

# Briefing Residential sales

May 2017



## SUMMARY

While volumes remain soft, pricing is holding up well.

- Market sentiment generally remains subdued after the latest round of restrictive measures.
- On Hong Kong Island, townhouses are still highly sought after.
- Industrialists have been keen to find homes in Kowloon and the New Territories with Sai Kung / Clear Water Bay among their top picks.
- Looking ahead, new luxury launches will continue to drive the market (rather than second hand sales)
- Affluent Mainlanders (most with HKID) and local families are still looking for trophy assets / niche products but finding them more and more difficult to identify.

"The super-luxury segment continues to be a seller's market and we can expect more record breaking prices this year."

Simon Smith, Savills Research

→ **Overview**

Market sentiment generally remains subdued after the latest round of restrictive measures (including the HKMA's restriction on bank lending to developers providing high LTV mortgages), and this is being reflected in declining luxury transaction volumes.

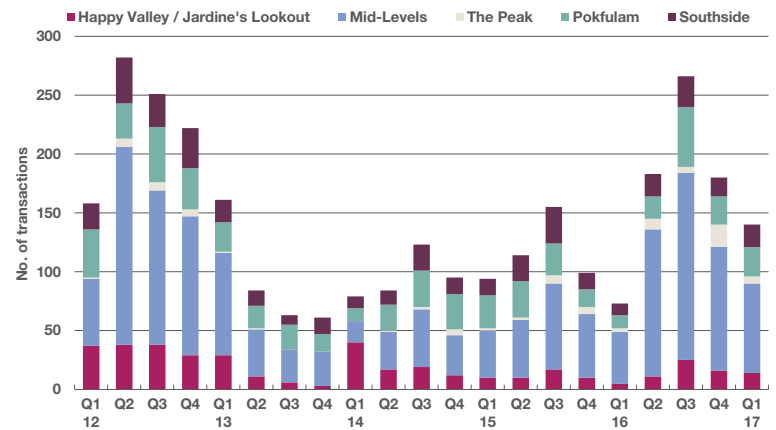
On Hong Kong Island, townhouses are still highly sought after with SEA Holdings' purchase of 11 houses at 1-9 Shouson Hill Road East for HK\$1.528 billion, the most eye-catching. The HK\$51,000 average price represented a significant discount to nearby new house developments selling for HK\$80,000 to HK\$100,000 per sq ft, suggesting a potential capital gain in the medium to long term.

Industrialists have been keen to find homes in Kowloon and the New Territories for their own / second generations' use with Sai Kung / Clear Water Bay among their top picks. Generally these wealthy families are looking for detached / semi-detached 3-storey houses of 4,000 to 5,000 sq ft, clear ceiling heights of 12-feet or above, internal lifts and large private gardens for a price of HK\$300 million or above. Available stock fitting all these criteria is hard to come by and many HNWs are also looking for sites to develop their own houses with all the desired features.

Looking ahead, new luxury launches will continue to drive the market (rather than second hand sales)

GRAPH 2

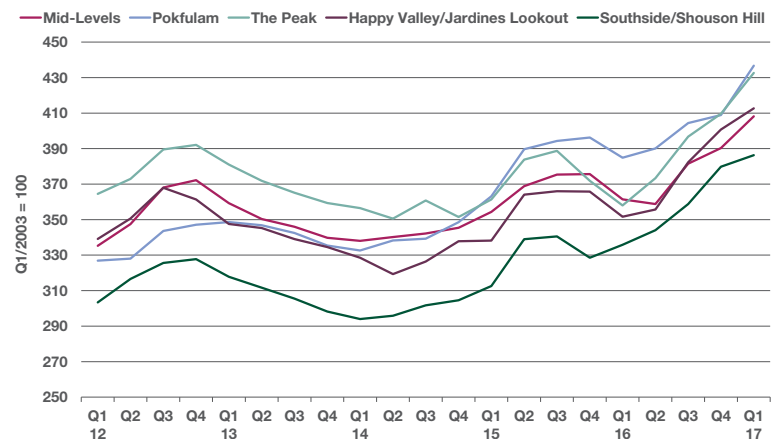
**Luxury transaction volumes by district on Hong Kong Island, Q1/2012–Q1/2017**



Source: EPRC, Savills Research & Consultancy

GRAPH 3

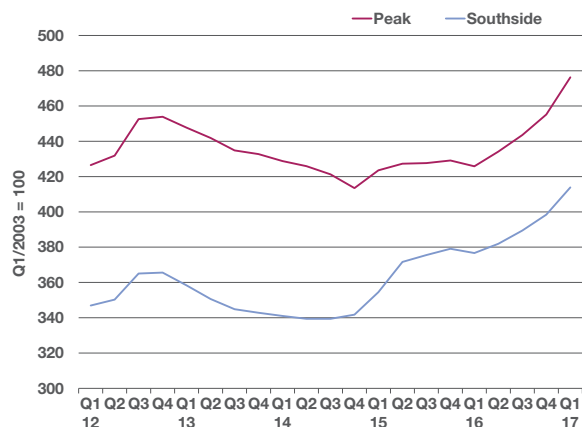
**Luxury apartment price indices by district on Hong Kong Island, Q1/2012–Q1/2017**



Source: Savills Research & Consultancy

GRAPH 1

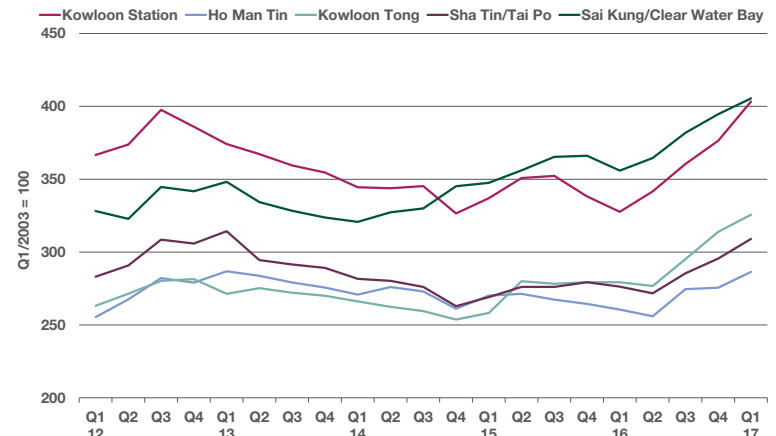
**Townhouse price indices by district, Q1/2012–Q1/2017**



Source: Savills Research & Consultancy

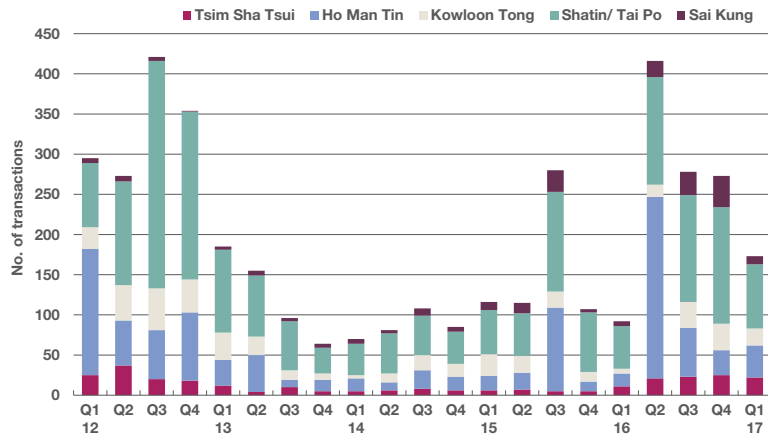
GRAPH 4

**Kowloon and the New Territories luxury residential price indices by district, Q1/2012–Q1/2017**



Source: Savills Research & Consultancy

**GRAPH 5**  
**Luxury transaction volumes by district in Kowloon and the New Territories, Q1/2012–Q1/2017**



Source: EPRC, Savills Research & Consultancy

with landlords likely to harden their negotiation stance further if good sales records can be achieved in the next round of launches. The impact of the latest restrictive measures may ease over time especially in the luxury segment.

Affluent Mainlanders (most with HKID) and local families are still looking for trophy assets / niche products but finding them more and more difficult to identify. With extremely low holding costs the super luxury segment will continue to be a sellers' market with the next super luxury transaction likely to come with yet another record-breaking price tag. Luxury prices therefore look set to continue to increase over the rest of the year, in the order of 5%-10% as a result. ■

**TABLE 1**  
**Luxury residential price changes**

Sector	Q1/2017	2016	2015
Townhouses	+4.2%	+5.5%	+8.3%
Hong Kong Island luxury apartments	+4.3%	+6.9%	+9.3%
Kowloon luxury apartments	+4.8%	+9.5%	+5.3%
New Territories luxury apartments	+3.8%	+6.6%	+6.2%

Source: Savills Research & Consultancy

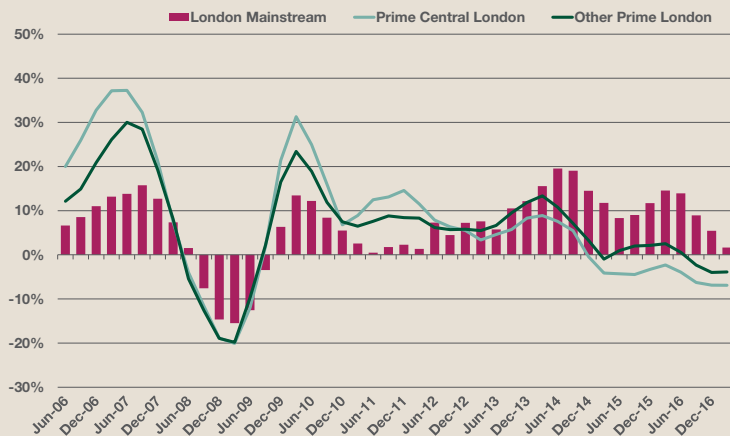
**TABLE 2**  
**Luxury townhouse and apartment pre-sales pipeline in 2017**

District	Development name	Developers	Total no. of unit (est.)
Shouson Hill	8-12 Deep Water Bay Drive	Nan Fung	54
Shatin	La Cresta	Nan Fung, HKRI	61
	St. Moritz	Sun Hun Kai	59

Source: Lands Department, newspaper, annual report of related developers  
The final launch date is subject to related developer's final decisions

# London Calling

GRAPH 6  
Annual house price growth in London, Jun 2006–Mar 2017



Source: Savills, Office of National Statistics

Over the past 10 years house price growth in London has far outstripped the rest of the UK. In the capital prices have risen by 82% over this period, compared to 24% across the country as a

whole. However house price growth in the capital has slowed noticeably in the past 18 months. Prices in the mainstream market have begun to hit up against the limits of mortgage regulations, while the prime market

has had to contend with a much less benign tax environment, given increases to stamp duty and greater exposure to capital taxes for overseas owners. This has generally made the market more sensitive to Brexit uncertainty despite the opportunity of a strong currency play.

But with prices in the prime markets of central London having fallen by 13% since 2014, there is increasing evidence that transactions are gaining more traction, having largely adjusted to reflect these factors. Despite little short term upward pressure on values, this is likely to underpin longer term investment. Given where we are in the cycle, in the mainstream markets investors will be looking for areas that have the potential to outperform London as whole where there is value to be unlocked through infrastructure improvements.

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