RESEARCH

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HONG KONG LUXURY RESIDENTIAL

Monthly Report

Knight Frank 莱坊

SPECIAL STAMP DUTY COOLS MARKET

After the October policy address failed to cool the local residential market, the Hong Kong government announced more forceful measures to combat speculative activity. A Special Stamp Duty (SSD) is now levied on residential properties purchased on or after 20th November 2010 and resold within two years.

Given that the SSD is levied on top of the existing property-transaction stamp duty and taking into account other transaction costs including agency fees, a home worth HK$20 million that is resold within six months would have to appreciate by more than 26% in capital value to allow the seller to break even. This means that short-term trading of Hong Kong residential properties could now be loss-making and carry substantial risks.

Table 1
Stamp duty rates under new measures

Holding period	Residential property consideration (HK$ million)					
	≤$2	>$2 to ≤$3	>$3 to ≤$4	>$4 to ≤$6	>$6 to ≤$20	>$20
≤6 months	$100 + 15%	1.5% + 15%	2.25% + 15%	3% + 15%	3.75% + 15%	4.25% + 15%
>6 to ≤12 months	$100 + 10%	1.5% + 10%	2.25% + 10%	3% + 10%	3.75% + 10%	4.25% + 10%
>12 to ≤24 months	$100 + 5%	1.5% + 5%	2.25% + 5%	3% + 5%	3.75% + 5%	4.25% + 5%
>24 months	$100	1.5%	2.25%	3%	3.75%	4.25%

Source: Transport and Housing Bureau / Knight Frank
Note: The existing property transaction stamp duty is in black, while the Special Stamp Duty effective from 20th November 2010 is highlighted in red.

The heavy levy on short-term transactions swiftly cooled the market and transaction volume plunged towards the end of November. Some homebuyers who had signed provisional agreements for sale and purchase (S&P), but had yet to sign official S&P agreements, forfeited their deposits and withdrew from the transactions, souring market sentiment. Attention-grabbing cases included a unit in CityOne Shatin, which was sold at a loss of 6.3% and a unit in The Belcher's in Mid-Levels West, which was sold at a loss of 7.1%.

Under the new rules, Hong Kong residential properties have become a far less "liquid" investment class and the latest measures would have significant implications on the local property market. Not only would the new measures deter short-term investors, but they would also create additional uncertainties for all potential homebuyers. Even end-users would be more cautious when buying residential properties.

We believe the government would not relax the latest tightening measures unless the economic factors currently supporting property price values—including low interest rates, abundant liquidity and limited supply—change. Given that Hong Kong has no autonomy in its monetary policy under the linked exchange-rate system and housing supply—by nature—is not flexible enough to meet demand, the SSD may become a long-term policy tool for the Hong Kong government to fine-tune the property market. The authorities would implement the levy whenever the housing market is overheated and remove it when the market enters a downturn.

We believe the SSD would stay in place through 2011 and with short-term trading of housing units having been practically eliminated from the market, transaction volume is expected to drop about 35% in 2011 compared with this year. The average home price is expected to fall 5-8% by the first quarter of 2011 before stabilising.

Low interest rates, however, are expected to be sustained and in many mass-residential estates, mortgage payments would remain lower than rental payments. Prices, therefore, are unlikely to drop markedly and prices should continue their uptrend after a short-term correction. Previously, we forecasted that Hong Kong home prices would rise 12% in 2011, but with the introduction of the SSD, we believe price growth would slow. The average home price is now projected to grow 5-7% in 2011, with luxury residential properties likely to outperform mass residential properties.

Luxury residential report

The low-interest-rate environment is expected to be sustained, lending support to the residential market.

Table 2

Economic indicators and forecasts

Economic indicator	Period	Latest reading	2008	2009	2010 forecast
GDP growth	Q3 2010	+6.8%#	+2.1%	-2.7%	+4.5%
Inflation rate	October 2010	+2.6%	+4.3%	+0.5%	+1.5%
Unemployment	Three months to October 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 fell slightly (by 0.8%) in November, compared with the previous month.

Table 3

Luxury residential market indicators—November 2010

District	Rent	Change			Price	Change		
	HK$psf/ mth	From Oct 10	From Aug 10	From Nov 09	HK$psf	From Oct 10	From Aug 10	From Nov 09
The Peak	59.1	0.9%	1.4%	13.0%	21,631	-4.4%	-3.5%	6.1%
Mid-Levels	47.2	2.5%	4.1%	15.8%	18,154	-0.1%	2.0%	23.0%
Pokfulam	31.0	1.6%	2.5%	14.0%	16,921	-0.4%	-0.2%	17.4%
Jardine's Lookout & Happy Valley	40.5	2.3%	2.7%	9.4%	16,778	0.6%	3.8%	19.3%
Island South	46.7	-1.3%	-1.4%	12.7%	21,968	1.9%	2.8%	26.6%

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

The expanding corporate sector continued to support the luxury home leasing market, with demand for expatriate housing increasing.

Table 4
Selected luxury residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK$/mth)	Rent (HK$psf/mth)
The Peak	Coombe Road	House	4,436	$346,000	$78.0
Island South	37 Tung Tan Wan Road	House	3,200	$190,000	$59.4
The Peak	Peak Gardens	Top floor	2,654	$140,000	$52.8
The Peak	The Mount Austin	Tower 5 / low floor / unit B	1,103	$56,000	$50.8
Mid-Levels Central	Aigburth	Mid floor / unit B	2,980	$150,000	$50.3
Island South	4 Headland Road	Low floor unit	3,586	$170,000	$47.4
Mid-Levels Central	80 Robinson Road	Tower 2 / high floor / unit 2	1,385	$64,000	$46.1

Source: Knight Frank

A number of major luxury home sales transactions were recorded before the implementation of the Special Stamp Duty.

Table 5
Selected luxury residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK$M)	Price (HK$psf)
Tsim Sha Tsui	The Arch	Sun Tower / 78/F / unit B	2,316	$68	$29,361
Repulse Bay	Belleview Place	House 6	3,206	$90	$28,072
Tsim Sha Tsui	The HarbourSide	Tower 2 / 60/F / unit B	1,466	$39.2	$26,739
Repulse Bay	Manderly Garden	House 13	3,504	$83.8	$23,916
Happy Valley	Leighton Hill	Tower 1 / 7/F / unit A	1,438	$32.13	$22,344
Tsim Sha Tsui	The Cullinan I - Star Sky	52/F / unit C	712	$15.38	$21,601
Repulse Bay	Belgravia	2/F / unit B	2,790	$59	$21,147

Source: Economic Property Research Centre

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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

Xavier Wong
Director, Head of Research
Research Department
T: (+852) 2846 4819
E: xavier.wong@hk.knightfrank.com

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