



DECEMBER 2011

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

PRIMARY HOMES IN THE SPOTLIGHT

Fear of an oncoming worldwide recession dampened stock markets globally and reduced the purchasing appetite of potential homebuyers in Hong Kong. At the same time, local and Mainland banks remained cautious towards mortgage lending. A number of banks raised their mortgage rates in November and early December, further hurting sentiment in the residential market. However, developers remained active in launching new luxury flats and were rewarded by encouraging responses. In November, the number of residential sales increased 3.3% month on month, the first rebound since August 2011, mainly driven by sales of primary flats.

A total of 695 luxury flats worth HK\$10 million or above were sold in November, about 160% more than the level recorded in October, the Land Registry's statistics show. According to their respective developers, 206 units in The Wings in Tseung Kwan O and 170 units in the third phase of Festival City in Tai Wai were sold within two days of launch. The satisfactory sales results were attributable to various

beneficial packages on offer, including the provision for a second mortgage and a long transaction period, as well as their competitive prices, which were close to those in the secondary market. Meanwhile, a 5,408-sq-ft new house in Providence Bay, Tai Po was reportedly sold for HK\$29,380 per sq ft—the highest price ever achieved for a house in the New Territories.

Potential homebuyers focused on primary flats and paid less attention to the secondary market, prompting owners of secondary properties to become more flexible on prices. For example, a high-floor flat at City One Shatin was reportedly transacted at HK\$5.8 million, 8.5% lower than the asking price, while a 507-sq-ft, high-floor unit at Healthy Garden in North Point was reportedly sold for HK\$3.89 million, or 9.5% lower than its asking price and about 3% lower than the market price. Overall, mass residential prices dropped 1–2% in November.

In the luxury market, prices dropped a marginal 1.0% last month, as only individual homeowners were prepared to sell their flats at a discount. A 2,715-sq-ft duplex at Sorrento in Tsim Sha Tsui was reportedly sold for HK\$63 million—HK\$15 million lower than the original asking price. However, this was still the highest price-per-sq-ft transaction in the development to date. Meanwhile, a three-bedroom flat at Park Tower in North Point was reportedly transacted at HK\$20.8 million, which was about 10% lower than the asking price, but still 13.7% higher than its purchase price in 1997.

On the leasing front, landlords were more willing to lower their asking rents to secure tenants. More flats became available for rent in November, but take-up remained low during the traditional slow season. The market was further impacted by the surrendering of flats by some multinational companies which were downsizing due to the economic downturn.

As a result, luxury rents fell at a faster rate of 2.1% last month, compared with 1.7% in October. Rents in Hong Kong's leading luxury residential areas dropped between 0.7% and 3.1% in November. Mid-Levels witnessed the largest drop of 3.1%, followed by the Peak and Jardine's Lookout / Happy Valley where rents declined 2.5% and 2.2%, respectively. Meanwhile, rents in Island South and Pokfulam declined a respective 1.3% and 0.7%.

Looking ahead, the central banks of the US, Canada, Britain, Japan, Switzerland and the European Union have eased the strain in the financial market by cutting the costs of borrowing by the Federal Reserve, in order to foster economic activity. Meanwhile, the People's Bank of China has also lowered the reserve requirement ratio by 50 basis points—the first reduction since December 2008. This could improve sentiment in the local property market, but residential transaction volume is expected to stay low in 2012, while the economic outlook remains unclear. Mass home prices are likely to drop 10–15% in 2012. However, with supply being limited, luxury residential properties are likely to outperform, with prices expected to decline up to 10% in 2012.



Luxury residential report

The unemployment rate rose 0.1 percentage point in October—the first increase since February this year.

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q3 2011	+4.3%#	-2.7%	+6.8%	+5.5%
Inflation rate	October 2011	+5.8%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to October 2011	3.3%#	5.4%	4.4%	4.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank
Provisional * HSBC prime lending rate

A number of houses were leased in November, despite it being the traditional low season.

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Island South	Le Palais	House	4,372	\$290,000	\$66.3
Island South	127 Repulse Bay Road	Low floor / unit A	2,990	\$168,000	\$56.2
Island South	Majestic Court	Penthouse	3,600	\$200,000	\$55.6
The Peak	Kellett View Townhouse	House	4,010	\$220,000	\$54.9
Mid-Levels	Dynasty Court	High floor / unit B	2,256	\$112,900	\$50.0
Mid-Levels	Grenville House	Low floor / unit H	3,700	\$176,000	\$47.6
Island South	Regalia Bay	House	4,104	\$180,000	\$43.9

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



In November, transactions of luxury flats worth HK\$10 million or above surged about 160% month on month, driven by improved sales of primary units.

Table 3 Selected luxury residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
The Peak	8 Severn Road	House 23	3,363	\$198	\$58,876
Kowloon Tong	One Mayfair	Tower 1 / 9 th floor / unit A	2,773	\$84.6	\$30,508
Mid-Levels	Serenade	Tower 2 / 63 rd & 65 th floors / duplex A	2,617	\$78.3	\$29,920
Mid-Levels	Dynasty Court	Tower 1 / 36 th floor / unit A	2,680	\$78	\$29,104
Tai Po	Providence Bay	Tower 1 / 10 th floor / unit A	3,361	\$92.763	\$27,600
Jardine's Lookout & Happy Valley	Leighton Hill	Tower 1 / 15 th floor / unit A	1,618	\$41.68	\$25,760
Island South	Stanley Crest	House B	3,894	\$100	\$25,681

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

Last month, luxury residential rents and prices edged down 2.1% and 1.0%, respectively.

Table 4 Luxury residential market indicators—November 2011								
District	Rent			Price			Change	
	HK\$psf/mth	From Oct 11	From Aug 11	From Nov 10	HK\$psf	From Oct 11	From Aug 11	From Nov 10
The Peak	64.0	-2.5%	-4.3%	8.4%	23,667	0.0%	0.0%	6.7%
Mid-Levels	47.8	-3.1%	-6.5%	1.1%	19,829	-0.6%	-2.5%	9.2%
Pokfulam	32.5	-1.3%	-3.6%	4.8%	15,987	-4.5%	-5.3%	-5.4%
Jardine's Lookout & Happy Valley	40.6	-2.2%	-5.6%	0.3%	17,948	-2.0%	-4.2%	7.0%
Island South	48.6	-0.7%	-4.5%	3.9%	23,243	0.0%	-1.5%	5.8%

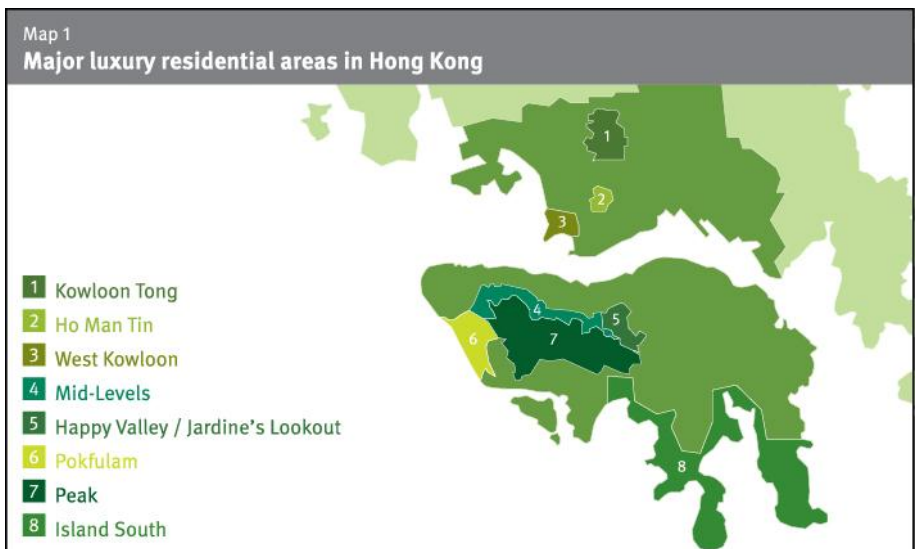
Source: Knight Frank
Rents and prices are subject to revision.



Slight drops in luxury residential prices and rents were recorded in November 2011.



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



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