



JULY 2011

# HONG KONG LUXURY RESIDENTIAL

Monthly Report

**Knight Frank 萊坊**

## POLICY RISKS SUPPRESS HOME SALES

In June, sentiment in the residential sales market was adversely affected by another series of property-market cooling policies by the government. First, the Hong Kong Monetary Authority (HKMA) further tightened credit by lowering loan-to-value (LTV) ratios and capping maximum loan amounts for residential properties. LTV ratios for mortgage loans to buyers whose income is derived from outside of Hong Kong were also reduced, by an additional ten percentage points—the first measure to date targeting foreign buyers. Next, the government announced the possibility of resuming the Home Ownership Scheme (HOS) and lastly, it was proposed that violations in sales regulations by property agents during new residential launches should be considered a criminal offence by developers at senior management level.

Against this backdrop, both potential sellers and buyers took a wait-and-see attitude, resulting in a

reduction in the volume of sales. According to the Land Registry, home sales in June dropped 6.6% from the previous month. Some buyers lacking confidence in the market reportedly chose to forfeit their deposits and not complete their transactions. Examples included a 758-sq-ft flat in Manhattan Hill in Mei Foo where a price of HK\$5.98 million had been agreed upon and a 500-sq-ft HOS flat in Siu Hong Court in Tuen Mun which was supposed to be sold for HK\$1.64 million. Meanwhile, some flat owners showed willingness to lower asking prices. An 862-sq-ft flat in Mei Foo Sun Chuen was reportedly sold at HK\$3.85 million or HK\$4,466 per sq ft—10% below market level—while a 672-sq-ft flat in Vision City in Tsuen Wan was reportedly sold at HK\$4.86 million or HK\$7,240 per sq ft—the lowest price since April for flats of that size in the development.

However, deep price cuts were not the norm, with most owners staying firm or offering only minor reductions in asking prices. Prices of secondary mass residential units remained firm over the month, dipping by only about 1% from May. Indeed, the market continued to record transactions at record-breaking prices. A 907-sq-ft unit in Taikoo Shing, for instance, was reportedly sold for HK\$11 million or HK\$12,128 per sq ft—a new record high for a garden-view flat in the development. A 480-sq-ft HOS flat in Lung Poon Court in Wong Tai Sin was reportedly sold for HK\$2.86 million, making it the most expensive one-bedroom flat in the development to date.

Sentiment in the primary market remained robust last month. Imperial Cullinan in Tai Kok Tsui received a positive market response, despite being the first new project launched since further credit-tightening measures took effect. The 73 flats released in the first batch were all sold in one night and a premium flat named ‘The Imperial Pool Manor’ was reportedly acquired for HK\$108 million or HK\$42,806 per sq ft—a historic price high for the area. The developer claimed that Mainlanders comprised 30–40% of buyers. Other primary projects also reported good results: a 2,060-sq-ft duplex in Phase 1, Festival City in Tai Wai was sold for HK\$28 million or HK\$14,000 per sq ft and four flats in Lions Rise in Wong Tai Sin were acquired by a Mainlander for HK\$28 million.

Meanwhile, the high-end residential sector stayed buoyant during June, benefiting from the positive auction result of a luxury residential site in Borrett Road, Mid-Levels. The sales volume of luxury homes worth HK\$10 million or above increased over 10% month on month, pushing up the total value of residential sales by 26.8%, despite a decreased transaction volume overall. Prices of luxury homes remained firm given their limited supply and the sustained demand from cash-rich buyers who have been less impacted by the credit-tightening measures.

The luxury home rental market remained active in its traditional peak season. The HKMA’s measures to cool the sales market pushed some potential buyers to the leasing market, further stimulating demand for luxury homes. On the supply side, few potential sellers turned their for-sale units into for-lease properties, given their strong ability to hold the properties amid a low-interest-rate environment. With availability tight and demand strong, rents continued to rise in June, gaining 0.8% compared with May.

Looking ahead, the possibility of a significant drop in home prices is slim in the near future, although sales volumes could be relatively low in the coming months with the government’s determination to curb the property price surge. We expect that it will take at least five years for the new HOS flats to be completed and the supply should not be large or hit the market at one time. Given continual support from Mainland buyers and the limited supply of homes in Hong Kong—especially high-end ones—we expect luxury residential prices and rents to grow steadily during the second half of the year, while mass residential prices should remain stable.



## Luxury residential report

**Hong Kong's inflation rate increased to 5.2%—a new high in 34 months.**

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q1 2011	+7.2%#	-2.7%	+6.8%	+5.5%
Inflation rate	May 2011	+5.2%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to May 2011	3.5%#	5.4%	4.4%	4.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*
Source: EIU CountryData / Census & Statistics Department / Knight Frank # Provisional * HSBC prime lending rate					

**Demand for large luxury units on the Peak and in Island South remained strong.**

Table 2 Selected luxury residential leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$psf/mth)
The Peak	The Apex	Duplex	4,000	\$350,000	\$87.5
The Peak	Strawberry Hill	House	3,100	\$220,000	\$71.0
The Peak	King's Court	House	4,577	\$300,000	\$65.5
Island South	Belgravia	Mid Floor / unit B	2,790	\$158,000	\$56.6
The Peak	Eredine	Mid floor / unit C	3,300	\$173,000	\$52.2
Island South	Redhill Peninsula	Palm Drive / house	2,880	\$145,000	\$50.4
Island South	South Bay Tower	Penthouse C	4,171	\$210,000	\$50.3
Source: Knight Frank Note: All transactions are subject to confirmation.					



After the HKMA's new measures were proposed in June, market sentiment dipped, but luxury home prices were not affected.

Table 3 Selected luxury residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Island South	Belgravia	23 <sup>rd</sup> floor / unit A	2,390	\$77.5	\$32,427
Island South	Fortuna Court	9 <sup>th</sup> floor / unit A	2,857	\$88.0	\$30,802
Mid-Levels	Azura	46 <sup>th</sup> floor / unit B	2,078	\$62.756	\$30,200
Mid-Levels	Harbourview	17 <sup>th</sup> floor / unit B	2,346	\$70.38	\$30,000
Mid-Levels	Serenade	Tower 1/ 52 <sup>nd</sup> and 55 <sup>th</sup> floors duplex	2,605	\$75.245	\$28,885
Mid-Levels	Trafalgar Court	22 <sup>nd</sup> floor / unit A	3,008	\$79	\$26,263
Wan Chai	Gloucester	20 <sup>th</sup> floor / unit D	525	\$13.783	\$26,254
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Jardine's Lookout and Happy Valley led the market in June, featuring the fastest growth in the average price of luxury homes.

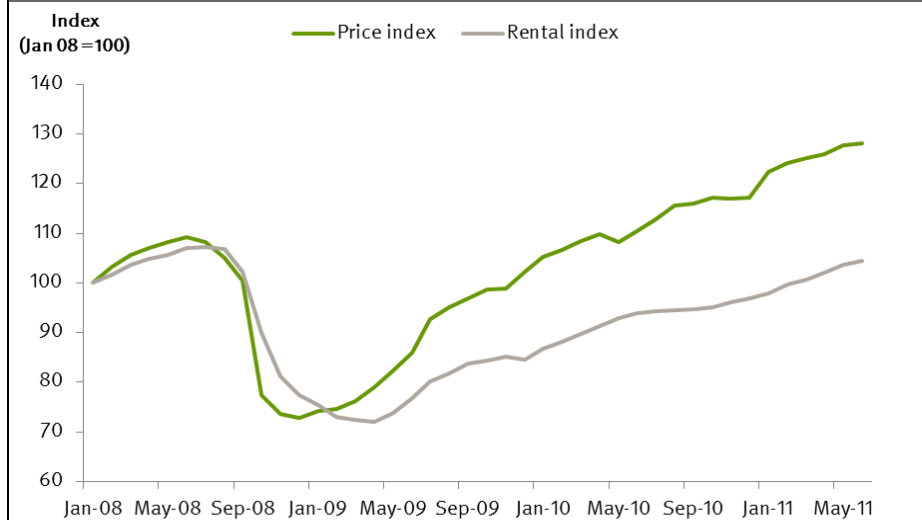
Table 4 Luxury residential market indicators—Jun 2011								
District	Rent		Change		Price		Change	
	HK\$psf/mth	From May 11	From Mar 11	From Jun 10	HK\$psf	From May 11	From Mar 11	From Jun 10
The Peak	65.4	1.2%	4.4%	15.1%	24,242	0.0%	0.0%	13.2%
Mid-Levels	51.6	0.8%	3.7%	13.3%	20,389	0.9%	5.1%	20.1%
Pokfulam	33.9	0.6%	4.9%	12.0%	17,785	0.3%	3.1%	6.9%
Jardine's Lookout & Happy Valley	42.9	0.1%	2.9%	9.0%	18,650	1.0%	4.5%	20.0%
Island South	50.1	0.8%	3.6%	6.2%	24,032	0.0%	3.5%	20.2%
Source: Knight Frank Rents and prices are subject to revision.								



**Both luxury home prices and rents continued to edge up, but at the slower pace of 0.3% and 0.8% respectively, month on month.**

Chart 1

**Luxury price and rental indices**

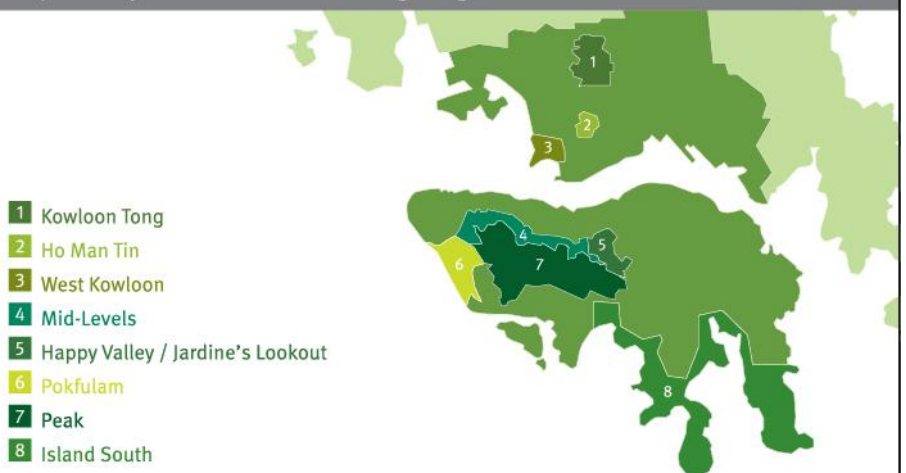


Source: Knight Frank

**Luxury residential prices and rents are expected to grow steadily during the second half of the year.**

Map 1

**Major luxury residential areas in Hong Kong**





# RESEARCH

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