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Title	Changes in the Ability of Households to Purchase Flats, 1990-1994
CONTENTS	<p>Paper No. HA 56/94 HOC 53/94 DC 35/94</p> <p>THE HONG KONG HOUSING AUTHORITY</p> <p>Memorandum for the Housing Authority, Home Ownership Committee & Development Committee</p> <p>Changes in the Ability of Households to Purchase Flats, 1990-1994</p> <p>PURPOSE</p> <p>The purpose of this paper is to describe the changes in the ability of households to purchase flats between 1990 and the second quarter of 1994.</p> <p>BACKGROUND</p> <p>2. At the Development Committee Meeting held on 6 May 1994, a Member asked whether property prices in the private sector had increased at a faster pace than income. This paper describes the changes in property prices, interest rate and income and their effect on the ability of households to purchase flats in the last five years.</p> <p>CHANGES IN ABILITY OF HOUSEHOLDS TO PURCHASE FLATS</p> <p>3. Flat prices and income. During the period between the 1st quarter of 1990 and the 2nd quarter of 1994, flat prices(1) increased by 181% far outpacing the increase of 65% in household income (Chart 1). While the increase of household income was steady during the period, that of flat prices was uneven. Flat prices were relatively stable in 1990, followed by rapid rises in 1991. there was another lull in 1992 but it was followed by another period of rapid increase in 1993 and in early 1994.</p> <p>Note (1) : "Property Market Statistics - 2nd Quarter 1994" published by Rating and Valuation Department.</p> <p>Chart 1 : Overall price, monthly mortgage repayment and mortgage-to-income ratio (MIR) of flats and overall median household income, 1990-1994</p> <p>4. Interest rate. While flat prices increased rapidly in the period, mortgage interest rate declined steadily from 11.25% in the last quarter of 1990 to 8.25% in the 1st quarter of 1994 (Chart 2). In the 2nd quarter of 1994, the interest rate increased marginally to 8.75%. the decline in interest rate in the period moderated the upward trend of the monthly mortgage (2) repayment which nevertheless still increased by 137% during the period.</p> <p>Chart 2 : Quarterly average mortgage rate, 1990-1994</p> <p>Note (2) : Mortgage assumed to cover 90% of sale price repayable over a period of 20 years. The down payment required changed during the review period. However, to ensure comparability, a loan of 90% of the sale price is still assumed, thus implying that the purchaser has to arrange the additional finance elsewhere.</p> <p>5. Overall Mortgage-to-Income Ratio When monthly mortgage payment increases faster than income, a household has to pay a larger proportion of its income to purchase a flat and its ability to afford a flat deteriorates. During the period, the index for the mortgage- to-income(3) ratio (MIR) increased by 44% more in monthly mortgage repayment relative to income. This suggests a lesser ability to purchase a flat. The deterioration, however, was far less pronounced than what the increase in flat price would suggest (Chart 1).</p> <p>6. As a result of the divergent movements of interest rate and flat prices, the increase in the MIR index was punctuated by fluctuations. It reached a peak in the second quarter of 1992, when it was 45% higher than that for the beginning of the period. Then decreases were registered until the MIR reached a bottom in the 1st quarter of 1993, which was still 17% higher compared to the 1st quarter of 1990. Since then, the MIR index has been rising and a second peak was reached in the 2nd quarter 1994, at a level 44% higher than that in the 1st quarter of 1990, but roughly the same as that in the 1st quarter of 1992. Thus, it can be argued that the deterioration of the ability of households to purchase a flat took place almost within one single year -- 1991. Between 1992 and 1994, the MIR has remained at a high level of between 117% to 145%. One point worth noting however is that if a household is able to put down a higher down payment, through savings, family contributions, or trading up an existing flat,</p>

then the MIR could be very different from the above observations. It is not clear how many households had indeed purchased flat through these finding sources.

7. Flat size. Chart 3 analyses the changes in the MIR index by size of flats. It can be seen that the patterns of movement are quite similar to that of the overall MIR noted earlier. Nevertheless, two differences are worth mentioning. firstly, the MIR index for larger flats increased more significantly than that for small flats, mainly because price increases for larger flats were more significant. While the MIR index for flats above 100m² in the 2nd quarter of 1994 increased by 69% compared with the 1st quarter of 1990, it only increased by 29% for flats smaller than 40m². Secondly, while the MIR index for the smaller flats only fluctuated within a band in the last two years after a very considerable rise in 1991, the index for the larger flats had continued to rise up to the 2nd quarter of 1994. The MIR indexes for flats between 70-99m² and over 100 m² rose by 16% and 28% respectively between early 1992 and the 2nd quarter of 1994.

Note (3) : Median household income of all Hong Kong households (GHS 1990-1994).

Chart 3 : Mortgage-to-income ratio (MIR) by size of flats, 1990-1994

INFORMATION

8. this paper is issued for Members' information. In view of its general interest, it is also issued to Members of the Housing Authority.

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c.c. Members of the Housing Authority

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