MARKET IN MINUTES

Savills Research

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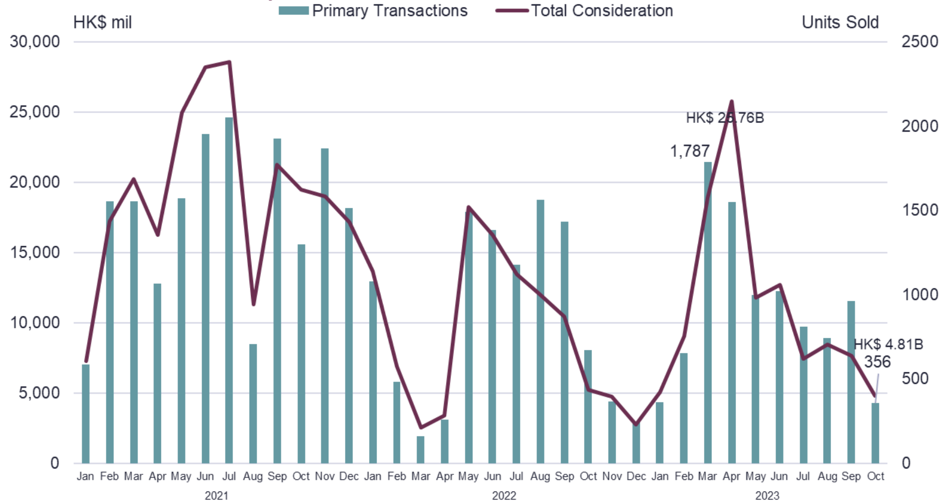
RESIDENTIAL SALES

Relaxation may impact specific market segments

"Primary launches not as beneficial by the recent relaxation as expected, with volume probably going to rebound instead of home prices."

JACK TONG, SAVILLS RESEARCH & CONSULTANCY

GRAPH 1: Primary Residential Units Sold & Consideration, Jan 2021 – Oct 2023



Source The Land Registry, Savills Research & Consultancy

Highlights of the past month was definitely relaxation of restrictive measures on the housing market, cutting BSD and NRSD by half (total 30% to 15%), and incoming talents buying their first homes can be exempted from both BSD and NRSD and pay normal stamp duties as Hongkongers, provided that they would eventually gain Hong Kong permanent residence status within nine years.

Nevertheless, in the three new launches after such relaxation, the message was at least mixed: while NOVO LAND 2A registered the best sales performance with half of the 154 units launched sold with a 4% price discount to previous batch, both SOUTHSKY and KT MARINA 1 only received lukewarm responses with around 30% of launched units being taken up during their respective launches.

The land sales market remained weak, with the latest MTR tender of the residential / commercial site to the opposite of Tung Chung East Station receiving zero bids. Earlier, another government land plot in Tung Chung Town Lot No. 55 at Area 106B, launched via public tender, had all four bids rejected as the tendered premiums fell short of Government's reserve price. While both sites are located in a newly reclaimed area very much depending on future infrastructure and development, the dismal responses were also reflection of cautious attitudes among developers in this challenging market.

While the recent rate hike might attribute to higher mortgage rates and thus increasing difficulties in securing adequate financing for home purchase, another impact more subtle was the increasing time deposit rates, which could easily reach 4% to 5% for larger deposit of late from close to 0% just two years ago. As such, the amount of time deposit skyrocketed from HK$5,600 billion in Jan 2022 to over HK$9,100 billion in September 2023, a HK$3,500 billion increase which could otherwise be injected into the housing market.

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> "While the super luxury segment may continue to be dominated by distress sales, demand for the more affordable luxury products may be boosted by Mainland talents' influx."

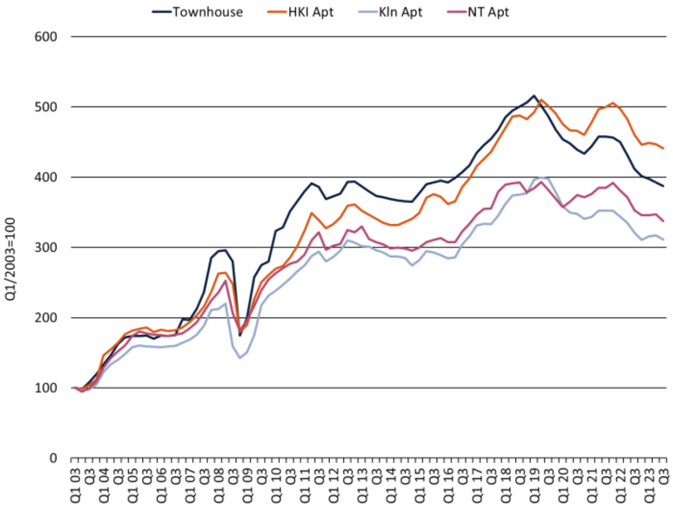
CHERRIE LAI, HEAD OF SAVILLS RESIDENTIAL SALES

TABLE 1: Residential Price Growth by Segment, Q4/2022 to Q3/2023

	Q4/2022	Q1/2023	Q2/2023	Q3/2023
Townhouses	-2.6%	-1.0%	-1.2%	-1.4%
Hong Kong Island Luxury Apartment	-3.1%	+0.6%	-0.5%	-1.2%
Kowloon Luxury Apartment	-2.7%	+1.1%	+0.4%	-1.7%
New Territories Luxury Apartment	-1.8%	+0.1%	+0.2%	-2.8%

Source Savills Research & Consultancy

GRAPH 2: Townhouse and Luxury Apartment Price Indices by District, Q1/2003 – Q3/2023

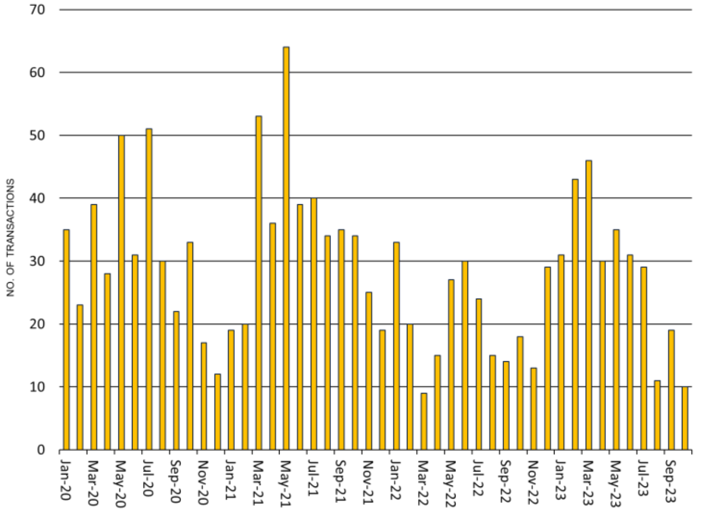


Source Savills Research & Consultancy

In the luxury segment, distressed sales dominated, with the most notable being the sale of 5/F of OPUS on the Peak by a receiver for HK$420 million. The transaction price not only significantly undercut the market valuation of HK$680 million but also fell below the bank loan, indicating a haircut by lending banks to facilitate the deal. On top, there were a number of large townhouses and single number lot detached houses in the hands of receivers which were made available for sales with steep discount to market prices, but lacking genuine buyers.

On the other hand, the recent relaxation of stamp duties to incoming talent may boost the more affordable luxury segment. Upto end of October, there were a total of 9,782 applicants approved under Category A (with annual income over HK$2.5M) of Top Talent Scheme, assuming 60% of them had already arrived, there would be 6,000 additional housing demand for the local market. Even assuming as low as 5% to 10% of them would consider buying, that would be 300 to 600 additional luxury purchase demand over the next 12 months, mainly in the price bracket of $50M-$100M.

GRAPH 3: Luxury Transaction Volumes, $50M-$100M, January 2020 to October 2023



Source Land Registry, Savills Research & Consultancy

MARKET FORECASTS

The mass market is technically in a bear market as home prices fall below the 36-month moving average for consecutive 12 months. The length and depth of this bear market depend on when rate cut would happen and when Hong Kong and China economies are going to rebound, the latter being slightly boosted by the recent US-China ice-breaking presidential meeting.

Oversupply remains a key issue in the super luxury segment, with over 100 houses available in the market, and while most landlords have strong holding powers, primary transaction volume is expected to remain extremely low, with distressed sales likely to dominate the market for the next 6 to 9 months. Super luxury prices, having already declined by 25% to 30% over the past 18 months, may see an additional 15% to 20% decline over the next 12 months. Nevertheless, the more affordable luxury segment ($50M-$100M) may stand to benefit from the continuous influx of Mainland talent.