The residential market stayed firm despite the weakened economic growth and political turbulence. The number of transactions surged by 49% QOQ, and prices went up 4.6% QOQ**.

Although US Federal Reserve reaffirmed its intention to keep interest rates stable in 2019, the economic uncertainty and local political instability may bring more volatility to buyers’ sentiment. We believe the residential market could be more bumpy in the later half of 2019.

Luxury residential rents in traditional districts witnessed a slight pick up in Q2 2019, with increasing demand coming from mainland Chinese.

Buyers should take advantage of their increased bargaining power given the cautious economic and political outlook.

### Summary & Recommendations

<table>
<thead>
<tr>
<th>Demand</th>
<th>The total number of transactions increased 49% QOQ to 20,657 units as some buyers purchased residential flats for self-use while prices have bottomed out.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>Over the next five years, annual completions could reach the government’s target of 18,000 units at the maximum.</td>
</tr>
<tr>
<td>Rent</td>
<td>Despite the market uncertainties, the outlook for luxury residential rents remained positive in H2 2019, supported by solid leasing demand and landlords’ holding rents firm.</td>
</tr>
<tr>
<td>Capital Values*</td>
<td>After a strong rebound of overall residential prices in H1, the H2 2019 market could see more volatility on the back of uncertainties stemming from global economic environment and recent local tension.</td>
</tr>
</tbody>
</table>

### Key Figures

<table>
<thead>
<tr>
<th>Q2 2019</th>
<th>Full Year 2019</th>
<th>2018–23 Annual Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand: 20,657 transactions</td>
<td>Supply: 60,000 transactions</td>
<td>60,000 transactions</td>
</tr>
<tr>
<td>Supply: 2,892 units**</td>
<td>Demand: 16,500 units</td>
<td>18,000 units</td>
</tr>
<tr>
<td>Rent: HKD48.0</td>
<td>Rent: HKD48.1</td>
<td>Rent: HKD53.4</td>
</tr>
<tr>
<td>Capital Values*: 396.8**</td>
<td>Capital Values*: 381.1</td>
<td>Capital Values*: 418.8</td>
</tr>
</tbody>
</table>

Source: Colliers International

*Provisional price index by Rating and Valuation Department, 1999 = 100. **The total change in April and May 2019.

1 USD = 7.8 HKD. 1 sq m = 10.76 sq ft
A MORE BUMPY H2 2019

The residential market stayed firm in Q2 2019, maintaining the momentum of the strong rebound in Q1. In June, the US Federal Reserve reaffirmed its intention to maintain the current interest rates, indicating a more dovish stance to sustain economic expansion. The market has quickly digested the US Fed’s decision of maintaining interest rate levels, demonstrated by the active investment market.

In late June, the US and China declared a truce in their trade war, after US Presidential Donald Trump and Chinese President Xi Jinping met at the G20. The truce should help to lift buyer sentiment immediately. However, the market should stay largely cautious with the trade war remaining unresolved while the imposed tariffs are still in place. Meanwhile, the softening economic growth and the recent political turbulence in Hong Kong could also affect buyer sentiment, implying a potentially more volatile residential market in H2 2019.

STRONG MOMENTUM CONTINUED

Purchasing demand continued its strong momentum in Q2 2019. According to the Land Registry, the total number of transactions surged 49% QOQ to 20,657 in Q2, the highest number since Q3 2012. Buyers were keen to purchase when prices bottomed out, considering the potential risk of price increases making purchases even harder in the future.

The numbers of primary market transactions increased by 36% QOQ. New developments such as Grand Montara in Tseung Kwan O and Mount Regency Phase II received strong demand and were overly subscribed in several rounds of sale. Despite the moderate outlook for the Chinese economy, mainland Chinese buyers continued snatching up expensive residential properties. For instance, a mainland Chinese buyer purchased a flat at Mont Rouge in Kowloon Tong for HKD307 million (USD39.4 million) or HKD101,800 (USD13,051) per sq ft. The secondary market also showed an increase in transaction volumes, by 57% QOQ. Buyer’s expectations that low interest rates will continue supported the demand for the secondary market purchases.

1 Ming Pao, 23 June 2019
2 Mingtiandi, 27 May 2019
PRICE GROWTH ACCELERATED WITH STRONG PENT-UP DEMAND

According the Rating and Valuation Department, overall residential prices increased 4.6% QOQ in two months from April to May, after prices rebounded by 5.5% in Q1 2019. Prices in the mass market picked up significantly, supported by the surge of transaction volumes in both the primary and secondary market. Developers raised prices for popular developments in the primary market. Owners in the secondary market on Hong Kong Island firmed up their sales prices, on the back of a relatively low level of new supply on Hong Kong Island. Luxury residential prices also increased slightly, with purchasing demand staying solid along with buyers’ expectation of a more stable interest rate outlook for rest of this year.

LUXURY RESIDENTIAL RENTS STAYED FIRM

The luxury residential leasing market remained active. Pay packages for Hong Kong’s expatriate staff increased 3% in 2018, according to a survey conducted by ECA. Meanwhile, the leasing market also witnessed increasing demand from mainland Chinese professionals, which supported rents to remain firm.

Luxury residential rents for traditional districts saw a slight rebound given the regained leasing momentum, edging up 0.2% QOQ. Leasing activities for luxury homes turned more active during the period before summer holidays. Rents on the Peak stabilised from the decline in Q1, on the back of a robust landlord sentiment and the limited availability.

While affordable luxury flats with a monthly rent below HKD80,000 (USD10,256) remained very popular, they have supported rents in the Mid-levels and Southside to edge up by 0.3% and 0.4% QOQ, respectively. Although the increasing supply of properties for lease in Mid-levels West provided more alternatives for tenants, it had minimal impact on the traditional luxury markets where quality leasable stock is still very limited.

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3 ECA International, 21 May 2019
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