

# HK Property Sector

## Supply is the issue

We invited experts (Gordon Tse – Senior Director and Buggle Lau – Chief Analyst) from Midland Realty to share their view of HK property market outlook. They forecast transaction volume for HK primary property market and secondary one to retreat to around 8,000 and around 17,000 in 2H19, respectively. They also expect HK property price to retreat around 3-5% in 2H19. On the one hand, the recent social unrest and US-China trade dispute adversely affected the market sentiment. On the other hand, limited land supply and low interest rate will support the market.

- **Headwind in 1H19.** Being the Top 2 property agent in HK, revenue of Midland Holdings (1200 HK) gained by 3.3% to HK\$2.9bn in 1H19 because HK residential market turned active again after the consolidation in 2H18. However, it posted a 38% decline in net profit to HK\$94mn in the same period because of the rise in operating costs, especially rental expenditures and rebate expenses.
- **Residential market performed better in 1H19.** HK residential market was firm in 1H19. Transaction volume for HK residential rebounded by 34.6% HoH to 43,491, compared with 21.1%, 47.1% and 14.8% HoH decline for HK industrial, office and retail shop in 1H19. HK developers speculated the introduction of vacancy tax soon so they accelerated the selling pace and focused on clearing inventories. According to Land Registry, sales in the primary residential market increased by 63% to 12,539 units in 1H19. Due to the recent social unrest and US-China trade dispute, Midland expects trading volume for primary property market and secondary one to retreat to around 8,000 and around 17,000 in 2H19, respectively.
- **Home price to correct 3-5% in 2H19.** Since 2010, HK property price has faced a stable long-term growth although there were five consolidations in the period. The largest correction in the period occurred in 2015-16, which lasted for seven months and experienced 11.4% price drop. Midland Property Price Index has declined by 4.5% since May 2019 to 169.0 points on 19th Sep because of the recent social unrest and US-China trade dispute. It seems that both issues do not have full solutions in the short future. Midland forecasts HK property price will slide around 3-5% in 2H19.
- **Focus on the coming Chief Executive's Policy Address.** On 16 Oct 2019, HK Chief Executive will deliver her new Policy Address. Besides the vacancy tax, she may also stress on the implementation of Lands Resumption Ordinance to increase long-term land supply. Idea of "HK people, HK land" was heard recently. However, the double stamp duty (30% of housing price) has already restricted non-local property buyers. Midland estimates about 1% of property buyers are non-HongKongers. So the effect of "HK people, HK land" is limited or only psychological. Lastly, HK government may introduce some measures to help younger generations to solve housing problem, such as providing them with subsidy or building more quarters for young people.

## MARKET PERFORM (Maintain)

### HK Property Sector

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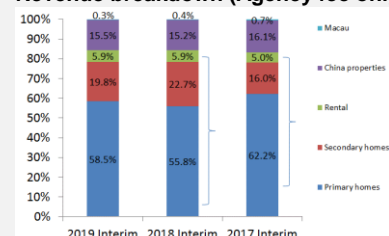
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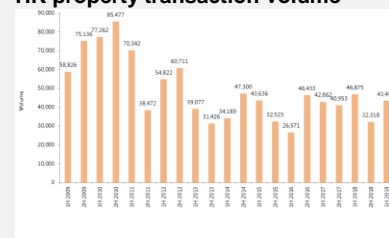
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### Revenue breakdown (Agency fee only)



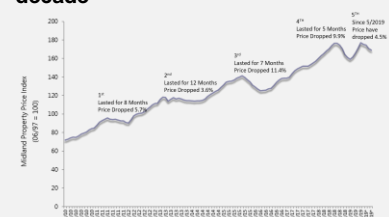
Source: Midland Realty

### HK property transaction volume

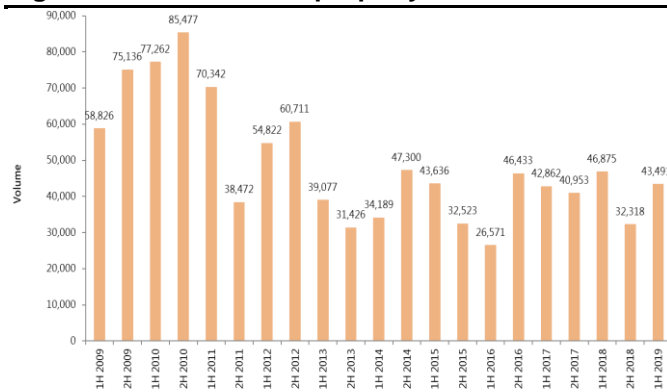


Source: Midland Realty

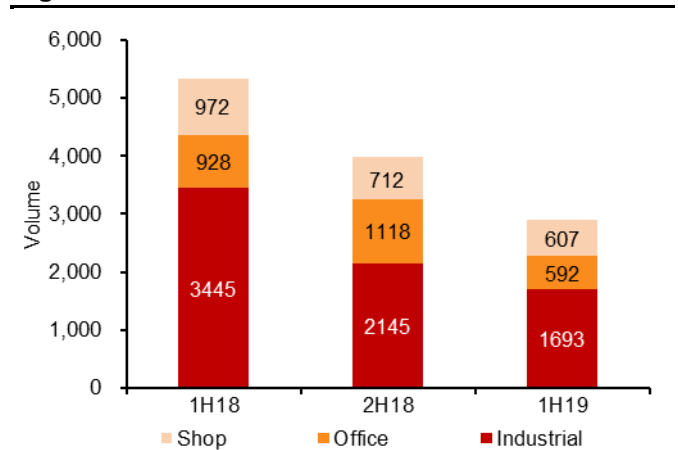
### The fifth consolidation in recent decade



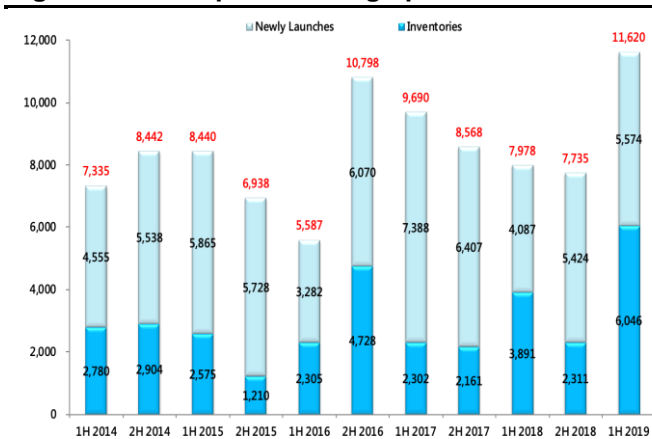
Source: Midland Realty

**Figure 1: HK residential property transaction**

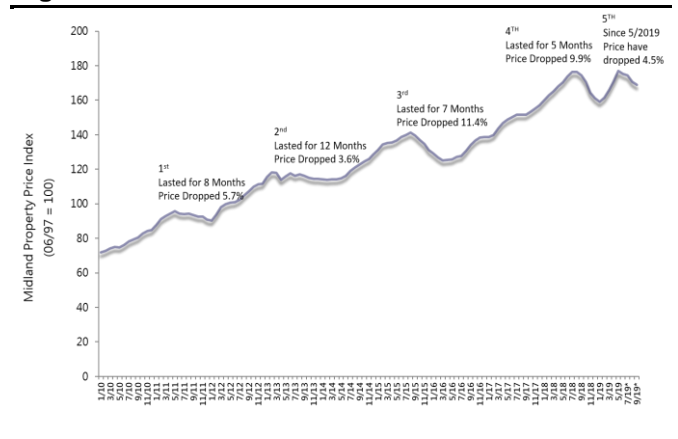
Source: Land Registry, Midland Property Data and Research Centre

**Figure 2: HK 8 commercial sector transaction**

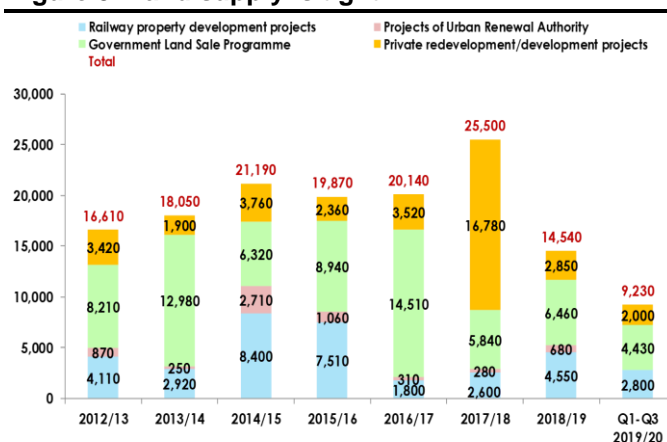
Source: Land Registry, Midland Property Data and Research Centre, CMBIS

**Figure 3: Developers clearing up inventories**

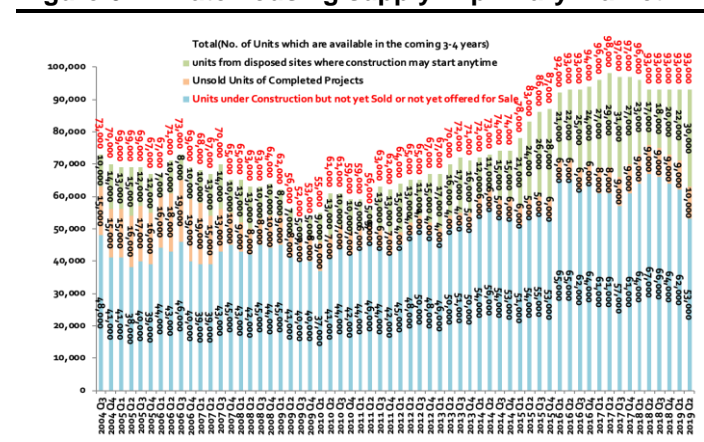
Source: Midland Property Data and Research Centre

**Figure 4: The fifth consolidation in recent decade**

Source: Midland Property Data and Research Centre

**Figure 5: Land supply is tight**

Source: Development Bureau, Midland Property Data and Research Centre

**Figure 6: Private housing supply in primary market**

Source: Transport and Housing Bureau, Midland Property Data and Research Centre

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