

Home Prices Continue to Hit Record Highs

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Buyers Willing to go to Extremes for a Home

Although the latest round of mortgage-tightening measures implemented in February 2015 suppressed transaction volumes, prices in both luxury and mass-market homes continued to break records, despite hefty levies. According to the Land Registry, transaction volumes decreased 23.9% quarter-on-quarter in the three-month period ending May 2015. The primary-sales market remained the focus.

The luxury segment is always subject to tight supply and buyers are willing to pay headline-grabbing prices for trophy properties. In June 2015, Swire Properties sold a unit at its luxury project – Opus Hong Kong in Mid-Levels – at a price that set an Asian high. At HK\$95,971 per sq ft (saleable area), a duplex on the ground floor became Asia's most expensive apartment. The previous high was HK\$93,000 per sq ft, set by Henderson Land at 39 Conduit Road in April.

Colliers View

Home prices continue to rise despite repeated attempts by the government to keep them in check. The primary market dominated home sales, as evidenced by the strong responses of new launches. The prospective property buyers in the market are financially strong. Tougher borrowing measures imposed from Day One have effectively removed weak homebuyers, and bank stress tests have already factored in a potential hike in interest rates.

The number of flats in the secondary market that are up for sale is expected to remain low this year. This is because homeowners are in no rush to sell their existing apartments since borrowing is harder in the secondary market. This makes it harder for primary-market buyers to upgrade via the existing housing stock. All these administrative measures have distorted the market by reducing supply in the secondary market.

	Current	2015F
Overall Luxury Residential Rent	\$43.30	10%
Overall Luxury Residential Price	\$22,953	6%
Yield (Residential Class E)	2.2%	10 bps

Rents are expressed as HK\$ per sq ft per month
Prices are expressed as HK\$ per sq ft
Source: Colliers; Rating and Valuation Department

Meanwhile, the trend of rising home values has resulted in deteriorating affordability. The strong demand for smaller sized flats has contributed to the rise in prices. We do not rule out further cooling measures if property prices continue to grow by another 5% to 10% this year. These may include lowering the maximum loan-to-value ratios and tightening requirements on second mortgages.

Prices Climb to Record Highs

Prices for both luxury and mass-market homes continued to hit record highs. Overall, mass residential prices climbed 14% in 2014, escalated a further 4% in 1Q 2015 and another 2% in 2Q 2015. Meanwhile, luxury prices witnessed moderate growth of 2% in 2014, edged up 3% in 1Q 2015 and another 1% in 2Q 2015.

Colliers View

All these administrative measures have distorted the market by reducing supply in the secondary market and strengthening demand for smaller apartments. Ever-rising mass home prices have limited buyer affordability and spurred demand for smaller flats, thus pushing up prices for tiny apartments. The potential of the first interest-rate increase essentially poses little threat to the fundamentals of Hong Kong's housing market. Inadequate housing will continue to drive up prices. To have a healthy real estate industry, a vibrant secondary market with upgraders is vital.

Rents Set to Pick Up 10% in 2015

As the global economy finds its footing again and some multinational companies start to resume their expansion plans, leasing activity in the luxury residential sector is gaining momentum. The rising demand from both financial services and non-financial services corporations has contributed to the decline in vacancy rates for high-end residential properties. Flats with monthly rents under HK\$60,000 remained the most active, while more tenants seek flats with monthly rents between HK\$80,000 and HK\$100,000. Rents for high-end residential properties in Hong Kong rose 3.1% quarter-on-quarter in 2Q 2015 after 4.3% Q-on-Q growth in 1Q 2015.

However, the top-end segment continued to suffer from a limited pool of high-budget tenants (HK\$150,000 and above). The lack of demand for houses in the traditional luxury districts put added pressure on rents. For that reason, landlords were more willing to accept rental renewals at a discount rather than leave their unit vacant. Some landlords in the same situation offer flexible leases to maintain their competitiveness.

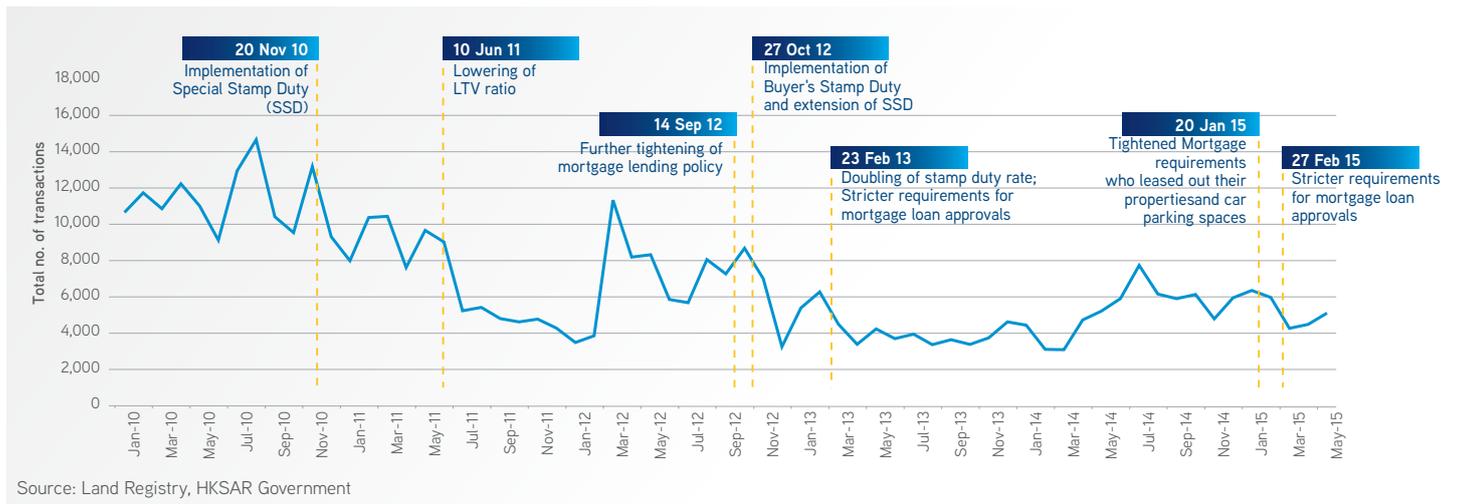
Colliers View

Luxury residential rents bottomed out last year and will pick up 10% in 2015, which is the strongest growth following the global financial crisis. Growth will be primarily driven by apartment buildings that have high occupancy. For that reason, landlords will be less willing to negotiate on rents, causing the rental-expectation gap between tenants and landlords to close. The banking and finance industry is not too eager to increase housing allowances considerably but we predict they will keep them steady.

Concluding Thoughts

Home prices will continue to trend upwards in 2015. Our positive outlook on Hong Kong property prices is based on the excess liquidity throughout the global economy, abundant interbank liquidity in Hong Kong, low vacancies, no oversupply and rental growth momentum this year. These factors support further growth. The trend of rising home prices is spurring keen demand for small-to medium sized units, which are helping to boost prices in general. The first anticipated interest rate increase will have limited impact on the property market. We forecast rents to rise 10%, faster than the 6% increase in prices, with yields edging up 10 basis points in 2015.

Residential Properties Transaction Trend



The information contained in this report is a summarised version of our observations on the market in the past quarter. A more in-depth overview on specific sectors are available upon request.

FOR MORE INFORMATION

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