

Residential Market Rebounds as Buyers Shake Off Economic Jitters

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The improvement in market sentiment driven by greater incentives offered by developers and prolonged negative real interest rates stirred up renewed buying interest in residential properties in Q3 2016. Home prices regained momentum with luxury residential prices increasing by 2.2% QOQ; meanwhile, mass residential prices saw higher growth of 4.3% QOQ. Colliers expects home prices may now not fall this year, but rather remain more or less flat for luxury properties and rise in the mid-single digit range for mass market housing. However, affordability remains very stretched and eventual increases in interest rates are a risk.

Quarter at a glance

Demand

The Hong Kong residential market is heavily driven by sentiment. Modestly improving economic news, the 12% increase in the Hong Kong stock market over Q3, the persistence of negative real interest rates and a pool of pent up end-user demand should all help drive sentiment, supporting the local housing sector.

Rent

Overall luxury residential rents saw signs of stabilisation in Q3 2016 (-0.9% QOQ) with a decline of 4.8% over the year to end-September. For 2016 as a whole, rental growth for luxury properties should see a mild decline of 2.0% after a solid 9.7% increase last year.

Price

Luxury home prices should remain flat in 2016, with mass residential prices showing low single digit growth.

Year	Current	2016 Forecast
Overall Luxury Residential Rent	\$42.64	-2.0%
Overall Luxury Residential Price	\$22,434	Flat
Yield	2.4%	+10 bps (YOY)

Rents are expressed as HKD per sq ft per month

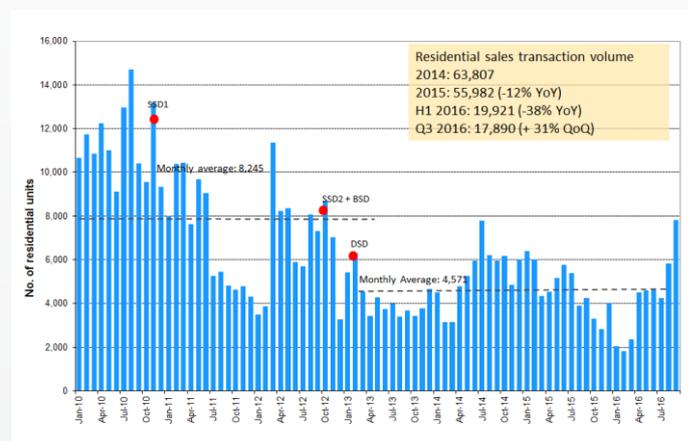
Prices are expressed as HKD per sq ft

Source: Colliers

Residential sales increased 31% QOQ in Q3 2016

Over Q3 2016, Hong Kong developers offered new home projects at attractive prices and with greater incentives, such as proposing aggressive financing schemes in an effort to speed up sales. The consequence was renewed interest in residential properties. The total sales of homes increased 31% quarter-on-quarter (QOQ) to 17,890 in Q3 2016, while transactions increased 32% from one year previously.

Residential Sales and Purchase Agreements



Source: Land Registry



Growth in home prices accelerating

The delay in the pace of US interest rate increases has prolonged the period of negative real interest rates in Hong Kong. This factor helped the market to rebound during Q3 2016, with overall mass residential prices up 4.3% QOQ (based on preliminary figures). Meanwhile, luxury prices rose by 2.2% QOQ. As a result, the overall rate of decline in prices in both mass and luxury segments has tapered off to about 6% since their September 2015 peak. This compares with a decline of 11% between September 2015 and March 2016.

Home prices may not fall this year

The improved market sentiment has helped to stabilise the local residential market. We predict luxury home prices will remain more or less flat over 2016, with mass residential prices showing low single-digit growth.

Mass vs. Luxury Residential Price Trend



Source: Colliers, Rating and Valuation Department

Prospects for a downward price correction remain

Prospects for a downward price correction remain significant. Apart from very stretched affordability, the

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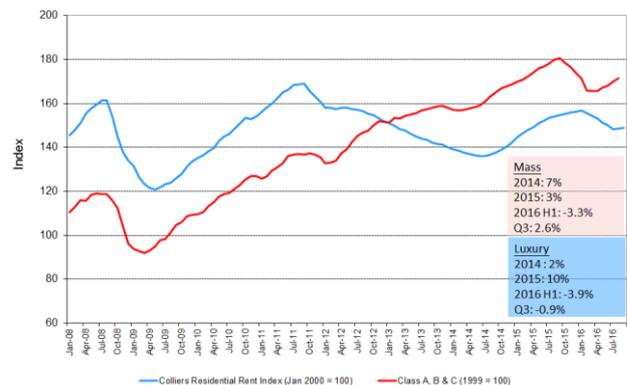
potential for interest rate increases following the lead of the US - most probably from December onwards - and an ample pipeline of new apartment supply represent important threats to the recent recovery in sentiment.

However, super-deluxe residential properties are less vulnerable to a downturn, as this market segment is always subject to tight supply with buyers willing to pay very high prices for trophy properties. Interest rate moves should have a more limited impact on the market for properties for millionaires than on mass housing.

Luxury rents to fall by 2% in 2016

Overall luxury residential rents saw signs of stabilisation in Q3, with the rate of decline slowing to -0.9%, versus -2.8% in Q2. For 2016 as a whole, rental growth for luxury properties should see a mild drop of about 2.0%. Multinational companies are holding housing allowances steady. Flats with monthly rents in the HKD40,000-80,000 (USD5,150-10,300) range remain the most active category; there are fewer tenants seeking flats with rents of HKD80,000-100,000 (USD10,300-12,890). Leasing activity in the top-end segment continues to suffer from a limited pool of high-budget tenants (with monthly income of HKD150,000 or USD19,300 and above).

Mass vs. Luxury Residential Rental Trend



Source: Colliers, Rating and Valuation Department