



August 2018: Hong Kong Residential Market Survey

Expectations moderate as house price inflation cools

- Respondents' report slower price growth as demand declined for the first time since 2016
- Credit conditions reported slightly tighter in August, expected to continue to tighten in near-term
- Rents show some resilience, though pace of increase expected to moderate

The results of the August Hong Kong Residential Market Survey point to a considerable slowdown in price inflation over the past three months. However, as shown by Chart 2, prices have continued to increase nonetheless.

Respondents reported a pullback in headline demand in August for the first time since 2016. This was particularly acute in Kowloon and on Hong Kong Island (Chart 12). Both owner-occupier and investor enquiries were reported to have declined across all three regions (the New Territories, Kowloon, Hong Kong Island). Similarly, mainland Chinese buyer enquiries decreased across all areas, having reportedly increased in July (Chart 13).

Chart 12 also indicates the supply-demand balance to be a drag on prices. Although the supply of new properties in Kowloon and Hong Kong declined in August, it did so at a slower pace than did demand. Meanwhile, in the New Territories, although buyer enquiries were little changed, the supply of houses for sale in the area continued to increase.

Credit conditions were also reported to have deteriorated slightly in August as HIBOR rates increased. Chart 14 shows respondents expect a continued deterioration in credit conditions in the near term, as the US Federal

Reserve appears set to raise interest rates further.

Against this backdrop, prices are expected to decline over the next three months (Chart 4) and are seen little changed over the next year at the national level (Chart 6). However, Chart 9 indicates that respondents now see home prices on Hong Kong Island declining over the coming year. Contributors noted that higher interest rates are likely to be a factor in cooling the housing market in the coming months.

Meanwhile, Charts 3 and 6 show that sales volumes are seen declining over the next three and twelve months. Chart 11 shows that this downbeat assessment is predominantly driven by a decline in volumes in the New Territories over the next year, respondents see little change sales volumes in Kowloon and on Hong Kong Island on the same basis.

Despite some concerns over the impact of a China-US trade war on economic activity, rents are still seen increasing over the next three and twelve months, as shown by Charts 8 and 10 respectively. However, this has moderated in recent months. Although the pace of increase in tenant demand has slowed, this appears to be offset to some degree by a tighter supply of properties to rent on the market (Chart 7).

Chart 1: Confidence Index

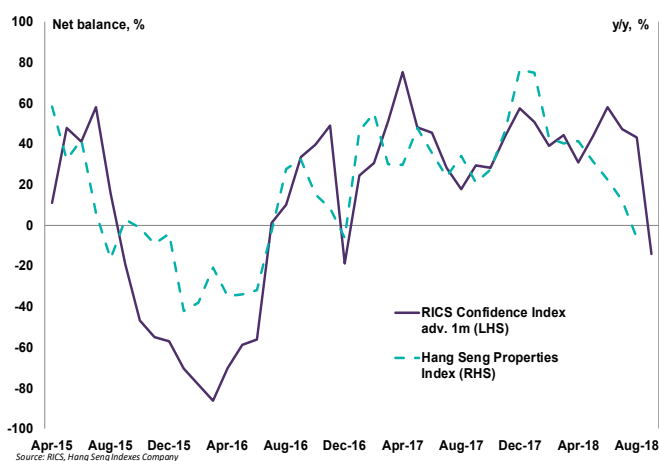
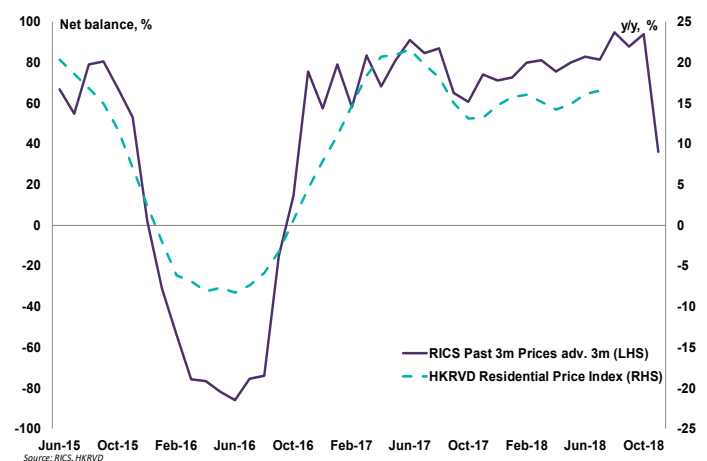


Chart 2: Prices - past three months



National market charts

Chart 3: Sales - past month

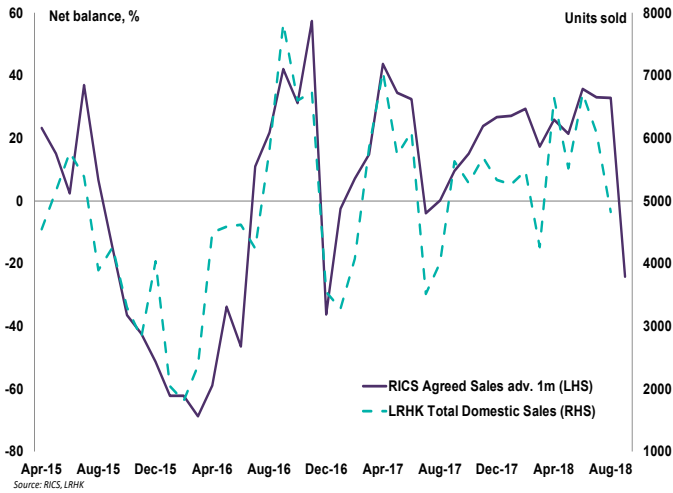


Chart 4: Price expectations - next 3 months

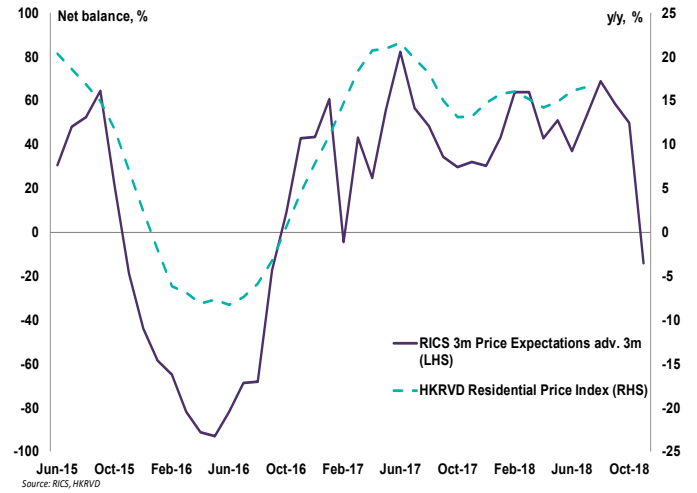


Chart 5: Sales expectations - next 3 months

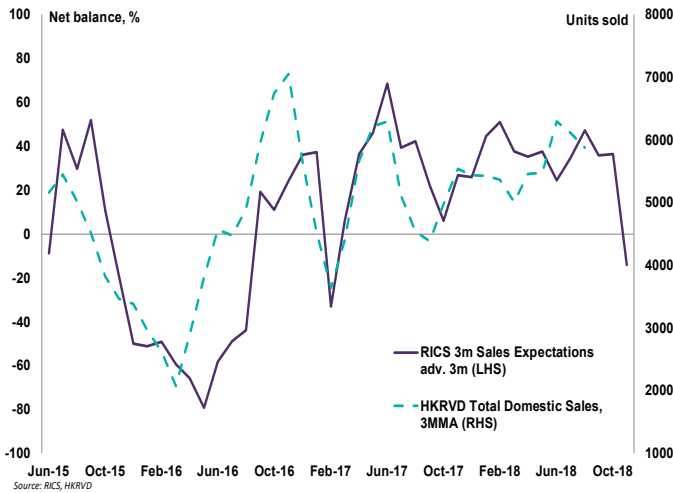


Chart 6: 12 month expectations - prices and sales

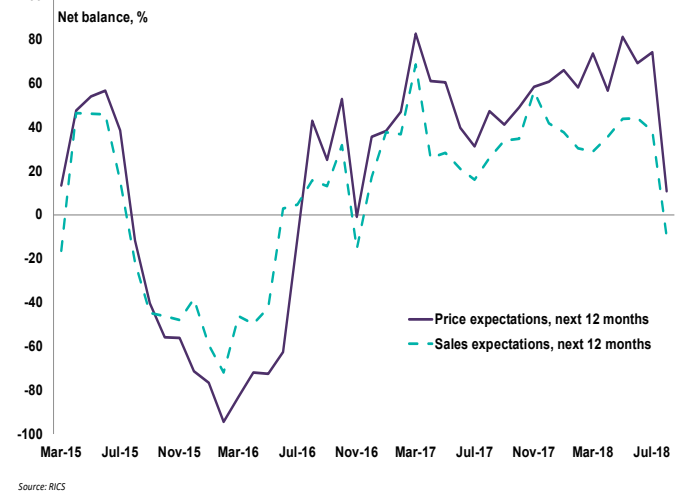


Chart 7: Tenant demand and landlord instructions - past three months

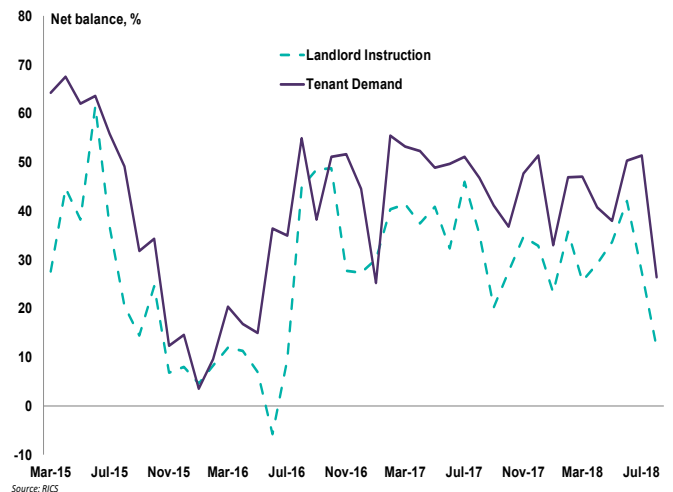
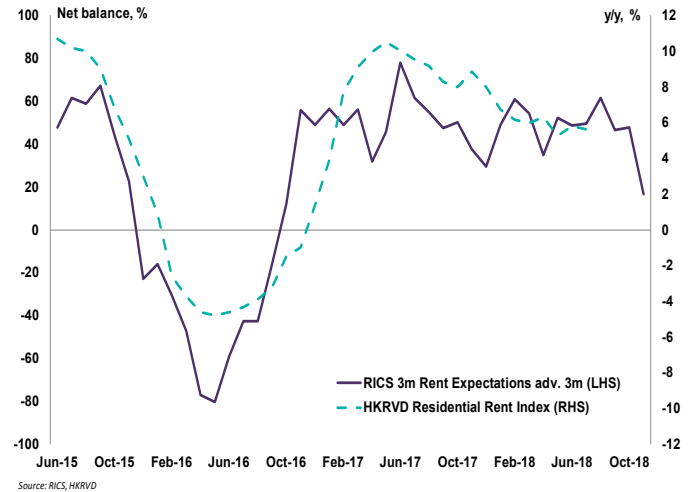


Chart 8: Rent expectations - next 3 months



Regional market charts

Chart 9: Price forecasts - next twelve months

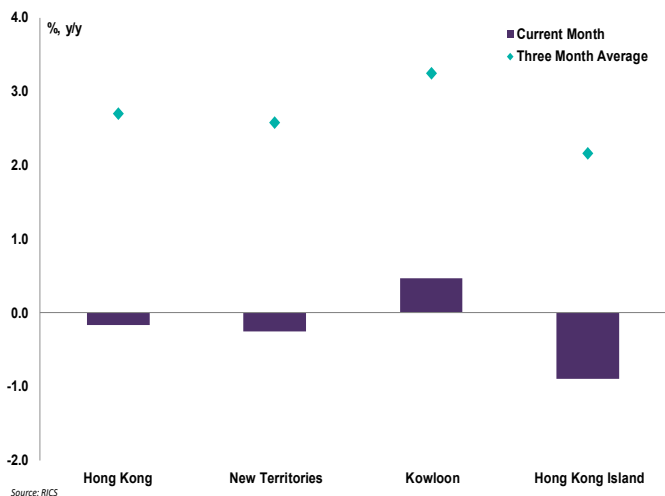


Chart 10: Rent forecasts - next twelve months

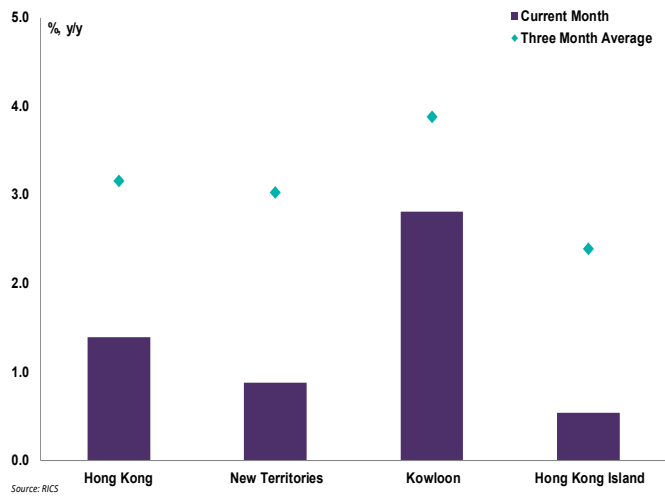


Chart 11: 12 month expectations - prices and sales

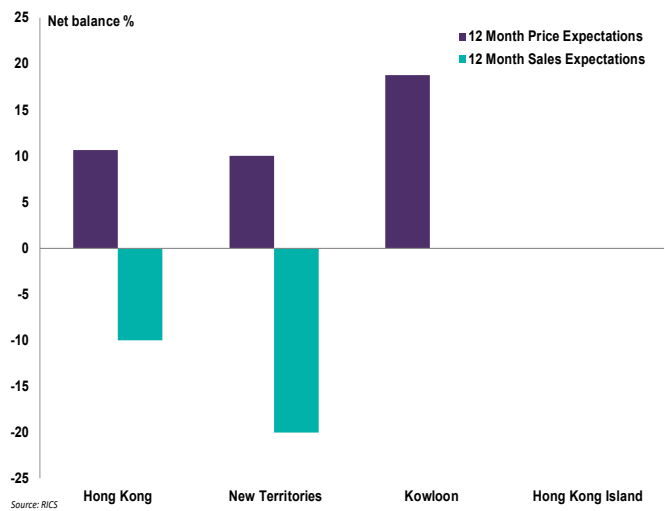


Chart 12: Instructions to sell and buyer enquiries - past month



Chart 13: Buyer enquiries from mainland China

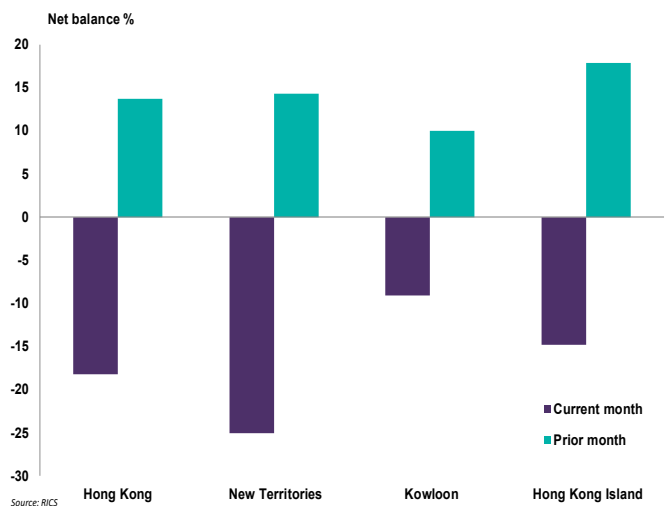
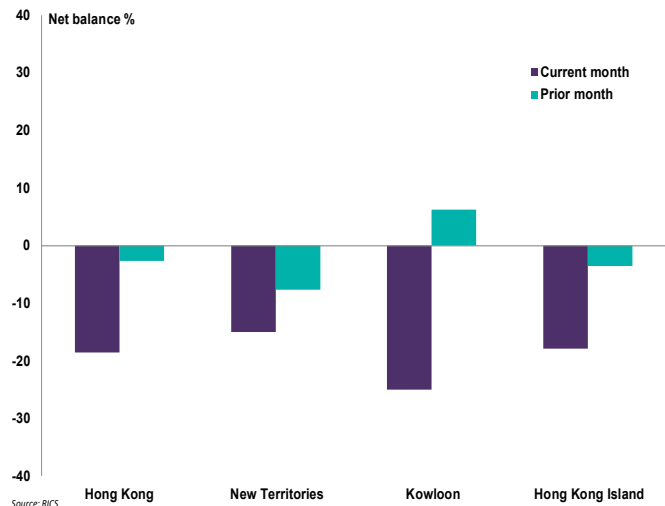


Chart 14: 3 month expectations - credit conditions



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 have buyer inquiries from property investors changed over the last month? (down/same/up)
7. How have buyer inquiries from owner occupiers changed over the last month? (down/same/up)
8. How do you expect prices to change over the next 3 months? (down/same/up)
9. How do you expect sales to change over the next 3 months? (down/ same/ up)
10. How do you expect sales to change over the next 12 months? (down/ same/ up)
11. How do you expect average house prices, in your area, to change over the next 12 months? (% band, range options)
12. How have credit conditions changed over the past month? (deteriorated/same/improved)
13. How do you expect credit conditions to change over the next 3 months? (deteriorate/same/improve)
14. How have rents changed over the last 3 months? (% band, range options)
15. How has tenant demand changed over the last 3 months? (down/ same/ up)
16. How have landlords instructions changed over the last 3 months? (down/ same/ up)
17. How do you expect rents to change over the next 3 months? (down/ same/ up)
18. How do you expect average rents, in your area, to change over the next 12 months? (% band, range options)

19. How have the total number of unsold houses on books changed over the last month? (down/same/up)

20. How has the length of time from listing to the completion of the sale changed over the last month? (down/same/up)

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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