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Hong Kong Developers Can Withstand Likely Slower Growth In The Property Market

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HONG KONG (Standard & Poor's) Aug. 28, 2015--The Hong Kong property market is likely to start to slow in the rest of 2015 and into 2016, according to an article that Standard & Poor's Ratings Service released today, titled "Tougher Tests Await Developers In Hong Kong's Surging Property."

"The Hong Kong property market has proved surprisingly resilient to external volatilities, with strong growth in 2014 and the first seven months of this year," said Standard & Poor's credit analyst Cindy Huang. "But the growth momentum is likely to slow in the rest of 2015 and into 2016 as macroeconomic conditions tighten and property supply increases."

We expect rising supply to lead to higher competition among developers, which are likely to continue to adopt a more flexible pricing strategy and focus on asset turnover.

Standard & Poor's has revised its base-case forecast for primary sales in Hong Kong for this year.

"We now expect a 5%-10% year-on-year increase in primary sales, compared with our previous anticipation of a 10%-15% decline. Our revised estimate is based on 5%-10% growth in the average selling price and stable year-on-year transaction volume," said Ms. Huang.

The average selling price in the first seven months of the year rose 8.4% while annualized primary transaction volume remained largely in line with that of 2014. We attribute the momentum to record-low interest rates and slow housing completions since January 2015. Only 5,100 units were completed in the first six months, representing just 32% of the total units completed in 2014.

We expect the developers that we rate to have a sufficient buffer to withstand slower growth and a more competitive market. We base our view on the companies' significant portfolio of investment property, good funding diversity and financial flexibility, and generally prudent financial leverage.

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