

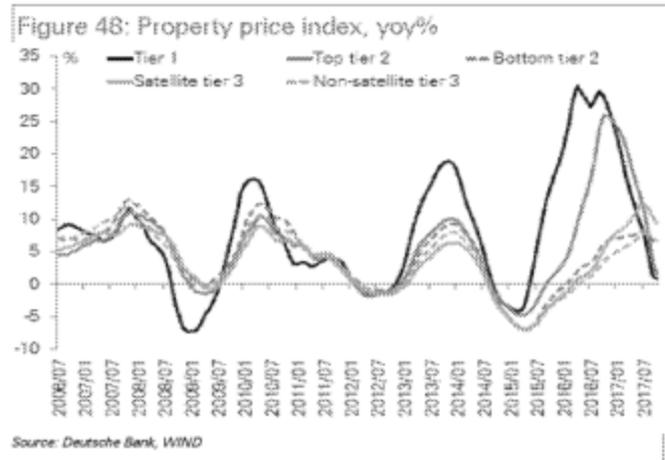
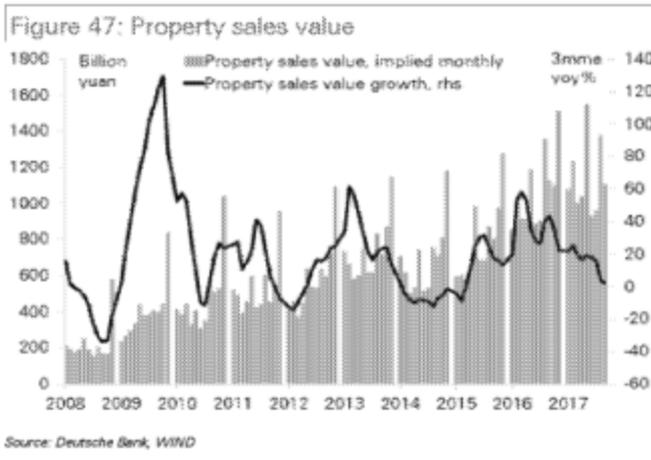


Property market cycle is cooling off, will policy loosen in Q2?

The downward cycle in the property market will likely last into H1 2018. This most recent cycle lasted longer than many had expected. The yoy growth of property sales just turned negative in Oct after staying positive for 30 months. Previous property cycles typically lasted for 12-20 months, measured by months for which 3mma property sales growth stayed positive (Figure 18). The uniqueness of the current cycle is that prices are unsynchronized across city groups. In previous cycles, property price growth peaks at around the same time for all cities. In the current cycle, price growth peaked in tier 1 cities in mid-2016, followed by top tier 2 cities in late-2016, and finally in tier 3 cities in mid-2017 (Figure 48). The lagged property market boom in tier 3 cities provided strong support to the economy in 2017.

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Property policy tightening in tier 3 cities is still underway. 41 tier 3 cities have tightened policies so far this year. Tightening comes in two rounds: a first round of tightening occurred during March-May, while a second round started in September (Figure 49).

We adopt a "difference in difference" (DID) approach to evaluate the impact of policies on property markets. Our results show that policy tightening are effective with a time lag. Property prices tend to increase further in the first 3 months, then stagnates in the next 5-6 months. In this regard, the impact of a second round of tightening should be reflected in property prices in H1 2018.

