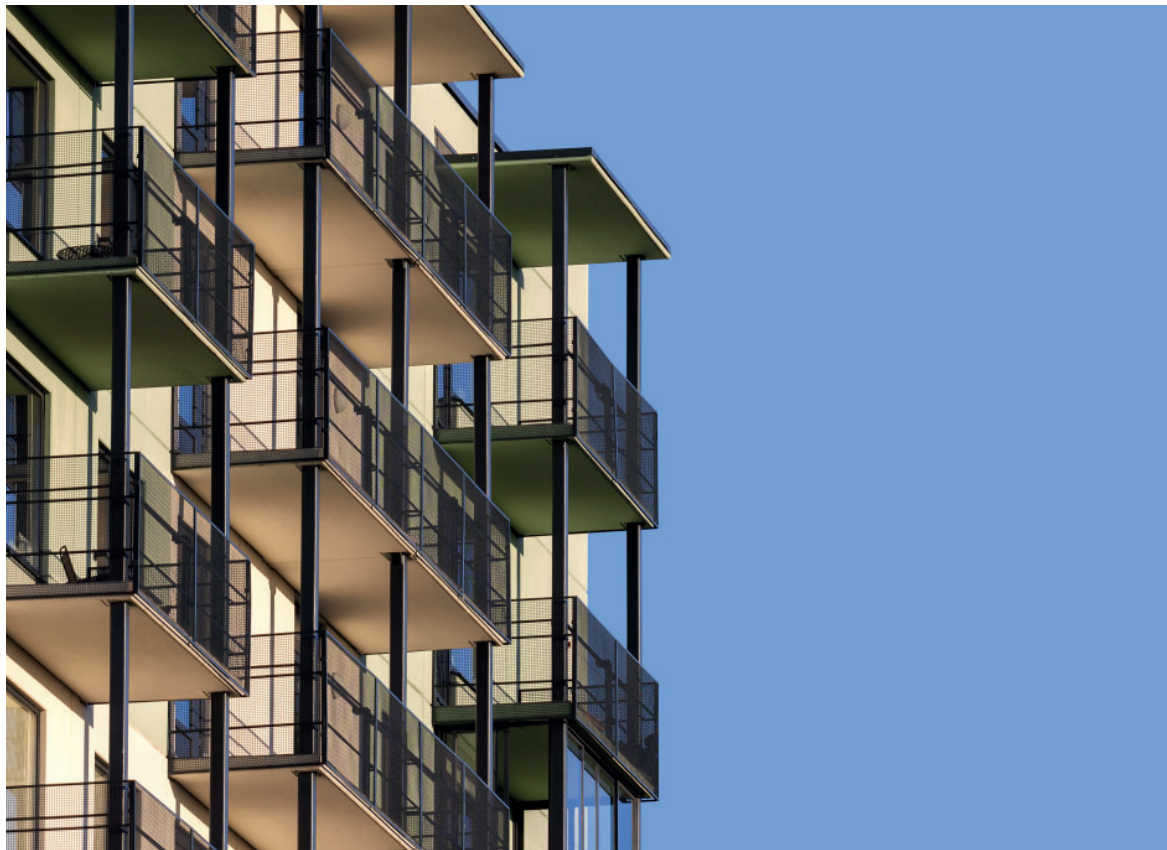


Residential Sales

savills



Luxury sales volumes dwindle

In the luxury segment prices fell marginally with volumes bearing the brunt of the downturn, while in the mass market volumes are being supported by an active primary sales pipeline.

- With many local investors more focused on capital preservation, and with overseas buying interest on the rise, luxury prices declined marginally across the board in the third quarter while volumes on Hong Kong island were hard hit.
- While recent social unrest and worsening economic conditions have cast a cloud over the housing market in general, mass residential volumes have held up well thanks to buoyant primary sales over the first eight months of the year. The implementation of a vacancy tax by year-end should accelerate launches of backlog units as well as new projects, maintaining market momentum.
- The surprise rise in the LTV ceiling in government's latest Policy Address may fuel short-term demand in the secondary market, while various measures to increase supply, including land resumption and the Land Sharing Pilot Scheme, remain long-term solutions to today's housing problem.
- The impact of the trade war on businesses in Hong Kong and southern China, the threat of extradition and the subsequent social unrest have all rattled local investment sentiment, especially among HNWIs, and without any resolution we expect to see luxury volumes remain subdued to year-end but steep price discounting still seems unlikely.

“With businesses hit by the trade war and confidence rattled by local unrest, many investors are placing more emphasis on cash preservation or are looking overseas for opportunities. The implementation of the vacancy tax is likely to continue to encourage new launches, supporting New Territories volumes to year-end.”

SIMON SMITH, SAVILLS RESEARCH

Savills team

Please contact us for further information

REALTY INVESTMENT

KEITH CHANG
Senior Director
+852 2842 4434
kchang@savills.com.hk

RESIDENTIAL SERVICES

Edina Wong
Senior Director
+852 2842 4283
ewong@savills.com.hk

RESIDENTIAL DEVELOPMENT & INVESTMENT

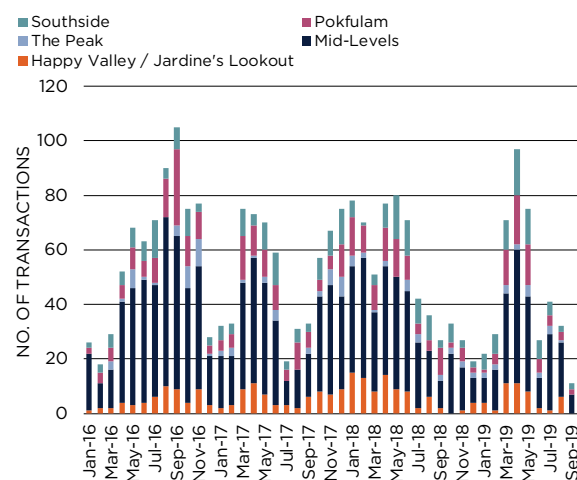
Patrick Chau
Senior Director
+852 2840 4728
pchau@savills.com.hk

RESEARCH

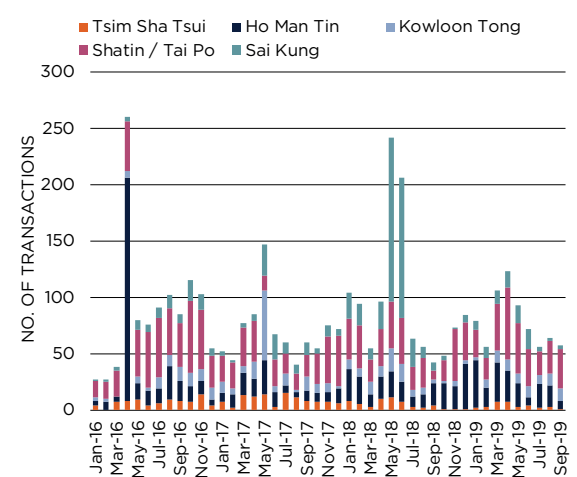
Simon Smith
Senior Director
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Jack Tong
Director
+852 2842 4213
jtong@savills.com.hk

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

GRAPH 1: Luxury Transaction Volumes On Hong Kong Island, January 2016 to September 2019


Source EPRC, Savills Research & Consultancy

GRAPH 2: Luxury Transaction Volumes In Kowloon/ New Territories, January 2016 to September 2019


Source EPRC, Savills Research & Consultancy

TABLE 1: Luxury Transactions Of Over HK\$100 Million On The Peak And Southside, Q3/2018 to Q3/2019

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

Source EPRC, Savills Research & Consultancy

LUXURY VOLUMES FALL SHARPLY WHILE PRICES MODERATE

Luxury volumes on Hong Kong Island declined significantly from April onwards as a series of threats including the trade war, a subdued stock market and more recently the social unrest shifted the attention of investors overseas. Among HNWIs' and family offices, investment strategies turned to more conservative themes with few choosing to invest in super luxury housing, in particular on Hong Kong Island. As a result, a sharp decline in sales of luxury properties (over 1,000 sq ft/over HK\$10 mn) was noted from near 100 in April to around 10 in September, a 90% reduction.

The Kowloon / NT luxury the market also saw a fall in transactions, albeit more gradually over the past few months, with primary launches in Ho Man Tin and Shatin / Tai Po helping to sustain buyer interest in a difficult market. Volumes declined by 54% from April to September, reaching 57 transactions.

The super luxury segment saw very few transactions with local wealthies refraining from buying trophy assets as the ongoing trade war had a negative impact on their businesses, both in Hong Kong and China. Only eight transactions of over HK\$100 million were recorded on the Peak and Southside in Q3/2019, significantly lower than the 25 super luxury premises transacted last quarter, and marginally lower than the 11 transactions recorded a year ago when investment sentiment was clouded by the first interest rate hike.

With lacklustre activity levels, luxury residential prices receded across the board in Q3/2019, with luxury apartment prices on Hong Kong Island slipping by 1.7% q-o-q.

It is worth remembering that luxury prices are being supported by constrained supply levels, negative real interest rates and ample local liquidity and the likelihood of steep price discounts still seems remote.

VACANCY TAX PROMPTS FURTHER PRIMARY SALES IN THE MASS RESIDENTIAL MARKET

The gazette and likely implementation of the vacancy tax proposal by year-end has prompted further primary sales, which have been escalating over the past few months. In the first eight months of 2019, a total of 15,601 primary transactions were recorded, representing 36% of total volume over the period, 43% higher than the same period in 2018. Such an increase has completely offset the decline in secondary sales (-19% y-o-y), so overall residential transaction volumes remained relatively constant from January to August in 2019 as a result. The implementation of the vacancy tax later this year should accelerate developers' launches of backlog units as well as new projects, maintaining market momentum to year end.

THE RECENT POLICY ADDRESS MAY FUEL SHORT-TERM DEMAND, BUT LAND SUPPLY SOLUTIONS REMAIN LONG-TERM

The surprise rise in the LTV ceiling for 80% and 90% mortgages to HK\$10 million and HK\$8 million respectively may fuel short-term demand for secondary premises in those particular price brackets, with some landlords already reacting by increasing asking prices by 5% to 10%. While down payments for these types of unit will be significantly lower (more favourable in the secondary market with no financing

TABLE 2: Residential Price Growth by Segment, Q1-Q3/2019 and 2018

SECTOR	Q3/2019	Q2/2019	Q1/2019	2018
Townhouses	-0.3%	-1.5%	+1.5%	+4.3%
Hong Kong Island Luxury Apartments	-1.7%	+3.6%	+2.0%	+6.5%
Kowloon / New Territories Luxury Apartments	-1.5%	+1.4%	+0.3%	+14.8%
Mass Residential	-3.0% (estimate)	+3.0%	+0.8%	+4.6%

Source Savills Research & Consultancy

packages from developers), the higher monthly instalments mean more stretched affordability (already close to 50%), and given the uncertain market, the risk of negative equity and default may increase alongside rising volumes.

In terms of land supply, the government has put forward various measures, the most significant of which was to invoke the Lands Resumption Ordinance to resume three types of land: brownfield sites in the New Territories outside planned New Development Areas but with development potential (450 hectares); private land zoned for high-density housing development but without any development plans; and urban private land in Cha Kwo Ling Village, Ngau Chi Wan Village and Chuk Yuen United Village (7 hectares).

Government also put forward details of a Land Sharing Pilot Scheme to encourage farmland conversion owned by private developers, with a pilot period of three years and a cap of 150 hectares of land conversion. While all these measures aim to resolve the land supply shortage, most remain long-term and will have little impact on the market in the near-term.

MARKET OUTLOOK

With no resolution to the social unrest in sight and the corrosive effects of the trade war hitting local growth rates, many investors will want to maintain a cautious attitude to the local market with some looking overseas for opportunities. With limited supply, negative real interest rates and plenty of local liquidity, it is difficult to foresee any dramatic fall in prices, however, and we therefore expect to see a decline in values of less than 5% to the end of the year, reversing most gains made over the first half. While the mass market is benefitting from supportive government measures which may boost prices over the next three to six months, if worsening economic fundamentals feed through to rising unemployment and lower wages, demand may dwindle again next year.