Housing

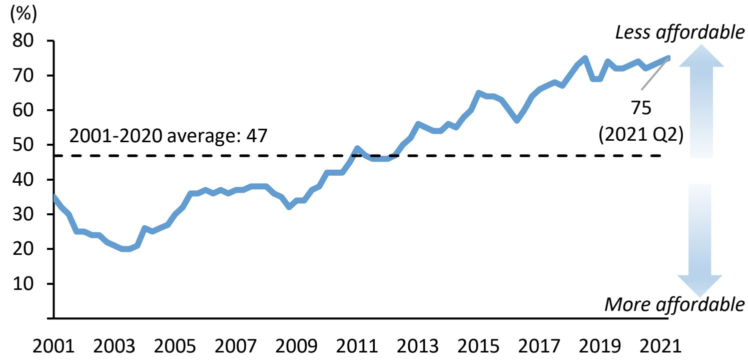
Research Office
Legislative Council Secretariat

Statistical Highlights

ISSH34/20-21

Private Housing

Figure 1 – Index of home purchase affordability



Note: The index of home purchase affordability is defined as the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing. A rise in the index means that home purchase has become less affordable for typical households.

Figure 2 – Price index and rental index of private domestic property

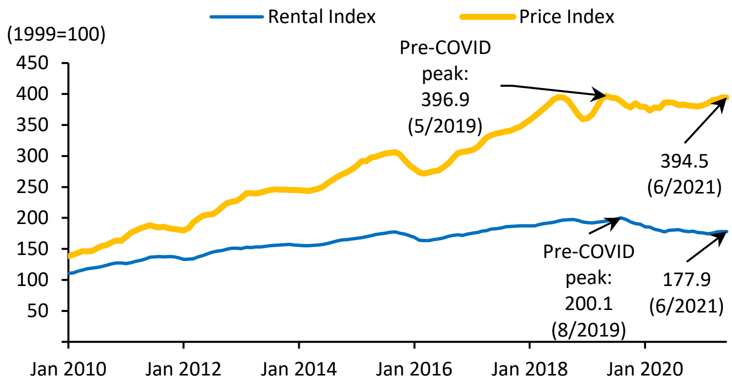
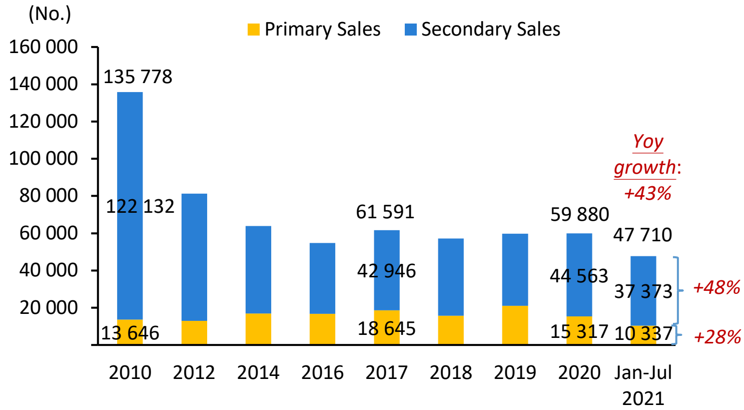


Figure 3 – Sale and purchase agreements for private domestic property



Note: Figures do not include transactions relating to subsidized sale flats, except those after payment of premium (i.e. with alienation restrictions removed and can be traded in open market).

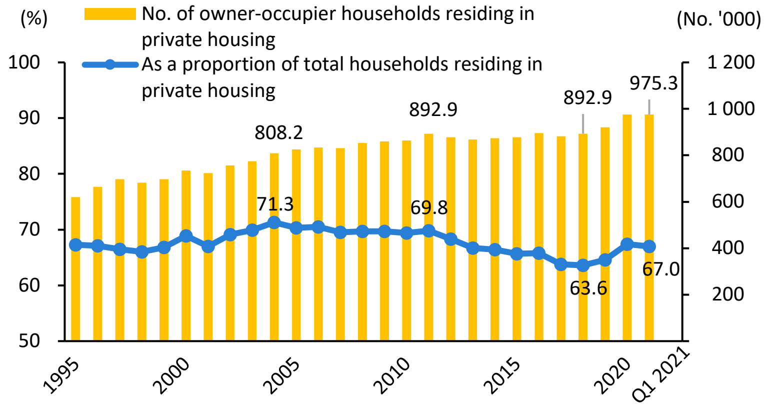
Highlights

- Private housing represents accommodation for 54% of local households as well as a vital part of household net worth for many owner-occupiers (who accounts for about two-thirds of households living in such housing). Healthy property market development and adequate supply of flats, therefore, are paramount among the Government's policy objectives. However, as an indicator of deteriorating housing affordability, the index of home purchase affordability rose steadily over the past decade, to 75% in the second quarter of 2021 which was significantly above the long-term average of 47%. (**Figure 1**)

- Challenges to the local economy arising from tensions in China-US relations and the COVID-19 pandemic resulted only in brief price retreats for residential units, in the second half of 2018 and then during June 2019 to February 2020. Prices have stood firm otherwise, probably attributable to the low interest rate environment and solid end-user demand. The residential property price index in June 2021, at 394.5, is just 0.6% below its historical high. On the other hand, it is noted that flat rentals were much less resilient, with the rental index recording a 11.1% drop from its pre-pandemic peak to 177.9. (**Figure 2**)

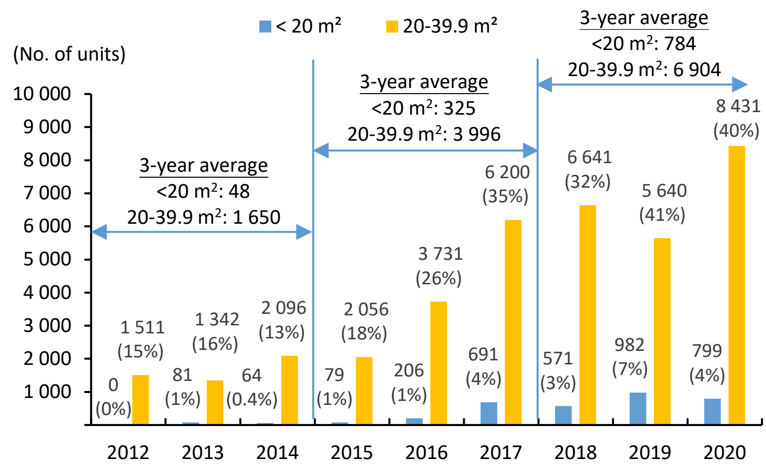
- Trading of private residential property has scaled back considerably from the robust level in 2010 amid a series of demand-side management measures and macro-prudential measures on mortgage lending, and remained largely stable until 2020. Fast forward to the first seven months of 2021, a more positive market sentiment seemed to have translated into a revival in trading of private residential property, with a 43% year-on-year ("yoy") increase in overall sale and purchase agreements and a 48% yoy jump in secondary market transactions. (**Figure 3**)

Figure 4 – Owner-occupiers domestic households residing in private housing



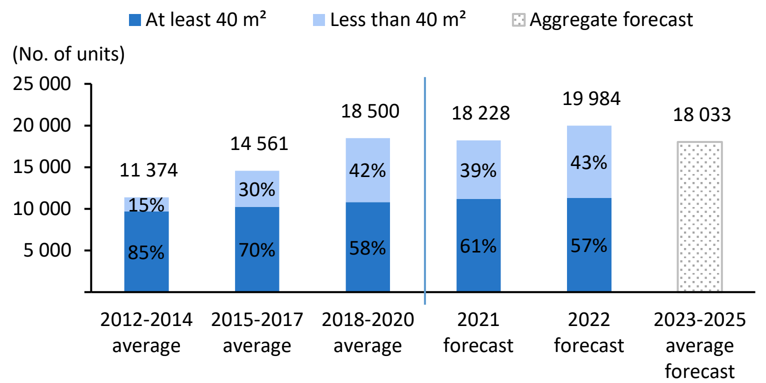
Note: Figures do not include subsidized sale flats, except those that can be traded in open market.

Figure 5 – Completions of small-sized private residential units by saleable area



Note: Figures in brackets denote the corresponding proportion to overall completions of private residential units.

Figure 6 – Completions of private residential units by saleable area



Note: Breakdown for number of units by saleable area is not available for 2023-2025.

Highlights

- Amidst the persistent deterioration in housing affordability since 2004, the proportion of owner-occupiers in private residential property declined between 2004 and 2018 while their number actually stagnated at slightly under 900 000 since 2011. Yet there has been signs of bottoming out after 2018: the proportion of owner-occupiers rebounded from 63.6% in 2018 to 67.0% in the first quarter of 2021 (**Figure 4**), representing 82 400 additional owner-occupier households during the period.
- Among the various interplaying factors contributing to the rebound in home ownership rate (including the alleged pent-up demand from aspiring homeowners), the increase in new housing supply in recent years, especially that of small flats (i.e. property with saleable area below 40 square meters) from 2017 onwards, is often considered one of the bolstering forces. Small flats, which is a relatively attainable option for many buyers with tight budgets to get onto the "housing ladder", made up 35% to 44% of the annual completions of private residential units during 2018 to 2020. In particular, flats with saleable area below 20 square metres, commonly known as "nano flats", saw a 61-fold increase in completions between 2010 and 2020. (**Figure 5**)
- Overall, completions of private housing from 2018 to 2020 averaged 18 500, about 27% higher than that in the preceding three years. An overwhelming portion of additional supply was due to the increase in completion of small flats. According to the Government's latest projection based on construction works already commenced or to be commenced, the pipeline of private housing completion is estimated to remain steady in 2021-2025, at close to 20 000 units per year. More specifically, small-sized flats would continue to account for some 40% of the forecast completions in 2021 and 2022. (**Figure 6**)

Data sources: Latest figures from Office of the Government Economist, Rating and Valuation Department, Land Registry, Census and Statistics Department, and Transport and Housing Bureau.

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