MARKET IN MINUTES
Savills Research

Residential Sales

Residential volumes testing new lows

The COVID-19 outbreak is currently hitting the luxury segment harder than the mass market, affecting those with multiple mortgages and / or deals involving Mainland vendors.

- The COVID-19 outbreak has dampened residential sentiment in general, with super luxury transactions hitting another low in January and February before rebounding in March due to an improvement in sentiment as the outbreak was temporarily contained until the influx of overseas Hong Kongers in mid-March caused another wave of infections.

- The luxury apartment market saw shrinking volumes and lower prices as buyers looked for deep discounts. Some Mainland vendors whose businesses faced cashflow issues and landlords of properties with multiple mortgages were prepared to consider such offers on a selective basis.

- While developers turned cautious and slowed primary launches in the mass market, the projects launched still received a generally positive response with more incentive packages and preferential payment methods embedded without significant price adjustments.

- The economic effects of the COVID-19 pandemic look likely to outlast SARS and the prolonged impact of the virus will continue to undermine the local economy and therefore residential demand. Low interest rates, a lower-than-expected level of new completions as well as a possible loosening of some restrictive measures could all help support home prices in the near term, however, with volumes likely to remain low.

"We expect volumes to continue to bear the brunt with prices enjoying a certain level of support from low interest rates and low levels of new completions. Some selective distressed selling has been in evidence."

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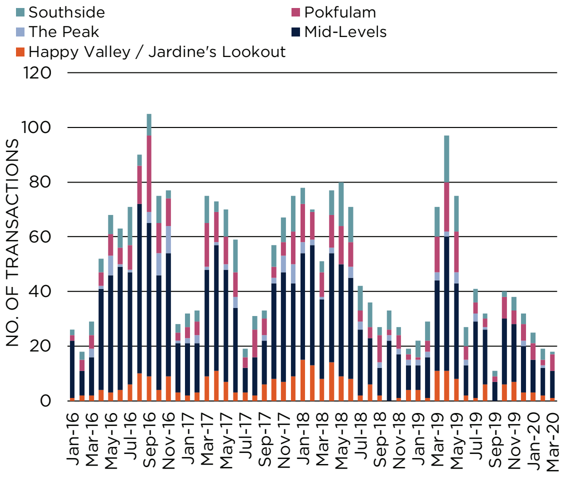
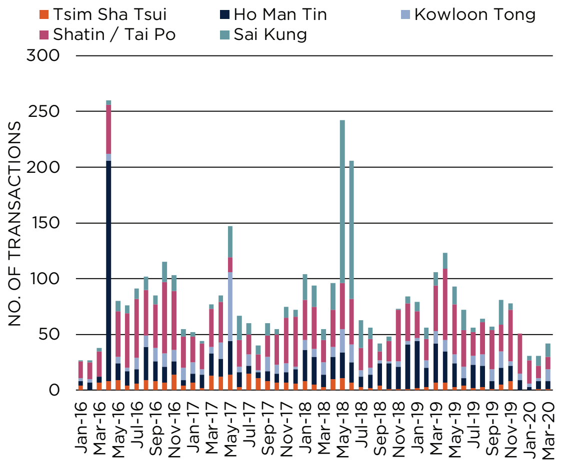
GRAPH 1: Luxury Transaction Volumes On Hong Kong Island, January 2016 to March 2020



Source EPRC, Savills Research & Consultancy

GRAPH 2: Luxury Transaction Volumes In Kowloon/ New Territories, January 2016 to March 2020



Source EPRC, Savills Research & Consultancy

COVID-19 HITTING LUXURY VOLUMES HARD

The COVID-19 outbreak has dampened residential sentiment in general, with super luxury transactions hitting another low in January and February before rebounding in March due to a temporary uplift in sentiment as the outbreak was temporarily contained until an influx of overseas Hong Kongers in mid-March brought about another wave of infections.

A few significant deals were done in March; some were primary projects offloaded by developers, others were prestige houses changing hands between HNWIs, many of them at a discount of 5% to 10% to the previous peak in mid-2019. Townhouse prices on the Peak and Southside registered a 2.5% and 3.3% decline respectively in Q1/2020 as a result, slightly milder than the 4.2% and 3.4% decline registered in Q4/2019.

The luxury apartment market saw shrinking volumes and lower prices as buyers looked for deep discounts. Some Mainland vendors whose businesses faced cashflow issues and landlords of properties with multiple mortgages were prepared to consider such offers on a selective basis.

After a modest rebound in Q4/2019, luxury transaction volumes on Hong Kong Island were hit by weaker sentiment and a lack of new launches due to the virus outbreak in Q1, with volumes sliding heavily by 44% QoQ as a result. With luxury market sentiment first hit by the trade war and then the social unrest and finally by COVID-19, many developers are delaying launches of luxury projects. Examples include Sun Hung Kai's Stubbs Road project (53 units, OP issued in September 2018) and Cheung Kong's Borrett Road project (296 units, OP issued in April 2018). Many developers are currently more focused on clearing any backlog of luxury units rather than marketing new stock. Luxury apartment prices on Hong Kong Island declined by 3.0% in Q1/2020.

Luxury transaction volumes in Kowloon / New Territories also declined sharply by 50.5% in the first quarter with buyers absent from the market given the prevailing uncertainty. Again, the lack of new launches drove volumes down, but there were also more cases of troubled landlords keen to offload their assets at discounted prices, with luxury prices declining by 4.5% in Q1. Areas which have traditionally seen a higher proportion of Mainland buyers, such as Kowloon Station and Kowloon Tong, registered greater falls of 6.9% and 4.9% respectively.

MASS MARKET RELATIVELY UNAFFECTED

While developers turned cautious and slowed primary launches in the mass market, the projects which were launched met with a positive response with more incentive packages and preferential payment methods embedded without significant price adjustments. OCEAN MARINI in LOHAS Park, Tseung Kwan O was brought to the market from mid-March in two batches, with a total of 310 units launched and 255 units sold, making it the best-selling primary launch since the COVID-19 outbreak in mid-January. Housing demand has proved to be surprisingly resilient even at a time when the economy and business prospects in general face a tough few months ahead and unemployment has begun to rise. Mass prices registered a very modest 0.6% decline over the first three months of the year as a result.

TABLE 1: Super Luxury Transactions Volume (over HK$100 million), Q3/2018 to Q1/2020

	2020	2019				2018	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Peak	1	2	4	10	4	15	3
Southside	5	3	4	15	11	6	8
Total	6	5	8	25	15	21	11

Source Land Registry, Savills Research & Consultancy

TABLE 2: Major Super Luxury Transactions (over HK$100 million), Q1/2020

DATE	PROPERTY	FLOOR AREA (SQ FT)	CONSIDERATION (HK$ MILLION)	AVERAGE PRICE (HK$ PSF)
Mar	House 8, 39 Repulse Bay Road, Southside	2,939	$170	$57,843
Mar	21 Po Shan Road, Mid-Levels	8,135	$350	$43,024
Mar	House 1, 90 Repulse Bay Road, Southside	5,862	$468.96	$80,000
Mar	House at 26 Shouson Hill Road, Southside	4,010	$220	$54,863
Mar	92 Repulse Bay Road, Southside	9,000 (max GFA)	$550	$60,000 (A.V.)
Mar	Mid-floor unit B, The Harbourview, Mid-Levels	1,971	$110	$55,800
Mar	Unit B, 22 Mount Austin Road, The Peak	2,221	$130	$58,500
Jan	Duplex unit B, 39 Conduit Road, Mid-Levels	4,664	$295	$63,250

Source EPRC, Newspapers

TABLE 3: Residential Price Growth by Segment, Q1/2020, 2019 And 2018

SECTOR	Q1/2020	2019	2018
Townhouses	-3.0%	-4.2%	+4.3%
Hong Kong Island Luxury Apartments	-3.0%	+1.7%	+6.5%
Kowloon / New Territories Luxury Apartments	-4.5%	-0.7%	+14.8%
Mass Residential	-0.6%	+1.3%	+4.6%

Source Savills Research & Consultancy

MARKET OUTLOOK

The effects of the COVID-19 pandemic look likely to outlast SARS and the prolonged impact of the virus will continue to undermine the local economy and thus residential demand. We remain wary of sharply higher unemployment and widespread business failure and the impact this would have on prices. On a more positive note, low interest rates are keeping real interest rates in negative territory, and lower-than-expected completion levels and a possible loosening of some restrictive measures are all factors helping to support home prices for now, with volumes likely to remain low. The Hong Kong Government, in common with many governments globally, has stepped in with a wide range of measures to protect workers and businesses and this is likely to mitigate some of the worst effects of the abrupt halt in economic activity.