

Briefing Residential sales

April 2016



Image: The Vivian Court, The Peak

SUMMARY

Luxury residential sentiment was again subdued with sales volumes hitting new lows.

- A turbulent stock market, concerns over the Mainland economy and tighter local credit availability all contributed to a quiet luxury residential market in Q1
- Luxury sector transaction volumes declined due to mixed responses to primary launches
- The super luxury segment also endured a difficult period though a few significant transactions were made
- Luxury sector prices declined in both the Hong Kong Island and Kowloon markets with primary launches dragging down secondary prices
- Luxury residential prices are on course to decline by another 10% over the next three to six months with a possible Mainland hard-landing and increased capital controls restricting Mainland buying interest

"Luxury primary launches met with mixed responses inducing declines in both prices and volumes."

Simon Smith, Savills Research

→ **Hong Kong Island residential sales market**

The luxury residential segment was quiet during the quarter in response to a turbulent stock market, concerns over the Mainland economy and tighter local credit availability. A few primary launches in Mid-Levels received only lukewarm responses with only those priced at or below secondary market prices selling well. Luxury transaction volumes on Hong Kong Island totaled only 73 in Q1/2016, a 23% y-o-y decline, over half (44) of which were accounted for by Mid-Levels, most of them from primary launches.

Luxury apartment prices on Hong Kong Island registered a 3% decline

in Q1/2016, and as expected Mid-Levels, with the highest concentration of new launches as well as upcoming new supply, saw the steepest decline among all districts of 4%.

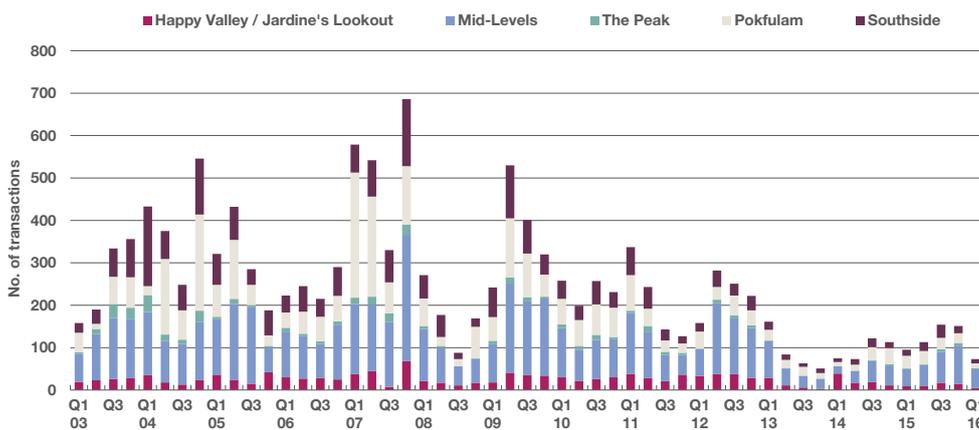
The super luxury segment was equally quiet with 22 transactions recorded, a 36% y-o-y decline. Only a handful of significant deals were completed in both the primary and secondary markets, the most significant being the sale of the house at 2 Headland Road for HK\$1.02 billion. The price reflected redevelopment potential with a permissible GFA of 16,800 sq ft, representing an AV of HK\$60,000 per sq ft. Elsewhere in Southside, the residence at 3 South Bay Close

(22,595 sq ft saleable, 12 units) was sold for HK\$668 million (HK\$29,564 per sq ft saleable) to National Properties for long-term investment.

The primary market was also boosted by the sales of two houses at Mount Nicholson (Houses 5 and 6) for HK\$740 million and HK\$830 million respectively, with average prices of HK\$80,700 and HK\$87,800 per sq ft saleable respectively. Townhouse prices remained broadly stable over Q1/2016 on the back of these super luxury sales.

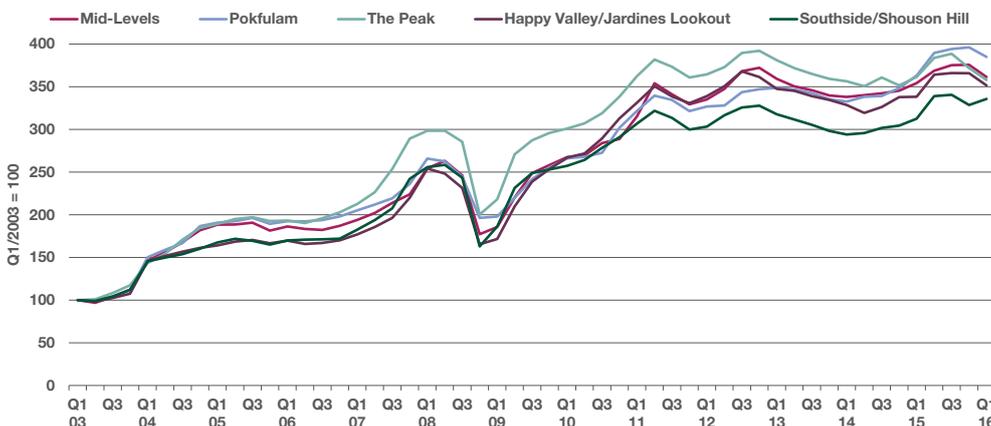
The significant slowdown in super luxury sales was due partly to the increasing difficulty of getting funds out of the Mainland, a problem faced by even wealthier individuals. The recent measures include the central government's tightening of the regulations which govern how mainland citizens buy insurance products in Hong Kong through UnionPay, the mainland's dominant payment system, capping transactions at US\$5,000. In addition, mainland customers will no longer be able to pay for life insurance or investment-related products through electronic payment services, although they will still be allowed to buy medical and accident insurance, albeit with a purchase cap of RMB30,000 (US\$4,600).

GRAPH 1 **Luxury transaction volumes by district on Hong Kong Island, Q1/2003–Q1/2016**



Source: EPRC, Savills Research & Consultancy

GRAPH 2 **Luxury apartment price indices by district on Hong Kong Island, Q1/2003–Q1/2016**



Source: Savills Research & Consultancy

Kowloon and the New Territories luxury residential market

Across the harbour luxury residential sales also experienced some difficulties in the Kowloon/ New Territories market with volumes falling by 21% y-o-y to reach 92 in Q1/2016. The quarter saw three new projects launched almost simultaneously in Ho Man Tin with highly competitive pricing and marketing strategies. The responses were mixed and although we expect volumes to pick up in Q2 when most of these transactions are registered with the Land Registry, the impact on prices was already evident in Q1 with Ho Man Tin registering the fastest decline in luxury prices among all districts at 1.5%. Overall prices in Kowloon / New Territories remained broadly stable.

There is little change in the near-term supply pipeline in the luxury sector, with Mid-Levels expected to see over 800 units completed this year and next, the highest among all districts on Hong Kong Island. Kowloon would see around 400 luxury units completed this year, mainly from the three luxury projects in Ho Man Tin. Six projects in Kau To Shan, which will provide around 500 luxury units, will top the supply chart in the New Territories in 2017 and 2018.

Outlook

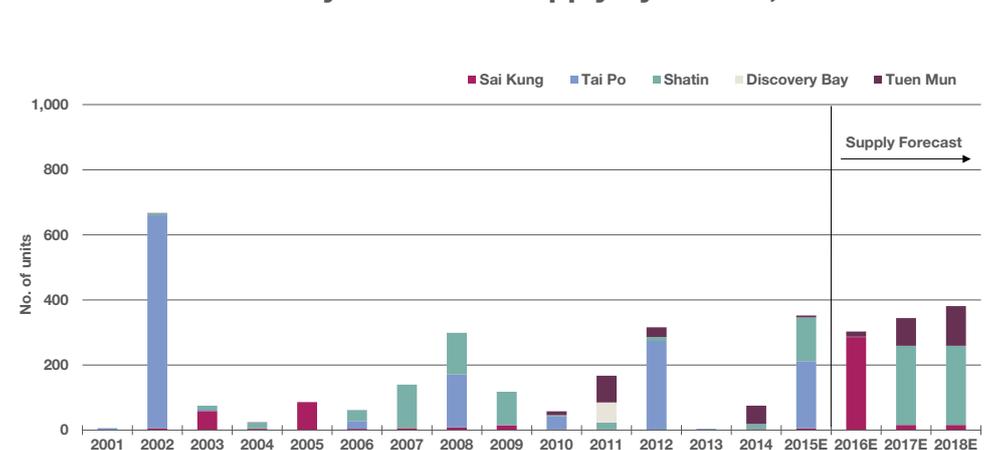
The stock market performance has rebounded recently and the latest Fed meeting notes indicate a slower than expected pace of rate hike throughout the rest of the year, while we believe that banks are becoming more active again in the local mortgage market. Nevertheless, the fear of a possible Mainland hard-landing could deter Mainland and local high net worth buyers from making luxury purchases in the short-term, and the increasing control being exerted over capital leaving the mainland will make securing the necessary funding more difficult. The market therefore looks set to drift further with luxury prices forecast to fall by another 10% over the next three to six months. ■

TABLE 1 **Luxury residential price changes**

Sector	Q1/2016	2015	2014
Townhouses	-0.7%	+8.3%	-1.8%
Hong Kong Island luxury apartments	-2.8%	+9.3%	+1.7%
Kowloon luxury apartments	-0.6%	+5.3%	-6.4%
New Territories luxury apartments	+1.0%	+6.2%	-3.1%

Source: Savills Research & Consultancy

GRAPH 3 **New Territories luxury residential supply by district, 2001–2018E**



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

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