



FEBRUARY 2010

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

INVESTORS SHIFT THEIR FOCUS

After a strong revival in December, Hong Kong's luxury residential market continued to show momentum in January, with a number of luxury units fetching record-breaking prices in the secondary market. For example, a 3,500-sq-ft house at Hong Lok Yuen in Tai Po was sold for HK\$14,000 per sq ft, setting a new record high for the development. Meanwhile, a unit in Kennedy Heights in Mid-Levels Central was also sold for a record price in the development, at HK\$20,000 per sq ft.

Given the significant rise in luxury residential prices last year, a number of investors have shifted to the mass market—in particular major estates in the New Territories—to seek better return opportunities. Last month, a veteran investor bought ten mass residential units in central Sha Tin for HK\$20 million, while another investor acquired 12 units in a number of popular estates in Tuen Mun for the same amount.



In line with the robust market activity, the average price of luxury residential homes edged up another 2.9% in January; a gain for the 13th consecutive month and a rebound of 44.5% from the last trough in late 2008. Flourishing sales also boosted the average price of mass residential homes by about 4% in January—the largest monthly gain since June 2009. Metro City in Tseung Kwan O and Discovery Park in Tsuen Wan led the market, with prices in these two developments gaining over 7% month on month.

Encouraged by strong market sentiment, developers were keen to launch their projects, especially in the luxury sector. Three major projects on Hong Kong Island—Belcher’s Hill in Sai Wan, 5 Star Street in Wan Chai and Island Crest in Sai Ying Pun—commenced sales and received a good response from the market, despite aggressive pricing strategies from the developers. An absorption rate of about 80% was recorded within two days in Belcher’s Hill.

District	Development	Developer	Indicative price range (HK\$ per sq ft)
Yuen Long	YOHO MIDTOWN	Sun Hung Kai Properties	5,000–7,000
Tai Wai	Festival City Phase One	Cheung Kong Holdings / MTR Corporation	9,000–13,000
Tai Kok Tsui	The Hermitage	Sino Land / Chinese Estates Group / Nan Fung Group	13,000–15,000
Ap Lei Chau	Larvotto	Sun Hung Kai Properties / Kerry Properties / Paliburg Holdings	Over 25,000
Tai Hang	Serenade	Hongkong Land	20,000–30,000
Tai Wai	Hill Paramount	Henderson Land	16,500–20,000

Entering February, the residential market showed signs of abating. This was due not only to the effects of the traditionally low season around the Lunar New Year, but also to uncertainties brought about by fluctuations in the local stock market; the potential outbreak of a sovereign debt crisis in Europe; and the US government’s recent proposal to reform its banking system, which could hinder its economic recovery.

Two sites will be put up for sale at the end of February: Tseung Kwan O Area 66B, which will be auctioned on the 22nd, and MTR Austin Station, where the tender closes on the 24th. The former site is earmarked for mass residential development, while the latter could be developed into luxury flats. The response from developers to both sites—and the sales results—will have implications on the outlook of the market.

Luxury residential leasing activity was slow in the past month despite sustainable demand, mainly due to the low-season effect and a lack of quality units at the top end of the market. With the support of tight supply, rents rebounded a modest 0.9% after having edged down for the previous two months, reaching HK\$39.3 per sq ft per month. They have rebounded 17.0% from the last trough of April 2009, but are still 21.5% lower than the last peak seen in July 2008.

Though high-end home prices have risen dramatically in the past year, we believe the uptrend will continue into 2010. New supply is limited; rent growth is picking up; interest rates remain low; and interest in the local property market from Mainland tycoons remains keen. These favourable factors are unlikely to change in the near future and we predict luxury residential prices will rise 18% this year.



Luxury residential report

Home sales activity slowed in recent weeks amid rising concerns about the potential debt crisis in Europe.

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q3 2009	-2.4#	2.4%	-3.3%^	3.5%
Inflation rate	December 2009	+1.3%	4.3%	0.5%	1.5%
Unemployment	Three months to December 2009	4.9%#	3.6%	5.2%^	4.7%
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

Rents in most luxury districts recorded mild growth in January.

District	Rent		Change		Price		Change	
	HK\$psf/mth	From Dec 09	From Oct 09	From Jan 09	HK\$psf	From Dec 09	From Oct 09	From Jan 09
The Peak	51.8	1.3%	-0.3%	11.6%	20,725	1.6%	1.6%	21.0%
Mid-Levels	40.2	0.6%	0.5%	8.6%	15,943	5.0%	8.1%	43.7%
Pokfulam	27.2	-0.2%	0.5%	10.4%	15,872	4.5%	10.1%	68.1%
Jardine's Lookout & Happy Valley	36.1	0.8%	-1.4%	14.7%	14,789	1.5%	6.2%	42.1%
Island South	41.2	1.4%	0.0%	13.0%	18,998	2.6%	9.9%	55.4%

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



Leasing demand for quality units held up, despite the traditionally low season.

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Peak	Haking Mansion	Mid floor / unit A	1,776	\$108,000	\$60.8
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

Sales of luxury flats remained robust over the past month.

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$/psf)
Mid-Levels Central	Regence Royale	Tower 2 / 25/F / unit A	2,697	\$54.98	\$20,386
Happy Valley	Leighton Hill	Tower 7 / 11/F / unit A	1,911	\$38.7	\$20,251
Mid-Levels Central	Dynasty Court	Tower 5 / 40/F / unit A	1,962	\$38.8	\$19,776
Tsim Sha Tsui	The Cullinan	Tower 1 / 38/F / unit A	1,912	\$37.38	\$19,550
Pokfulam	Bel-Air No.8	Tower 8B / 46/F / unit B	1,876	\$32	\$17,058
Island South	Elite Villas	House 3	1,961	\$33.2	\$16,930
Tsim Sha Tsui	The Waterfront	Tower 5 / 29-30/F / duplex F	2,560	\$31.28	\$12,219

Source: Economic Property Research Centre



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