

REVISITING THE RESIDENTIAL MARKET

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Summary & Recommendations

The city's economy is entering a technical recession in Q3 2019, following the continuing demonstrations which have been affecting investor sentiment.

Historical data suggested that residential price movement has trended closely with GDP growth, however, we believe the residential sector will stay resilient during this market downcycle, on the back of strong end-user demand, the low interest rate environment, and the prolonged supply shortage.

We recommend buyers look at popular secondary projects as market liquidity should increase due to the new housing policies allowing a higher loan-to-value ratio. Developers should offer competitive prices and other support to buyers to stay competitive amid the warming secondary market.

Hong Kong* residential prices started to soften due to the economic gloom, with the price index declining by 4% between May and September in 2019¹. However, we do not expect a housing bubble, on the back of the strong pent-up demand and the current close-to-zero mortgage delinquency ratio². We expect home prices will stabilise as soon as the city's economy recovers based on three factors:

- > **Interest rates** are likely to stay low in 2020 due to the dollar-peg system. The US Fed on 30 October cut rates for the third time this year. Real (inflation-adjusted) interest rates, which show an inverse correlation to residential price growth, should stay negative in the next 12 months. This, coupled with the new housing measures (discussed further on page 2), should stimulate transactions further.
- > **Supply** of private housing has been overgrown by population. On average, a private flat currently hosts more than one household.
- > **End-user demand** has been dominating the market. The number of residential transactions involving stamp duties, which represent investments or speculative activities by overseas or non-first-time buyers, have fallen sharply since Q4 2016 due to the cooling measures.

¹ Rating and Valuation Department. ² Hong Kong Monetary Authority.

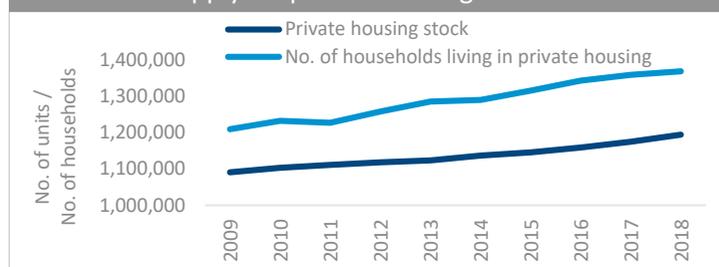
*Hong Kong Special Administrative Region of the People's Republic of China.

Residential price (YOY%) vs. real interest rate



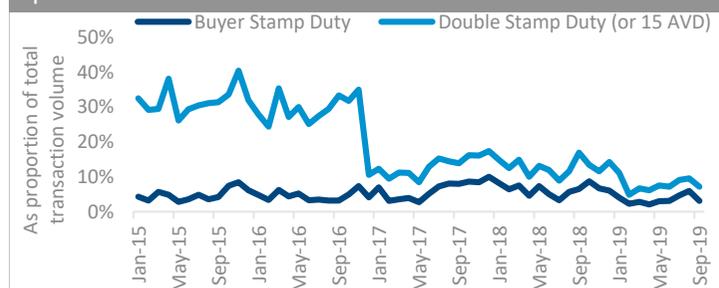
Source: HKMA, Rating and Valuation Department

Demand vs. supply for private housing



Source: Census and Statistics Department; Rating and Valuation Department

Speculative demand vs. end-user demand



Source: Inland Revenue Department; Land Registry



New policy stimulates buyers' secondary market interest

On 16 Oct 2019, the government announced in its 2019 policy address a new measure for first-time home buyers, increasing the property value cap from the existing HKD4 million (USD371,610) to HKD8 million (USD743,225) for eligible mortgage loans with a maximum loan-to-value (LTV) ratio of 90%, (and from HKD6 million to HKD10 million with an 80% LTV).

The new measure has rebooted buyers' interests in the secondary market, which has been relatively quiet in the past few years as buyers found it challenging to afford a large down payment under the prior lending policies. Most buyers switched their attention to primary markets where developers are willing to offer different mortgage plans with lower down payment requirements. The differences of down payment requirements before and after the policy is showcased in the table on the right hand side.

Meanwhile, the number of units offered for sale in the secondary market should also increase, as owner-occupiers should find it easier to relocate or upgrade their homes through the relaxed LTV ratio. With more options coming to the market, we believe home buyers should focus on projects with good accessibility and high market liquidity.



Most popular and emerging housing submarkets

We recognise Tseung Kwan O, Yuen Long, and Shatin as the most popular markets based on sales activity in the top housing estates. These areas recorded more than one transaction per day* in the top estates in the area. Most active estates includes LOHAS Park, Kingswood Villas, City One Shatin, and The Wings. Despite an hour or longer travel time from the city centre, most of these locations are accessible by railway and offer reasonable price ranges. Developers should also benefit from the popularity if they offer competitive pricing for their developments.

New infrastructure usually means opportunities for developers. The upcoming Tuen Mun-Chek Lap Kok Link (2020) connecting Tuen Mun and the Hong Kong International Airport is set to substantially enhance Tuen Mun and the New Territories West; the Shatin to Central Link should drive demand in Shatin as well as Central Kowloon. Demand should stay robust in Tseung Kwan O, as the upcoming Tseung Kwan O – Lam Tin Tunnel (2021) as well as the Central Kowloon Route (2025) should ease traffic in this area.

Down payment and monthly mortgage requirement comparison

Assumptions	New measures	Old measures
Property Value (HKD)	\$8,000,000	\$8,000,000
LTV ratio	90%	60%
Maximum Mortgage Loan (HKD)	\$7,200,000	\$4,800,000
Minimum Down Payment (HKD)	\$800,000	\$3,200,000
Mortgage Tenure Year	30	30
Mortgage Rate	2.625%	2.625%
Monthly Mortgage Payment (HKD)	\$30,366	\$19,279
Debt-to-income Ratio	50%	50%
Eligible Monthly Income (HKD)	\$60,731	\$38,558

Source: Colliers International

Most active secondary markets



1 Tseung Kwan O (~200)	6 Island East	11 Kowloon City
2 Yuen Long	7 Hung Hom / Whampoa	12 Kowloon East
3 Shatin / Ma On Shan	8 Kwai Tsing	13 Nam Tin/Yau Tong
4 Tsuen Wan	9 Tuen Mun	14 Fanling
5 Lantau Island	10 Tai Kok Tsui	15 Sham Shui Po / Cheung Sha Wan (~30)

Source: EPRC. Note: Bubble size and numbers in brackets (in the table) represent the number of transactions. *Based on the number of transactions of secondary units in top 100 estates over the 100 days to 30 October 2019.



Tseung Kwan O, Yuen Long, and Shatin, with more supply options, are the most popular locations for home buyers.



Less affordable homes and rising population drive leasing demand

Although home prices have been declining, rents remained stable in Q3 2019. Leasing demand has been driven by high purchase prices, with the government’s home purchase affordability index staying high³ at 73% (vs. 44% long term average over 1999-2018; a higher number indicates less affordable home price), and also indicated by the low owner-occupation ratio (65%) of private housing⁴.

Meanwhile, the expat population and the rising mainland Chinese population have been driving the demand for luxury housing. We expect an annual rental growth of 1% between 2019 and 2023. However, although we see no significant trend of expats relocating out of Hong Kong, there is also risk that some expats may consider retreating if demonstrations continue.



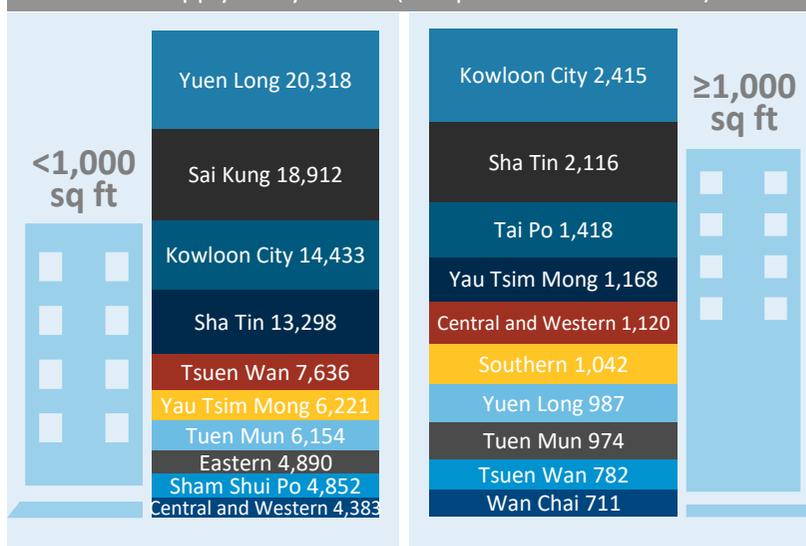
Unlocking more opportunities

Residential housing is always subject to personal preference and needs. For luxury housing, we continue to recommend traditional districts including The Peak, Southside, and Mid-levels, as they still provide the best quality of homes with the most decent community and environment. New housing supply in these areas may also come with more technological facilities which enhance the user experience and living standards⁵.

For tenants who look for alternatives or mass market units, newer units should be considered for better conditions. Tenants can look into districts** such as Yuen Long, Sai Kung and Kowloon City which accommodate the largest amount of newer units less than 10 year-old.

Tenants can also look at serviced apartments as another option. To avoid longer vacancies, some landlords have offered fully furnished units and are willing to accept short-term leases instead of the standard 24 months. New supply (see table) is mainly located in core urban areas, with rents comparable to that of affordable luxury units in traditional districts. We believe that capturing leasing demand by turning flats to serviced apartments is a good strategy for developers to minimise their exposure to the vacancy tax. Lastly, individual owners should maintain property conditions to stay competitive amid a larger variety of options.

Residential supply <10 year-old (completion in 2009-2018)



Source: Rating and Valuation Department (**based on government’s district boundaries)

New supply of serviced apartments in 2018/2019

New Supply	Location	No. of units	Initial rental (HKD)
K11 ARTUS	Tsim Sha Tsui	287	From \$35,000
Rosewood Residences	Tsim Sha Tsui	186	\$55,000-175,000
Victoria Harbour Residence	North Point	140	\$32,000-138,000
The Mercury	Tin Hau	99	\$25,000-60,000
Waterfront Suites	Shau Kei Wan	75	\$28,800-133,750
BEAK Terrace	Fortress Hill	37	From \$28,800

Source: Colliers International. Disclaimer: Room rates are before discounts and could change over time. For the latest information, please contact our Residential Services team. ³The ratio of mortgage payment to median household income (assuming 45 sq m / 484 sq ft flat, 70% LTV ratio, tenure of 20 years, excluding those living in public housing). [Hong Kong Economic Report H1 2019](#) ⁴Census and Statistics Department. ⁵Smart and Green Living in Action. **Based on government’s district boundaries.

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