



AUGUST 2010

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

LOW MORTGAGE RATES FUEL MARKET

In late July, a luxury residential site in Mount Nicholson Road on the Peak was sold for more than HK\$10 billion—a price exceeded market expectations. This was the second land auction in two months fetching over HK\$10 billion, following that of a residential site in Ho Man Tin in early June. These satisfactory land auction results, coupled with record-low mortgage rates and a lack of new supply, continued to fuel market momentum. According to the Land Registry, residential sales volume rose 41.9% in July after two months of decline, with higher sales registered across all price ranges.

Panic buying by end-users was seen in the small-flat market, involving units priced below HK\$2 million. Rental yields of these units stood at about 4%, far exceeding the prevailing HIBOR-based mortgage rates of around 1%. Despite significant rise in prices over the past year, mortgage payments for many small flats were still lower than rents, as the latter had also been rising due to a lack of leasing stock.

Most renters had faced higher rents on lease renewal and this had prompted many of them to make the leap to home ownership, giving rise to strengthening end-user demand. Some property investors, including those from the Mainland, also returned to the market over the past month, though they did not form the major buying contingent.

Home prices went up across the board in July, both in the luxury and mass residential sectors and throughout Hong Kong Island, Kowloon and the New Territories. Secondary luxury home prices rose 2.3%, the fastest growth in the past six months; while secondary mass residential prices edged up 2.5%, the most significant increase over the last five months. Homes in Kowloon led the mass sector with a price gain of about 4% in July, while those on Hong Kong Island and in the New Territories gained about 2% in the month.

A number of developments recorded transactions at record-breaking prices. A unit in Sun Tower in The Arch, Tsim Sha Tsui was sold for HK\$26,395 per sq ft, while in The Belcher's, Mid-Levels West, a unit was acquired for HK\$14,619 per sq ft, both becoming the highest prices achieved in the respective developments. In Taikoo Shing, meanwhile, a unit was sold for about HK\$10,000 per sq ft, representing a price 11% higher than in 1997, making it the most expensive two-bedroom unit in the project. In many other estates, prices were approaching their 1997 levels. A unit in City One Shatin, for instance, changed hands for HK\$5,519 per sq ft—a new high since 1997.

The rally also spread to the Home Ownership Scheme (HOS) flat market. Fu Keung Court in Wong Tai Sin hit a record high price of HK\$5,612 per sq ft, making it the most expensive HOS flat in Kowloon, while Grandway Garden in Tai Wai recorded a new high price of HK\$4,990 per sq ft, making it the most expensive HOS flat in the New Territories.

Landmark transactions were also registered in the primary market. A new 13,000-sq-ft house at 11 Headland Road in Island South was transacted for HK\$660 million, making it the most expensive new house in Hong Kong. The Hermitage in Tai Kok Tsui sold over 90% of its units, of which over 50% were reportedly bought by Mainlanders. Amid the encouraging market response, Lovetta in Ap Lei Chau launched at increased prices, with one buyer acquiring six units for a total of HK\$57.88 million. Meanwhile, at Lime Habitat in Tai Kok Tsui, fewer than ten units remained unsold. About 20 people who bought at Lime Habitat immediately put their units up for sale in the secondary market, at prices 20% higher than what they paid.

The mass residential leasing market was active in July, with the average rent edging up 2.3%—the fastest growth in nine months. However, the luxury residential leasing market began to enter its low season, as most expatriate tenants previously made lease decisions were now busying themselves with refurbishment or relocation issues. The average rent of luxury homes was flat during July, after rising for six months in a row.

Looking ahead, the ultra-low mortgage rate environment in Hong Kong is likely to remain for at least another 18 months. Weakness in the US labour and housing markets has bolstered the case for further quantitative easing and sent the ten-year Treasury yield to the lowest level since April 2009. Despite the risks arising from a slowing global economy, an extended period of ultra-low mortgage rates coupled with a dearth of new residential supply means that home prices are likely to remain firm for the rest of this year.



Luxury residential report

The ultra-low mortgage rate environment in Hong Kong is likely to remain for at least another 18 months, given the weakness of the US labour and housing markets.

Table 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q2 2010	+6.5%#	+2.1%	-2.7%	+4.5%
Inflation rate	Jun 2010	+2.8%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to Jun 2010	4.6%#	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 recorded the fastest growth in six months, while luxury home rents remained stable.

Table 2
Luxury residential market indicators—July 2010

District	Rent			Price			Change		
	HK\$psf/mth	From Jun 10	From Apr 10	From Jul 09	HK\$psf	From Jun 10	From Apr 10	From Jul 09	
The Peak	58.1	2.4%	5.7%	13.1%	21,549	0.7%	2.9%	8.4%	
Mid-Levels	45.2	-0.7%	3.0%	19.2%	17,531	3.2%	5.5%	27.8%	
Pokfulam	30.2	-0.2%	-0.3%	17.0%	16,950	1.9%	-1.1%	28.9%	
Jardine's Lookout & Happy Valley	39.2	-0.3%	0.6%	20.8%	15,775	1.5%	0.9%	25.4%	
Island South	47.4	0.4%	5.2%	20.1%	20,783	3.9%	4.2%	28.8%	

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



The luxury residential leasing market began to enter its low season, as most expatriate tenants, having previously made lease decisions, were now busying themselves with refurbishment or relocation issues.

Table 3

Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Peak	The Apex	Mid floor	4,000	\$245,000	\$61.3
Peak	Mountain Court	Mid floor / unit B	2,129	\$130,000	\$61.0
Island South	Three Bays	House	3,960	\$235,000	\$59.3
Island South	Horizon Lodge	Mid floor / unit B	2,230	\$105,000	\$47.1
Mid-Levels	Bowen's Lookout	Low floor	2,388	\$108,000	\$45.2
Island South	Stanley Court	House	2,650	\$110,000	\$41.5
Mid-Levels	Bamboo Grove	High floor / unit 02	1,840	\$75,500	\$41.0

Source: Knight Frank

A number of luxury houses on the Peak and in Island South were transacted at high prices.

Table 4

Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$/psf)
The Peak	Severn 8	House 16	3,344	\$150	\$44,856
Peak	Kellett Villas	House J	5,000	\$175	\$35,000
Happy Valley	Broadwood Twelve	7/F / unit B	1,630	\$48	\$29,448
Tsim Sha Tsui	The Arch	Sun Tower / 78/F / unit B	2,316	\$68	\$29,361
Island South	Belleview Place	House 4	3,206	\$90	\$28,072
Ho Man Tin	15 Homantin Hill	47/F / unit B	2,008	\$55.7	\$27,739
Island South	Stanley Breeze	House D	3,128	\$86.5	\$27,653

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.