

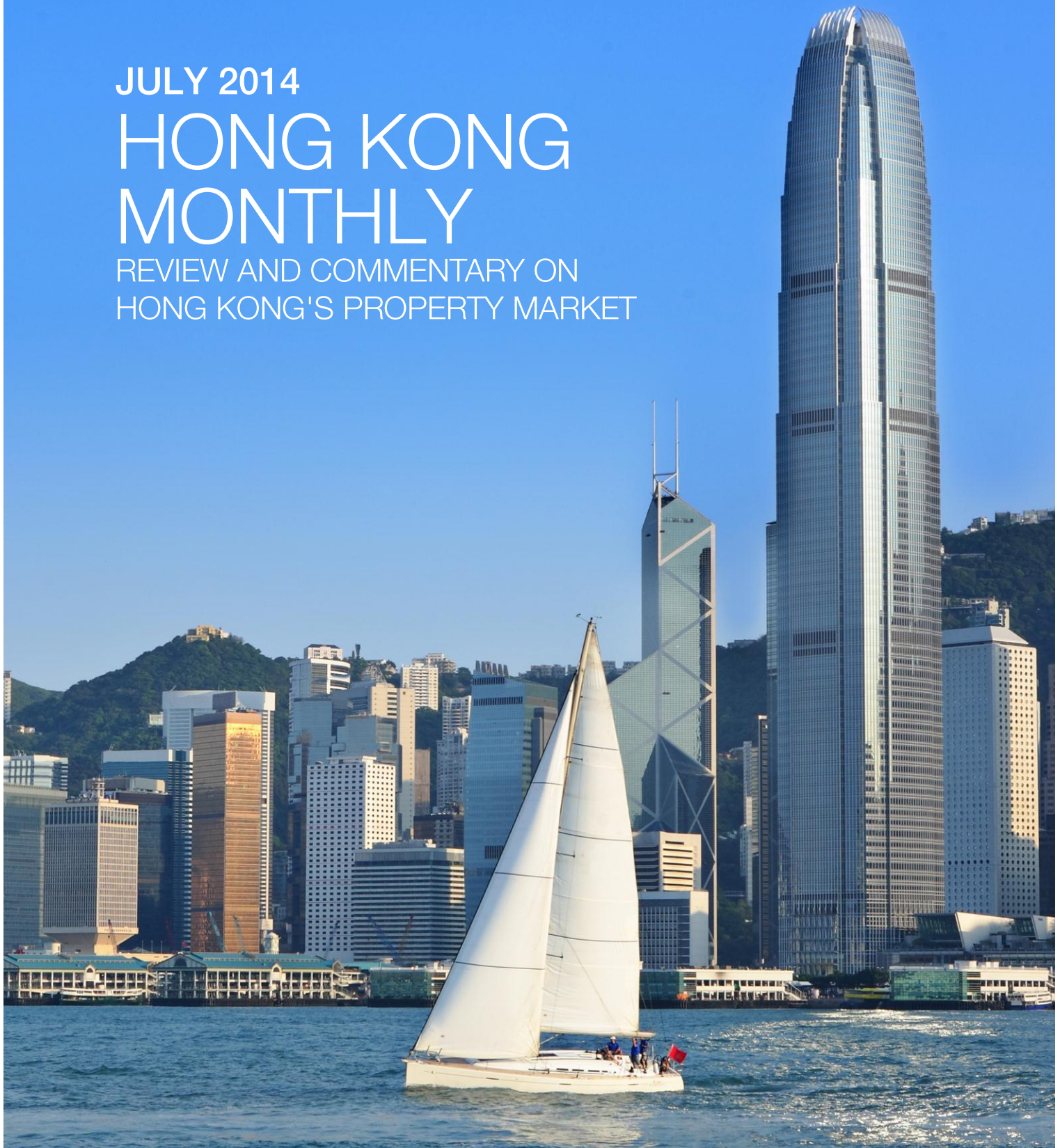
RESEARCH



JULY 2014

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY MARKET



## Office

Multinational firms welcome  
new offices in Kowloon East

## Residential

Impact of the DSD  
relaxation starts to realise

## Retail

Adjustment in IVS will not  
pressurise retail rents

## KEY FINDINGS

Owner-occupancy has become a more financially-justifiable option amid the hot office leasing market conditions in Hong Kong.

Sentiment in the residential market notably improved in June, with the positive impact of the relaxation of the Double Stamp Duty starting to realise.

We do not expect the proposed adjustment in the Individual Visitor Scheme to impose notable pressure on overall retail rents, as it will only impact certain trades in certain retail areas.

# MONTHLY REVIEW

The Grade-A office leasing market was stable with the continuing support of Mainland firms, while the sales market was robust with active acquisition by end-users for long-term business development. In the residential sector, developers continued to launch primary projects with sweeteners, while in the second-hand market, activity also improved with the Double Stamp Duty having been relaxed. In the retail sector, we do not expect the proposed adjustment in the Individual Visitor Scheme to impose notable pressure on overall retail rents, due to its limited impact on certain trades and areas.

TABLE 1

### Economic indicators and forecasts

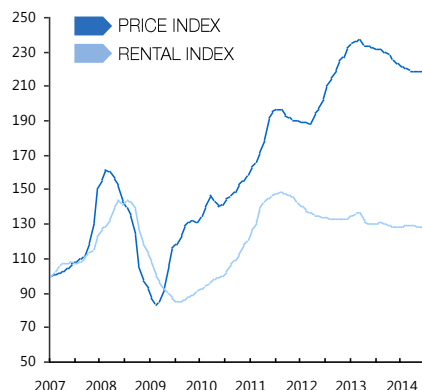
Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q1 2014	+2.5%#	+4.8%	+1.5%	+2.9%
Inflation rate	May 2014	+3.7%	+5.3%	+4.1%	+4.3%
Unemployment	Mar-May 2014	3.1%#	3.4%	3.1%	3.3%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank

# Provisional \* HSBC prime lending rate

FIGURE 1  
Grade-A office prices and rents

Jan 2007 = 100



Source: Knight Frank

## Prime Office

The market was generally positive last month, with a few major sales transactions being recorded. Most notably, the whole block of One Bay East, East Tower in Kwun Tong, which is being developed by Wheelock Properties (0020.HK), was acquired by Citigroup for HK\$5.4 billion—the largest single-office transaction ever taken place in Hong Kong.

The West Tower was sold to Manulife (International) for the firm's own use for HK\$4.5 billion last year. One year later, the East Tower, housing 21 floors and a total gross floor area of 512,000 sq ft, was sold at a price 20% higher.

The deal demonstrates the strong purchasing interest from multinational corporations that remain confident in the development of Hong Kong as an international financial centre and also in Kowloon East being developed into CBD2. In recent years, many well-known financial and insurance institutions such as AIA and Manulife have consolidated their offices and

relocated their back offices from Hong Kong Island to Kowloon East.

This notable deal also reflects the fact that end-users are currently the key buyers in the sales market. Owner-occupancy has become a more financially-justifiable option amid the surges in rents and refurbishment costs. Tenants with more financial capability are tending to buy their own offices.

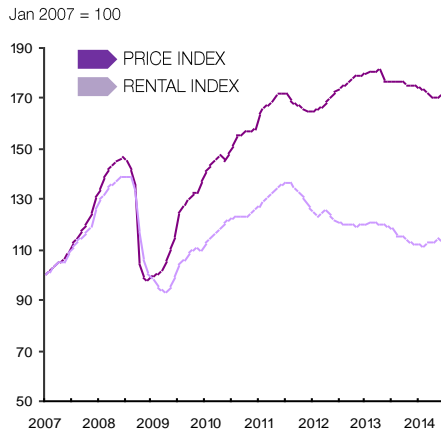
On the leasing front, rents remained relatively stable in Wan Chai and Causeway Bay with supply tight and vacancies low. Meanwhile, premium office buildings in Central recorded slight increments in rents.

Chinese enterprises continued to support Hong Kong's Grade-A office leasing market. According to market news, two floors totalling 38,000 sq ft in Cityplaza, Taikoo Shing were leased to a Chinese insurance enterprise.

Looking ahead, we believe Chinese firms will continue to expand in Hong Kong and remain the key pillar supporting the office rental market.

FIGURE 2

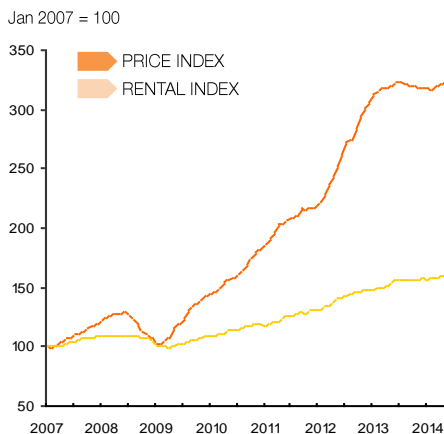
## Luxury residential prices and rents



Source: Knight Frank

FIGURE 3

## Retail property prices and rents



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

## Residential

Sentiment in the residential market notably improved in June, with the positive impact of the relaxation of the Double Stamp Duty (DSD) starting to realise. In the primary residential market, projects continued to be launched with beneficiary packages. For the first half of 2014, primary residential sales transactions amounted to 6,947—about 30% higher than the same period in 2013.

Although residential sales continued to be dominated by end-users, investors began to return to the market, especially for developments in prime locations. For instance, Grand Austin in West Kowloon saw brisk sales since its first batch of units was released at the end of June. A notable proportion of buyers were looking for long-term investments, while we also saw some Mainland buyers return to the market, although the numbers were small.

The second-hand market also saw further improvement. However, due to the tight supply of second-hand homes and the strong competitiveness in the prices of newly launched residential projects, we do not expect a big surge in the number of transactions of second-hand homes. In the first half of 2014, the volume of second-hand home transactions reached about 20,000, 14% higher than that in the second half of 2013, but still around 10% lower than that in the same period in 2013.

In the land market, a site in Ma On Shan yielding a gross floor area of around 200,000 sq ft was sold at an accommodation value of HK\$3,315 per sq ft in June. Five housing sites will be released during the third quarter of 2014, all in the New Territories. The increase in upcoming supply in that area will result in developers' becoming more exacting during the land bidding process.

Several new residential projects will soon be launched, including Paxton in Ho Man Tin and new batches of Park Signature in Yuen Long. We expect transaction volumes to increase further in the coming months with the release of accumulated purchasing power. However, further mild corrections in prices are expected, especially in the New Territories, due to the government's cooling measures and increasing supply.

## Retail

For the first five months of 2014, the number of Mainland tourist arrivals increased 17.6% year on year, a faster rate than the 13.6% growth in overall tourist-arrival numbers. However, in May 2014, the retail sales value decreased 4.1% year on year, though it was a slight rebound from April. The year-on-year decline can be attributed to the notable 24.5% decrease in the sales of jewellery, watches and clocks, and valuable gifts.

The anti-corruption campaign in Mainland China continued to suppress the sales of luxury goods in Hong Kong, which led to a drop in leasing demand from related retailers. However, demand from mid-end retailers, such as those in the fast-fashion, food & beverage, cosmetics and pharmaceutical trades, remained active as a result of the change in the spending pattern of Mainland visitors. Cases in point being the opening of a 55,000-sq-ft Zara flagship store in Queen's Road Central and the lease of multiple floors totalling 17,944 sq ft in Wings Building, Central to Esprit.

On the contrary, leasing activity in prime retail districts involving luxury brands remained subdued. Few deals were recorded, aside from one involving high-end accessory brand, which leased a ground-floor space in Russell Street in Causeway Bay. With vacancy rates rising, landlords have softened their stance during rental negotiations and in some cases, been willing to subdivide a larger space into smaller units, to lure demand.

The government's proposal to control the number of Mainland visitors by adjusting the Individual Visit Scheme is expected to have limited impact on overall retail sales. The reduction in the number of day traders will only impact retail sales and rents in the Northern New Territories or along the East Rail Line, mainly on drug or grocery stores. Therefore, we do not expect overall rents of retail properties to experience notable changes due to this adjustment.

## KEY FINDINGS

A few office sales transactions worth over HK\$100 million each took place in Kowloon East last month.

The Hospital Authority leased a large space spanning one and a half floors in KITEC in Kowloon Bay.

## PRIME OFFICE

TABLE 2

### Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Kowloon Bay</b>	One Bay East, East Tower	En bloc	512,000	\$5,400	\$10,547
<b>Wan Chai</b>	The Sun's Group Centre	High	7,388	\$133	\$18,000
<b>Kwun Tong</b>	One Harbour Square	Mid	18,972	\$259	\$13,568
<b>Kwun Tong</b>	Rykadan Capital Tower	Low	12,076	\$119	\$9,854

Source: Knight Frank / Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

### Selected office leasing transactions

District	Building	Zone	Floor area (sq ft)
<b>Kowloon Bay</b>	Kowloonbay International Trade & Exhibition Centre (KITEC)	Low	150,000 (G)
<b>Admiralty</b>	One Pacific Place	Mid	39,020 (L)
<b>Wan Chai</b>	Hopewell Centre	Mid	30,575 (L)
<b>Kowloon Bay</b>	Exchange Tower	Low	12,231 (G)

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

## KEY FINDINGS

Chinese enterprises continued to support Grade-A office rents in Central.

Grade-A office rents dipped in most districts in Kowloon during the past month.

TABLE 4

## Month-on-month movement of Grade-A office rents (Jun 2014)






Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

TABLE 5

## Prime office market indicators (Jun 2014)

District	Net effective rent HK\$psf /mth	Change			Price HK\$ psf	Change		
		From May 14	From Mar 14	From Jun 13		From May 14	From Mar 14	From Jun 13
<b>Premium Central</b>	148.5	1.2%	2.0%	4.5%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	104.9	-0.2%	-1.2%	-1.9%	25,320	0.0%	0.0%	-6.1%
<b>Admiralty</b>	78.4	0.0%	-0.4%	-4.8%	21,047	0.1%	0.1%	-6.3%
<b>Sheung Wan</b>	62.4	0.0%	0.8%	1.6%	18,643	-1.5%	-1.5%	-8.8%
<b>Wan Chai</b>	62.4	0.0%	0.0%	2.6%	17,777	0.0%	0.0%	-2.8%
<b>Causeway Bay</b>	66.4	-0.1%	1.4%	1.9%	17,226	0.0%	0.9%	-2.3%
<b>North Point</b>	45.9	0.7%	1.6%	11.2%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	52.0	0.0%	1.6%	5.5%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	53.5	-0.1%	-2.6%	-9.8%	11,505	-0.3%	-0.3%	-5.4%
<b>Cheung Sha Wan</b>	27.0	-1.1%	-2.2%	-3.4%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	36.8	-0.7%	2.1%	8.2%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	33.2	-1.2%	-8.0%	-13.2%	n/a	n/a	n/a	n/a
<b>Mong Kok/ Yau Ma Tei</b>	48.3	0.0%	2.6%	-1.2%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

## KEY FINDINGS

In June, Kowloon and the New Territories recorded a number of luxury residential sales transactions.

Traditional luxury residential districts recorded several major leasing transactions last month.

# RESIDENTIAL

TABLE 6

### Selected residential sales transactions

District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Tsuen Wan</b>	Seafront	Odd no. house	2,409	\$115.0	\$47,738
<b>Kowloon Tong</b>	LA NOBLESSE	Duplex B	2,359	\$103.5	\$43,875
<b>Peak</b>	Cheuk Nang Lookout	House	4,278	\$156	\$36,466
<b>Mid-Levels West</b>	Argenta	High floor unit	2,182	\$78.4	\$35,927

Source: Economic Property Research Centre / Knight Frank

Note: All transactions are subject to confirmation.

TABLE 7

### Selected residential leasing transactions

District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>The Peak</b>	2 Barker Road	House	3,222	\$265,000	\$82.2
<b>Mid-Levels Central</b>	Bowen's Lookout	High floor unit	1,697	\$130,000	\$76.6
<b>Island South</b>	Horizon Crest	House	2,244	\$135,000	\$60.2
<b>The Peak</b>	Strawberry Hill	House	4,365	\$230,000	\$52.7

Source: Knight Frank

Note: All transactions are subject to confirmation.

## KEY FINDINGS

Luxury residential rents in Mid-Levels and Jardine's Lookout / Happy Valley saw slight increases last month.

In June, luxury residential prices in Pokfulam experienced a slight dip.

TABLE 8

### Month-on-month movement of luxury residential rents (Jun 2014)






Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

TABLE 9

### Luxury residential market indicators (Jun 2014)

District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From May 14	From Mar 14	From Jun 13		From May 14	From Mar 14	From Jun 13
<b>The Peak</b>	\$51.8	-2.4%	0.1%	-11.1%	\$22,195	0.0%	-3.2%	-3.2%
<b>Mid-Levels</b>	\$41.2	0.2%	2.7%	-0.9%	\$21,138	1.0%	0.2%	-1.6%
<b>Pokfulam</b>	\$30.8	-0.2%	0.6%	-3.0%	\$17,588	-0.5%	-0.7%	-8.1%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$40.4	0.2%	6.3%	0.7%	\$19,535	0.5%	0.9%	-3.9%
<b>Island South</b>	\$40.2	-1.4%	-3.8%	-5.6%	\$24,943	2.2%	2.2%	-0.5%

Source: Knight Frank

Rents and prices are subject to revision.

## KEY FINDINGS

In June, most major retail property sales transactions involved small units.

A number of notable retail property leasing transactions were recorded last month in non-core shopping districts.

## RETAIL

TABLE 10

### Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Sheung Wan</b>	Curios court	Ground floor unit	277	\$26.8	\$96,751
<b>Happy Valley</b>	Sing Woo Building	Ground floor units	440	\$40.7	\$92,455
<b>Tsuen Wan</b>	Fortune Commercial Building	Ground floor unit	39	\$2.0	\$51,282
<b>Mong Kok</b>	Sincere Plaza	2 <sup>nd</sup> floor unit	45	\$2.0	\$44,000

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 11

### Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>Tsim Sha Tsui</b>	Carnarvon Mansion	Ground floor unit	122	\$65,000	\$532.8
<b>Wan Chai</b>	Mirador Mansion	Ground floor unit	687	\$168,000	\$244.5
<b>Shau Kei Wan</b>	Yip Ning Building	Ground floor units	1,570	\$200,000	\$127.4
<b>North Point</b>	Victor Court	Ground floor unit	403	\$40,000	\$99.3

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



## KEY FINDINGS

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

In May 2014, the total value of retail sales was HK\$38.8 billion, a drop of 4.1% year on year.

TABLE 12

### Month-on-month movement of prime street shop rents (Jun 2014)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

### Retail sales by outlet type (May 2014)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Apr 14	From Feb 14	From May 13
<b>Jewellery, watches and clocks and valuable gifts</b>	\$7.9	20.5%	0.8%	-16.7%	-24.5%
<b>Clothing, footwear and allied products</b>	\$5.3	13.6%	-4.5%	-7.1%	5.0%
<b>Department stores</b>	\$4.7	12.0%	25.5%	12.6%	2.3%
<b>Fuel</b>	\$0.9	2.2%	3.7%	15.7%	0.0%
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	\$2.9	7.5%	0.2%	4.8%	6.5%
<b>Consumer durable goods</b>	\$5.6	14.4%	-3.4%	-13.4%	-5.2%
<b>Supermarkets</b>	\$4.3	11.0%	6.4%	16.3%	6.4%
<b>Others</b>	\$7.4	18.8%	-8.7%	-1.3%	6.4%
<b>All retail outlets</b>	\$38.8	100.0%	0.4%	-3.9%	-4.1%

Source: Census and Statistics Department



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