

# Residential Sales

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## A sluggish quarter for the super luxury segment

Both luxury and mass residential markets were supported by primary launches during a generally listless second quarter.

- The super luxury segment saw some weakness in demand with both Mainland and local HNWIs adopting a wait and see attitude, resulting in a price adjustment in the townhouse market over Q2.
- Luxury apartment prices on Hong Kong Island held up well though transaction volumes declined, as many potential purchasers were looking for bargains in the secondary market but few landlords were prepared to lower prices.
- The Kowloon / NT luxury market saw transactions rebounding in 1H/2019 thanks to aggressive primary launches, leading to an increment in prices over Q2.
- Mass sentiment was mostly affected by external uncertainties as well as a volatile stock market performance, while active primary launches by developers meant both transaction volumes and values were at par with last year.
- The latest sale of the Kai Tak residential site for a price ‘below market expectations’ may indicate that developers are turning cautious on future residential prospects, but the return of Mainland developers could lead to more aggressive bidding for larger and more prime residential sites.

“The super luxury segment saw some price adjustment with both Mainland and local HNWIs sitting on the sidelines. Elsewhere, buyers were looking for bargains given the uncertain economic environment but very few landlords were prepared to entertain.”

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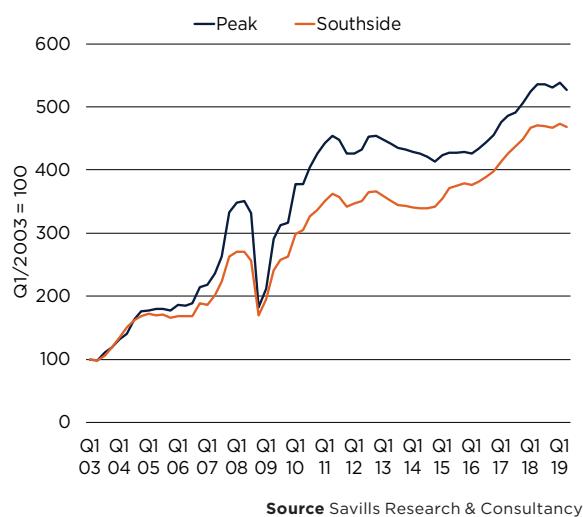
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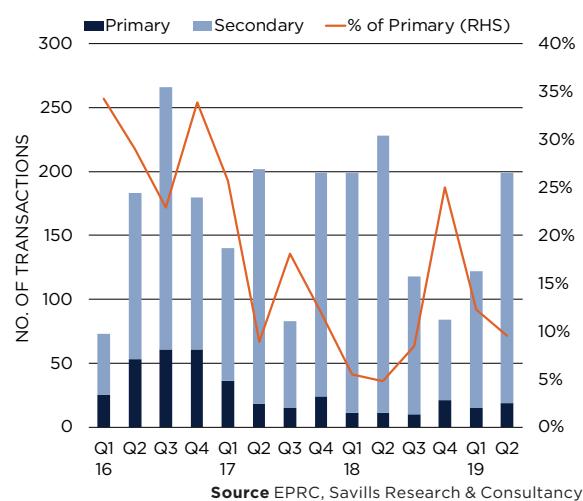
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## Residential Sales

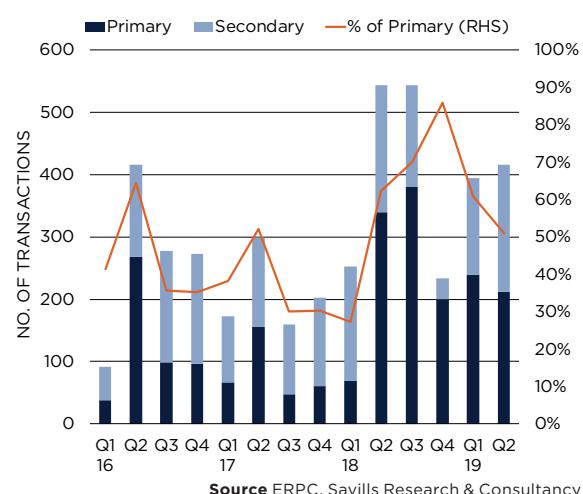
**GRAPH 1: Townhouse Price Indices, Q1/2003 to Q2/2019**



**GRAPH 2: Luxury Primary And Secondary Transaction Volumes On Hong Kong Island, Q1/2016 to Q2/2019**



**GRAPH 3: Luxury Primary And Secondary Transaction Volumes In Kowloon/NT, Q1/2016 to Q2/2019**



### MARKET COMMENTARY

The super luxury segment was sluggish with both Mainland and local HNWIs holding back, leading to a price adjustment of 1.5% in the townhouse market over Q2/2019. The recent US / China trade dispute has hit the core businesses of some Mainland and local tycoons, and the proposed Extradition Bill, though postponed, may also have pushed some of these billionaires to at least rethink of their asset allocation strategy within Asia.

Luxury apartment prices on Hong Kong Island have held up well, with prices increasing by 3.6% in Q2/2019 and 5.6% over the first half of the year. Transaction volume, on the other hand, fell substantially by 24.8% YoY over the first half of the year, as many potential purchasers looked for bargains in the secondary market but few landlords were prepared to entertain, leading to a sharper decline in secondary transaction volumes (29.1%) over the same period.

The Kowloon / NT luxury market saw transactions rebounding in 1H/2019 thanks to aggressive primary launches, with overall and primary transaction volumes both rebounding by 1.6% and 10.8% YoY respectively, led by sales of primary units in Shatin / Tai Po (103 units), Tuen Mun (92 units) and Ho Man Tin (78 units). As a result, Kowloon and NT luxury residential prices increased by 0.9% and 2.3% respectively over Q2/2019.

Mass sentiment was mostly affected by external uncertainties, particularly the impact of the trade war on local job prospects, though active primary launches by developers meant that both transaction volumes and values were on par with last year.

The overall Hong Kong residential market recorded 21,685 transactions in the first four months of 2019, flat compared with the same period last year, with strong primary sales compensating for the subdued secondary market. The primary market share of total volume increased from 22.4% to 37.4% in the first four months of 2019.

### MARKET OUTLOOK

The latest sale of the residential Kai Tak Area 4C Site 1 for HK\$12.916 billion (or AV of HK\$18,080 per sq ft) for a price ‘below market expectations’ given its prime location, may indicate developers are turning cautious on future residential prospects. Nevertheless, with China Resources Land and Poly Property Group the winning bidders, beating off competition from local tycoons such as Cheung Kong and Sun Hung Kai, as well as developers with prior Kai Tak development experience such as K. Wah and Whelock, Mainland developers could be embarking on a more active phase with an eye on larger and more prime residential sites.

With local GDP growing at a much more moderate pace of 0.1% YoY in Q1/2019, together with uncertainties over the US / China trade negotiations and the direction of the local stock market, residential demand may pull back over the next three to six months, especially at the top end where asset allocation among cities is most mobile. The mass market may still be driven by primary sales but the increasing HIBOR and banks’ conservative attitude to mortgage portfolio expansion (many banks are cutting back cash rebates on newly granted mortgages) means developers may have to be more aggressive in providing their own financing packages to boost sales in upcoming launches.

**TABLE 1: Residential Price Growth by Segment, Q1-Q2/2019 and 2018**

SECTOR	Q2/2019	Q1/2019	2018
Townhouses	-1.5%	+1.5%	+4.3%
Hong Kong Island Luxury Apartments	+3.6%	+2.0%	+6.5%
Kowloon / New Territories Luxury Apartments	+1.4%	+0.3%	+14.8%
Mass Residential	+3.0%	+0.8%	+4.6%

Source: Savills Research & Consultancy