



May 2017: Hong Kong Residential Market Survey

Respondents remain bullish on housing but expect tighter credit conditions

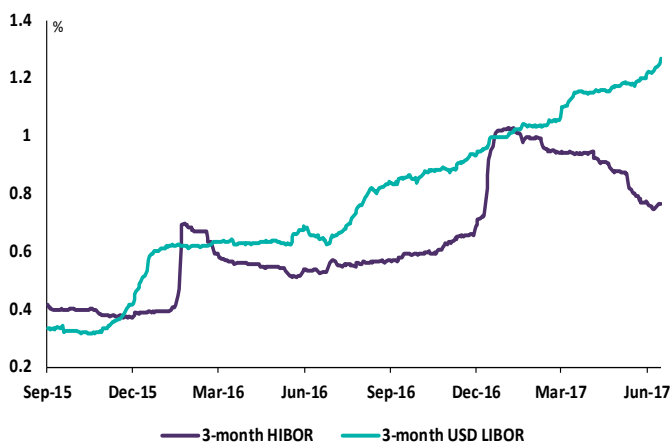
- Price and rent expectations remain robust though respondents beginning to expect tighter credit conditions while momentum from mainland Chinese demand continues to taper
- Robust tenant demand continues to support rental market with strength spread evenly throughout New Territories, Kowloon and Hong Kong Island

The May Hong Kong Residential Market Survey shows that sentiment surrounding the housing market has maintained positive momentum in May 2017. However respondents are starting to become more hawkish on the outlook for credit conditions.

Respondents' indicated that they saw a net deterioration in credit conditions over the last month and are also expecting credit conditions to deteriorate over the next three months. Note this survey was closed prior to the US Federal Reserve raising interest rates on June 14. Recall that excess liquidity at Hong Kong banks has supported credit conditions as banks have not had to pass on interest rate hikes to customers.

Chart 1 shows that this trend has continued following the most recent increase by the US Federal Reserve on June 14, indicating that cash reserves at banks in Hong Kong will continue to support lending. As shown in Chart 2, there have been periods where HIBOR and USD LIBOR have become detached for significant lengths of time, namely during the US Fed's last credit tightening cycle throughout 2004.

Chart 1: 3-month HIBOR vs USD LIBOR



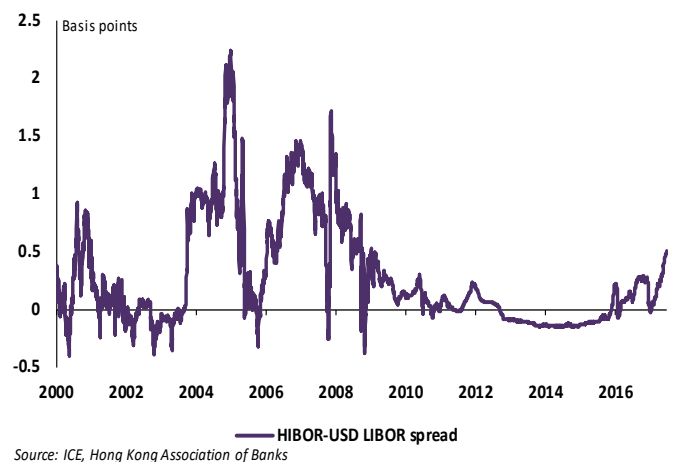
Against this backdrop, a net balance of 87% of respondents reported that house prices have risen over the past three months. Contributors also reported an increase in volumes in May, and continue to see prices and sales increasing over the next three months.

Positive momentum from enquiries from mainland China continued to moderate. This is likely to persist through June as Chinese banks shore up balance sheets ahead of mid-year financial reports.

Headline capital value forecasts over the next year stayed relatively level, expected to increase 4.4%. The New Territories, where prices are seen up 5.3% over the next year, is expected to outperform Kowloon and Hong Kong Island where respondents see prices rising 3.6% and 3.5%, respectively.

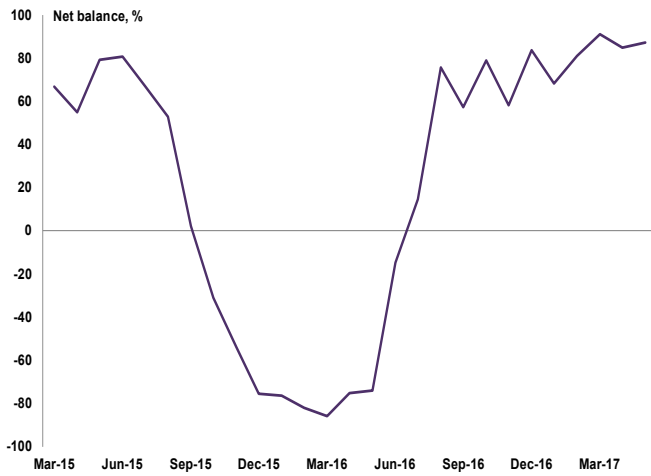
Headline sentiment surrounding the occupier market continues to be robust as momentum in tenant demand remains near cyclical highs. A net balance of 55% of respondents see rents increasing over the next three months, while respondents are forecasting a 4% increase in rents over the next year.

Chart 2: 3-month USD LIBOR-HIBOR spread

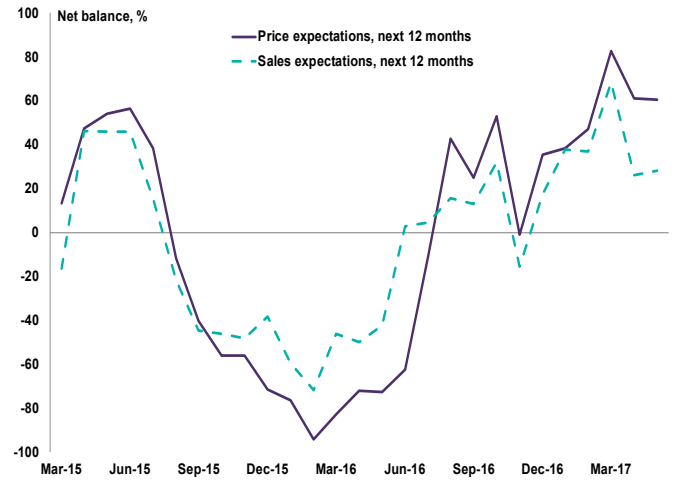


National market charts

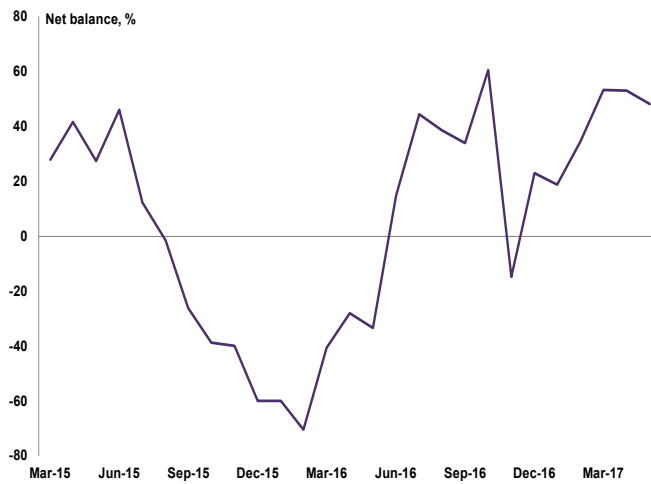
National Price Balance - past three months



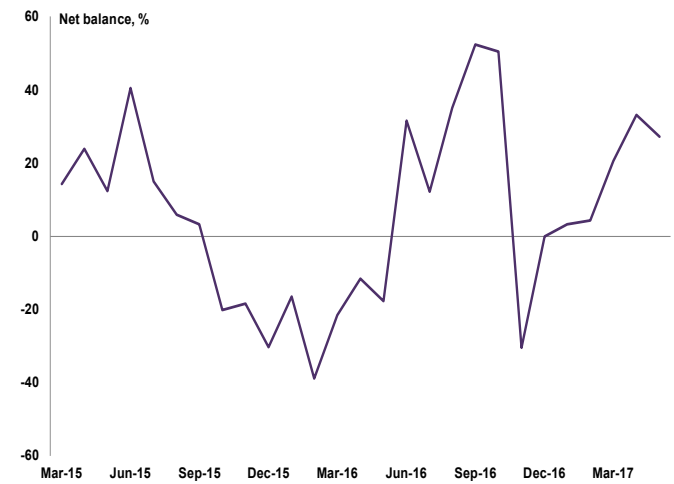
12 Month Expectations - prices and sales



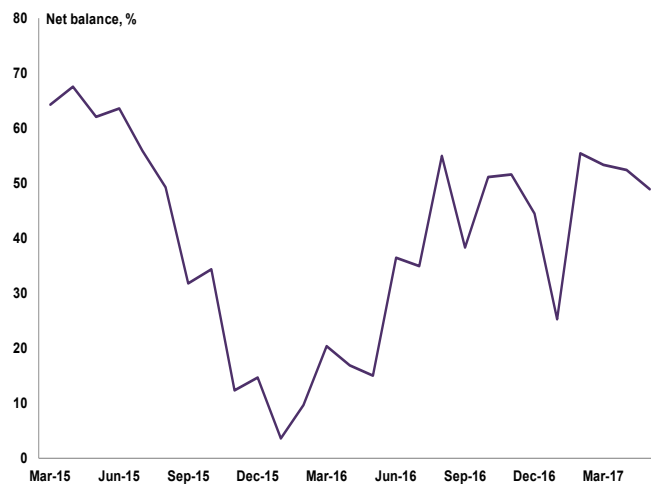
National New Buyer Enquiries - past month



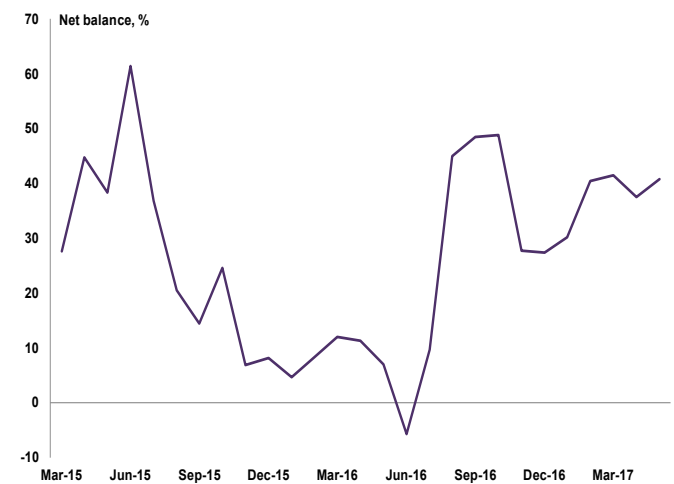
National New Instructions to Sell - past month



National Tenant Demand - past three months

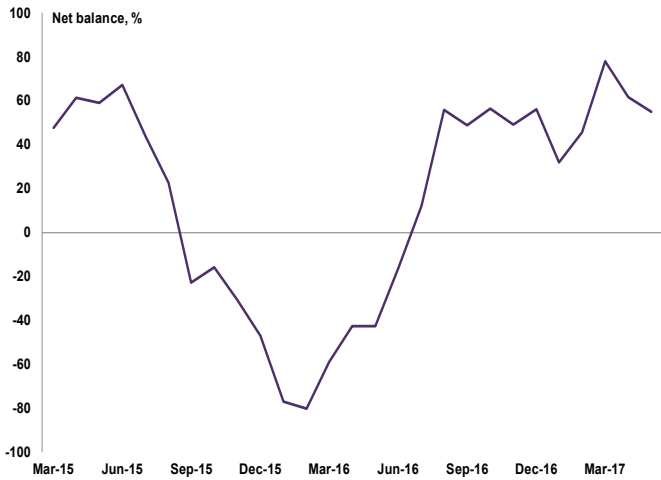


National Landlord Instructions - past three months

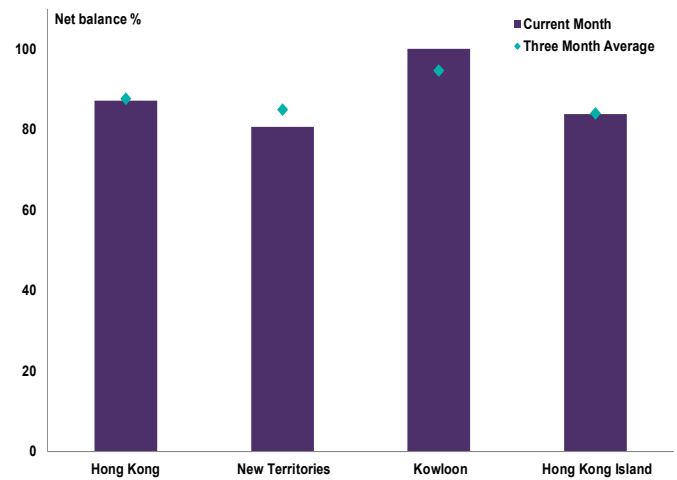


National/Regional market charts

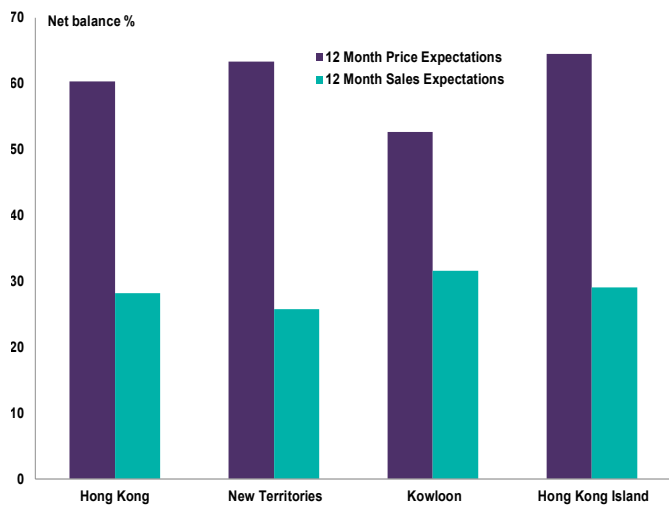
National Rent Expectations - next three months



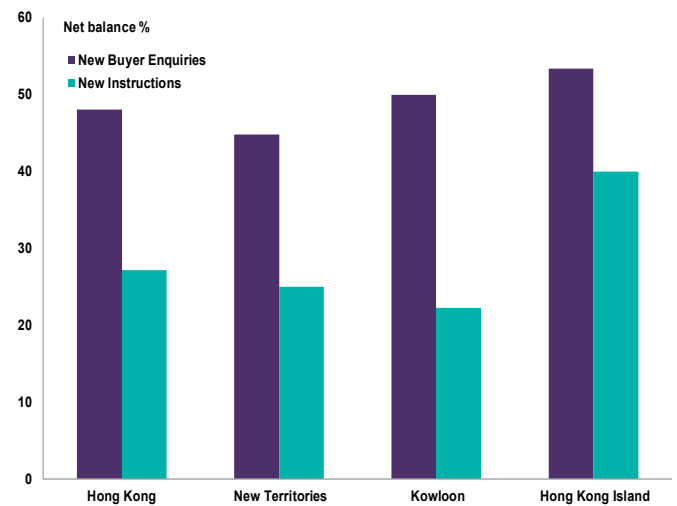
Regional Price Balance - past three months



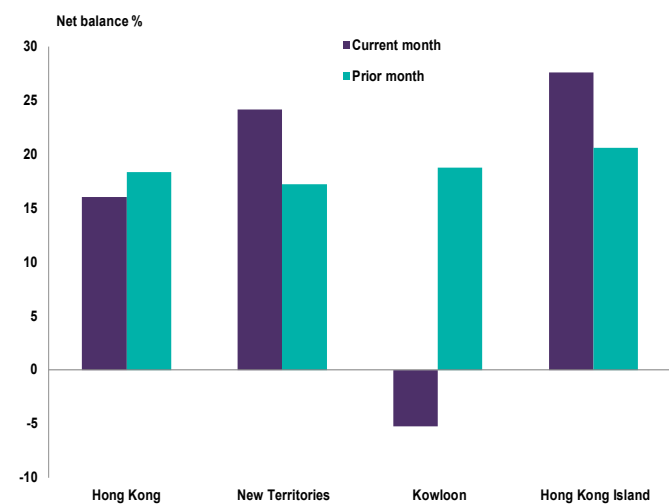
Regional 12 Month Expectations - prices and sales



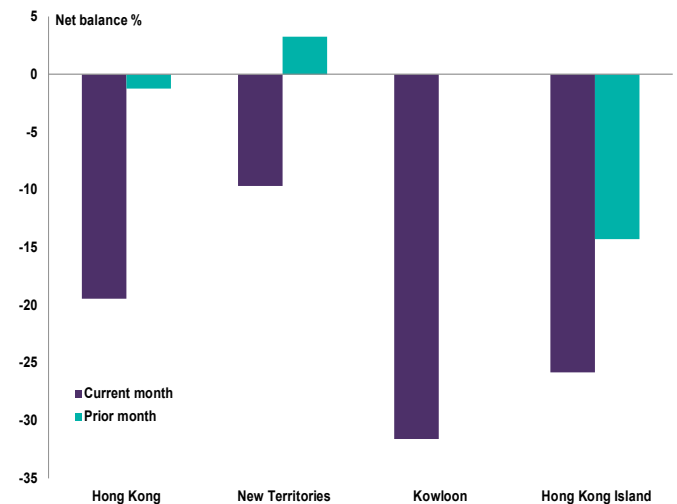
Regional New Buyer Enquiries and Instructions - past month



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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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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