

# Briefing Residential sales

June 2015



Image: 56 Repulse Bay Road, Southside

## SUMMARY

The overwhelming response to primary luxury launches has proved that luxury home buyers are hunting for residential units in prime areas.

- Luxury home buyers are less sensitive to interest rate movements, while policy measures by the Government seem to have been gradually digested by high net worth locals.

- Luxury residential price growth will recede in 2016 and be largely stable in 2017, mainly due to increasing luxury supply levels over the next three years.

- Luxury apartment prices rebounded 2.5% in Q1/2015, while townhouse prices rebounded by

3.3% in Q1/2015, transactions in the Southside and The Peak picked up.

- Luxury supply in the upcoming year will focus on Mid – Levels. The rebound in Mainland buyers in the luxury segment supported price growth in 2015.

- Residential transactions were driven by primary market sales. The primary sales value is at an historical high, while primary volume is the highest since 2007.

- China stock markets climbed to seven-year highs in April 2015.

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"The rebound in Mainland buyers in the luxury segment supported price growth in 2015, partly as a result of wealth creation in the surging stock market."  
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Simon Smith, Savills Research  
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### → Hong Kong Island residential sales market

The luxury market has heated up since the turn of the year, in particular after the sale of 75 Peak Road for HK\$5.1 billion (AV over HK\$82,000 per sq ft) in January. In addition, a couple of luxury primary launches received overwhelming responses. Five houses in Twelve Peaks were launched progressively from July last year, but it was the sales at Ho Tung Garden which really boosted interest, with four houses transacted for over HK\$100,000 per sq ft saleable. Eight houses at 50 Stanley Village Road were launched and sold within the first two weeks of April, all selling for around HK\$45,000 per sq ft saleable. Townhouse prices in the Peak and Southside districts rose by 2.4%

and 3.7% respectively in Q1/2015 respectively.

Coupled with rebounding luxury prices and an increasing number of major luxury deals, we may be seeing a major demand swing towards the luxury segment on Hong Kong Island in general, and Mid-Levels in particular, after so much market attention has been focused on emerging luxury areas in Kowloon and the New Territories over the past year or so.

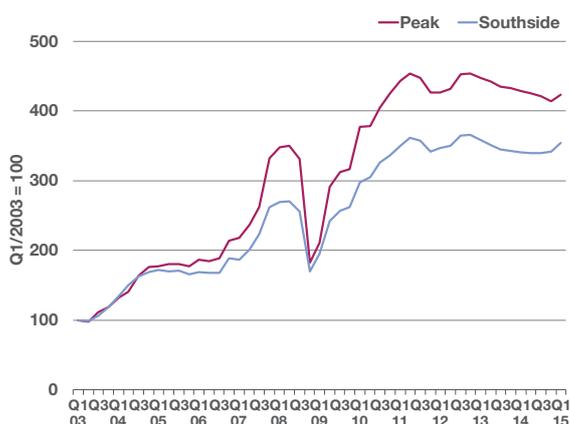
Luxury apartment prices rebounded 2.5% in Q1/2015. Prices in different sub markets rose by between 2% and 4%. Some significant luxury apartment transactions were reported, especially the sale of a prime unit (4,664 sq ft saleable) of 39

Conduit Road for HK\$433 million. (HK\$92,857 per sq ft saleable).

China stock markets climbed to seven-year highs in April 2015 while the Shanghai and Shenzhen composites rose by 113.7% and 117.9% to 4,298.71 and 2,217.89 respectively. The surge in share prices was a reflection of China's growth under a series of stimulus measures including the cutting of benchmark rates by the central bank, additional spending on infrastructure and railways, and reduced tax on struggling small businesses.

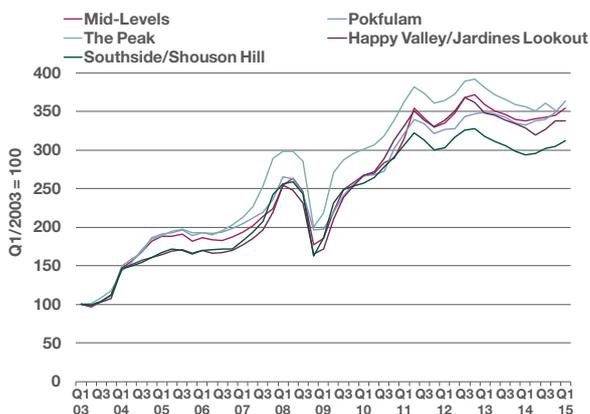
Although Mainland buyers were less active in 2013 in buying luxury residential properties due to the Buyer's Stamp Duty (which is charged by the government at a

GRAPH 1 **Townhouse price indices on the Peak and Southside, Q1/2003–Q1/2015**



Source: Savills Research & Consultancy

GRAPH 2 **Luxury apartment prices by district, Q1/2003–Q1/2015**



Source: Savills Research & Consultancy

TABLE 1 **Major prime apartment sales transactions, Q1/2015**

Development	Date	Floor	Unit	Area (N) sf	Price (HK\$ mil)	Price/sf (N)
39 Conduit Road	April 2015	45	A	4,664	433.087	92,857
Highcliff	March 2015	55	A	2,739	170	62,066
Seymour	April 2015	6	A-B	3,142	186.24	57,274

Source: EPRC

TABLE 1 **Luxury apartment price movement by district, Q1/2015**

	Q1/2015 (%)	2014 (%)	2013 (%)
Mid-Levels	+2.6	+1.7	-8.7
Pokfulam	+4.2	+3.9	-3.4
The Peak	+2.8	-2.2	-8.4
Happy Valley/Jardine's Lookout	+0.1	+1.0	-7.4
Southside	+2.6	+2.0	-9.0
Overall	+2.5	+1.7	-7.3

Source: Savills Research & Consultancy

rate of 15% of the property value), their involvement in the luxury sector rebounded in 2014. According to Centaline, the proportion of Mainland buyers in the luxury market (properties valued at over HK\$12 million) rebounded to 16.6% in 2014, 2.3 percentage points (ppts) higher than in 2013.

### Kowloon and New Territories luxury residential market

The luxury residential markets in Kowloon and the New Territories were also driven by primary launches with demand mainly from end users. Prices in Kowloon Station and Ho Man Tin rose by 3.2% and 3.4% respectively. Some significant transactions have been reported, for example, Unit C (1,819 sq ft saleable) on 79/F – 80/F of Tower 1, Harbourside has been sold for HK\$104 million. (HK\$57,219 per sq ft saleable) and a house (4,412 sq ft saleable) at 1 & 3 Ede Road has been sold for HK\$363 million. (HK\$82,253 per sq ft saleable)

### Mass-residential market

Residential transactions were also driven by primary market sales and primary sales value reached an historical high, while primary volume is the highest since 2007. The new Government policy on Loan – to – Value ratios where a 40% down

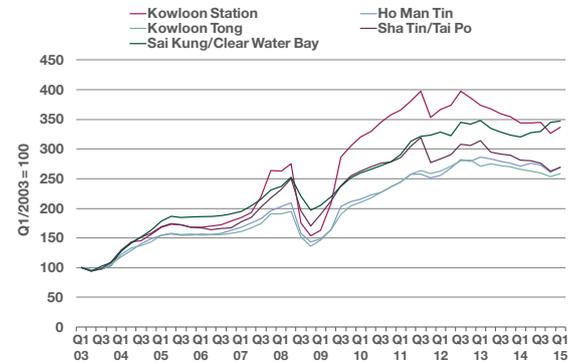
payment is required for property valued under 7 million, has pushed potential buyers to primary launches. The reason such buyers favor the primary market is that they can arrange an additional down payment from the developer. Mass residential prices rose by 5.3% in the first quarter of 2015 to an historical high.

### Market outlook

Consensus forecasts show that interest rates will start to rise from 2016 onwards. Moreover, policy risk will be a key concern for the residential sales sector in the coming year as the government may introduce further measures to cool market sentiment. However, luxury home buyers are less sensitive to interest rate movements, while policy measures by the Government seem to have been gradually digested by high net worth locals.

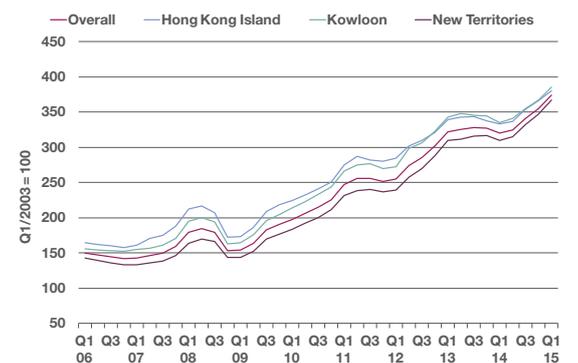
Therefore, we forecast that the price growth of luxury residential properties in Hong Kong will trend upwards by 5% in 2015, and the wealth creation effect as a result of recent stock market rallies in both Hong Kong and China will stimulate people to return to the luxury home market in 2015 and 2016. The rebound in Mainland buyers in the luxury segment should also support price growth in 2015 and 2016. ■

GRAPH 4 Kowloon and New Territories luxury residential price indices, Q1/2003–Q1/2015



Source: Savills Research & Consultancy

GRAPH 5 Mass-residential price indices, Q1/2003–Q1/2015



Source: Savills Research & Consultancy

## 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**  
Deputy Senior 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

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