

MAY 2010

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

MARKET STARTS TO TURN

Hong Kong's luxury residential sales market started to head south this past month, with sales slowing significantly. Sales of luxury residential units started to decline in May, following a 49.6% surge in luxury home prices over the previous 16 months, since they last bottomed out in December 2008. The market came to a standstill, with buyers reluctant to chase rocketed prices and landlords remaining firm on asking prices. Luxury home prices declined 2–3% in May, after rising a mere 0.6% in April.

A similar price decline was recorded in the mass residential sector—the first drop after a price surge of 38.9% since late 2008. However, mass residential sales activity remained robust in May, particularly in some major housing estates such as Taikoo Shing and City One Shatin. The former registered over 40 transactions during the first three weeks of May—slightly up from the same period in April—while the latter recorded about a 30% rise in sales volume, with over 80 transactions in the same period. The

mass residential sector performed better than the luxury sector, as its landlords responded faster to market changes and were more willing to soften their stance towards asking prices. Moreover, certain buyers in the mass sector, after having monitored the market for some months, made purchase decisions swiftly when prices dipped.

Consolidation has been triggered by a number of negative factors: prices have surged to such high levels that they have begun to deter buyers, the sovereign debt crisis in Europe has shown signs of deepening and the risk of contagion is increasing and the Mainland government's tightening policies to curb the overheated property market have reduced the amount of capital inflow into Hong Kong. In addition, the local government's property-market cooling policies—including those aimed at enhancing the transparency of primary project launches—have started to affect developers' autonomy in pricing their projects. Primary home prices are expected to soften and this explains the disappointing results from the auction of the Tung Chung and Fanling residential sites this month.

While the home sales market showed signs of cooling in May, the leasing sector remained strong as it entered its traditional peak season. A major leasing transaction involved a 4,200-sq-ft house at 66 Shouson Hill Road in Island South, which was leased for HK\$275,000 or HK\$65.5 per sq ft per month. Demand for luxury homes remained robust and supply remained tight, with scarcity continuing to be most notable on the Peak and in Island South. The uptrend in rents continued, with luxury residential rents growing 1.7% in April and about 1.0% in May. Leasing activity of mass residential units jumped about 20% month on month in May, with the shift of some potential buyers to the letting market boosting leasing demand. Rents of mass homes, as a result, gained 1.2% in April and another 1.5% in May.

With prices growing faster than rents since the market rebounded from the global financial crisis, residential property yields have been dropping and reached historically low levels recently. According to the Rating and Valuation Department, yields of large units sized 100 sq m or above averaged a mere 2.5% in March, while those of small to medium-sized units sized below 100 sq m also dropped to a low level of 3.5%. However, yields slightly improved in April and May, as rents rose and prices dipped. As this trend grows more apparent in the coming months, more significant gains in yields are expected during the second half of 2010.

The sales market could further slow and prices could decline by about 5% in the rest of 2010, wiping out the price gains recorded in the first four months of the year. Despite this, we believe a major downturn is unlikely as interest rates are likely to remain low this year and next, and demand for housing will continue to outstrip supply. Although the government is planning to increase housing supply, the process will take years and new development land will not come onto the market until 2013 at the earliest. Volatility in the stock market may continue to make property a desirable investment, while the expected inflation rate rise will make bricks and mortar a good hedge.



Luxury residential report

A big question mark hanging over the market at the moment is whether the sovereign debt crisis in Europe will deepen and spread to other parts of the world.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q1 2010	+8.2%#	+2.1%	-2.7%	+4.5%
Inflation rate	April 2010	+2.8%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to April 2010	4.4%#	3.6%	5.4%	4.0%
Prime lending rate	Current	5.00–5.25%	5.3%*	5.0%*	5.0%*

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

Luxury home prices started to decline in May, after growing a mere 0.6% in April.

Table 2 Luxury residential market indicators—April 2010								
District	Rent	Change			Price	Change		
	HK\$psf/mth	From Mar 10	From Jan 10	From Apr 09	HK\$psf	From Mar 10	From Jan 10	From Apr 09
The Peak	55.0	2.0%	3.8%	22.2%	20,939	0.4%	1.0%	19.2%
Mid-Levels	43.9	1.5%	5.8%	25.2%	16,620	0.8%	4.2%	40.7%
Pokfulam	30.3	1.4%	6.0%	32.4%	16,797	0.0%	5.8%	57.1%
Jardine's Lookout & Happy Valley	39.0	0.8%	4.8%	31.7%	15,632	0.6%	5.7%	47.0%
Island South	45.0	2.6%	6.7%	27.1%	19,687	0.9%	3.6%	46.6%

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

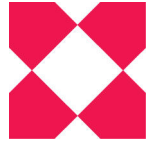


The leasing sector remained strong as it entered its traditional peak season.

Table 3 Selected luxury residential leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Island South	66 Shouson Hill Road	House	4,200	\$275,000	\$65.5
Peak	9 Coombe Road	House	3,300	\$200,000	\$60.6
Island South	Splendour Villa	Low floor / unit E	1,294	\$75,000	\$58.0
Mid-Levels Central	Clovelly Court	Tower 2 / mid floor / unit C	1,925	\$92,000	\$47.8
Peak	Carolina Garden	High floor / unit A	2,300	\$108,500	\$47.2
Mid-Levels Central	Tycoon Court	Tower B / penthouse	1,052	\$48,000	\$45.6
Pokfulam	Bel-Air on the Peak	Tower 6 / high floor / unit C	1,724	\$62,000	\$36.0
Source: Knight Frank					

Luxury residential sales slowed significantly with potential buyers unwilling to chase prices.

Table 4 Selected luxury residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$/psf)
Tsim Sha Tsui	The HarbourSide	Tower 3 / 70/F / unit A	1,367	\$38.8	\$28,383
Happy Valley	Leighton Hill	Tower 6 / 31/F / unit A	2,238	\$49	\$21,895
Sai Ying Pun	Island Crest	Tower 1 / 41/F / unit C	1,039	\$19.2	\$18,499
Mid-Levels Central	Soho 38	18/F / unit A	708	\$11.7	\$16,525
Wan Chai	York Place	37/F / unit A	981	\$15.7	\$16,004
Wan Chai	Regent on the Park	Tower 2 / 6/F / unit B	1,350	\$20	\$14,800
Pokfulam	Residence Bel-Air South Towers	Tower 8 / 31/F / unit B	2,180	\$31	\$14,220
Source: Economic Property Research Centre					



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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

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