



SEPTEMBER 2011

HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 萊坊

SALES INCREASE AS PRICES SOFTEN

With the global economic outlook uncertain and stock markets weak worldwide, sentiment in Hong Kong's property market continued to be lukewarm last month. The disappointing auction and tender results of five residential sites in Shatin, North Point, Sai Kung, Tseung Kwan O and Yuen Long reflected a lack of confidence among developers. Meanwhile, some individual flat sellers lowered their asking prices, marginally, resulting in a 3.5% rise in the transaction volume of residential flats in August, according to the Land Registry. The increase in sales was led by the luxury sector, where transactions of residential flats valued at over HK\$10 million rose by about 50%.

A number of residential sales were reportedly transacted at a discount last month. House C17 at Regalia Bay in Repulse Bay, with an original asking price of HK\$80 million, was sold for HK\$68 million—a 15% discount. House D16 in the same development—a waterfront unit with an original asking price of

HK\$120 million, was reportedly sold for HK\$118 million. Meanwhile, a high-floor flat at The Harbourside in Tsim Sha Tsui was sold for HK\$34.5 million—6.2% below the original asking price.

As a result, residential prices softened last month. Mass residential prices fell 2–3% in August, after dipping 1% in July, while luxury residential prices dropped 2.0%—the first drop since the previous decline of November 2010 when the Special Stamp Duty (SSD) was launched. Pokfulam witnessed the largest price drop of 5.1%, followed by the Peak and Island South where prices fell 2.4% and 1.8%, respectively. Luxury home prices in Jardine’s Lookout / Happy Valley and Mid-Levels remained stable.

Individual investors willing to lower asking prices were mainly those holding a number of units or those who had experienced losses in the stock market. End-users who were generally enjoying low interest rates and had strong holding power were reluctant to sell their flats at a discount, while the job market and the local economy remained healthy. With housing demand persisting and rents continuing to rise, there were still record-breaking sales transactions. For example, an 802-sq-ft flat at Kam Fung Court in Ma On Shan was reportedly sold for HK\$4.25 million—about 4% above the market price and a new record for the development. Meanwhile, a 636-sq-ft sea-view flat at Hampton Place in Tai Kok Tsui was reportedly sold for HK\$6.73 million—the highest price a two-bedroom flat had ever fetched in the development.

On the leasing front, some landlords of luxury residential properties were willing to cut their rents slightly. This may have been an attempt to secure tenants quickly, now that the prime summer leasing season has been over. Because the supply of rental flats was tight, especially in Island South and on the Peak, rents rose another 0.6% and 0.3%, respectively, in those districts. These rises outweighed the rental drops in Pokfulam, Jardine’s Lookout / Happy Valley and Mid-Levels, so the average luxury residential rent overall rose by 0.1%.

Looking forward, we expect developers to speed up the process of launching new projects, despite weak market sentiment. The overall transaction volume of flats will rise, with the launch of both mass estates and luxury projects. In an attempt to stabilise the property market, the government will continue to increase land supply by tender and auction. However, the problem of housing shortage would not be resolved in the short term, because it would be years before homes are built on this land. As long as the local economy continues to perform strongly and there are no further crises in the global economy, Hong Kong’s property market is expected to remain resilient. We believe home prices would be stable and rents would only drop slightly as the rental market exits the peak season.

District	Name of the Development	No. of Flats
Discovery Bay	Amalfi	164
Happy Valley	The Altitude	126
Kowloon Tong	One Mayfair	120
Happy Valley	Winfield Building	84

Source: Market news



Luxury residential report

Consumer prices soared 7.9% in July—the fastest pace since November 1995.

Table 2
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2009	2010	2011 forecast
GDP growth	Q2 2011	+5.1%#	-2.7%	+6.8%	+5.5%
Inflation rate	July 2011	+7.9%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to July 2011	3.4%#	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 rents remained stable despite a drop in prices last month.

Table 3
Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$psf/mth)
Mid-Levels	The Albany	High floor / unit A	2,549	\$170,000	\$66.7
The Peak	Chelsea Court	Ground floor with garden	3,107	\$205,000	\$66.0
The Peak	Strawberry Hill	House	3,893	\$250,000	\$64.2
Pokfulam	Residence Bel-Air	Phase 1 / Tower 2 / penthouse	2,698	\$130,000	\$48.2
Pokfulam	Felix Villa	House	4,000	\$180,000	\$45.0
Island South	Helene Garden	Penthouse	3,606	\$160,000	\$44.4
Island South	Repulse Bay Garden	Block 11 / mid floor	1,800	\$76,000	\$42.2

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



Skyhigh on the Peak was sold for HK\$800 million, making it the most expensive house in Asia.

Table 4

Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
The Peak	Skyhigh	House A	8,302	\$800.0	\$96,362
Island South	Belgravia	29-30 th floor duplex B	3,845	\$213.0	\$55,397
Tsim Sha Tsui	The Arch	Block 1 / 51 st floor / unit A	2,517	\$96.0	\$38,141
Tai Kok Tsui	The Hermitage	Tower 2 / 78 th floor / unit A	1,961	\$70.596	\$36,000
Tsim Sha Tsui	The Harbourside	61 st floor / unit A	1,433	\$43.8	\$30,565
Tsim Sha Tsui	Imperial Cullinan	Royal Sky / 72 nd floor / unit D	1,454	\$44.08	\$30,316
Happy Valley	Broadwood Twelve	45 th floor / unit B	1,650	\$48.5	\$29,394

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

In August, luxury home prices dropped 2.0% month on month—the first drop since November 2010.

Table 5

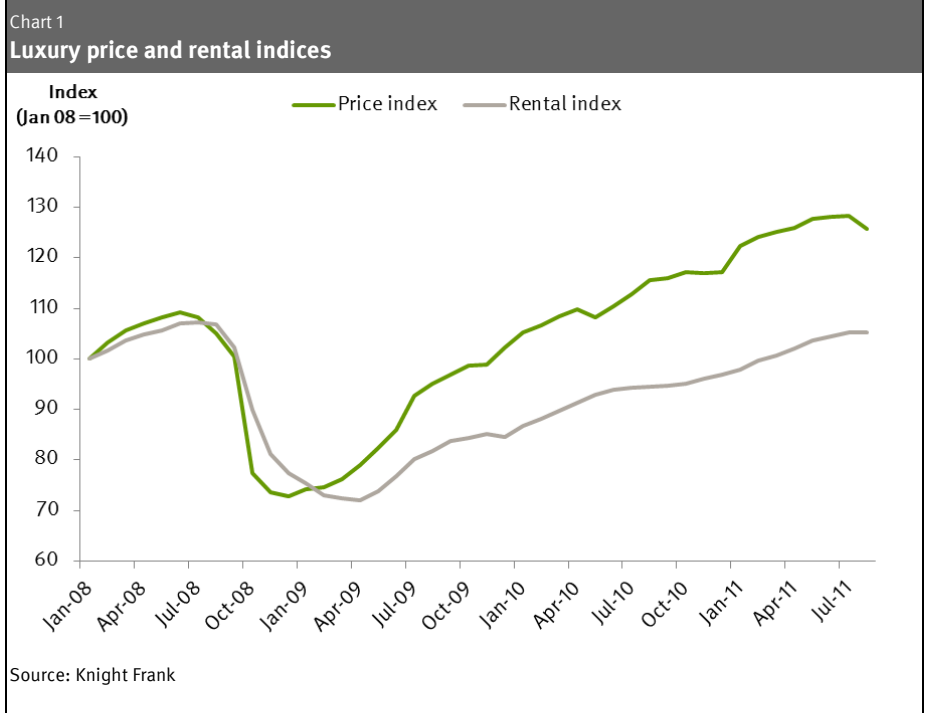
Luxury residential market indicators—August 2011

District	Rent			Price			Change		
	HK\$psf/mth	From Jul 11	From May 11	From Aug 10	HK\$psf	From Jul 11	From May 11	From Aug 10	
The Peak	66.9	0.3%	3.6%	14.8%	23,667	-2.4%	-2.4%	5.6%	
Mid-Levels	51.1	-0.2%	-0.2%	12.5%	20,345	-0.3%	0.6%	14.3%	
Pokfulam	33.7	-0.7%	-0.1%	11.5%	16,876	-5.1%	-4.8%	-0.4%	
Jardine's Lookout & Happy Valley	43.0	-0.3%	0.4%	9.1%	18,741	0.0%	1.5%	15.9%	
Island South	50.8	0.6%	2.2%	7.3%	23,592	-1.8%	-1.8%	10.4%	

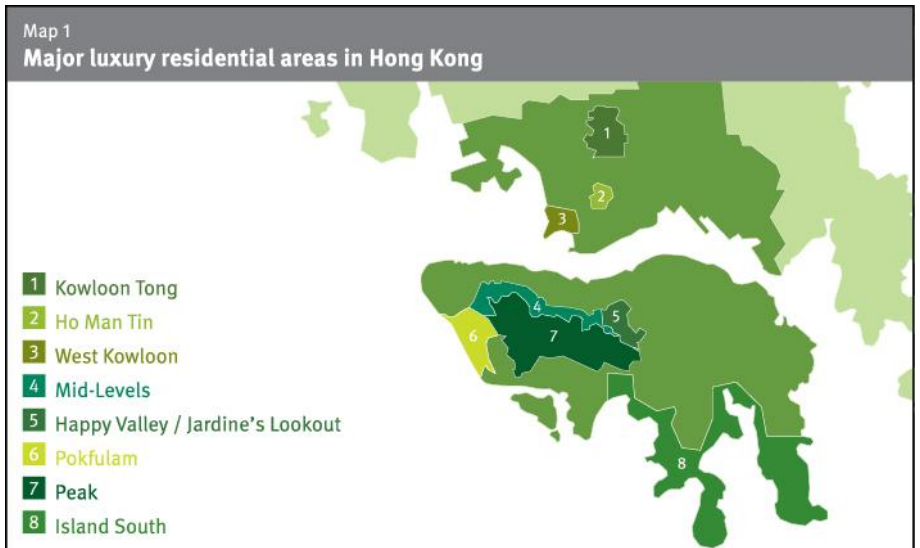
Source: Knight Frank
Rents and prices are subject to revision.



Luxury residential prices and rents are expected to remain stable during the second half of the year.



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



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