CBRE

Hong Kong Residential Market
2023 Review & 2024 Outlook

VALUATION & ADVISORY SERVICES

Interest Rate

In response to the U.S. Federal Reserve's interest rate hike of another 25 bps on both 4 May and 28 July 2023, Hong Kong's major banks raised their Best Lending Rate by 12.5 bps twice to a range of 5.875% - 6.125%.

In H2 2023, one-month HIBOR hovered at more than 4.8% (despite a temporary drop between mid-August to mid-September). With HIBOR stayed at a constant spread above the effective mortgage rate, banks had pressure to maintain their effective mortgage rate unchanged. Local banks thus raised HIBOR based mortgage rate cap by 50 bps on 18 September 2023.

As a result, the effective mortgage rate increased by a total 75 bps to 4.125% in 2023.

CBRE's View

Interest rates are expected to remain elevated in H1 2024, which will continue to impede investment demand during the period. Despite U.S. Fed officials signalled 75 bps rate cut by end of 2024, we expect there might be a time lag for mortgage rate cut in Hong Kong.

A lower interest rate environment will reduce the borrowing cost of residential buyers, where we foresee more residential buyers entering the market as interest rate start easing, which will benefit transaction volume.

Residential price on the other hand is also sensitive to interest rate movement. High interest rate increased the carrying cost of developers considering the current elevated inventory level. Highly geared developers may have pressure to clear inventory via making adjustment on pricing to cash in, which may affect residential price.

Government Policy

The government rolled out various accommodative measures to support the residential markets during Policy Address 2023. Highlights included

1. *Stamp Duty Relaxation*
   - Steps include cutting stamp duty in half for Buyer's Stamp Duty (BSD) and New Residential Stamp Duty (NRSD), as well as adjusting Special Stamp Duty (SSD) allowing residential properties to be re-sold tax-free after an ownership period of two years.
2. *Attracting Quality Talent and Enterprises to Hong Kong*
   - The admission quota of non-local students to government-funded post-secondary institutions will be doubled to 40% of total admissions.
   - Implement Capital Investment Entrant Scheme (CIES).

CBRE's View

The relaxation of stamp duty for second home purchases is expected to encourage buyers to enter the market. The cut in buyer's stamp duty would support property purchases by mainland Chinese and overseas expats. However, expats' responsibility for the remaining stamp duty (should they fail to become HKPRs) and high interest rates will prevent a strong boost in sales. Market liquidity is expected to improve as homeowners can now re-sell their flats tax-free after two years of holding instead of the previous three years.

Any increase in the number of non-local students and employees support residential rental demand, especially for student hostels and rental apartments near universities.

Residential Transaction Volume

After registered a record low in 2022, total residential transaction volume dropped by another 4.5% in 2023, lodged an all-time low of merely 43,002 units, according to data from Land Registry. The residential market experienced rebound in the beginning of 2023, where growth mainly took place during first quarter (+39.4% y-o-y). However, the rebound was short-lived, where total residential transaction volume dropped for 3 consecutive quarters.

In terms of primary sales, after a record low of just 10,315 units primary residential being sold in 2022, developers adopted aggressive pricing strategy and sales campaign to clear inventories in H1 2023. Developers sold at least 1,000 units for four consecutive months between March till June 2023, where a total of 6,374 units were offloaded during H1 2023 (equivalent to 61.8% of 2022 full year primary sales transaction volume). Although this trend didn't sustain in H2 2023, overall full year primary sales transaction still recorded a mild uptick.

CBRE's View

We hold on to the view that residential transaction volume will ramp up only when interest rate cut occurs, where this may take place after H1 2024. The low transaction volume situation in Q4 2023 will likely carry forward in Q1 2024. Residential market is expected to be quiet before Chinese New Year, with sentiment gradually turns better in Q2 2023.

From our observation, in 2023, residential projects with smaller lump sum or lower unit price sold faster. We expect developers will push this type of units for sale in 2024 to recycle capital and ease their high inventory situation.

Residential Price

During H2 2022, the city was covered with gloomy sentiment in which rate hike took off and COVID-19 social distancing measures were still in place, where residential price dropped by 12.3% within six months.

Entering 2023, investment sentiment turned positive with gradual recovery in buyers' confidence as Hong Kong-Mainland China border reopened. Residential price bottoming out on the back of a more optimistic overall economic outlook and improved social atmosphere. Overall residential prices rallied for four consecutive months, increased by 5.8% as of April 2023.

However, as interest rate went up higher starting from April 2023, coupled with less than expected economic recovery, residential price decreased for seven consecutive months, reversing the four months rally during beginning of the year. Looming supply together with price cuts and incentives from developers also added to the drop. As such, for the first eleven months, residential price dropped by 5.6% year-to-date. As of November 2023, Hong Kong residential price accumulated a decline of 20.6% from its peak in September 2021.

CBRE's View

Inevitably, residential prices are continuing to trend downwards in H1 2024, but we believe the magnitude will be softer than both H2 2022 and H2 2023.

Currently, more than 20,000 inventories were accumulated among property developers. CBRE expects developers will make more adjustment on residential prices and offer more incentives including higher agency rebates to clear more inventories. With primary sales price subsiding, we expect secondary residential price has no choice but to follow suit, which may push down the residential price further.

We believe inventory level among developers will be the best indicator to observe whether residential price is bottoming out. The high inventory situation will persist at least in H1 2024 and may ease starting from H2 2024. Another key metrics will be interest rate cut. We place hope that we are heading towards that direction, yet it may take time for both indicators to surface.

Residential Rental Market

Residential rent went up for ten consecutive months after bottomed out in January 2023. For the first eleven months in 2023, residential rent went up by 6.4% according to data from Rating and Valuation Department. With rent increased and property price experienced correction, residential property yield expanded.

CBRE's View

In 2023, residential leasing market was active with increase in rental price gained momentum as aided by

i. Return of non-local university students (cancelation of hybrid study mode) after border reopened,
ii. Influx of migrants under Top Talent Pass Scheme, and
iii. Newly married couples renting apartments.

In 1H 2024, we expect this trend will carry forward, in which residential rent may continue its upwards trend, but at a milder growth. Also, there are further room for residential yield expansion.

Luxury Residential

In 2023, a total of 2,012 transactions (+12.8% y-o-y) were recorded for high-end residential (≥HK$20 million). Entering 2023, the luxury residential sales market showed signs of improvement as investment market sentiment turned positive due to borders reopened. In view of renewed buying interest, developers resumed the sales of luxury residential projects in a bid to seize the pent-up demand, leading to a revival of sales activity from a subdued second half last year. However, same as the overall residential market, the growth mainly took place during first half and retreated in H2 2023.

CBRE's View

After the government adjusted the New Residential Stamp Duty (NRSD), the difference[1] (in stamp duties paid) between first time and non-first-time home buyers will be merely 3.25%. In such case where developers absorb the 3.25% difference, all austerity measures will be net off when local purchasers acquire high-end residential. Therefore, high-end residential will be the largest beneficiary from the policy.

Despite modest recovery in transaction volume post policy address, developers were still able to offload their assets at a relatively good price. This indicates quality assets are still able to capture buyers. We also observed developers are clearing their long holding inventories, where they cashed out under current high interest rate environment.

On 19 December 2023, the government announced the details of the new Capital Investment Entrant Scheme (CIES). The government estimates there will be around 4,000 approvals each year, bringing in a total of HK$120 billion investment amount. Although the permissible investment assets didn't cover residential property, we believe high-end residential will still benefit from this policy as those eligible applicants will need a place to stay, where they are capable and tend to look for larger size accommodation in premium location. Yet, we don't see imminent effect of both government policies (NRSD & CIES). It will take time for potential luxury residential home occupiers or buyers to digest and shop for suitable assets.

[1] Difference between Scale 2 & Scale 1 for "property transacted at HK$21,739,121 and above" will be just 3.25%

CBRE Valuation and Advisory Services

For more information about Residential and Mortgage Valuations, please contact:

Eddie Kwok
Senior Director
Valuation & Advisory Services
eddie.kwok@cbre.com

For more information about this Valued Insights, please contact:

Jimmy Ong
Associate Director
Valuation & Advisory Services
jimmy.ong@cbre.com

For more information about Commercial Valuations, please contact:

Shana Lam
Senior Director
Valuation & Advisory Services
shana.lam@cbre.com.hk

Chester Leung
Senior Director
Valuation & Advisory Services
chester.leung@cbre.com

Stephen Lin
Senior Director
Valuation & Advisory Services
stephen.lin@cbre.com