



March 2018: Hong Kong Residential Market Survey

Contributors report demand increasing at a faster pace than supply

- Demand growth continues to outstrip that of supply to support both prices and rents
- Respondents indicate demand-supply mismatch most pronounced in New Territories
- Chinese demand said to have risen in March, but more respondents see tighter credit conditions ahead

The March Hong Kong Residential Market Survey shows a continuation in positive momentum in the housing market. However the Confidence Index, an amalgamated measure of short-term price and sales expectations, moderated to 31 in March from 44 in February.

Chart 4 and Chart 5 show that 3-month expectations for price and sales appear to have been trending lower since peaking near the end of 2017. Though this is still indicative of respondents expecting prices in sales to increase over the next quarter. Indeed, Chart 2 indicates that prices seem poised to maintain steady y/y growth in the coming months, though as shown in Chart 3 sales are slightly more noisy.

Respondents remain optimistic for price growth over the next year, as evidenced in Chart 6. In net balance terms, 12-month price expectations are the highest they've been since March of 2017, and are the second highest reading since the launch of this survey. Perhaps unsurprisingly, price forecasts for the next year have moved back above the three month moving average in all regions, as indicated in Chart 9.

Some of the upwards pressure on prices has likely come from expectations for dampened supply. Indeed, Chart 6

indicates that expectations for supply growth have begun to diverge from that of prices, while Chart 11 shows that this is most pronounced in the New Territories, which also has the largest stock of housing of all three regions.

The supply-demand mismatch is evident in Chart 12. This shows that buyer enquiries continue to increase at a faster pace (in net balance terms) than the supply of new properties to buy, particularly in the New Territories. This may help to explain why respondents' price forecasts (Chart 9) for the New Territories are as bullish as those for Kowloon and Hong Kong Island, despite fewer respondents reporting an increase in demand in the former than the latter, in net balance terms (Chart 12).

Chart 13 indicates that respondents saw slightly more demand from mainland Chinese buyers in March. Meanwhile, Chart 14 shows that a modest majority respondents are expecting credit conditions to tighten over the next three months. However it remains to be seen whether both of these developments are transitory.

As shown in Chart 8, the outlook for rents remains positive. Chart 7 offers some explanation for this given that the increase in tenant demand continues to outstrip the supply of new properties to rent.

Chart 1: Confidence Index

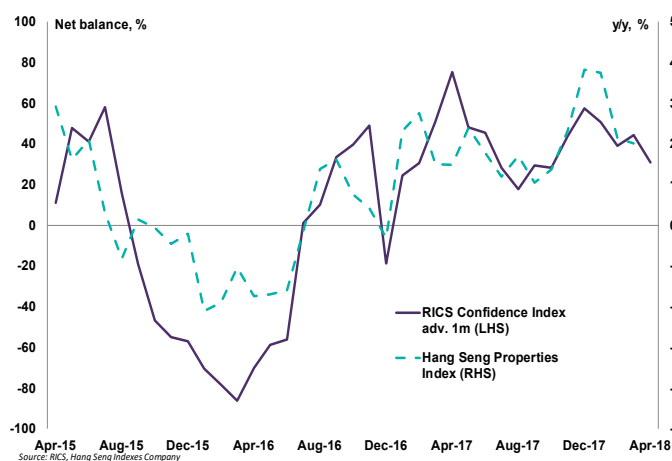
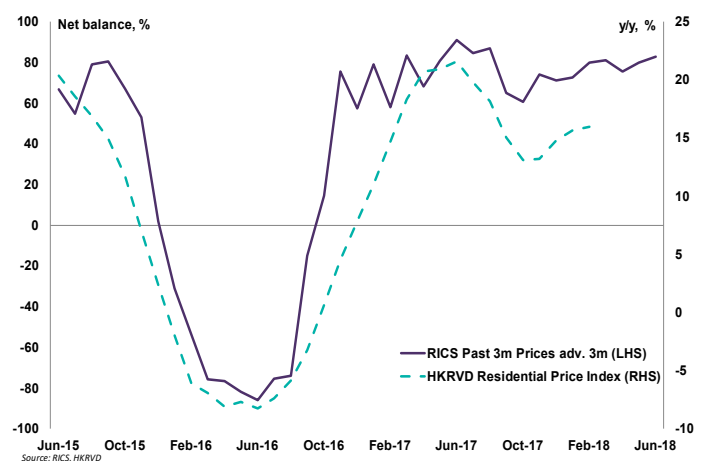


Chart 2: Prices - past month



National market charts

Chart 3: Sales - past month

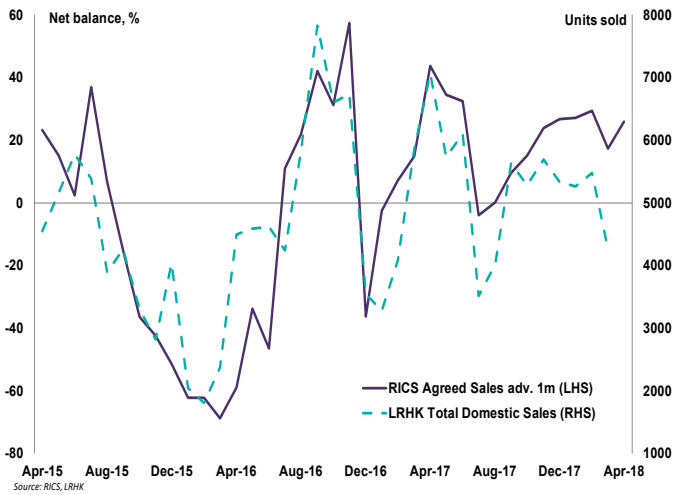


Chart 4: Price expectations - next 3 months

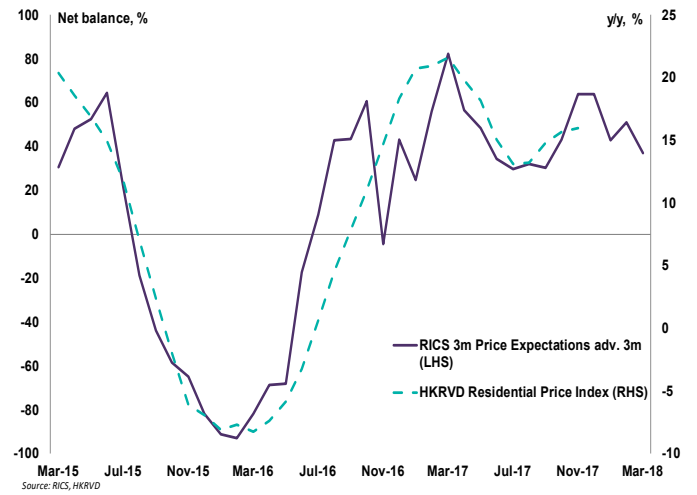


Chart 5: Sales expectations - next 3 months

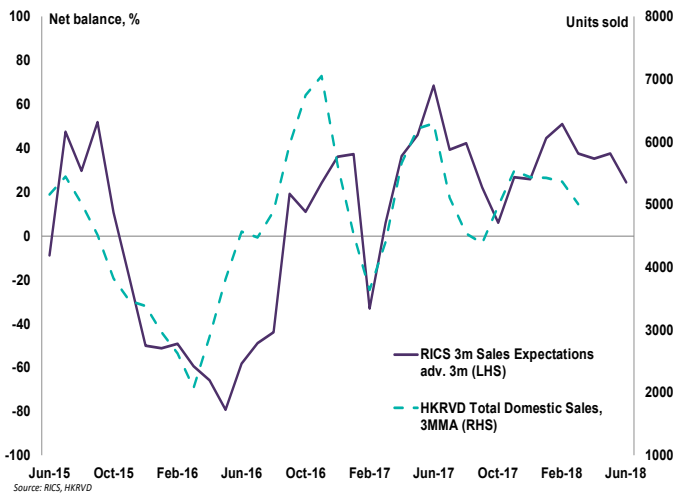


Chart 6: 12 month expectations - prices and sales

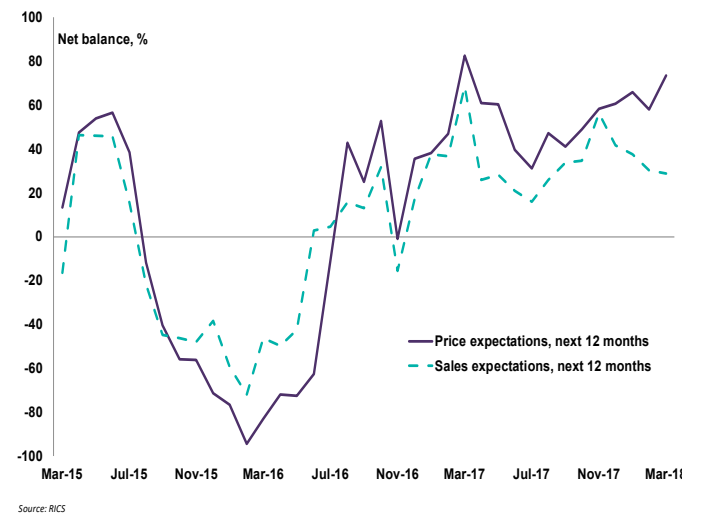


Chart 7: Tenant demand and landlord instructions - past three months

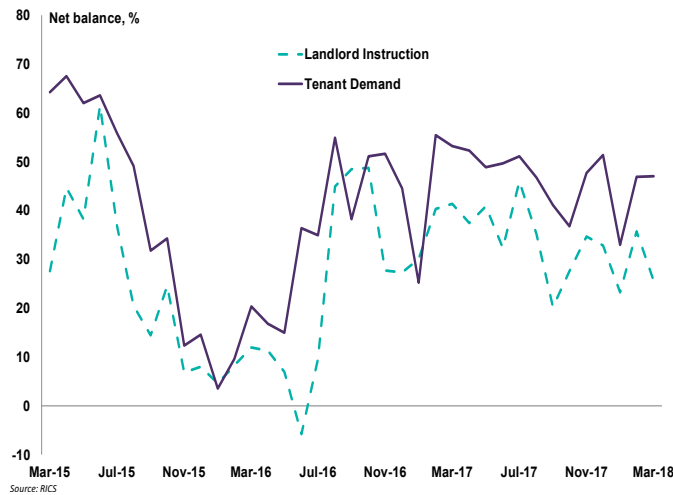
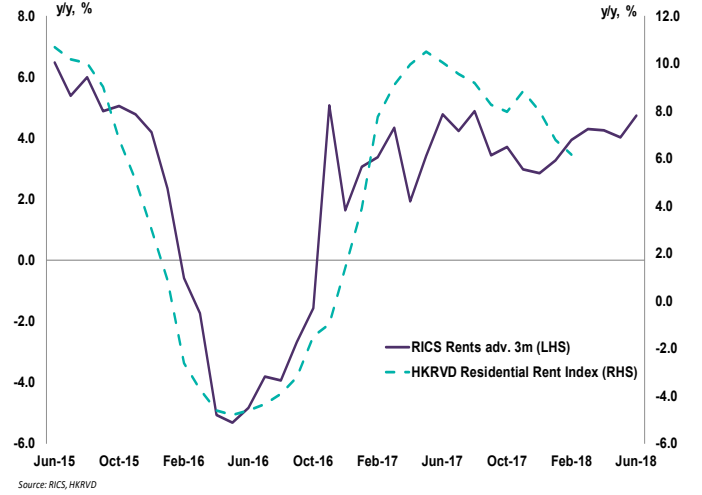


Chart 8: Past rents



Regional market charts

Chart 9: Price forecasts - next twelve months

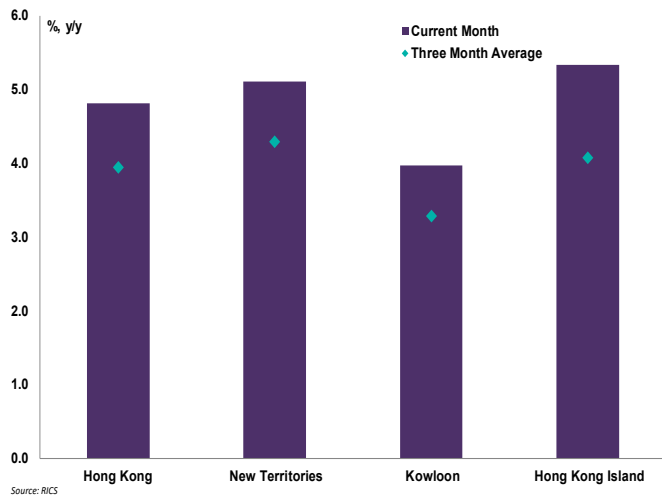


Chart 10: Rent forecasts - next twelve months

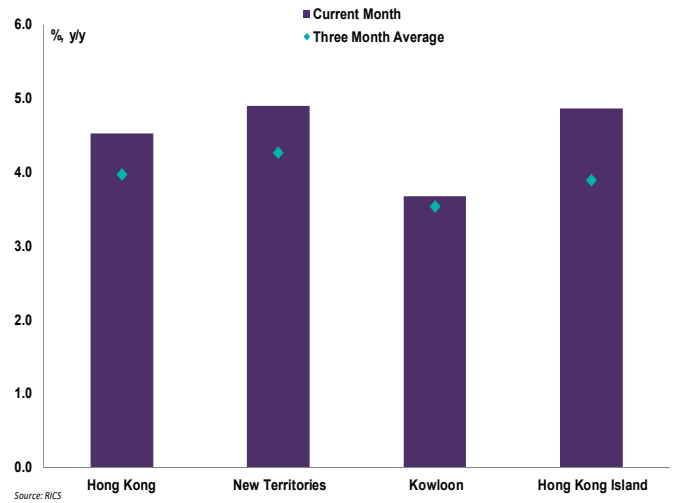


Chart 11: 12 month expectations - prices and sales

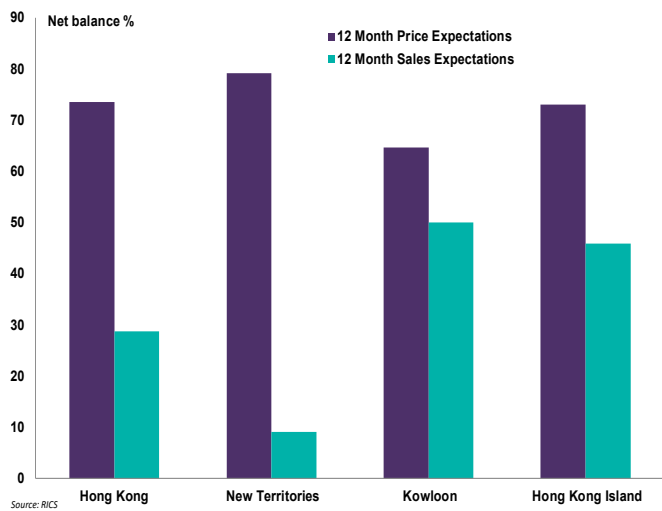


Chart 12: Instructions to sell and buyer enquiries - past month

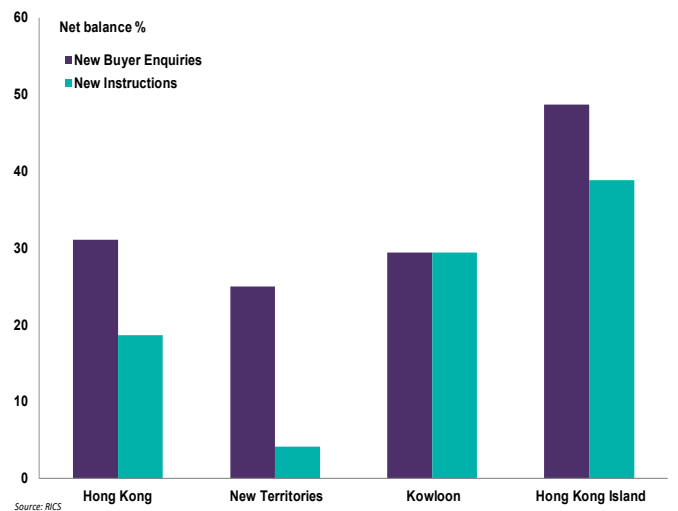


Chart 13: Buyer enquiries from mainland China

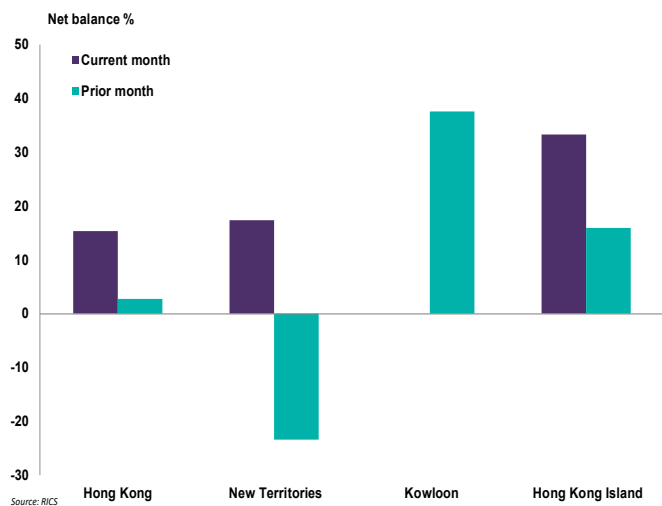
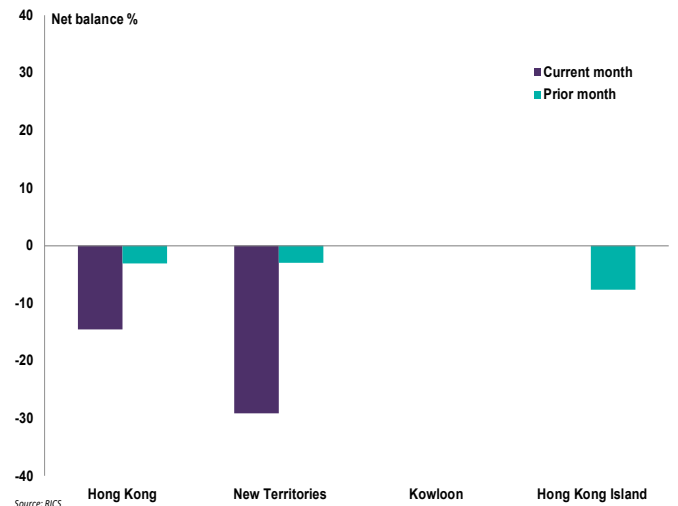


Chart 14: 3 month expectations - credit conditions



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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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.

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