

REAL ESTATE

Hong Kong housing market most overvalued: UBS

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The Hong Kong real estate market continues to attract foreign investors. Image credit: Sotheby's

By SARAH RAMIREZ

As the housing boom continues, the potential for property bubbles is growing across the globe, with Hong Kong, Munich and Toronto the most at-risk markets.

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Housing markets are telling two different stories, according to a report from UBS, as half have seen price rise at least 5 percent the last four quarters, while the other half have seen prices stall and even drop. In the United States, San Francisco was the most overvalued city, followed by Los Angeles and New York.

"New York has really moved up very, very quickly price-wise," said Jonathan Woloshin, head of Americas real estate at UBS Global Wealth Management's Chief Investment Office. "Given how expensive New York is, I would've thought it scored higher."

The UBS Global Real Estate Bubble Index 2018 report was based on the residential property prices in 20 developed market financial centers around the world.

Markets on the bubble

In real estate, a "bubble" occurs when properties are mispriced over a substantial period of time.

Hong Kong has seen residential market prices increase by more than 10 percent in inflation-adjusted terms over the last year. Home prices have doubled since 2008, while income has remained steady.



Toronto's home prices are up 50 percent over the last 5 years. Image credit: Sotheby's

In Europe, Munich has also seen residential real estate prices double in the last decade. Home prices in Toronto are 50 percent higher than five years ago, but the market has stabilized for the time being.

Overall, house values in the U.S. reached their peak in 2006. San Francisco, however, continues to experience price growth that exceeds 2006 prices by 20 percent.

Los Angeles, similarly to San Francisco, has benefitted from a strong job market. As mortgage rates rise, Los Angeles may experience slower price growth though prices climbed 6 percent since last year.



New York is one of the most overvalued cities in the U.S. Image credit: Redfin

New York remains overvalued, but its bubble score has decreased. Housing demand is down while inflation-adjusted prices are up by 25 percent.

Inventory is also up in New York, which will likely depress prices in the coming months.

As prospective homeowners evaluate bubble risk, Mr. Woloshin advises that strategies vary on whether a new property will be a primary home or an investment, either as a rental or a flip.

Homebuyers who are purchasing second homes are increasingly looking at these investments in the hopes of earning rental income, as opposed to using the properties solely for leisurely retreats ([see story](#)).

Real estate trends

The second quarter saw the slowest global growth in luxury real estate since 2012. Some of the bright spots in the U.S. real estate market include northern California and Florida.

Outside of the U.S., real estate performance is also mixed. Chinese consumers continue to scoop up properties, bolstering Hong Kong's property market ([see story](#)).

Evolving property market regulations have partly contributed to the moderate price growth.

Hong Kong has instituted a vacancy tax, while Singapore will introduce higher rates for foreign buyers and developers. Dublin has tighter lending laws, coupled with a rising supply of luxury housing ([see story](#)).

"This report is not saying that these higher-risk markets are in dire risk of a bursting bubble," Mr. Woloshin said. "We want to highlight markets where risks are further extended."

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