

Briefing Residential sales

February 2016



Image: Royal Oaks, Sheung Shui

SUMMARY

Weak market sentiment dampened developers' desire to launch new luxury projects.

- Stock market volatility and the interest rate rise in the US dampened investment sentiment, with few noticeable luxury transactions
- Luxury sector transaction volumes declined due to the lack of significant new launches in Q4/2015
- Luxury sector prices remained broadly steady, with luxury apartment prices on Hong Kong Island and Kowloon recording some mild declines
- The increase in future supply put further pressure on developers' pricing of primary launches
- While primary sales rebounded after the quiet summer months, secondary sales declined further, and total transaction volumes of 10,000 in Q4 reached a post-2002 low
- Luxury residential prices are on course to decline by 15% this year, with little positive news to report

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 "Given the weak market sentiment, developers were slow in launching new luxury projects in Q4/2015, with both prices and volumes declining as a result." Simon Smith, Savills Research

→ Hong Kong Island residential sales market

A turbulent stock market, as well as an interest rate rise in the US, weakened investment sentiment in the luxury residential sales market, with very few noticeable deals being done at the top end. Two houses at 28 Barker Road on the Peak were sold in quick succession for HK\$698 million and HK\$542 million (each around HK\$100,000 per sq ft saleable). Both were sold to purchasers from mainland China. Another significant transaction came from the apartment market, where a high-floor duplex at 39 Conduit Road in Mid-Levels was sold for HK\$594 million; at an average price

of HK\$103,762 per sq ft saleable, this was the highest average apartment price achieved in Hong Kong and Asia.

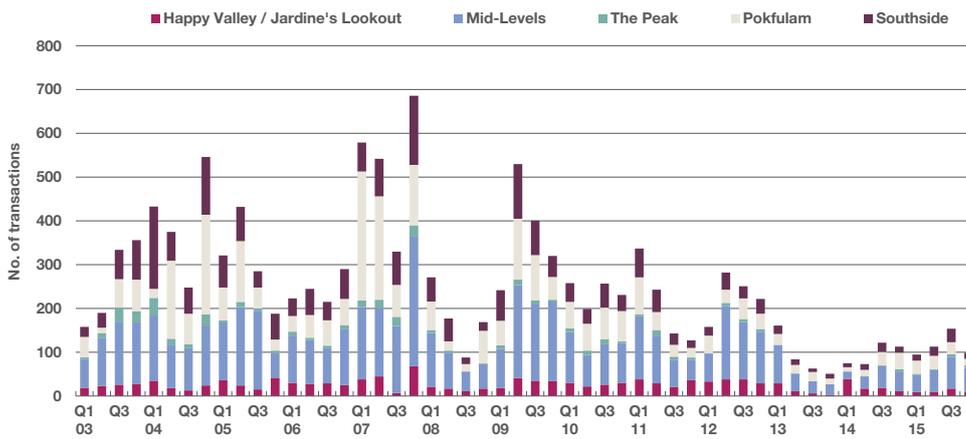
Elsewhere in the primary market, developers have been cautiously launching their projects. Seventeen out of the 35 units at 55 Conduit Road in Mid-Levels were launched for sale towards the end of 2015, most of them via tender. Thirteen have been sold so far, at average prices of HK\$30,000 to HK\$45,000 per sq ft saleable. The duplex unit A on the 12/F and 15/F was sold for HK\$360 million (HK\$76,000 per sq ft saleable). All 27 units of Cluny Park in Mid-Levels were launched in

batches (again mostly by tender) in Q4/2015; six units were sold for average prices of HK\$33,000 to HK\$47,000 per sq ft saleable.

With generally weakening investment sentiment and developers slowing down the pace of their primary launches, luxury transaction volumes on Hong Kong Island declined by 36% quarter-on-quarter (QoQ) in Q4/2015 as a result.

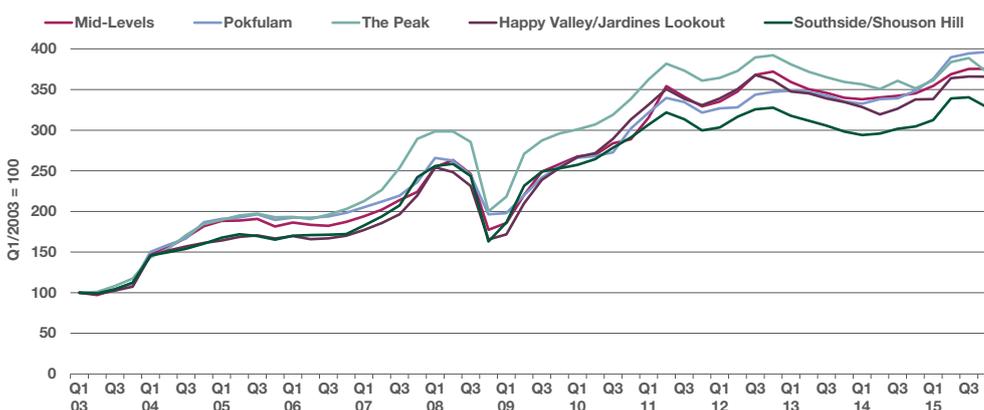
Luxury apartment prices on Hong Kong Island closed out 2015 with a dip of 0.9% in Q4. However, there was still a 9.3% price growth over the year as a whole. Mid-Levels, with the highest concentration of primary launches and future supply among all districts, saw prices remain relatively stable in the last quarter of 2015, with an 8% increase overall for the year. Supported by a few house sales on the Peak in Q4/2015, townhouse prices remained stable over the quarter and recorded an 8.3% increase overall in 2015.

GRAPH 1
Luxury transaction volumes by district on Hong Kong Island, Q1/2003–Q4/2015



Source: EPRC, Savills Research & Consultancy

GRAPH 2
Luxury apartment price indices by district on Hong Kong Island, Q1/2003–Q4/2015



Source: Savills Research & Consultancy

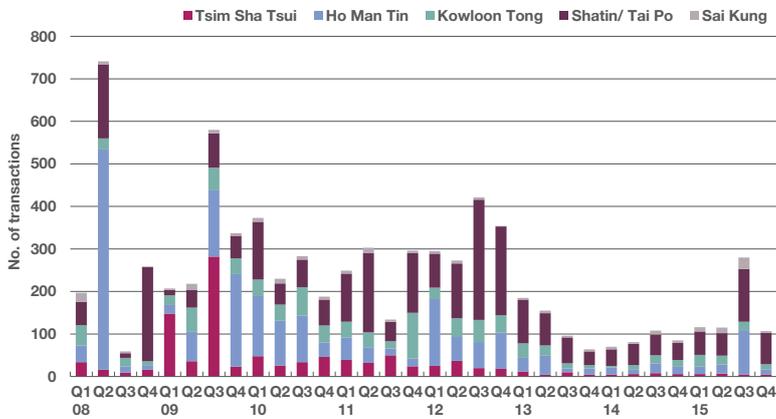
Kowloon and the New Territories luxury residential market

Luxury transaction volumes in Kowloon and the New Territories also fell heavily (-62%) in Q4/2015, due to a lack of significant new launches over the quarter, with most first-hand transactions coming from the remaining units of projects launched earlier in the year.

With investment sentiment dwindling, and few market highlights, many purchasers held off making investment decisions. This, coupled with the increasing number of newly-completed luxury units being made available for lease amid declining rents, caused some potential purchasers to switch to the leasing market to avoid uncertainties over the next one to two years. Luxury prices in Kowloon declined by 1.4% in Q4/2015 as a result, while prices in the New Territories remained largely stable.

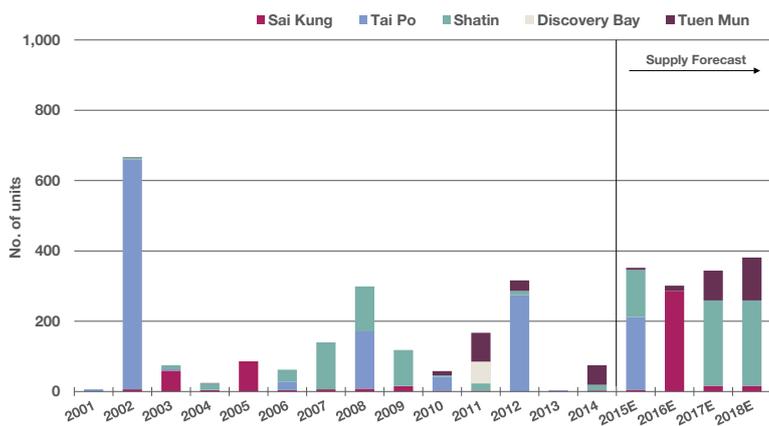
While future supply in Kowloon will be concentrated in 2016, when Phase 2 of Ultima (87 luxury

GRAPH 3
Luxury transaction volumes by district in Kowloon / New Territories, Q1/2008–Q4/2015



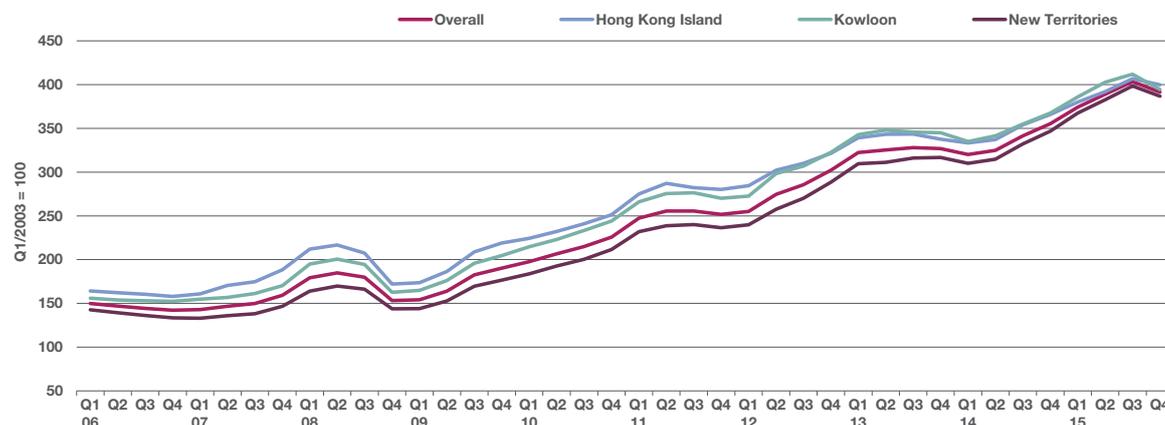
Source: EPRC, Savills Research & Consultancy

GRAPH 4
New Territories luxury residential supply by district, 2001–2018E



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

GRAPH 5
Mass residential price indices by district, Q1/2006–Q4/2015



Source: Savills Research & Consultancy

units over 100 sq m saleable) and Zumurud (228 luxury units over 100 sq m saleable) are expected to be completed, luxury supply in the New Territories will be spread out more evenly over the next three years, at an average of 342 units per annum. The new supply will come primarily from Sai Kung (Mount Pavilla, 265 luxury units over 100 sq m saleable) and Sha Tin (four projects in Kau To Shan, 243 luxury units over 100 sq m). The increasing supply will test both the depth of the market as well as the effectiveness of developers' marketing and pricing strategies.

Mass-residential market

Mass residential prices declined by 2.9% across the board in Q4/2015. Unlike previous declines in 2012 and 2013, which were in response to various restrictive government measures and thus short-lived, the residential market seems to have turned a corner, due to the uncertain economic environment, a further possible rate hike and a potential tightening of funding to reduce capital outflows. In fact, while developers in general achieved satisfactory sales of primary projects in Q4/2015 (4,606 primary units sold, a 32% increase from Q3), mainly through providing more incentives, steeper price discounts, or both, the secondary market was frozen out and the 5,563 secondary transactions recorded, as well as the 10,169 total transactions recorded, were both all-time quarterly lows since 2002. ■

OUTLOOK

The prospects for the market

Global economic uncertainties, stock market volatility and fears of further capital outflows from the local banking system (soaking up liquidity) will all contribute to weaker demand for both luxury and mass-residential properties. In addition, higher-than-average supply levels in 2016 and 2017 will put further pressure on price levels. With restrictive government measures unlikely to be reversed in the near future, and short-term economic stimulus non-existent,

we expect both luxury and mass-residential prices to decline by up to 15% over the next 12 months.

The townhouse market on Hong Kong Island is also faced with diminishing demand and increasing supply in the short-term. This may see prices declining by 5% to 10% this year. However, the super luxury segment should prove more immune to the current market downturn, given the scarcity of stock and the number of ultra-high net worth

individuals looking for trophy assets. This is evidenced by the three HK\$100,000+ per sq ft saleable deals done in Q4/2015. We may see further record-breaking deals concluded this year if similar prime products are made available to the market.

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