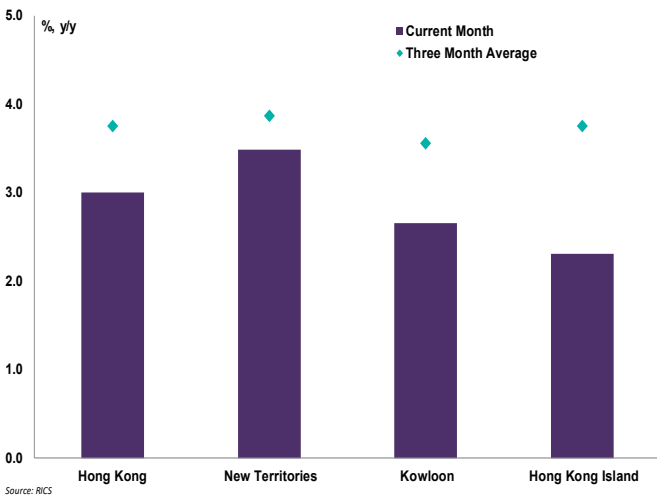


Chart 10: Rent forecasts - next twelve months

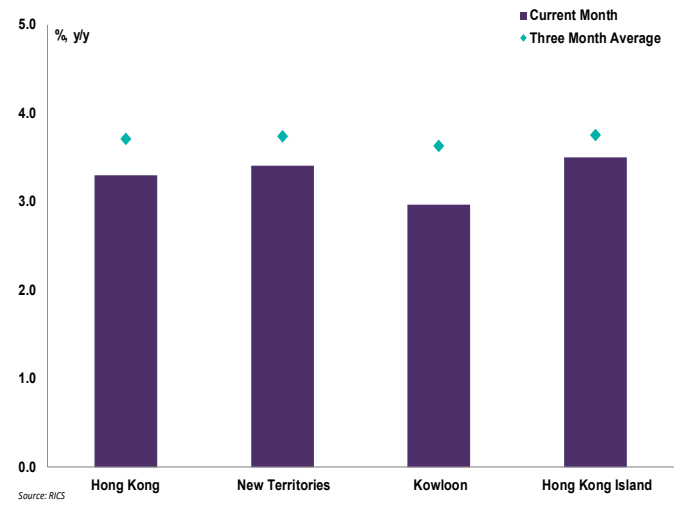


Chart 11: 12 month expectations - prices and sales



Chart 12: Instructions to sell and buyer enquiries - past month

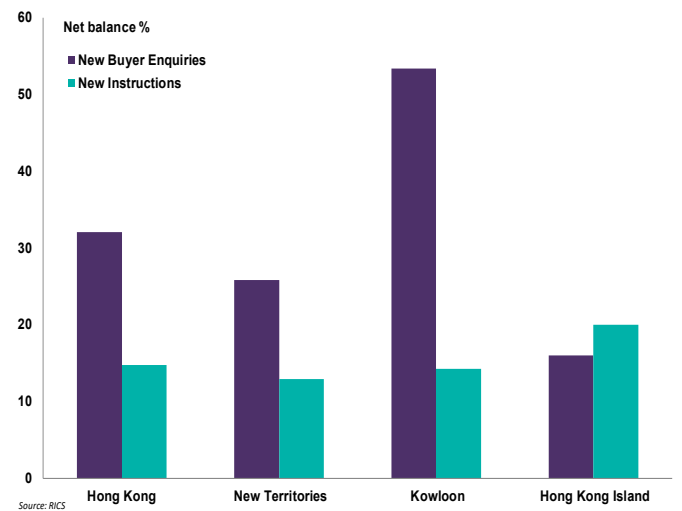


Chart 13: Buyer enquiries from mainland China

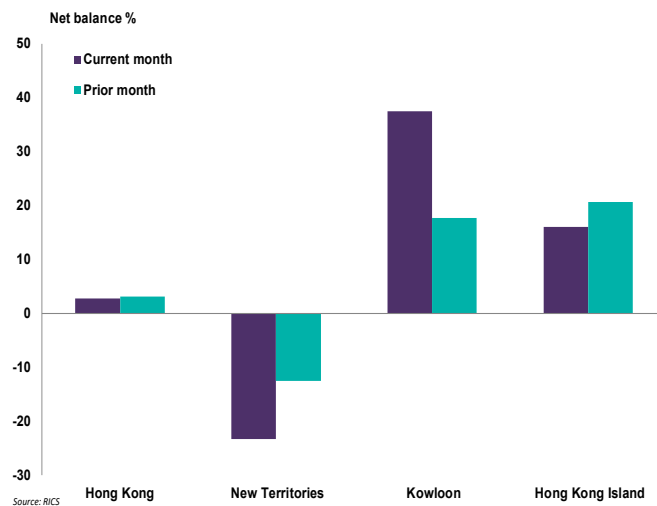
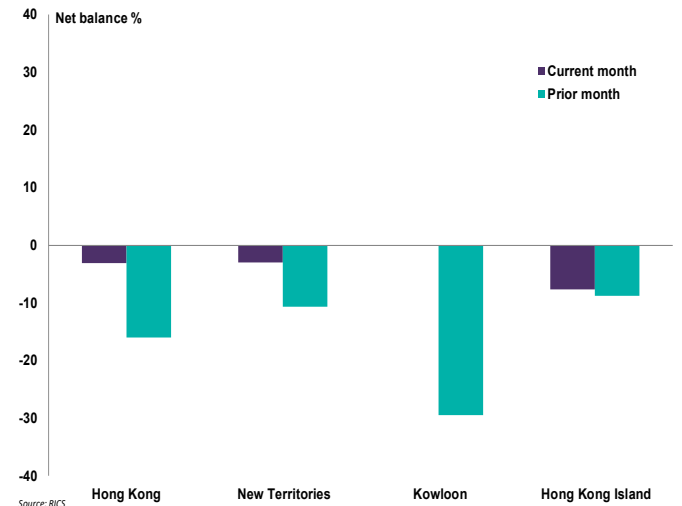


Chart 14: 3 month expectations - credit conditions



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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We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

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