Savills World Research
Hong Kong

Asian Cities Report
Hong Kong Residential

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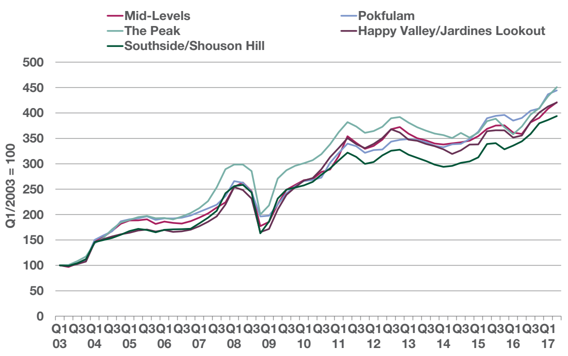
GRAPH 1

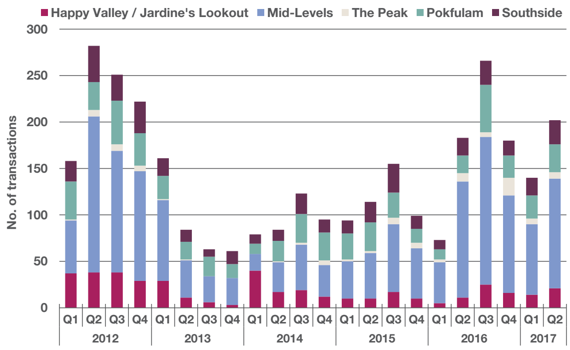
Luxury apartment price indices by district on Hong Kong Island, Q1/2003–Q2/2017



Source: Savills Research & Consultancy

GRAPH 2

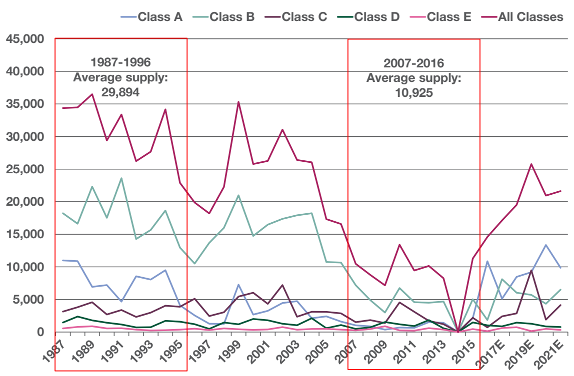
Luxury transaction volumes by district on Hong Kong Island, Q1/2012–Q2/2017



Source: EPRC, Savills Research & Consultancy

GRAPH 3

Residential supply (all classes), 1987–2021E



Source: Savills Research & Consultancy

Sales

Several critical factors continue to propel Hong Kong's residential market forwards including negative real interest rates, a buoyant Hang Seng Index, limited availability of stock and ample liquidity alongside attractive mortgage packages offered by banks. Volumes in the luxury (1,000 sq ft plus) bracket have picked up over the past quarter in both Hong Kong Island and Kowloon partly due to new project launches but equally to an active secondary market. Across the market as a whole, however, volumes are being supported by primary launches of units below 430 sq ft (Class A) in the New Territories, usually financed by the developer. Such recent launches of Class A units have included Eden Manor in Fanling (624 Class A units from HK$15,543 to HK$19,013 per sq ft), Eight Regency in Tuen Mun (221 Class A units from HK$15,968 to HK$17,103 per sq ft) and COO Residence in Tuen Mun (204 Class A units from HK$14,537 to HK$19,940 per sq ft).

By most metrics the Hong Kong residential market is the world's most expensive as luxury apartments in core areas command prices of HK$20,000 to HK$25,000 per sq ft. Yields have also hardened considerably, following the cost of capital to record lows. Luxury apartment yields currently stand at around 2.3% on average (Deposit Rate: 0.01%. Mortgage Rate: 2.15%). Government has not been blind to the situation and a slew of measures have been introduced over recent years all aimed at cooling price appreciation and protecting local affordability. Relevant recent legislation includes:

Sellers' Stamp Duty (SSD)

- Applicable to all buyers, including companies and private individuals

- SSD must be paid within 30 days of purchase of any residential property acquired on or after 20 November 2010 and resold within 24 months (if the property was acquired between 20 November 2010 and 26 October 2012) or 36 months (if the property was acquired on or after 27 October 2012)

Buyers' Stamp Duty (BSD)

- Applicable to all corporate buyers and private individuals who are not Hong Kong permanent residents

- BSD (15% of the property's value) must be paid within 30 days of purchase of any residential property acquired on or after 27 October 2012

Ad Valorem Stamp Duty (AVD)

- Applicable to all buyers except Hong Kong permanent residents who do not own any other residential property in Hong Kong at the time of acquisition

- All the stamp duty is charged on a sale and purchase agreement, instead of the current practice of charging it when a conveyance on sale of non-residential property is executed

In Hong Kong, as elsewhere where similar measures have been implemented, volumes have fallen sharply while price growth has only slowed. By increasing the costs associated with buying and selling, government has made it prohibitively expensive to move, while mortgage restrictions placed on banks has made financing much harder to come by in the secondary market. This sluggishness looks likely to continue while the measures remain in place.

Until recently, government has been focused on demand-side measures providing a 'short term fix' without addressing the underlying issue of supply. The reality is that completions of new apartments over the past few years has been woefully inadequate and it is highly unlikely that sufficient numbers of units will come to the market over the next five years to meet anticipated housing demand. With this in mind, the new administration of Chief Executive Carrie Lam has set up a taskforce to find ways of increasing land supply and solving the housing crisis. The taskforce has been asked for 12 ways to meet the stated government target of 460,000 new flats by 2027 and possible solutions include developing the fringes of country parks, reclamation beyond Victoria Harbour and better utilizing developers' land banks. We will see if this initiative comes to anything as so many before it have floundered.

The townhouse market has not been as active as the apartment market recently, but we have still seen transactions in both the primary and secondary segments: Mount Nicholson remains a highlight of the luxury primary market with another house sold for HK$663.88 million (HK$82,809 per sq ft saleable) while a house in Shouson Peak nearby was sold first hand for HK$376.888 million (HK$88,952 per sq ft saleable). Though there have not been many new launches of houses recently, there were two separate house / site transactions recorded in Kowloon Tong over the quarter; 12 Stafford Road (HK$220 million) and 6 Cambridge Road (HK$152 million).

Looking ahead, there are plenty of reasons to be concerned; record high prices; poor affordability (measured by the ratio of average prices to household incomes); and the prospect of higher supply levels alongside elevated interest rates over the next few years. So will we see a property price correction of a similar scale to the Asian Financial Crisis and the subsequent 1997 to 2003 period? Despite the parallels, other areas of the market still look quite robust; real interest rates remain in negative territory, gearing levels are conservative, supply levels will remain constrained for many years, liquidity is plentiful and even the banks have been hardened to better resist any future credit crisis. Government has also introduced measures to discourage overseas buying, contain rising prices, moderate lending and curtail the speculative excesses of the past.

Based on the fundamentals then, it is difficult to make a case for a sudden, sharp correction in values. A greater likelihood is that values will soon peak as we complete a 9th year of price rises followed by a period of relative stability. As for a crash, in the past those have been brought about by events beyond Hong Kong and by weaknesses which few saw or predicted.

Leasing

In the high end residential leasing market, low supply levels and sustained demand from the likes of securities, property and PRC asset management firms are the main factors behind the rise in Hong Kong Island rents during the most recent quarter.

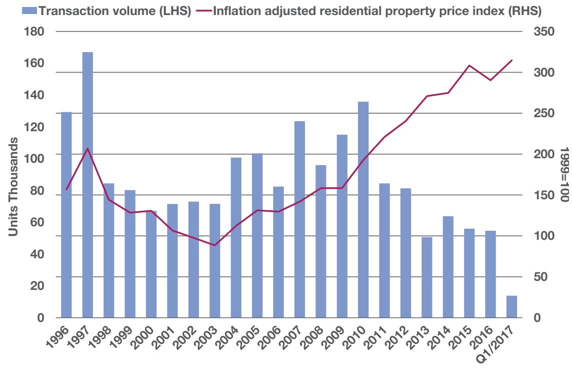
Luxury apartment rents rose across all districts in Q2/2017, with rents in Hong Kong Island, Kowloon and the New Territories up by 1.7%, 3.3% and 1.4% respectively over the quarter. Townhouse rents continued to flounder, falling by 1.5%, while we saw the rebound in serviced apartment rents which began in Q1/2017 continue, with rents up by 2.5% in Q2/2017.

In contrast to the apartment sector, townhouses had a relatively weak quarter and Peak and Southside townhouse rents fell by 0.7% and 1.9% respectively in Q2/2017. Despite limited supply and high rates of owner-occupation, townhouses are facing stiff competition from new apartments. Owners of un-renovated townhouses need to cut rents to remain competitive given the availability of newer larger units of 2,000 sq ft plus with ample facilities.

More tenants are being forced off Hong Kong Island by rising costs and moving to areas such as Discovery Bay, Shatin, Sai Kung, Tai Po and Tung Chung. On Hong Kong Island itself, fringe locations beyond the traditional luxury enclaves are attracting more attention. Looking ahead, the high end market is very reliant on the business environment and is being increasingly driven by local and PRC tenants rather than European or North American expats. This situation looks likely to persist. Many more locals are renting as they wait for prices to become more affordable while PRC staff will continue to enter the market as the mainland extends its presence in Hong Kong. The outlook for rents is therefore for continuing steady growth over the coming quarters, driven largely by a chronic lack of available stock.

GRAPH 4

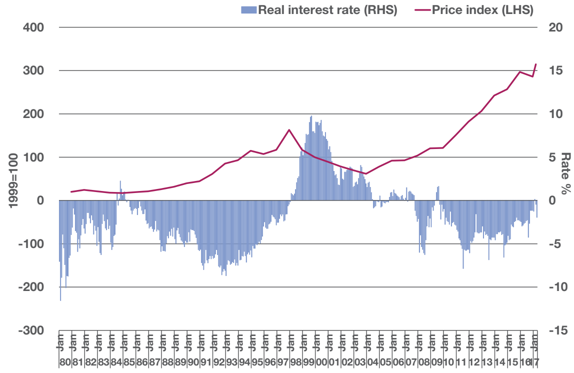
Total no. of sales agreements vs price index, 1996–Q1/2017



Source: Lands Department, Rating and Valuation Department, Savills Research & Consultancy

GRAPH 5

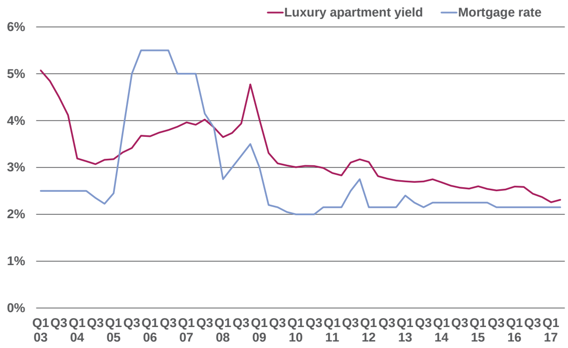
Real interest rate vs price index, 1980–Q1/2017



Source: Rating and Valuation Department, HKMA

GRAPH 6

Luxury apartment yields vs mortgage rate, Q1/2003–Q2/2017



Source: HSBC, Savills Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

ASIA PACIFIC EXECUTIVE COMMITTEE

CEO, Greater China
Contact: Raymond Lee E-mail: rlee@savills.com.hk

Executive Chairman, Asia Pacific
Contact: Robert McKellar E-mail: rmckellar@savills.asia

CEO, South East Asia
Contact: Christopher Marriott E-mail: cjmarriott@savills.asia

CEO, Asia Pacific (Ex Greater China)
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

COO & CFO, Asia Pacific
Contact: Tim Robinson E-mail: tbrobinson@savills.asia

CEO, Australia & New Zealand
Contact: Paul Craig E-mail: pcraig@savills.com.au

HONG KONG SAR

Savills (Hong Kong) Limited
23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 3007 2458
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited
23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2840 4806 Fax: (852) 3007 4523
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited
805-13 Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1688 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002993

Savills Guardian (Holdings) Limited
7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau
Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark,
555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai
25/F Two ICC, 288 South Shaanxi Road,
Shanghai 200031, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Siu Wing Chu
E-mail: siuwing.chu@savills.com.cn

Savills - Beijing
2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District, Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: billy.chau@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Nanjing, Qingdao, Shenyang, Shenzhen, Tianjin, Xiamen, Xi'an and Zhuhai

ASIA

Savills - Indonesia
PT Savills Consultants Indonesia
Panin Tower – Senayan City, 16th Floor, Unit C
Jl. Asia Afrika Lot. 19, Jakarta 10270, Indonesia
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81
Contact: Craig Williams Email: craig.williams@savills.co.id

Savills - Japan
Savills Japan Co., Ltd
15/F Yurakucho ITOCiA , 2-7-1 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: (81) 03 6777 5150 Fax: (81) 3 6777 5105
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea
Savills Korea
13/F Seoul Finance Center, 136 Sejong-daero
Jung-gu, Seoul 04520, Korea
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia
Savills (Malaysia) Sdn Bhd
Level 9, Menara Milenium, Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur, Malaysia
Tel:+603 2092 5955
Contact: Christopher Boyd
Email: chris.boyd@savills.com.my

Savills - Singapore
Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Christopher Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan
Savills (Taiwan) Limited
21/F Cathay Landmark, No.68, Sec. 5, Zhongxiao E. Road
Xinyi District, Taipei City 110, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand
Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: rcollins@savills.co.th

Savills - Vietnam
Savills Vietnam Ltd. Co.
18/F, Ruby Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 28 3823 9205 Fax: (84) 28 3823 4571
Contact: Neil MacGregor
E-mail: nmacgregor@savills.com.vn
Offices in Danang, Hanoi and Ho Chi Minh City

INDIA

Savills - Bangalore
31/16 Loyola Layout, Victoria Road, Bangalore 560047 India
Tel: (91) 95351 29604
Contact: Bryan Kidd Email : bkidd@savills.in
Offices in Gurgaon and Mumbai

AUSTRALIA

Savills - Sydney
Savills (Aust) Pty Ltd.
Level 25, 1 Farrer Place, Sydney, Australia NSW 2000
Tel: (61) 2 8215 8830 Fax: (61) 2 8215 8899
Contact: Simon Fenn E-mail: sfenn@savills.com.au

Savills - Melbourne
Level 48, 80 Collins Street, Melbourne VIC 3000
Tel: (61) 3 8686 8000 Fax: (61) 3 8686 8088
Contact: Stuart Fox E-mail: sfox@savills.com.au
Offices in Adelaide, Brisbane, Canberra, Gold Coast, Notting Hill, Parramatta, Perth and Sunshine Coast

NEW ZEALAND

Savills - New Zealand
Level 6, 41 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5911
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz
Offices in Auckland and Christchurch

THE AMERICAS

Savills – New York
Savills Studley, 399 Park Avenue, 11th Floor,
New York, NY 10022
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034
Contact: Mitchell Steir
E-mail: msteir@savills-studley.com
Offices across Canada, the Caribbean, Colombia, Mexico and the United States

UNITED KINGDOM, EUROPE, THE MIDDLE EAST AND AFRICA

Savills - Europe
Savills, 33 Margaret Street, London W1G 0JD
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Mark Ridley E-mail: mridley@savills.com
Offices across Austria, Bahrain, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Guernsey, Hungary, Ireland, Italy, Jersey, Luxembourg, Monaco, Netherlands, Norway, Poland, Portugal, Qatar, Russia, South Africa, Spain, Sweden, Switzerland, UAE and the United Kingdom

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