



January 2018: Hong Kong Residential Market Survey

Expectations for Hong Kong’s housing market moderate to start 2018

- Supply and demand conditions continue to support prices, though respondents slightly less bullish in short-term
- Credit conditions expected to tighten over the next quarter for the first time since May 2017
- Slowdown in rental demand offset by slowdown in supply; outlook remains positive for lettings market

The January Hong Kong Residential Market Survey shows that momentum in the housing market has moderated slightly from previous months. The Confidence Index, an amalgamated measure of short-term price and sales expectations, fell to 39 in January from 51 in December. However, this is still indicative of positive momentum in the residential market.

Fundamentals remain supportive as respondents reported an increase in prices and agreed sales over the past month, as shown in Charts 2 and 3 respectively. A higher proportion of respondents also reported an increase in demand in net balance terms vs those that reported an increase in supply. As shown in Chart 12, this gap was greatest in Kowloon, but less pronounced in the New Territories and Hong Kong.

Chart 4 indicates that despite the robust underlying fundamentals, contributors expectations for prices over the next quarter moderated slightly from December. However, as shown in Chart 6, respondents remain bullish in a slightly longer time-horizon. As such, respondents’ price forecasts are roughly in line with the three-month average at the headline level (Chart 9).

Increased expectations for tighter credit might be a

factor introducing some caution into respondents’ price forecasts. Although respondents continued to indicate little change in credit conditions, a slight majority are now expecting credit conditions to tighten over the next quarter vs those expecting a decrease (Chart 14).

In net balance terms this was the first time a majority of respondents expected tighter credit since before the US Federal Reserve increased interest rates last June. Although 1-month HIBOR is down 40 basis points since the end of 2017, it is still above where it was a year ago. Meanwhile, wage growth, fiscal deficits, and expectations for tighter monetary policy have pushed up global borrowing costs.

Higher credit costs will eventually flow through to borrowers in Hong Kong once excess liquidity at Hong Kong banks dries up. Tighter credit conditions will be a headwind for home price appreciation in Hong Kong, though overseas experience indicates that the low elasticity of supply in the Hong Kong residential market will help to offset the impact of higher interest rate on values.¹

¹ See Glaeser, Edward L., Joseph Gyourko and Albert Saiz 2008. “Housing supply and housing bubbles,” *Journal of Urban Economics*, Elsevier, vol. 64(2), pages 198-217, September.

Chart 1: Confidence Index

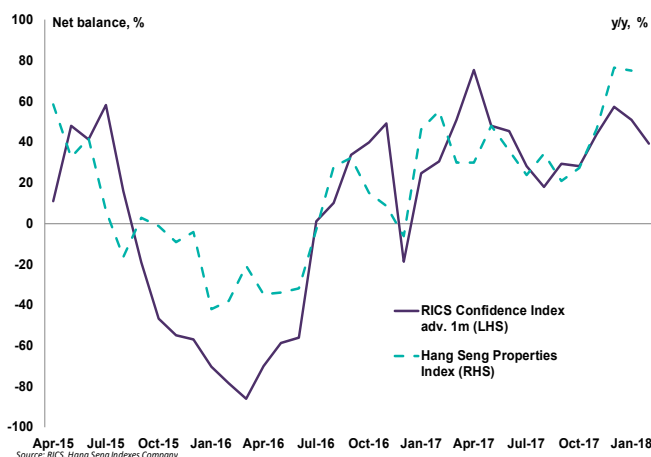
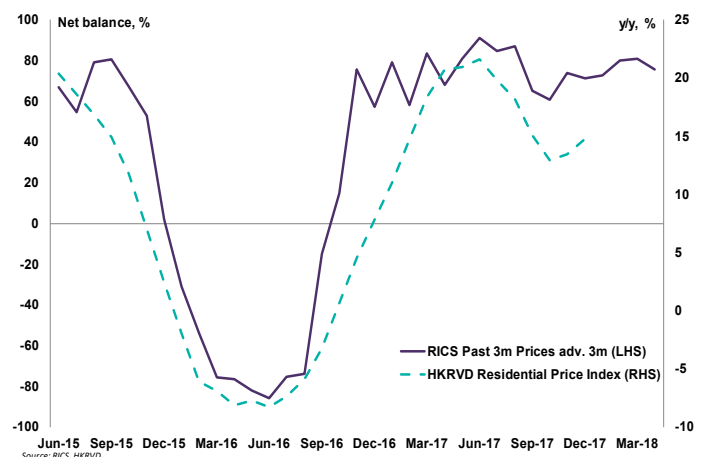


Chart 2: Prices - past month



National market charts

Chart 3: Sales - past month

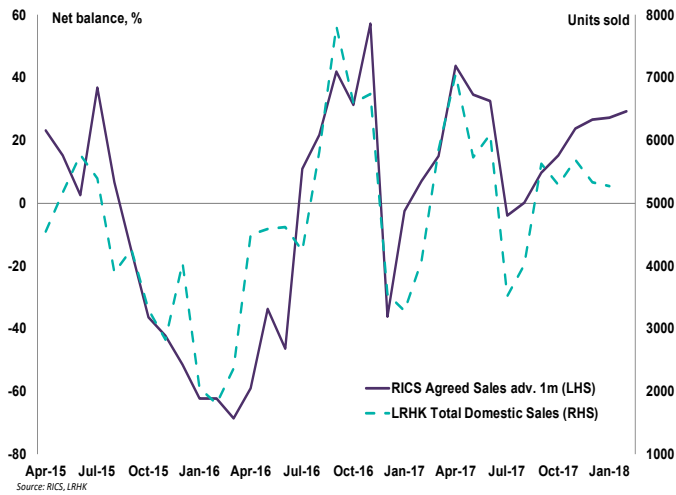


Chart 4: Price expectations - next 3 months

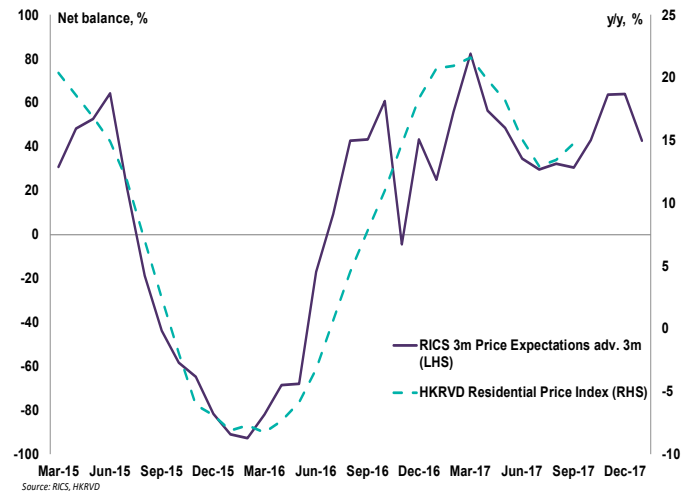


Chart 5: Sales expectations - next 3 months

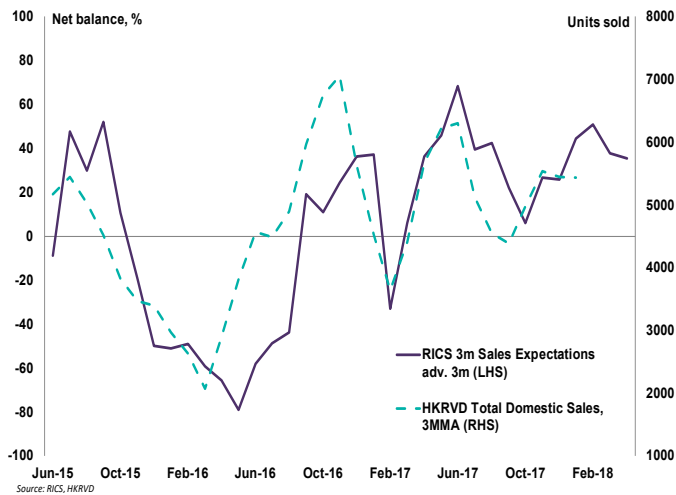


Chart 6: 12 month expectations - prices and sales

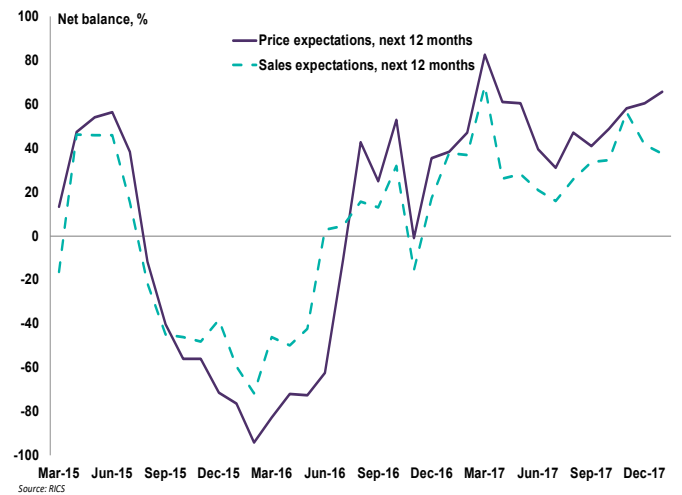


Chart 7: Tenant demand and landlord instructions - past three months

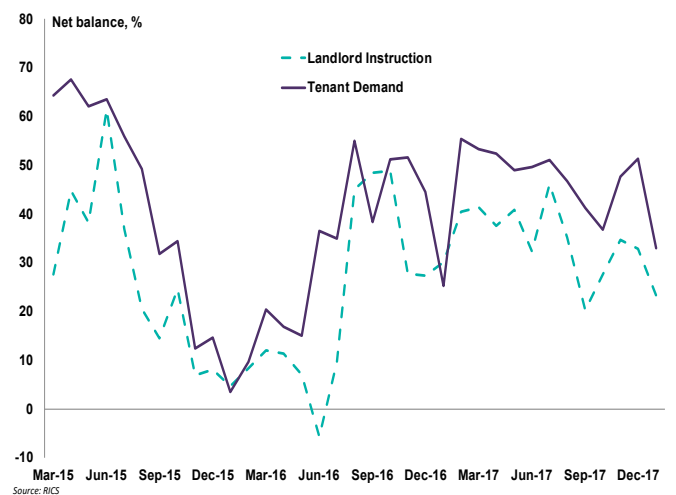
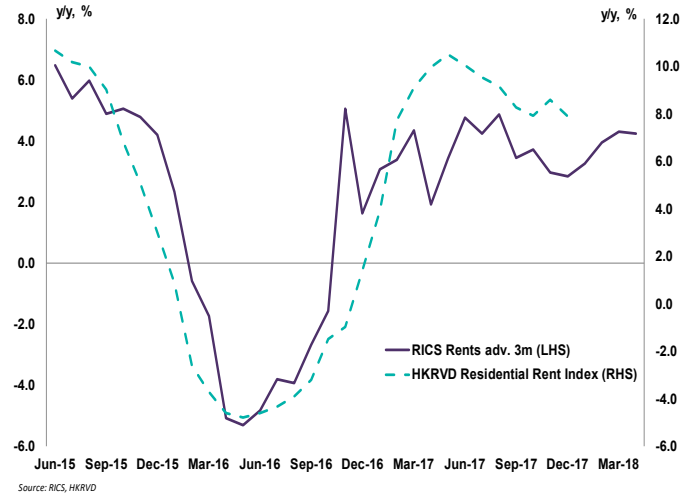


Chart 8: Past rents



Regional market charts

Chart 9: Price forecasts - next twelve months

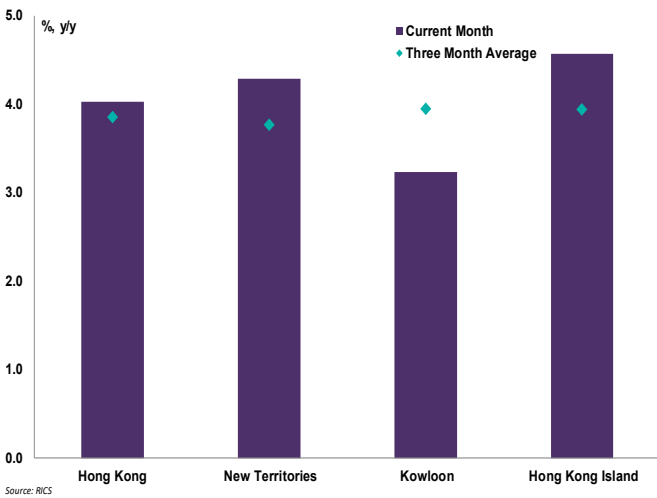


Chart 10: Rent forecasts - next twelve months

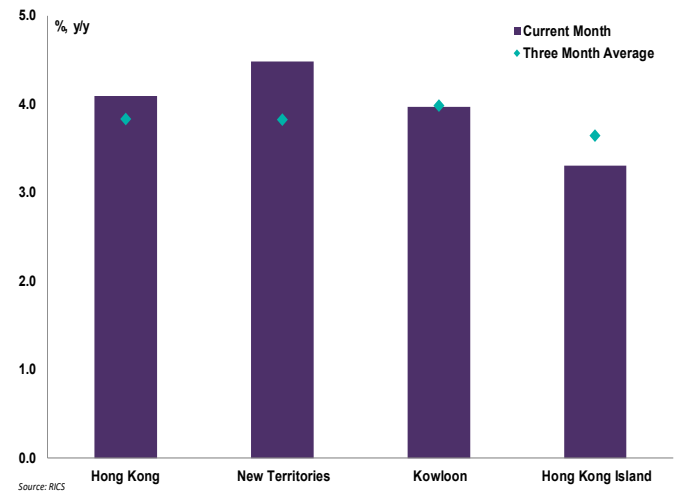


Chart 11: 12 month expectations - prices and sales

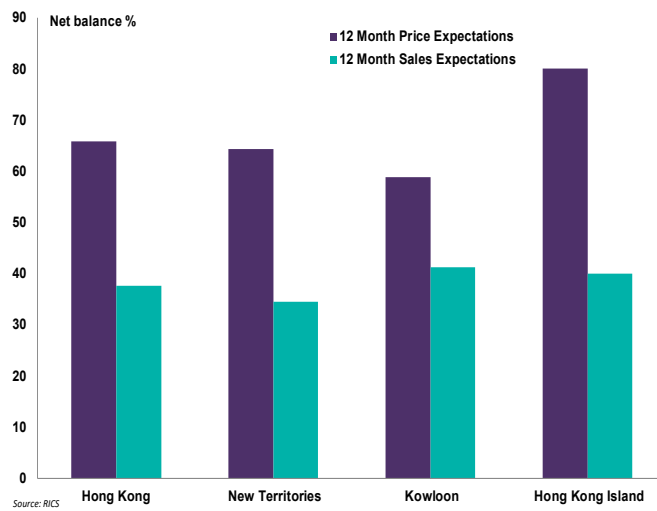


Chart 12: Instructions to sell and buyer enquiries - past month

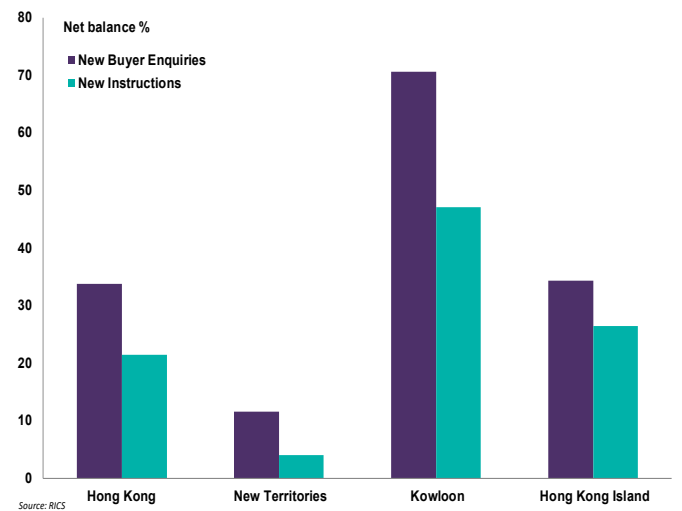


Chart 13: Buyer enquiries from mainland China

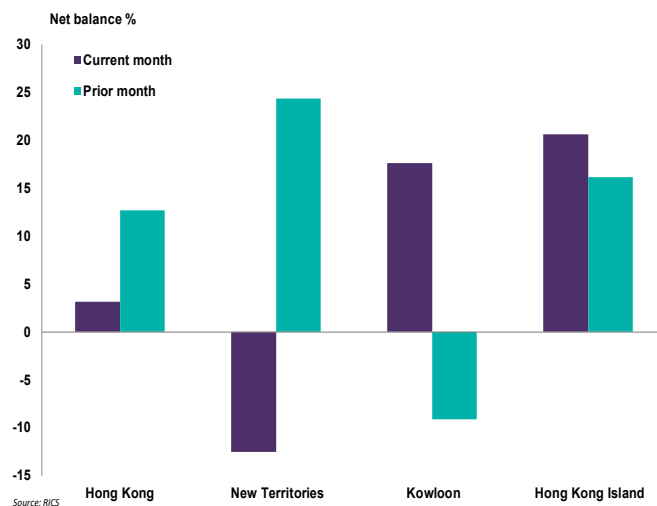
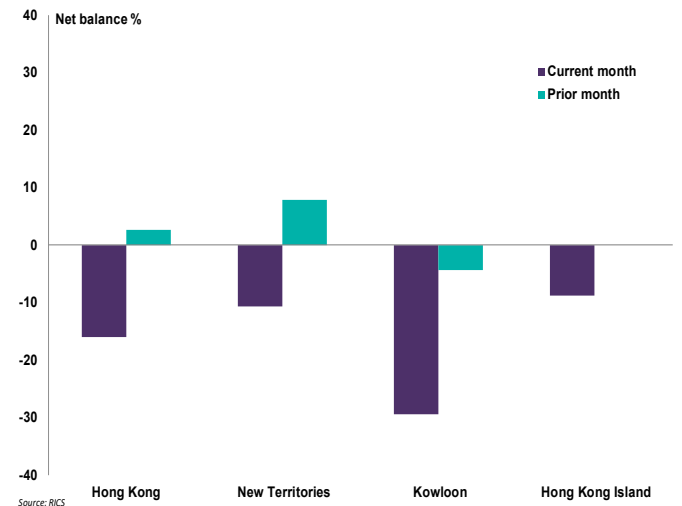


Chart 14: 3 month expectations - credit conditions



Methodology

Contact:

Sean Ellison, Senior Economist Asia-Pacific

email: sellison@rics.org

Simon Rubinsohn, Chief Economist

email: srubinsohn@rics.org

Jeffrey Matsu, Senior Economist

email: jmatsu@rics.org

Tarrant Parsons, Economist

email: tparsons@rics.org

Kisa Zehra, Economist

email: kzehra@rics.org

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.



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

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.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

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United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

f +971 4 427 2498

ricsmenea@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000, Australia

t +61 2 9216 2333

f +61 2 9232 5591

info@rics.org

North Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

ASEAN

10 Anson Road,
#27-16 International Plaza,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org