

Briefing Residential sales

February 2017



SUMMARY

The search for trophy assets in the super luxury segment continues from both local wealthies and Mainlanders.

- The super luxury segment saw continued support with the prominent sale of Nos. 1, 3 & 5 Pollock's Path for HK\$2.8 billion
- Primary launches received strong interest from both local wealthies and Mainlanders
- Primary apartments in the HK\$80 to HK\$200 million bracket proved more popular than their second-hand townhouse counterparts
- Both townhouse and luxury apartment prices continued to rise over the quarter as a result of buoyant market sentiment
- While we expect both the townhouse and luxury apartment markets to prosper over the first half of 2017, the concentration of potential primary launches in the second half may boost volumes further while halting the current price rally

"The positive sentiment we saw late last year may follow through into the first six months of 2017 with potential new launches in the second half boosting sales further while cooling the current price rally."
Simon Smith, Savills Research

→ **Hong Kong Island**

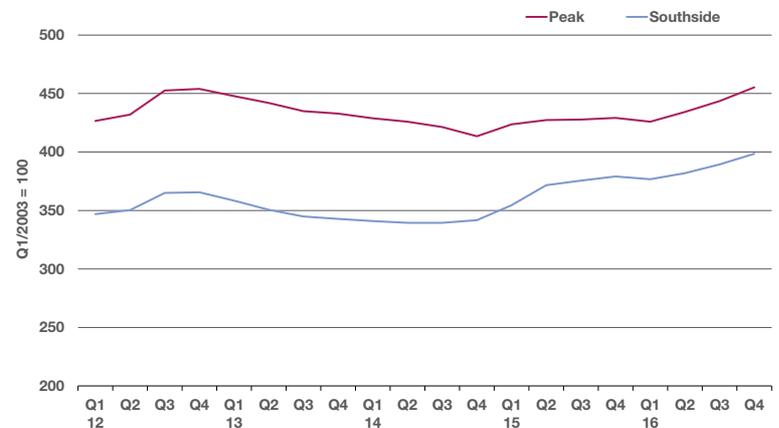
The super luxury segment has heated up again recently, with the sale of Nos. 1, 3 & 5 Pollock's Path on the Peak for HK\$2.8 billion in January the most eye-catching. The subject has a site area of 51,107 sq ft and a maximum permissible GFA of 25,554 sq ft upon redevelopment, representing an AV of HK\$109,572 per sq ft. The subject was reportedly sold to a local industrialist, reminding us that the market is not only dominated by Mainland buyers.

The primary market received overwhelming responses thanks to the ongoing sales of Mount Nicholson, with eight apartments (six of them sold as joint units in three separate transactions) and three houses sold from November last year to January this year. Notably, the largest house, House 1 (9,950 sq ft saleable) was sold for HK\$1.08 billion (HK\$108,543 per sq ft saleable), reportedly to a Mainland purchaser without any discounts / rebates, meaning the purchaser may likely need to pay BSD / DSD of up to 30% of the purchase price (HK\$324 million).

Boosted by the satisfactory sales of primary projects and the robust townhouse market sentiment, luxury transactions on Hong Kong Island reached 180 in Q4, an 82% y-o-y increase.

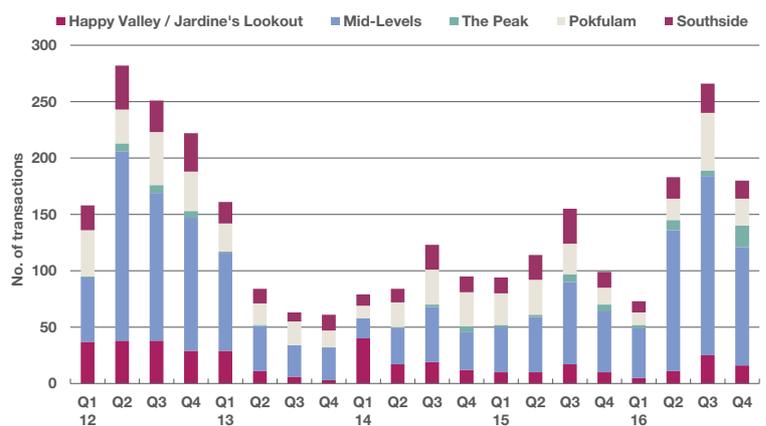
Primary apartments are proving more popular than their second-hand townhouse counterparts in the HK\$80 to HK\$200 million price bracket. Such apartments offer spacious single-floor layouts without the hassle of staircases (great for older buyers), as well as newer and more comprehensive in-room decorations and appliances (such as built-in wine cellars, built-in coffee machines, LED TVs for kitchens) and facilities (such as private lift lobbies and multi-function rooms with kitchenettes) which appeal to even traditional townhouse owners. Three luxury apartment projects, namely 55 Conduit Road (34 of 35 units sold), Cluny Park (24 of 27 units sold) and The Morgan (97 of 111 units sold), all located on Conduit Road and launched from late 2015 to early 2016, have achieved very successful results over the past year.

GRAPH 1 **Townhouse price indices by district, Q1/2012–Q4/2016**



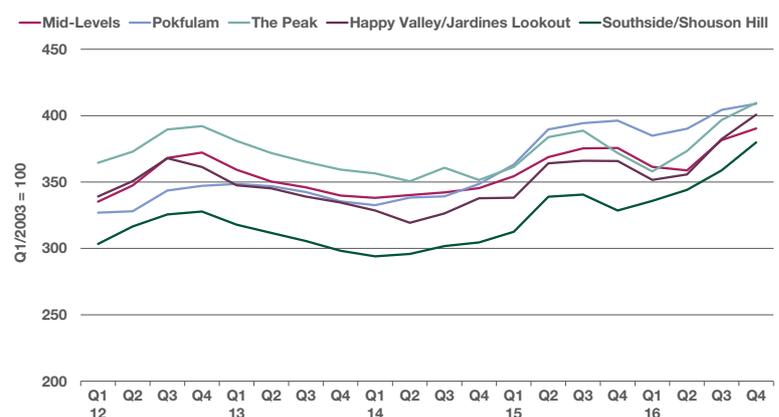
Source: Savills Research & Consultancy

GRAPH 2 **Luxury transaction volumes by district on Hong Kong Island, Q1/2012–Q4/2016**



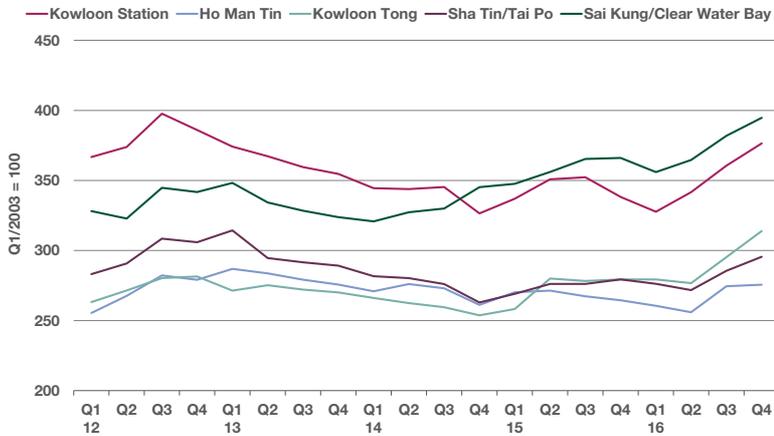
Source: EPRC, Savills Research & Consultancy

GRAPH 3 **Luxury apartment price indices by district on Hong Kong Island, Q1/2012–Q4/2016**



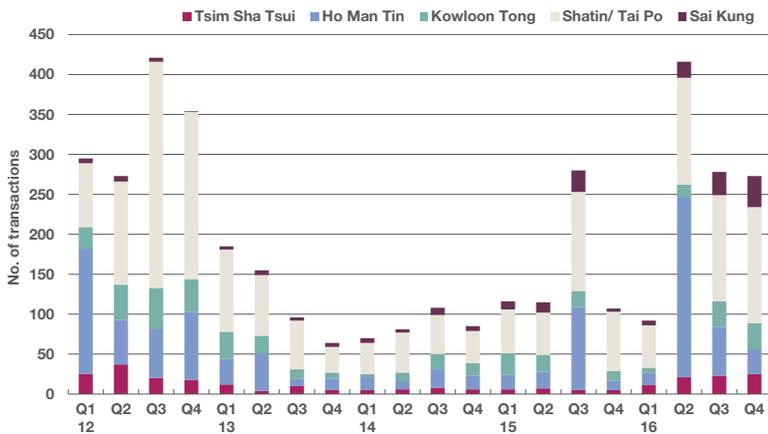
Source: Savills Research & Consultancy

GRAPH 4
Kowloon and the New Territories luxury residential price indices by district, Q1/2012–Q4/2016



Source: Savills Research & Consultancy

GRAPH 5
Luxury transaction volumes by district in Kowloon and the New Territories, Q1/2012–Q4/2016



Source: EPRC, Savills Research & Consultancy

Kowloon and the New Territories

Buoyed by satisfactory land sales results in Beacon Hill and Kai Tak, luxury prices in both Kowloon and the New Territories continued their rally with 3.9% and 3.5% growth registered in Q4 respectively. Kowloon Tong, the closest district to both Beacon Hill and Kai Tak, understandably recorded the highest price growth of 6.3% over the quarter.

While primary launches in Kowloon and the New Territories were not as robust as on Hong Kong Island, transaction volumes were boosted by improved sentiment in the second-hand market, in particular in Shatin / Tai Po, and recorded a 155% y-o-y increase in Q4 to reach 283, a level similar to the previous quarter.

Outlook

We expect both the townhouse and luxury apartment markets to continue to prosper over the first half of 2017, while the concentration of primary launches due in the second half may act to boost volumes and halt the current price rally. Nevertheless, the potential launches may target different market segments (with different locations in Mid-Levels and Southside, a varied mix of townhouses and apartments, and different unit sizes and layouts from smaller apartments of 1,500 to 2,500 sq ft saleable to larger apartments of 3,000 to 4,000 sq ft saleable) and thus avoid head-to-head competition even if they are coming to the market at the same time, therefore alleviating any potential cannibalization.

TABLE 1
Luxury residential price changes

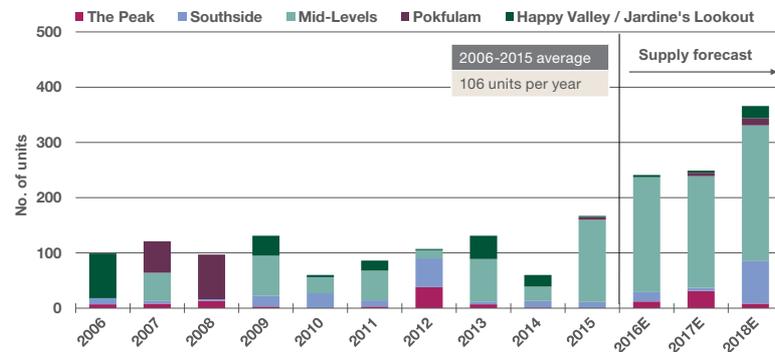
Sector	Q4/2016	2016	2015
Townhouses	+2.4%	+5.5%	+8.3%
Hong Kong Island luxury apartments	+3.1%	+6.9%	+9.3%
Kowloon luxury apartments	+3.9%	+9.5%	+5.3%
New Territories luxury apartments	+3.5%	+6.6%	+6.2%

Source: Savills Research & Consultancy

Upcoming supply update

A number of significant townhouse and apartment projects are going to be completed over 2017 and 2018. The three larger scale among them are SHKP's Stubbs Road project (53 apartments and 19 houses, 2017), Cheung Kong's Borrett Road project (181 apartments, 2018) and Nan Fung's Deep Water Bay Drive project (52 apartments and 2 houses, 2018). The latter two have already applied for pre-sale consent, and are expected to be launched towards the second half of this year. ■

GRAPH 6 **Luxury residential supply forecast, 2016E-2018E**



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

The luxury residential market in numbers

+2.4%

(q-o-q)

Savills townhouse index (Q4)

180

-32% (q-o-q)

HKI luxury transaction volume (Q4)

1,167

(units)

2016 luxury completions

+3.1%

(q-o-q)

Savills luxury apartment index (Q4)

273

-2% (q-o-q)

Kln/NT luxury transaction volume (Q4)

1,751

(units)

2017 expected luxury completions

Source: Savills Research & Consultancy

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