



NOVEMBER 2011

# HONG KONG LUXURY RESIDENTIAL

Monthly Report

**Knight Frank 萊坊**

## PRIMARY MARKET TAKES THE LEAD

Although the mid-October release of Hong Kong's 2011-12 Policy Address cleared some uncertainties in the local residential property market, sentiment remained weak last month, due to the global economic turmoil. International rating agencies lowered Spain's credit rating and the sovereign debt crisis in Greece remains unsolved. Potential homebuyers, fearful of an economic downturn, were reluctant to purchase flats. Meanwhile, credit-tightening measures implemented by local and Mainland banks made it more difficult for homebuyers to obtain mortgage loans. As a result, residential sales volume dropped 3.7% in October month on month, reaching its lowest level since February 2009, according to the Land Registry. Only 268 luxury flats worth HK\$10 million or above were sold in October, a drop of 15.2% month on month.

Amid the poor market sentiment, homeowners of mass residential units became more willing to lower their asking prices, resulting in a dip in home prices for this sector. For example, a high-floor flat at Tsuen King Garden in Tsuen Wan was transacted at HK\$2.83 million, 9% lower than the asking price, while a 482-sq-ft, high-floor unit at Greenery Plaza in Tsing Yi was sold for HK\$2.51 million, 12.8% lower than its asking price. Overall, mass residential prices dropped about 2% in October.

However, luxury residential prices dipped a mere 0.5% last month, as only individual local and Mainland homeowners running short of cash in the volatile stock market were willing to sell at discounts. For example, one Mainland owner of two houses at Valais in Sheung Shui reportedly sold one of them at HK\$18.5 million, HK\$2.16 million below the acquisition price. Meanwhile, a 2,312-sq-ft flat at 15 Ho Man Tin Hill Road was reportedly transacted at HK\$74 million, about 5% lower than the previous asking price of HK\$78 million.

The primary market performed relatively well in October, with newly launched projects receiving fairly positive feedback. According to the developer of The Wings in Tseung Kwan O, 40 units were sold in the first three hours of launch. A five-bedroom duplex named Luminous Sky Pool Mansion on the top floors of Tower 3 of The Wings named Luna Diamond was sold at HK\$20,000 per sq ft, the highest price ever achieved in Tseung Kwan O. In Kowloon Tong, a special unit in One May Fair with a podium and a garden reportedly changed hands at HK\$30,000 per sq ft, breaking the per-sq-ft price record for apartments in that district.

On the leasing front, landlords were willing to negotiate on their asking rents, but the take-up rate remained slow during the traditional low season. Luxury rents fell by a faster rate of 1.9% last month, compared with 0.7% in September. Pokfulam witnessed the largest drop of 1.9%, followed by the Peak and Mid-Levels where rents dropped 1.6% and 1.4% respectively. Meanwhile, rents in Island South and Jardine's Lookout / Happy Valley declined by 1.3% and 0.4% respectively.

Looking forward, the performance of Hong Kong's residential property market will largely hinge on the global economy. Adverse effects of Europe's sovereign debt crisis have started to emerge, reflected by a 3.0% year-on-year decline in total exports from Hong Kong in September—the first drop in two years. Uncertainties in the global economy will keep the volume of property transactions in Hong Kong at low levels by the end of the year. We believe further corrections in home prices will be mild, unless the Europe's sovereign debt crisis severely worsens. Luxury residential leasing activity will remain slow and rents may continue to drop until the next peak season.

The Policy Address proposed increasing residential land supply by reclaiming land outside Victoria Harbour, relocating existing public facilities and changing the usage of unused industrial and farm land. The government will also launch a new Home Ownership Scheme (HOS) and supply land with restrictions on the minimum numbers and maximum sizes of flats. We believe such policies will improve the problem of undersupply in the residential market in the long run, but the shortage of home supply will not be resolved in the short term. Meanwhile, the government's proposal of regulating first-hand flat sales by use of legislation—enforcing regulatory requirements on sales brochures, price lists, floor-area information, show flats, transaction information and sales arrangements as well as enforcing penalties and implementing an enforcement mechanism, could improve transparency in the market, which we believe will benefit the market and facilitate market transactions in the long term.



## Luxury residential report

**Adverse effects of Europe's sovereign debt crisis have started to emerge, reflected by a 3.0% year-on-year decline in total exports from Hong Kong in September.**

Table 1 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	September 2011	+5.8%	+0.5%	+2.4%	+5.4%
Unemployment	Three months to September 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

**Rents of quality flats remained stable despite the traditional low season.**

Table 2 Selected luxury residential leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Rent (HK\$/mth)	Rent (HK\$/psf/mth)
Island South	Belgravia	High floor / unit B	2,790	\$170,000	\$60.9
The Peak	1 Plantation Road	Mid floor / unit B	1,768	\$105,000	\$59.4
Island South	10 Headland Road	Mid floor	3,232	\$190,000	\$58.8
The Peak	Interocean Court	Low floor	3,844	\$225,000	\$58.5
Pokfulam	Magnolia Villas	House	4,608	\$268,500	\$58.3
Mid-Levels	11 MacDonnell Road	High floor	2,352	\$134,400	\$57.1
Mid-Levels	Grenville House	Penthouse	3,700	\$205,000	\$55.4

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



**In October, transactions of luxury flats worth HK\$10 million or above dropped 15.2% 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	Winfield Building	Block B / 6 <sup>th</sup> floor / unit 2	1,940	\$38	\$19,588
Tsim Sha Tsui	The Arch	Block 2 / 22 <sup>nd</sup> floor / unit F	558	\$10	\$17,921
Tsim Sha Tsui	The Harbourside	Tower 3 / 50 <sup>th</sup> floor / unit E	1,034	\$17.5	\$16,925
Island South	Repluse Bay Garden	Block 1 / 11 <sup>th</sup> floor	2,288	\$37.3	\$16,302
Pokfulam	The Belcher's	Phase 2 / 56 <sup>th</sup> floor / unit H	1,444	\$22	\$15,235
Wan Chai	1 Star Street	38 <sup>th</sup> floor / unit B	410	\$6.2	\$15,122
Tsim Sha Tsui	Sorrento	Tower 3 / 27 <sup>th</sup> floor / unit B	848	\$12.8	\$15,094

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

**Last month, luxury residential rents and prices edged down 1.9% and 0.5%, respectively.**

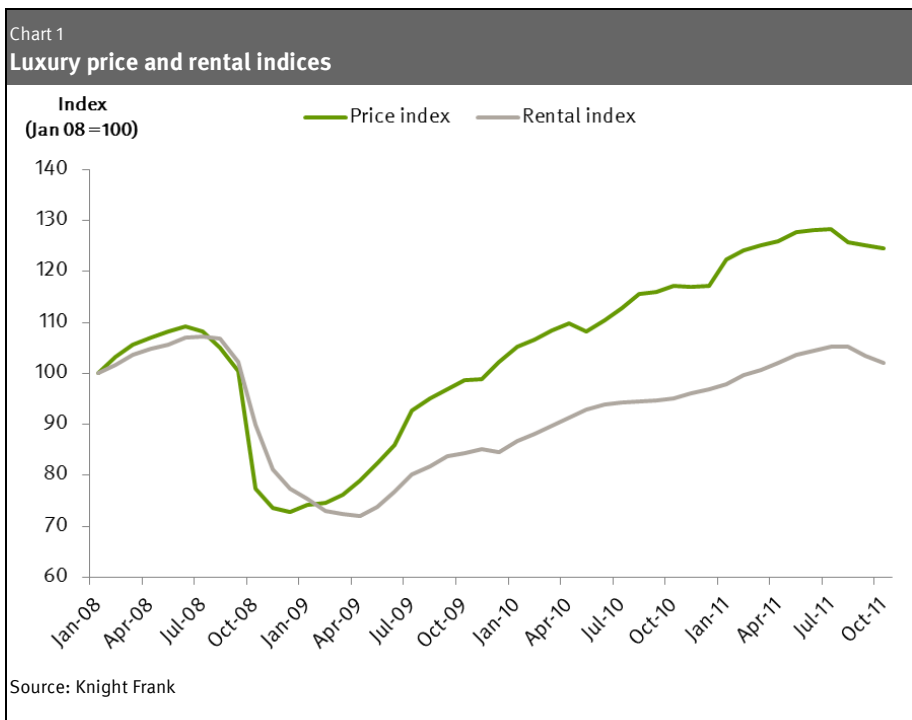
Table 4  
**Luxury residential market indicators—October 2011**

District	Rent	Change			Price	Change		
	HK\$psf/mth	From Sep 11	From Jul 11	From Oct 10	HK\$psf	From Sep 11	From Jul 11	From Oct 10
The Peak	65.6	-1.6%	-1.6%	12.2%	23,667	0.0%	-2.4%	4.6%
Mid-Levels	49.3	-1.4%	-3.6%	7.0%	19,950	-0.5%	-2.3%	9.7%
Pokfulam	32.9	-1.9%	-3.1%	7.9%	16,930	0.5%	-4.8%	-0.4%
Jardine's Lookout & Happy Valley	41.5	-0.4%	-3.7%	4.9%	18,318	-0.2%	-2.3%	9.9%
Island South	48.9	-1.3%	-3.3%	3.3%	23,243	-1.5%	-3.3%	7.8%

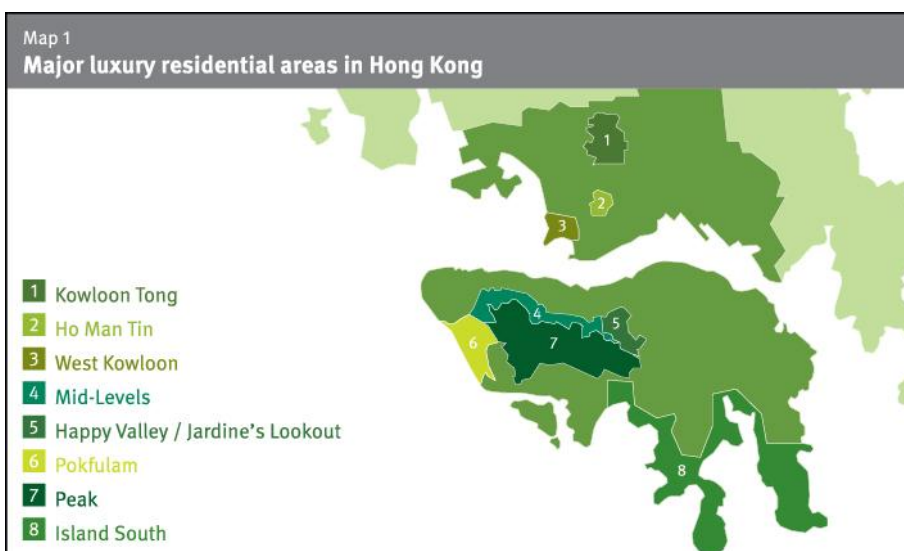
Source: Knight Frank  
Rents and prices are subject to revision.



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



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



# RESEARCH

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