

Residential Sales



Luxury prices drift down

Stock market turbulence and a sharp rise in interest rates suppressed luxury market sentiment in the second quarter.

- The latest stock market turbulence has affected luxury residential sentiment as have recent events in Mainland China.
- A sharp rise of interest rates in the US (75 basis points in June to 1.75%, potentially rising to 3.5% by the end of 2022) has meant a rising cost of capital and a possible end to the negative real interest rate era in Hong Kong.
- Some eye-catching deals, such as the sale of House 7 of No.15 Shouson for HK\$870 million suggests that there is still demand for super luxury products.
- Local developers remain keen to replenish landbanks by acquiring both private and public sites.
- Luxury volumes remained thin in the first half, with the super luxury bracket less affected. As landlords have held back in the first half, we expect to see more launches in the second.

“Though Mainland buyers are still finding it difficult to cross the border, there is still local interest in super luxury homes. Meanwhile, developers are also keen to acquire luxury sites to replenish their landbanks. Looking ahead, border reopening and the pace of rate hikes will be two key factors pulling the market in opposite directions.”

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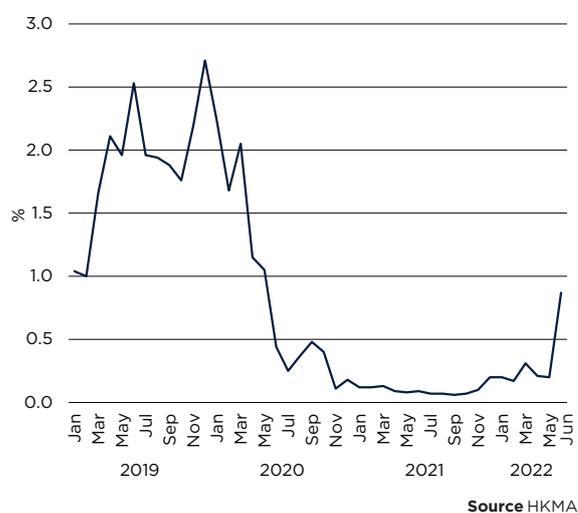
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Savills plc
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GRAPH 1: 1-month HIBOR, January 2019 to June 2022



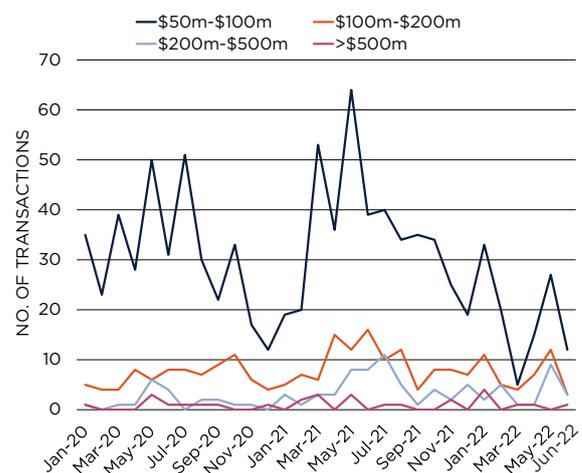
Source HKMA

TABLE 1: Residential Price Growth by Segment, Q3/2021 to Q2/2022

| | Q3/2021 | Q4/2021 | Q1/2022 | Q2/2022 |
|-----------------------------------|---------|---------|---------|---------|
| Townhouse | 0.0% | -0.2% | -1.5% | -4.1% |
| Hong Kong Island Luxury Apartment | +0.7% | +1.2% | -1.7% | -2.9% |
| Kowloon Luxury Apartment | -0.3% | 0.0% | -2.1% | -2.7% |
| New Territories Luxury Apartment | 0.0% | +1.7% | -2.7% | -2.5% |

Source Savills Research & Consultancy

GRAPH 2: Luxury Transaction Volumes by Price Range, January 2000 to June 2022



Source Land Registry, Savills Research & Consultancy

LUXURY SENTIMENT DAMPENED BY STOCK MARKET TURBULENCE AND INTEREST RATE HIKES

The crash of cryptos and the policy response to a fluctuating COVID situation in both Hong Kong and China had led to stock market turbulence, with the IPO market experiencing a difficult period, and funds raised declining by over 90% YoY over the first five months of the year. The new wave of COVID in the Mainland led to the lockdown of major cities including Shanghai and Beijing, dampening economic activity and affecting investment sentiment.

A sharp rise in interest rates in the US (75 basis points in June to 1.75%, potentially rising to 3.5% by the end of 2022) meant a rising cost of capital and a possible end to the negative real interest rate era in Hong Kong. While prime rates remain stable for the moment, HIBOR has been rising steadily from 0.1% late last year to 0.9% in June 2022 and may likely surge by over 2 percentage points by the end of this year, further increasing the burden on homeowners with mortgages, especially those who have purchased primary projects with high LTV ratios.

Against this backdrop, luxury prices continued to decline in Q2/2022 across all districts, with townhouse prices falling by 4.1% QoQ, while luxury prices on Hong Kong Island, Kowloon and the New Territories declined by 2.9%, 2.7% and 2.5% QoQ respectively.

LUXURY HOMES AND SITES STILL IN DEMAND, DESPITE SLOWING VOLUMES

Some eye-catching deals over the quarter suggest that there was still demand for super luxury homes. Take for example House 7 (saleable area 8,032 sq ft) of No.15 Shouwen which was sold for HK\$870 million (HK\$108,317 per sq ft saleable), while the detached house at 6 Perkins Road (7,986 sq ft saleable) was sold for HK\$750 million

(HK\$93,914 per sq ft saleable). Both luxury houses were reported to be purchased by local tycoons, suggesting that local demand could support the high-end segment in the absence of Mainland buyers.

Meanwhile, local developers have still been keen to replenish landbanks by acquiring both private and public sites. After acquiring the South Bay Road site via government tender for HK\$1.2 billion last quarter, SEA Group continued its quest for luxury sites by acquiring Loong Fung Terrace in Jardine's Lookout, a building under the Civil Servant' Co-operative Building Society (CBS) Scheme, for HK\$627 million (inclusive of land premiums). With a maximum GFA of around 22,000 sq ft, the AV of the transaction was around HK\$28,500 per sq ft.

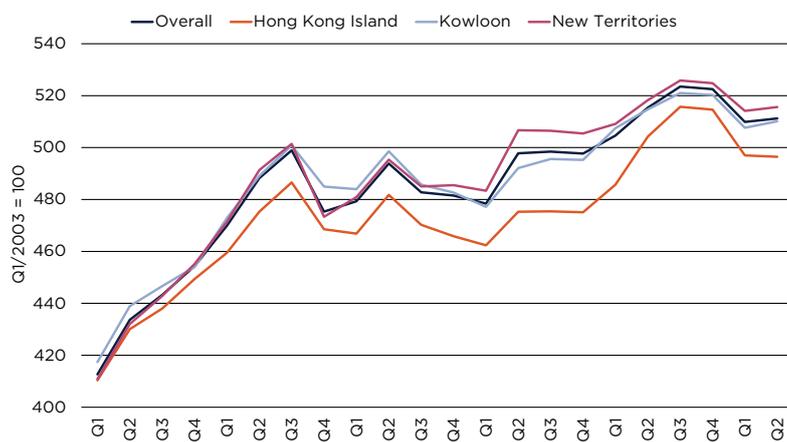
Another luxury site at 269 Queen's Road East tendered by the Government in June, with a maximum GFA of 116,229 sq ft, was sold to Swire Properties for a consideration of HK\$1.96 billion, representing an AV of HK\$16,881 per sq ft. This latest addition reaffirmed the developer's intention to strengthen its residential and commercial portfolio in the Wanchai / Admiralty area.

Luxury volumes (over HK\$50 million) revived briefly in April and May due to the containment of the virus, but subsequent stock market turbulence and lockdowns in China eventually deterred potential suitors, with Q2 registering 91 transactions, the same number of deals as Q1. We saw a slight rebound in volumes for properties of over HK\$200 million as super luxury homes were still sought after by local billionaires.

THE MASS MARKET STABILIZES WITH NEW LAUNCHES ATTRACTING ATTENTION

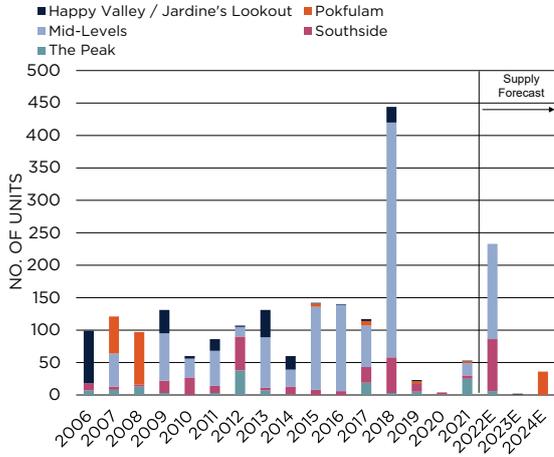
The mass market saw some stability in price movement over the quarter with prices remaining more or less unchanged in selected

GRAPH 3: Mass Market Price Indices by District, Q1/2017 to Q2/2022



Source Savills Research & Consultancy

GRAPH 4: Luxury Supply Forecast for Hong Kong Island, 2006 to 2024E



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

districts. Mass market sentiment has been supported by successful new launches over the quarter, such as Grand Mayfair I (388 units sold in 1 day) and Grand Mayfair II (249 units sold in 1 day) in Kam Tin, Villa Garda I of LOHAS Park (238 units sold in 3 hours), Silicon Hill Phase 1 in Tai Po (170 units sold in 1 day) and Grand Jete in Tuen Mun (101 units sold in 3 days). Although interest rate hikes are on the way and with plenty of external uncertainties, potential buyers were still keen to enter the primary market attracted by high LTV ratios and flexible payment terms.

MARKET OUTLOOK

Looking ahead, border reopening and the pace of rate hikes are two opposing forces impacting the luxury market. While interest rates are likely to increase progressively by another 2 to 3 percentage points over the

next 12 to 18 months, the timeline for even a restricted / partial border reopening remains uncertain. The limited supply over the next two to three years, with around 90 luxury units scheduled for completion per annum, will be another supporting factor for market values while Mainland developer debt woes could negatively impact Mainland HNWI's willingness to invest in Hong Kong.

Reconciling these multiple and often contradictory forces, we expect luxury residential prices to fall further by 5% over the remainder of the year.