Residential Sales

savills

New launches to grab headlines

The luxury market endured a difficult year in 2020, in particular at the top end with border closures hindering both potential buyers and capital inflows.

- Luxury volumes fell heavily in the last three months of 2020 with border closures hindering both potential buyers as well as capital inflows.
- Together with other potential launches, luxury launches on Hong Kong Island may involve over 800 units in 2021, a recent annual high.
- Mass volumes staged a rebound in Q4, in particular in the second-hand market, with low interest rates, resilient demand, a raft of favourable policies and a lagging launch schedule all helping to fuel sentiment.
- As many as 31,000 units may be launched for pre-sale in 2021 according to our in-house estimates, although the volatile virus situation may yet push back some launch schedules. With an average primary take-up rate of 17,500 units per annum over the past five years the high number of new launches could test the market.
- Any revival at the top end of the residential market will depend on the timing and extent of border reopening, in particular with Mainland China. With timings still very uncertain, and the first batch of re-entering investors likely to be bargain hunters looking for discounted assets, coupled with an escalating number of new luxury launches, we expect luxury prices to decline by another 5% to 10% in 2021.
- Abundant liquidity and low real interest rates are two persistent factors supporting the mass residential market. While unemployment and bankruptcy may rise over the next few months after the ending of government subsidies, the gradual containment of COVID-19 may lead to economic recovery in the second half of 2021, with the property market likely to respond earlier.

"The mass market saw more support both in terms of prices and volumes with low real interest rates, resilient demand, favourable policies and a lagging launch schedule. Looking ahead, we expect new launches to make up lost ground and buying capacity at both ends of the market will be stretched."

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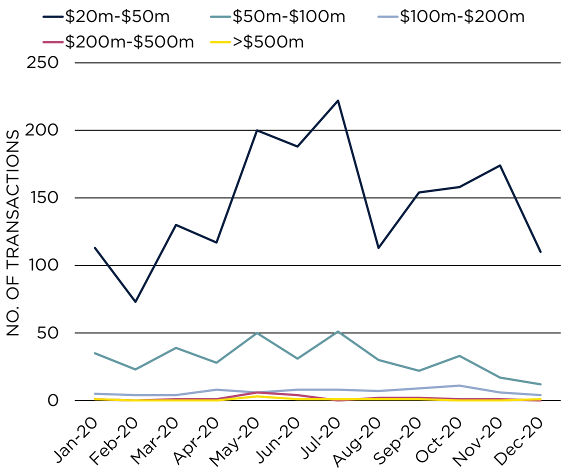
GRAPH 1: Luxury Transaction Volumes By Price Range, January to December 2020



Source Land Registry, Savills Research & Consultancy

TABLE 1: Residential Price Growth By Segment, Q1-Q4/2020, 2020 and 2019

	2020 (%)				2020 (%)	2019 (%)
	Q4	Q3	Q2	Q1		
Townhouse	-1.2	-2.0	-1.3	-3.0	-7.4	-4.2
Hong Kong Island Luxury Apartment	-1.3	-0.1	-2.0	-3.0	-6.2	+1.7
Kowloon Luxury Apartment	-2.1	-0.5	-2.5	-5.4	-10.2	+0.5
New Territories Luxury Apartment	-0.9	+2.6	+2.1	-3.3	+0.4	-2.4

Source Savills Research & Consultancy

LUXURY VOLUMES DECLINE WITH EXTERNAL RISKS APPARENT

Luxury volumes fell heavily in the last three months of 2020 with border closures hindering both potential buyers as well as capital inflows. Luxury volumes shrank from 203 transactions in October to a mere 127 transactions in December last year, with the drop mostly felt in the HK$20 to HK$50 million bracket.

The delay in the completion of the sale of 37 Shouson Hill Road at the end of last year showed how macro issues can directly impact the local property sector, on top of the pandemic and local political events. Nevertheless, there were still investors out there looking for redevelopment opportunities with two major developable sites sold on either side of the harbour in Q4/2020.

With volumes down luxury prices declined across the board in the final quarter. Taking 2020 as a whole the New Territories fared best during the outbreak as more budgeted buyers preferred townhouse developments in this area with more outdoor space. While New Territories prices held up well prices in the other three apartment subsectors (Table 1) declined by 6.2% to 10.2% over the year.

LUXURY LAUNCHES ON HONG KONG ISLAND TO REACH NEW HEIGHTS NEXT YEAR

The two long-awaited new luxury launches, namely Central Peak Phase 1 (53 units) and 21 Borrett Road (181 units), both located in Mid-Levels, were finally launched to the market late last year / early this year, grabbing plenty of market attention at the top end.

Together with other potential launches, such as Victoria Harbour Phase 2B (351 units) developed by SHKP in North Point and the Lee Nam Road luxury project developed by KWG and Logan (295 units) in Aberdeen, luxury launches on Hong Kong Island may involve over 800 units in 2021, a recent annual high.

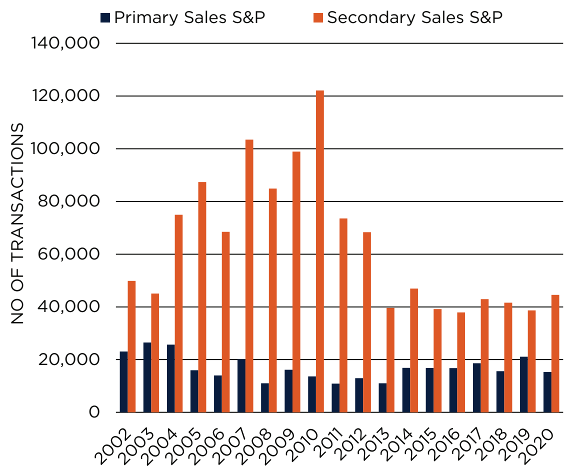
THE MASS MARKET SEES A REVIVING SECONDARY SEGMENT, WITH THE PRIMARY MARKET LIKELY TO COME UNDER PRESSURE IN 2021 WITH A POTENTIALLY HIGH NUMBER OF NEW LAUNCHES

Mass volumes staged a rebound in Q4, in particular in the second-hand market, with low interest rates, resilient demand, a raft of favourable policies and a lagging launch schedule all helping to fuel sentiment. Secondary volumes reached 44,563 in 2020, a 15% increase from the 2019 volume and close to 2014 levels, which was soon after Occupy Central but before the US rate hike.

The virus outbreak delayed government approvals as well as developer launches of primary projects, especially over the first half of 2020, leading to only 18,000 units obtaining pre-sales consent during the year, the lowest figure recorded over the past three years. The 15,000 primary units sold were also some 30% lower than 2019, marking a return to 2018 levels. As such, even under the threat of a fourth wave, mass residential prices remained stable in Q4/2020, and registered a 3.4% increase over a difficult 2020.

As many as 31,000 units may be launched for pre-sale in 2021 according to our in-house estimates, although the volatile virus

GRAPH 2: Primary And Secondary Transaction Volumes, 2002 to 2020



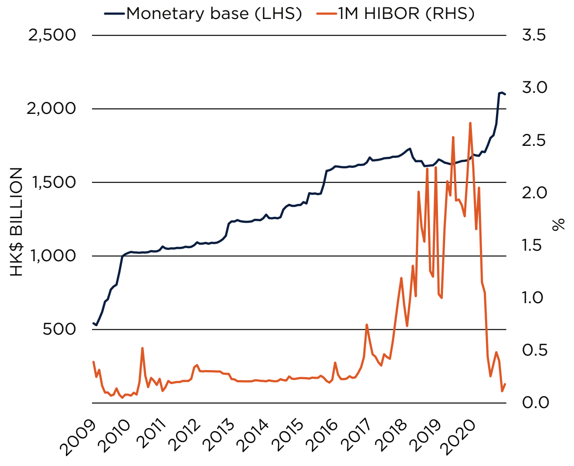
Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 2: Major Super Luxury Transactions (over HK$200 million), Q4/2020

DATE	PROPERTY	FLOOR AREA (SQ FT)	CONSIDERATION (HK$ MILLION)	AVERAGE PRICE (HK$ PSF)
Dec	125 Repulse Bay Road, Southside	30,894 (max GFA)	$1,012	$32,757 (A.V.)
Nov	House, 28 Barker Road, The Peak	5,700 (saleable)	$530	$92,982
Dec	5 Cassia Road, Kowloon Tong	14,418 (max GFA)	$330	$22,888 (A.V.)
Nov	Unit 23A, St. George's Mansion, Ho Man Tin	3,330 (saleable)	$238	$71,471
Nov	House, La Hacienda, The Peak	3,457	$235	$67,978

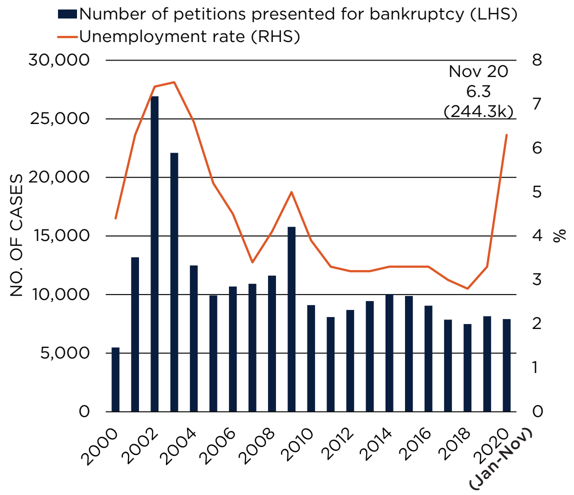
Source EPRC, Newspapers

GRAPH 3: Hong Kong Monetary Base And 1-month HIBOR, January 2009 to December 2020



Source HKMA

GRAPH 4: Bankruptcy Vs Unemployment Rate, 2000 to Jan-Nov 2020



Source Official Receiver's Office, Savills Research & Consultancy

situation may yet push back some launch schedules. With an average primary take-up rate of 17,500 units per annum over the past five years the high number of new launches could test the market.

We believe that the low level of take-up over the past five years may have been due to the relatively low level of primary launches, which have averaged only 19,000 per annum. The potential number of units to be launched via pre-sale in 2021 (maximum 31,000 units) may however lead to competition among developers for potential buyers, and therefore more incentives and favourable down payment / mortgage terms can be expected. Better terms may unlock demand, pushing up transaction numbers.

MARKET OUTLOOK

Any revival at the top end of the residential market will depend on the timing and extent of border reopening, in particular with Mainland China. With timings still very uncertain, and the first batch of re-entering investors likely to be bargain hunters looking for discounted assets, coupled with an escalating number of new luxury launches, we expect luxury prices to decline by another 5% to 10% in 2021.

Abundant liquidity and low real interest rates are two persistent factors supporting the mass residential market. While the prime rate has remained unchanged for some time, 1-month HIBOR has recently compressed and fallen back to 2009 levels, when QE began. Liquidity, reflected by the total monetary base, increased by 30% from the end of 2018 to the end of 2020.

Bankruptcy and unemployment rates have typically moved together over the past two decades. The last time we saw the unemployment rate surge above 6% (2001), bankruptcies hit 13,000 cases. This time round, thanks to various government subsidy programmes, bankruptcies have remained under 8,000 while the unemployment rate soared to 6.3% in November 2020. With subsidy programmes expected to be gradually phased out, further increases in bankruptcies can be expected alongside higher unemployment, thus further suppressing residential demand, in particular in the mass segment.

Nevertheless, the gradual containment of COVID-19 may lead to economic recovery in the second half of 2021, with the property market likely to respond earlier. In general we expect another 3% to 5% increase in prices for 2021 as long-term, sustainable positive factors (high liquidity, low real interest rates) supporting demand are likely to outweigh short-term negative factors (a rise in unemployment, higher numbers of new launches). Competitive pricing from some developers launching new projects may negatively impact residential prices in some micro markets, in our view.