



July 2017: Hong Kong Residential Market Survey

Home prices expected to rise despite moderation in buyer demand

- Tighter supply mitigating effects of softer demand to support positive price momentum
- However volumes seen flat over the next quarter
- Occupier market remains robust, supported by continued increase in tenant demand

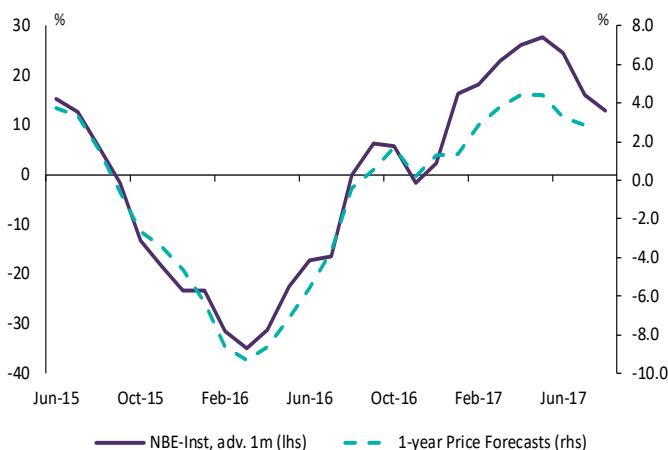
The July Hong Kong Residential Market Survey shows that sentiment surrounding the housing market continues to moderate, however remains positive.

Although a substantial majority of respondents in net balance terms continued to report an increase in home prices over the past three months, expectations for price increases over the next quarter moderated for the fourth consecutive month.

Respondents reported that demand from new buyers was little changed in July. This was true both at the headline level and from residents of Mainland China, despite a stronger yuan and cheaper access to offshore funding reducing the cost to buy for residents of the mainland.

The effects of softer demand on prices were somewhat offset by tighter supply as respondents reported no change in the supply of properties for sale in July. As shown in Chart 1, this indicates that the expectation for prices is likely to continue to moderate, though remain positive in the short-term.

Chart 1: New Buyer Enquiries - Instructions to sell (adv. 1m) vs 1-year Price Forecasts, 3MMA

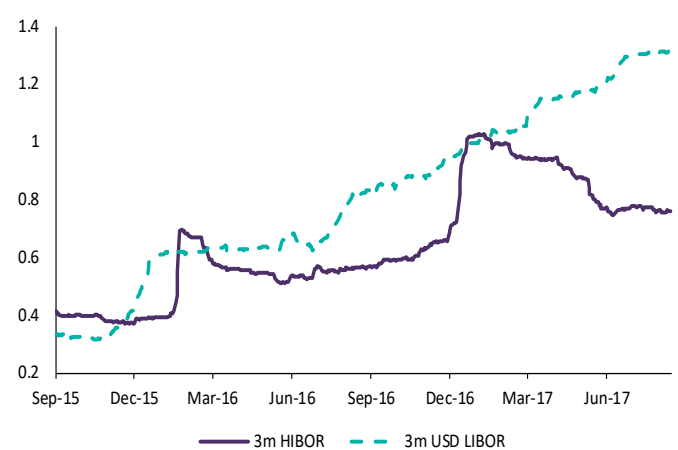


For the second consecutive month, respondents reported flat sales volumes. Against this backdrop, respondents now expect volumes to remain flat over the next three months. This marks the first month in which respondents do not expect an increase in volumes since December 2016, following the Hong Kong government's introduction of macroprudential measures designed to cool the property market.

Contributors reported little change in credit conditions in July, for the second consecutive month. Amid a more dovish outlook for US rates, respondents also see little change in credit conditions over the next three months. As shown in Chart 2, domestic credit conditions in Hong Kong have supported Hong Kong's housing market in 2017, despite tighter overseas credit.

The occupier market remained robust with respondents continuing to report an increase in tenant demand, while rents are expected to rise over the next three-and twelve-months. However some of the recent support may be seasonal, as the school break period in the summer is generally a popular period for expatriates to relocate to the city.

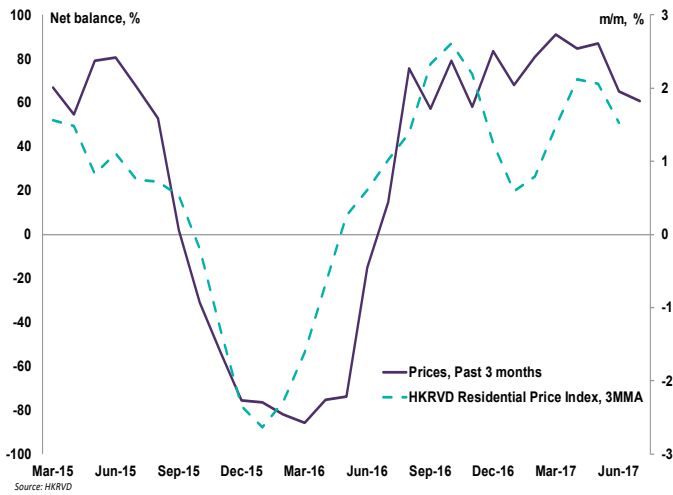
Chart 2: 3m HIBOR vs 3m USD LIBOR



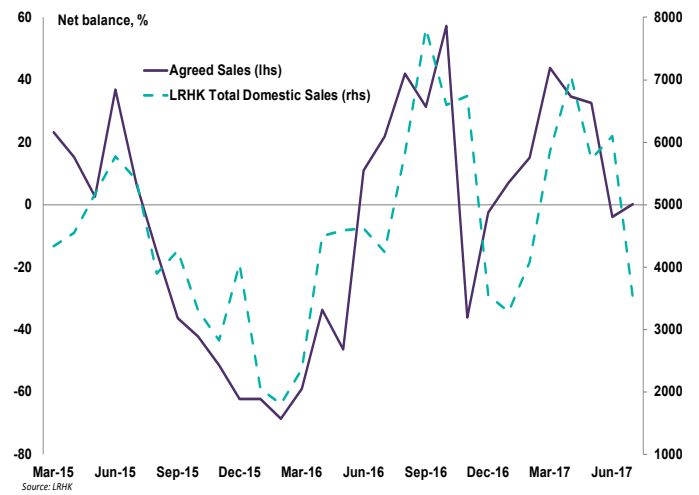
Source: ICE, HKAB

National market charts

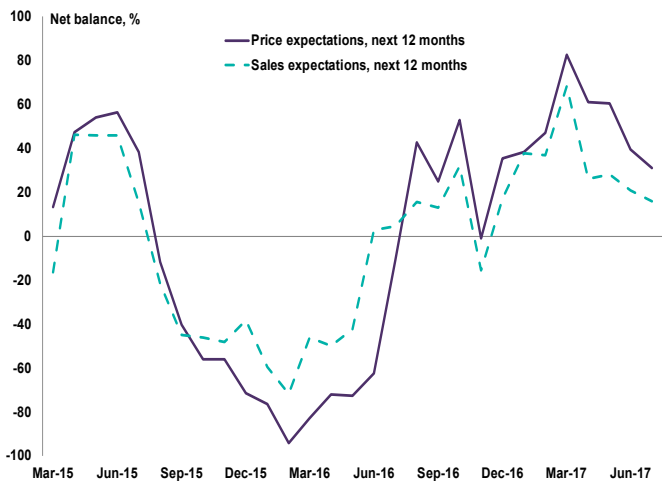
Prices - past month



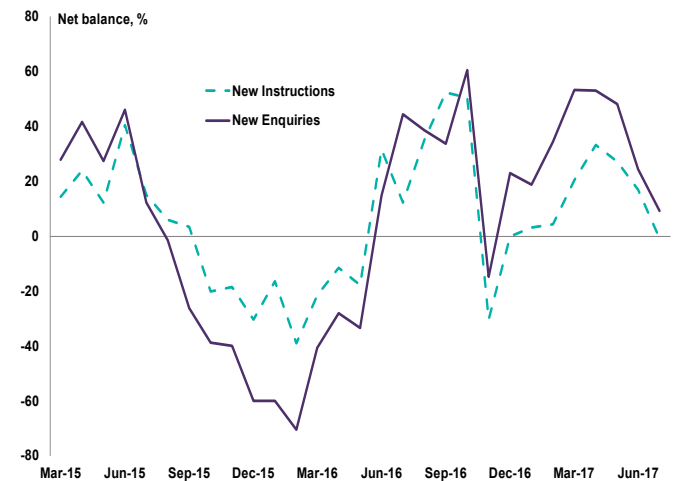
Sales - past month



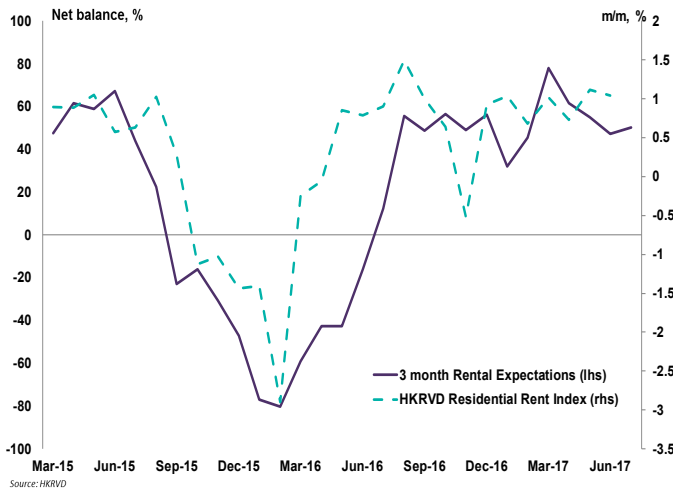
12 Month Expectations - prices and sales



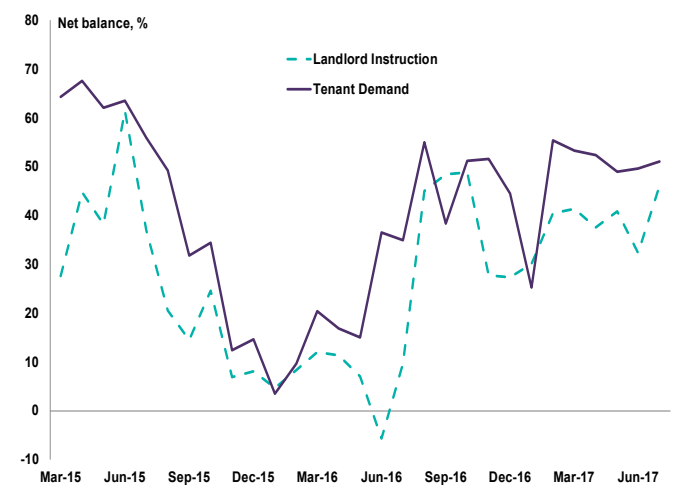
New Instructions to Sell and New Buyer Enquiries - past month



Rent Expectations - next three months

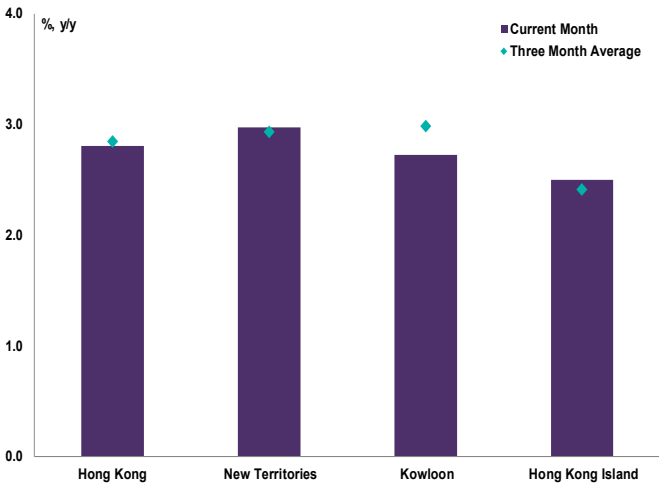


Tenant Demand and Landlord Instructions - past three months

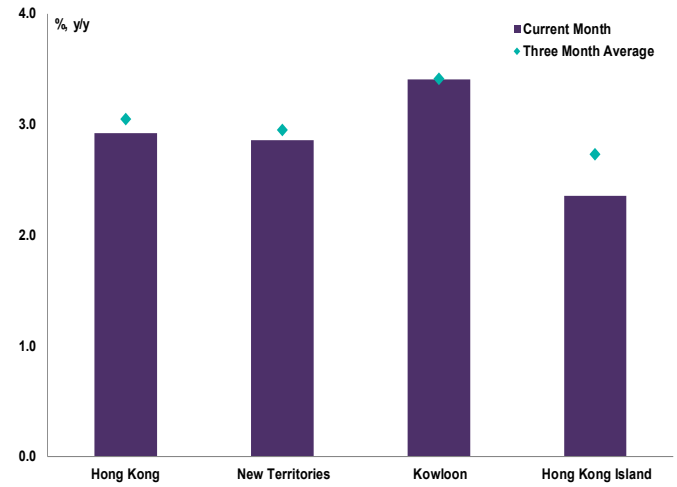


Regional market charts

Price Forecasts - next twelve months



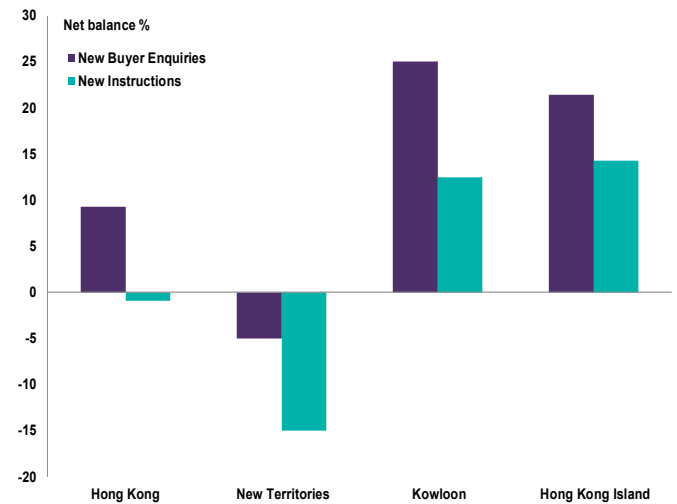
Rent Forecasts - next twelve months



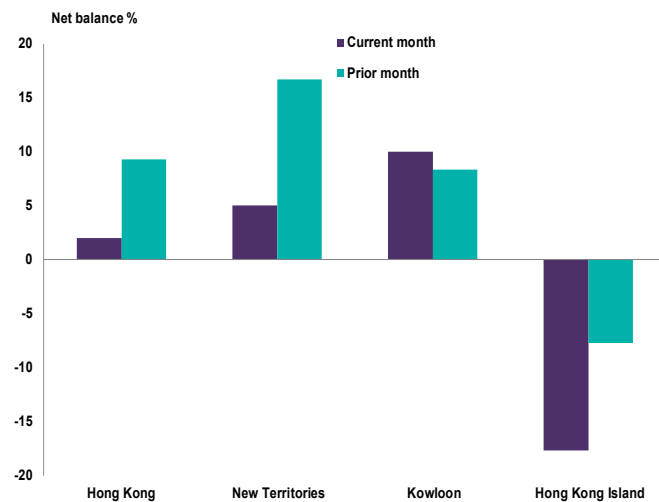
Regional 12 Month Expectations - prices and sales



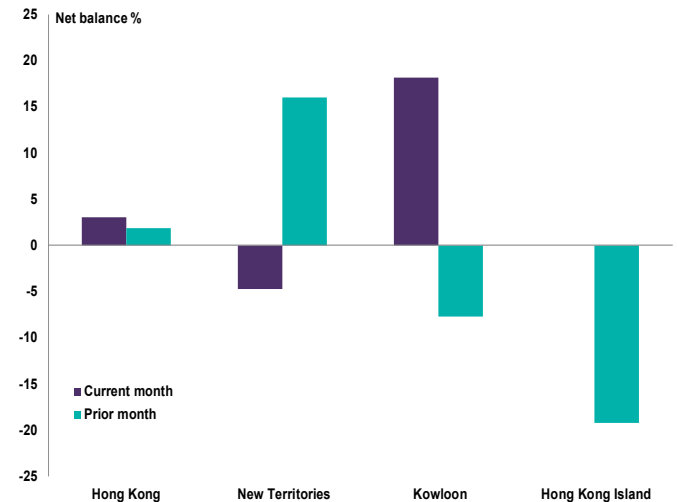
Regional New Buyer Enquiries and Instructions - past month



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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