

# Briefing Residential sales

November 2017



## SUMMARY

The price rally continued in the third quarter as luxury transactions volumes fell heavily.

- Luxury prices continued to rise while sales volumes declined over the third quarter in a market characterized by buoyant sentiment and aggressive asking prices.

- Primary launches continued to dominate headlines with both townhouses and apartments fetching record high average prices.

- As in the commercial sector, we are still seeing plenty of Mainland buyers in the luxury segment with more share transfers involved.

- With the current scarcity of vacant luxury land plots more luxury buyers with development capabilities are opting to buy houses for redevelopment.

- Looking ahead, negative real interest rates, low levels of luxury supply and Mainland buying as well as a strong local economy and a rising stock market all look set to continue to support the luxury segment.

- Nevertheless, any reversal of one or more of these positive factors could bring the current rally to a standstill.

.....  
"Negative real interest rates, limited new supply and continuing Mainland buying in addition to a strong local economy and a stock market rally are all helping to propel prices to new highs."  
.....

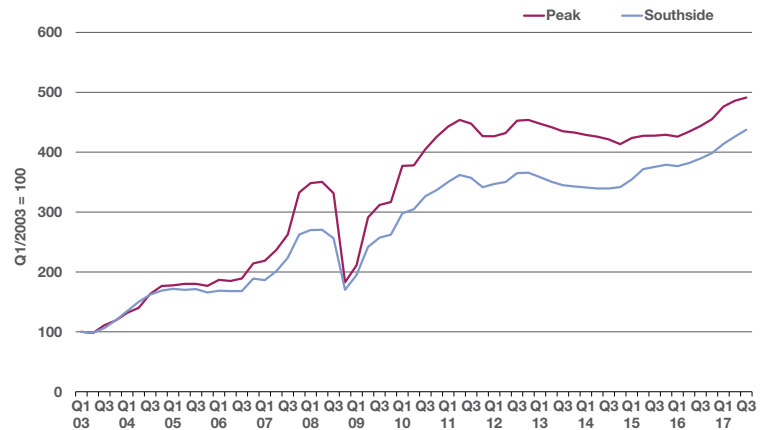
Simon Smith, Savills Research  
.....

→ **Price and volume trends**

Luxury prices continued to rise while sales volumes declined over the third quarter with sentiment buoyant and landlord's asking prices aggressive. Luxury apartment prices rose by a further 2.4% in Q3/2017 on Hong Kong Island, bringing the YTD growth to 9.6%, while townhouses on the Peak and Southside also registered sustained growth of 2.0% over the quarter, resulting in YTD growth of 9.0%. Luxury prices in both Kowloon and the New Territories grew more moderately by 0.6% and 0.8% respectively over the quarter.

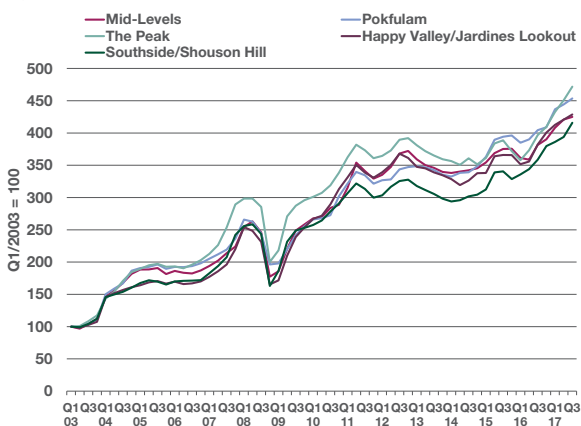
With landlords in a buoyant mood and prices at historical highs, transaction volumes fell heavily both on Hong Kong Island (-69% y-o-y) and in Kowloon / New Territories (-82% y-o-y).

GRAPH 3 **Townhouse price indices by district, Q1/2003–Q3/2017**



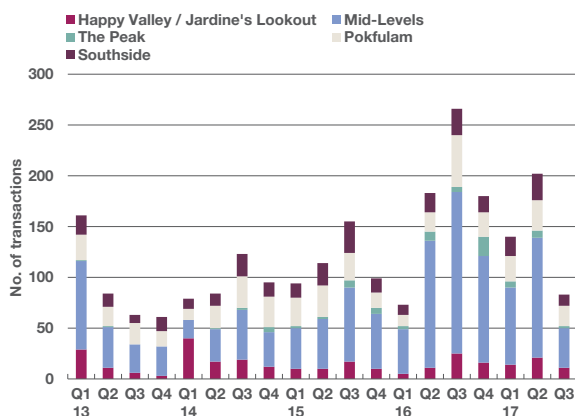
Source: Savills Research & Consultancy

GRAPH 1 **Luxury apartment price indices by district on Hong Kong Island, Q1/2003–Q3/2017**



Source: Savills Research & Consultancy

GRAPH 2 **Luxury transaction volumes by district on Hong Kong Island, Q1/2013–Q3/2017**



Source: EPRC, Savills Research & Consultancy

**Key market trends**

Primary launches continued to dominate the headlines with both townhouses and apartments fetching record high average prices. A duplex unit at 55 Conduit Road, Mid-Levels was sold for HK\$294.5 million, an average price of HK\$62,527 per sq ft. while House 3 of Mount Nicholson, The Peak was sold for HK\$1.164 billion, or an average price of HK\$126,800 per sq ft. Across the harbour, a special duplex at the Ultima I, Homantin was tendered for HK\$102 million, an average price of HK\$50,417 per sq ft. The last two transactions broke the respective average price records for the developments concerned.

As in the commercial sector, we saw plenty of Mainland buyers active in the luxury segment with more share transfers involved. The chairman of a Mainland listco bought the house developed by First Group at 9 Tat Chee Avenue in Kowloon Tong for HK\$500 million via a company purchase, with a saleable area of 11,720 sq ft, a 3,000 sq ft garden and a flat roof and swimming pool, representing an average price of HK\$42,662 per sq ft. Another Mainland listed company bought the house at 1 Lincoln Road, Kowloon Tong for HK\$330 million via share transfer, representing an average price of HK\$47,882 per sq ft. While headline Mainland purchases in the past have focused on the Peak and Southside, the focus shifted to Kowloon Tong this quarter, which has become a popular luxury enclave among Mainlanders given its easy access to Lo Wu via the East Rail Line.

With the current scarcity of vacant luxury land plots more luxury buyers with development capabilities are opting to buy houses for redevelopment. The most significant site sale over the quarter was 81 Perkins Road, Jardine's Lookout to CSI for HK\$535 million, and with a maximum permissible GFA of around 5,511 sq ft, the AV for the site was around HK\$97,000 per sq ft, the highest ever in Jardine's Lookout. Another house site at 11A Shouson Hill Road West was sold for HK\$450 million (AV of HK\$45,000 per sq ft). Two sites in Kowloon Tong (6 Devon Road and 147 Waterloo Road) were also sold for HK\$300 million, representing AVs of HK\$46,033 and HK\$49,300 per sq ft respectively. With the AV of these sites close to the current market value of completed properties in the area, we can expect the new developments to fetch record-breaking prices if launched in a few years' time.

**Market outlook**

Looking ahead, negative real interest rates, low levels of luxury supply and Mainland buying as well as a strong local economy and a rising stock market all look set to continue to support the luxury segment. Developers are taking an optimistic view on pricing when it comes to prestigious projects and many have decided to launch their primary luxury projects for tender only to try and attract buyers to match their asking prices, even though this may result in a more protracted sales programme.

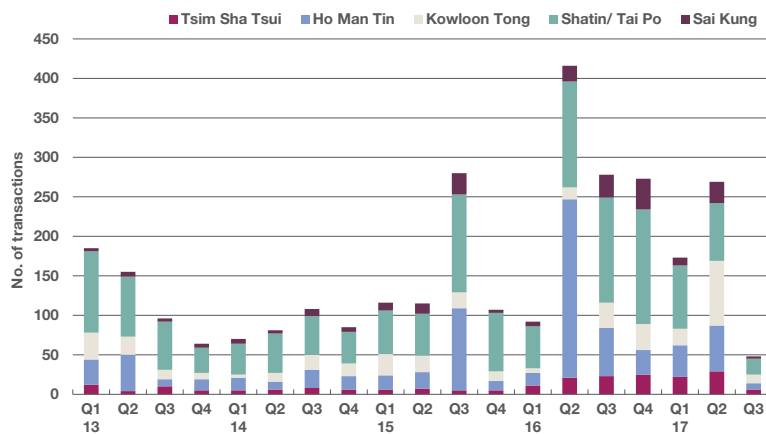
Nevertheless, any reversal of one or more of these positive factors could

TABLE 1  
Luxury residential price changes

Sector	Q3/2017	Q2/2017	Q1/2017	2016	2015
Townhouses	+2.0%	+2.6%	+4.2%	+5.5%	+8.3%
Hong Kong Island luxury apartments	+2.4%	+2.6%	+4.3%	+6.9%	+9.3%
Kowloon luxury apartments	+0.6%	+0.7%	+4.8%	+9.5%	+5.3%
New Territories luxury apartments	+0.8%	+2.4%	+3.8%	+6.6%	+6.2%

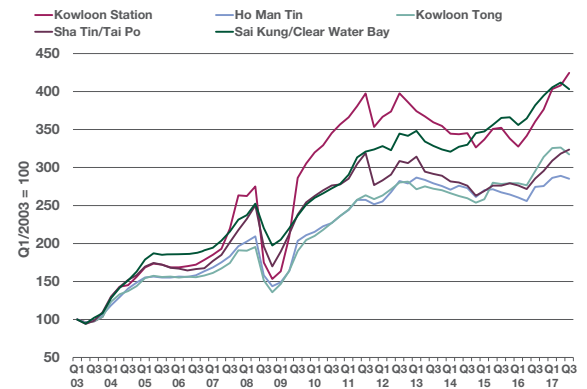
Source: Savills Research & Consultancy

GRAPH 4  
Luxury transaction volumes by district in Kowloon and the New Territories, Q1/2013–Q3/2017



Source: EPRC, Savills Research & Consultancy

GRAPH 5  
Kowloon and the New Territories luxury residential apartment price indices by district, Q1/2003–Q3/2017



Source: Savills Research & Consultancy

halt the current rally, with the most realistic ‘threat’ being an eventual increase in local interest rates. The liquidity of the local banking system has made it possible for local banks to keep interest rates low over the past two years in the face of five interest rate increases in the US, but with HIBOR (a key measure of bank funding costs) suddenly surging since September, coupled with the fact that the US Fed may raise rates in the near future, higher local interest rates now look inevitable. ■

## Please contact us for further information

### Residential Services



**Keith Chang**  
Managing Director  
Savills Realty  
+852 2842 4434  
kchang@savillsrealty.com.hk

### Residential Development & Investment



**Patrick Chau**  
Senior Director  
+852 2840 4728  
pchau@savills.com.hk

### Savills Research



**Simon Smith**  
Senior Director  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk



**Jack Tong**  
Director  
+852 2842 4213  
jtong@savills.com.hk

#### Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.