



June 2017: Hong Kong Residential Market Survey

Housing sentiment moderates but remains positive

- Prices remained positive but sales volumes were flat in June as both metrics have fallen below their three-month average.
- Occupier market remains robust as tenant demand supports short-term rent expectations. But respondents longer-term rent forecasts have fallen to cyclical lows.

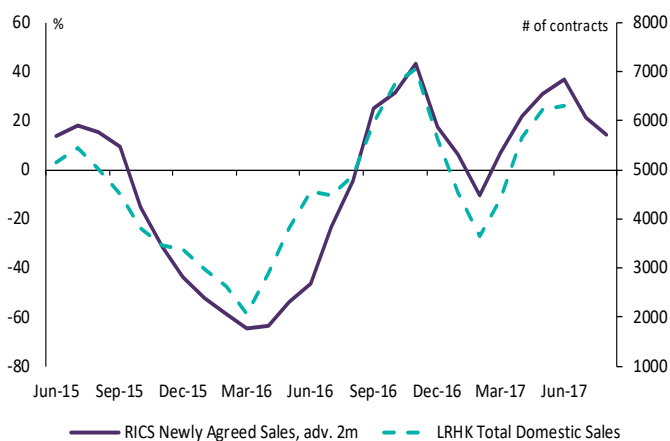
The June Hong Kong Residential Market Survey shows that sentiment surrounding the housing market has maintained positive momentum in June 2017, however sentiment has moderated from May.

Respondents reported that they have continued to see prices increase. However, measured in net balance terms the proportion of those reporting an increase versus those reporting a decrease fell below the trailing three month moving average.

Respondents also reported that sales volumes were flat in June, the first time volumes weren't reported to have increased since January. The three-month moving average, as shown in Chart 1, suggests that volumes will begin to moderate in the coming months.

Against this backdrop price and sales expectations were more muted in June than in previous months, though respondents still expect prices and volumes to increase over both time horizons. Chart 2 indicates that respondents have lowered one-year price forecasts for the third consecutive month, and has held below the three-month moving average price forecast.

Chart 1: RICS Agreed Sales (adv. 2m) vs Total contracts, 3MMA



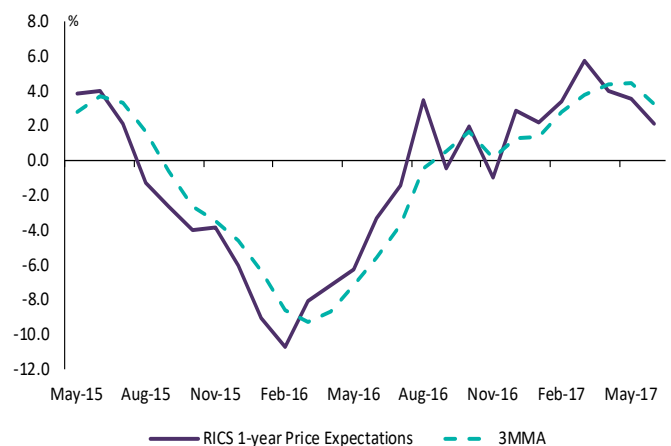
Source: RICS, Land Registry of Hong Kong

Although all three regions (New Territories, Kowloon, Hong Kong Island) saw momentum moderate, respondents on Kowloon and Hong Kong Island reported that sales volumes fell in June. This was the first time that respondents reported a decline in volumes since December, after Hong Kong's government introduced measures aimed at cooling the property market.

Investment enquiries from mainland China continued to moderate in net balance terms, with only a modest majority of respondents reporting an increase in June versus those reporting a decrease. Contributors also reported no change in credit conditions in June. Note that we have discussed in previous reports banks in Hong Kong remain flush with liquidity and as a result are able to offer easy access to credit.

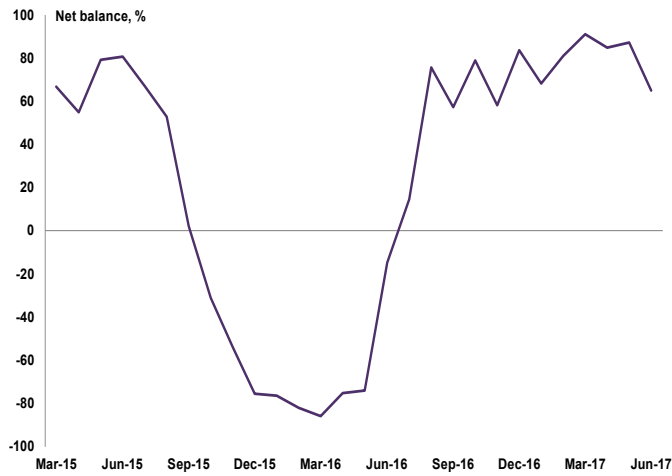
The occupier market continued to be robust in June. Respondents continue to report increasing tenant demand across all regions in Hong Kong, and expect rents to increase over the next three months. However, the three-month average rent forecast (for the next twelve months) moderated to 3.3% in June from 4.2% in May.

Chart 2: RICS 1-year Price Expectations, Point Estimate

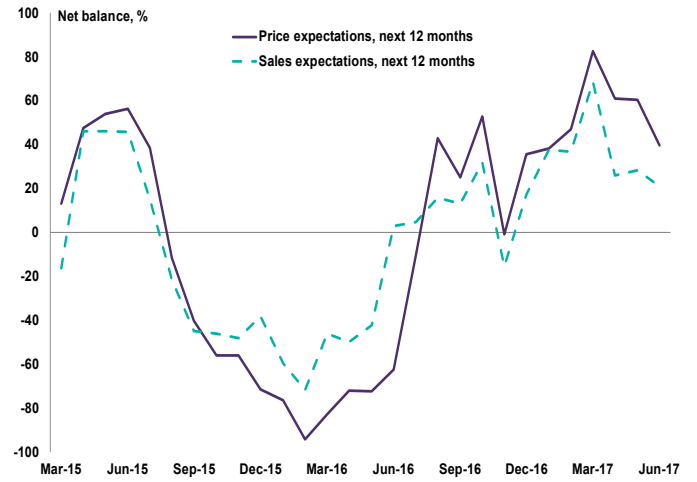


National market charts

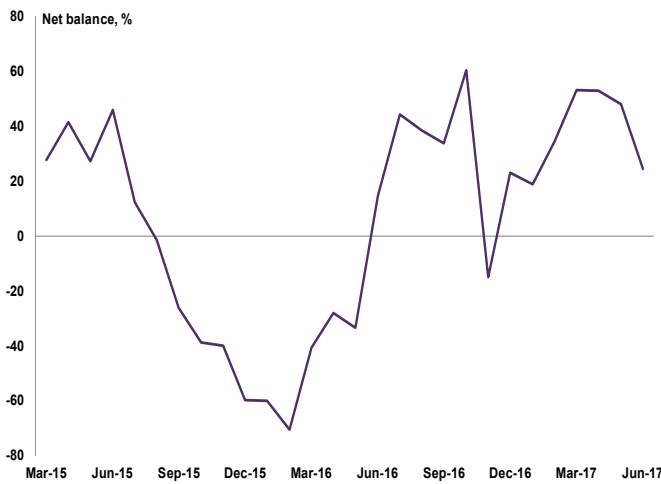
National Price Balance - past three months



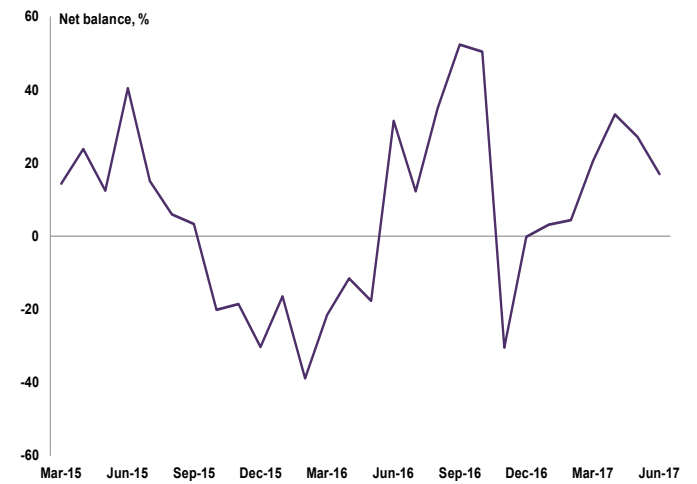
12 Month Expectations - prices and sales



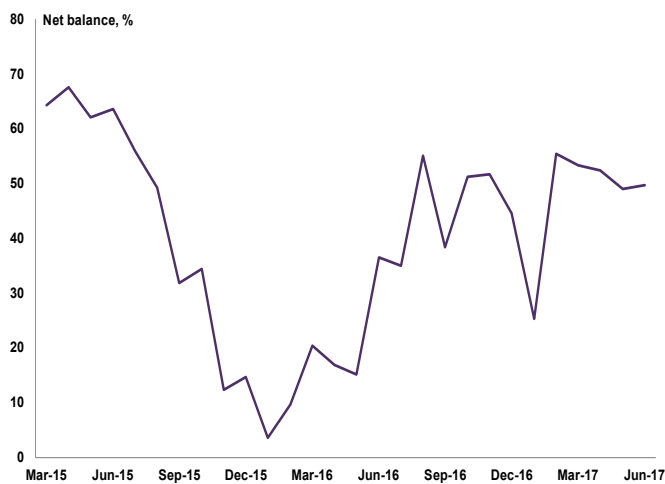
National New Buyer Enquiries - past month



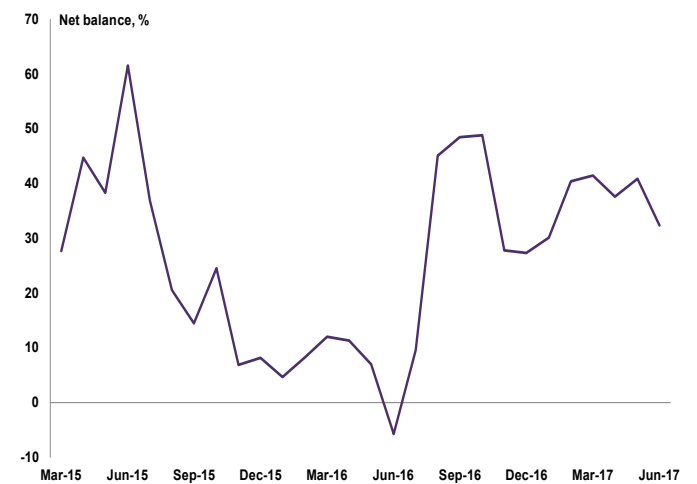
National New Instructions to Sell - past month



National Tenant Demand - past three months

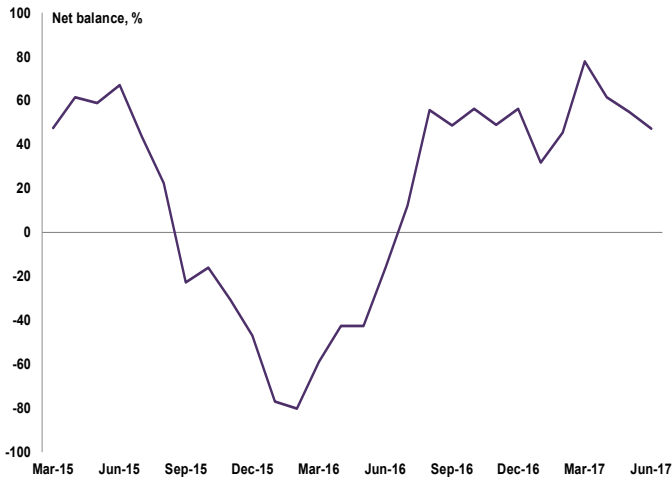


National Landlord Instructions - past three months

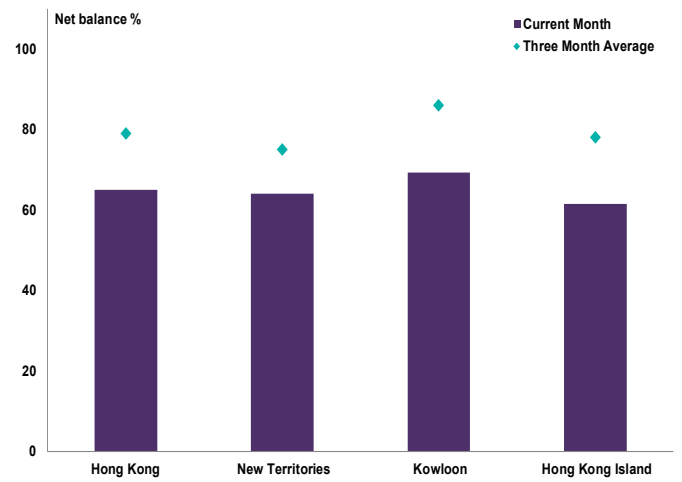


National/Regional market charts

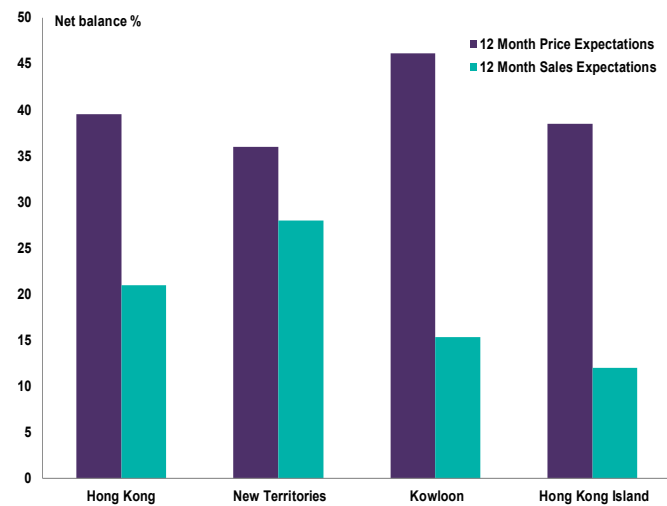
National Rent Expectations - next three months



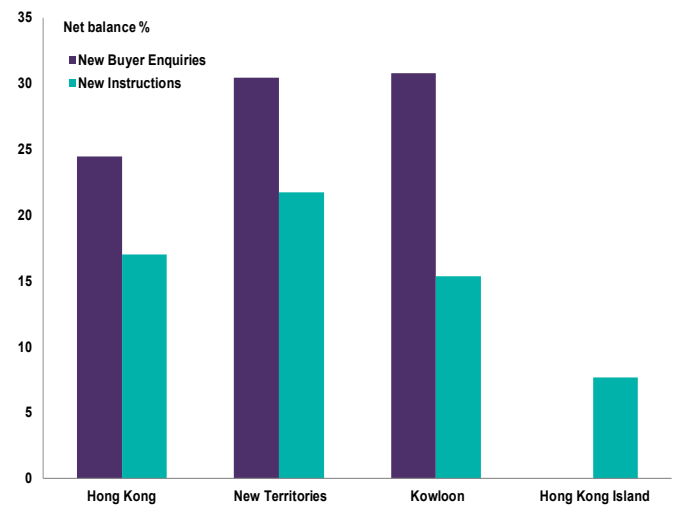
Regional Price Balance - past three months



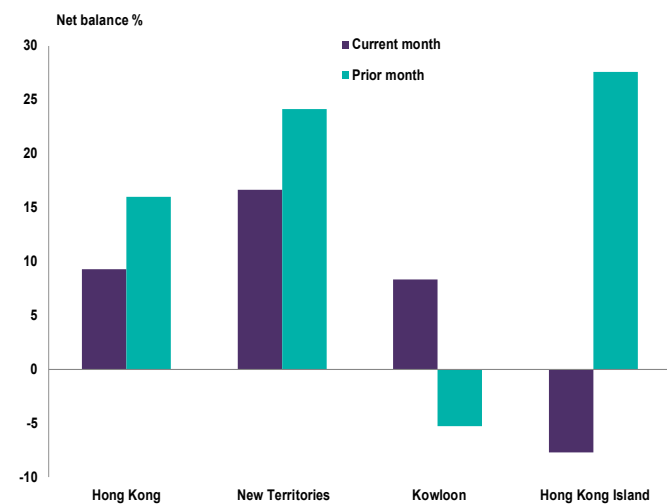
Regional 12 Month Expectations - prices and sales



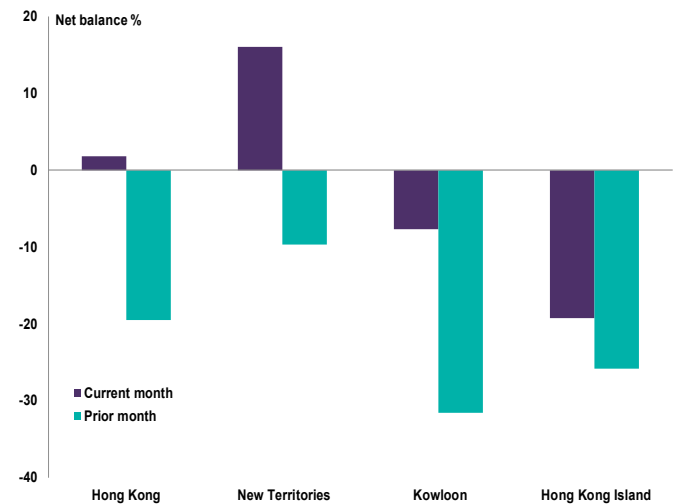
Regional New Buyer Enquiries and Instructions - past month



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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