



OCTOBER 2011

# HONG KONG LUXURY RESIDENTIAL

Monthly Report

**Knight Frank 萊坊**

## RESIDENTIAL MARKET REMAINS QUIET

Last month, the fear of a global recession resulted in further drops in stock markets worldwide and continuing weak sentiment in Hong Kong's property market. Awaiting the government's October Policy Address, when policies shaping the outlook for the local property market were announced, some potential buyers took a wait-and-see approach and suspended flat inspection and home purchases. Meanwhile, a number of banks—including HSBC, Standard Chartered and Bank of China (Hong Kong)—raised their mortgage lending rates, further weakening the purchasing power of potential buyers. According to the Land Registry, residential sales volume fell 11.3% month on month in September, hitting its lowest level since February 2009. Sales of luxury flats worth HK\$10 million or above dropped the most, by 63.8%.

Accordingly, some homeowners with serious sales prospects were willing to negotiate further on asking prices. For example, a high-floor flat at Homantin Hill in Ho Man Tin was sold for HK\$43.28 million—13% below the original asking price. A 1,048-sq-ft unit at Goldwin Heights in Mid-Levels with an original asking price of HK\$13.8 million was sold for HK\$12.28 million, an over 10% discount. However apart from a few such exceptions, the price reductions in most cases were fairly nominal.

Although secondary residential prices fell last month, the correction narrowed month on month. Mass residential prices dropped about 1% in September, compared with a 2–3% decline in August, while the fall in luxury residential prices also narrowed to 0.5% from 2.0% in August. Home prices in Jardine's Lookout / Happy Valley experienced the largest downward adjustment of 2.0%, followed by Mid-Levels where prices fell 1.5%. Luxury home prices on the Peak and in Island South and Pokfulam remained stable.

However, where supply is tight, quality flats were still transacted at record-breaking prices. A flat on the top floor of Laguna Verde in Hung Hom was reportedly sold for HK\$11.8 million or over HK\$17,000 per sq ft—the highest per-sq-ft price in the development so far. Meanwhile, a garden-view flat at Taikoo Shing in Quarry Bay was reportedly transacted at HK\$8.05 million or HK\$11,370 per sq ft, making it the most expensive two-bedroom flat ever been sold in the development.

The primary market performed relatively well in September, with new-home launches receiving positive feedback. According to the developer of La Splendeur in Tseung Kwan O, 450 units were sold in the first 48 hours of launch, mostly to end-users. At Winfield Building in Happy Valley, meanwhile, seven of the ten units launched were reportedly sold for about HK\$300 million in total.

Luxury residential leasing activity slowed as the market entered the traditional low season. Some landlords agreed to lower their asking rents in order to secure tenants quickly, causing luxury rents to fall 1.7% last month—the first drop since December 2009. Month on month, rents in Jardine's Lookout / Happy Valley, Island South and Mid-Levels dropped 3.1%, 2.5% and 2.1%, respectively. Meanwhile, rents on the Peak and in Pokfulam remained stable, due to the tight supply of flats in these districts.

Looking forward, the government will continue to increase land supply. The Development Bureau announced that five residential sites in Tseung Kwan O, Tuen Mun and on Lantau Island, expected to provide a total of 1,770 residential units, will be available for tender in the fourth quarter. However, the housing shortage problem will not be solved in the short term, because it will take three to four years for the flats to be completed.

Local economic indicators, including the lowest unemployment rate in August since February 1998 (3.2%), show that Hong Kong's economy continues to perform strongly. We believe home prices will see minor adjustments by the end of the year, unless the sovereign debt crisis in Europe severely worsens. Luxury residential leasing will have limited activity in line with the end of the low season, allowing room for a slight decline in rents.



## Luxury residential report

The unemployment rate dropped to 3.2% in August—the lowest rate since February 1998.

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q2 2011	+5.1%#	-2.7%	+6.8%	+5.5%
Inflation rate	August 2011	+5.7%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to August 2011	3.2%#	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

Luxury residential leasing activity slowed as the market entered the low season.

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
The Peak	King's Court	House	3,165	\$275,000	\$86.9
The Peak	Chelsea Court	Duplex with roof	3,104	\$250,000	\$80.5
The Peak	Watford Villa	House	3,280	\$195,000	\$59.5
Mid-Levels	Highcliff	High floor / unit A	3,816	\$200,000	\$52.4
Island South	Redhill Peninsula	Cedar Drive / penthouse	2,808	\$145,000	\$51.6
Mid-Levels	Clovelly Court	Tower 1 / high floor / unit B	2,809	\$139,000	\$49.5
Island South	Ruby Court	Tower 1 / low floor / unit B	2,200	\$105,000	\$47.7

Source: Knight Frank  
Note: All transactions are subject to confirmation.



**Sales of luxury flats worth HK\$10 million or above dropped the most in September 2011—63.8% month on month.**

Table 3

**Selected luxury residential sales transactions**

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Happy Valley	Leighton Hill	Tower 3 / 13 <sup>th</sup> floor / unit A	1,911	\$49.2	\$25,746
Tsim Sha Tsui	The Cullinan	Luna Sky / 50 <sup>th</sup> floor / unit D	1,213	\$30.8	\$25,392
Sai Ying Pun	Island Crest	Tower 2 / 49 <sup>th</sup> floor / unit A	1,506	\$33.298	\$22,110
Tsim Sha Tsui	The Arch	Block 1A / 19 <sup>th</sup> floor / unit A	1,255	\$26.36	\$21,004
Mid-Levels	Azura	9 <sup>th</sup> floor / unit A	1,679	\$32.406	\$19,301
Mid-Levels	Botanic Terrace	Block A / 7 <sup>th</sup> floor / unit 1	1,382	\$25.2	\$18,234
Tai Kok Tsui	The Hermitage	Tower 1 / 75 <sup>th</sup> floor / unit B	1,552	\$27.5	\$17,719

Source: Economic Property Research Centre  
Note: All transactions are subject to confirmation.

**Last month, luxury residential rents recorded their first drop since December 2009.**

Table 4

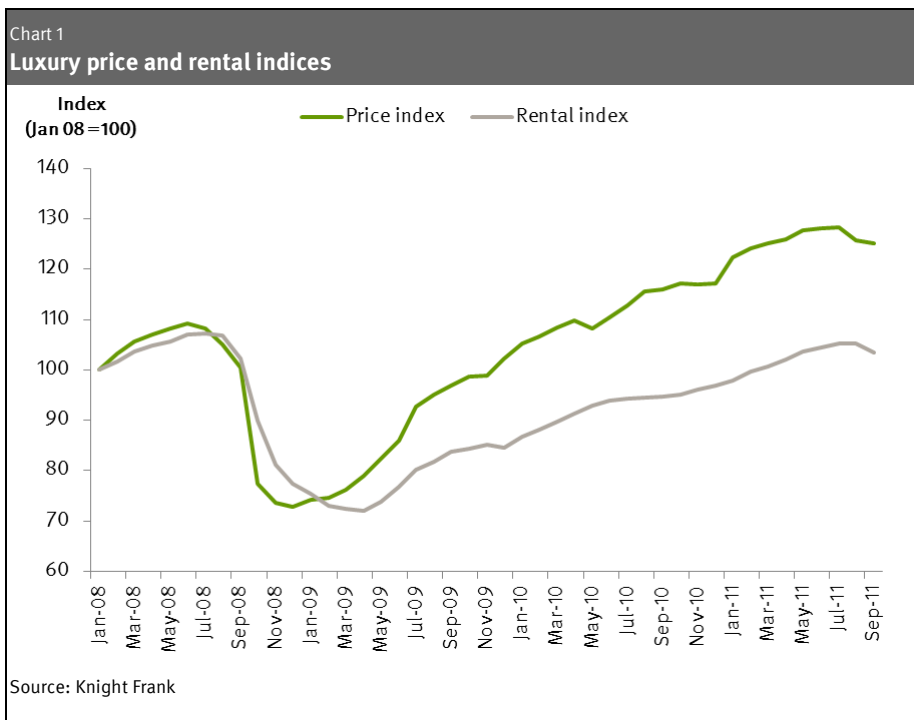
**Luxury residential market indicators—September 2011**

District	Rent	Change			Price	Change		
	HK\$psf/mth	From Aug 11	From Jun 11	From Sep 10	HK\$psf	From Aug 11	From Jun 11	From Sep 10
The Peak	66.7	-0.3%	2.0%	14.1%	23,667	0.0%	-2.4%	5.6%
Mid-Levels	50.0	-2.1%	-3.1%	9.9%	20,043	-1.5%	-1.7%	12.2%
Pokfulam	33.5	-0.5%	-1.2%	11.6%	16,854	-0.1%	-5.2%	-0.6%
Jardine's Lookout & Happy Valley	41.7	-3.1%	-2.9%	5.9%	18,357	-2.0%	-1.6%	11.1%
Island South	49.6	-2.5%	-1.1%	4.3%	23,592	0.0%	-1.8%	10.4%

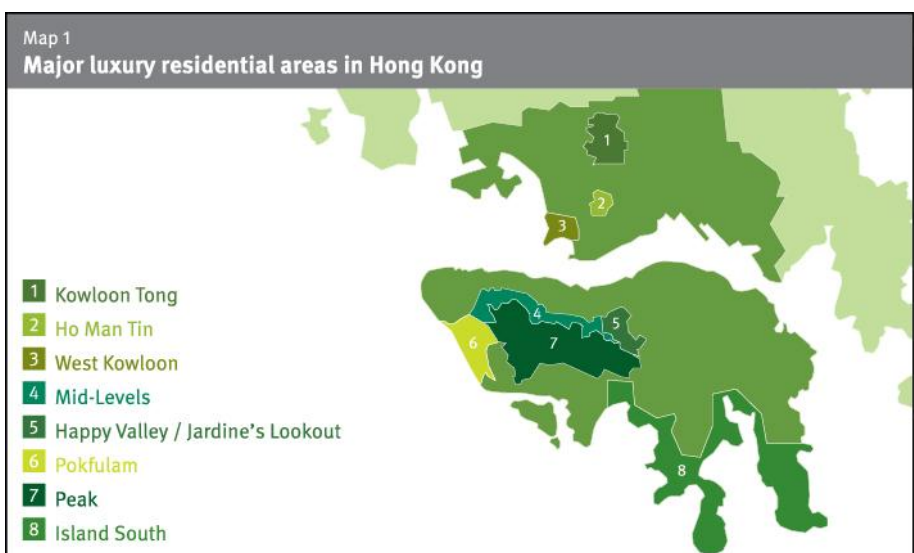
Source: Knight Frank  
Rents and prices are subject to revision.



**Slight drops in luxury residential prices and rents were recorded in September 2011.**



**Traditional luxury residential areas in Hong Kong are focused on Hong Kong Island.**



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## Hong Kong contacts

### Alan Child

Executive Chairman  
T: (+852) 2846 9522  
E: alan.child@hk.knightfrank.com

### Renu Budhrani

Executive Director  
Residential Agency  
T: (+852) 2846 9550  
E: renu.budhrani@hk.knightfrank.com

### Thomas Lam

Director, Head of Research, Greater China  
Research Department  
T: (+852) 2846 4819  
E: thomas.lam@hk.knightfrank.com

### Pamela Tsui

Senior Research Manager  
Research Department  
T: (+852) 2846 4843  
E: pamela.tsui@hk.knightfrank.com

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