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HONG KONG
LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

BUYERS SHRUG OFF BUBBLE WARNINGS

Homebuyers in Hong Kong appear to have dismissed warnings about the possible formation of a bubble in the local property market. The government started to press ahead with another round of property market cooling measures in mid August, in a bid to combat property speculation and slow the growth of mortgage lending. However, prices across the spectrum of housing types have continued to edge higher since then. Over the past month, luxury and mass residential prices have risen and even certain government-subsidised housing units—intended for those on lower incomes—changed hands in the secondary market at new price highs.

The average price of luxury residential units increased slightly in September, rising 0.3% from August. Sales remained robust, with a number of high-priced transactions taking place. One Mainlander bought a semi-duplex unit at 39 Conduit Road in Mid Levels West for HK\$338.16 million or HK\$60,000

per sq ft, marking a new price-high for apartments in Asia. Meanwhile, an 88th-floor unit at The Cullinan in Kowloon Station was sold for HK\$34,884 per sq ft and a house at The Royal Oaks in Sheung Shui for HK\$66.8 million or HK\$11,869 per sq ft, both new records for the respective developments.

Mass residential prices also rose, despite continuing slow activity. After increasing another 0.7% in September, mass residential prices were 13.5% higher than the previous peak in 2008, rebounding to the level of December 1997. A Mei-Foo-Sun-Chuen unit was sold at HK\$6,028 per sq ft, up 11.4% from 1997, while a low-floor unit in Taikoo Shing for HK\$9.54 million or HK\$10,419 per sq ft, exceeding the 1997 price for the same type of units.

The price surge in the private residential sector continued to price out many first-time homebuyers, forcing them to switch to lower-quality public housing. Two public rental housing units were sold for over HK\$2 million: in Lower Wong Tai Sin Estate, Wong Tai Sin (HK\$2.3 million) and Yiu On Estate, Ma On Shan (HK\$2.08 million). A number of remarkable transactions of Home Ownership Scheme (HOS) flats were also registered: a high-floor unit in Kingsford Terrace in Wong Tai Sin changed hands for HK\$2.95 million or HK\$5,212 per sq ft, a new price high for the project, while another in Tsz Oi Court in the same district was sold for HK\$1.95 million or HK\$2,810 per sq ft—51% higher than the 1997 price.

There was a revival in the primary residential market, following an absence of major new supply in the previous two months. A handful of new projects were launched before the announcement of the Policy Address on 13th October. Luxury residential projects launched last month included Valais in Sheung Shui, Billionnaire Royale in Kowloon City and Gramercy in Mid-Levels Central. In the mass sector, Oceanaire in Ma On Shan received the strongest response among all new projects, with its units being 450% over-subscribed. The project was released at prices comparable with the average price of secondary homes in the district, reflecting homebuyers' strong demand for reasonably priced flats.

In the leasing market, there was sustainable demand from the corporate sector amid continuing business expansion and from homeowners shifting to renting after selling their homes and profiting from asset inflation. Luxury home rents rose a mere 0.1% in September, rebounding an accumulated 31.5% from the previous trough recorded in April 2009. Mass residential rents increased another 1-2%, with some estates recording rent levels comparable with 1997. Grand Promenade in Sai Wan Ho, for example, recorded a transaction at HK\$45.7 per sq ft per month—a new rent high in the project.

Looking ahead, the focus in the coming month will be the likely market-cooling measures unveiled by the Chief Executive's policy address. Buyers have been waiting to see whether the new round of measures will have major impact on the market. Possible new measures include financing "sandwich-class families" to purchase their first homes and a new subsidised-housing plan under which households can rent-to-buy, with rents paid counting towards purchase prices. Barring any drastic measures announced, market activity is expected to rebound and prices will continue to inch higher after mid October, given the ultra-low interest rate environment and strong capital inflow from Mainland China.

Luxury residential report

Ultra-low interest rates and a further decline in the unemployment rate set a favourable backdrop for the residential sales market.

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	August 2010	+3.0%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to August 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

Luxury residential prices and rents remained firm in September 2010.

Table 2 Luxury residential market indicators—September 2010								
District	Rent	Change			Price	Change		
	HK\$psf/ mth	From Aug 10	From Jun 10	From Sep 09	HK\$psf	From Aug 10	From Jun 10	From Sep 09
The Peak	58.5	0.4%	3.0%	11.9%	22,411	0.0%	4.7%	12.0%
Mid-Levels	45.5	0.3%	-0.1%	14.8%	17,858	0.4%	5.2%	23.4%
Pokfulam	30.0	-0.6%	-0.8%	11.8%	16,952	0.0%	1.9%	21.0%
Jardine's Lookout & Happy Valley	39.4	-0.2%	0.0%	10.5%	16,516	2.1%	6.3%	19.0%
Island South	47.5	0.3%	0.7%	16.3%	21,365	0.0%	6.8%	25.8%

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

In the leasing market, there was sustainable demand from the corporate sector amid continuing business expansion.

Table 3 Selected luxury residential leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Island South	Circle Lodge	House	4,000	\$223,000	\$55.8
The Peak	Strawberry Hill	House	3,250	\$180,000	\$55.4
Island South	The Lily	Tower 3 / mid floor	3,533	\$186,000	\$52.6
The Peak	The Mount Austin	Low floors / duplex	2,715	\$136,000	\$50.1
Mid-Levels Central	Dynasty Court	Tower 3 / high floor / unit A	1,925	\$90,000	\$46.8
Mid-Levels Central	Clovelly Court	Tower 1 / mid floor / unit B	2,809	\$120,000	\$42.7
Pokfulam	Residence Bel-Air	Tower 8B / high floor / unit B	1,850	\$62,000	\$33.5
Source: Knight Frank					

Luxury home sales remained robust, with a number of high-priced transactions taking place.

Table 4 Selected luxury residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$/psf)
Tsim Sha Tsui	The Arch	Tower 1 / 56/F / unit A	2,517	\$88.00	\$34,962
Ho Man Tin	15 Homantin Hill	47/F / unit B	2,008	\$55.70	\$27,739
The Peak	8-12 Peak Road	Tower A2 / 3/F / unit B	2,712	\$67.80	\$25,000
Happy Valley	Leighton Hill	Tower 5 / 7/F / unit B	2,227	\$47.00	\$21,105
The Peak	Century Tower	Tower 2 / 6/F / unit	3,663	\$66.00	\$18,018
Mid-Levels Central	Clovelly Court	Tower 2 / 14/F / unit B	1,881	\$31.50	\$16,746
Island South	Grand Garden	Tower 3 / 27/F / unit B	1,657	\$27.38	\$16,524
Source: Economic Property Research Centre					



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