



September 2017: Hong Kong Residential Market Survey

Short-term growth expectations remain positive though medium-term outlook more subdued

- Respondents continue to expect prices and rents to increase notwithstanding the easing in momentum over the past couple of quarters.
- Demand from mainland China remains flat ahead of the 19th Party Congress in October, while Hong Kong banks' liquidity buffers continue to keep credit conditions stable.

The September Hong Kong Residential Market Survey indicates that sentiment surrounding the housing market remained positive. Contributors reported an increase in both volumes and values over the past month.

As shown in chart 6, at a headline level the balance of fresh supply against new demand shifted from being broadly supportive of price gains to a modest drag, as the increase in instructions to sell (supply) outpaced the increase in buyer enquiries (demand). Disaggregating the numbers (see chart 12) demonstrates that while demand and supply indicators were relatively similar in the New Territories, in Kowloon and Hong Kong Island respondents reported a material gap between the former and the latter.

For the fourth consecutive month, headline prices were largely driven by domestic buyers as enquiries from mainland China were flat.

Against this backdrop, respondents expect both headline prices and volumes to increase over the next three months. However chart 11 shows that this is largely as a result of bullish sentiment in the New Territories,

as prices and sales volumes over the next quarter are expected to be more subdued on Hong Kong Island and Kowloon.

Although contributors indicate that the market is likely to maintain some short term momentum, chart 3 indicates that the y/y pace of price increases is likely to slow a little in coming months from current elevated levels partly as a result of base effects. As shown in chart 9, prices in the New Territories are expected to outperform those in Kowloon and on Hong Kong Island over the next year.

For the fourth consecutive month respondents reported flat credit conditions. They are expected to remain flat over the next quarter. Note that the US Federal Reserve is not expected to increase interest rates until its December meeting, where it is also expected to tighten liquidity via balance sheet tapering.

Respondents remained positive on the rental market, although momentum continued to fade. As chart 7 shows, this likely marks a slowdown in headline rental growth in the coming months, though chart 8 indicates that demand growth continues to outpace that of supply.

Chart 1: Prices - past month

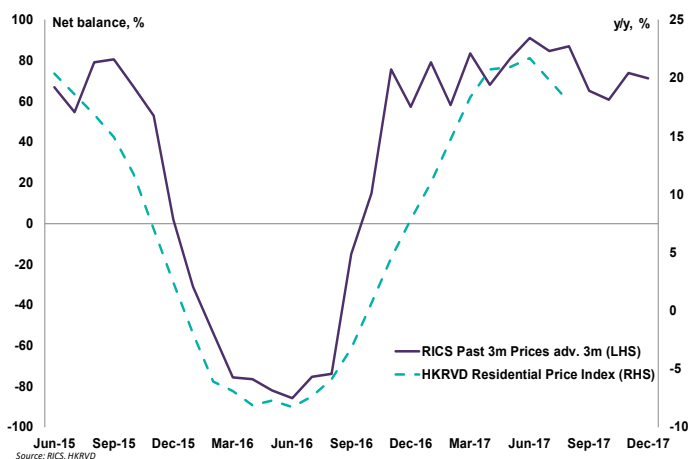
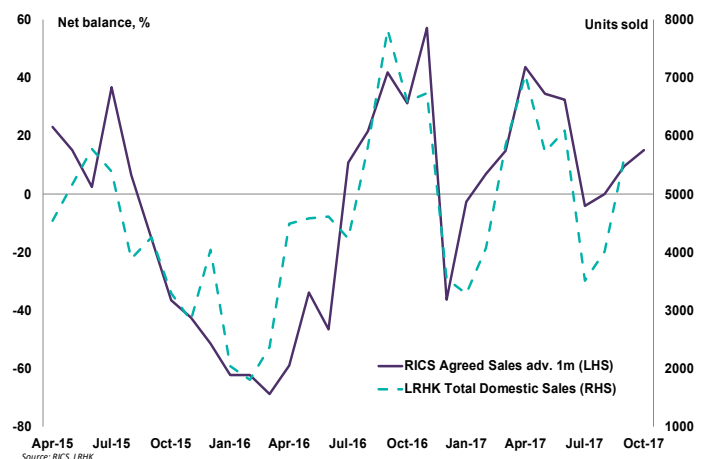


Chart 2: Sales - past month



National market charts

Chart 3: Price expectations - next 3 months

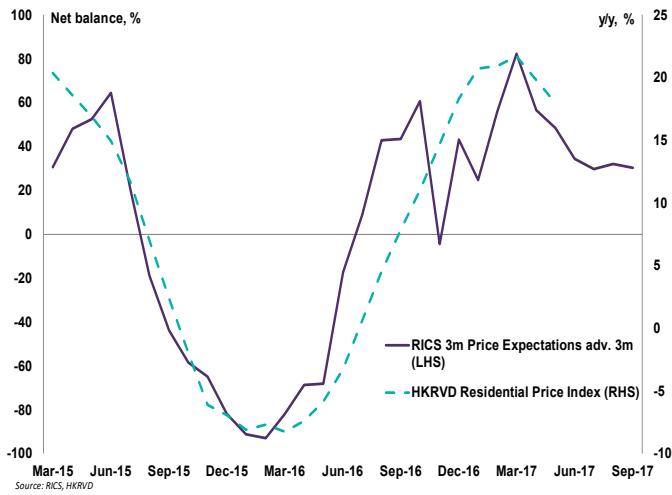


Chart 4: Sales expectations - next 3 months

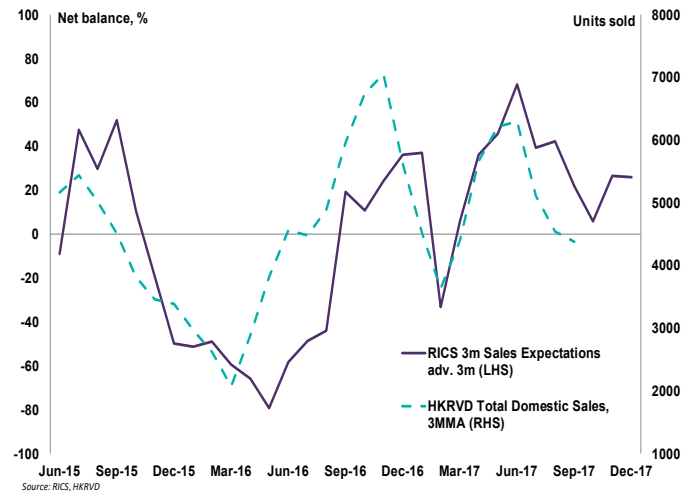


Chart 5: 12 month expectations - prices and sales

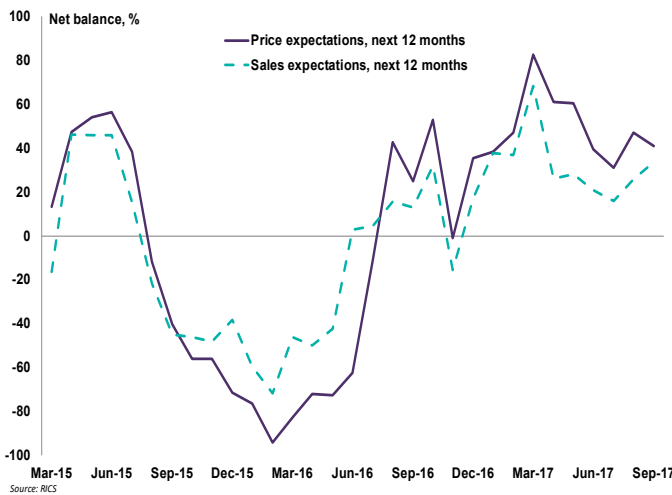


Chart 6: Instructions to sell and buyer enquiries - past month

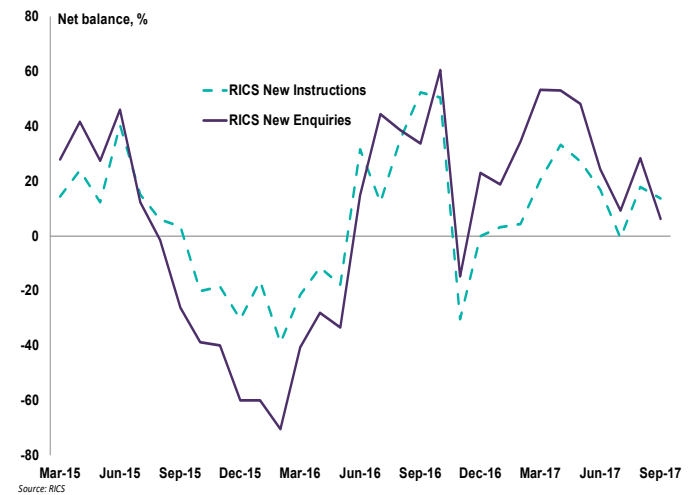


Chart 7: Rent expectations - next three months

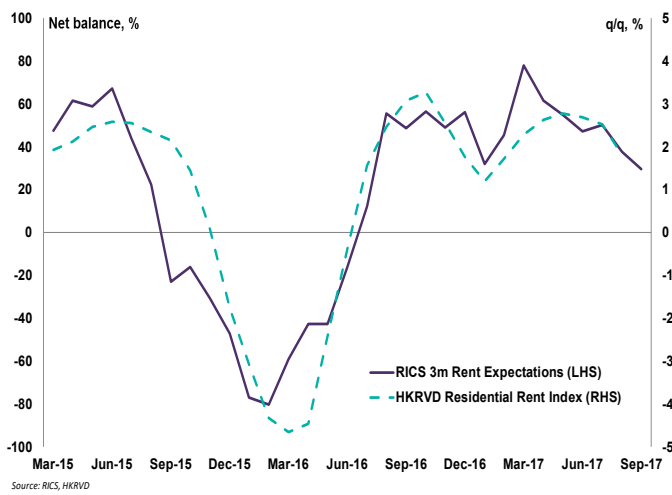
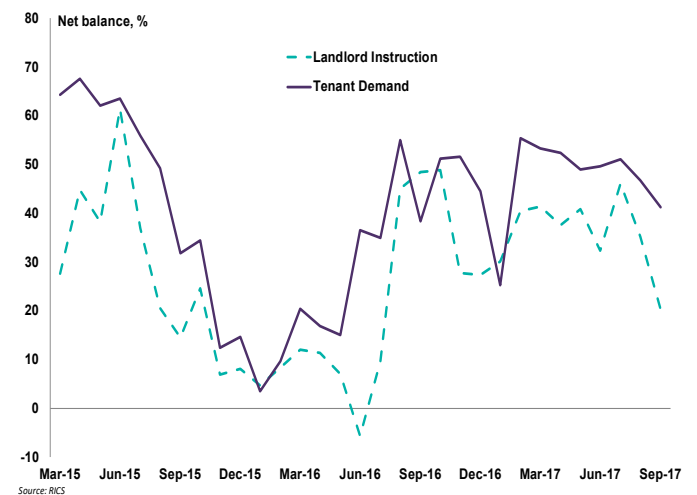


Chart 8: Tenant demand and landlord instructions - past three months



Regional market charts

Chart 9: Price forecasts - next twelve months

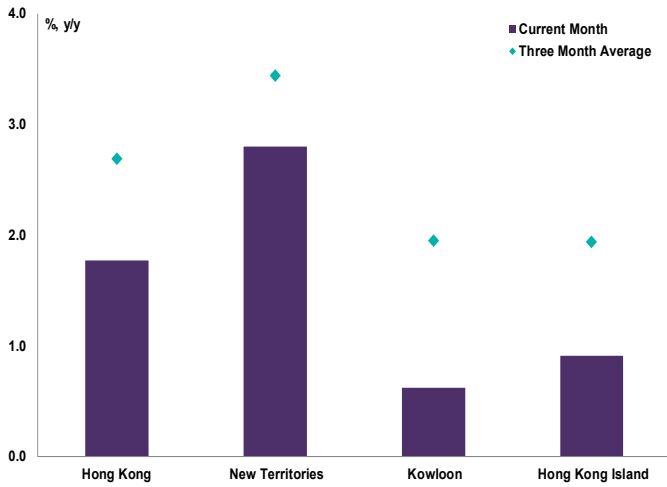


Chart 10: Rent forecasts - next twelve months

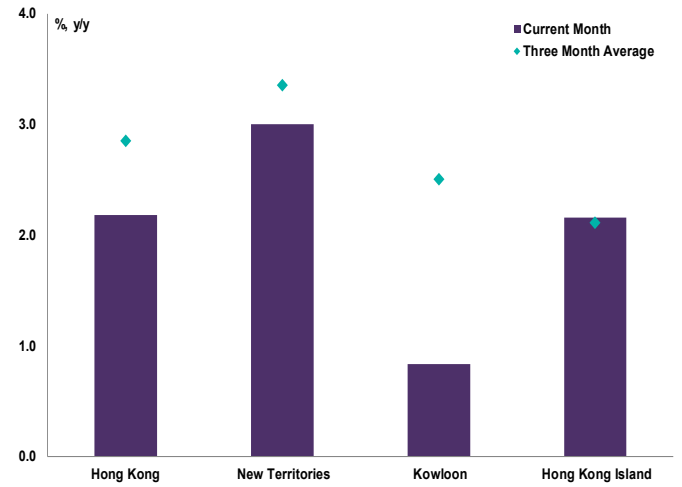


Chart 11: 12 month expectations - prices and sales

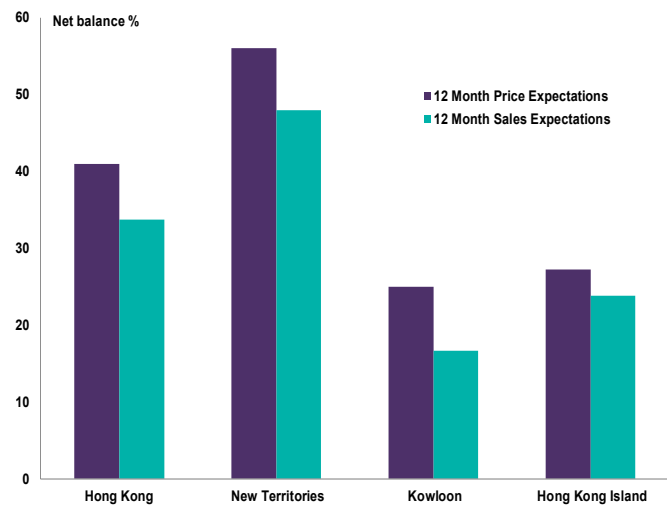


Chart 12: Instructions to sell and buyer enquiries - past month

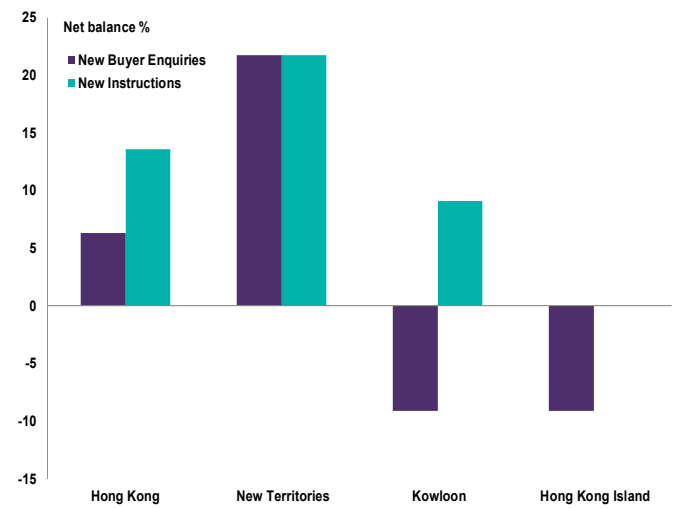


Chart 13: Buyer enquiries from mainland China

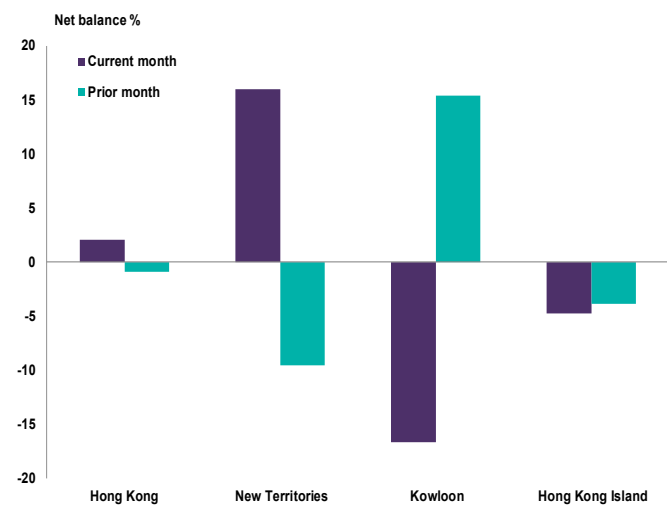


Chart 13: 3 month expectations - credit conditions



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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