

Residential Sales



Border reopening to boost sentiment

Some eye-catching super luxury deals completed towards the end of the year reflect a revival of sentiment.

- The stock market rebound and an easing of COVID restrictions in Hong Kong lessened negative sentiment in the luxury market at the end of the quarter, while escalating borrowing costs remain a key concern.
- Some eye-catching deals, such as the sale of the luxury site at 5 Mount Cameron Road for HK\$1 billion reflected a revival of sentiment towards the end of 2022.
- The proportion of Mainland buyers in the luxury market hit a new low in 2022 as prolonged border closure, muted business prospects and changing policies all affected Mainland UHNWIs' appetite for trophy assets in Hong Kong.
- Luxury volumes continued to shrink in Q4 across most price brackets, with the few high-profile deals supporting volumes in the HK\$200m+ bracket.
- Border reopening should improve investment sentiment in general, while the potential influx of Mainland

professionals and middle management may boost buyer profiles for luxury apartments in emerging areas such as West Kowloon and Tseung Kwan O.

“Luxury volumes have continued to shrink but the reopening of the border should bring back Mainland professionals with an appetite for luxury apartments in emerging areas.”

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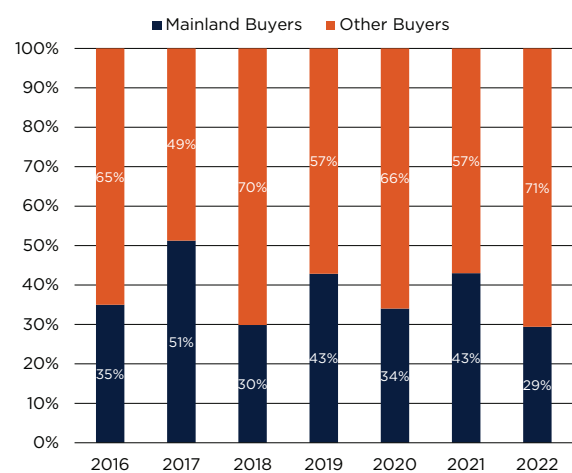


TABLE 1: Residential Price Growth by Segment, Q1/2022 to Q4/2022

	Q1/2022	Q2/2022	Q3/2022	Q4/2022
Townhouse	-1.5%	-4.1%	-4.5%	-2.6%
Hong Kong Island Luxury Apartment	-1.7%	-2.9%	-4.7%	-3.1%
Kowloon Luxury Apartment	-2.1%	-2.7%	-4.2%	-2.7%
New Territories Luxury Apartment	-2.7%	-2.5%	-5.1%	-1.8%

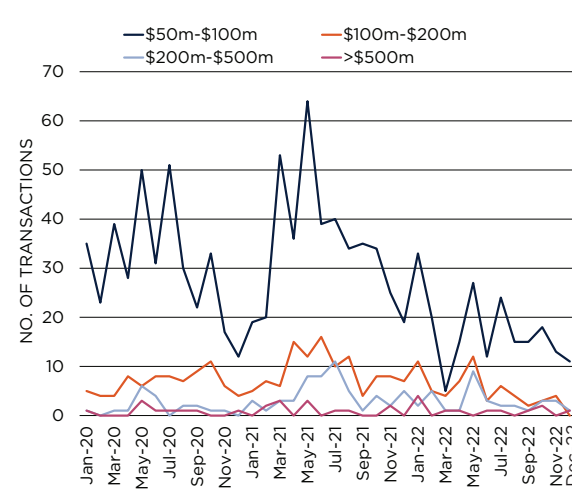
Source Savills Research & Consultancy

GRAPH 1: Luxury Transaction Volume (HK\$100 million or above) by Buyer Profile (The Peak, Mid-Levels and Southside), 2016 to 2022



Source EPRC, Savills Research & Consultancy

GRAPH 2: Luxury Transaction Volumes by Price Range, January 2020 to December 2022



Source Land Registry, Savills Research & Consultancy

A STOCK MARKET REBOUND, AND INTEREST RATE HIKES PULL THE LUXURY APARTMENT MARKET IN OPPOSITE DIRECTIONS

The stock market continued to drift in October 2022 to a recent low of 14,700 by the end of the month but rebounded strongly during the last two months of 2022 to hit 19,800 by the end of December, vastly improving investment sentiment in general. Nevertheless, the rate hikes by the US Federal Reserve in December, lifting the Fed Funds Rate to 4.25% to 4.5%, continued to cloud the prospects for the local luxury residential sector.

With the two opposing market forces in place, luxury residential prices continued to fall, albeit at a slower pace, in Q4/2022, bringing the full year decline in townhouse and luxury apartment prices on Hong Kong Island, Kowloon and the New Territories to -12.1%, -11.8%, -11.2% and -11.6% respectively, the largest YoY price drop since the GFC in 2008/09.

Some eye-catching deals done over the quarter reflected a revival of sentiment towards the end of last year. The most significant transaction was the sale by Swire of the site at 5 Mount Cameron Road on the Peak for HK\$1 billion. The site has building plans approved for the development of two detached houses with a total GFA of 10,589 sq ft, representing an AV of 94,438 per sq ft. While Swire offloaded non-core assets to take advantage of new business opportunities, this was also a rare purchase by a Mainland related party in the super luxury sector in 2022.

On the other hand, the much-anticipated tender of Cape Road luxury residential site (total GFA of 480,231 sq ft) was cancelled on January 10th, 2023, as the tendered premiums of the four tenderers (CK Asset, SHKP, K. Wah and a JV of Sino and Great Eagle) did not meet the Government's reserve price for the site. This sent out a mixed signal to the market as developers now seem less than optimistic in bidding for large-scale residential sites in traditional luxury enclaves.

FEWER MAINLAND BUYERS IN THE SUPER LUXURY SEGMENT

The proportion of Mainland buyers of luxury properties valued above HK\$100 million on the Peak, Mid-Levels and Southside reached a new low in 2022 at 29%, the lowest level since 2016. The total number of deals (34, ten of which were Mainland) also declined substantially from previous years, as prolonged border closure, receding business prospects in China and changing policies all affected Mainland UHNWIs' appetite for trophy assets in Hong Kong.

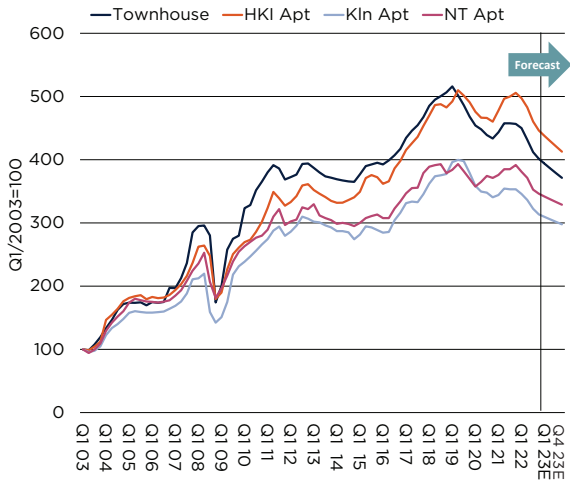
Luxury volumes continued to shrink in Q4 across most price brackets to record 59 deals, a further 20% drop compared to the previous quarter. The few high-profile deals, however, supported volumes in the HK\$200m+ bracket with a 40% QoQ rebound.

TABLE 2: Major Super Luxury Transactions (over HK\$200 million) on Hong Kong Island, Q4/2022

DATE	PROPERTY	FLOOR AREA (SQ FT)	CONSIDERATION (HK\$ MILLION)	AVERAGE PRICE (HK\$ PSF)
Dec	5 Mount Cameron Road, The Peak	10,589 (max GFA)	\$1,000	\$94,438 (A.V.)
Dec	5 Goldsmith Road, Jardine's Lookout	8,548 (saleable)	\$750	\$87,740 (saleable)
Nov	16/F, Mount Nicholson Phase III Tower C, The Peak	4,186 (saleable)	\$500	\$119,446 (saleable)
Nov	House 8, Overbays, Repulse Bay	5,506 (saleable)	\$430	\$78,097 (saleable)
Dec	Penthouse A, Tower 2, INFINITY, 8 Peak Road, The Peak	3,306 (saleable)	\$410	\$124,017 (saleable)
Oct	41A, 39 Conduit Road, Mid-Levels	3,917 (saleable)	\$378	\$96,502 (saleable)
Oct	House 1, 50 Stanley Village Road, Stanley	4,076 (saleable)	\$274	\$67,223 (saleable)

Source EPRC, Newspaper

GRAPH 3: Townhouse and Luxury Apartment Price Indices by District, Q1/2003 - Q4/2023E



Source Savills Research & Consultancy

MARKET OUTLOOK

Border reopening should improve investment sentiment in general, while the potential influx of Mainland professionals and middle management may boost buyer profiles of luxury apartments in emerging areas such as West Kowloon and Tseung Kwan O, while Mainland UHNWIs may once again focus their interest on super luxury homes.

While interest rate hikes may end early this year, the cost of capital looks set to remain high (HIBOR>5%) for most of 2023 while uncertainties remain for the speed of recovery of both the Hong Kong and China economies. Meanwhile, corporate and public debt levels remain key concerns in the Mainland business environment, and thus the ability of UHNWIs to spend on trophy assets.

Based on the assumption that the negative impact of higher mortgage rates and Hong Kong/China economic uncertainties on the luxury sector are likely to outweigh the benefits of border reopening during most of 2023, we therefore anticipate townhouse prices to adjust downwards by another 5% to 10% in 2023 before more Mainland HNW capital returns to the local market for luxury homes towards the end of 2023, while luxury apartments may perform slightly better posting a 5% decline as more Mainland professionals aim to settle in Hong Kong and buy new homes.