

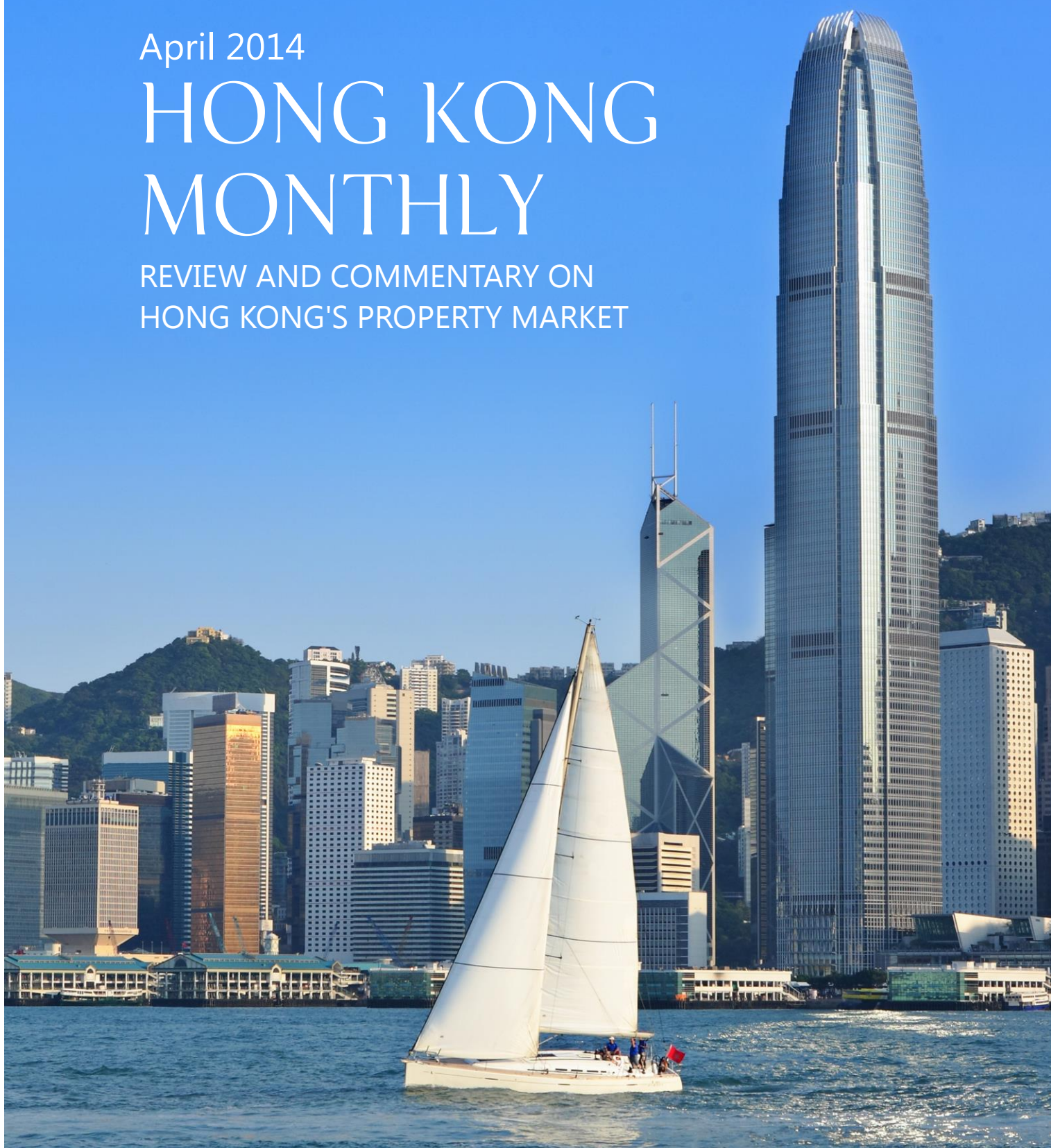
RESEARCH



April 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



OFFICE

Chinese firms become major
players in leasing market

Residential

Secondary homeowners
more flexible on prices

Retail

Fast fashion and F&B active
in slowing market

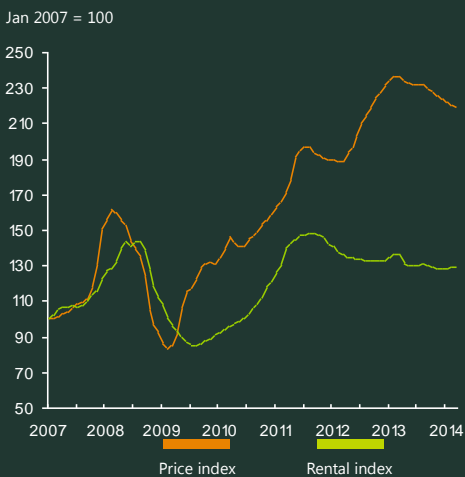
MARKET IN BRIEF

The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q4 2013	+3.0%#	+4.8%	+1.5%	+2.9%#
Inflation rate	Feb 2014	+3.9%	+5.3%	+4.1%	+4.3%
Unemployment	Dec 2013– Feb 2013	3.1%#	3.4%	3.1%	3.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

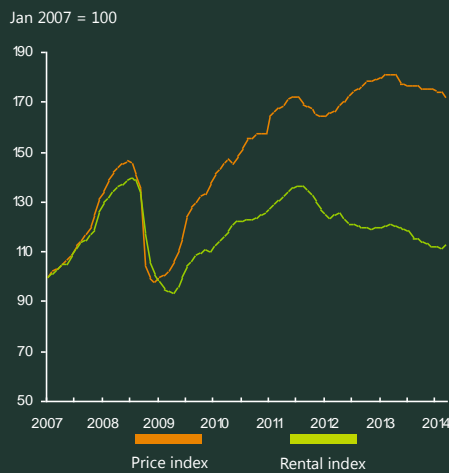
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate ^ forecast

Figure 1
Grade-A office prices and rents



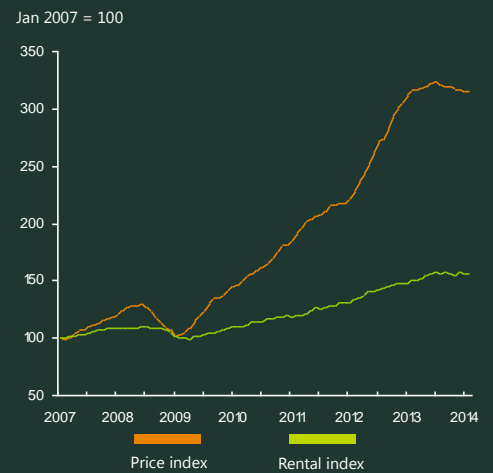
Source: Knight Frank

Figure 2
Luxury residential prices and rents



Source: Knight Frank

Figure 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank
 Note: Provisional figures from Sep to Feb 2014

MONTHLY REVIEW

The Grade-A office leasing market was stable last month with tenants remaining cost-conscious and tending to renew existing leases, rather than move. In the residential sector, developers continued to launch primary projects with various sweeteners, while in the second-hand market, sellers became less aggressive with asking prices and more flexible during negotiation. Underlining the changes in consumption patterns of Mainland visitors, retailers in the fast-fashion and food and beverage (F&B) industries remained active in the leasing market. Rents in all three property sectors are expected to remain stable or experience slight drops this year.

PRIME OFFICE

The Grade-A office leasing market remained stable last month, with tenants remaining cost-conscious and tending to renew current leases unless cost-effective alternatives were available. Grade-A office rents remained relatively flat in March.

Chinese financial enterprises continued to enter or expand within Hong Kong, supporting Central's Grade-A office-leasing market, with notable transactions being recorded. For example, a high-floor unit in Exchange Square was leased to a Chinese securities firm for around HK\$100 per sq ft per month.

Landlords—especially those owning premium Grade-A office towers on Hong Kong Island—are not facing pressure, as buildings are almost fully occupied. Rents in Central in particular will remain stable or enjoy modest growth, as the development pipeline will remain tight in the near future, keeping supply limited.

Kowloon East, meanwhile, with considerable supply in the pipeline, witnessed slightly softened Grade-A office rents in the past three months. With the government's continuing efforts to support the revitalisation

of old industrial buildings into office towers, Knight Frank research reveals that a few revitalised office towers are targeted for completion in Kwun Tong, this year or next. Asking rents have become more realistic and landlords are becoming more willing to negotiate to retain tenants.

In the sales market, a major deal last month involved a 26,000-sq-ft low floor in Exchange Tower in Kowloon Bay reportedly sold for about HK\$243 million—the market expectation. As a result of limited leasing options, high rents and slight decreases in prices following the implementation of cooling measures, some companies have been prompted to invest in their own office space.

With multinational finance firms remaining cautious in their expansion plans, Chinese companies entering or expanding within Hong Kong are expected to continue playing a major role in the office leasing market, resulting in stable Grade-A office rents in the near future.

“Chinese financial enterprises continued to enter or expand within Hong Kong, supporting the Grade-A office leasing market in Central.”

“Sellers of secondary homes became less aggressive with asking prices and more flexible during price negotiation.”

RESIDENTIAL

In March, developers continued to launch primary residential projects along with various sweeteners. They continued to successfully lure buyers, resulting in a local residential market dominated by the primary sector.

Enthusiastic responses from first-time buyers were particularly garnered in sales involving small lump-sum payments. At the end of March, Cheung Kong launched its first batch of units at Trinity Towers in Sham Shui Po sweetened by discounts, and the entire batch reportedly sold within four hours of launch.

Competitive pricing strategies by developers of primary properties put pressure on secondary home sellers, who became less aggressive with asking prices and more flexible during price negotiation. This resulted in signs of revival in the market in early March, but by mid-March, the US Federal Reserve hinted that interest rates could start to be raised in early 2015, and potential buyers became more cautious in the second half of the month.

A combination of rising construction costs, declining property prices and the government's aim to increase residential supply resulted in conservative bids by developers on residential sites. For example, all seven bids for a luxury residential site in Tai Po fell short of the government's reserve price. More evidence of this came from the acquisition of a residential plot in Ma On Shan by Sun Hung Kai Properties (0016.HK) for HK\$1.83 billion—18% less than that raised by a similar site nearby, tendered in late 2012.

Looking forward, we expect keen competition in the primary market. Developers are expected to accelerate the pace of release of units and to continue offering sweeteners, due to the possible earlier-than-expected rise in the US interest rate. However,

interest rates are expected to remain low in 2014 and supply to remain limited, and residential prices are not expected to experience sharp falls this year.

RETAIL

For the first two months of 2014, the total number of inbound tourist arrivals reached over 9.9 million, of which 7.8 million came from Mainland China. The number of Mainland tourist arrivals increased 17.2% year on year, a faster growth rate than the 14.1% growth rate in overall tourist arrival numbers. However, in February 2014, the value of total local retail sales dropped 2.3% compared with the same period the previous year—the first decline since September 2009—reflecting how the change in the consumption pattern of Mainland visitors has affected retail sales performance in Hong Kong.

Echoing this change in consumption pattern, retailers in the fast-fashion and F&B industries remained active in the leasing market. Uniqlo will open an 18,000-sq-ft duplex retail store in Harbour City, Tsim Sha Tsui later this year—its largest flagship store in Kowloon—converted from space that previously housed offices. Meanwhile, F&B retailers were active in securing space in Ginza-style commercial buildings.

In March, a notable retail leasing deal involved Marks & Spencer, which reportedly leased an entire over 3,700-sq-ft (saleable) level at Kinwick Centre on Hollywood Road, Central. Meanwhile, Samsung leased the ground and first floors at 33 Des Voeux Road Central in Central, totaling 6,000 sq ft. Furthermore, Armani Exchange leased ground-floor retail units at Miramar Shopping Centre in Tsim Sha Tsui.

In view of slowing retail sales and sky-high rents, retailers showed hesitation in the taking up of space,

leading to landlords becoming more flexible during rental negotiation than they were in previous months.

Looking ahead, retail sales in the near term should remain stable, supported by the current favourable employment and income conditions and the expected sustained growth in inbound tourism. However, we predict a slower, single-digit growth rate in retail sales this year, due to external economic uncertainties, including expected changes in US monetary policy and the pace of growth in advanced economies. Therefore, prime retail rents are expected to remain stable in 2014.

“Retail sales in the near term should remain stable, supported by the current favourable employment and income conditions and the expected sustained growth in inbound tourism.”

PRIME OFFICE

A number of major Grade-A office sales transactions took place in Kowloon East last month.






Table 2 Selected office sales transactions					
District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Lippo Centre Tower II	Mid	1,151	\$23.6	\$20,504
Kowloon Bay	Exchange Tower	Low	26,686	\$243.4	\$9,121
Kwun Tong	Elite Centre	Mid	11,875	\$105	\$8,842
Chai Wan	E-Trade Plaza	Mid	15,526	\$108	\$6,956
Source: Knight Frank / market news Note: All transactions are subject to confirmation.					

In March, a number of major Grade-A office leasing transactions involved large floor plates.

Table 3 Selected office leasing transactions			
District	Building	Zone	Floor area (sq ft)
Central	Citibank Plaza	Mid	35,000 (L)
Admiralty	Lippo Centre Tower I	High	12,108 (G)
Sheung Wan	Infinitus Plaza	Mid	11,899 (G)
Hung Hom	Two Harbourfront	Low	20,400 (G)
Source: Knight Frank / market news Note: All transactions are subject to confirmation.			

April 2014 HONG KONG MONTHLY

In some districts,
Grade-A office rents
grew slightly in March.

Table 4 Month-on-month movement of Grade-A office rents (Mar 2014)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

Among all major
office districts, Central
experienced the
largest drop in
Grade-A office prices
in March.

Table 5 Prime office market indicators (Mar 2014)								
District	Net effective rent HK\$psf /mth	Change			Price HK\$ psf	Change		
		From Feb 14	From Dec 13	From Mar 13		From Feb 14	From Dec 13	From Mar 13
Premium Central	145.6	0.4%	2.7%	2.6%	n/a	n/a	n/a	n/a
Traditional Central	106.2	0.0%	2.9%	-0.7%	25,320	-2.3%	-4.3%	-7.8%
Admiralty	78.7	0.0%	-0.3%	-4.2%	21,021	-0.5%	-2.0%	-8.4%
Sheung Wan	61.9	0.3%	2.5%	1.0%	18,931	-1.1%	-2.6%	-9.7%
Wan Chai	62.4	-0.3%	2.0%	0.6%	17,777	0.0%	-1.2%	-4.7%
Causeway Bay	65.4	0.0%	2.9%	-0.4%	17,080	0.0%	-1.1%	-4.5%
North Point	45.2	-0.5%	1.0%	11.8%	n/a	n/a	n/a	n/a
Quarry Bay	51.2	-0.1%	1.3%	3.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	50.2	0.6%	-1.4%	-7.9%	11,544	-0.6%	-1.7%	-6.5%
Cheung Sha Wan	27.0	0.0%	3.5%	2.7%	n/a	n/a	n/a	n/a
Hung Hom	39.3	5.1%	3.4%	4.3%	n/a	n/a	n/a	n/a
Kowloon East	36.6	-1.3%	-4.1%	-4.0%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	45.5	-3.3%	-7.9%	-9.8%	n/a	n/a	n/a	n/a

Source: Knight Frank
Rents and prices are subject to revision.

RESIDENTIAL

A luxury house in Island South sold for more than HK\$170 million last month.

Table 6 Selected residential sales transactions					
District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	Marinella	Odd-number house	2,810	\$171.3	\$60,962
Mid-Levels West	39 Conduit Road	High floor unit	2,476	\$131.22	\$52,998
Mid-Levels East	Serenade	High floor unit	2,718	\$126.67	\$46,607
Kowloon Tong	One Mayfair Tower 01	Mid floor unit	2,166	\$100.65	\$46,468

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.

A number of high-end residences were leased in traditional luxury districts last month.

Table 7 Selected residential leasing transactions					
District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Pokfulam	Residence Bel-Air	High floor unit	1,896	\$110,000	\$58.0
Island South	Hong Kong Parkview	High floor unit	2,067	\$115,000	\$55.6
Mid-Levels	Argenta	Mid floor unit	2,182	\$120,000	\$55.0
Island South	Redhill Peninsula	House	2,588	\$125,000	\$48.3

Source: Knight Frank
Note: All transactions are subject to confirmation.

April 2014

HONG KONG MONTHLY

Four of the five major luxury residential districts saw mild rent increases last month.

Table 8 Month-on-month movement of luxury residential rents (Mar 2014)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

In March, luxury residential prices dipped in most major districts except The Peak, where prices remained stable.

Table 9 Luxury residential market indicators (Mar 2014)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Feb 14	From Dec 13	From Mar 13		From Feb 14	From Dec 13	From Mar 13
The Peak	\$51.8	0.5%	-0.6%	-11.5%	\$22,919	0.0%	0.0%	-3.1%
Mid-Levels	\$40.2	-0.7%	-1.7%	-4.0%	\$20,803	-1.4%	-2.7%	-5.1%
Pokfulam	\$30.6	1.8%	0.6%	-3.9%	\$17,718	-3.8%	-4.8%	-9.0%
Jardine's Lookout & Happy Valley	\$38.0	2.6%	2.7%	-7.7%	\$19,366	-0.5%	-1.7%	-4.7%
Island South	\$41.8	0.8%	0.7%	-2.1%	\$24,409	-1.3%	-2.0%	-5.6%

Source: Knight Frank
Rents and prices are subject to revision.

RETAIL

In March, most of the major retail property sales transactions involved small units.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mong Kok	Ho King Commercial Centre	Ground floor unit	109	\$27.5	\$252,294
Causeway Bay	Percival House	Ground floor unit	113	\$18	\$159,292
Mong Kok	Allied Plaza	Ground floor unit	108	\$11.8	\$109,259
Quarry Bay	Kam Shan Building	Ground floor unit	254	\$23.8	\$93,701

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.

A number of notable retail leasing transactions were recorded in both core and non-core shopping districts.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Causeway Bay	Hong Kong Mansion	Ground floor	855	\$950,000	\$1,111.1
Wan Chai	Tung Fong Building	Ground floor unit	2,528	\$456,800	\$180.7
Sheung Wan	Kinwick Centre	First floor	3,738	\$582,600	\$155.9
Tsim Sha Tsui	Miramar Shopping Centre	Ground floor units	NA	\$900,000	NA

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.

Prime retail rents in Central and Causeway Bay dipped in March.

Table 12 Month-on-month movement of prime street shop rents (Mar 2014)			
Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

In February, the total value of retail sales was HK\$40.5 billion, a decrease of 2.3% year on year.

Table 13 Retail sales by outlet type (Feb 2014)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Jan 14	From Nov 13	From Feb 13
Jewellery, watches and clocks and valuable gifts	\$9.5	23.6%	-17.6%	12.0%	-0.5%
Clothing, footwear and allied products	\$5.6	13.9%	-22.9%	9.9%	2.3%
Department stores	\$4.1	10.2%	-17.6%	-15.9%	3.2%
Fuel	\$0.7	1.8%	-14.7%	-7.5%	2.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.8	6.9%	-31.4%	-6.8%	-8.8%
Consumer durable goods	\$6.5	16.1%	-40.2%	-4.5%	-8.5%
Supermarkets	\$3.7	9.1%	-28.3%	-7.1%	-10.8%
Others	\$7.4	18.3%	-22.7%	15.2%	2.2%
All retail outlets	\$40.5	100.0%	-25.7%	2.2%	-2.3%

Source: Census and Statistics Department

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Contacts

Alan Child

Chairman, Greater China
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Paul Hart

Executive Director, Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

China Valuation

Clement Leung

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

Commercial Agency

Colin Fitzgerald

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Residential Agency

Renu Budhrani

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

Retail Services

Livian Har

Director, Head of Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

Research & Consultancy

Thomas Lam

Director, Head of Research & Consultancy,
Greater China
+852 2846 4819
thomas.lam@hk.knightfrank.com

Pamela Tsui

Senior Manager, Research & Consultancy,
Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

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