Hong Kong – July 2020

MARKET IN MINUTES
Savills Research

Residential Sales

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Luxury volumes rebound

Luxury houses in the New Territories are highly sought after with health concerns pushing end users to look for residences in lower density areas with more outdoor space.

- Luxury sentiment revived in particular in the HK$50-HK$200 million segment where most units offering discounts of around 5% changed hands with 131 transactions registered, a 19% increase from Q1. The super-luxury segment also saw volumes rebound over the quarter with transactions more focused on primary projects.

- Luxury houses in the New Territories were highly sought after with health and lifestyle concerns pushing some end users to look for residences in lower density areas with more outdoor space, and as such luxury prices in the New Territories recorded a surprise rebound of 2.1% where other subsectors recorded discounts of 1% to 3% from the previous quarter.

- With residential prices down by around 10% from their previous peak most vendors still have holding power, which has been reflected in the extremely low delinquency ratios over the past 12 months.

- Of the new super luxury projects which have been completed but not yet launched over the past two years due to uncertain market conditions, many are in prime locations with unique product features and have been developed by well-known developers. We expect the eventual marketing of these projects, together with other potential new launches, to attract interest from UHNWIs.

- Looking ahead, ongoing border restrictions and social distancing measures may affect the ability of both Mainland and local wealthies to identify and view trophy assets, while the recurring virus outbreak as well as and the political situation may push more luxury buyers to consider reallocating some of their real estate investments overseas, with 2H/2020 luxury volumes likely to fall back to previous lows.

"Luxury sentiment has revived especially in the HK$50-HK$200 million segment where 5% discounts were sufficient to attract buyers but with the virus recurring and the political situation uncertain more luxury buyers may be inclined to look at overseas options for future investment."

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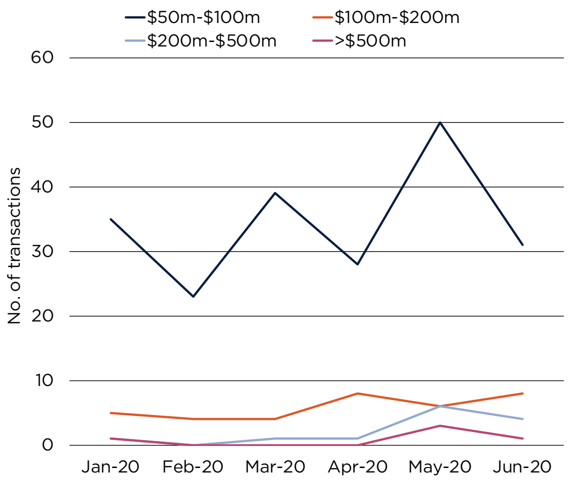
GRAPH 1: Luxury Transaction Volumes By Price Range, January to June 2020



Source Land Registry, Savills Research & Consultancy

TABLE 1: Residential Price Growth By Segment, Q1/2020, 2019 and 2018

	Q2/2020	Q1/2020	2019	FROM PEAK
Townhouse	-1.3%	-3.0%	-4.2%	-9.6%
Hong Kong Island Luxury Apartment	-2.0%	-3.0%	+1.7%	-8.5%
Kowloon Luxury Apartment	-2.5%	-5.4%	+0.5%	-12.6%
New Territories Luxury Apartment	+2.1%	-3.3%	-2.4%	-7.1%

Source Savills Research & Consultancy

LUXURY VOLUMES REBOUNDED

After a subdued Q1 due to the virus outbreak, luxury sentiment revived in the HK$50-HK$200 million segment where units offering 5% discounts attracted buyers with 131 transactions registered in Q2, a 19% increase from Q1. The super-luxury segment also saw volumes rebound over the quarter with transactions more focused on new-build projects.

A few significant deals were concluded in Q2; many were primary projects launched by developers, including luxury houses and special apartments purchased by UHNWIs.

Luxury houses in the New Territories were also highly sought after over the quarter, with health concerns pushing some end users to look for residences in lower density areas with more outdoor space. A house in the new project St. Moritz in Kau To Shan was sold for HK$160 million (average price of HK$42,861 per sq ft) while two houses at Ngam Tau Sha in Clear Water Bay, an area which traditionally sees very few transactions, changed hands for HK$150 million (HK$50,000 per sq ft). As such luxury prices in the New Territories recorded a surprise rebound of 2.1% where other subsectors recorded 1% to 3% discounts from the previous quarter.

With residential prices down by around 10% from their previous peak most vendors still have holding power, which has been reflected in the extremely low delinquency ratios of the past 12 months (averaging 0.03% for over 3 months and 0.01% for over 6 months), suggesting that a wave of distressed sales is unlikely in the short term.

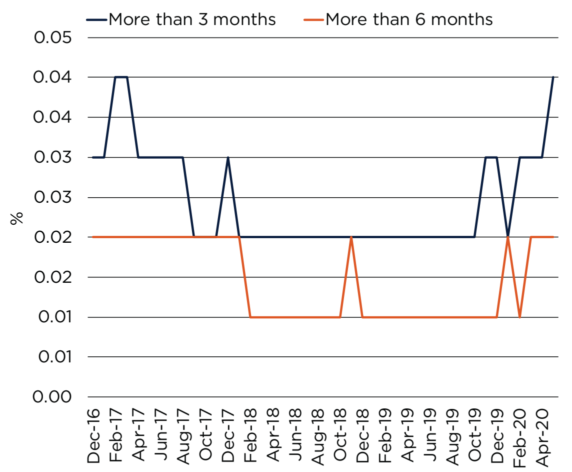
NEW SUPER LUXURY PROJECTS MAY ATTRACT HNWI ATTENTION

Some new super luxury projects have been completed but not yet marketed over the past two years due to the uncertain market. Many of them are in prime locations offering unique features developed by well-known developers, waiting for the best timing and pricing to launch.

Sun Hung Kai's 18 Stubbs Road project, which is divided into phase 1 (Central Peak, 53 apartments) and phase 2 (19 houses), was completed in 2018 but has not yet been brought to the market. Cheung Kong's 21 & 23 Borrett Road project is another example of a large-scale luxury project (296 apartments) completed in 2018 but yet to be launched. Both projects are in prime locations in Mid-Levels and are the largest scale projects for sale in their respective enclaves and should therefore attract plenty of interest when they are finally released.

Located in an exclusive location in Discovery Bay, HKR has developed six very large houses with spacious gardens, private swimming pools and auxillary staff quarters close to the golf course overlooking Lantau Yacht Club and Peng Chau. Five one to two-storey houses (with usable areas ranging from 5,000 to 7,000 sq ft) in Area 1a / 1b of Discovery Bay were issued Occupation Permits in February 2018, together with 16 smaller quarters (usable areas from 40 to 220 sq ft). With their sheer size (both total size and floorplate), unique amenities and exclusive location, these houses should attract the attention of UHNWIs when launched although timing is uncertain.

GRAPH 2: Residential Mortgage Delinquency Ratio, December 2016 to May 2020



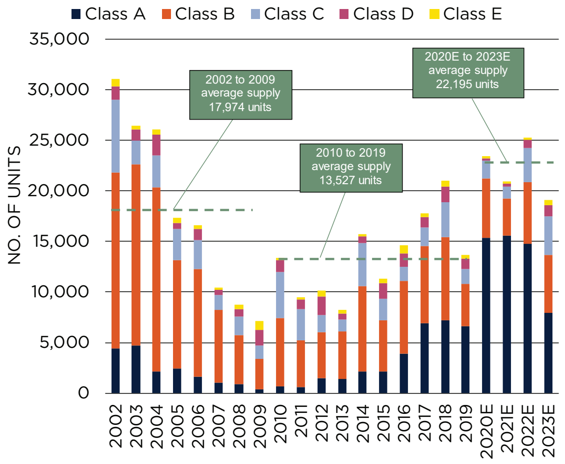
Source HKMA, Savills Research & Consultancy

TABLE 2: Major Super Luxury Transactions (over HK$200 million), Q2/2020

DATE	PROPERTY	FLOOR AREA (SQ FT)	CONSIDERATION (HK$ MILLION)	AVERAGE PRICE (HK$ PSF)
Jun	Unit 10D, Mount Nicolson Phase 3, The Peak	4,596	$533	$115,970
Jun	Unit A & B on high floor, Regence Royale Block 2, Mid-Levels	3,738	$220	$58,855
May	Unit 16A, Dukes Place, Jardine's Lookout	2,848	$222	$77,949
May	Unit 18A, Dukes Place, Jardine's Lookout	2,848	$219	$76,896
May	House 2, Mount Rouge, Beacon Hill	5,148	$370	$71,873
May	House 9, 1 Shouson Hill Road East, Southside	2,657	$200	$75,273

Source EPRC, Newspapers

GRAPH 3: Residential Supply By Class, 2020 to 2023E



Source Rating and Valuation Department, Buildings Department, Savills Research & Consultancy

Other than these super luxury products, there are a number of large-scale residential projects to be launched in the second half of 2020, the most anticipated of which should be PAVILIA, the topside residential development of Tai Wai MTR Station, which comprises three phases to be completed from 2022 onwards representing a total of 3,090 units. Besides providing a full range of unit sizes and flat mixes, the development will also come with a 650,000-sq ft shopping mall developed and managed by MTRC.

MARKET OUTLOOK

Looking ahead, ongoing border restrictions and social distancing measures may affect the ability of both Mainland and local wealthies to view trophy assets. While the recent strength in both the stock market and the Hong Kong dollar indicate an influx of capital, the recurring virus outbreak as well as the uncertain political situation may push many luxury buyers to consider overseas properties, even though their current residential holdings in Hong Kong are unlikely to be liquidated.

Investors are currently looking outside Hong Kong to take advantage of favourable exchange rates and /or reductions in duties in overseas markets. As such, very few existing luxury properties are expected to come to market, while new investment into the local market may be hard to come by, suggesting that luxury volumes may fall back to their previous lows over 2H/2020.