

Briefing Residential sales

January 2014



Image: Manhattan Hill, Lai Chi Kok

SUMMARY

Luxury apartment and townhouse prices continued to moderate. Investment sentiment remained weak and only a few transactions were reported in prime areas.

- Luxury apartment prices moderated in the downcycle, falling by 7.3% for the whole year of 2013, while townhouse prices fell by 5.7%, in line with the apartment market.

- According to Savills estimates, there were less than 100 luxury transactions in Q4/2013 and a total of around 340 transactions in 2013, down from around 900 transactions in 2012.

- In 2013, overall townhouse prices dropped by 5.7%, with prices on The

Peak and Southside declining by around 4.7% and 6.2% respectively.

- The downward pressure on apartment prices in Kowloon Station was mainly due to high-profile price cutting at new developments.

- Savills expects that the government will put more land up for sale in 2014 in order to meet supply targets.

.....
"The luxury residential market is expected to experience another quiet year in 2014 as a result of policy headwinds and weakening buying sentiment."
.....

Simon Smith, Savills Research

→ **Hong Kong Island residential sales market**

In the last quarter of 2013, the luxury residential market weakened on the back of the current stamp duty policy cooling measures. Transaction volumes were driven by first-hand launches, with few transactions reported in the traditional luxury areas. Luxury apartment prices moderated in the downcycle, falling by 7.3% for the whole year of 2013, while townhouse prices fell by 5.7%, in line with the apartment market.

Total luxury transaction volumes in the five traditional districts are shrinking alongside weakening sentiment in the luxury residential market. According to Savills estimates, there were less than 100 transactions in Q4/2013 and a total of around 340 transactions in 2013, down from around 900 transactions in 2012.

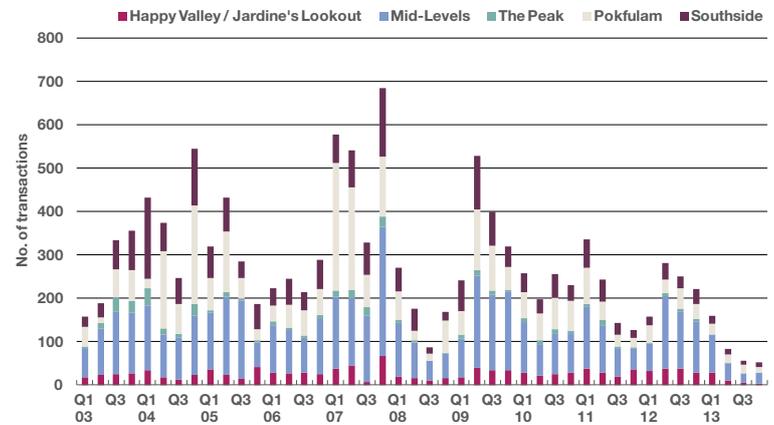
On a district basic, prices in the five traditional districts all declined by 7% to 9% in 2013, except for Pokfulam which performed slightly better, with prices decreasing by only 3.4% over the year. Townhouse prices followed a similar trend to the luxury apartment market. In 2013, overall townhouse prices dropped by 5.7%, with prices on The Peak and Southside declining by around 4.7% and 6.2% respectively. Houses in prime areas retained their popularity, with townhouse stock on The Peak dwindling. The project at 28 Barker Road received an overwhelming response from the market, as house 2 (5,692 sq ft saleable), with a 654-sq ft garden and a 1,214-sq ft flat roof, was sold for HK\$530 million with two car parking spaces, while house 7 (6,847 sq ft saleable) sold for HK\$690 million.

Kowloon and New Territories luxury residential market

The luxury residential market in Kowloon and the New Territories remained weak, with prices dropping by nearly 4.5% and 5.4% in 2013 respectively.

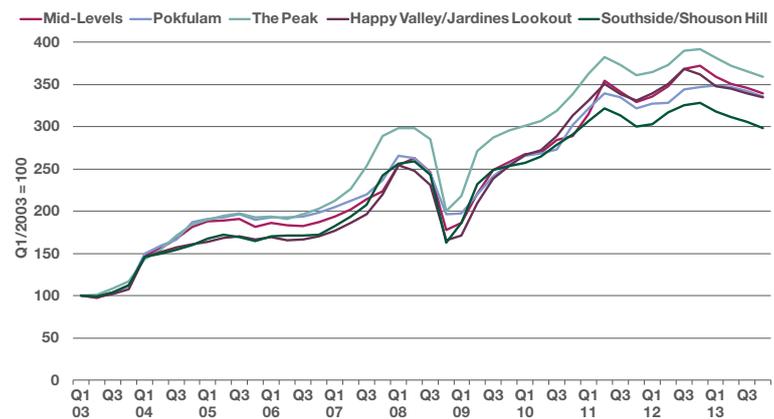
Among different districts, price cutting has been noted in Kowloon

GRAPH 1 **Luxury transaction volumes on Hong Kong Island, Q1/2003–Q4/2013**



Source: EPRC, Savills Research & Consultancy

GRAPH 2 **Luxury apartment prices by district, Q1/2003–Q4/2013**



Source: Savills Research & Consultancy

TABLE 1 **Luxury apartment price movement by district, Q4/2013 vs 2013**

	Q4/2013 (%)	2013 (%)	2012 (%)
Mid-Levels	-1.8	-8.7	+13.0
Pokfulam	-2.1	-3.4	+8.0
The Peak	-1.6	-8.4	+8.7
Happy Valley/Jardine's Lookout	-1.3	-7.4	+9.3
Southside/Shouson Hill	-2.4	-9.0	+9.3
Overall	-1.8	-7.3	+10.4

Source: Savills Research & Consultancy

→ Station of around 8.1% in 2013, while a 4.0% decrease in prices was seen in Kowloon Tong. The downward pressure on apartment prices in Kowloon Station was mainly due to high-profile price cutting at new developments. It is not all negative news, however, as there was one record-breaking apartment transaction recorded in Kowloon Station. An upper-floor unit (2,188 sq ft gross or 1,738 sq ft saleable) at The Arch was sold for HK\$138 million, which represents a unit price of HK\$63,071 per sq ft gross and HK\$79,402 per sq ft saleable.

Luxury residential leasing market

In Q4/2013, the luxury residential leasing market mirrored the 'zombie'

office market. Given that there was no new hiring and little firing, housing demand was frozen. The residential market is expected to fall by 5% in 2014 as this 'zombie' market will continue into next year, unless a clear turnaround is seen in the financial sector.

Luxury apartment rents continued in a downward trend alongside the weakening office market, falling by 1.8% at the end of the year on the back of low leasing volumes due to the 'holiday effect'. Rents fell by 7.8% over the whole of 2013.

A shift in preference from The Peak to the Southside was noted in 2013. Weather conditions on The Peak have become a concern, with the vacancy rates gradually climbing,

while schooling opportunities have meanwhile increased the attractiveness of the Southside and Sai Kung. Townhouse rents moved in line with apartment rents and declined by 8.4% in 2013.

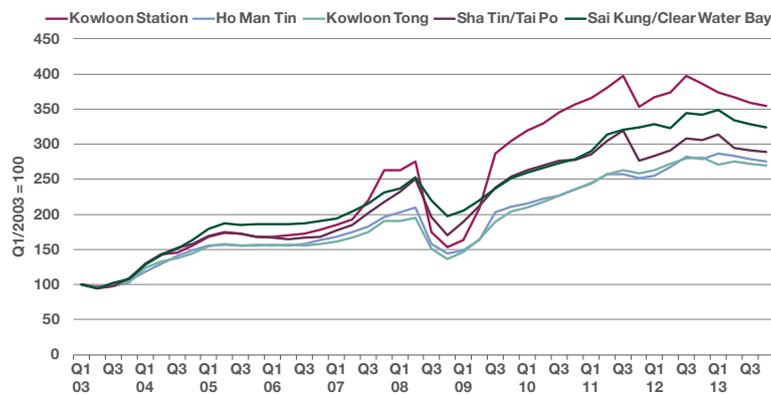
Looking ahead in 2014, Savills expects a 5% decline in luxury apartment rents alongside a weakening office market with no new hiring. Given that office rents in Central are expected to bottom out later in the year, we expect to witness an upswing in the financial sector, resulting in luxury rents bottoming out in late 2014 or early 2015.

Mass-residential market

Prices in the mass-residential market remained stable in Q4/2013, resulting in an overall increase of 8.2% in 2013. Transaction volumes in 2014 are forecast to remain low in the secondary market, with a heavy focus on first-hand transactions. The price-cutting war among developers for first-hand launches is expected to continue.

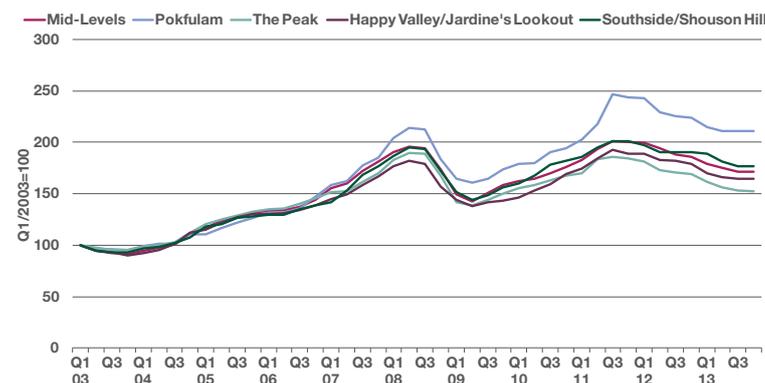
No major impact was noted on the mass-residential market after the government's 2014 policy address. The government has proposed to relax the maximum domestic plot ratio by around 20% in the Kai Tak New Development Area and the Tuen Mun East area in order to increase housing supply. In the longer term, the North East New

GRAPH 3 Kowloon and New Territories luxury residential price indices, Q1/2003–Q4/2013



Source: Savills Research & Consultancy

GRAPH 4 Hong Kong Island luxury rental indices by district, Q1/2003–Q4/2013



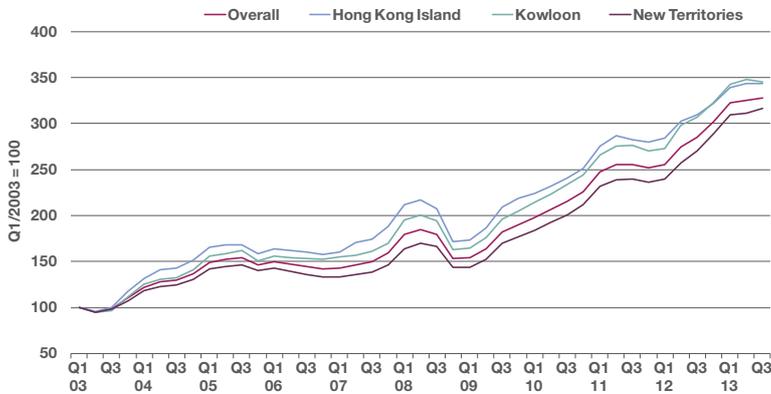
Source: Savills Research & Consultancy

TABLE 1 Luxury apartment rental movement by district, Q4/2013 vs 2013

	Q4/2013 (%)	2013 (%)
Mid-Levels	-0.3	-8.0
Pokfulam	0.0	-5.9
The Peak	-0.5	-10.0
Happy Valley/Jardine's Lookout	0.0	-8.1
Southside/Shouson Hill	0.0	-7.1
Overall	-0.2	-7.8

Source: Savills Research & Consultancy

GRAPH 5
Mass-residential price indices, Q1/2003–Q4/2013



Source: Savills Research & Consultancy

Territories and Hung Shui Kiu areas are the key development zones in providing housing. The new target for housing supply is now 470,000 units in the coming ten years, of which 60% is public housing.

Savills expects that the government will put more land up for sale in 2014 in order to meet this target. However, it will take around four to five years before any completed residential buildings are released to the market. ■

OUTLOOK

The prospects for the market

The luxury residential market is expected to have another quiet year in 2014 as a result of government policy and weakening buying sentiment. The market focus, certainly over the first half, is expected to remain on new launches while the secondary market will continue to languish. Supply in traditional areas, such as The Peak and Southside, will remain popular, while luxury prices are forecast to adjust by another 5% to 10% in 2014.

Please contact us for further information

Residential Services



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

Development & Investment



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

Residential Leasing



Edina Wong
Senior Director
+852 2842 4283
ewong@savills.com.hk

Savills Research



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



Ken Ma
Manager
+852 2842 4281
kma@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 500 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.