



MARCH 2010

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

MARKET BUOYANT DESPITE WARNINGS

Following a robust Chinese New Year, Hong Kong's residential market grew even more active in March, fuelled by the return of investors from their holidays. One notable primary project was YOHO MIDTOWN in Yuen Long, which received an overwhelming market response despite the aggressive pricing strategy adopted by the developer. A high-floor unit was sold for about HK\$12,000 per sq ft—a record high price for apartments in the northwest New Territories. Land Registry data showed that luxury residential home sales worth HK\$10 million or above gained 30% over the past month, while residential sales under HK\$10 million grew 9.3%.

Entering March, the market was further stimulated by the astonishing results of the land auction in Tseung Kwan O, Sai Kung District as well as the tender for Austin Station in West Kowloon. The former was sold for HK\$3.37 billion, representing an accommodation value of HK\$4,628 per sq ft, which is



close to the average secondary home price in the vicinity. The latter claimed a land premium of HK\$11.7 billion—the highest land premium in the past five years. To generate reasonable profits, the developers will have to sell these projects at about HK\$6,500 and HK\$20,000 per sq ft, respectively. The results therefore reflect the developers' strong confidence about the property market.

The secondary market continued to flourish and a number of record-breaking secondary deals were recorded. A unit in Island Lodge in North Point, for example, was sold for HK\$24,786 per sq ft—a record high in Island East. The number of home sales involving confirmors jumped over 50% from the previous month. The recent land sales gave landlords in Tseung Kwan O and Kowloon Station a shot in the arm—many landlords raised prices aggressively or even suspended sales, holding out for higher achievable prices.

Home prices and rents continued to climb last month. The average price of luxury residential units edged up another 1.4%, while mass residential prices increased 2.5%. The average rent of luxury residential units increased 1.5%, with Pokfulam and Mid-Levels leading the market, where rents rose by 2.9% and 1.9%, respectively.

The leasing sector was relatively quiet this past month, mainly due to the Lunar New Year holiday and a low supply of quality homes. Supply was particularly tight on the Peak and in Island South and the phenomenon of lease breaking has more or less disappeared along with local economic recovery. Leasing activity is expected to rebound in the coming months—the traditional high season for renting homes—and more notable rent increases are expected to be seen.

In a bid to pre-empt the potential formation of an asset bubble, the government announced a series of measures to stabilise the property market in the 2010–2011 Budget. However, the moderate policies are expected to have limited effect in cooling the market. Raising stamp duty by 0.5 percentage point for luxury home transactions valued over HK\$20 million will have little impact on cash-rich investors. Measures to boost home supply will take at least a few years to materialise. The 46 residential sites on the application list can only provide about 9,000 flats. Therefore, supply will remain tight in the near future, especially in the luxury sector.

A number of new luxury residential projects will be launched before the stamp duty rise becomes effective on April 1. Luxury projects to be released in March include WarrenWoods in Tai Hang, Hill Paramount in Sha Tin, Festival City in Tai Wai and Larvotto in Ap Lei Chau. Prices of these projects are expected to command significant premiums over secondary market prices.

According to the Rating and Valuation Department, private residential completions are expected to be 14,260 units this year and 10,960 next year. The figures are nearly double those of last year, but still significantly lower than the average of the past ten years. Hong Kong's monetary policy is dictated by the US and low interest rates will continue in the near future, despite the Hong Kong Monetary Authority's recent attempt to head off a damaging mortgage price war by setting guidance floors on mortgage rates. With favourable factors such as low interest rates and a limited supply of new units, there should still be room for residential prices to rise further in the coming months.



Luxury residential report

The Hong Kong government forecasts that real GDP will grow 4–5% in 2010, reflecting its optimism about the economy.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q4 2009	+2.6#	+2.1%	-2.7%	+4.5%
Inflation rate	January 2010	+1.0%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to January 2010	4.9%#	3.6%	5.2%^	4.0%
Prime lending rate	Current	5.00–5.25%	5.3%*	5.0%*	5.0%*
Source: EIU CountryData / Census & Statistics Department / Knight Frank ^ Estimates # Provisional * HSBC prime lending rate					

Luxury home prices have increased for 14 months in a row, after bottoming in December 2008.

Table 2 Luxury residential market indicators—February 2010								
District	Rent	Change			Price	Change		
	HK\$psf/ mth	From Jan 10	From Nov 09	From Feb 09	HK\$psf	From Jan 10	From Nov 09	From Feb 09
The Peak	53.2	0.4%	1.8%	17.6%	20,725	0.0%	1.6%	20.4%
Mid-Levels	42.3	1.9%	3.6%	19.4%	16,248	1.9%	10.1%	44.5%
Pokfulam	29.4	2.9%	8.3%	25.8%	16,383	3.2%	13.7%	76.4%
Jardine's Lookout & Happy Valley	37.8	1.7%	2.3%	23.8%	15,035	1.7%	6.9%	45.7%
Island South	42.8	1.4%	3.2%	19.9%	19,242	1.3%	10.9%	55.1%
Source: Knight Frank Rents and prices are subject to revision.								



The leasing sector was relatively quiet this past month, mainly due to the Lunar New Year holiday and a low supply of quality homes.

Table 3
Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$psf/mth)
The Peak	Haking Mansion	Mid floor / unit A	1,776	\$108,000	\$60.8
The Peak	Strawberry Hill	House	3,200	\$165,000	\$51.6
Island South	Grosse Pointe Villas	Low floor	3,000	\$130,000	\$43.3
Island South	Belgravia	Mid floor / unit A	2,790	\$115,000	\$41.2
Mid-Levels East	The Summit	Mid floor / unit A	3,254	\$130,000	\$40.0
Mid-Levels Central	Century Tower	Tower 2 / high floor	3,638	\$130,000	\$35.7
Pokfulam	Bel-Air No.8	Tower 6 / high floor / unit C	1,601	\$54,000	\$33.7

Source: Knight Frank

Mainland buyers continued to show interest in Hong Kong's luxury residential property market.

Table 4
Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Mid-Levels Central	Dynasty Court	Tower 1 / 19/F / unit A	2,691	\$58	\$21,553
Tsim Sha Tsui	The HarbourSide	Tower 1 / 50/F / unit B	1,455	\$31	\$21,306
Mid-Levels Central	31 Robinson Road	35/F / unit A	2,665	\$56	\$21,013
Happy Valley	Leighton Hill	Tower 7 / 11/F / unit A	1,911	\$38.7	\$20,251
Sai Ying Pun	Island Crest	Tower 2 / 36/F / unit C	1,036	\$17.57	\$16,962
Mid-level Central	Tregunter	22/F / unit C	3,001	\$48	\$15,995
Island South	Hong Kong Parkview	Tower 4 / 19/F / unit 29	1,857	\$25.3	\$13,624

Source: Economic Property Research Centre



RESEARCH

Americas

USA
Bermuda
Brazil
Caribbean

Australasia

Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand

Hong Kong contacts

Alan Child

Executive Chairman
T: (+852) 2846 9522
E: alan.child@hk.knightfrank.com

Renu Budhrani

Executive Director
Residential Agency
T: (+852) 2846 9550
E: renu.budhrani@hk.knightfrank.com

Xavier Wong

Director, Head of Research
Research Department
T: (+852) 2846 4819
E: xavier.wong@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

Our worldwide research reports are also available at www.knightfrank.com.

© Knight Frank 2010

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.