

RESEARCH



AUGUST 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Absorption rates slowed amid economic uncertainty

Residential

Primary sector continued to dominate housing market

Retail

Shopping centre and prime street shop rents resilient

KEY FINDINGS

Driven by Citigroup's acquisition of East Tower of One Bay East in Kwun Tong in June, the buying sentiment for en-bloc office buildings improved in July.

Demand for first-hand mass residential units remained the key driver of Hong Kong's residential market last month.

With demand from Mainland Chinese changing, luxury retailers are showing more reluctance to expand, which has led to less overall demand.

MONTHLY REVIEW

In July 2014—amid an atmosphere of economic uncertainty—the Grade-A office leasing market was quiet, but the office sales market continued to improve, with acquisitions being made by both investors and end-users. In the residential sector, developers continued to launch primary projects with sweeteners, while in the second-hand market, activity was slow when faced with competition from the primary sector and landlords standing firm on asking prices. In the retail property market, shopping centre and prime street shop rents remained resilient, while those in secondary streets fell in tandem with rising vacancy rates.

TABLE 1

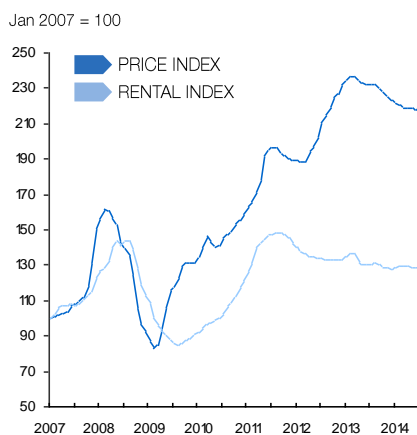
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q1 2014	+2.5%#	+4.8%	+1.5%	+2.9%
Inflation rate	Jun 2014	+3.6%	+5.3%	+4.1%	+4.3%
Unemployment	Apr-Jun 2014	3.2%#	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



Source: Knight Frank

Prime Office

The office leasing market was relatively quiet across Hong Kong Island last month, with demand from the banking and finance sector lessening, but rents in the traditional CBD area remained stable. There were few noteworthy deals, although Nissan reportedly leased the 28-30th floors of Hopewell Centre in Wan Chai, covering 45,000 sq ft, for a monthly rent of about HK\$2 million.

Driven by Citigroup's acquisition of East Tower of One Bay East in Kwun Tong in June, the buying sentiment for en-bloc office buildings continued to improve in July. Two en-bloc office sales, with a total consideration of HK\$2.7 billion—prices beyond market expectation—were recorded in Central and Wan Chai last month.

With the future opening of MTR's South Island Line, coupled with the government's plans to transform Wong Chuk Hang into a tourism and commercial hub, Wong Chuk Hang

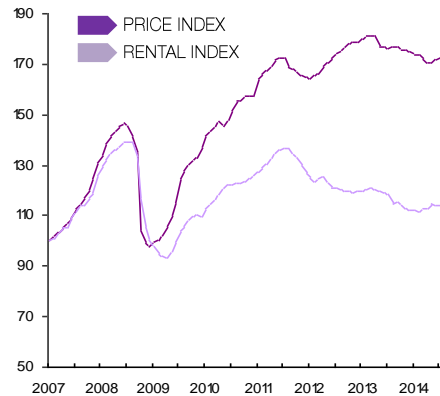
looks set to be another decentralised business area in Hong Kong. In light of this, developers have accelerated their launch of new office projects, while investors are actively looking for investment opportunities in the area. An office tower at 41 Heung Yip Road covering 320,000 sq ft was reportedly sold to an investor for HK\$3.2 billion, while Sun Hung Kai Properties (0016.HK) launched its new W50 office project in the district in August.

The absorption rate of offices in Kowloon East slowed last month, mainly due to abundant supply in the secondary market. With significant rent rises in the area and continual new supply of office space from revitalised buildings, tenants preferred relocation to renewal. Landlords, facing keen competition, are becoming more flexible during rental negotiations and Grade-A office rents in Kowloon East are expected to experience a slight drop over the rest of the year.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

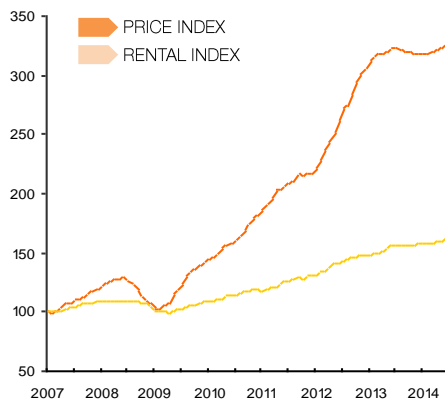


Source: Knight Frank

FIGURE 3

Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank
 Note: Provisional figures from Jan 2014 to Jun 2014

Residential

In July, demand for first-hand mass residential units remained the key driver of Hong Kong's residential market. With several new projects having launched last month, 7,792 homes were sold in July, an increase of 95.5% year on year. The uptick continued in early August, as evidenced at Le Riviera in Shau Kei Wan, which reportedly sold 21 of its first batch of 30 units on the first day of launch.

On the contrary, sentiment in the secondary market was subdued, due to the limited supply of small homes and sellers standing firm on prices. End-users and home upgraders turned their focus to new projects being launched with sweeteners, particularly in the New Territories. For example, Mont Vert I in Tai Po, launched by Cheung Kong (0001.HK), reportedly sold 140 of its second batch of 246 units on the first Saturday of August.

In the luxury residential market, several major transactions were recorded in July, including the sale of the third flat at Opus in Mid-Levels East for HK\$430 million. Luxury residential prices recorded a mild increase of 0.4% month on month, but the market remained inactive, due to the government's various cooling measures and an uncertain external economy.

Leasing demand for luxury homes slightly improved towards the end of the second quarter, with expatriate families seeking homes prior to the start of the new school year. However, due to multinational companies' tighter housing budgets and a shift to personal leases, there was no notable rental growth as what we saw in such peak seasons in previous years. In July, the average rental remained stable at HK\$41 per sq ft per month. We expect them to remain stable over 2014 amid an uncertain external economy.

In the mass residential leasing market, as overseas students flooded in searching for accommodation, the market entered a traditional peak season. Strong demand, mainly from Mainland students, drove rents up 5-10% at properties near campuses in Sha Tin, Fanling, Hung Hom and Sai Ying Pun. A three-bedroom, 650-sq-ft flat at Whampoa Estate in Hung Hom was reportedly leased for HK\$18,000 per month or HK\$40.7 per sq ft—a record high for the development.

Despite the rising supply of primary

homes, mass home prices have held up recently due to sustained demand from local end-users and home upgraders. Mass home prices will remain stable or only fall slightly by less than 5% in 2014.

Retail

For the first six months of 2014, the number of Mainland tourist arrivals increased 16.0% year on year—a faster rate than the 12.5% growth in overall tourist-arrival numbers. However, for the first half of 2014, the retail sales value dropped 1.3% year on year and in June 2014, it fell 6.9% year on year. The decline in June can be attributed to the notable 28.2% decrease in the sales category of 'jewellery, watches and clocks and valuable gifts'.

Consumer demand from Mainland Chinese has moved towards the mid-end of the market. In response, luxury retailers are showing more reluctance to expand, which has led to less demand for prime retail space. Few deals were recorded in the luxury sector, aside from one watch label, which leased a 1,307-sq-ft space at Melbourne Plaza in Central for around HK\$1.3 million per month.

Demand for retail space continued to be driven by mid-end retailers, such as those in the fast-fashion, Food & Beverage (F&B), cosmetics and pharmaceutical trades. For example, Topman, after opening its first store in Pacific Place, Admiralty in July, will open its second store covering 4,700 sq ft at Times Square in Causeway Bay.

With vacancy rates rising—primarily in non-prime streets—landlords have continued to soften their stance during rental negotiations and tenants in core areas are considering relocating to non-core areas in order to capitalise on the lower rents. On the flip-side, shopping centres continued to lure retailers by improving their tenant mix and enhancing their assets, a case in point being APM, which will spend HK\$100 million enhancing 100,000 sq ft of its retail space.

We expect prime street shop rents to remain resilient, as supply is limited, while non-prime street shop rents are expected to drop by up to 5% over the year. In order to encourage consumption, landlords will have to modify their trade-mix and integrate more aspirational, F&B and entertainment elements into their centres, to satisfy the changing demand of Mainland shoppers.

KEY FINDINGS

A number of major office sales transactions took place last month.

There were several major Grade-A office leasing transactions involving large floor plates in July.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Central	35 Queen's Road Central	En bloc	21,390	\$1,600	\$74,801
Wan Chai	Fook Lee Commercial Centre	En bloc	79,792	\$1,100	\$13,786
Kwun Tong	One Harbour Square	High	17,153	\$271	\$15,799
Kwun Tong	One Harbour Square	High	18,972	\$257	\$13,533

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)
Tsim Sha Tsui	International Commerce Centre	High	31,954 (G)
Quarry Bay	Citiplaza One	High	22,500 (L)
Wan Chai	Hopewell Centre	High	45,000 (G)
Tsim Sha Tsui	China Hong Kong City	Mid	10,710 (G)

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

KEY FINDINGS

Grade-A office rents remained stable on Hong Kong Island in July 2014.

Grade-A office prices rebounded a slight 0.9% month on month, during July 2014.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Jul 2014)

District	Net effective rent HK\$psf /mth	Change			Price HK\$ psf	Change		
		From Jun 14	From Apr 14	From Jul 13		From Jun 14	From Apr 14	From Jul 13
Premium Central	\$148.5	0.0%	0.6%	3.6%	n/a	n/a	n/a	n/a
Traditional Central	\$104.9	0.0%	-1.0%	-1.1%	\$25,407	0.3%	0.3%	-5.8%
Admiralty	\$78.4	0.0%	1.8%	-4.8%	\$21,164	0.6%	0.7%	-5.8%
Sheung Wan	\$62.4	0.0%	2.8%	0.4%	\$18,799	0.8%	-0.7%	-8.0%
Wan Chai	\$62.4	0.0%	0.6%	2.3%	\$17,862	0.5%	0.5%	-2.2%
Causeway Bay	\$66.4	0.0%	1.4%	2.0%	\$17,617	2.3%	3.1%	-0.1%
North Point	\$45.4	-1.1%	-0.5%	7.3%	n/a	n/a	n/a	n/a
Quarry Bay	\$52.0	0.0%	0.7%	5.5%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$53.8	0.6%	-1.6%	-9.5%	\$11,734	2.0%	1.6%	-3.4%
Cheung Sha Wan	\$26.8	-0.7%	-0.2%	-8.4%	n/a	n/a	n/a	n/a
Hung Hom	\$36.7	-0.2%	-3.8%	8.0%	n/a	n/a	n/a	n/a
Kowloon East	\$33.1	-0.4%	-7.0%	-13.5%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	\$48.3	0.0%	0.0%	-0.2%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In July, a number of luxury residential sales transactions were recorded in Mid-Levels.

Hong Kong Island recorded several major luxury residential leasing transactions in July.

RESIDENTIAL

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	2,476	\$121.1	\$48,911
Mid-Levels Central	The Albany	High floor unit	2,028	\$92.3	\$45,513
Kowloon Tong	Mount Beacon	House	2,830	\$106.5	\$37,633
Tai Po	Mayfair By The Sea	High floor unit	2,714	\$98.06	\$36,132

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)
The Peak	2 Barker Road	House	2,993	\$295,000	\$98.6
The Peak	Strawberry Hill	House	2,903	\$230,000	\$79.2
Island South	Grosvenor Place	Low floor unit	1,979	\$130,000	\$65.7
Mid-Levels	Borrett Mansion	Low floor unit	2,448	\$125,000	\$51.1

Source: Knight Frank

Note: All transactions are subject to confirmation.

KEY FINDINGS

The Peak, Mid-Levels and Pokfulam saw increases in luxury residential rents last month.

In July, luxury residential prices in Hong Kong experienced a mild increase.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Jul 2014)

District	Net effective rent			Price				
	HK\$psf/mth	Change From Jun 14	Change From Apr 14	Change From Jul 13	HK\$psf	Change From Jun 14	Change From Apr 14	Change From Jul 13
The Peak	\$52.5	1.3%	0.3%	-9.4%	\$22,195	0.0%	0.0%	-3.2%
Mid-Levels	\$41.4	0.3%	2.1%	-0.4%	\$21,295	0.7%	1.7%	-1.5%
Pokfulam	\$31.2	1.2%	0.5%	-1.0%	\$17,588	0.0%	-0.7%	-7.9%
Jardine's Lookout & Happy Valley	\$40.1	-0.7%	5.5%	1.6%	\$19,548	0.1%	0.8%	-3.7%
Island South	\$39.9	-0.5%	-3.3%	-5.0%	\$25,178	0.9%	3.2%	1.6%

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In July, most major retail property sales transactions involved small units in non-prime shopping districts.

Notable retail property leasing transactions were recorded in both core and non-core shopping areas last month.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Shatin	Kam Shan Building	Ground floor unit	885	\$70.9	\$80,090
Sheung Wan	Diamond Square (Shun Tak Centre)	3 rd floor unit	113	\$5.6	\$49,558
Tai Kok Tsui	Hoi Hing Building	Ground floor units	805	\$39.8	\$49,441
Wan Chai	Wai Cheong Building	Ground floor unit	786 (G)	\$33.0	\$41,985

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)
Shatin	Shatin Plaza Arcade	3 rd floor unit	303	\$210,000	\$693.1
Tsim Sha Tsui	Pearl Oriental Tower	Ground floor units	88	\$38,000	\$431.8
Wan Chai	Causeway Centre Arcade	Ground floor unit	1,090 (G)	\$428,805	\$393.4
Central	Coda Commercial Building	Multiple units	2,265 (G)	\$840,000	\$370.9

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 July.

In June 2014, the total value of retail sales was HK\$37.1 billion, a drop of 6.9% year on year.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jun 2014)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From May 14	From Mar 14	From Jun 13
Jewellery, watches and clocks and valuable gifts	\$7.7	20.7%	-3.1%	-2.7%	-28.2%
Clothing, footwear and allied products	\$4.7	12.8%	-10.6%	-14.6%	6.9%
Department stores	\$3.8	10.3%	-19.3%	-2.1%	-3.6%
Fuel	\$0.9	2.3%	0.8%	3.8%	-1.8%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.7	7.3%	-7.1%	-5.9%	8.6%
Consumer durable goods	\$5.6	15.1%	0.1%	-15.8%	-7.8%
Supermarkets	\$4.3	11.5%	-1.2%	3.5%	5.0%
Others	\$7.4	19.9%	0.9%	-3.6%	2.5%
All retail outlets	\$37.1	100.0%	-4.9%	-6.2%	-6.9%

Source: Census and Statistics Department



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RESEARCH & CONSULTANCY

David Ji

Director,
Head of Research & Consultancy,
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Pamela Tsui

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

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

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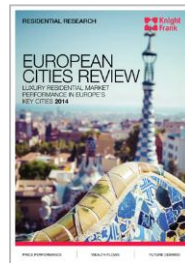
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