

# CHINA AND HONG KONG RESIDENTIAL MARKETS OVERVIEW

Press Conference  
by Knight Frank

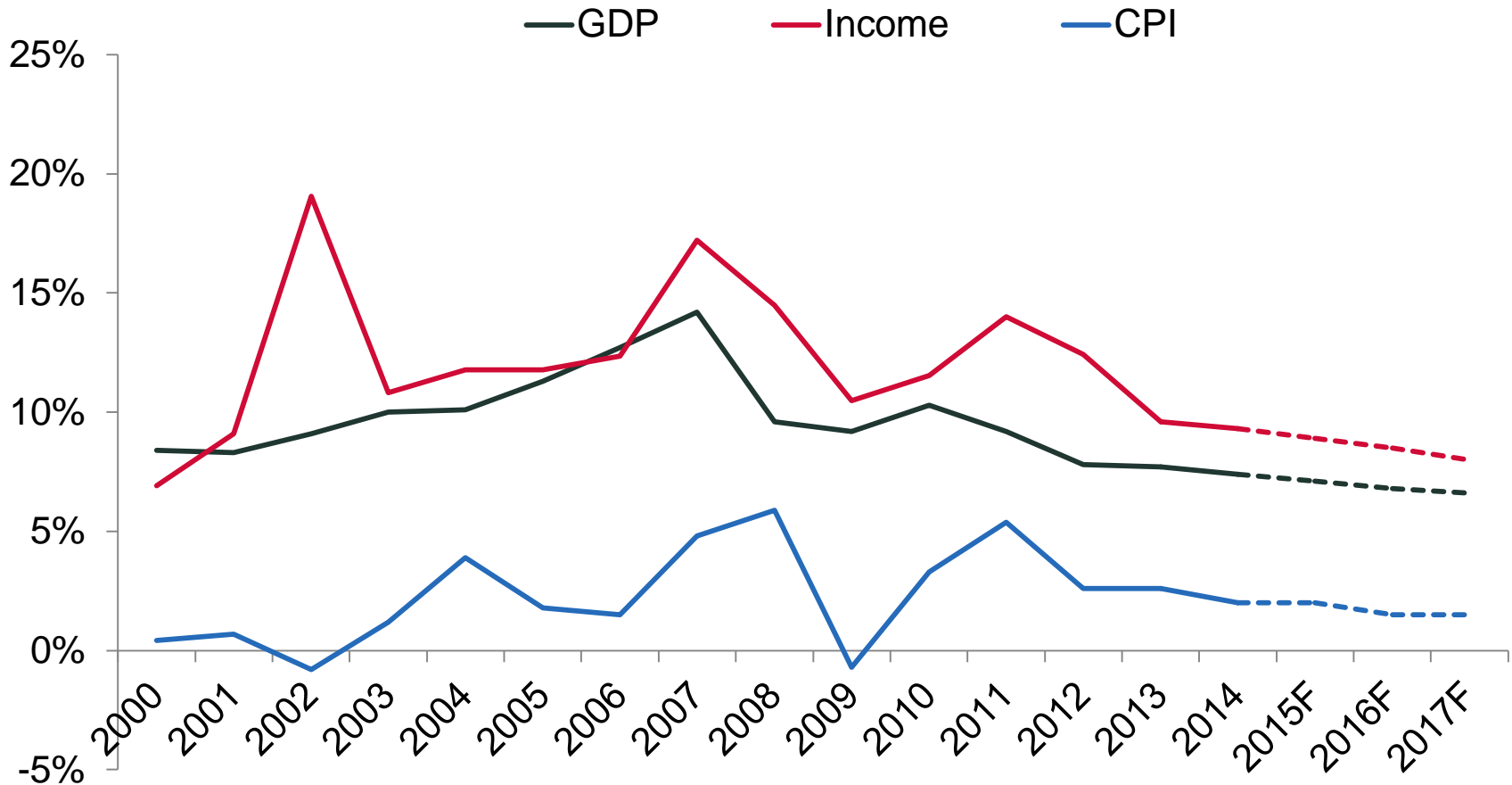
9 Jun 2015



# CHINA RESIDENTIAL MARKET

**Presented by David Ji,  
Director and Head of Research & Consultancy, Greater China**

## Changes of China's GDP, Household Income & CPI



# MAJOR RESIDENTIAL POLICIES



● **Jun 08, 2012**

**Jul 06, 2012**

- The People's Bank of China cut the one-year RMB benchmark deposit and 1-3 year loan interest rates by 25 basis points each.
- The central government emphasises the continual implementation of differentiated mortgage loan incentives for homebuyers, tax policies and buying restrictions in some cities.

● **May-Sep, 2014**

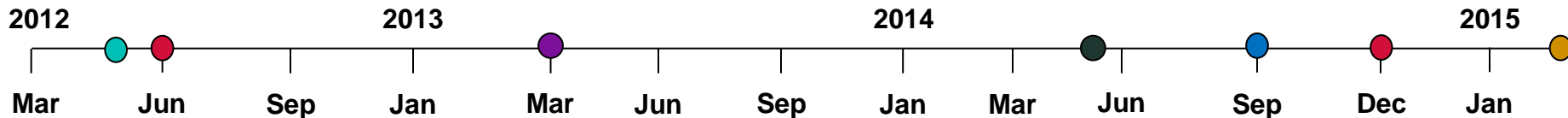
Most secondary cities announced the abolishment of home purchase restrictions, but housing purchase restrictions policies remained firm in tier 1 cities

● **30 Sep, 2014**

Second homebuyers can place the same 30% down-payment as first-time homebuyers, if they have fully repaid the mortgage loan on their first home.

● **30 Mar, 2015**

The minimum mortgage requirement for second-home buyers was lowered from 60% to 40%.



● **May 22, 2012**

Developers of vacant land with developed area less than 1/3 of total construction area, land with investment capital outlay less than 25% of total investment amount and land on which construction suspended for over a year have to pay 20% of land cost.

● **Mar 01, 2013**

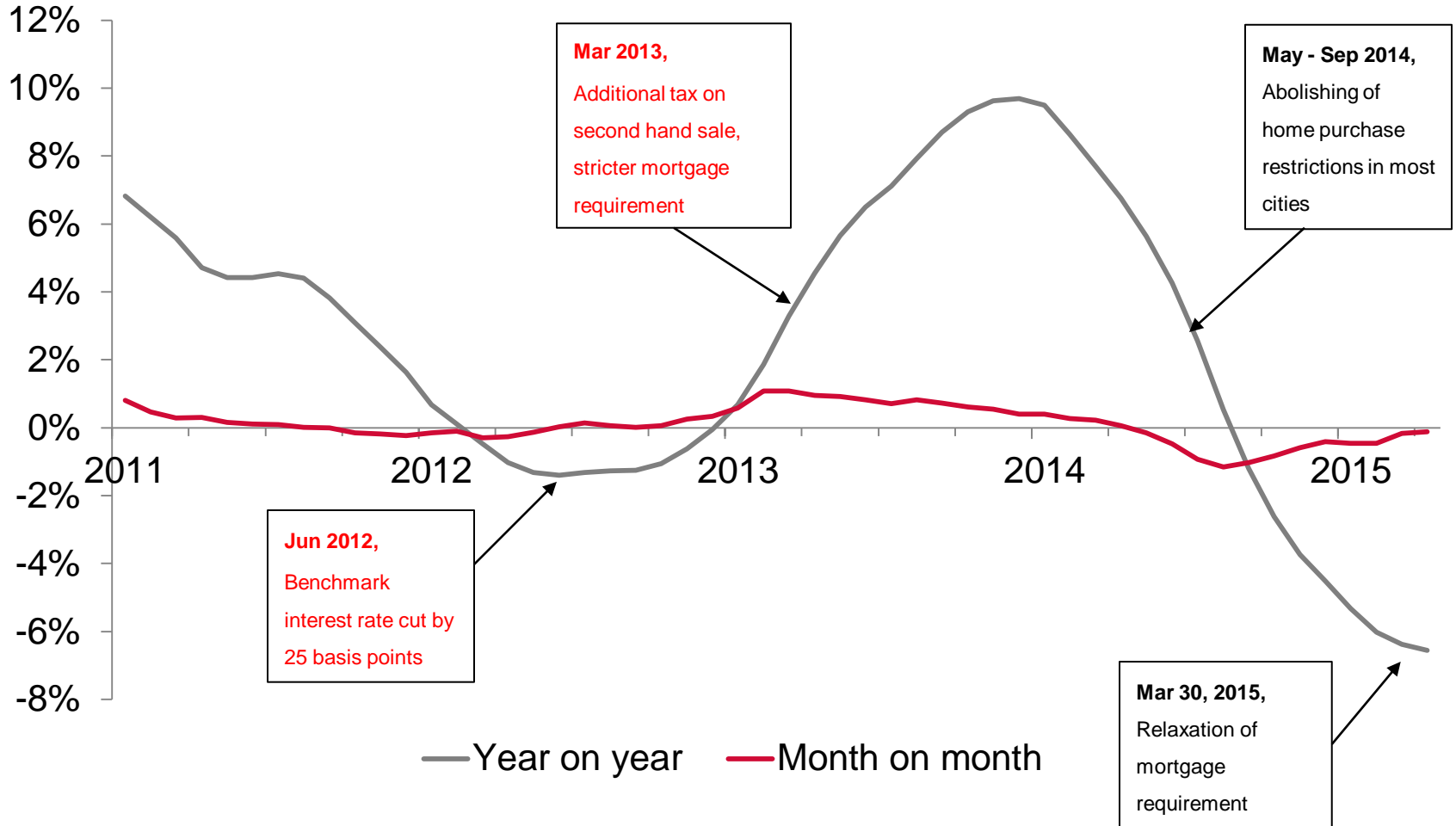
- A 20% capital gains tax is imposed on pre-owned home sales. This is exempted if a homeowner sells the property after over 5 years from its purchase and the apartment is the only one owned by the family.
- The down-payment ratio for a qualified family's second home is raised to 70%.

● **Nov 22, 2014**

•The People's Bank of China cut the one-year RMB benchmark deposit and loan interest rates by 25 basis points and 40 basis points respectively.

# OVERALL HOUSE PRICE SLOWING DOWN SINCE BEGINNING OF 2014

## Change in average prices for new homes in 70 cities

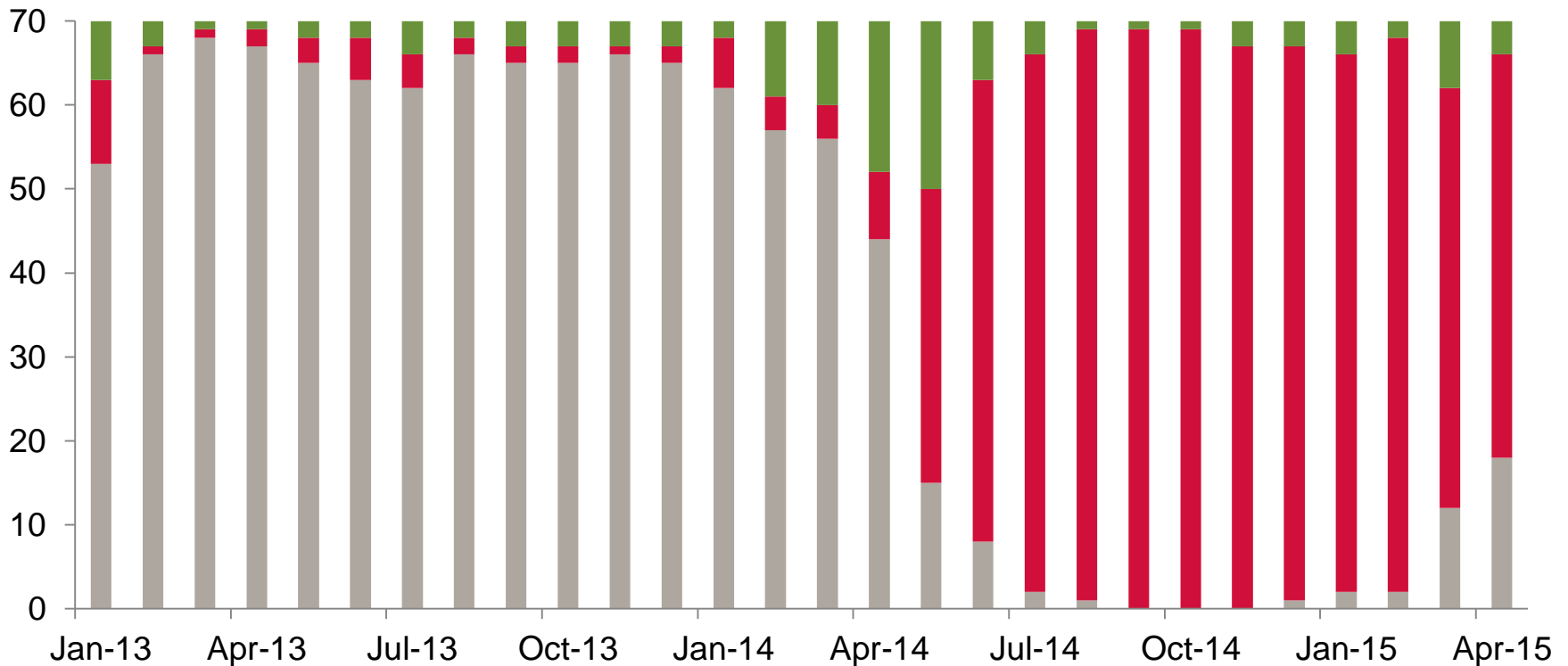


# RESIDENTIAL PRICE DECLINES IN 70 MAJOR CHINESE CITIES

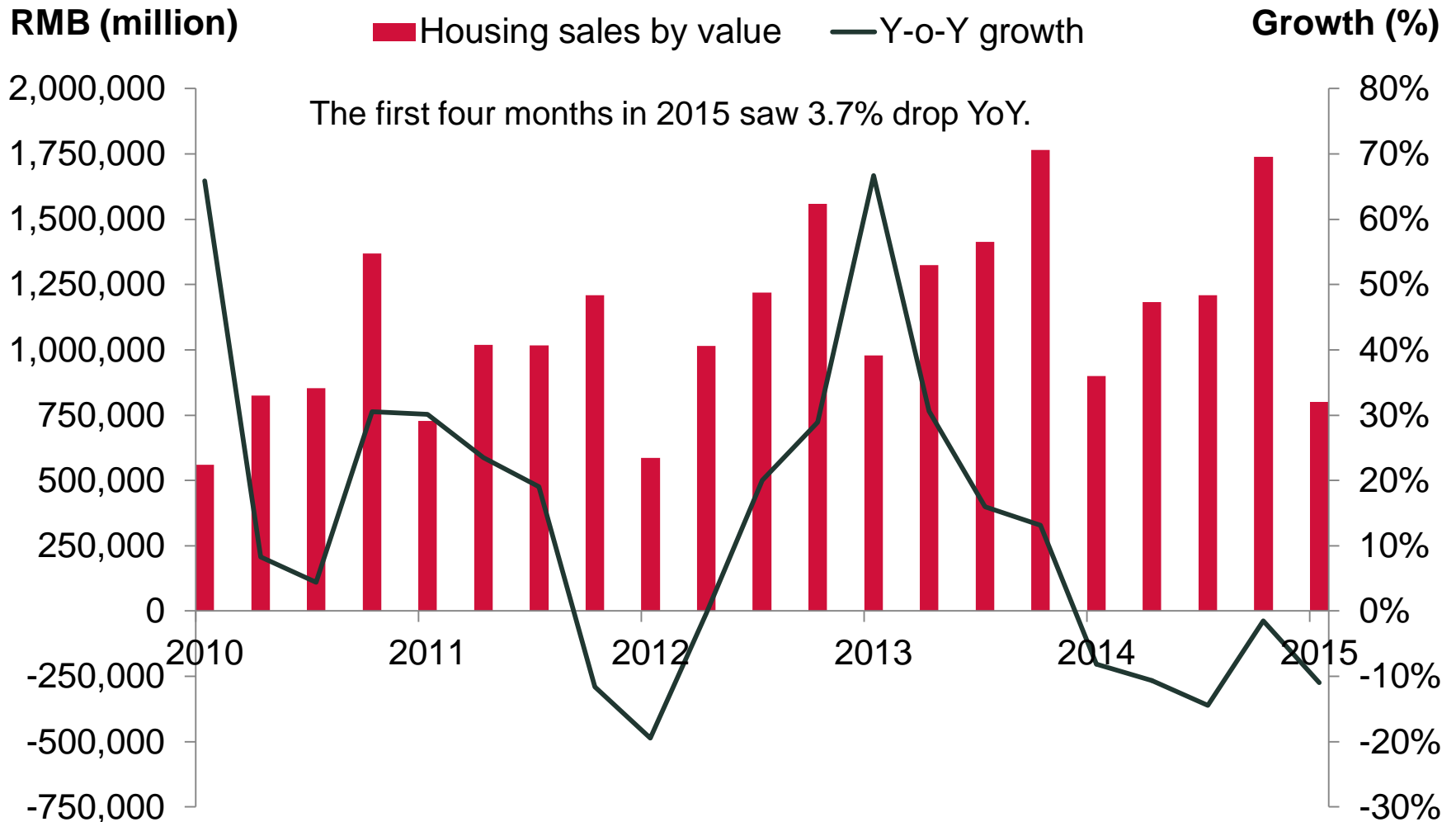


## Monthly residential price change in 70 major Chinese cities

■ No. of cities that recorded no house price change   ■ No. of cities that recorded house price declines  
■ No. of cities that recorded house price increase



# HOUSING SALES VALUE

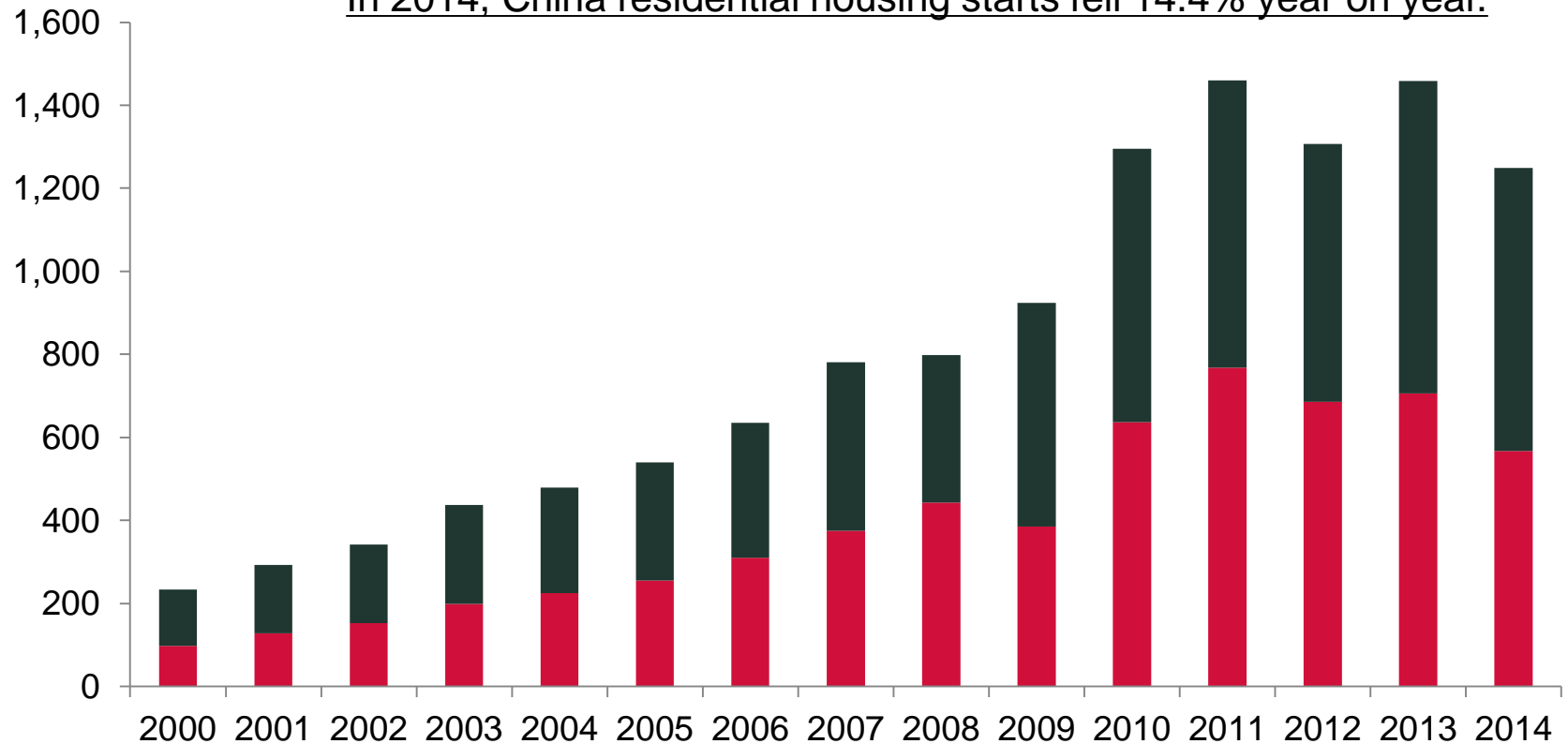


# DEVELOPERS PULLED BACK RESIDENTIAL STARTS

**Floor space  
(million sqm)**

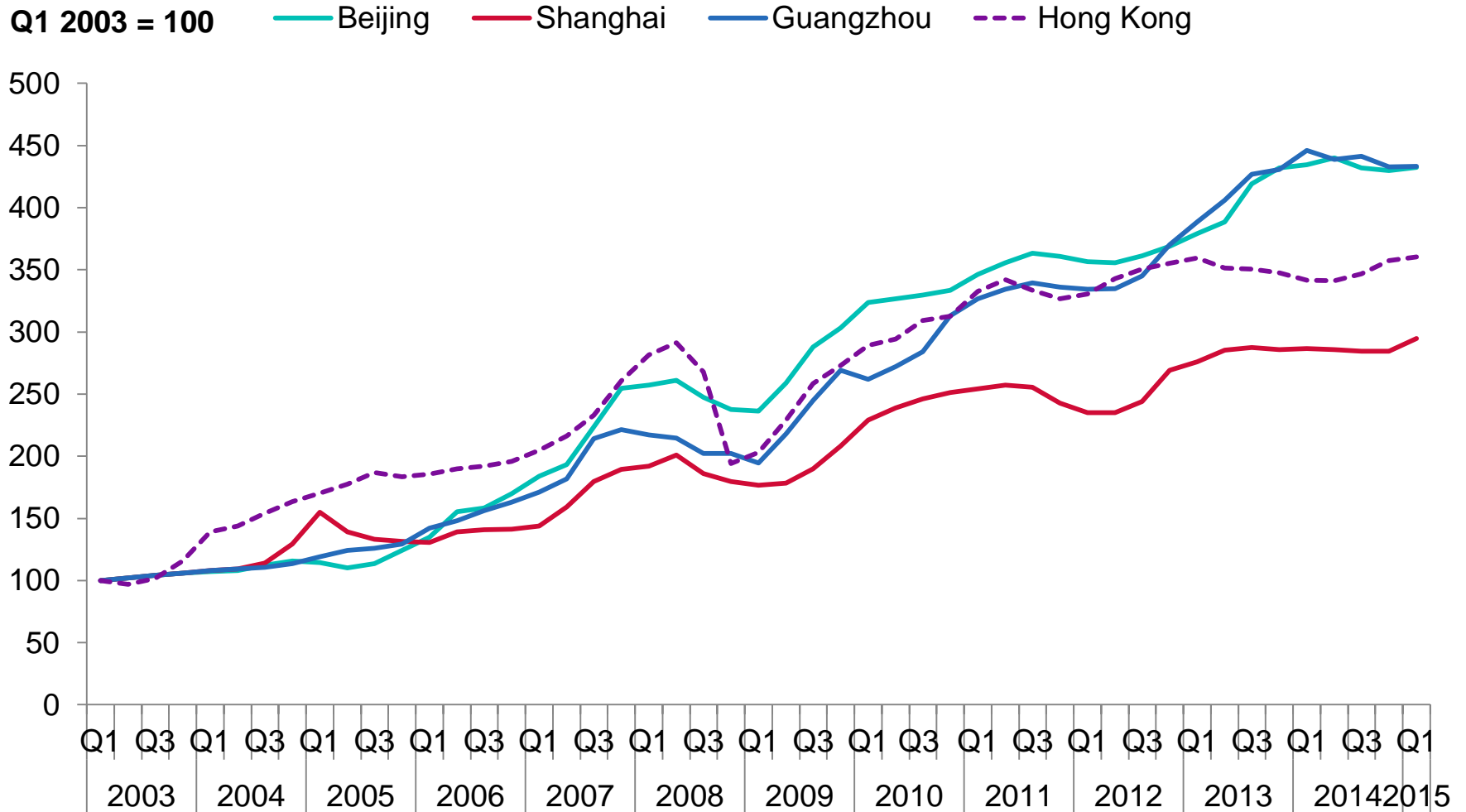
■ First Half ■ Second Half

In 2014, China residential housing starts fell 14.4% year on year.





# LUXURY HOME PRICES REMAINED STABLE THANKS TO SHORTAGE



# THE 10 BEST-PERFORMING MAINLAND CITIES AFTER POLICY EASING

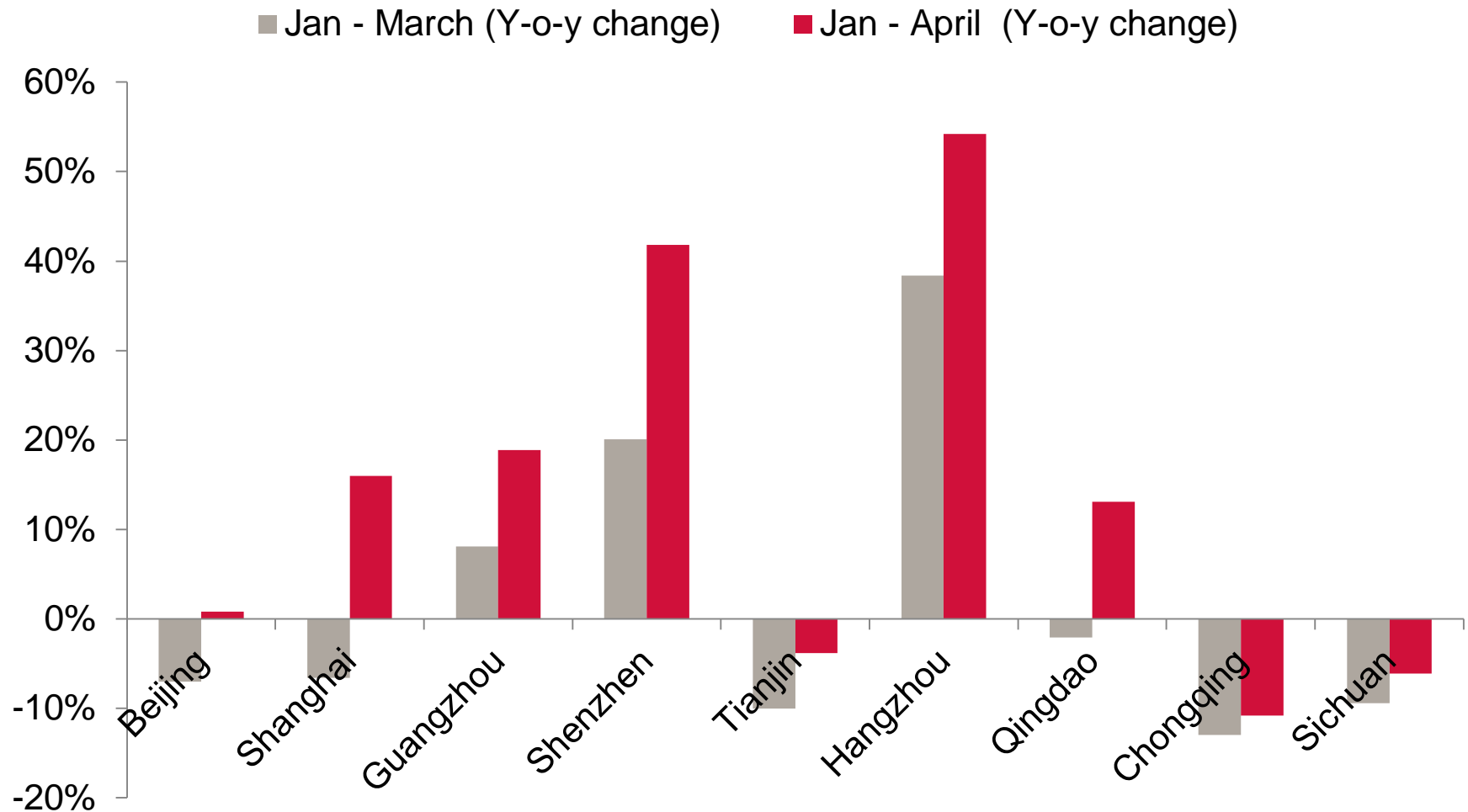


| Rank | Mainland cities | Month-on-month change |
|------|-----------------|-----------------------|
| 1    | Shenzhen        | ↑ 1.8%                |
| 2    | Beijing         | ↑ 0.8%                |
| 3    | Shanghai        | ↑ 0.7%                |
| 4    | Wenzhou         | ↑ 0.7%                |
| 5    | Hangzhou        | ↑ 0.4%                |
| 6    | Guangzhou       | ↑ 0.4%                |
| 7    | Jinhua          | ↑ 0.4%                |
| 8    | Shijiazhuang    | ↑ 0.3%                |
| 9    | Nanjing         | ↑ 0.3%                |
| 10   | Wuhan           | ↑ 0.3%                |

Source: National Bureau of Statistics of China / Knight Frank Research

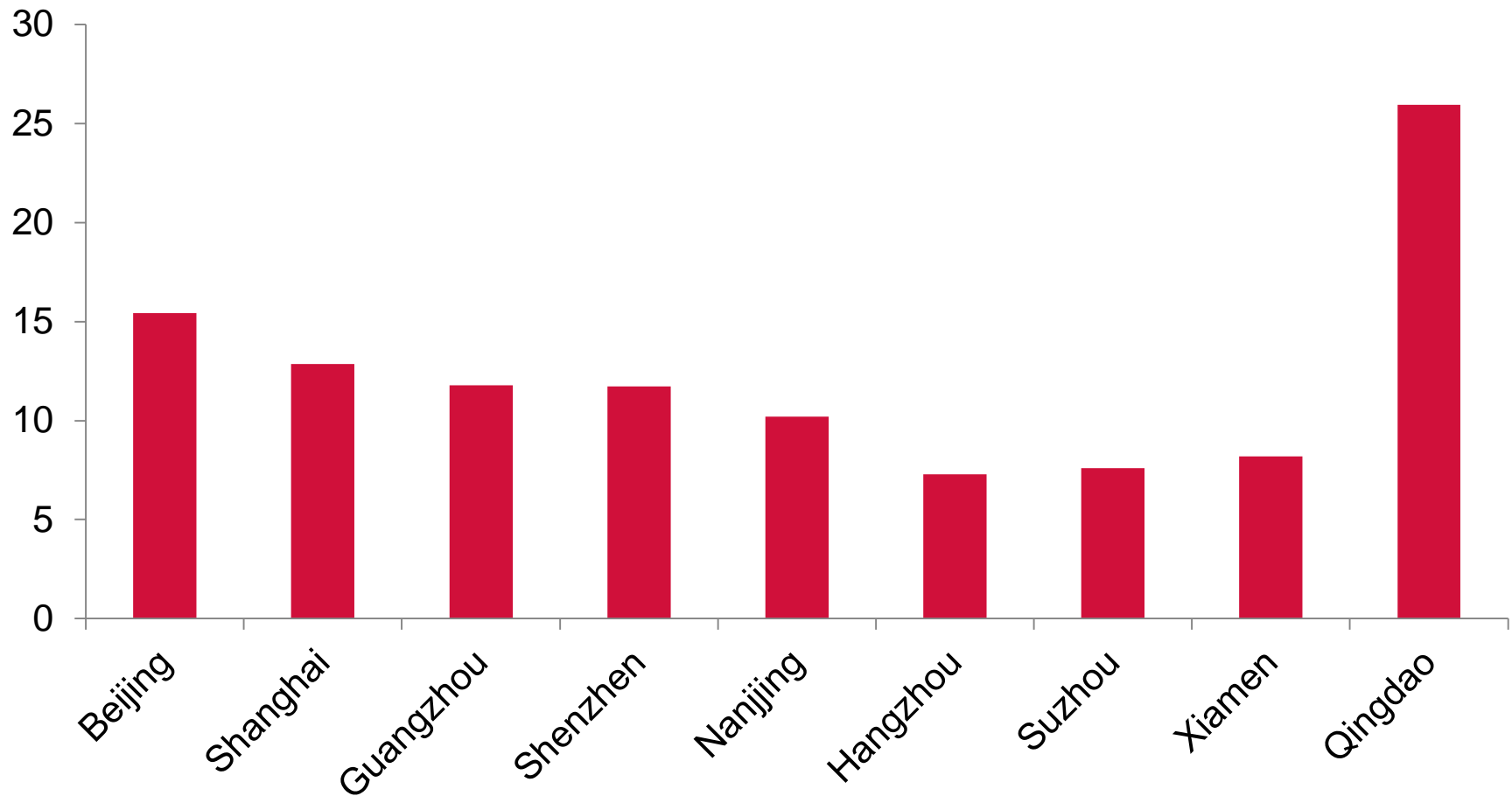
Note: Monthly price change for newly constructed homes in April 2015

# RESIDENTIAL SALES SURGED AFTER POLICY EASING



# NUMBER OF MONTHS NEEDED TO CLEAR INVENTORY

## Number of months



# CHINA RESIDENTIAL PROPERTY MARKET OUTLOOK IN 2015



| City / sector      |        | Urban districts |                  |                         | Sub-urban districts     |
|--------------------|--------|-----------------|------------------|-------------------------|-------------------------|
|                    |        | 2015 1H         | 2015 2H forecast | 2015 full year forecast | 2015 full year forecast |
| First-tier cities  | Luxury | ↑2%             | ↑3%              | ↑4-6%                   | ↓1-2%                   |
|                    | Mass   | ↑1%             | ↑2%              | ↑2-3%                   |                         |
| Second-tier cities | Luxury | ↑1%             | ↑1%              | ↑2-3%                   | ↓5-7%                   |
|                    | Mass   | ↓2%             | ↓2%              | ↓4-5%                   |                         |

Source: Knight Frank

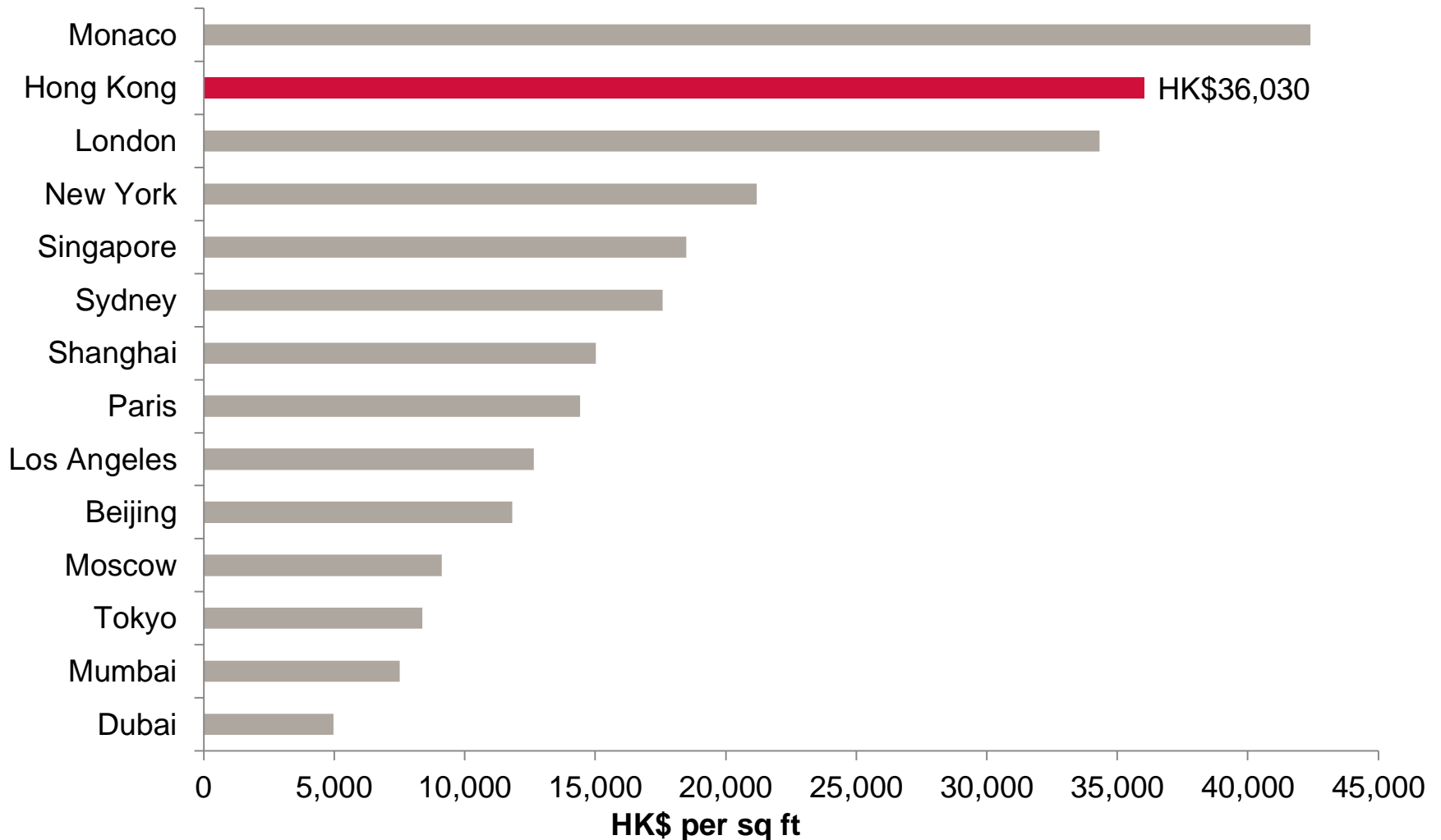


A modern, minimalist living room with a large window overlooking the ocean. The room features white armchairs, a white sofa, a black floor lamp, and a white coffee table with two black vases. The view outside shows a blue sea and a rocky coastline under a clear sky.

# HONG KONG RESIDENTIAL MARKET

Presented by **Thomas Lam**  
**Senior Director, Head of Valuation & Consultancy**

# THE MOST EXPENSIVE LOCATIONS FOR LUXURY HOMES



# THE MOST EXPENSIVE LOCATIONS FOR LUXURY HOMES



| Rank | City        | Residential price (HK\$ per sq ft) | Year-on-year change |
|------|-------------|------------------------------------|---------------------|
| 1    | Monaco      | 42,389                             | -2.0%               |
| 2    | Hong Kong   | 36,030                             | 1.1%                |
| 3    | London      | 34,315                             | 5.1%                |
| 4    | New York    | 21,194                             | 18.8%               |
| 5    | Singapore   | 18,477                             | -12.4%              |
| 6    | Geneva      | 18,477                             | -2.0%               |
| 7    | Sydney      | 17,576                             | 11.0%               |
| 8    | Shanghai    | 15,013                             | 0.0%                |
| 9    | Paris       | 14,412                             | -3.5%               |
| 10   | Los Angeles | 12,642                             | 13.0%               |

# A REVIEW OF MAJOR PROPERTY POLICIES IN HONG KONG

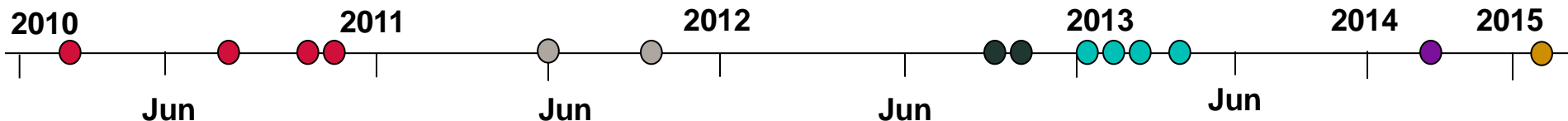


● **Oct 13, 2010**  
Introduced "My Home Purchase Plan"  
● **Nov 20, 2010**  
Introduced **Special Stamp Duty (SSD)** on all residential transactions

● **Jun 10, 2011**  
Lowered LTV ratios for residential mortgages, applicable to overseas buyers  
● **Oct 12, 2011**  
Announced the resumption of Home Ownership Scheme

● **Jan 1, 2013**  
Saleable area of the second-hand residential units are forced to be disclosed.  
● **Feb 22, 2013**  
Introduced **Double Stamp Duty (DSD)** rates to all property types. Lower LTV ratios for non-residential mortgages by 10 pp  
● **Mar 1, 2013**  
Scrapped the application list system, scheduled land sales every quarter starting from April  
● **April 29, 2013**  
The Residential Properties (First-hand Sales) Ordinance came into full effect

● **Feb, 2015**  
Lowered LTV ratios for self-used residential properties valued under HK\$7 million from 60-70% to 60%.



● **Feb 24, 2010**  
Max. stamp duty rate increased to 4.25%. No deferred stamp duty payment allowed

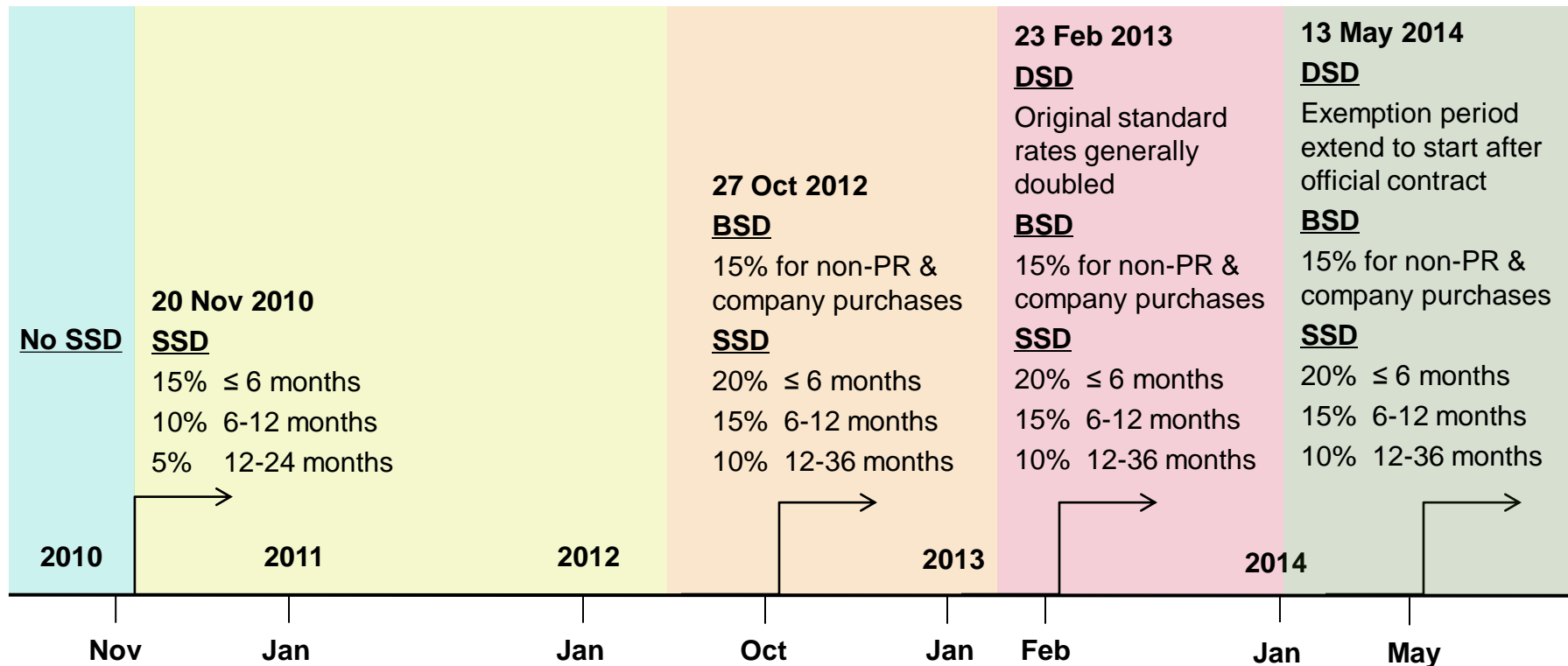
● **Aug 13, 2010**  
Lowered maximum loan-to-value (LTV) ratios, required banks to stress-test mortgage applicants

● **Sep 2012**  
Introduced "Hong Kong Land for Hong Kong People" policy  
● **Oct 29, 2012**  
Introduced Buyer's Stamp Duty (BSD) on non-permanent residents and corporate buyers. SSD extended and the rates are raised

● **April 29, 2013**  
The Residential Properties (First-hand Sales) Ordinance which aims to shield buyers from dishonest sales practices came into full effect

● **May, 2014**  
Government proposed to relax the "six-month" timeframe for owners who wish to upgrade their flats. Buyers do not need to pay DSD if their old unit is sold within six months of signing a formal agreement

# TIMELINE OF MAJOR CHANGES IN STAMP DUTY RATES



Note: the above is a simplified summary



# APPLICABILITY OF VARIOUS NEW STAMP DUTIES

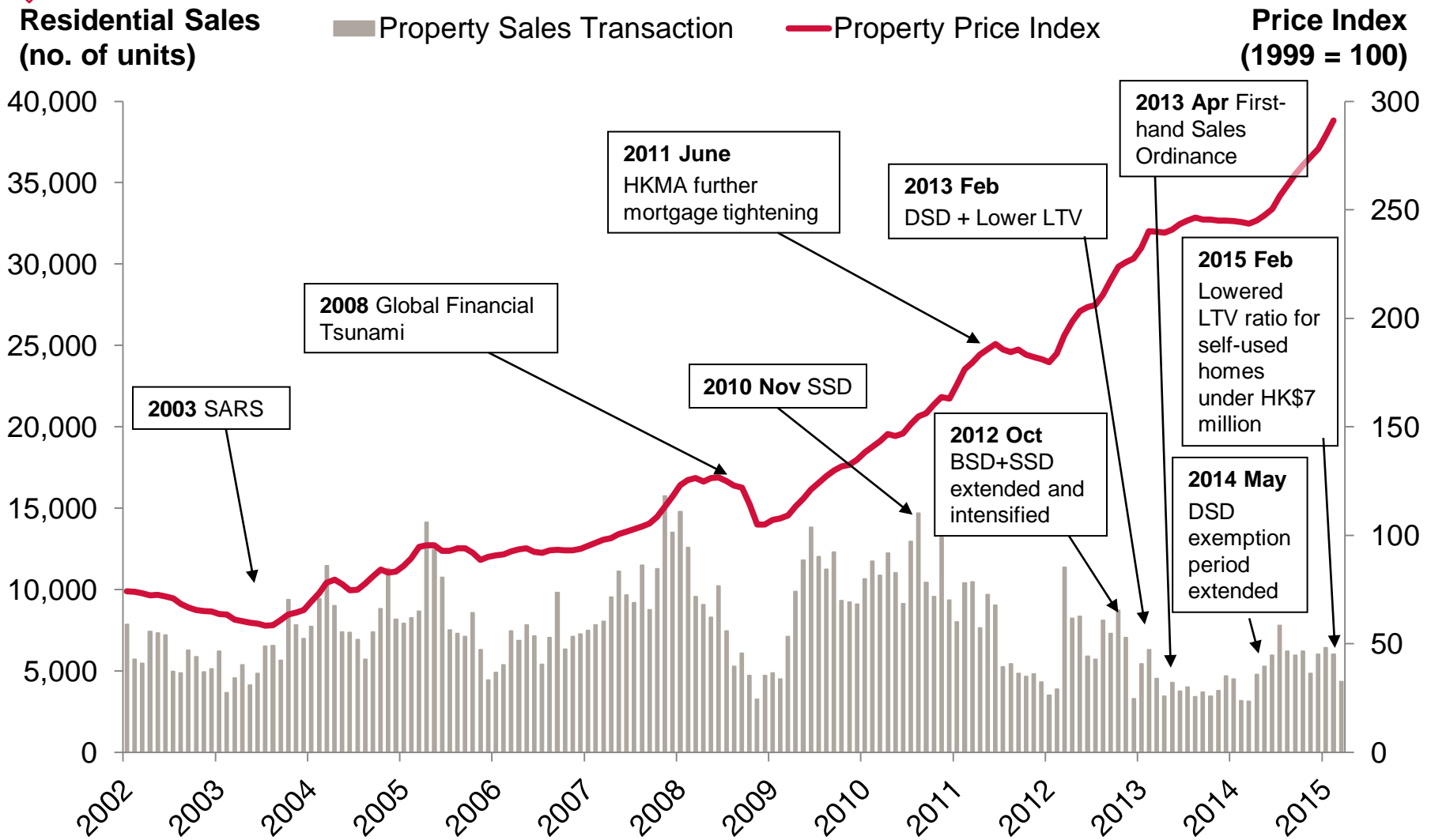


| Property type   | SSD | BSD | DSD | Maximum LTV |
|-----------------|-----|-----|-----|-------------|
| Residential     | ◆   | ◆   | ◆   | 40%-60%*    |
| Office          |     |     | ◆   | 30%-40%     |
| Retail          |     |     | ◆   | 30%-40%     |
| Industrial      |     |     | ◆   | 30%-40%     |
| Car park spaces |     |     | ◆   | 30%-40%     |

Note:

- 1) The above is a simplified summary – mortgage applicants whose residential properties are non-self-use or company held, or whose income are mainly derived from outside HK have lower maximum LTV ratios.
- 2) On 27 February 2015, the maximum LTV ratio for self-use residential properties valued under HK\$7 million is lowered from 60-70% to 60%.
- 3) If the principal income of the mortgage loan applicant is not derived from Hong Kong, the maximum LTV ratio for residential properties valued over HK\$10 million is 40%.
- 4) For all non-self-use residential properties, the maximum LTV ratio is 50%, regardless of property values.

# HONG KONG RESIDENTIAL SALES VOLUME & PRICE



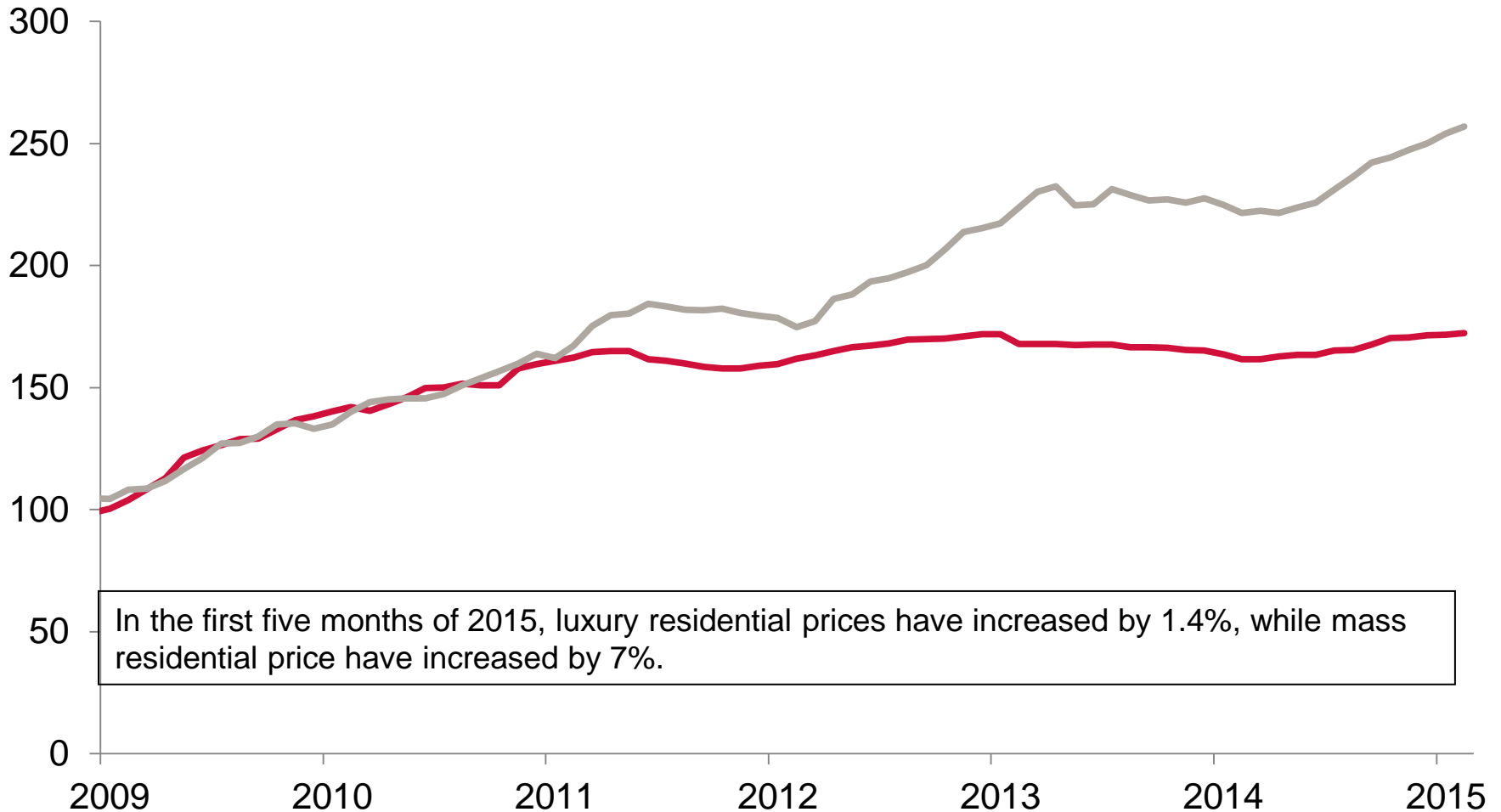
Source: Rating and Valuation Department / Knight Frank

# LUXURY & MASS RESIDENTIAL PRICE INDEX



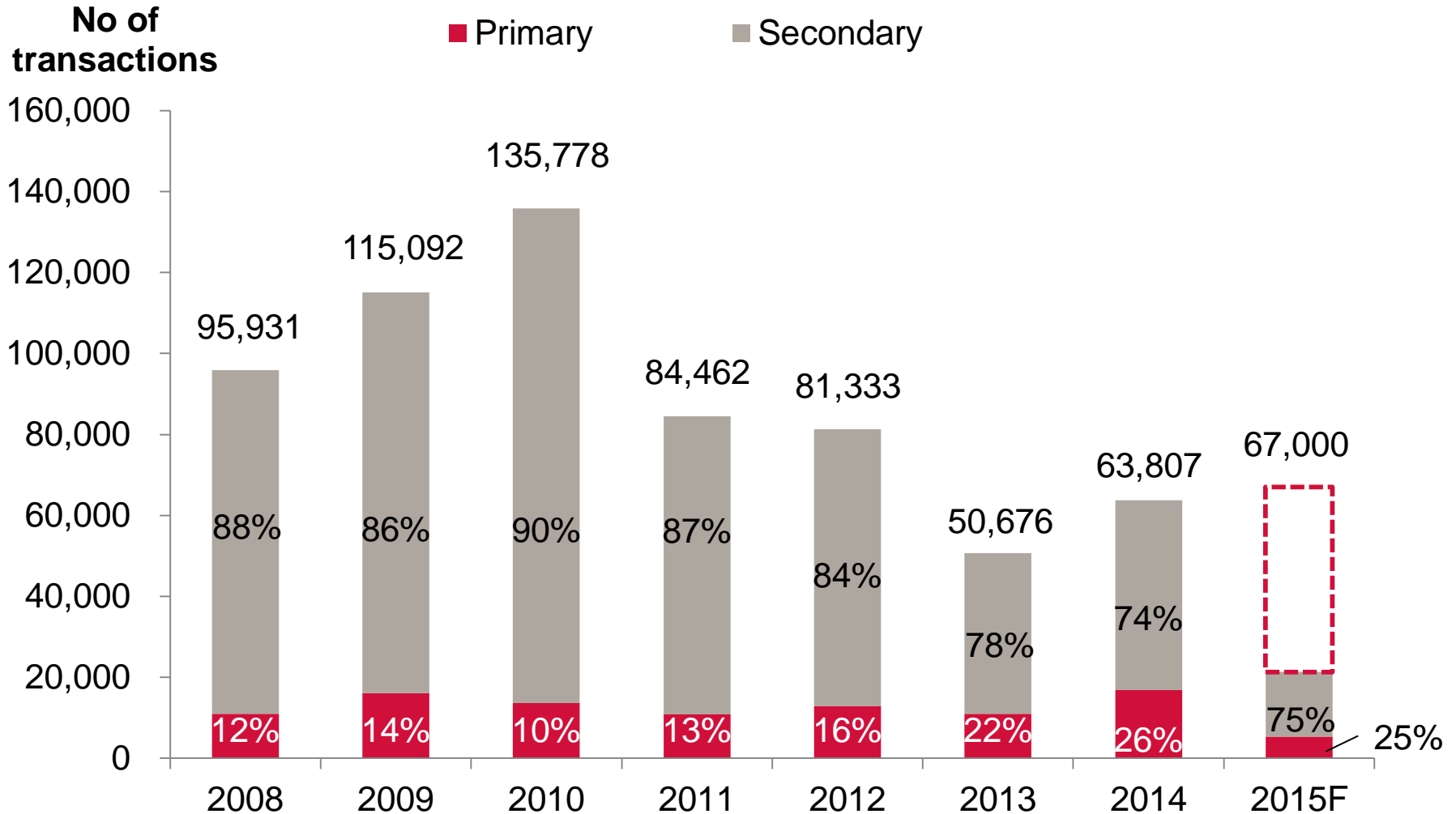
Index (Jan 2007 = 100)

—Luxury —Mass



In the first five months of 2015, luxury residential prices have increased by 1.4%, while mass residential price have increased by 7%.

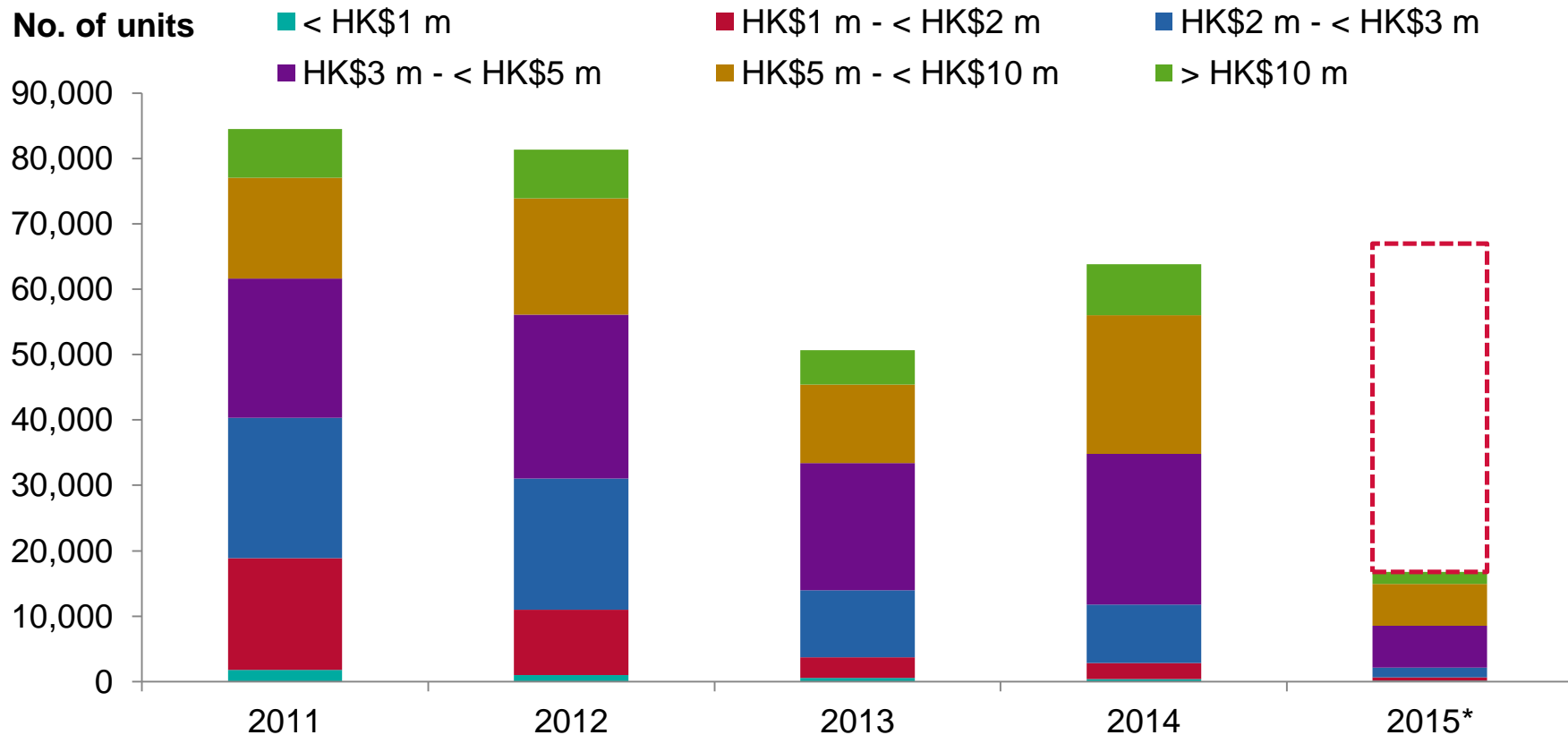
# PRIMARY & SECONDARY RESIDENTIAL SALES



\* 2015 figures until April

Source: Land Registry, Knight Frank

# SHARE OF RESIDENTIAL SALES TRANSACTIONS BY CONSIDERATION



|                  | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------|------|------|------|------|------|
| > HK\$10 million | 9%   | 9%   | 10%  | 12%  | 11%  |

\* As at 2015 Q1

Source: Land Registry, Knight Frank

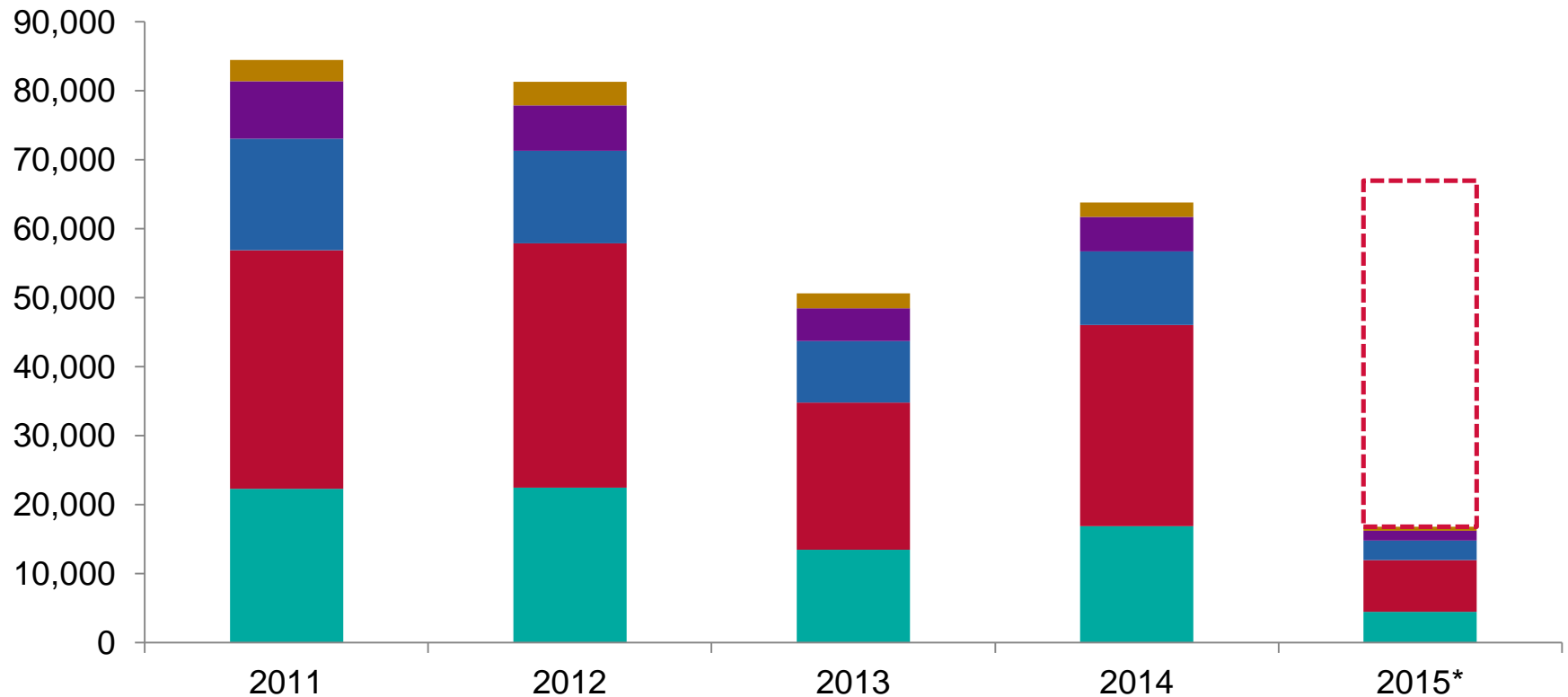


# DISTRIBUTION OF RESIDENTIAL SALES TRANSACTIONS BY FLAT SIZE



No. of units

■ <400 sq ft 
 ■ 401-600 sq ft 
 ■ 601-800 sq ft 
 ■ 801-1,200 sq ft 
 ■ >1,200 sq ft



|          | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------|------|------|------|------|------|
| < 600 ft | 67%  | 71%  | 69%  | 72%  | 71%  |

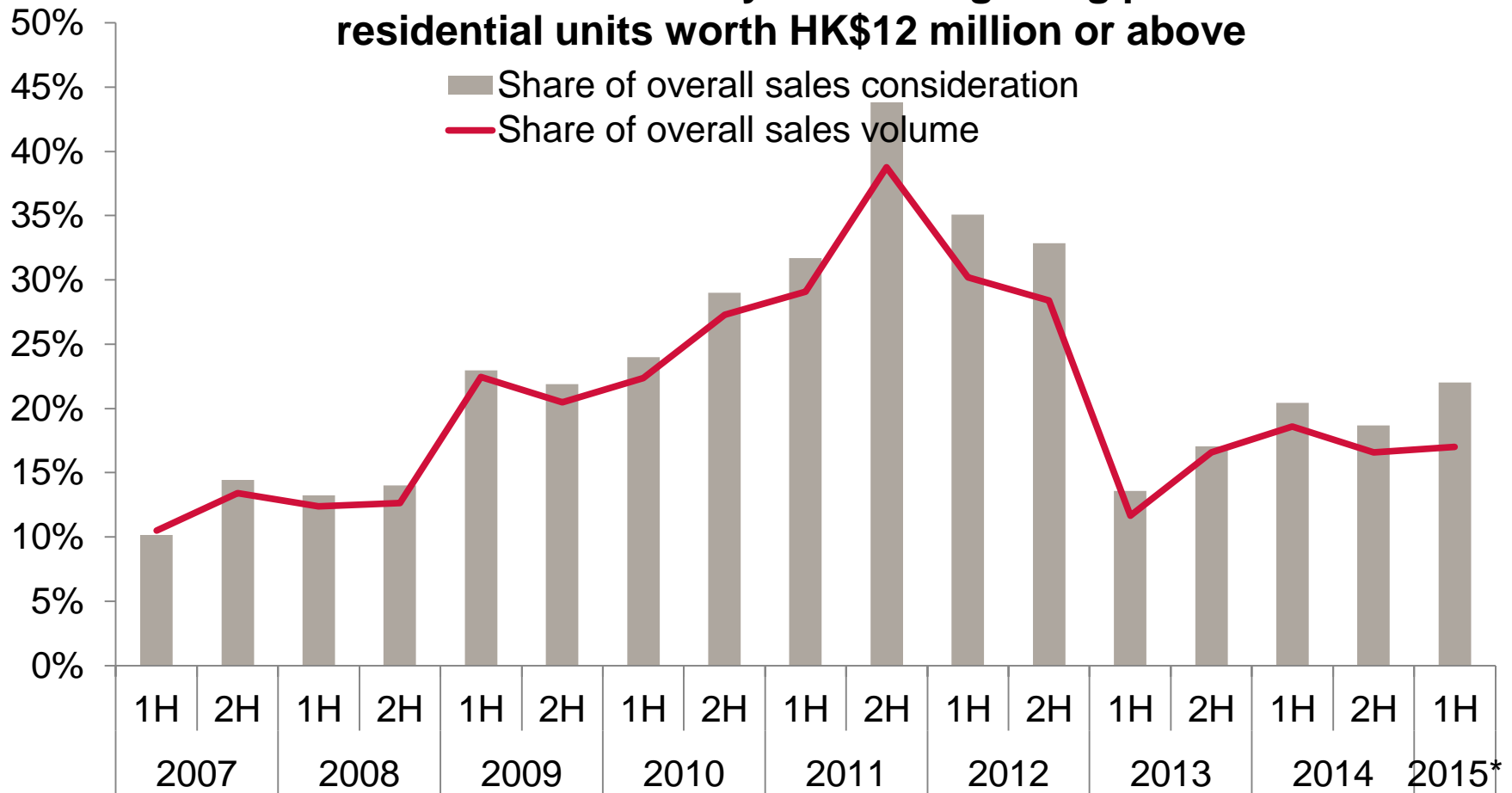
\* As at 2015 Q1

Source: MWPIC, Knight Frank

# SHARE OF MAINLAND BUYERS IN HK LUXURY RESIDENTIAL MARKET



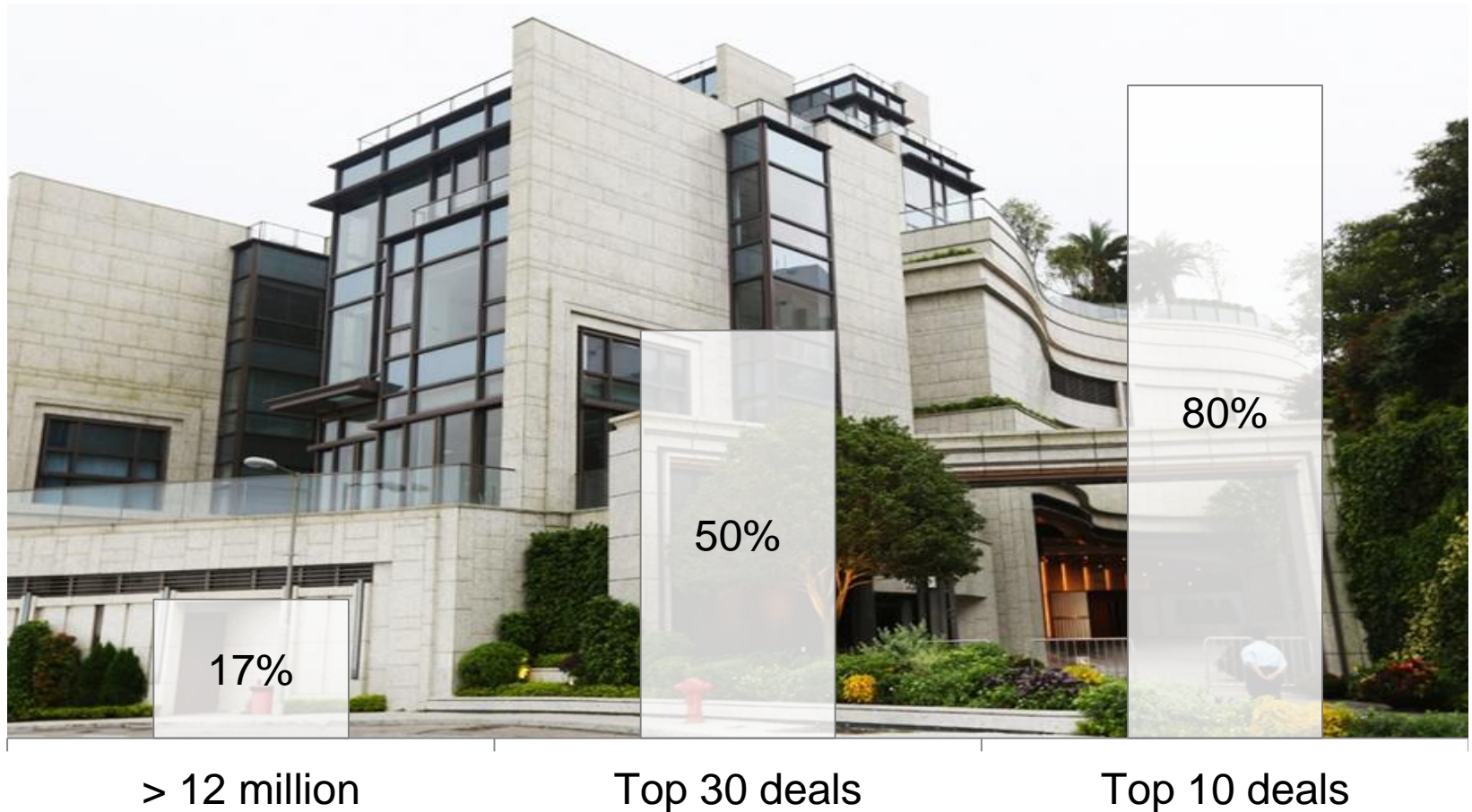
**Share of Mainland buyers of Hong Kong private residential units worth HK\$12 million or above**



Source: Public sources / Knight Frank

Note: Estimated figures

# SHARE OF MAINLAND BUYERS IN HK LUXURY RESIDENTIAL MARKET

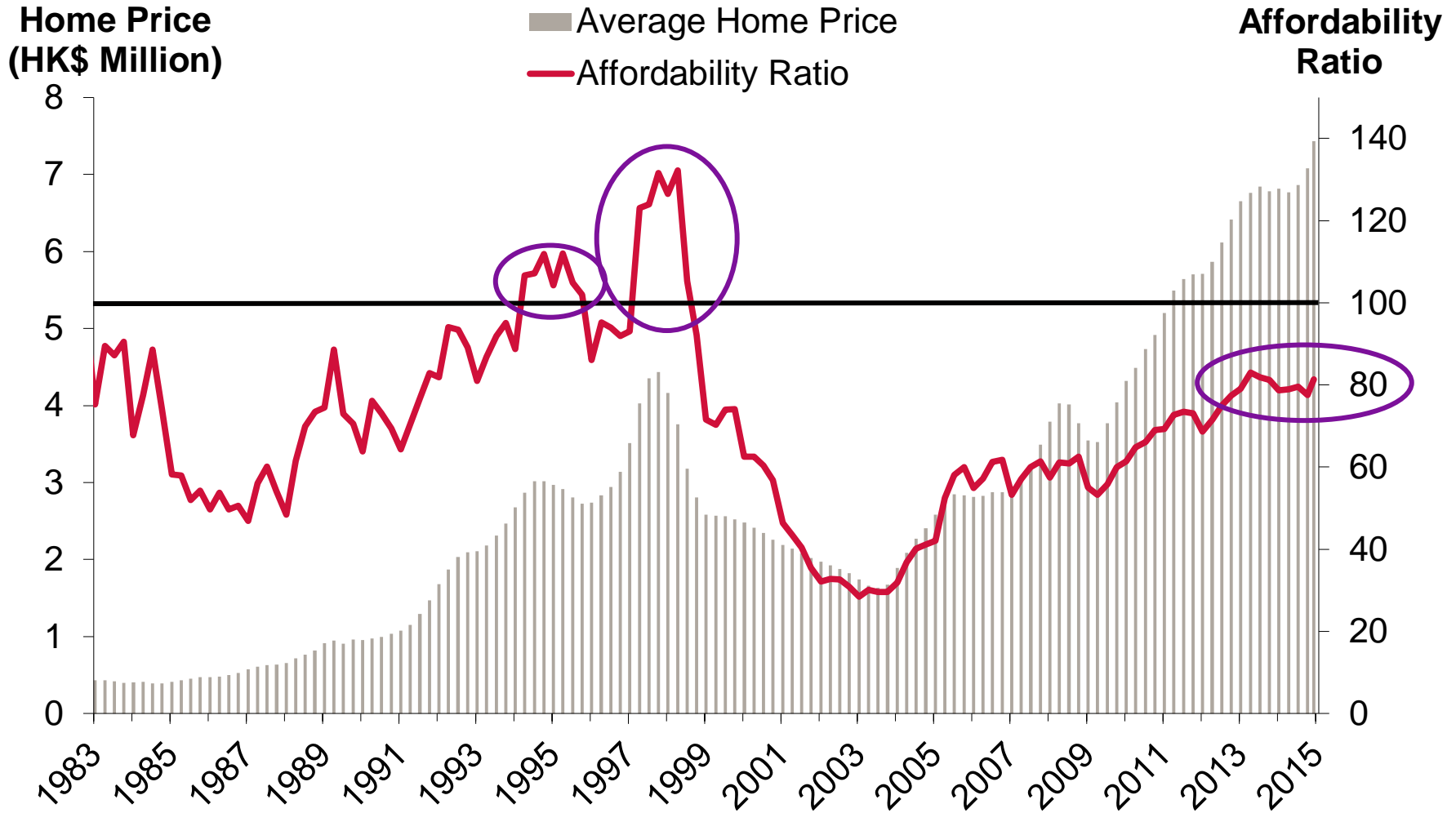


## Top deals by consideration

Note: % of luxury transactions in first 6 months of 2015

Source: Public sources / Knight Frank

# GENERAL AFFORDABILITY



Note: Affordability Ratio= monthly mortgage payment / average private household monthly income, assuming **20-year repayment period**

Source: Rating and Valuation Department / Knight Frank

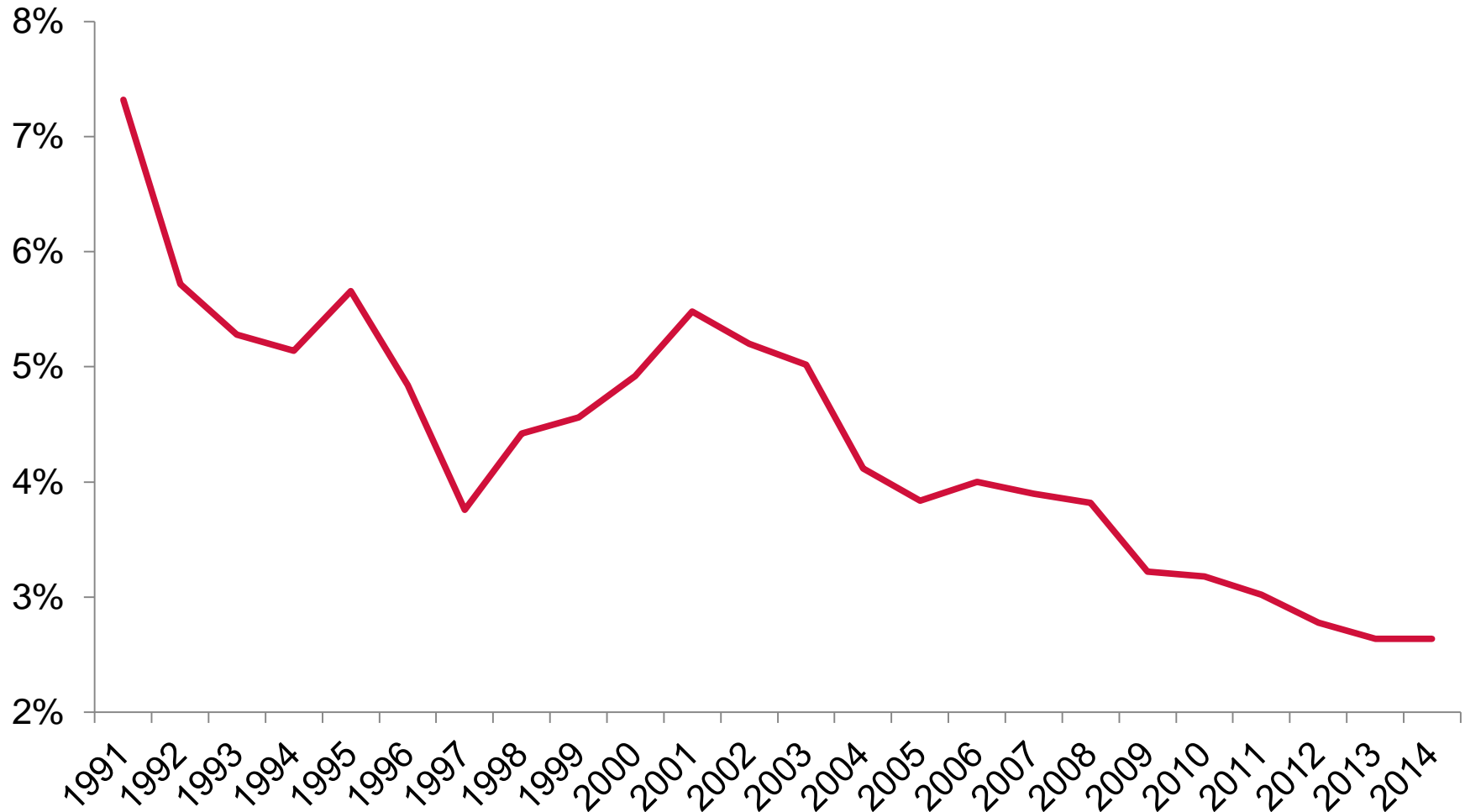
# IMPACT ON AFFORDABILITY IF MORTGAGE RATE CHANGES

| Mortgage rate changes            | Monthly repayment (for every HK\$1 million) | % increase from current level |
|----------------------------------|---|-------------------------------|
| + 0 bps<br>(2.5%, current level) | HK\$ 5,300                                  | -                             |
| +100 bps<br>(3.5%)               | HK\$ 5,800                                  | +10%                          |
| +200 bps<br>(4.5%)               | HK\$ 6,330                                  | +20%                          |
| +300 bps<br>(5.5%)               | HK\$ 6,880                                  | +30%                          |
| +400bps<br>(6.5%)                | HK\$ 7,460                                  | +40%                          |

**Note: Assume home price remains unchanged at current level and a 20-year repayment period**

Source: Knight Frank

# HONG KONG RESIDENTIAL YIELD UNDER PRESSURE

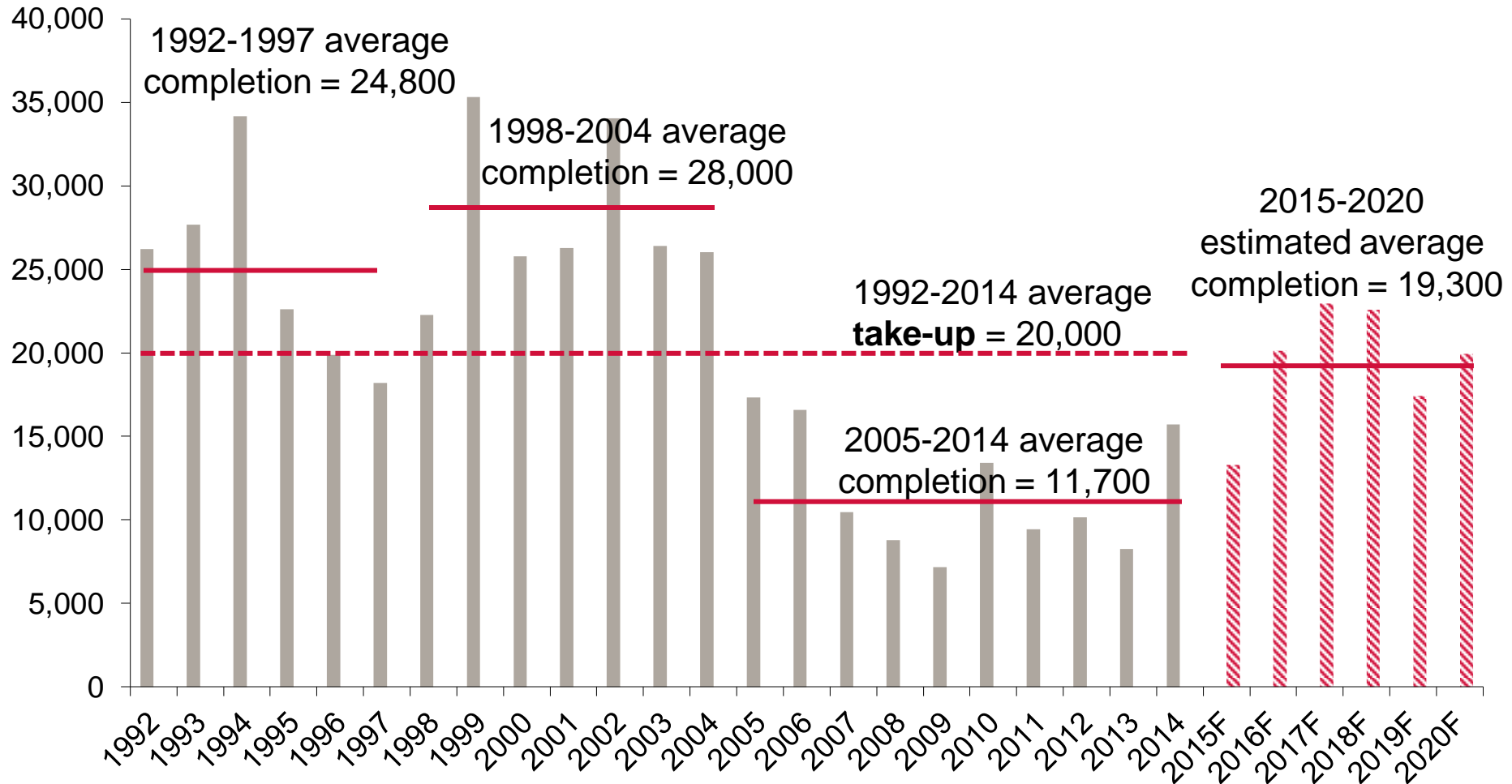


Source: Rating and Valuation Department / Knight Frank

# COMPLETION OF RESIDENTIAL UNITS IN HONG KONG



## No. of units





# ESTIMATED RESIDENTIAL COMPLETION FROM 2015 TO 2020



Source: Knight Frank, Public sources



# HONG KONG RESIDENTIAL PRICES AND RENTS OUTLOOK



| Property sector           | 2015 forecasts |
|---------------------------|----------------|
| Luxury residential prices | ↑ 2-5%         |
| Luxury residential rents  | ↑ 1-2%         |
| Mass residential prices   | ↑ 5-10%        |
| Mass residential rents    | ↑ 5-10%        |

Q & A



**Hong Kong**

4/F Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong  
Tel +852 2840 1177  
Fax +852 2840 0600

**Shanghai**

17/F Eco City  
1788 West Nanjing Road  
Jing'an District  
Shanghai 200040 PRC  
Tel +86 21 6032 1788  
Fax +86 21 6032 1799

**Beijing**

Suite 302, Tower E1, Oriental Plaza  
No 1 East Chang An Avenue  
Dong Cheng District  
Beijing 100738 PRC  
Tel +86 10 6113 8010  
Fax +86 10 8518 5755

**Guangzhou**

Unit 3306, Tower B, China Shine Plaza  
9 Linhe Xi Road  
Tianhe District  
Guangzhou 510610 PRC  
Tel +86 20 3877 1477  
Fax +86 20 3877 1470

**Macau**

Suite A, 16th Floor  
Edificio Great Will  
No 665 Avenida da Praia Grande  
Macau  
Tel +853 2838 9781  
Fax +853 2838 9782

**Taipei**

5/F, No 1 Songzhi Road  
Xinyi District  
Taipei City 110  
Taiwan (ROC)  
Tel +886 2 8729 8799  
Fax +886 2 8729 8788

**Disclaimer**

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank Research will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

**Copyright**

This document and the material contained in it is the property of Knight Frank Research and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank Research and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it. ©Knight Frank Research 2014.