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HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

LUXURY HOMES IN HIGH DEMAND

The red-hot luxury residential sales market continued to see robust activity over the past month. According to the Land Registry, sales of luxury homes worth HK\$10 million or above surged 48.4% month on month in March. The new government policies to raise stamp duty for properties worth HK\$20 million or above from 3.75% to 4.25% and to lower the threshold of property ownership for compulsory sales from 90% to 80%—both implemented on 1st April—helped boost market transactions.

While investors advanced the conclusion of deals to avoid paying increased stamp duty, developers accelerated acquisitions to prepare for collective sales applications. The concentration of transactions in the high price range was also attributable to significant increases in prices since the market started to recover last year, resulting in decreasing availability of low-priced units.



The primary market recorded strong performance this past month, with Festival City in Tai Wai contributing about two thirds of all primary transactions during the Easter holiday. The project had sold about 1,000 flats by mid April and 70% of its units in phase one have been absorbed.

The influx of Mainland capital was sustained in the past month. Reportedly, a group of Mainland buyers bought 18 units in Festival City for HK\$140 million, while another from Wenzhou acquired eight units for HK\$60 million. One Mainland collective absorbed 14 1,200-sq-ft units in Caribbean Coast in Tung Chung for about HK\$70 million, while another from Zhuhai bought four units there for about HK\$24 million. Wenzhou buyers also bought eight units in Florient Rise at Olympian Station for about HK\$70 million.

A number of high-priced transactions took place this past month. House D at 37 Island Road was sold for HK\$463 million or HK\$55,750 per sq ft, the second highest price on record for houses in Island South. Meanwhile, Severn 8 on the Peak marked a new high price per sq ft for houses in Asia, with House 8 being sold for HK\$60,215 per sq ft. Luxury residential prices grew another 1.6% in March month on month, with Happy Valley / Jardine's Lookout experiencing the most notable price gain of 3.3%, followed by 2.5% in Pokfulam.

The luxury residential leasing market entered its traditional peak season after the Lunar New Year. Searching activity was robust, but there was no significant rebound in transactions due to a lack of quality available units, particularly houses in the super-luxury bracket renting for over HK\$100,000 per month on the Peak and in Island South. Some landlords refused to launch their properties for lease in anticipation of further price appreciation. Deals in the month, therefore, mainly involved lease renewals instead of new commitments, with some tenants advancing the renewals to avoid significant rent increments during the coming peak leasing season.

The average rent of luxury residential units increased about 2% in March, with rent growth showing signs of accelerating towards the end of the month. Rents of luxury homes are expected to rise further as leasing demand improves along with the continuing economic recovery. The launch of primary luxury units for lease in the coming months, namely The Lily in Repulse Bay and 5-11 South Bay Close in Island South—a situation which has not been seen for some time—will boost activity in the leasing market.

The residential sales market is expected to remain active with the launch of several major projects in the pipeline, including Larvotto in Ap Lei Chau and The Hermitage in Tai Kok Tsui. Mainland buyers will continue to flow into the local market, in particular during the Golden Week in May. After a year of surge, luxury residential prices had rebounded 48.8% from their trough in December 2008, while mass residential prices had also rebounded almost 40% from their bottom in December 2008. With rental yields staying at low levels, further price appreciation will be supported mainly by rising rents.



Luxury residential report

Leasing demand is expected to further improve along with the recovering local 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	February 2010	+2.8%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to March 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 continued to rise, with a number of high-priced transactions over the past month.

Table 2 Luxury residential market indicators—March 2010								
District	Rent	Change			Price	Change		
	HK\$psf/mth	From Feb 10	From Dec 09	From Mar 09	HK\$psf	From Feb 10	From Dec 09	From Mar 09
The Peak	53.9	1.4%	4.2%	20.2%	20,848	0.6%	2.2%	20.2%
Mid-Levels	43.2	2.3%	6.5%	22.1%	16,495	1.5%	8.7%	44.5%
Pokfulam	29.9	1.5%	8.4%	30.0%	16,797	2.5%	10.5%	69.1%
Jardine's Lookout & Happy Valley	38.7	2.2%	6.1%	28.8%	15,537	3.3%	6.7%	49.3%
Island South	43.9	2.5%	6.7%	23.2%	19,509	1.4%	5.3%	54.4%
Source: Knight Frank Rents and prices are subject to revision.								



The leasing sector started to enter the traditional peak season in March, with more searching activities being witnessed in the market.

Table 3
Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Island South	Three Bays	House	3,870	\$220,000	\$56.8
Island South	Burnside Villa	Mid floor	2,400	\$135,000	\$56.3
The Peak	Orient Crest	House	3,261	\$180,000	\$55.2
The Peak	The Mount Austin	High floor / unit B	2,874	\$150,000	\$52.2
Mid-Levels Central	Dynasty Court	Tower 5 / high floor / unit B	1,973	\$85,000	\$43.1
Mid-Levels Central	The Mayfair	Mid floor / unit A	2,905	\$125,000	\$43.0
Pokfulam	Bel-Air No. 8	Tower 3 / high floor / unit B	2,557	\$105,000	\$41.0

Source: Knight Frank

Luxury residential sales worth over HK\$10 million jumped almost 50% in March, against the previous month.

Table 4
Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$/psf)
Mid-Levels East	Serenade	Tower 1 / 61-62/F / units A	2,617	\$78.5	\$30,000
Mid-Levels East	Falcon Lodge	House A	2,340	\$67.8	\$28,974
Tsim Sha Tsui	The Cullinan	Tower 1 / 71/F / unit C	2,144	\$56.7	\$26,450
Tsim Sha Tsui	The HarbourSide	Tower 2 / 65/F / unit C	1,367	\$35.8	\$26,211
Mid-Levels Central	Mayfair	17/F / unit A	2,905	\$72.8	\$25,060
North Point	Island Lodge	49/F / unit A	1,634	\$39.4	\$24,115
Happy Valley	Leighton Hill	Tower 6 / 31/F / unit A	2,238	\$49	\$21,895

Source: Economic Property Research Centre



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