



July 2018: Hong Kong Residential Market Survey

Short-term expectations point to continued increases in prices and rents

- Positive momentum remains near highs; price and rent inflation expected to continue over next three months
- Buyer demand still increasing, though at a more moderate pace than in previous months
- Respondents remain indifferent to credit conditions despite HIBOR volatility

Respondents to the July Hong Kong Residential Market Survey indicated that headline price inflation over the past three months has remained near cyclical highs, as shown by Chart 2. July sales volumes were also reported to have increased at a similar pace to June (Chart 3).

This is despite July registering the most modest pace of increase in buyer demand thus far in 2018; this was largely driven by contributors from Hong Kong Island indicating little change in demand from June (Chart 12). Meanwhile, although supply remained constrained in the New Territories, contributors reported that the supply of properties for sale increased at a faster pace than demand in both Kowloon and the New Territories. Demand from buyers in mainland China also increased at a more modest pace than in June, as mainland enquiries for properties in the New Territories slowed (as shown in Chart 13).

The confidence index, an amalgamated measure of short-term price and sales expectations, moderated only slightly in July. As shown by Charts 4 and 5 respectively, both prices and sales are expected to increase at a robust pace over the next three months. However, Chart 1 seems to indicate that equity market investors hold a less sanguine outlook. Meanwhile, Chart 6 indicates that

although price expectations over the next year remain elevated, sales volumes are seen increasing at a more moderate pace over the same period.

Against this backdrop, aggregate one-year price forecasts came in below the three-month moving average for the second consecutive month (Chart 9). Contributors now see prices increasing by 3% over the next year on Hong Kong Island, by 4% in the New Territories, and by 4.9% in Kowloon.

The lettings market was also seen to maintain positive momentum as tenant demand increased at a faster pace than did the supply of properties to rent (Chart 7). Rents are expected to maintain their recent pace of inflation over the next three months (Chart 8), though growth forecasts have moderated in recent months across all three regions (Chart 10).

Respondents continued to report no change in credit conditions in July, and expect this to persist over the next three months (Chart 14). One-month HIBOR rates hit a 2018 high of 2.125% late in June, but have since retreated below 1.5% by early August, and banks have remained reluctant to increase prime borrowing costs. However, the medium term outlook for borrowing costs remains skewed towards the upside.

Chart 1: Confidence Index

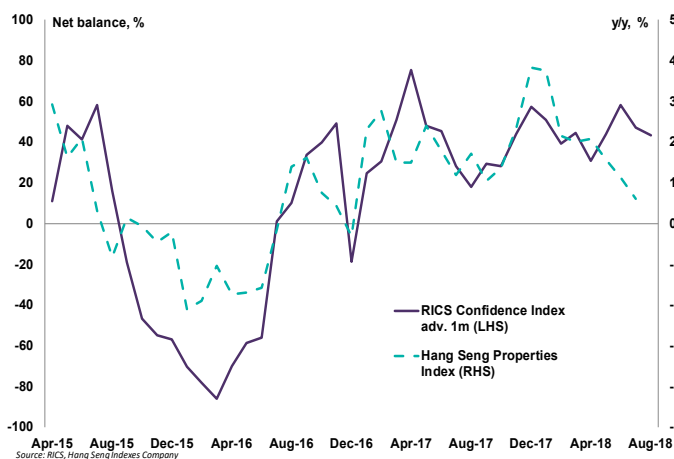
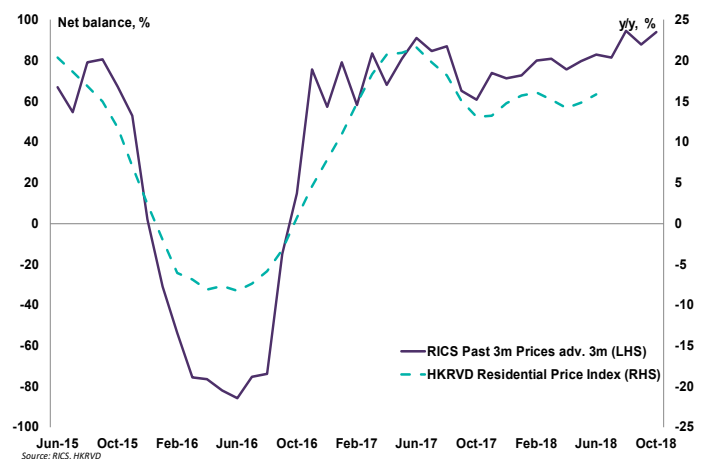


Chart 2: Prices - past three months



National market charts

Chart 3: Sales - past month

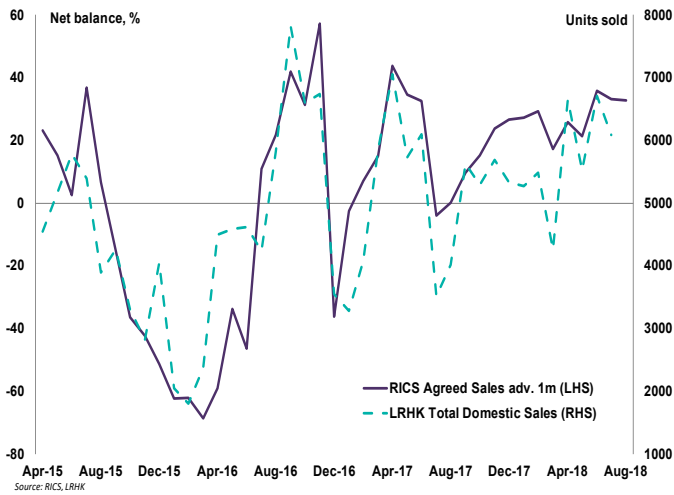


Chart 4: Price expectations - next 3 months

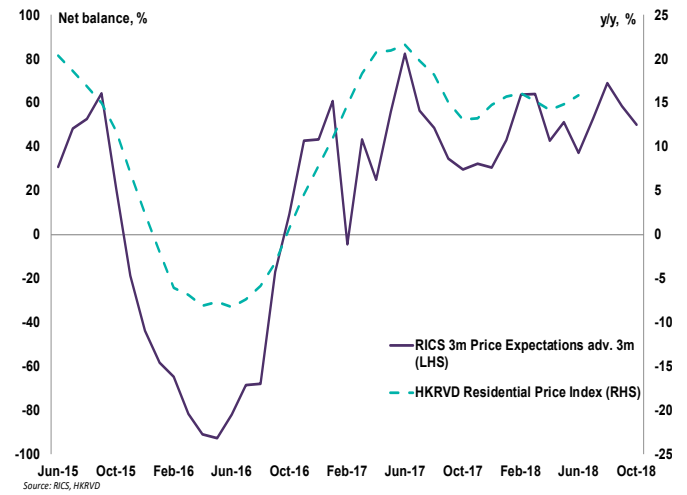


Chart 5: Sales expectations - next 3 months

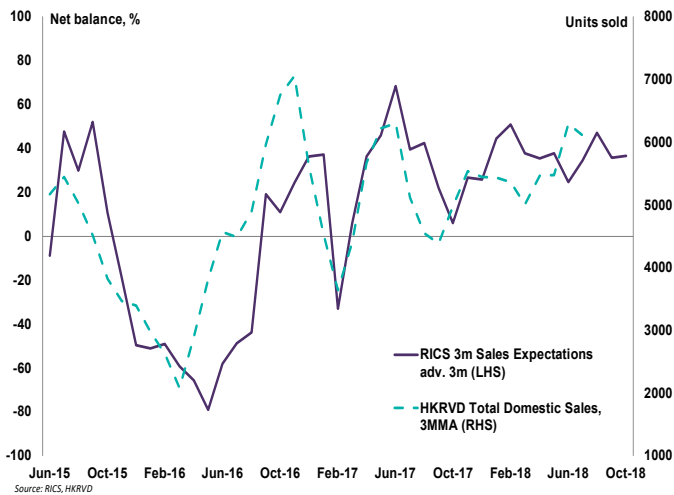


Chart 6: 12 month expectations - prices and sales

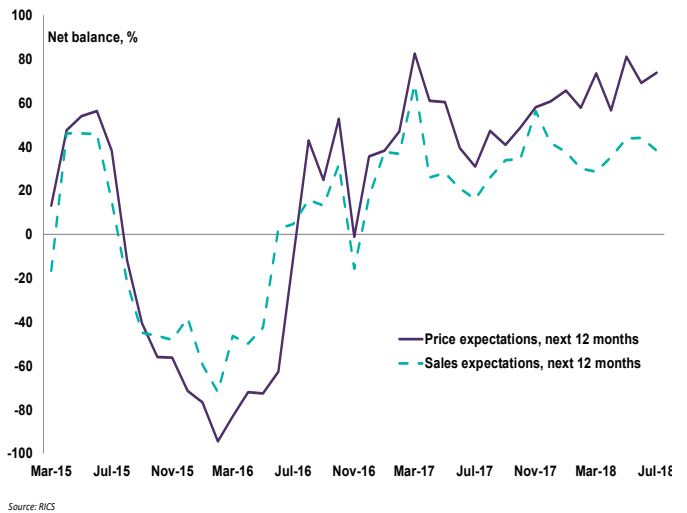


Chart 7: Tenant demand and landlord instructions - past three months

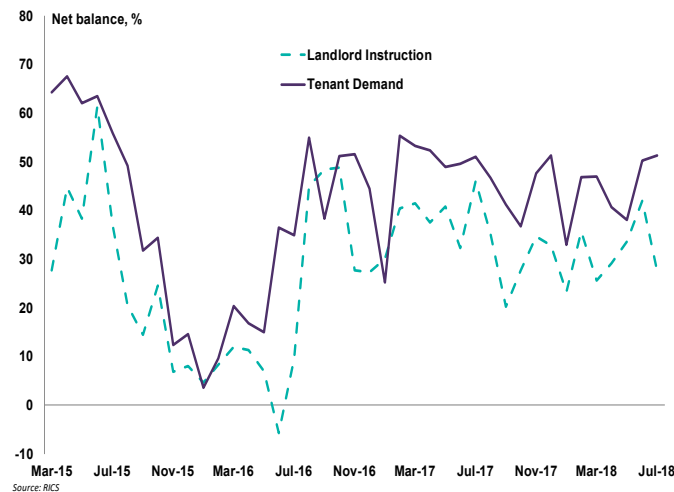
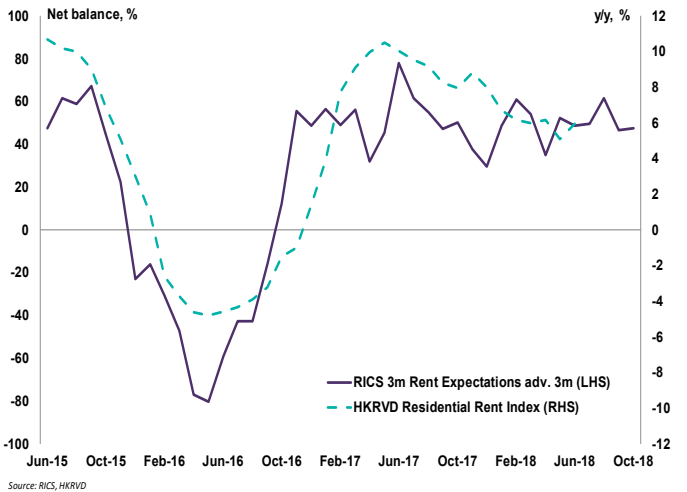


Chart 8: Rent expectations - next 3 months



Regional market charts

Chart 9: Price forecasts - next twelve months

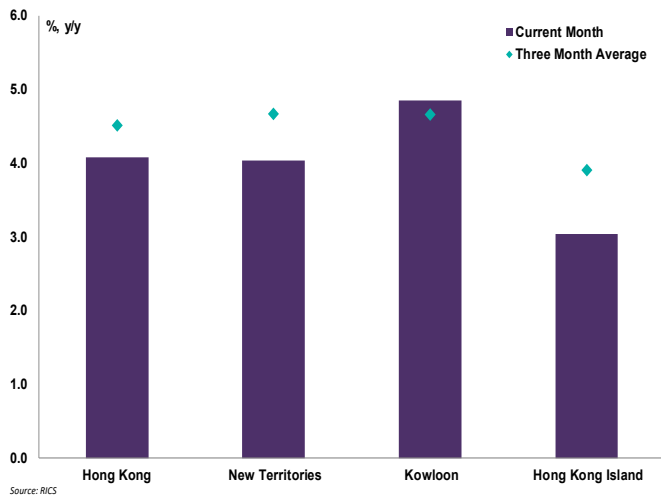


Chart 10: Rent forecasts - next twelve months

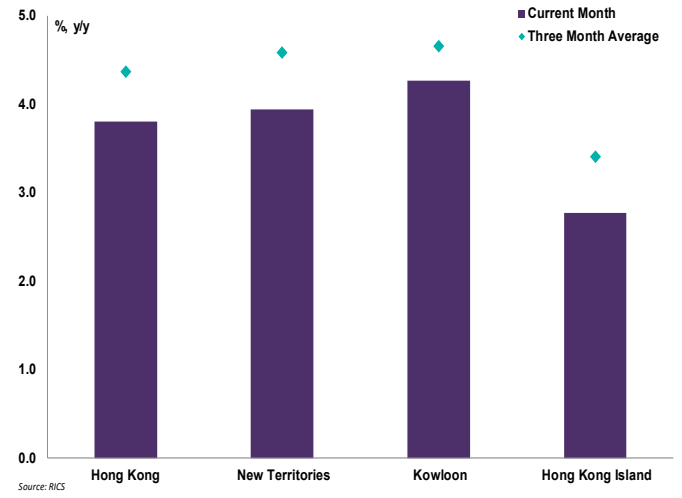


Chart 11: 12 month expectations - prices and sales



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

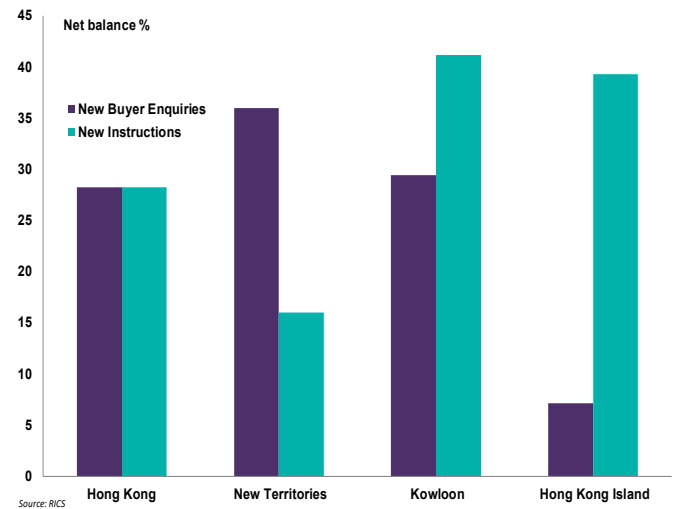


Chart 13: Buyer enquiries from mainland China

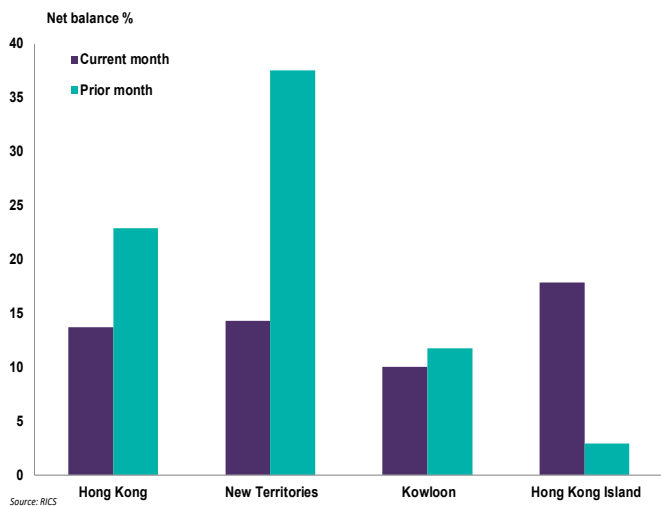


Chart 14: 3 month expectations - credit conditions



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 have buyer inquiries from property investors changed over the last month? (down/same/up)
7. How have buyer inquiries from owner occupiers changed over the last month? (down/same/up)
8. How do you expect prices to change over the next 3 months? (down/same/up)
9. How do you expect sales to change over the next 3 months? (down/ same/ up)
10. How do you expect sales to change over the next 12 months? (down/ same/ up)
11. How do you expect average house prices, in your area, to change over the next 12 months? (% band, range options)
12. How have credit conditions changed over the past month? (deteriorated/same/improved)
13. How do you expect credit conditions to change over the next 3 months? (deteriorate/same/improve)
14. How have rents changed over the last 3 months? (% band, range options)
15. How has tenant demand changed over the last 3 months? (down/ same/ up)
16. How have landlords instructions changed over the last 3 months? (down/ same/ up)
17. How do you expect rents to change over the next 3 months? (down/ same/ up)
18. How do you expect average rents, in your area, to change over the next 12 months? (% band, range options)

19. How have the total number of unsold houses on books changed over the last month? (down/same/up)

20. How has the length of time from listing to the completion of the sale changed over the last month? (down/same/up)

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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