



JANUARY 2011

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

MARKET REGAINS MOMENTUM

Hong Kong's residential sales market proved its resilience again last month, swiftly recovering from the impact of the government's new round of regulatory policies. The introduction of Special Stamp Duty and lowered maximum loan-to-value ratios affected market sentiment and transaction figures plunged at the end of November 2010. However, they started to stabilise at the beginning of December and continued to recover towards the end of the year. The quick revival was attributed to the fading impact of the new measures, on the back of sustained favourable environmental factors, including low interest rates, limited housing supply and continual capital inflow.

The luxury sector, supported by sustained demand from cash-rich end-users and long-term investors, registered a number of record-breaking transactions last month. In Island South, House C at 37 Island Road was reportedly sold for HK\$435 million or HK\$62,143 per sq ft, breaking the per-sq-ft price record



for houses in Hong Kong. Meanwhile, a high-floor unit in Grosvenor Place in the same district was reportedly sold for HK\$81 million or HK\$28,836 per sq ft, marking a new price-high for the development.

The mass residential market also saw a comeback of buyers, as they feared another wave of price growth after the Lunar New Year. Some units of which potential buyers had previously resiled and forfeited deposits were reportedly resold at higher prices. A unit in Kingswood Villa in Tin Shui Wai, for example, was resold for HK\$2.23 million, compared with the previous transaction price of HK\$2.2 million, while a unit in Telford Garden in Kowloon Bay, previously sold for HK\$2.9 million, was resold for HK\$2.95 million. Another remarkable deal last month involved a unit in Island Resort in Siu Sai Wan, which was reportedly sold for HK\$10.15 million or HK\$8,423 per sq ft, hitting a record high for the development.

Residential prices also stabilised in December, with landlords becoming less willing to offer deep discounts as transaction volumes improved. In 2010 overall, luxury residential prices surged 14.5%, with Mid-Levels experiencing the most noticeable price increment of 20.4% and Island South coming second with an 18.6% gain. Meanwhile, mass residential prices increased about 20% over 2010.

Unlike the sales sector, the residential leasing market stagnated over the past month, during the traditional slow season. An increased number of flats available for lease under the new regulatory policies dragged down rents in some luxury residential developments, but overall, luxury residential rents continued their uptrend, rising 0.8% month on month. Meanwhile, mass residential rents dropped about 2% in December.

A number of major primary residential projects would be launched in 2011, with the scheduled release of some developments previously postponed amid weak market sentiment. Major projects launching in 2011 include:

Table 1 Major primary residential projects scheduled for release in 2011			
Name	Developers	District	No. of units
Phase 3, Lohas Park	Cheung Kong / Nan Fung / MTRC	Tseung Kwan O	1,648
Pak Shek Kok project	Sino Land / Nan Fung / K. Wah / Wing Tai	Tai Po	1,235
Phase 2C, Lohas Park	Cheung Kong / Nan Fung / MTRC	Tseung Kwan O	1,168
Area 56 development	Sun Hung Kai Properties / MTRC	Tseung Kwan O	1,028
Source: Lands Department / Knight Frank			

Despite improved market sentiment and the increase in primary supply, sales transaction volume in the first quarter is expected to be lower than that in the last quarter of 2010, with the retreat of speculators forecast to significantly drag down the number of secondary transactions. We maintain our forecasts that residential sales volume in 2011 could fall by 35%, but the average home price is expected to grow 5-7% over the year.



Luxury residential report

Interest rates are expected to remain at low levels, while unemployment would continue to ease in 2011.

Table 2 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q3 2010	+6.8%#	+2.1%	-2.7%	+4.5%
Inflation rate	November 2010	+2.9%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to November 2010	4.1%#	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

The average price and rent of luxury homes stabilised towards the end of 2010.

Table 3 Luxury residential market indicators—December 2010								
District	Rent	Change			Price	Change		
	HK\$psf/ mth	From Nov 10	From Sep 10	From Dec 09	HK\$psf	From Nov 10	From Sep 10	From Dec 09
The Peak	59.2	0.2%	1.2%	14.3%	22,182	0.0%	-1.0%	8.8%
Mid-Levels	48.2	2.0%	5.8%	18.6%	18,271	0.6%	2.3%	20.4%
Pokfulam	31.2	0.6%	3.8%	13.1%	16,637	-1.7%	-1.9%	9.5%
Jardine's Lookout & Happy Valley	40.7	0.5%	3.4%	11.6%	17,098	1.9%	3.5%	17.4%
Island South	47.2	0.9%	-0.8%	14.6%	21,968	0.0%	2.8%	18.6%

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



The luxury residential leasing market recorded some major transactions, despite it being the traditional slow season.

Table 4 Selected luxury residential leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Island South	Hong Kong Parkview	Tower 18 / penthouse	2,570	\$185,000	\$72.0
The Peak	40 Peak Road	House	5,874	\$400,000	\$68.1
The Peak	Strawberry Hill	House	3,250	\$195,000	\$60.0
Island South	Evergreen Garden	Duplex	2,106	\$104,000	\$49.4
Mid-Levels West	80 Robinson Road	Tower 1 / high floor / unit D	1,154	\$53,000	\$45.9
Mid-Levels East	Highcliff	Mid floor / unit B	3,816	\$160,000	\$41.9
Mid-Levels Central	Hillsborough Court	Tower 1 / high floor / unit D	1,385	\$55,000	\$39.7
Source: Knight Frank					

Luxury home sales started to regain momentum in December 2010, with the impact of Special Stamp Duty fading.

Table 5 Selected luxury residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$/psf)
Sai Ying Pun	Island Crest	Tower 1 / 50/F / unit A	2,996	\$95	\$31,709
Mid-Levels Central	Mayfair	22/F / unit B	2,838	\$78	\$27,484
Happy Valley	Leighton Hill	Tower 3 / 10/F / unit B	1,911	\$42.8	\$22,397
Island South	Redhill Peninsula	Cedar Drive / house 25	2,672	\$55	\$20,584
Mid-Levels East	Serenade	Tower 2 / 63/F / unit C	1,367	\$25.973	\$19,000
Island South	Ruby Court	Tower 2 / 11/F / unit B	1,780	\$31.8	\$17,865
Island South	Hong Kong Parkview	Tower 18 / 17/F / unit 97	2,620	\$46.6	\$17,786
Source: Economic Property Research Centre					



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