



## November 2017: Hong Kong Residential Market Survey

# Domestic demand continues to support price, sales expectations

- Buyer demand continues to outpace supply of properties to purchase to support price and sales expectations
- Rents continue to grow and are expected to maintain momentum over the next quarter
- Contributors indicate banks have yet to pass on costs of higher borrowing costs to customers

The November Hong Kong Residential Market Survey indicates that housing market sentiment continues to gain momentum. The Confidence Index, an amalgamated measure of short-term price and sales expectations, continued to gain traction in November as indicated in Chart 1.

As shown in Chart 2, respondents continued to report robust price momentum over the past three months, as well as an increase in sales volumes over the past month (Chart 3). Against this backdrop, both price growth (Chart 4) and volumes (Chart 5) are seen increasing over the next three months.

Chart 12 shows that the market continues to be supported by solid demand which continues to outstrip supply across all three regions (New Territories, Kowloon, Hong Kong Island). Although there has been some pickup in demand from mainland buyers in Kowloon, as Chart 13 shows headline demand remains little changed. This indicates that most of the buying has been driven by domestic buyers.

The lettings market exhibits a similar trend, as tenant demand has continued to outstrip the supply of properties to rent (Chart 8). Respondents reported

that rental growth has remained firmly positive, and expectations for rental price growth over the next three months in net balance terms. As shown in Chart 7, this indicates that the HKRVD rent index will continue to show robust momentum over the coming months.

Meanwhile, interest rates in Hong Kong began to respond to the increase in interest rates in the United States. Since mid-October the 1-month HIBOR, which banks use to price mortgages, has risen by more than 50 basis points. However, there is evidence that banks have yet to pass these increases on to clients as mortgage rates have yet to adjust. Indeed, as shown in Chart 14, survey respondents continue to report little change in credit conditions.

If HIBOR continues to increase banks will eventually need to raise lending rates. With almost HK\$1.2 trillion of mortgage debt outstanding in Hong Kong and housing affordability at its worst since 1998, this could significantly undercut domestic demand. The IMF has warned of a “moderate slowdown” in Hong Kong housing prices if the path of interest rates increase as expected. This moderate slowdown could be exacerbated if inflationary pressures force interest rate hikes at a faster pace than is currently forecast.

Chart 1: Confidence Index

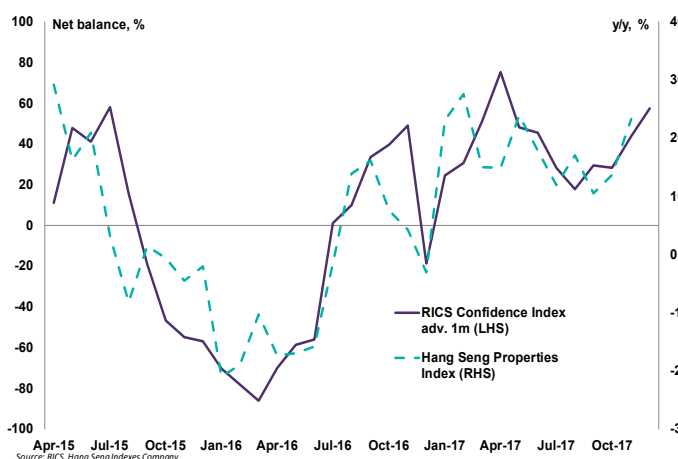
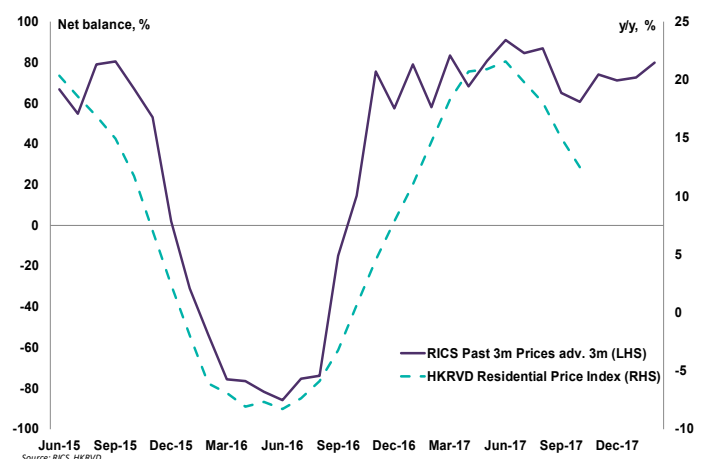


Chart 2: Prices - past month



# National market charts

Chart 3: Sales - past month

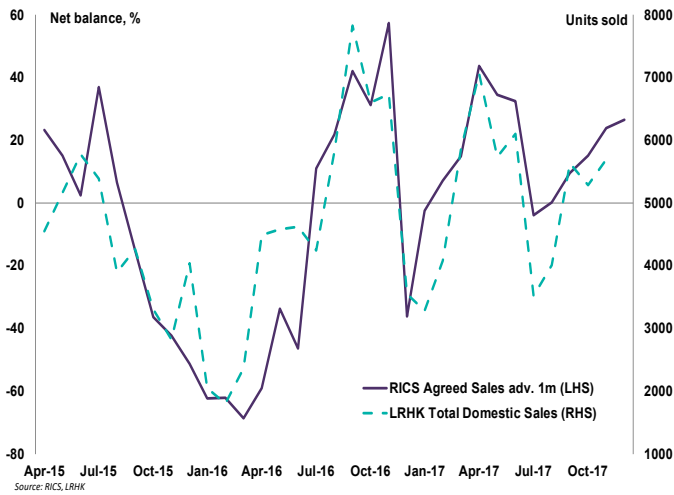


Chart 4: Price expectations - next 3 months

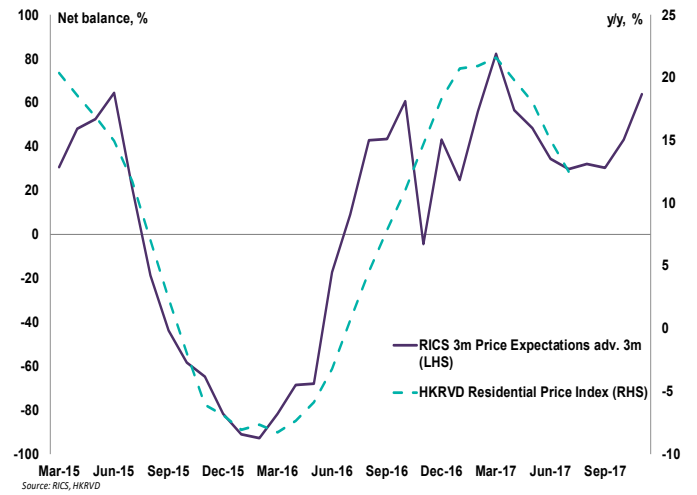


Chart 5: Sales expectations - next 3 months

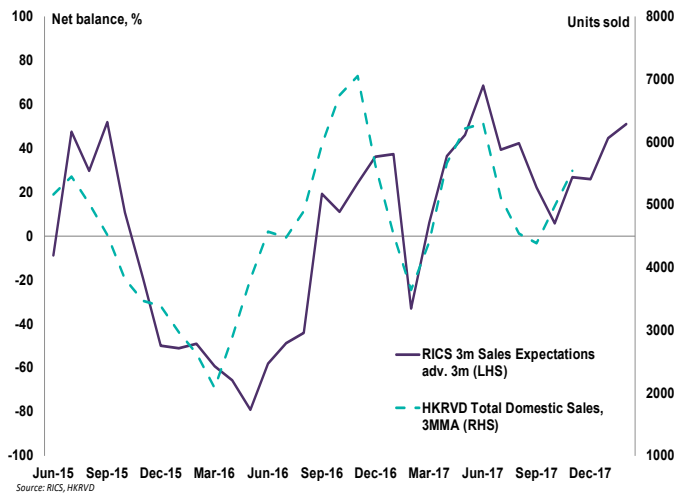


Chart 6: 12 month expectations - prices and sales

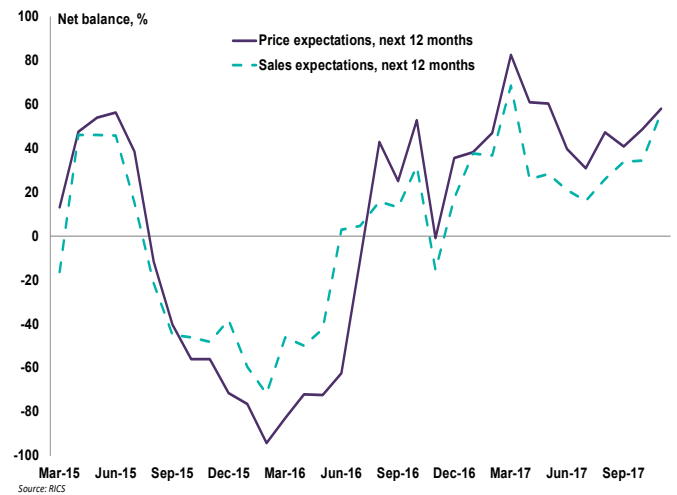


Chart 7: Tenant demand and landlord instructions - past three months

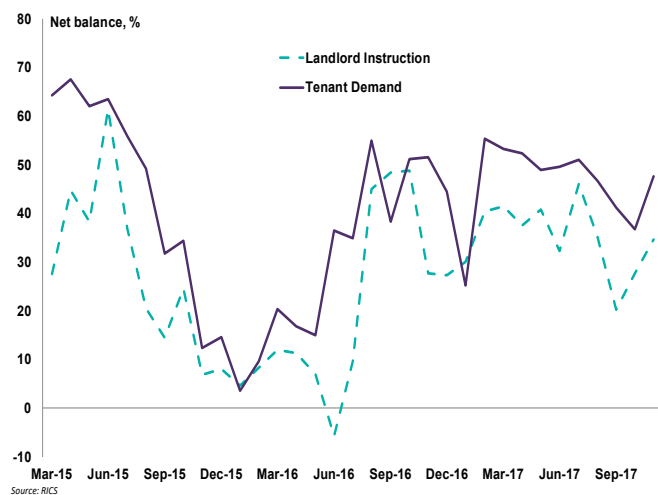
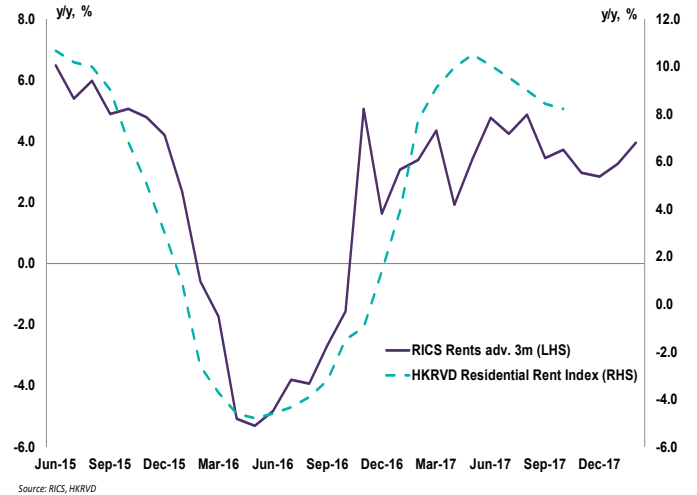


Chart 8: Past rents



# Regional market charts

Chart 9: Price forecasts - next twelve months

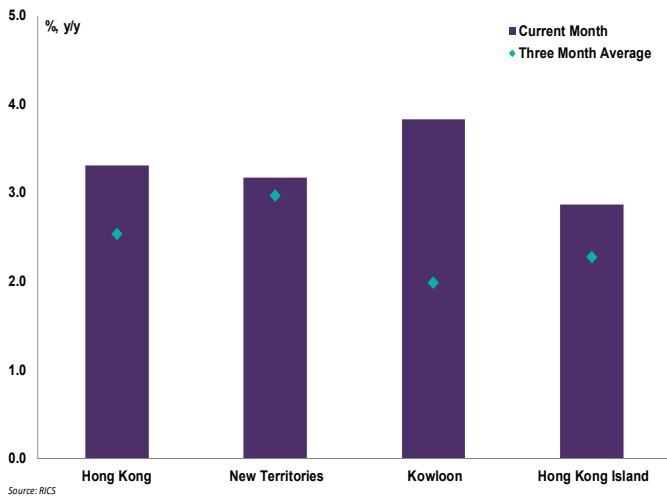


Chart 10: Rent forecasts - next twelve months

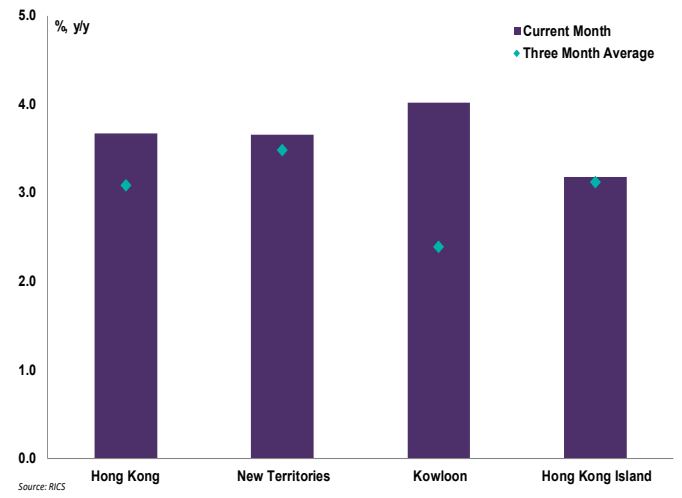


Chart 11: 12 month expectations - prices and sales

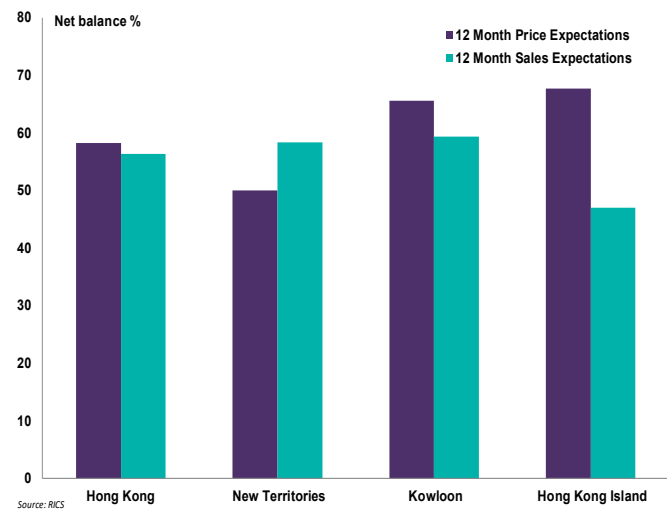


Chart 12: Instructions to sell and buyer enquiries - past month

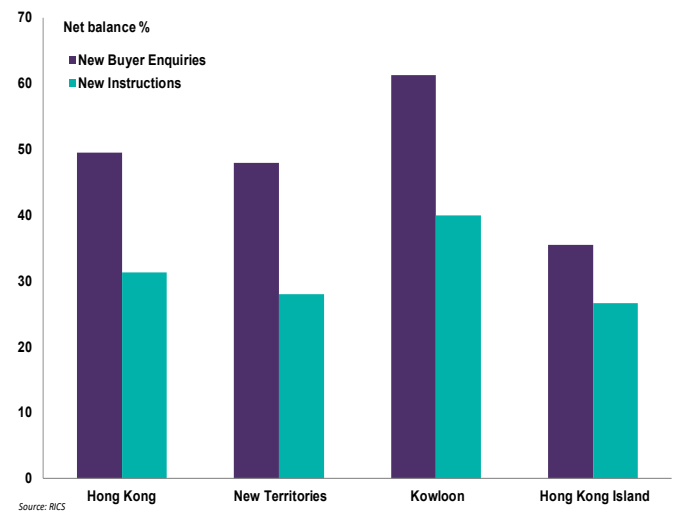


Chart 13: Buyer enquiries from mainland China

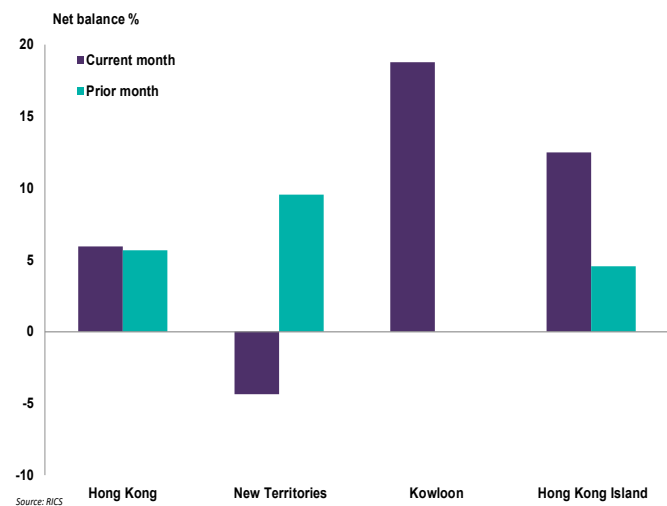
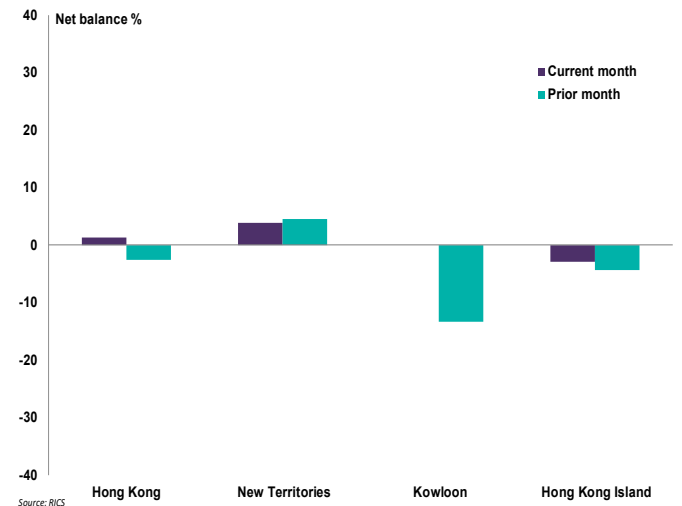


Chart 14: 3 month expectations - credit conditions



# Methodology

## Contact:

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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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