



AUGUST 2011

# HONG KONG LUXURY RESIDENTIAL

Monthly Report

**Knight Frank 萊坊**

## PRICES STABLE DESPITE MARKET UNREST

Sentiment in the local residential sales market remained lukewarm in July. Government measures to cool the market continued to take effect, helping curb speculation. Sentiment was also dampened as banks continued to raise HIBOR-based mortgage rates, resulting in even narrower gaps between HIBOR and prime-based rates. Meanwhile, the local stock market was adversely affected by the US' failure to reach an agreement on raising the sovereign debt ceiling as well as the European debt crisis, making potential homebuyers reluctant to make investment decisions amid an uncertain market outlook. According to the Land Registry, home sales in July dropped 41.9% from the previous month, the largest month-on-month decline since May 2009.

The primary residential market, however, recorded fair performance. Although sales volume fell 42.0% as no major new projects were launched during the month, the absorption of new homes remained

satisfactory. Imperial Cullinan in Tai Kok Tsui, for example, received a positive market response, with over 600 out of its 650 units being already sold. Its Imperial Pool Villa duplex was reportedly acquired for HK\$151 million or HK\$42,664 per sq ft, a historic price-high for the area. Meanwhile, two investors reportedly bought six flats in i-UniQ Grand in Shau Kei Wan for HK\$52 million and another bought two flats in Broadwood Twelve in Happy Valley for HK\$93.8 million or over HK\$27,000 per sq ft.

In the secondary market, home prices stayed firm despite the low transaction volume. Few flat owners were willing to sell their flats at a discount, but an increasing number of homebuyers expected price cuts due to weak sentiment. Despite this, there still saw a number of record-breaking transactions. A 1,385-sq-ft unit on the top floor of Residence Oasis in Tseung Kwan O, for instance, was reportedly sold for HK\$14.2 million or HK\$10,253 per sq ft, a new record high for the district. A 575-sq-ft flat in Telford Garden in Kowloon Bay was reportedly sold for HK\$4.28 million, or HK\$7,445 per sq ft, making it the most expensive two-bedroom flat in the development to date.

The luxury residential leasing market remained active in July. There were limited luxury flats available for rent and a number of developments reached full occupancy, including The Manhattan, 51 Deep Water Bay Road and Nicholson of The Repulse Bay in Island South as well as Tung Shan Terrace and Branksome Grande in Mid-Levels. Rents rose 0.6% compared with the previous month.

At the beginning of August, the lowering of the US' credit rating by Standard & Poor's and the European sovereign debt crisis were in the spotlight. Investors feared a global economic downturn, causing a worldwide crash in stock markets. The Hang Seng Index dropped more than 3,000 points over a few days. However, such unrest is not expected to severely affect Hong Kong's residential property market.

Between 1980 and 2011, the Hang Seng Index witnessed nine major downturns with corrections in excess of 30%, yet Hong Kong's residential property market experienced only five major slumps during the same period. Previous experiences show that Hong Kong's residential market only witnessed substantial corrections when prices became unaffordable, interest rates were rising and supply was excessive.

The purchasing power of potential buyers and the holding power of flat owners are expected to remain strong in a healthy economy. Mortgage rates—though slightly higher than before—are still low and would remain at such levels for at least two more years, given that the US Federal Reserve has announced that it will hold its benchmark interest rate until at least mid-2013. Supply of residential units, which is expected to average 15,300 per year from 2011 to 2017, will likely fall short of demand given that take-up over the past 20 years averaged 19,500 units per year.

Unless further unfavourable news that seriously affects the global and local economy emerges, we believe property prices would remain stable, although transaction volumes may decrease. Meanwhile, residential rents should also remain steady or drop only slightly when more landlords put properties up for lease amid weak market sentiment in the sales sector.



## Luxury residential report

**Hong Kong's inflation rate rose to 5.6% in June 2011, representing a new high in the past 35 months.**

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q2 2011	+5.1%#	-2.7%	+6.8%	+5.5%
Inflation rate	June 2011	+5.6%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to June 2011	3.5%#	5.4%	4.4%	4.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

Source: EIU Country Data / Census & Statistics Department / Knight Frank  
# Provisional \* HSBC prime lending rate

**Demand for large luxury residential units on the Peak and in Island South remained strong.**

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$psf/mth)
Island South	Hillgrove	House	2,600	\$140,000	\$53.8
The Peak	74 Mount Kellett Road	House	4,200	\$220,000	\$52.4
Island South	Horizon Crest	House	2,800	\$145,000	\$51.8
Island South	Hong Kong Parkview	Tower 15 / mid floor / unit 83	2,611	\$135,000	\$51.7
The Peak	La Hacienda	Tower A / high floor unit	3,384	\$168,000	\$49.6
Pokfulam	Provident Villa	House	3,030	\$137,000	\$45.2
The Peak	Carolina Garden	Mid floor / unit B	2,800	\$120,000	\$42.9

Source: Knight Frank  
Note: All transactions are subject to confirmation.

The secondary luxury market benefited from the launch of a new residential project in Kowloon in July.

Table 3  
Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Tsim Sha Tsui	The Arch	Moon Tower / 77 <sup>th</sup> floor / unit B	2,316	\$74.5	\$32,168
Tsim Sha Tsui	The Harbourside	Tower 2 / 66 <sup>th</sup> floor / unit C	1,367	\$43.0	\$31,456
Mid-Levels	Clovelly Court	Tower 1 / 31 <sup>st</sup> floor / unit A	2,809	\$87.0	\$30,972
Tai Kok Tsui	Imperial Cullinan	Tower 1 / 6 <sup>th</sup> floor / unit A	1,848	\$55.44	\$30,000
Mid-Levels	Chantilly	2 <sup>nd</sup> floor / unit B	3,600	\$105.149	\$29,208
Island South	Belgravia	17 <sup>nd</sup> floor / unit B	2,790	\$78	\$27,957
Kowloon Tong	One Beacon Hill Road	Block 3 / ground floor	1,397	\$35	\$25,054

Source: Economic Property Research Centre  
Note: All transactions are subject to confirmation.

In July, luxury home prices and rents edged up 0.1% and 0.6% month on month, respectively—the smallest gains so far this year.

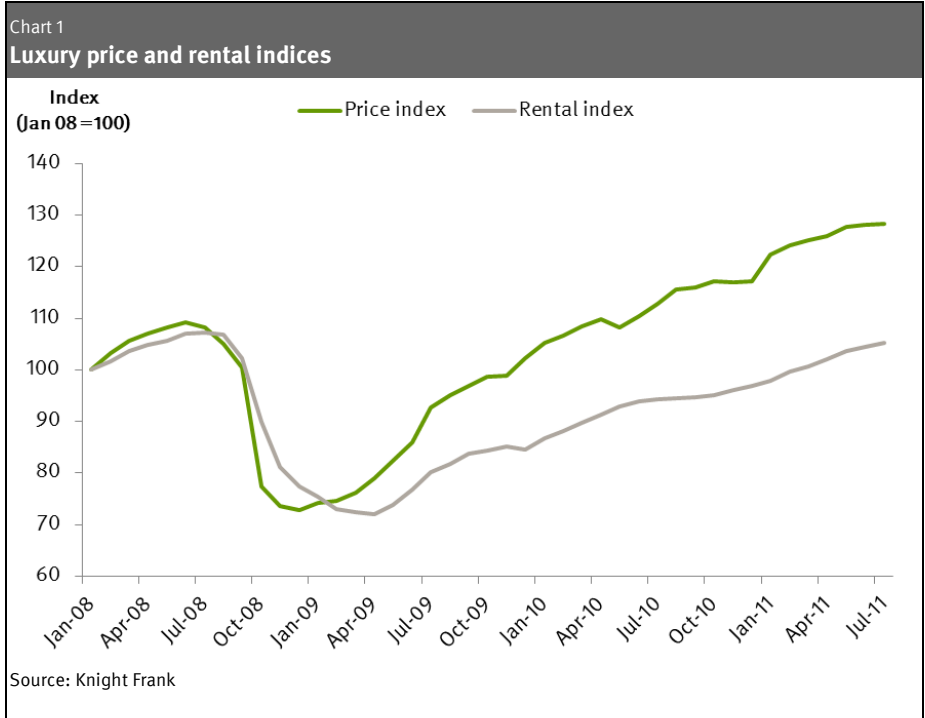
Table 4  
Luxury residential market indicators—Jul 2011

District	Rent			Price			Change		
	HK\$psf/mth	From Jun 11	From Apr 11	From Jul 10	HK\$psf	From Jun 11	From Apr 11	From Jul 10	
The Peak	66.7	2.0%	4.5%	14.7%	24,242	0.0%	0.0%	12.5%	
Mid-Levels	51.2	-0.8%	2.1%	13.2%	20,414	0.1%	3.8%	16.5%	
Pokfulam	33.9	0.0%	1.7%	12.3%	17,785	0.0%	2.2%	4.9%	
Jardine's Lookout & Happy Valley	43.1	0.5%	2.3%	9.9%	18,741	0.5%	2.9%	18.8%	
Island South	50.6	0.8%	3.3%	6.7%	24,032	0.0%	2.1%	15.6%	

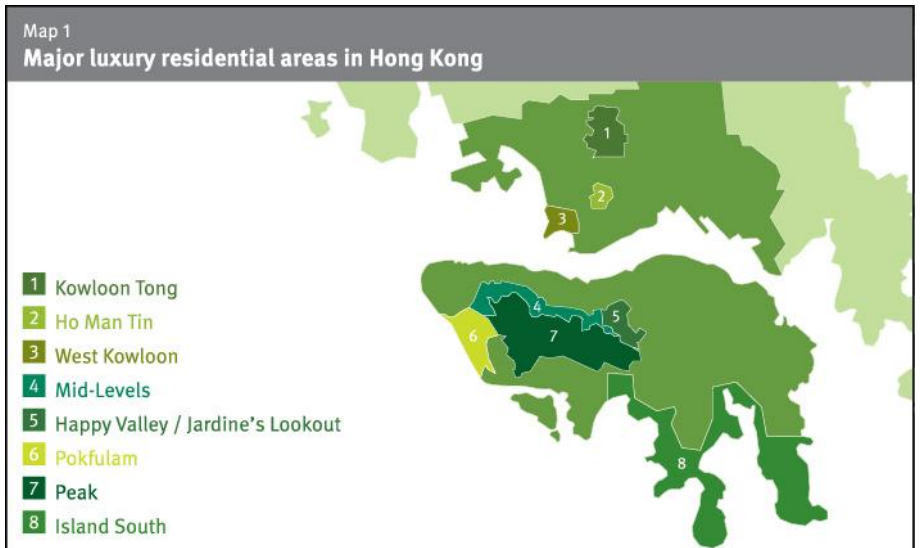
Source: Knight Frank  
Rents and prices are subject to revision.



**Luxury residential prices and rents are expected to remain stable during the second half of the year.**



**Traditional luxury residential areas in Hong Kong focused on Hong Kong Island.**



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