

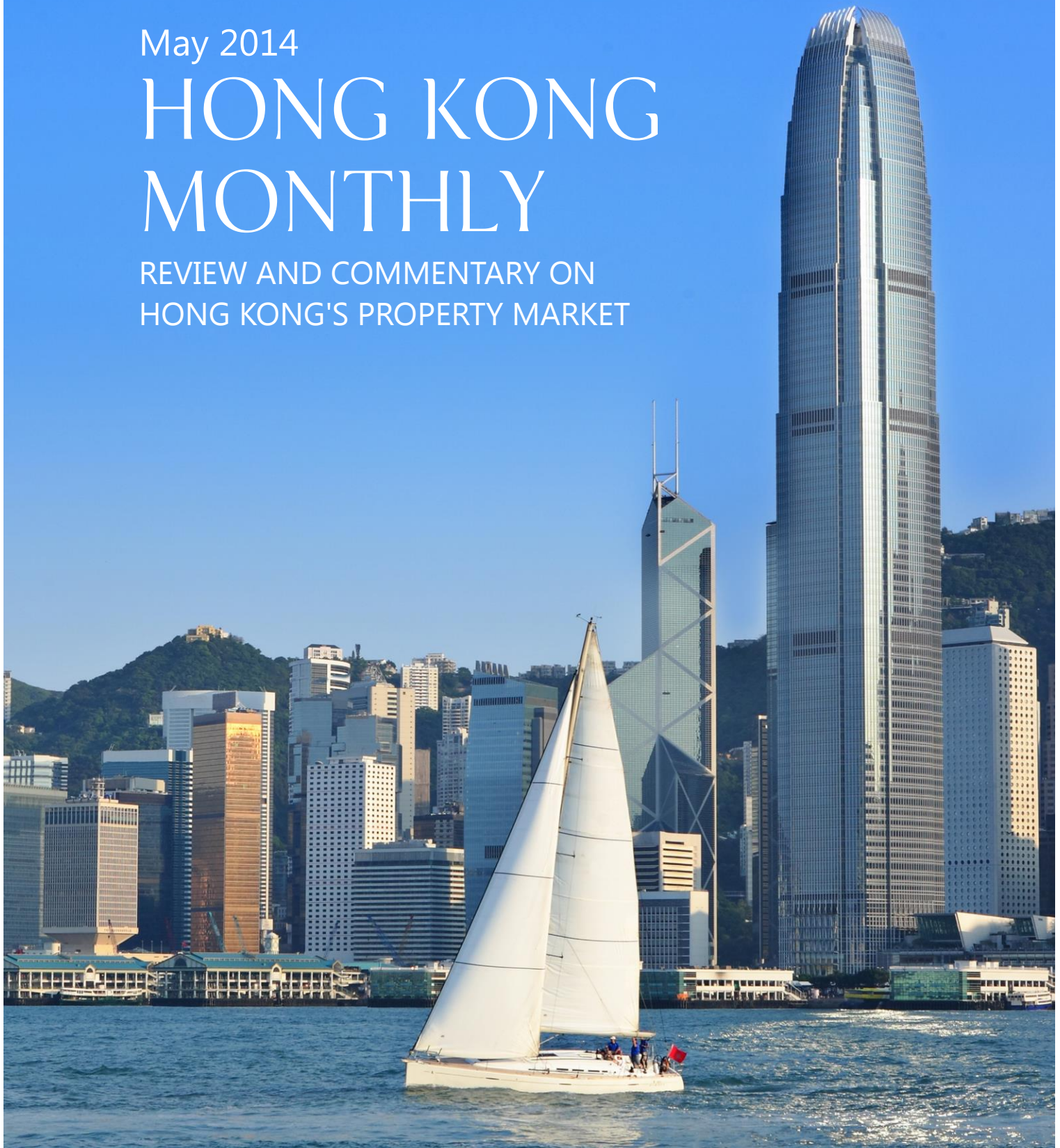
RESEARCH



May 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Chinese firms continue to
dominate the leasing market

Residential
Secondary homeowners
even more flexible on prices

Retail
Mid-end retailers remain
active in prime locations

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

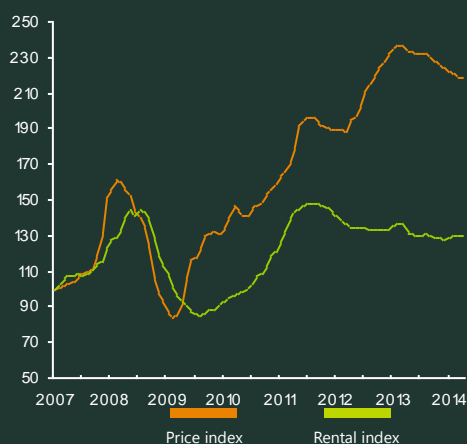
Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q4 2013	+3.0%#	+4.8%	+1.5%	+2.9%#
Inflation rate	Mar 2014	+3.9%	+5.3%	+4.1%	+4.3%
Unemployment	Jan 2014– Mar 2014	3.1%#	3.4%	3.1%	3.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

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

Figure 1

Grade-A office prices and rents

Jan 2007 = 100

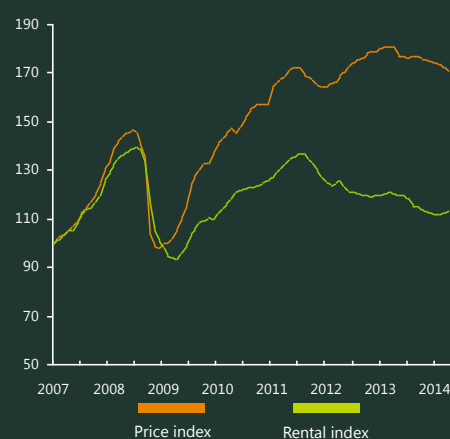


Source: Knight Frank

Figure 2

Luxury residential prices and rents

Jan 2007 = 100

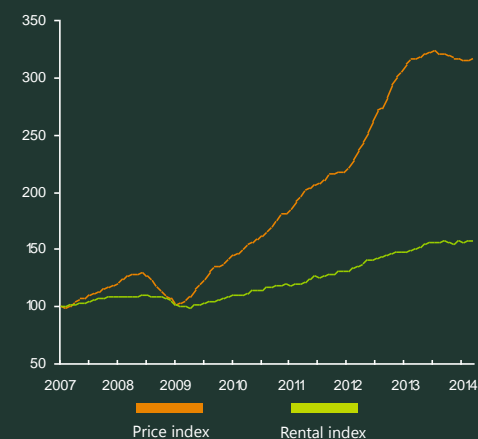


Source: Knight Frank

Figure 3

Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank
Note: Provisional figures from Oct 2013 to Mar 2014

MONTHLY REVIEW

The Grade-A office leasing market was stable due to the continuing support of Mainland financial firms, but downsizing activity was witnessed in certain business sectors. In the residential sector, developers continued to launch primary projects with various sweeteners, while in the second-hand market, sellers became even more flexible during price negotiation. Due to the slowdown in Mainland visitor arrivals, their change in consumer pattern towards the mid-end of the market and the resulting slower growth in retail sales, luxury retailers remained cautious in their business expansion plans and the market remained dominated by mid-end players.

PRIME OFFICE

The newly announced Shanghai-Hong Kong stock market 'through-train scheme', which will further integrate the Hong Kong and China stock markets, is expected to have a positive impact on the office market. The anticipated boost in business volume will likely be a catalyst for Chinese financial enterprises to enter or further expand their business in Hong Kong.

This trend was particularly apparent in Central and Tsim Sha Tsui, with rents in these districts increasing a respective 0.4% and 1.2% in April. Meanwhile, multinational corporations (MNCs) remained cautious in their expansion plans and a number underwent office consolidation.

Across the harbour, where several projects involving the revitalisation of industrial buildings into office towers are in the pipeline, Kowloon East remains the major source of future office space in Hong Kong. Downsizing activity—particularly in the logistics, shipping and banking industries—was witnessed in the district last month. Therefore, landlords in Kowloon East had become more flexible during rent

negotiation, with concessions being offered to attract and retain tenants. This resulted in a slight drop of 1% in net-effective rents in the district last month.

We believe that office demand from Chinese financial firms would be sustainable, as many Mainland banks are waiting to open offices in Hong Kong. This strong demand will support Grade-A office rents in the near future.

“Sustained office demand from Chinese financial firms will support Grade-A office rents in the near future.”

“Owners of secondary homes became even more flexible during price negotiation.”

RESIDENTIAL

In April, overall sentiment in the residential market improved. Developers offering primary units at competitive prices encouraged more secondary homeowners to adopt price-cutting strategies. By moving the sales prices of primary projects closer to those in the secondary market, developers continued to successfully tap into strong demand from end-users. Cheung Kong Holdings (0001.HK) reportedly sold all 402 of its flats at Trinity Towers in Sham Shui Po in just a few weeks. The volume of first-hand transactions reached 1,136 in April, compared with about 700 in March.

In the land market, the correction in home prices and the market's expectation of increased future housing supply continued to drag down land values. With increasing investment risks in the residential market and rising construction costs, developers remained conservative during land acquisition. For example, a residential site in Tai Wai, Sha Tin district, which could yield a total gross floor area of 193,537 sq ft, was sold for HK\$148 million—lower than market expectation. Meanwhile, Sun Hung Kai Properties (0016.HK) bid successfully on the fourth phase of Lohas Park, but paid 15% less than the levy received for the third phase in 2007. We expect land values in different areas to diverge, with land prices in urban districts gaining more support, due to tight land supply and strong demand.

On the supply side, in the first quarter of 2014, construction work commenced on 8,000 homes—the highest level since 2004. 23 residential sites are going to be changed into cultivated land in the coming months, providing approximately 15,800 units. The Kam Tin South and Pat Heung area in Yuen Long has been earmarked for development into a new town, which according to the Planning Department will provide

around 33,700 units. In the next 3–4 years, an estimated 72,000 flats is set to be available for sale.

With such measures being implemented to boost land supply, we expect potential buyers to take a wait-and-see approach and to look out for further price drops. Along with the impact of the government's continuing implementation of various tightening measures, we forecast a 10–15% drop in mass residential prices over 2014.

RETAIL

For the first quarter of 2014, the number of Mainland tourist arrivals increased 20.1% year on year, a faster rate than the 15.3% growth in overall tourist-arrival numbers. However, Mainland visitor arrivals over the three-day Labour Holiday this year dropped 1.7% year on year—the first decline since the Individual Travel Scheme was implemented in 2003. In March 2014, the retail sales value dropped 1.3% year on year, the second consecutive month of decrease.

Due to the slowdown in Mainland visitor arrivals, their changing consumer pattern towards the mid-end of the market and the resulting slower growth in retail sales, luxury retailers remained cautious in their business expansion plans. Lukfook Jewellery, for example, announced that it would not open any new stores this year. Leasing activity in prime retail districts remained subdued last month, with landlords seeing tenant retention as a higher priority and becoming more flexible during rent negotiation.

In April, notable retail leasing deals mainly involved mid-end retailers. Swatch Group, for example, reportedly leased a 1,600-sq-ft, ground-floor space at 14–24 Sai Yeung Choi Street in Mong Kok. Meanwhile, mid-priced American clothing brand J.Crew reportedly

leased multiple floors at 9 On Lan Street in Central, totalling 4,000 sq ft.

The supply of new retail space remained limited, but PMQ—the former Police Married Quarters on Central's Hollywood Road—soft-opened in April, providing 18,000 sqm of space for arts and retail usages. Meanwhile, the Central Police Station Revitalisation Project is underway and scheduled to launch in 2015.

Plans for asset enhancement of shopping centres were witnessed. It was reported that Marina Square (West) will be revamped into an outlet for luxury brands aimed at tourists, taking advantage of the scheduled completion of the MTR South Island Line (East) next year. Similarly, The Link REIT (0823.HK) is looking to sell up to 10 shopping arcades in public housing estates. It is believed that the REIT will continue to seek acquisition opportunities to enhance its retail portfolio.

Looking ahead, retail sales should continue to grow in the near term, but the pace will be slower compared to recent years. The market focus will continue to move from the high-end of the market to the medium-end.

“The market focus will continue to move from the high-end of the market to the medium-end.”

PRIME OFFICE

A mid-floor unit in Exchange Tower in Kowloon Bay sold for more than HK\$300 million 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	990	\$23.5	\$23,737
Kowloon Bay	Exchange Tower	Mid	27,457	\$315	\$11,472
Kowloon Bay	YHC Tower	High	11,430	\$129	\$11,286
Tsim Sha Tsui	Railway Plaza	Mid	10,880	\$106.8	\$9,816
Source: Knight Frank / Economic Property Research Centre Note: All transactions are subject to confirmation.					






In April, a beauty salon leased a large space spanning two floors in Langham Place Office Tower in Mong Kok.

Table 3 Selected office leasing transactions			
District	Building	Zone	Floor area (sq ft)
Central	Two Exchange Square	High	14,445 (N)
Mong Kok	Langham Place Office Tower	High	26,739 (G)
Kwun Tong	Rykadan Capital Tower	Mid	12,195 (G)
Wong Chuk Hang	One Island South	Low	29,848 (G)
Source: Knight Frank / market news Note: All transactions are subject to confirmation.			

May 2014

HONG KONG MONTHLY

Grade-A office rents grew slightly in Quarry Bay and Tsim Sha Tsui in April.

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

Among all major office districts, a notable rental increase of 5.7% was recorded in Hung Hom in April.

Table 5 Prime office market indicators (Apr 2014)								
District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Mar 14	From Jan 14	From Apr 13	HK\$ psf	From Mar 14	From Jan 14	From Apr 13
Premium Central	147.6	1.4%	3.1%	3.3%	n/a	n/a	n/a	n/a
Traditional Central	106.0	-0.1%	1.5%	-2.3%	25,320	0.0%	-2.8%	-6.1%
Admiralty	77.0	-2.1%	-1.9%	-6.4%	21,021	0.0%	-1.2%	-7.3%
Sheung Wan	60.7	-1.9%	0.0%	-2.0%	18,931	0.0%	-1.9%	-8.4%
Wan Chai	62.1	-0.5%	0.5%	0.0%	17,777	0.0%	-0.2%	-3.2%
Causeway Bay	65.5	0.1%	2.2%	0.6%	17,080	0.0%	-0.1%	-3.1%
North Point	45.6	0.9%	3.2%	10.4%	n/a	n/a	n/a	n/a
Quarry Bay	51.6	0.8%	3.4%	5.0%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	50.8	1.2%	-0.9%	-5.5%	11,544	0.0%	-0.9%	-5.5%
Cheung Sha Wan	26.9	-2.8%	-5.0%	0.8%	n/a	n/a	n/a	n/a
Hung Hom	41.6	5.7%	11.0%	11.3%	n/a	n/a	n/a	n/a
Kowloon East	36.0	-1.5%	-4.5%	-5.6%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	48.3	2.6%	-0.8%	-3.4%	n/a	n/a	n/a	n/a
Source: Knight Frank Rents and prices are subject to revision.								

RESIDENTIAL

In April, the Peak and Island South recorded a number of luxury residential sales transactions.

Table 6 Selected residential sales transactions					
District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	Lakeside Apartment	High floor unit	2,066	\$132.6	\$64,177
The Peak	Kellett View Town House	House	2,990	\$181.5	\$60,702
Island South	Marinella	High floor unit	2,386	\$108.1	\$45,310
Kowloon Tong	Mount Beacon Garden House	Odd no. house	2,884	\$115.0	\$39,875
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.					

Mid-Levels recorded several leasing transactions of high-end residences last month.

Table 7 Selected residential leasing transactions					
District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
The Peak	11 Coombe Road	Mid floor unit	3,255	\$190,000	\$58.4
Pok Fu Lam	68 Mount Davis Road	High floor unit	1,820	\$100,000	\$55.0
Mid-Levels	Dynasty Court	Low floor unit	1,806	\$99,000	\$54.8
Mid-Levels	Grenville House	Mid floor unit	3,349	\$135,000	\$40.3
Source: Knight Frank Note: All transactions are subject to confirmation.					

May 2014

HONG KONG MONTHLY

Luxury residential rents in Island South decreased slightly last month.

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

In April, luxury residential prices in Mid-Levels and on the Peak experienced slight dips.

Table 9 Luxury residential market indicators (Apr 2014)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Mar 14	From Jan 14	From Apr 13	HK\$psf	From Mar 14	From Jan 14	From Apr 13
The Peak	\$52.3	1.1%	1.0%	-10.2%	\$22,195	-3.2%	-3.2%	-3.2%
Mid-Levels	\$40.5	0.9%	-0.5%	-1.5%	\$20,938	-0.7%	-0.9%	-2.8%
Pokfulam	\$31.0	1.3%	2.3%	-2.9%	\$17,718	0.0%	-3.8%	-7.5%
Jardine's Lookout & Happy Valley	\$38.0	0.1%	3.1%	-7.3%	\$19,400	0.2%	-1.2%	-4.6%
Island South	\$41.3	-1.1%	-0.7%	-3.9%	\$24,409	0.0%	-1.3%	-2.7%
Source: Knight Frank Rents and prices are subject to revision.								

RETAIL

In April, most 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)
Tsuen Wan	Lik Sang Plaza	1 st floor unit	47	\$2.8	\$60,213
Tsuen Wan	Fortune Commercial Building	Ground floor unit	51	\$2.3	\$44,118
Quarry Bay	Hon Way Mansion	Ground floor unit	300	\$11.0	\$36,667
North Point	King's Parklane	Ground floor unit	99	\$2.4	\$24,949
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

A number of notable retail leasing transactions were recorded last month 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)
Tsim Sha Tsui	Hai Phong Mansion	Ground floor unit	1,460	\$2,000,000	\$1,369.9
Tsim Sha Tsui	Mass Resources Development Building	Ground floor units	695	\$415,000	\$597.1
Kwun Tong	Kwun Tong Plaza	Ground floor units	332	\$180,000	\$542.2
Wan Chai	Fu Kar Building	Ground floor unit	349	\$120,000	\$343.8
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Prime retail rents across all major retail districts remained stable in April.

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

In March, the total value of retail sales was HK\$39.6 billion, a drop of 1.3% year on year.

Table 13 Retail sales by outlet type (Mar 2014)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Feb 14	From Dec 13	From Mar 13
Jewellery, watches and clocks and valuable gifts	\$7.9	20.0%	-17.8%	-31.4%	-8.9%
Clothing, footwear and allied products	\$5.5	14.1%	-2.0%	-21.5%	5.0%
Department stores	\$4.0	10.0%	-5.0%	-34.8%	3.4%
Fuel	\$0.8	2.1%	12.3%	-2.4%	-5.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.9	7.3%	3.6%	-13.2%	9.8%
Consumer durable goods	\$6.7	16.9%	3.1%	-19.6%	-15.0%
Supermarkets	\$4.1	10.4%	11.0%	-4.0%	7.9%
Others	\$7.7	19.3%	3.2 %	-6.3%	7.6%
All retail outlets	\$39.6	100.0%	-2.2%	-20.2%	-1.3%
Source: Census and Statistics Department					

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