

## New policies should not stop price rises

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The government has implemented a new set of initiatives targeting the housing shortage problem and helping local buyers to get on the property ladder. However, we expect the impact on residential prices to be limited. In view of overall residential prices increasing 10.4% during H1 2018, we predict a 15% increase for the whole year. Looking forward, solid economic fundamentals and a land shortage of 108 ha up to 2026 should support price growth of 5-10% per annum for the next five years. With our forecast of strong prices and rising real interest rates, interested buyers should consider timing their purchases now, before prices go even higher and real interest rates turn positive.

### Forecast at a glance



#### Supply

We expect supply to increase further in 2018 to around 20,000 units, 12% higher than 2017. The annual completion is likely to stay between 15,000 and 18,000 units for the next five years



#### Demand

Strong end-user demand has continued to fill new developments, while the luxury market has benefited from the strong financial status of buyers



#### Rent

We expect luxury residential rents to increase 4% in 2018, followed by a slower CAGR of 1.7% from 2019 to 2022 due to the US-China trade uncertainty



#### Price

We expect residential prices to increase 15% in 2018, which implies a further substantial drop in residential yields. Residential prices should increase by a further 5-10% per annum in the next five years

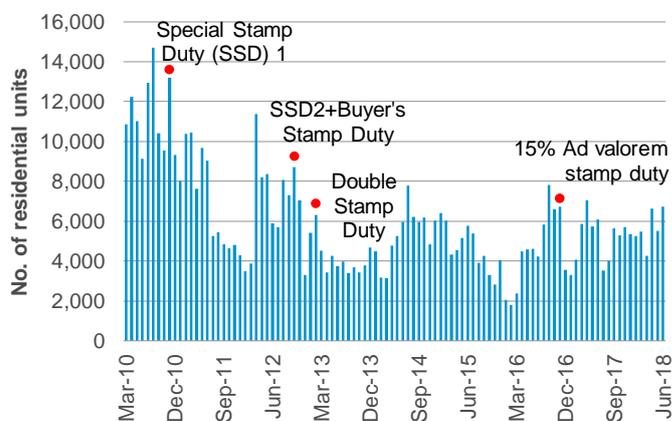


## Transaction volume increased

Thanks to a strong investment sentiment and low interest rates, the total transaction volume for Hong Kong residential properties increased 25.7% QOQ in Q2 from 15,015 units to 18,881 units, the highest since Q4 2014. It was mainly driven by the robust secondary market, where transaction volumes increased 13.5% QOQ to 13,933 units, also the highest since Q4 2014.

The primary market remained active with 4,948 units transacted, up 81.0% QOQ because of more new units being launched. In June, new residential developments such as Cetus Square Mile in Tai Kok Tsui sold all 119 units the first day launched. Fleur Pavilia in North Point also reported a 75% sales rate of 611 units. In view of the strong demand, the developer increased the prices by about 15% for the remaining units.

### Residential Sales and Purchase Agreements



Source: The Land Registry

The government has introduced a new set of initiatives to ease the housing shortage, including a new vacancy tax for newly built flats that remain unsold for more than six months after completion.

We do not expect the new tax to affect market sentiment as a lack of land supply as well as low interest rates are the major factors driving housing price increases. To compensate for the rising costs, developers might shift some of the tax to individual buyers, which would push prices higher.

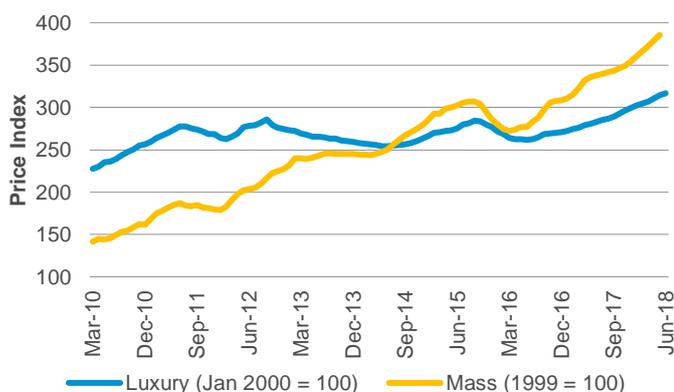
New initiatives should also make subsidised housing more affordable by offering larger discounts off market prices. New subsidised units will likely also be built on sites originally reserved for private developments. These initiatives should have a greater impact on the mass market, especially the *nano flats*, as they share the same price range as subsidised housing units. However, the shortage of subsidised housing is a long-term issue.

## New record price for super luxury

According to the Rating and Valuation Department, overall prices and mass residential prices have increased 5.2% and 5.3% from March 2018, while our data shows luxury residential prices up 3.2% QOQ.

Transaction prices in the luxury market continued to break records. In Southside, house number 7 and 8 at 90 Repulse Bay Road were sold for HKD1 billion (USD1.29 million). Unit prices for the two houses were HKD87,500 (USD11,247) and HKD90,286 (USD11,605) per sq ft, respectively. On the Peak, House 8 at Twelve Peaks was sold for HKD730 million (USD93.8 million) or HKD152,592 (USD19,613) per sq ft. The unit price was the all-time highest for houses in Asia.<sup>1</sup>

## Hong Kong Residential Price Index



Source: Colliers; Rating and Valuation Department

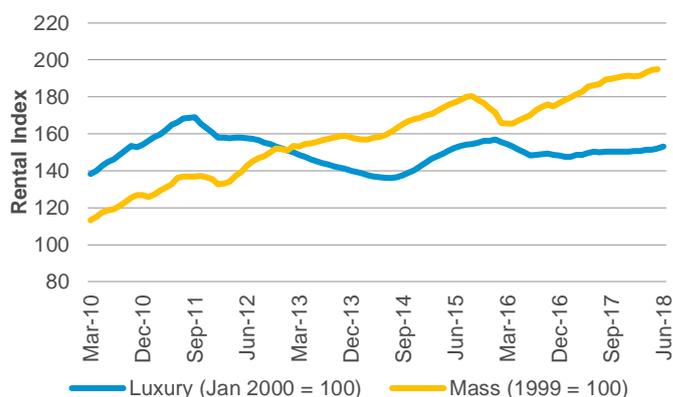
Note: Luxury index represents luxury residential units in The Peak, Mid-levels and Southside; mass refers to the units smaller than 1,076 sq ft

<sup>1</sup> <http://www1.hkej.com/dailynews/investment/article/1880534>

## Rental growth accelerated

Luxury residential rents have increased 1.3% QOQ due to firm leasing demand. The Peak had the strongest performance with 2.9% QOQ growth. Leasing demand in Southside and Mid-levels has stayed firm thanks to a positive business outlook. After years of cost-cutting, some companies have started to lift housing allowances slightly to retain talent. Leasing activities in Sai Kung and Tseung Kwan O have picked up, attracted by the opening of new international schools. We expect luxury residential rents to increase 3% in 2018.

## Hong Kong Residential Rental Index



Source: Colliers; Rating and Valuation Department

## Price to stay firm amid land supply shortage despite rising interest rate

In June, the Federal Reserve raised interest rates for the second time this year, and upgraded the forecast to four total increases in 2018. As three more increases in 2019 are likely, we believe that real (i.e. inflation-adjusted) interest rates in Hong Kong will turn positive for the first time since the Global Financial Crisis by some time in 2019. However, given the current demand and supply dynamic, we expect Hong Kong's residential prices to increase by 15% for the whole year. As the government has estimated a land shortage of 108 ha between now and 2026, we expect residential prices to increase 5-10% per annum for the next five years.

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