Secondary Market Stalls

Hong Kong residential deadlock

High upfront costs are making it difficult for Hong Kong home buyers to enter or trade up in the secondary market. They are moving to the primary market where transaction costs are significantly lower. Here's a look at a typical buyer's challenges.

Meet Mr Chan: The Average Borrower

- 43 years old
- Hong Kong permanent resident
- Accountant
- Married with one child
- Monthly income HKD 50,000
- Savings of HKD 4.2 million
- Owns one flat outright already
- Budget HKD 9 million in either the primary or secondary market

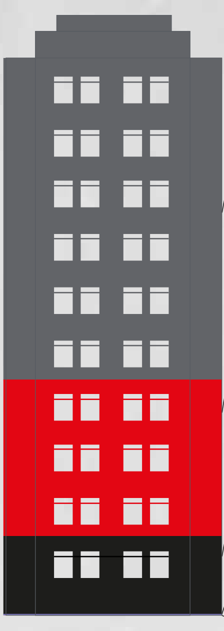
Can he afford the upfront property purchase costs?

"More buyers are considering developer financing due to the higher LTV ratios being offered."
Henry Mok, Regional Director, Hong Kong Capital Markets

Anatomy of a Residential Property Purchase

For a property priced at HKD 9 M

Primary Market



Loan Amount
HKD 6.3M
Developer financing

Down Payment
HKD 2.7M
(30% of property's value)

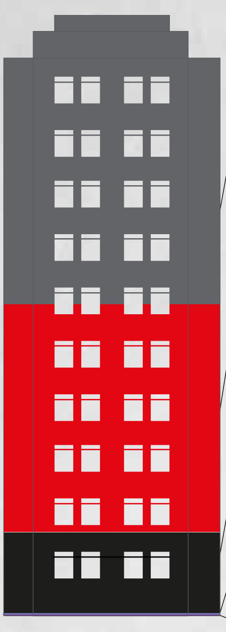
Stamp Duty
HKD 1.35M
(15% of property's value)

Legal Fees
HKD 30,000
(0.33% of property's value)

Property Agent's Commission
HKD 0

HKD 4.08 million

Secondary Market



Mortgage Amount
HKD 5M
Bank mortgage

Down Payment
HKD 4M
(56% of property's value)

Stamp Duty
HKD 1.35M
(15% of property's value)

Legal Fees
HKD 30,000
(0.33% of property's value)

Property Agent's Commission
HKD 90,000
(1% of property's value)

HKD 5.47 million

Total Upfront Transaction Costs

"In the secondary market, for a property priced at HKD 9 million, Mr Chan has to come up with over HKD 5 million in cash. That's at least 30% more cash than if the buyer purchased a unit with the same price tag in the primary market."
Ingrid Cheh, Associate Director, Hong Kong Research

Mr Chan is Locked Out of the Secondary Market By Higher Upfront Costs

Buying a home in the secondary market is much harder than buying a property of the same value in the primary market. The upfront transaction costs are significantly higher, making it more difficult for bona-fide end-users to enter or trade up in the secondary market.

The higher cash required (net of loan) in the secondary market makes it impossible for Mr Chan to purchase a HKD 9 million flat with his current savings, given that the maximum loan-to-value (LTV) ratio is 60%, with a bank mortgage loan cap of HKD 5 million. In addition to recently increased stamp duties and the larger cash down payment required, Mr Chan would also have to pay the property agent's commission, which developers pay on behalf of buyers of new flats.

"Home owners are stuck on the property ladder because they find it difficult to trade up."
Henry Mok

How To Breathe Life into the Secondary Market

Mr Chan is more likely to afford an apartment in the secondary market if the HKSAR Government were to relax the following policy measures put in place to curb demand for residential property, enabling new dynamics to form.

- **Lower the 15% Stamp Duty levied on buyers of a second property in the secondary market**
- **Raise the loan-to-value (LTV) ratio in the secondary market**
- **Raise the cap on mortgage lending**
- **Raise the stress test debt servicing ratio on bank lending**
  (allowing Mr Chan to apportion more than 60% of his monthly income to his mortgage repayments)

Mr Chan's Loan Details

Loan Details	Primary Market	Secondary Market
Property price (HKD)	**9 million**	**9 million**
Maximum loan-to-value ratio (LTV)	70%	60% (with a cap of HKD 5 million)
Down payment	2.7 million	4 million
Source of financing	Developer financing	Bank
Loan amount (HKD)	6.3 million	5 million
Loan tenure (years)	25	25
Interest rate assumption	3.25%†	2.25%
Monthly debt payment (HKD)	30,701	21,807
Minimum monthly income requirement (HKD)*	N/A	49,937

** Assuming a mortgage stress test debt servicing ratio of 60% at an interest rate of 5.25%*
† Interest rate for initial years of loan only

As long as the Government's cooling measures stay in place, the situation is unlikely to change. High barriers to entry for home-upgraders and a lack of buying incentives have helped push transaction volumes in the secondary market down by about 70% since 2010.

"Upbeat sentiment in the overall market will maintain an upward pressure on prices."
Joseph Tsang, Managing Director

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