Luxury Surge

The market isn't slowing, with some predicting 10% price increases for luxury properties over the next two years

By Jennifer Wang

Luxury prices in The Peak have risen 27.8% over the past three years.

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Red-Hot Hong Kong Prices Still Rising

Prices for ultraluxury units in Hong Kong's residential market hit a peak last November—literally—when a buyer purchased two units at The Peak, a development at the city's highest elevation, for a total of HK$1.16 billion. At HK$132,060 per square feet, it set a world record for the price of a condominium or apartment transaction.

For many experts, the news wasn't surprising. "It is possible for Hong Kong to surpass Monaco to become the place with the most expensive property prices in the world," says Maggie Hu, assistant professor of real estate and finance at The Chinese University of Hong Kong.

At the end of the day, it comes down to a limited supply of developable land. "Only 6.9%, or 77 square kilometers, of Hong Kong's landmass is zoned for housing utilization, and about half of that is allocated to low-density rural settlements that cannot be easily transacted in the property market," she says. "This is a meager amount compared with the land allocated to country parks and natural reserves, which take up about 65.8% of Hong Kong's land."

Changing that won't be easy, according to K. W. Chau, head of the real estate and construction department at The University of Hong Kong.

"There is a huge political resistance from different stakeholders to change this land-use pattern...and because people know this is a difficult problem to solve, they rush into the market knowing prices will continue to grow."

"Housing prices in Hong Kong have more than doubled since the depths of the global financial crisis and now stand at record-high levels," says Denis Ma, head of research for Jones Lang LaSalle , or JLL, in Hong Kong.

Meanwhile, the government's Rating and Valuation Department reported that overall property prices increased 12.5% year over year in 2017, pushed up by a mere 3.8% housing-vacancy rate—down from 4.3% in 2012.

According to Knight Frank's 2017 Global Cities report, Hong Kong was one of the most improved markets of the year in terms of price growth, with an annual growth of 14.8%, compared with 7.4% in 2016.

The Government's "Cooling" Schemes

In response, government officials have put housing affordability at the forefront of policy, levying higher stamp duties of 15% (30% for foreigners), introducing more restrictive financing terms, and pushing to convert more industrial land and farmland into residential space. But with prices rising every month for nearly two years, many are asking if prices will ever stop rising.

The experts agree: Not anytime soon.

In fact, Mr. Ma notes that the "cooling" measures not only have failed to rein in property prices but also have made the situation worse by shutting down the secondary market, where transaction volumes have been cut in half since demand-suppression policies were introduced in 2009. (Housing prices, in contrast, have increased approximately 85%.)

Overall, cooling measures haven't slowed growth, says Daniel Shih, director of research at Colliers International Hong Kong, noting that year-over-year transaction volumes increased by 13% last year.

"We project prices will increase up to 10% in 2018, with the luxury segment growing by 3% to 5%," Mr. Shih says. "And we aren't going to see price adjustments until 2020 because the supply shortage remains unsolved, and we don't expect real interest rates to turn positive before the second half of 2019."

Little is deterring cashed-up mainland buyers and local residents who are enjoying robust business conditions in Hong Kong: an unemployment rate at a 20-year low (2.9% in January), a 10.4% increase in sales of luxury goods, an 18.1% increase in exports, and a stable inflation rate.

A buoyant stock market—up 36% in 2017—is another factor, adds David Ji, Knight Frank director and head of research and consultancy in Greater China. "This creates a wealth effect where people want to put money into real estate to lock in profits," he says.

Sai Kung, below, is among the regions seeing the largest price hikes.

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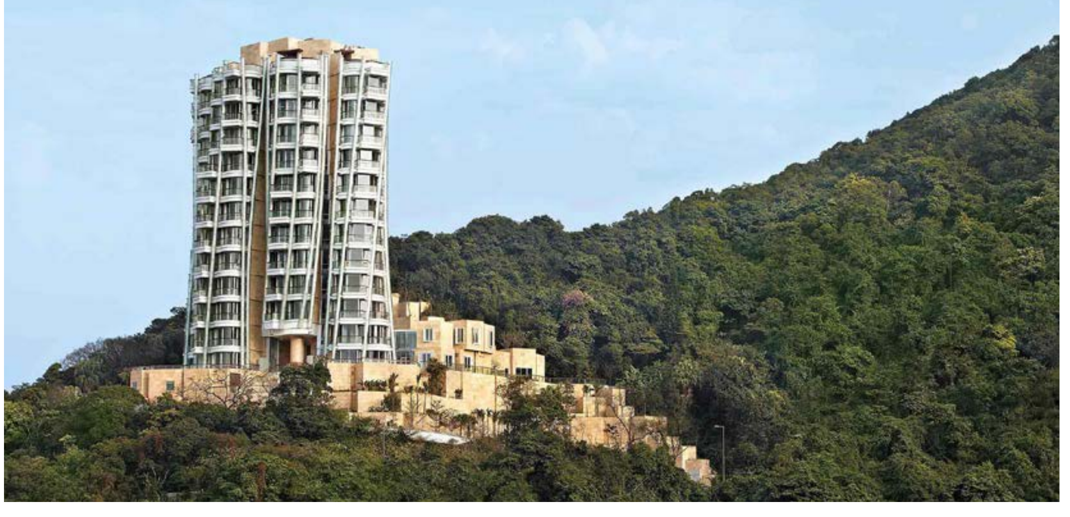

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"For the wealthy, Hong Kong has many attractive points that drive continual demand"

— David Ji, Knight Frank

Prices Expected to Keep Growing

And there's even less chance of slowing prices in the luxury market, which Mr. Ji projects will grow 8% by the end of 2018.

"For the wealthy, Hong Kong has many attractive points that drive continual demand," Mr. Ji says. "It's a major financial center for business and investment, and there's an active buyer's market with a good lifestyle and proximity to other wealthy people."

Indeed, according to Binoche Chan, chief operating officer of List Sotheby's International Realty, demand is "very strong" in the top-end luxury market. "Hong Kong is a 'must' destination for wealthy locals and mainland Chinese if they want to invest in property," she says.

She adds that many permanent residents are also buying to take advantage of a one-time 4.25% stamp duty on the purchase of their first luxury property of HK$20 million or more—which applies even if they have other properties purchased through a company.

According to JLL, the biggest price hikes in the luxury segment are in neighborhoods like The Peak, Happy Valley/Tai Hang, and Sai Kung, where the past three years have seen an increase of 27.8%, 32.6%, and 29.3%, respectively.

The only thing that might cause prices to fall would be a change in sentiment, Mr. Shih says, recalling a sudden 10% dip in 2015 when people feared an interest-rate increase.

Mr. Ma, meanwhile, forecasts 10% growth over the next two years in the capital values of luxury properties, with those at the top end outperforming expectations.

"Although prices are elevated," he says, "we believe there is still room for more growth, especially in the top end of the market with properties over HK$100 million, where the availability is extremely low."