HKSAR Government spokesman’s response to media enquiries

In response to media enquiries on the report issued by S&P yesterday (March 5) on Hong Kong's banks and property market, a spokesman for the Government of the Hong Kong Special Administrative Region (HKSAR) gave a reply as follows:

We disagree with the observation that there is an oversupply of residential properties. The vacancy rate of private flats was 4.5 per cent at end-2024, on par with the long-term average of the previous 20 years (2004-2023). Flat rentals also sustained a solid increase. These data show that housing demand is currently keen.

Benefiting from the general downtrend in interest rates, continued economic growth, and more talents arriving in Hong Kong, the residential property market should see stable development this year. The Government will continue to closely monitor market developments and strive to maintain the steady development of the residential property market in a prudent and pragmatic manner.

As for non-residential properties, the Government has already rolled out measures to stabilise the market. Having considered the high vacancy rate of offices in recent years and the relatively ample supply in the next few years, the Government will not roll out any commercial sites for sale in the coming year, so as to allow the market to absorb the existing supply. The Government will also consider rezoning some of the commercial sites, which are expected to be available for sale in the next few years, into residential use and allowing greater flexibility of land use.

Property lending for the Hong Kong banking system amounted to HK$3.4 trillion as of end-December 2024, accounting for about one-third of the total loans. Among the property-related lending, 56 per cent were residential mortgage loans, while the remaining 44 per cent were loans for local property development and investment. The Hong Kong Monetary Authority (HKMA) closely monitors the robust development of the banking system. Notwithstanding the uncertainties in the global macroeconomic environment, the credit quality and risks of the banking sector remain manageable.

For residential mortgage loans (RMLs), as of end-January 2025, the overall delinquency ratio of mortgage loans was only 0.12 per cent while the delinquency ratio of RMLs in negative equity remained stable at 0.15 per cent as of end-December 2024, showing that the vast majority of mortgage borrowers are able to repay their loans on time. Under the HKMA's countercyclical macroprudential measures, Hong Kong's property market has remained stable, with an average loan-to-value ratio of 60 per cent and a low debt-servicing ratio of around 40 per cent. Following the US Federal Reserve's interest rate cuts, major banks in Hong Kong have lowered their best lending rates by a total of 0.625 per cent over the past year, resulting in lower mortgage rates. Residential property prices in Hong Kong have shown signs of stabilising in recent months, and the report by S&P on March 5, 2025 also expects Hong Kong's property prices to stabilise in 2025.

For local property development and investment loans, we agree with S&P's view that Hong Kong banks are able to manage the strains arising from the commercial real estate (CRE) sector:

- A significant portion of Hong Kong banks' exposures to local property development and investment loans are to the larger players with relatively good financial health. As for the exposures to local small and medium-sized property developers and investors, including some with weaker financial conditions or higher debt-to-equity ratios, banks have already taken credit risk mitigating measures early on and most of these loans are secured.

- Overall, credit risks associated with local property development and investment loans are manageable and there is no concentration of risks at individual borrower level and banks have also undertaken credit risk mitigation measures.

- Although the banking system's classified loan ratio has gradually edged up to the long-term average level of about 2 per cent, the overall asset quality of the banking system is manageable and provisions remain sufficient. As of end-December 2024, the provision coverage ratio (i.e., the total of general and specific provisions as a percentage of non-performing loans) was around 65 per cent. Taking into account and deducting the market value of collateral from the non-performing loans, the provision coverage ratio would be around 145 per cent.

As for the small- and medium-sized banks mentioned in S&P's report, they have also been taking appropriate credit risk mitigation measures, such as collateralisation, in accordance with the HKMA's guidelines. In addition, banks in Hong Kong have strong capital positions (with a total capital adequacy ratio of 21.8 per cent as of end-December 2024) and good profitability to withstand the extreme scenario of large volatility in property prices.