



## May 2018: Hong Kong Residential Market Survey

# Market momentum remains at cyclical high in May

- Respondents report quickest price growth in net balance terms since survey's inception
- Little change reported in credit conditions despite sharp fall in HIBOR in May
- Supply-demand balance remains supportive of prices, though slightly less so for rents

The May Hong Kong Residential Market Survey shows a further pick up in momentum across the housing market. Respondents were nearly unanimous in reporting that prices increased in May, resulting in the highest reading of past price growth (in net balance terms) since the survey's inception, shown in Chart 2. Likewise, the Confidence Index reading reflected this continued positive momentum. Chart 1 shows that the index, a composite measure of price and sales expectations, increased for a second consecutive month, to the highest level since March 2017.

As shown in Chart 13, demand from mainland Chinese buyers rebounded in May. This was driven by renewed interest in properties in the New Territories and Kowloon, though mainland demand in these regions has been volatile. Meanwhile, enquiries on properties on Hong Kong Island has been increasing fairly consistently since the end of 2017.

Against this backdrop, respondents short-term expectations for prices and sales (Charts 4 and 5 respectively) increased sharply in May. Expectations for prices and sales over the next year, as shown in Chart 6, continued to trend higher.

Increasing credit costs may dampen the exuberant

outlook for prices in the coming months, however. One-month HIBOR rates decreased by approximately 30 basis points in May. However, it has since reversed course and increased by nearly fifty basis points in the first week of June. Perhaps owing to the time period that responses were collected, 21-May to 10-June, respondents reported little change in credit conditions during May (Chart 14).

Data released by the Hong Kong Monetary Authority (HKMA) indicates that banks are adjusting to higher wholesale funding costs. The share of mortgage loans that are linked to HIBOR fell from above 90% at the end of 2017 to below 50% in April. These loans tend to be priced at one-month HIBOR plus 120-140 basis points, but capped at 2.15-2.25%. Given current HIBOR rates, most of these loans are currently up against their cap. The HKMA data also showed that the share of fixed rate lending increased from less than 5% to around 50% over the same period.

Respondents reported an increase in rents for the twenty-second consecutive month, as seen in Chart 8. This comes despite Chart 7 indicating that the gap between demand and supply (in net balance terms) being the slimmest since January 2017.

Chart 1: Confidence Index

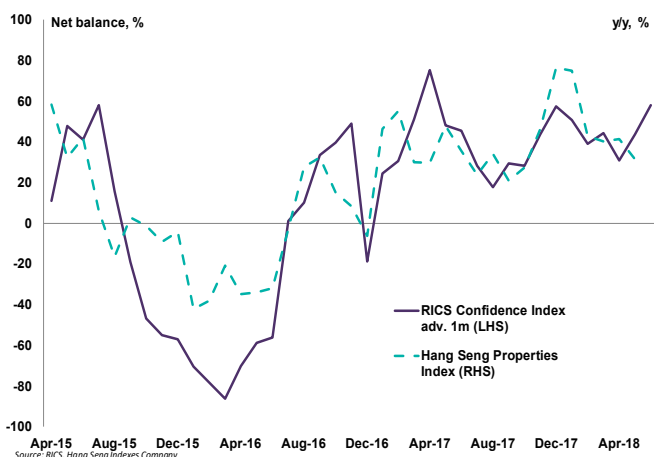
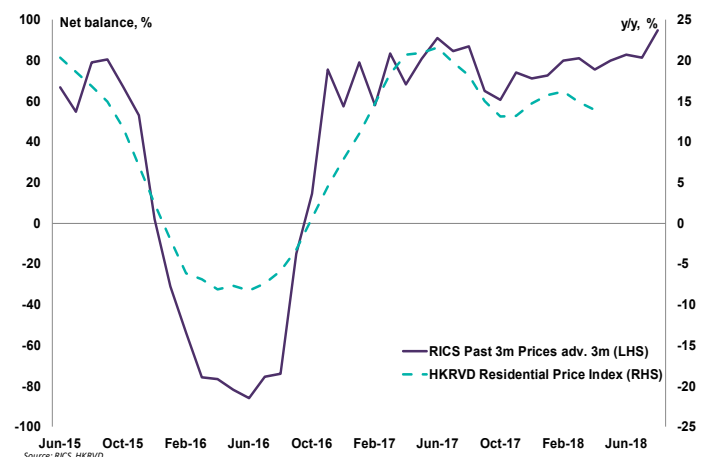


Chart 2: Prices - past month



# National market charts

Chart 3: Sales - past month

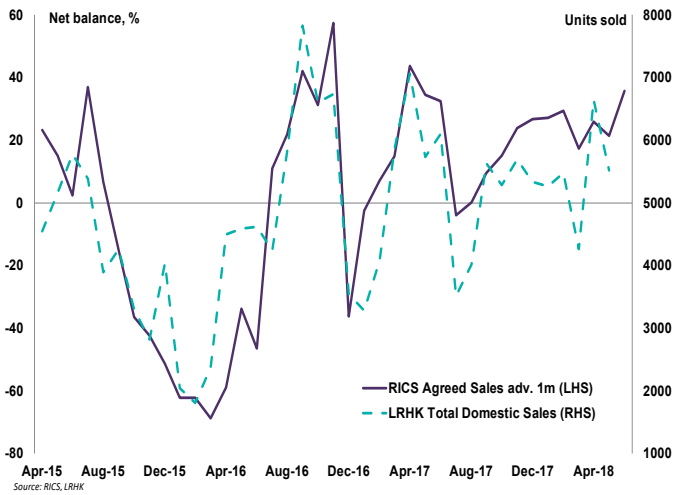


Chart 4: Price expectations - next 3 months

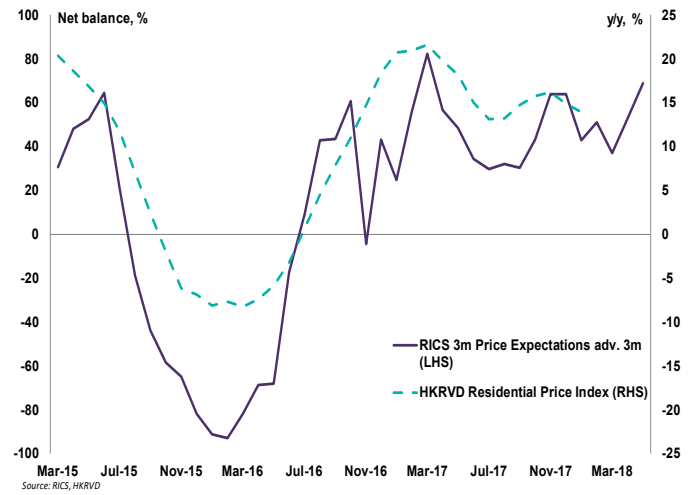


Chart 5: Sales expectations - next 3 months

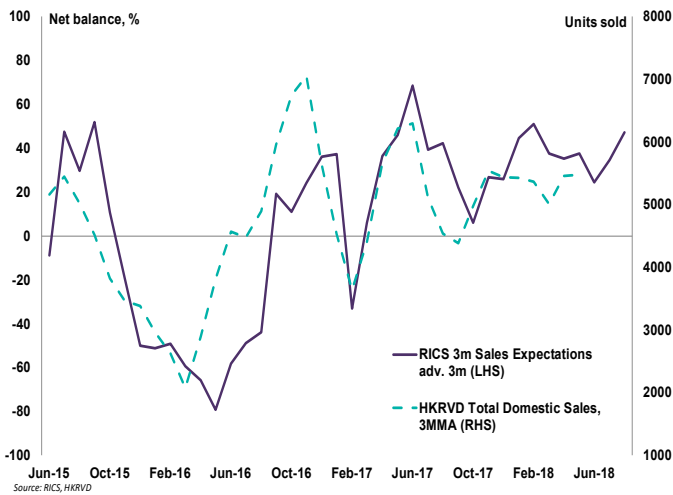


Chart 6: 12 month expectations - prices and sales

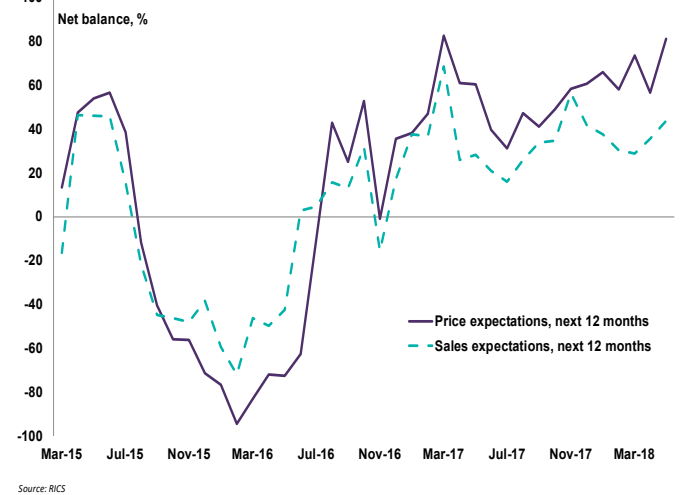


Chart 7: Tenant demand and landlord instructions - past three months

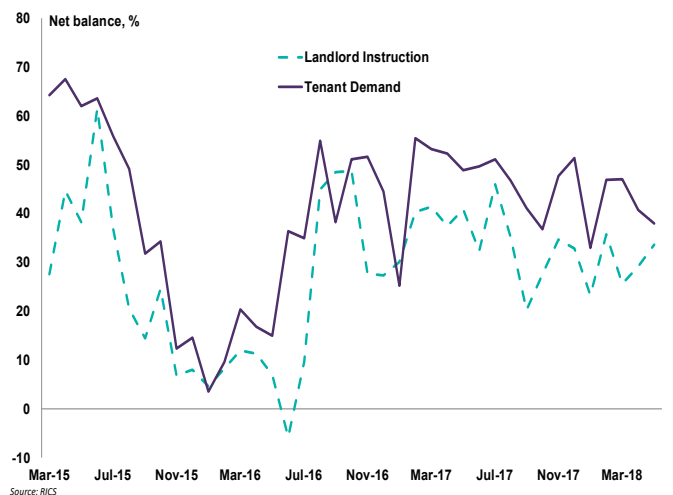
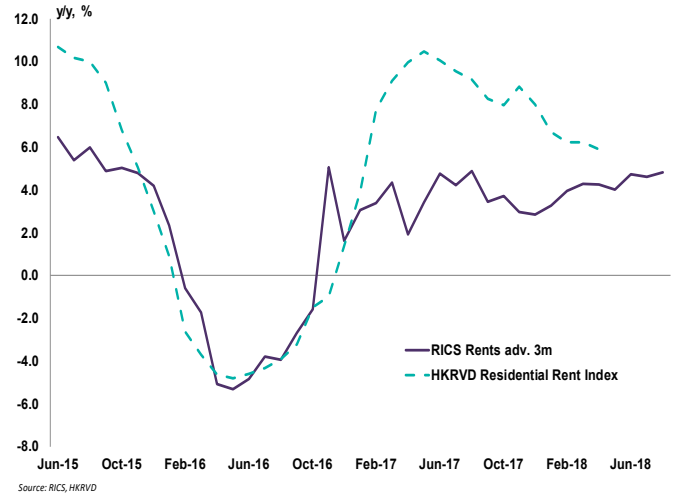


Chart 8: Past rents



# Regional market charts

Chart 9: Price forecasts - next twelve months

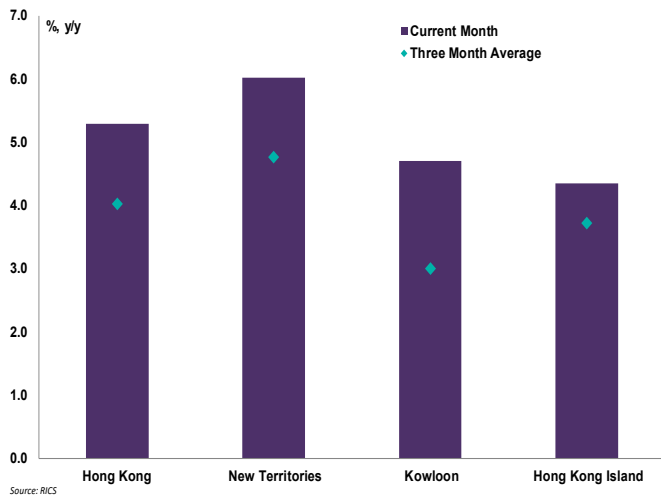


Chart 10: Rent forecasts - next twelve months

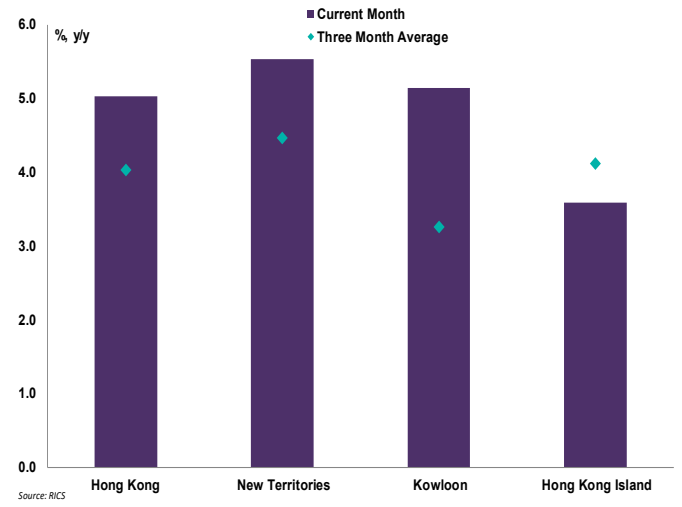


Chart 11: 12 month expectations - prices and sales



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

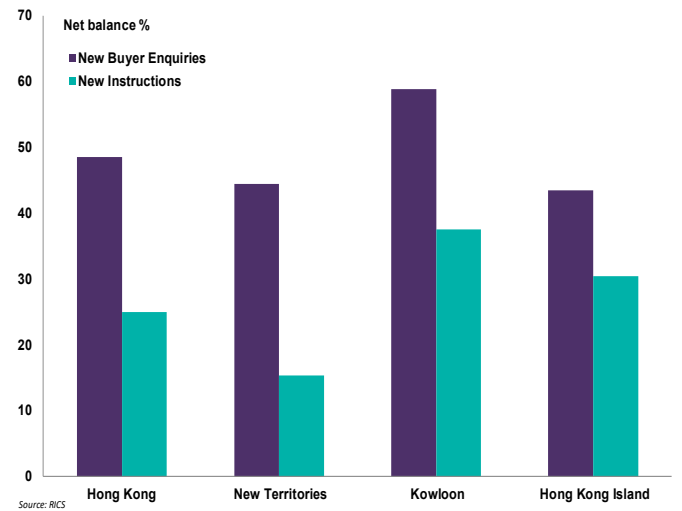


Chart 13: Buyer enquiries from mainland China

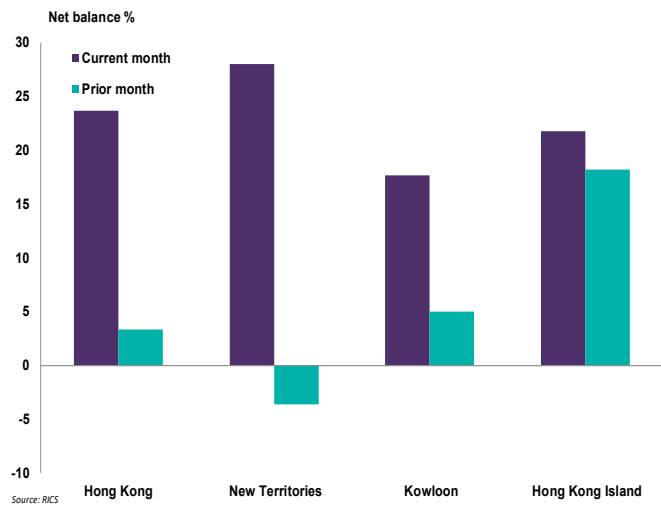
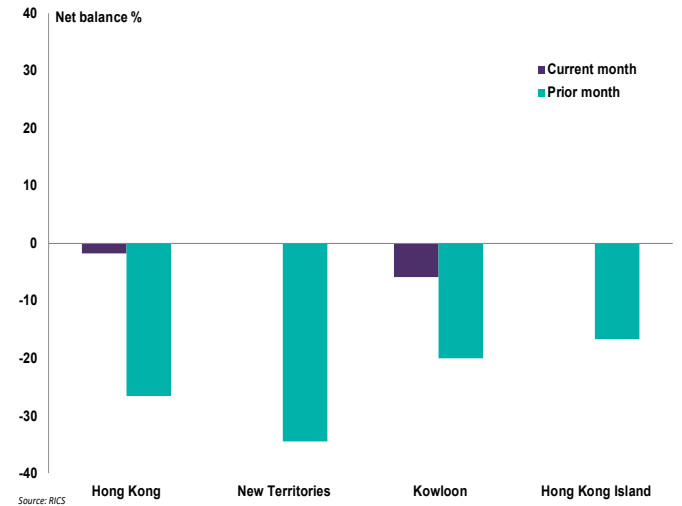


Chart 14: 3 month expectations - credit conditions



# 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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