



JUNE 2011

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

HOME PRICES RISE AT A FASTER PACE

Sentiment in the local residential market improved in May, with three luxury residential sites attaining satisfactory auction results, reflecting developers' positive market outlook. Mass residential prices grew another 2%—a faster pace than the previous month—while luxury prices increased 1.5%, the largest growth in four months. According to the Land Registry, the number of residential sales transactions rebounded 26.8% from April, but the growth was mainly attributable to the 117.2% surge in primary residential sales, while the number of secondary home sales only gained 10.6%.

The number of secondary sales remained relatively low, as the gap between asking and bidding prices remained wide. On the one hand, high home prices and further hikes in HIBOR-based mortgage rates made potential buyers cautious when making buying decisions, while on the other, landlords stayed firm on their asking prices, as they had low financial burden amid the low-interest-rate environment.

However, sustained demand for quality units resulted in continued transactions at record price-highs, even on outlying islands and in the Home Ownership Scheme (HOS) market. A 700-sq-ft village house in Yung Shue Long New Village on Lamma Island was sold for HK\$3.5 million, or HK\$5,000 per sq ft, breaking the price record for similar houses on the island, while in the Kornhill Garden HOS estate in Quarry Bay, a unit was sold for HK\$4.768 million or HK\$8,123 per sq ft—a new high for HOS housing.

The surge in the number of primary residential sales was attributable to satisfactory transactions at Lions Rise in Wong Tai Sin, where over 80% of units launched were sold and i.UniQ in Shau Kei Wan, where all 117 units were acquired. Mainland buyers continued to support the local primary market, buying over 20% of the units in these two projects. Despite their higher prices, compared with nearby secondary developments, the encouraging results were partly due to the developers' new sales strategy—a deferred payment scheme where buyers only need to pay 10–20% of the purchase prices upfront, then pay the balances upon the completions of the two projects in 2012 and 2013, respectively.

Luxury home rents edged up another 1.6% in May—the largest growth in three months—on the back of tight supply of flats and strong demand from expatriates. Quality units were quickly snapped up on release, with some developments having long waiting lists of over 100 interested parties. Amid limited availability and rising rents, some tenants had to settle for units that were smaller, lower in quality or less conveniently located. Rent-free periods, which can be up to a fortnight in low seasons, were now shortened to a few days or no longer granted. With this lack of equilibrium set to continue, we expect rents to grow further over the next few months.

Latest official statistics show that local home prices in April 2011 surpassed their previous peak recorded in October 1997 by 5.1%. In another attempt to curb the overheated market, the government further increases housing supply, releasing eight residential sites for sale in the coming quarter. It also tightens credit by further lowering loan-to-value (LTV) ratios for units priced over HK\$7 million; implementing caps on maximum loan values and for the first time, lowering the LTV ratio for loans to Mainlanders by a further ten percentage points.

We believe that launching a number of sites at the same time could weaken developers' buying power, which might affect bidding prices, thus stabilising home prices. However, since favourable economic factors—such as limited supply, negative real interest rates as well as strong demand from end-users and Mainlanders—are unlikely to reverse in the short term, we expect prices to remain firm. In fact, current economic indicators, when compared with those of 1997, well explain why home prices have reasonably returned to comparable levels with 1997, or even surpassed them (see Table 1).

Economic indicator	Period	Latest reading	1997	Change
Real GDP at 2009 prices (HK\$ billion)	Q1 2011	\$438	\$292	49.8%
Private median household income (HK\$ per month)	Q1 2011	\$27,600	\$22,000	25.5%
Mortgage rate (prime-based)	Jun 2011	2.25%	8.92%	-6.67%
Number of domestic households (million)	Q1 2011	2.3	1.9	21.5%
Residential completions (number of units)	2010	13,405	18,202	-26.3%

Source: Rating and Valuation Department / Census & Statistics Department / Knight Frank



Luxury residential report

Hong Kong's inflation rate rose to 4.6%—a new high in 36 months.

Table 2
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q1 2011	+7.2%#	-2.7%	+6.8%	+5.5%
Inflation rate	April 2011	+4.6%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to April 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 CountryData / Census & Statistics Department / Knight Frank
Provisional * HSBC prime lending rate

On the back of strong demand from expatriates in May, a number of houses were leased on the Peak.

Table 3
Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$psf/mth)
The Peak	28 Gough Hill Road	House	6,080	\$500,000	\$82.2
The Peak	24 Middle Gap Road	House	9,596	\$700,000	\$72.9
Mid-Levels	Queen's Garden	High floor / unit B	2,960	\$180,000	\$60.8
Island South	Stanley Court	House	2,657	\$155,000	\$58.3
Mid-Levels	Bowen's Lookout	High floor	2,388	\$135,000	\$56.5
The Peak	74 Mount Kellett Road	House	4,200	\$220,000	\$52.4
The Peak	La Hacienda	High floor / unit A	3,386	\$170,000	\$50.2

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



Market sentiment improved in May with three luxury sites attaining satisfactory auction results.

Table 4
Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Island South	Belgravia	28 th floor / unit B	2,790	\$98.8	\$35,412
The Peak	Cameron House	7 th floor / unit A	2,847	\$99.88	\$35,083
Happy Valley	Broadwood Twelve	7 th floor / unit A	1,632	\$52.7	\$32,292
Mid-Levels	Mayfair	28 th floor / unit B	2,872	\$91.8	\$31,964
Mid-Levels	The Albany	West Tower / 23 rd floor	2,549	\$80	\$31,385
Mid-Levels	Clovelly Court	Block 1 / 31 st floor / unit A	2,809	\$87	\$30,972
Repulse Bay	56 Repulse Bay Road	House 2	3,185	\$98	\$30,769

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

Mid-Levels outperformed the market, with the strongest growth in both the average rent and price of luxury homes.

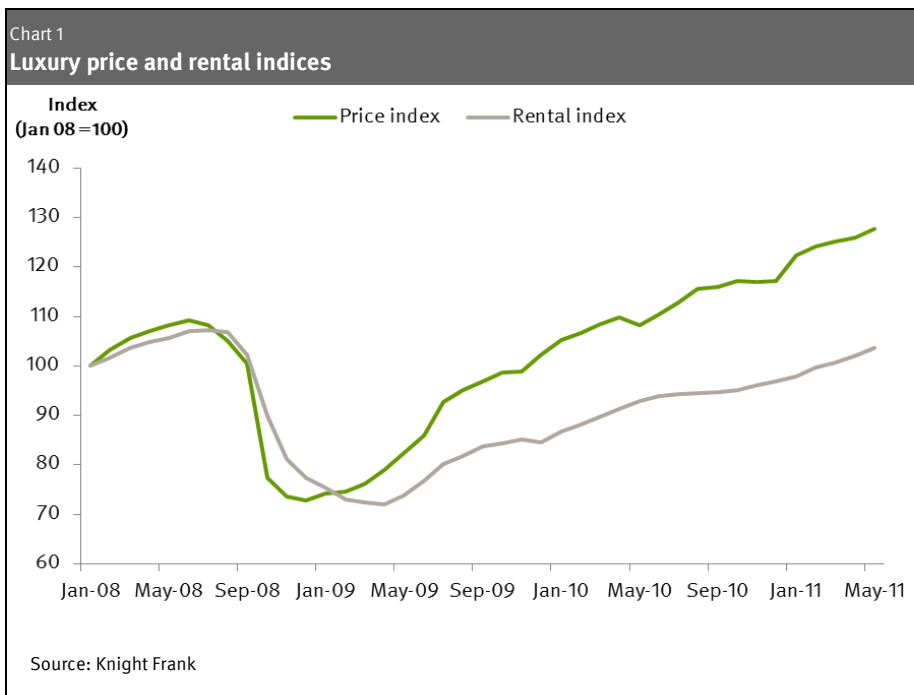
Table 5
Luxury residential market indicators—May 2011

District	Rent			Price			Change		
	HK\$psf/mth	From Apr 11	From Feb 11	From May 10	HK\$psf	From Apr 11	From Feb 11	From May 10	
The Peak	64.6	1.2%	4.3%	16.4%	24,242	0.0%	0.6%	15.8%	
Mid-Levels	51.2	2.1%	3.4%	14.4%	20,215	2.8%	4.9%	22.9%	
Pokfulam	33.7	1.1%	6.5%	10.2%	17,733	1.9%	5.8%	8.3%	
Jardine's Lookout & Happy Valley	42.9	1.7%	2.8%	8.9%	18,468	1.4%	3.9%	20.6%	
Island South	49.7	1.7%	4.0%	6.3%	24,032	2.1%	3.5%	20.4%	

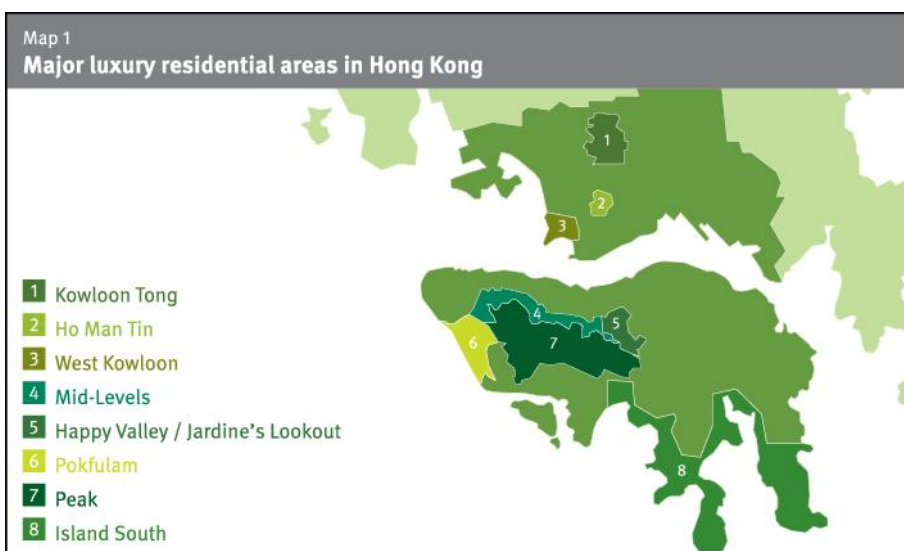
Source: Knight Frank
Rents and prices are subject to revision.



In May, luxury home prices and rents edged up 1.5% and 1.6%, respectively, from April.



The eight residential sites to be put up for sale in the coming quarter are expected to offer about 6,000 units in total.





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