RESEARCH

NOVEMBER 2010

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

POLICY ADDRESS FAILS TO CURB DEMAND

Following the government's recent policy address, residential sales activity in Hong Kong swiftly rebounded amid the expectations of the second round of quantitative easing in the US. With a lack of measures in the policy address to effectively curb the property market, prices of both luxury and mass residential properties regained momentum. The positive sentiment extended to the public rental housing, Home Ownership Scheme (HOS) and village house markets, despite the government’s warning of a possible housing bubble.

Luxury home prices rose a further 0.8% in October month on month, with robust demand for quality homes in traditional luxury areas. A high-floor unit at Belgravia in Island South was reportedly sold for HK$182 million or HK$49,524 per sq ft, marking a new price record for apartments in Island South.

Mass residential prices surged 2.4% in October, month on month, with prices of more residential developments now having exceeded their 1997 levels. A high-floor unit at City Garden in North Point was reportedly sold for HK$7.3 million or HK$8,147 per sq ft—32.7% higher than its 1997 peak. Meanwhile, Charming Garden in Tai Kok Tsui—an HOS development—reportedly recorded a transaction worth HK$4.41 million or HK$6,354 per sq ft, a new price-high for HOS flats in Kowloon.

The leasing market continued to benefit from strong financial market activity. A banker reportedly rented a 3,363-sq-ft house at Severn 8 on the Peak for about HK$330,000 a month, or about HK$98 per sq ft. Luxury residential rents increased 0.5% month on month, while mass residential rents saw a growth of about 1%. More developments, including Taikoo Shing in Quarry Bay, Mei Foo Sun Chuen and City One Shatin, broke their 1997 rent records.

The current imbalance between housing demand and supply is mainly caused by the government's failure to change its land policy fast enough, after the economic downturn of 1998–2003. Although the government started to increase residential land supply early this year, the normalisation of housing supply could take several years to realise, considering a long construction cycle. Before adequate housing supply comes onto the market, home prices would continue to rise with strong housing demand, driven by massive money printing programmes by central banks around the world and the ultra-low interest-rate environment.

Taking into account latest government measures, including those outlined in the policy address, we believe housing supply would remain tight in the near future and is unlikely to meet pent-up end-user demand, let alone investment demand triggered by the loose monetary policy in the US. The following statistics demonstrate the tight supply in Hong Kong's housing market:

- Only 61,000 private residential units would be completed in the next three to four years, implying an annual supply of about 17,000 units, which falls short of the annual average take-up of about 20,000 units over the past ten years.
- The new rent-to-buy housing scheme aimed at assisting "sandwich-class families" would only deliver about 1,000 units by 2014.
- The first phase of the Kai Tak redevelopment would only provide about 4,000 units by 2015.
- Even if all the land on the government's current Application List is developed, only about 9,000 housing units would be supplied.
- We estimate that the reclamation programme proposed in the policy address would take eight years to deliver the proposed housing units.
- The re-zoning of about 30 hectares of industrial and commercial land into residential use may boost housing supply by as many as 23,000 units, but whether and when such supply could be realised would depend on the willingness of landlords to convert their industrial land.

Given low interest rates, limited housing supply and a robust Mainland economy, home prices would continue to rise in the coming 12–18 months. Though the risks of an investment bubble are not imminent, they cannot be underestimated over the medium term.

Luxury residential report

The announcement of the second round of quantitative easing in the US suggests that interest rates would remain low.

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	September 2010	+2.6%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to September 2010	4.2%#	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

Prices of both luxury and mass residential properties regained momentum with a lack of measures in the policy address to effectively curb the property market.

Table 2
Luxury residential market indicators—October 2010

District	Rent	Change			Price	Change		
	HK$psf/mth	From Sep 10	From Jul 10	From Oct 09	HK$psf	From Sep 10	From Jul 10	From Oct 09
The Peak	58.5	0.1%	0.6%	12.6%	22,635	1.0%	5.0%	11.0%
Mid-Levels	46.1	1.2%	1.9%	15.2%	17,979	0.7%	2.6%	21.9%
Pokfulam	30.5	1.5%	0.9%	12.9%	16,995	0.3%	0.3%	17.9%
Jardine's Lookout & Happy Valley	39.6	0.6%	0.9%	8.1%	16,671	0.9%	5.7%	19.8%
Island South	47.4	-0.4%	-0.1%	15.1%	21,562	0.9%	3.7%	24.8%

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

The leasing market continued to benefit from strong financial market activity.

Table 3
Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK$/mth)	Rent (HK$psf/mth)
Mid-Levels Central	Bellevue Place	Penthouse with roof	1,033	$59,000	$57.1
The Peak	1 Plantation Road	Low floor / unit A	2,210	$120,000	$54.3
The Peak	The Mount Austin	Mid floor / unit B	947	$48,500	$51.2
Island South	Le Palais	House	4,396	$196,000	$44.4
Mid-Levels Central	Dynasty Court	Tower 2 / mid floor / unit B	2,266	$100,000	$44.1
Pokfulam	Consort Garden	House	2,350	$93,000	$39.6
Island South	Burnside Villa	House	2,100	$83,000	$39.5

Source: Knight Frank

Demand for quality homes in traditional luxury areas remained robust, with prices of more residential developments now having exceeded their 1997 levels.

Table 4
Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK$M)	Price (HK$psf)
Mid-Levels Central	Gramercy	32/F / unit A	1,728	$51.84	$30,000
Island South	Park Place	Tower A / 7/F / unit 2	2,288	$60.00	$26,224
Island South	Redhill Peninsula	House 34	3,020	$75.00	$24,834
Wan Chai	5 Star Street	30/F	676	$15.21	$22,500
Sai Ying Pun	Island Crest	Tower 2 / 48/F / unit A	1,506	$33	$22,000
Happy Valley	Leighton Hill	Tower 8 / 11/F / unit A	1,618	$34.80	$21,508
Mid-Levels Central	Dynasty Court	Tower 1 / 7/F / unit A	2,691	$54.58	$20,282

Source: Economic Property Research Centre

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