



June 2018: Hong Kong Residential Market Survey

Strong sales activity supports market outlook

- Price expectations remain robust though supply-demand conditions more balanced
- Mainland interest increases for the second month, particularly in the New Territories
- Credit conditions seen flat amid HIBOR volatility

The results from the June Hong Kong Residential Market Survey show that the housing market's positive momentum remains elevated. Chart 1 shows that the Confidence Index, an amalgamated measure of short-term price and sales expectations, remained near a cyclical high. However, the chart also indicates that market pricing diverged from the Confidence Index last month. Although this could be a transitory phenomenon, it could also be an indication of the market pricing in a more modest outlook for prices and sales.

Respondents reported another month of strong price growth, as a net balance of 88% reported prices increased in June. As shown in Chart 2, this metric has held above 50% (in net balance terms) since August of 2016, and corresponded with an elevated rate of home price inflation. Similarly, the balance for sales remained near cyclical highs in June (Chart 3), and corresponds to the Land Registry of Hong Kong reporting that transaction volumes hit a 14-month high in May.

Although Chart 12 shows that demand continued to outstrip supply in the New Territories (in net balance terms), supply and demand conditions in Kowloon and on Hong Kong Island were more balanced. This may explain why the share of respondents who reported an increase in prices vs those who reported a decrease

remained at a cyclical high in the New Territories, but has eased (though remains positive) in Kowloon and on Hong Kong Island. Enquiries from residents of mainland China also exhibited a similar trend, with respondents reporting consecutive months of robust demand for properties in the New Territories while mainland enquiries in other regions were more subdued (Chart 13).

In the lettings market, contributors see rents continuing to increase over the next three months. As Chart 7 shows, despite an increase in landlord instructions to rent tenant demand is still strong, as respondents are reporting that it remains near cyclical highs. Similar to prices, Chart 8 shows that rents have advanced on a year-on-year basis since August 2016.

Meanwhile, respondents continued to report fairly neutral credit conditions in June, as shown in Chart 14. However, this may be slightly deceiving given the relative volatility of HIBOR. Throughout June the 1-month rate moved 100 basis points higher to settle at 2% by the end of the month, but eased back between 1.7-1.8% during the early part of July. However, this range would still be putting some upward pressure on banks' mortgage caps, and may require some to raise their prime lending rates.

Chart 1: Confidence Index

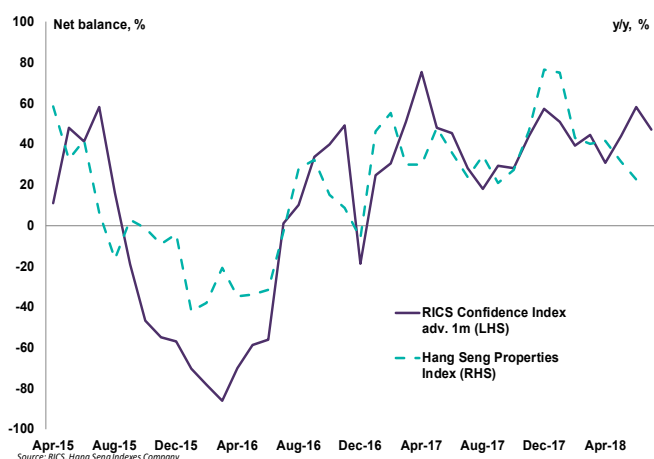
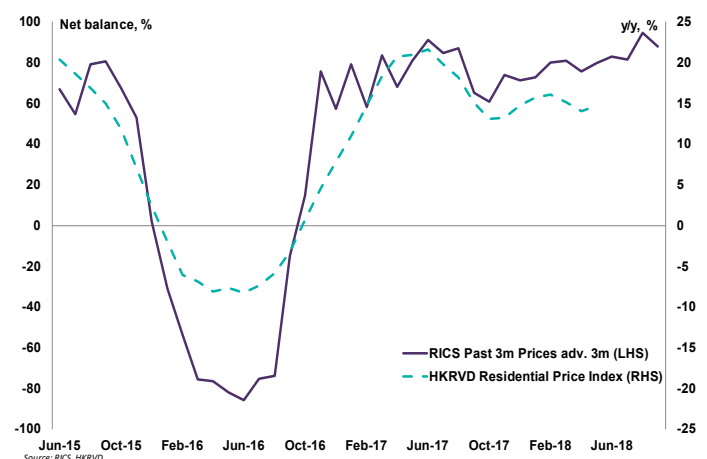


Chart 2: Prices - past month



National market charts

Chart 3: Sales - past month

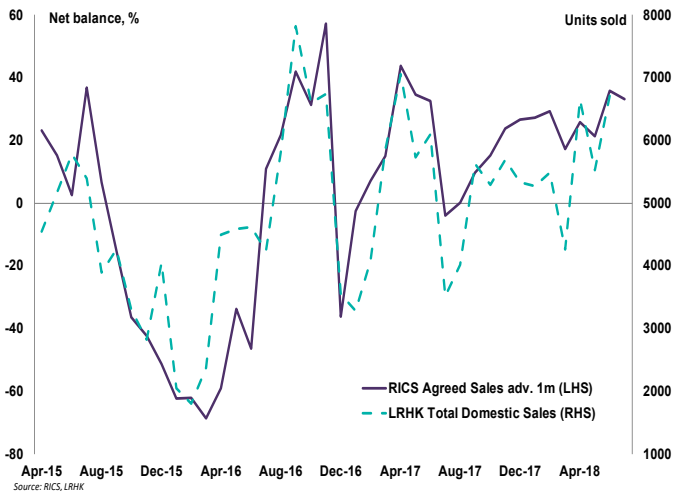


Chart 4: Price expectations - next 3 months

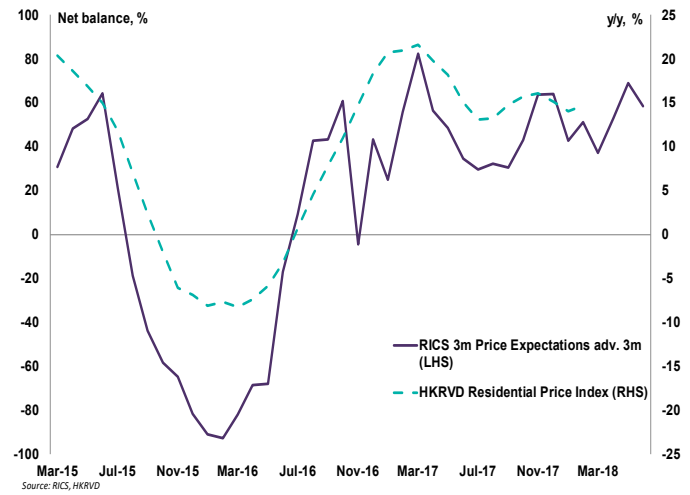


Chart 5: Sales expectations - next 3 months

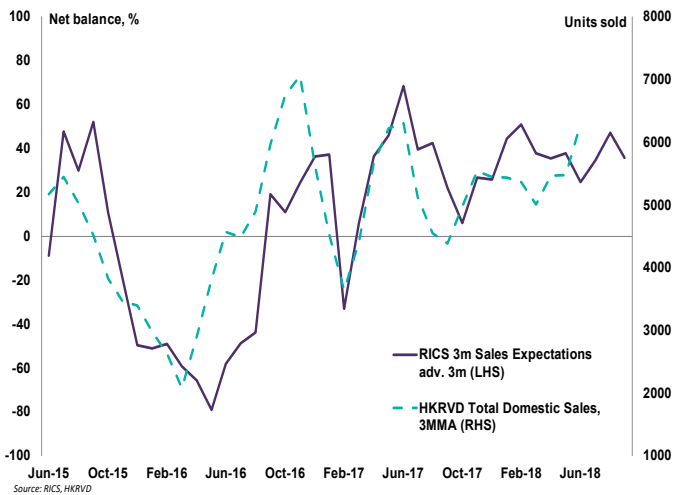


Chart 6: 12 month expectations - prices and sales

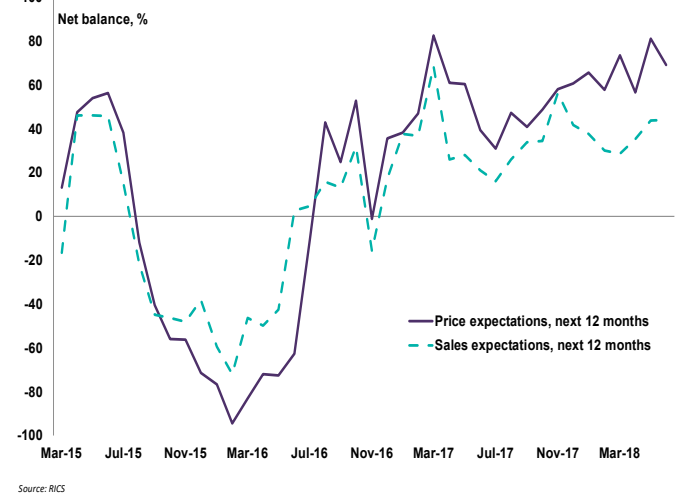


Chart 7: Tenant demand and landlord instructions - past three months

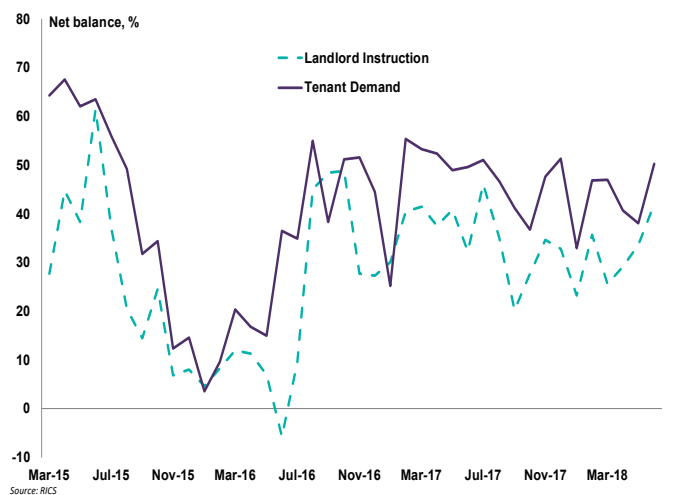
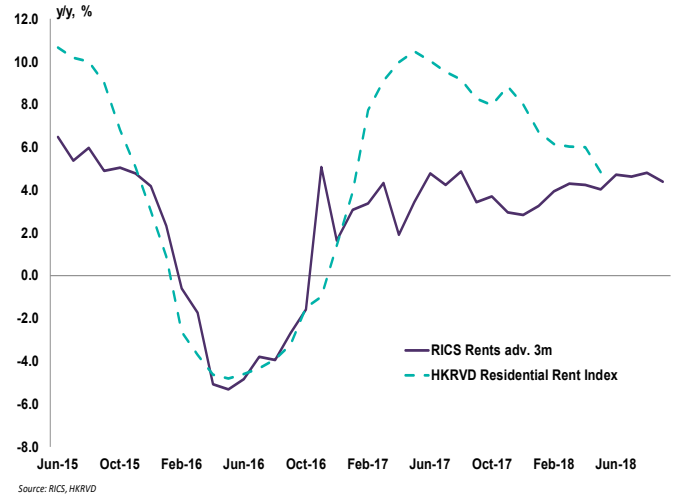


Chart 8: Past rents



Regional market charts

Chart 9: Price forecasts - next twelve months

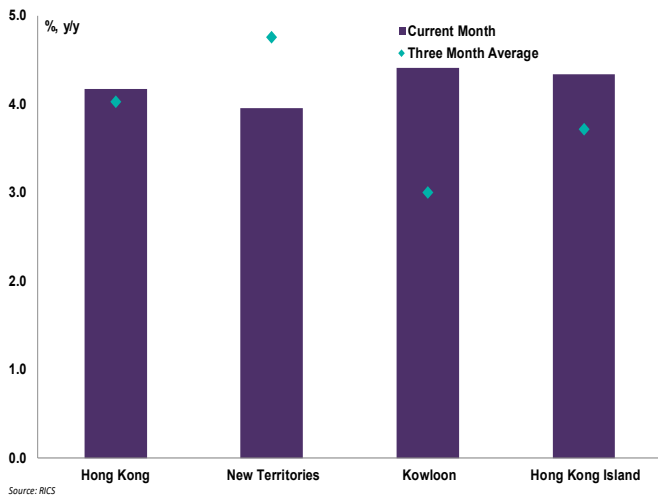


Chart 10: Rent forecasts - next twelve months

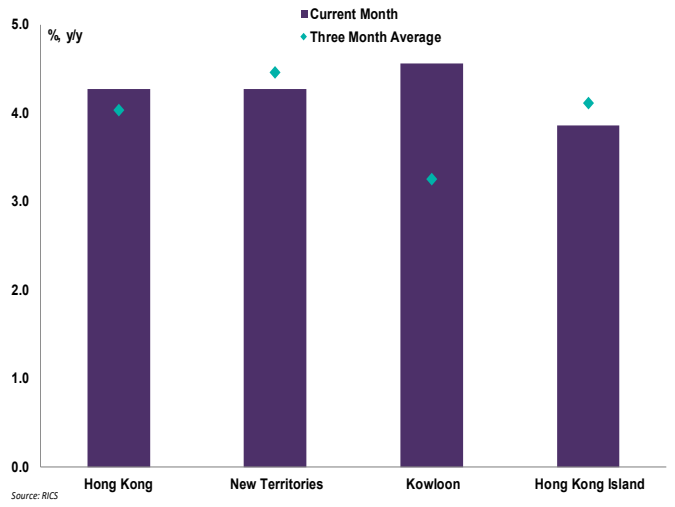


Chart 11: 12 month expectations - prices and sales

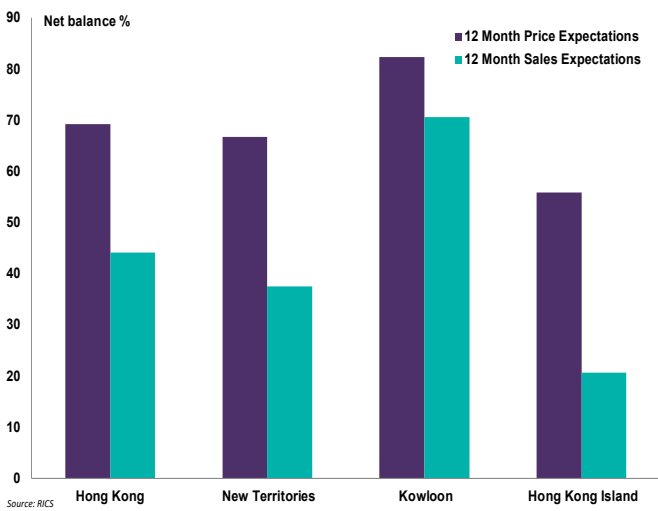


Chart 12: Instructions to sell and buyer enquiries - past month

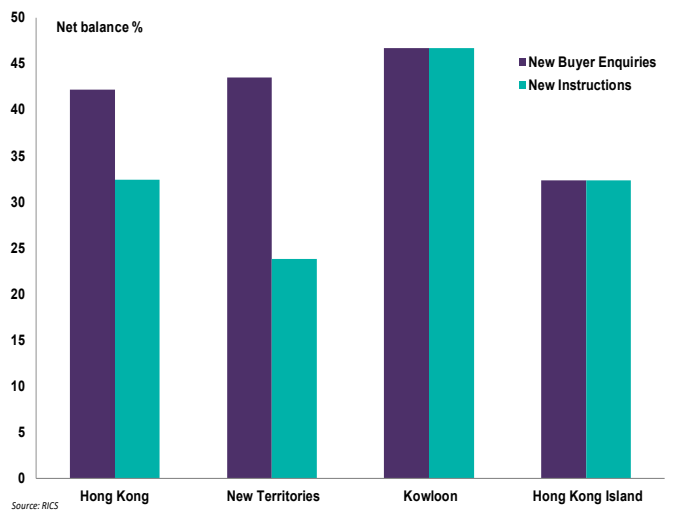


Chart 13: Buyer enquiries from mainland China

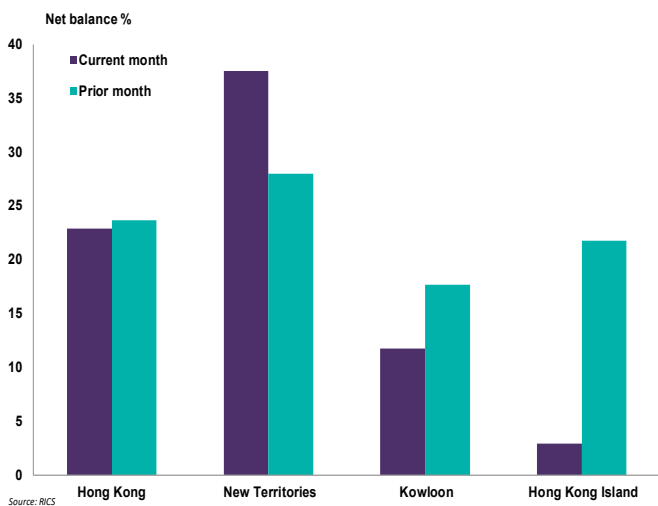
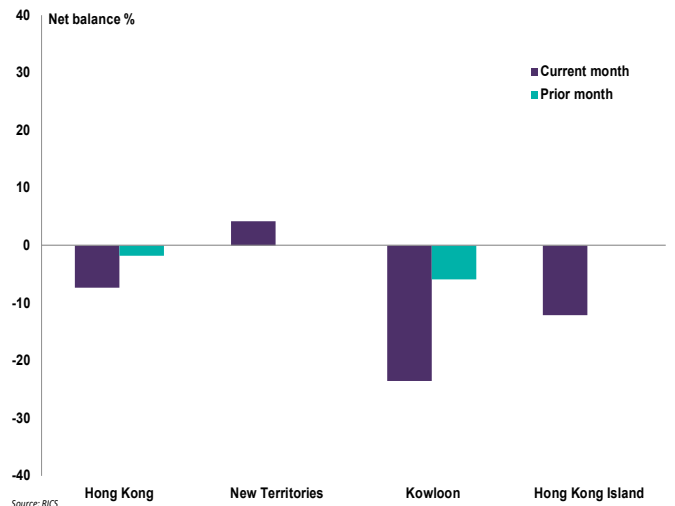


Chart 14: 3 month expectations - credit conditions



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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