

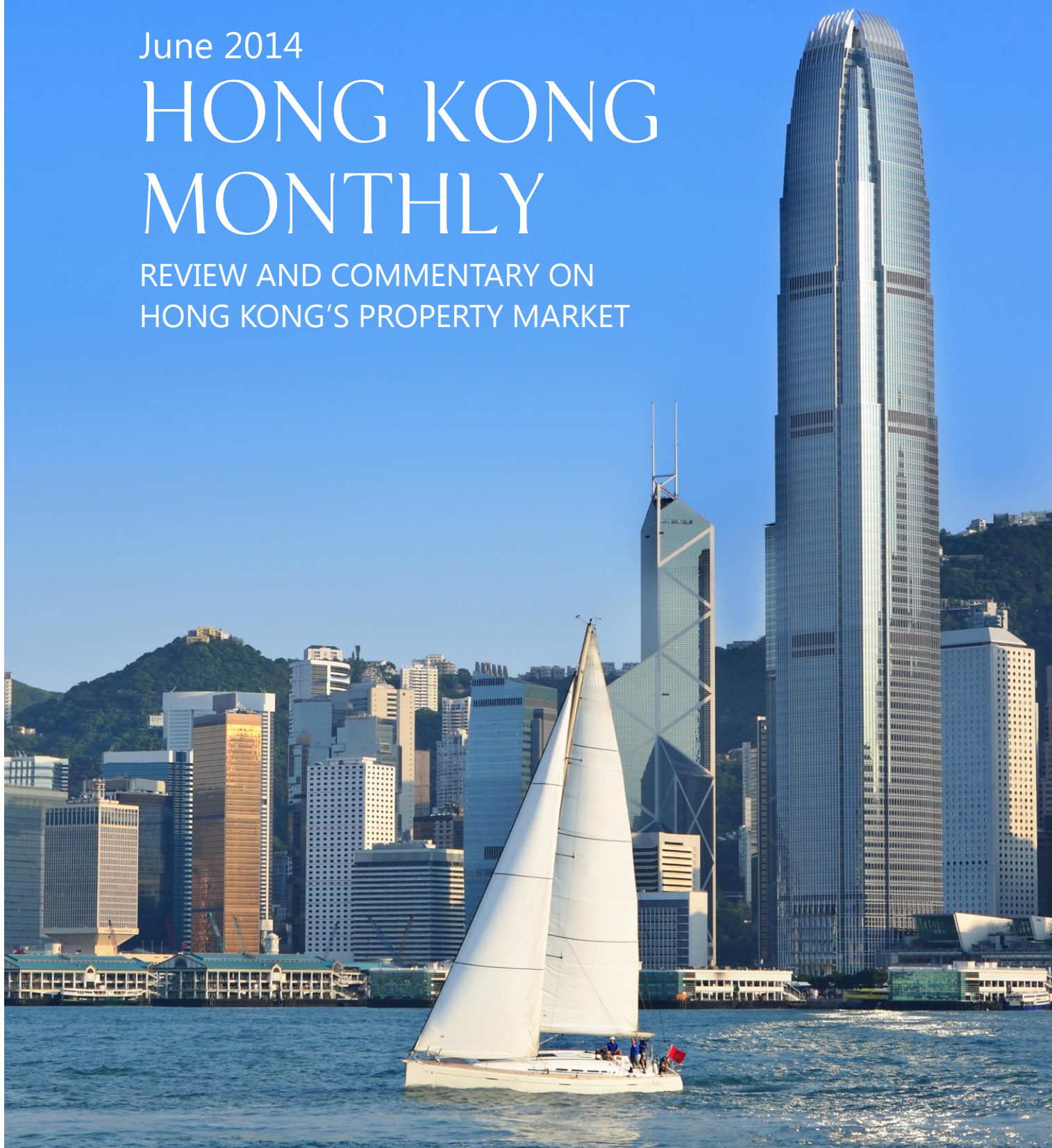
RESEARCH



June 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Rents in Kowloon East
continue to soften

Residential
Policy relaxation to stimulate
home sales

Retail
Strata-titled and en-bloc
deals push up sales volume

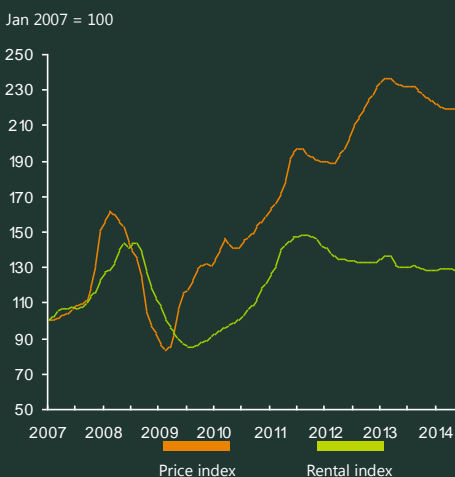
MARKET IN BRIEF

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	Q1 2014	+2.5%#	+4.8%	+1.5%	+2.9%#
Inflation rate	Apr 2014	+3.7%	+5.3%	+4.1%	+4.3%
Unemployment	Feb 2014– Apr 2014	3.1%#	3.4%	3.1%	3.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

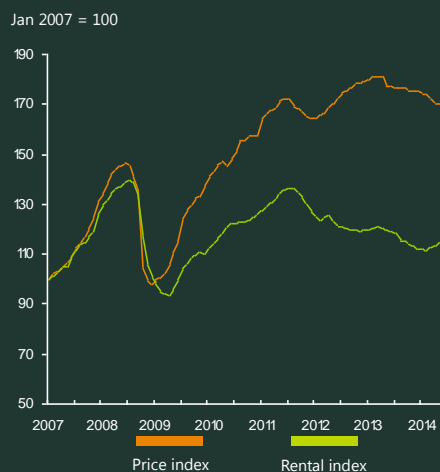
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate ^ forecast

Figure 1
Grade-A office prices and rents



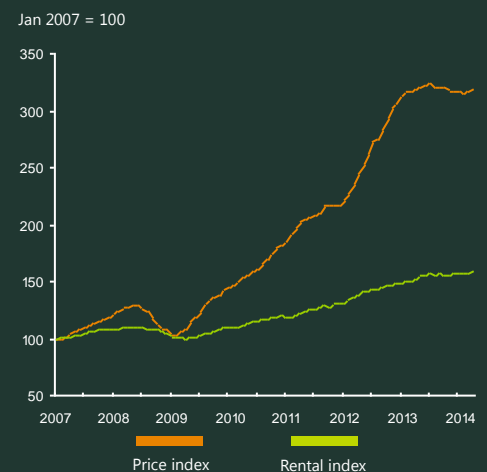
Source: Knight Frank

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 Oct 2013 to Mar 2014

MONTHLY REVIEW

During May 2014, the Grade-A office leasing market on Hong Kong Island remained stable, while office rents in Kowloon East further softened, due to increasing supply and the decreasing affordability of tenants amidst previous rental surges. In the residential sector, sales volume rebounded further, as developers continued to launch primary projects with sweeteners and landlords of secondary flats became more flexible during price negotiation. Meanwhile, retail sales continued to decrease in April, year on year, and the expansion of international brands further slowed. Recently, the market has been dominated by mid-end retailers.

PRIME OFFICE

In the past few months, the continuing increase in both primary and secondary office supply in Kowloon East has led to slight declines in rents. Competition among strata-titled landlords and the cost-consciousness of tenants have been the major causes of these corrections.

Strata-title landlords, who generally have less financial capacity than major developers, have been leasing out their units at more competitive rents in order to capture tenants. This aggressive leasing strategy has put pressure on major developers and forced them to become more realistic and flexible during lease negotiations.

Meanwhile, some of Hong Kong's most cost-conscious office tenants, such as those in Kwun Tong, are facing lease expiry. The average rent in Kowloon East has surged more than 150% in the past decade. A large number of existing tenants who could not afford the increased rents chose to relocate to lower-grade offices or industrial buildings.

Our research has revealed that there is currently around 780,000 sq ft of vacant space in major office

buildings in Kwun Tong. In the past, a lack of large floor-plate office space has been one of the barriers to office expansion in the district. Therefore, despite short-term market volatility, we believe the availability of more large floor-plate office space will lead to an increase in new letting activity. The office leasing market in Kowloon East will therefore become more active, even though rents could experience a mild drop of 5% in the coming 12 months.

On Hong Kong Island, the leasing market was stable in May, with rents remaining broadly steady. As office availability is scarce, tenants are opting to renew their leases rather than relocate, in order to retain quality space. A notable large floor-plate transaction was recorded in Cheung Kong Center in Central: a number of mid-high floors totalling 85,000 sq ft were reportedly leased for about HK\$120 per sq ft per month, of which about 77,000 sq ft was renewed and 8,000 sq ft was newly let for expansion. Despite the uncertainty observed in the financial sector, we expect office rents on Hong Kong Island to stand firm as supply remains tight.

“In Kowloon East, we believe the availability of more large floor-plate office space will lead to an increase in new letting activity.”

“We expect the relaxation of the Double Stamp Duty to boost both home-buying sentiment and transaction volume in the coming months.”

RESIDENTIAL

The volume of residential sales rebounded for the second consecutive month, rising another 10% to 5,270 transactions in May—the highest level of the past 15 months. Within that, the number of luxury residential sales worth HK\$10 million or above rose 17% month on month to 505 transactions—a five-month high. Sales of secondary homes grew 20% from the previous month, as more owners were willing to offer discounts to compete with primary units offered at competitive prices.

In mid-May, the government proposed a relaxation of the Double Stamp Duty, making it easier for buyers of second homes to obtain a refund of the punitive duty. Previously, such buyers had to sell their first homes within six months of the second-homes' 'sale and purchase agreement' to be eligible for the refund. Now, the six-month period starts from the 'conveyance on sale' for the second homes, giving buyers more time to dispose of their first properties. Buyers of pre-sale primary flats could therefore have up to 36 months to sell their first properties.

To accelerate home supply, the government has begun to accept lower prices for its land, evidenced by the recent sale of a residential site in Tai Po for a relatively low accommodation value (AV) of HK\$3,300 per sq ft. However, land in core districts remains highly valuable. For example, a small residential plot in Schooner Street in Wan Chai was sold to Hopewell Holdings (0054.HK) for HK\$233 million or an AV of about HK\$16,035 per sq ft, making it the most expensive site in the district. In addition, a residential site in Shouson Hill in Island South received an overwhelming response and fetched an AV of about HK\$30,888 per sq ft—around 28% more than that fetched by a nearby site two years ago.

We expect the relaxation of the stamp-duty requirement to boost buying sentiment and particularly benefit developers aiming at buyers moving up the property ladder. Transaction volume is therefore expected to increase in the coming months. However, we expect the impact on prices to be limited because of other cooling measures still firmly in place.

RETAIL

During the first four months of 2014, the number of Mainland tourist arrivals increased 18.7% year on year—a faster rate than the 14.2% growth in overall tourist arrivals. However, the retail sales value registered negative year-on-year growth for three consecutive months, with April recording the largest fall of 9.8%. The sharpest decrease of 39.9% was seen in the retail category of 'jewellery, watches and clocks and valuable gifts'. In contrast, growth was seen in the sales of pharmaceutical trade, cosmetics and apparel retailers, reflecting a shift in the consumption pattern of Mainland visitors.

There were no large-scale leasing transactions of shops last month, with most deals involving small spaces or renewals. Leasing activity in prime retail districts remained subdued, with vacancy levels rising in second-tier streets. Landlords saw tenant retention as a higher priority and became more flexible during rent negotiations. The typical rent increase is now 20–30% during lease renewal.

In May, notable retail leasing deals mainly involved mid-end retailers such as a Swiss watch brand, which reportedly leased a 300-sq-ft, ground-floor space at Sim City in Mong Kok. There were still a few transactions involving high-end retailers, including the reported lease of multiple floors totalling 2,400 sq ft at 57 Queen's Road Central to a Danish jewellery brand.

Strata-titled sales of subdivided shops and en-bloc sales of shopping centres have become the focus of individual investors, with strata-titled sales recently taking place in non-core areas such as Yuen Long, Sheung Wan and Sham Shui Po. As a result, the number of retail property sales hit an eight-month high of about 300 in May, of which 146 involved strata-titled sales at the New City mall in Yuen Long. Meanwhile, The Link REIT (0823.HK) announced that it has sold four of its shopping centres to individual investors, paving the way for it to fund potential investments.

Looking ahead, retail sales are expected to be clouded by the changing spending pattern of Mainland visitors. We believe rents of prime street shops have peaked and a rent-adjustment cycle is underway, while rents at prime shopping centres will remain stable with mild increases upon lease renewal.

“Strata-titled sales of subdivided shops and en-bloc sales of shopping centres have become the focus of individual investors.”

PRIME OFFICE

Most office sales transactions involved small units 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	Fairmont House	Low	4,452	\$89	\$20,000
Admiralty	Lippo Centre Tower II	Low	2,221	\$38.4	\$17,299
Tsim Sha Tsui	Woon Lee Commercial Building	Low	5,204	\$72.5	\$13,932
Wong Chuk Hang	One Island South	Low	2,967	\$38.6	\$13,000






Source: Knight Frank / Economic Property Research Centre / market news
Note: All transactions are subject to confirmation.

In May, a Chinese financial company leased a large space in Two Pacific Place in Admiralty.

Table 3 Selected office leasing transactions			
District	Building	Zone	Floor area (sq ft)
Admiralty	Two Pacific Place	High	22,060 (L)
Wan Chai	Fortis Tower	Mid	6,350 (G)
Tsim Sha Tsui	One Peking Road	High	9,077 (G)
Tsim Sha Tsui	Gateway Tower 6	Mid	4,579 (G)

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

In May, Grade-A office rents increased on Hong Kong Island, but dropped in Kowloon.

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

Grade-A office prices in major business districts remained stable last month.

Table 5 Prime office market indicators (May 2014)								
District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Apr 14	From Feb 14	From May 13	HK\$ psf	From Apr 14	From Feb 14	From May 13
Premium Central	146.7	-0.6%	1.2%	1.8%	n/a	n/a	n/a	n/a
Traditional Central	105.1	-0.9%	-1.0%	-1.7%	25,320	0.0%	-2.3%	-6.1%
Admiralty	78.4	1.8%	-0.4%	-4.8%	21,021	0.0%	-0.5%	-6.6%
Sheung Wan	62.4	2.8%	1.1%	2.7%	18,931	0.0%	-1.1%	-8.4%
Wan Chai	62.4	0.6%	-0.2%	3.2%	17,777	0.0%	0.0%	-3.0%
Causeway Bay	66.5	1.5%	1.5%	2.0%	17,080	0.0%	0.0%	-3.1%
North Point	45.6	0.0%	0.4%	10.4%	n/a	n/a	n/a	n/a
Quarry Bay	52.0	0.7%	1.5%	5.5%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	53.6	-2.1%	-2.1%	-9.9%	11,544	0.0%	-0.6%	-5.5%
Cheung Sha Wan	27.3	1.7%	-3.4%	0.1%	n/a	n/a	n/a	n/a
Hung Hom	37.1	-2.8%	8.4%	8.1%	n/a	n/a	n/a	n/a
Kowloon East	33.6	-5.5%	-8.5%	-12.2%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	48.3	0.0%	1.0%	-3.4%	n/a	n/a	n/a	n/a

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

RESIDENTIAL

In May, a number of residential sales transactions were recorded at 39 Conduit Road.

Table 6 Selected residential sales transactions					
District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mid-Levels West	39 Conduit Road	High floor unit	2,666	\$169.0	\$63,387
Mid-Levels West	39 Conduit Road	Mid floor unit	2,476	\$118.8	\$47,991
Island South	Grenbelle Garden	Even number house	3,042	\$142.0	\$46,680
Kowloon Tong	Dunbar Place	High floor units	4,248	\$105.9	\$24,927

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

A number of major residential leasing transactions were recorded in Mid-Levels last month.

Table 7 Selected residential leasing transactions					
District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	No. 1 Shouson Hill Road East	House	2,840	\$170,000	\$59.9
Mid-Levels West	80 Robinson Road	High floor unit	1,052	\$60,000	\$57.0
The Peak	La Hacienda	High floor unit	2,865	\$150,000	\$52.4
Mid-Levels Central	Kennedy Heights	Low floor unit	2,929	\$105,000	\$35.8

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

Luxury residential rents have increased a substantial 4-6% in Jardine's Lookout / Happy Valley.

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

In May, prices in major luxury residential sub-markets remained stable.

Table 9 Luxury residential market indicators (May 2014)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Apr 14	From Feb 14	From May 13	HK\$psf	From Apr 14	From Feb 14	From May 13
The Peak	\$53.1	1.4%	3.1%	-8.4%	\$22,195	0.0%	-3.2%	-3.2%
Mid-Levels	\$41.2	1.6%	1.8%	-0.5%	\$20,938	0.0%	-0.8%	-2.5%
Pokfulam	\$30.9	-0.5%	2.6%	-2.9%	\$17,678	-0.2%	-4.0%	-7.7%
Jardine's Lookout / Happy Valley	\$40.3	6.0%	8.9%	-0.8%	\$19,429	0.1%	-0.2%	-4.4%
Island South	\$40.7	-1.4%	-1.6%	-4.8%	\$24,409	0.0%	-1.3%	-2.7%

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

RETAIL

In May, 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)
Tsim Sha Tsui	Shing Hing House	Ground floor unit	499	\$43.5	\$87,174
Tsim Sha Tsui	Mirador Mansion	Ground floor unit	447	\$20.0	\$44,743
Sheung Wan	Diamond Square (Shun Tak Centre)	3 rd floor unit	68	\$2.9	\$42,647
Wan Chai	Newtown Mansion	Ground floor unit	481	\$18.0	\$37,422
Causeway Bay	Lei Shun Court	Ground floor unit	267	\$9.5	\$35,581

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

A number of notable retail property 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)
Causeway Bay	Percival House	Ground floor unit	156	\$160,000	\$1,025.6
Wan Chai	Pao Woo Mansion	Ground floor unit	416	\$61,000	\$146.6
North Point	Siu Nin Building	Ground floor unit	385 (G)	\$48,000	\$124.7
Tsim Sha Tsui	Shun Fai Building	Ground floor unit	2,302	\$120,000	\$52.1

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

Minor declines in prime retail rents were witnessed across most major districts.

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

In April, the total value of retail sales was HK\$38.8 billion—a drop of 9.8% year on year.

Table 13 Retail sales by outlet type (Apr 2014)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Mar 14	From Jan 14	From Apr 13
Jewellery, watches and clocks and valuable gifts	\$7.9	20.3%	-0.4%	-32.0%	-39.9%
Clothing, footwear and allied products	\$5.5	14.3%	-0.4%	-24.3%	11.7%
Department stores	\$3.8	9.7%	-3.3%	-25.2%	-1.3%
Fuel	\$0.8	2.1%	-0.7%	-4.9%	-0.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.9	7.5%	0.9%	-28.4%	5.2%
Consumer durable goods	\$5.8	15.0%	-12.7%	-46.4%	-6.5%
Supermarkets	\$4.0	10.4%	-1.6%	-21.7%	6.8%
Others	\$8.0	20.7%	4.7%	-16.3%	6.2%
All retail outlets	\$38.8	100.0%	-1.8%	-28.8%	-9.8%

Source: Census and Statistics Department

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Brazil
Canada
Caribbean
Chile
USA

Australasia

Australia
New Zealand

Europe

Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
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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

David Ji

Director, Head of Research & Consultancy,
Greater China
+852 2846 9522
david.ji@hk.knightfrank.com

Pamela Tsui

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

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