

**PolyU BRE Index indicates Hong Kong people expect a marginal dip in housing price expectation while their confidence remains solid**

Housing prices in Hong Kong are expected to fall marginally in the short term while market participants' confidence remains robust, according to the latest "BRE Confidence Index for Residential Property" (BRE Index) released by The Hong Kong Polytechnic University (PolyU).

Recent interest rate increases have dampened property activities and housing price expectations. The findings of the BRE Index Survey conducted in December 2005 indicated that, overall, homeowners (HOs) expected that housing prices would fall by one percent within the next three months, while the non-homeowners (NHOs) expected a marginal increase of nearly two percent.

The impact of local interest rate increases has become more prominent, as nearly half (45 percent) of HOs (last survey: 33 percent) and 43 percent of NHOs (last survey: 36 percent) felt that the impact was "significant" or "very significant".

Ranging from 0 (no confidence) to 1,000 (complete confidence) with 500 being neutral, the BRE index for the fourth quarter of 2005 stood at 718, up 14 points from the September survey. The latest survey was conducted in December 2005, with 1,007 interviews completed, representing a response rate of 16.37 percent.

According to the survey, the expected average price increase was 0.2 percent (last survey: 4.5 percent), 3.7 percent (last survey: 6.6 percent), and 8.2 percent (last survey: 9.2 percent) in the three-month, one-year, and three-year forecast horizons, respectively. There were, however, more respondents in this survey expecting a fall in housing prices.

A further indication of lower price expectations came from the lower investment rating. Property investment was considered "good" or "very good" by 29 percent (last survey: 37 percent) of HOs and 26 percent (last survey: 34 percent) of NHOs. Similar to the past findings, about one-third (30 percent), compared to the last survey of 34 percent of HOs and 29 percent (last survey: 28 percent) of NHOs considered that it was a "good" and "very good" time to buy property. But only 1.9 percent of HOs (last survey: 1.6 percent) and none of NHOs (last survey: 1.3 percent) planned to buy in

three months. This reflects an increasingly negative attitude towards home purchase for NHOs.

When asked, respondents considered their family income the most important factor affecting their housing decision, same as the last survey. Another important finding is that, in anticipating further mortgage interest rate increases in the next quarter, 76 percent (last survey: 70 percent) of HOs and 80 percent (last survey: 66 percent) of NHOs rated interest rate as “important” or “very important”. More strikingly, the order of importance of interest rate was up to third place (last survey: fourth place) after the economic condition factor for HOs; and to second place (last survey: fourth place) for NHOs. It is obvious that the interest rate factor plays a determining role in housing decision.

In the short run, the overall economic conditions in Hong Kong would be “better” or “much better” as perceived by 44 percent (last survey: 55 percent) of respondents. While unemployment rate has stabilized over the past quarter, job prospects were expected to improve further. Overall, 27 percent (last survey: 23 percent) of respondents expected their job opportunities would be “better” or “much better” in three months. Another factor that is attributable to the more positive market confidence is the household income, 27 percent of respondents (last survey: 25 percent) anticipated that their family income would “increase somewhat” or “greatly increase” in three months. After considering these factors, housing affordability was rated “better” or “much better” by 22 percent (last survey: 19 percent) of respondents.

Prof. Eddie Hui, Professor of the Department of Building and Real Estate (BRE) and Deputy Director of PolyU’s Research Centre for Construction and Real Estate Economics (RCCREE) commented that these real estate fundamentals point to market participants’ continued confidence in the property market – despite the short-term decline in housing price expectations due to recent local interest rate increases.

Prof. Francis Wong, Head of BRE and Director of RCCREE added that in anticipation of the end of the current cycle of interest rate increases by the next quarter or so, property activities would continue to grow in 2006.

Since its inception in December 2003, the BRE Index has been released quarterly by RCCREE in collaboration with the Hong Kong Baptist University, Texas A&M University, USA and the University of Cambridge, UK. Conducted for the ninth time, the telephone survey has continued to monitor the longitudinal trend of consumer

confidence in the residential property market.

Established in 2000, the RCCREE aims to promote solution-oriented research and consultancy for economic issues relating to construction and real estate. Currently, there are about 20 members in the Centre, comprising surveyors, lawyers, architects, engineers, town planners and builders. For more information about the RCCREE, please visit its website at <http://www.bre.polyu.edu.hk/rccree/index.htm>. Detailed results of BRE Index surveys are also available at [http://www.polyu.edu.hk/research/bre\\_index/index.htm](http://www.polyu.edu.hk/research/bre_index/index.htm).

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