

Cycle of the Property Market in Hong Kong

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DOI: 10.46609/IJSSER.2025.v10i11.017 URL: <https://doi.org/10.46609/IJSSER.2025.v10i11.017>

Received: 29 October 2025 / Accepted: 20 November 2025 / Published: 30 November 2025

ABSTRACT

Hong Kong's property market has exhibited pronounced cyclical patterns over the past 40 years, heavily influenced by macroeconomic fluctuations [1][2][3][4], demographic shifts [5][6][7][8], geopolitical tensions, and a series of government policy interventions [9][10]. This comprehensive analysis examines the predominant phases and critical inflection points within Hong Kong's real estate cycle from 1983 to 2025, with a focus on underlying macroeconomic drivers, market structural challenges, and the dynamic evolution of supply-demand equilibria. The discussion emphasizes how policy, fiscal measures, and geopolitical considerations have collectively shaped the cyclical nature of Hong Kong's property market, providing a nuanced understanding of its complex behavior within a global economic context. In this research paper, we will discuss the major turning points of the property market to identify common features of critical moments, helping citizens avoid missing out during downturns and give a few suggestions to the policy maker.

Keywords: Cycle of the Property Market, HK property market, Period of the HK property Market, Automatic Stabilizer, Hong Kong Land Bank.

Introduction

Hong Kong's property market has been characterized by pronounced cyclical behavior over the past four and a half decades, shaped by fluctuating economic fundamentals, demographic pressures, geo-locational events [1][2][3][4][5], and government policies [6][7][8][9][10]. This research paper analyzes the key phases and turning points in the property market cycle in Hong Kong from 1983 to 2025, highlighting the underlying challenges and evolution of market dynamics.

In this research paper, we are going to discuss the property cycle in Hong Kong. We will divide

the cycle into four phases: the first phase is the strong growth period (1984-1997), the second phase is the downside period (1998-2003), the third phase is the growth period (2004-2021), and the fourth phase is the downside period (2022-till 2025[1]). Each economic cycle phase exhibits unique characteristics influenced by various macroeconomic factors. The initial phase is triggered by a joint declaration that delineates the specific social issues, which in turn catalyzes increased investor confidence and results in heightened capital inflows into the property sector. During this expansionary phase, investors demonstrate bullish sentiments, and property market activity intensifies due to optimistic expectations. The subsequent phase is characterized by the fallout from the Asian financial crisis, which precipitated a sharp contraction in property prices owing to liquidity crunches, credit tightening, and declining foreign direct investment. The recovery phase follows, supported by government-led open market policies, including the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA) and CPEX initiatives, which liberalize trade and investment flows. These policies stimulate tourism and foreign investment, bolstering aggregate demand within the economy. The influx of tourists and increased foreign capital influx foster an environment conducive to property market stabilization and growth, thereby facilitating a gradual economic and real estate sector recovery.

Methodology:

In this research paper, we will utilize the statistical data from the Central Line Property Agency, which is the CCI index, as a useful tool to divide the cycle of the property market. Also, we will analyze the property cycle through different dynamics of social and economic factors. Such a factor can turn into a full picture of how the situation worsens or how the property market will recover. This kind of reference can provide a well support to our paper of the analysis. In addition, we will provide a clear purpose solution to the policy maker which can benefit the citizens and the social welfare.

Discussion:

This research paper provides a comprehensive analysis of each phase within the property market cycle, emphasizing the unique economic conditions and contextual factors that influence each stage. This research study delineates the specific characteristics and dynamics inherent to each phase, employing professional terminology such as 'price volatility' and 'cyclical trends.' By examining these stages in detail, the paper aims to elucidate the complex interplay of macroeconomic and microeconomic variables that underpin the structural evolution of the real estate sector.

The period stage

The upside period:

Between 1984 and the early 1990s, Hong Kong experienced a period of robust economic expansion which significantly propelled the real estate market. This surge was primarily driven by accelerated urbanization, rapid industrial development, and increased foreign direct investment, all contributing to heightened demand for residential and commercial properties. During this period, property prices escalated substantially, reflecting a classic asset bubble fueled by speculative behavior and liquidity abundance. The first major peak of this cycle occurred in 1997, often referred to as the Hong Kong property bubble burst. This escalation was exacerbated by speculative investment, a surge in credit expansion, and an optimistic economic outlook, leading to record-high property price surges. The boom was also supported by government policies favoring real estate development and a conducive macroeconomic environment characterized by capital inflows, which collectively fueled asset price inflation.

The downside period:

After this peak, the market went through a significant decline from 1998 to 2003, worsened by the Asian Financial Crisis and ongoing economic uncertainties. During this time, residential prices across all segments dropped nearly 70%, with some segments falling more than 75%. Between 1998 and 2003, the market went through a prolonged decline marked by excess supply, economic tensions, and a major public health crisis in 2003. These factors together led to decreased investor confidence and lower market liquidity. This ongoing downturn was made worse by macroeconomic uncertainties and structural issues within the sector.

Upside period:

Starting from 2004, the market entered a robust recovery phase, driven by regional economic revitalization, structural reforms, and an acceleration in infrastructural investments. The period of growth persisted until 2008, fueled by China's rapid economic integration, an increase in foreign direct investment, and enhanced interregional trade connectivity, which collectively bolstered demand and affirmed the market's long-term growth prospects.

Upside period with short adjustment:

The Global Financial Crisis of 2008 temporarily interrupted this persistent upward trajectory in asset prices, causing a noticeable deceleration in growth and a period of heightened market volatility. However, this downturn was swiftly mitigated by expansive monetary policies and liquidity injections undertaken by central banks worldwide. Subsequently, between 2010 and 2013, the asset prices experienced a robust recovery characterized by a pronounced bullish phase, during which valuations more than doubled. This surge was primarily fueled by abundant liquidity conditions, including low interest rates and quantitative easing measures, which facilitated increased leverage and risk-taking. Additionally, heightened Mainland Chinese

outbound investments, driven by a combination of capital account liberalization and a persistent demand for diversified assets, contributed significantly to the rally, further amplifying demand and supporting the remarkable appreciation in asset valuations.

Boom period:

Between 2014 and 2021, the escalation in property prices experienced a marked acceleration, transitioning from a period of moderate appreciation to a phase characterized by exponential growth. This surge in property values can be attributed to a confluence of macroeconomic and monetary factors, including historically low interest rate policies implemented by central banks, which lowered the cost of borrowing and stimulated demand in the housing market. Additionally, a robust economic environment, marked by favorable GDP growth, increased household income, and investor confidence, contributed to heightened speculative activity and investment in real estate assets. These dynamics collectively fostered a climate conducive to rapid property appreciation, reflecting both supply-side constraints and increased liquidity in the financial system, which together amplified the upward momentum in property prices.

Turning downside period:

The public health crisis caused a major macroeconomic shock starting in 2022, marked by a sharp decline in demand across various sectors, mainly due to international travel restrictions and widespread economic uncertainty. This demand shock led to a significant slowdown in market activity from September 2021 through 2025, the first quarter. During this time, prices continued to fall steadily, driven by an oversupply of commodities and assets combined with increasingly tight credit conditions, which reflected a tightening of financial liquidity and higher risk premiums in capital markets.

These factor of property price adjustment happen due to, concerns regarding housing affordability intensified, driven by stagnant wage growth juxtaposed with rising living costs, alongside broader economic uncertainties such as volatile financial markets and fluctuating employment rates. These developments collectively underscored the increasing financial strain on consumers and signaled potential shifts in housing demand trajectories amidst the increasingly complex economic landscape.

To mitigate the issues associated with excessive price overshooting and over-adjustment in the property market, we propose a novel intervention framework. This approach aims to implement a smoothing mechanism for the real estate cycle, thereby attenuating volatile fluctuations in property prices. By integrating economic theories of market stability and dynamic adjustment processes, the framework seeks to enhance market equilibrium, foster sustainable growth, and prevent the destabilizing effects of speculative bubbles.

Suggestion:

These periods have different characteristics. The above paragraph explains in detail why and how property prices rise and fall. Now, we are going to make a few suggestion to resolve the property market fluctuations. Since open market operations and the land bank can act as automatic stabilizers, they can help stabilize Hong Kong's property market prices from overshooting and overselling. Here are our suggestions, and we hope the policymaker will adopt our strategy. So, there are a few suggestions to smooth the land supply and adjust the overshooting and overselling of the property market price.

(1) Establish the Hong Kong Land Bank

To stabilize property prices in Hong Kong, we will implement an open market operation. This strategy aims to smooth land supply and prevent market prices from overshooting. We will leverage the land bank as a buffer to counteract price overshoot. With land supply from the Hong Kong land bank, prices will stabilize in the event of a market shock.

(2) Automatic stabilizer of the Hong Kong Bank

An automatic stabilizer of the Hong Kong banking sector refers to the economic mechanisms embedded within the financial system that automatically act to dampen fluctuations in economic activity without the need for explicit policy intervention. These stabilizers operate through various channels, such as the countercyclical nature of deposit insurance, the automatic adjustment of interest rates on savings and loans, and the inherent feedback mechanisms in the banking regulations that respond to economic shocks. Specifically, during periods of economic expansion, increased loan demand and higher deposit levels tend to stabilize economic growth, while in downturns, a decline in loan issuance and deposit inflows can help curb overheating or deflationary pressures. These features contribute to macroeconomic stability by providing a buffering effect, reducing the amplitude of economic cycles, and enhancing resilience against external shocks. In the context of Hong Kong, a highly integrated financial hub with a significant banking sector operating under a robust regulatory and monetary framework, these automatic stabilizers play a crucial role in maintaining financial stability and supporting the broader economic objectives.

(3) Open market operations in Hong Kong property Market

A comprehensive and highly detailed analysis of open market operations within Hong Kong's real estate sector, employing advanced economic terminology and rigorous explanations. This includes an in-depth discussion of monetary policy strategies, liquidity management techniques, and the equilibrium dynamics specific to Hong Kong's unique property market environment.

Such as the early warning signals in the market to prevent the property market from overheating and over short selling, these open-market operations can be applied to direct intervention, such as direct buy-in, when the property market is in an overselling period. So, when the price is suitable, the Hong Kong land bank can buy the property; when it is cheap, it can buy in; and when there is overheating, it can sell off.

Such automatic stabilizers aim to stabilize the property market price, and to smooth the land supply, which is paving the way for citizens to have a better place and a better day to live.

In conclusion, our proposed intervention is vital for establishing a well-defined mechanism to modulate the property cycle effectively. This approach aims to mitigate the risks of property market overheating or overselling, thereby promoting sustainable development within the real estate sector. We anticipate that the implementation of our recommendation will not only benefit stakeholders but also contribute positively to economic stability and societal welfare.

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