

RESEARCH



SEPTEMBER 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Mainland financial institutions remain the primary driver

Residential

Sales transactions of super luxury homes recorded

Retail

Mass-market retailers active in the market

KEY FINDINGS

Landlords in Kowloon East continued to face intensive competition for tenants.

In August, sales of primary residential properties remained robust.

The landscape of the local retail market is expected to continue evolving, largely towards the mid end of the market.

MONTHLY REVIEW

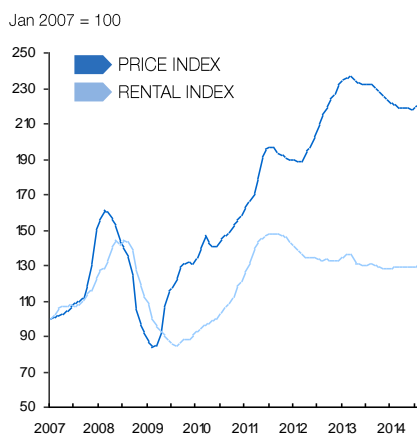
Boosted by the imminent launch of the Hong Kong-Shanghai Stock Connect or “through train” scheme in October, banking and financial enterprises from Mainland China expanded aggressively in Hong Kong in August 2014, absorbing premium office space in the core business district. In the residential sector, positive sentiment and competitive prices in the primary market encouraged secondary market landlords to hold on to properties or stand firm on asking prices. In the retail property market, demand for shopping space continued to shift to mass-market retailers and those targeting local consumers.

TABLE 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q2 2014	+1.8%#	+4.8%	+1.5%	+2.9%
Inflation rate	Jul 2014	+4.0%	+5.3%	+4.1%	+4.3%
Unemployment	May-Jul 2014	3.3%#	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

Demand for office space in Central mainly came from Mainland financial institutions last month. Boosted by the imminent launch of the Hong Kong-Shanghai Stock Connect or “through-train” scheme in October, banking and financial enterprises from Mainland China expanded aggressively in Hong Kong, absorbing premium office space in the core business district (CBD). Notable examples included the leasing of more than 22,000 sq ft of space in Two Pacific Place in Admiralty by China United Credit Finance (UCF) Asset Management for its first Hong Kong office and the expansion into 11,000 sq ft of space in Three Exchange Square in Central by Frontier Financial Group.

With the continuing influx and expansion of Chinese financial firms as well as relatively low vacancy rates, although there were still surrender cases in Central as corporate firms downsized, landlords are not facing high pressure and office rents in the

area are expected to remain resilient.

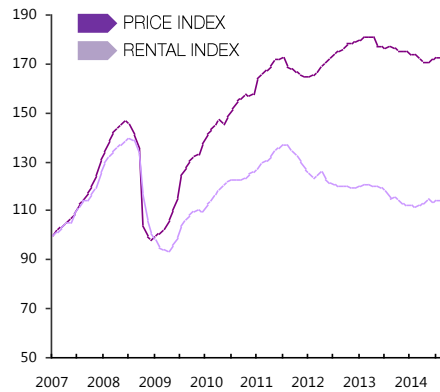
The office sales market continued to revive, as a number of tenants opted to buy their own premises to save on rent costs in the long run. Meanwhile, investors continued to be active in their search for quality premises. For example, an Asian real estate fund management company acquired six mid floors totalling about 156,000 sq ft in Kowloon Commerce Centre in Kwai Chung for about HK\$1.4 billion last month.

Landlords in Kowloon East continued to face intensive competition for tenants. With relocation costs rising and the gap in rents between the two sides of Victoria Harbour narrowing, tenants are opting to renew leases rather than relocate. Offices of a lower grade and even industrial space have become alternatives for cost-conscious tenants, such as those from the sourcing industry. After having dipped in previous months, Grade-A office rents in Kowloon East are expected to stabilise during the remainder of the year.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

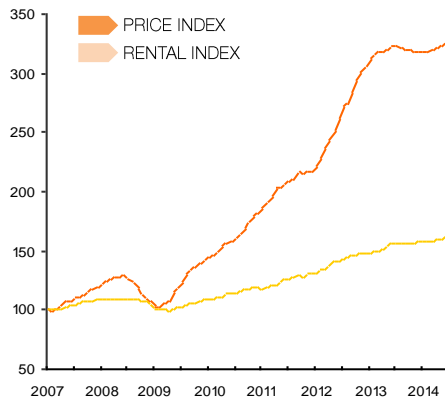


Source: Knight Frank

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 August, sales of primary residential properties remained robust. In the first eight months of 2014, the total number of primary residential sales transactions reached around 10,800—already comparable to the total sold over 2013. The recovery was attributable to the active launch of primary units by developers and the relaxation of the Double Stamp Duty, which has encouraged buyers to move up the property ladder.

Several residential projects were oversubscribed upon their launch in the last week of August, quickly selling out of their first batches of properties. For example, The Wings IIIA in Tseung Kwan O sold its entire first batch of 192 units in one day, while The Hudson in Kennedy Town sold its first batch of 36 units in a matter of hours.

The positive sentiment and competitive prices in the primary market encouraged landlords in the secondary market to hold on to properties or stand firm on asking prices. Consequently, with there being a limited supply of secondary units in August, several deals were concluded at record-high prices. For example, a 402-sq-ft unit at Nan Fung Sun Chuen in Quarry Bay reportedly changed hands at HK\$13,427 per sq ft—a record high for that estate.

In August, upbeat sentiment was also witnessed in the luxury residential market, with several major transactions registered in premium developments. For instance, House 12 at Twelve Peaks on the Peak sold for HK\$413 million or HK\$109,424 per sq ft, the third-highest price ever achieved for a house in Hong Kong. Other new luxury units, such as 1 & 3 Ede Road in Kowloon Tong and The HarbourSide at Kowloon Station, also received positive responses. We expect the improved market performance to spur more launches of new projects in coming months.

In light of the positive market sentiment, developers became more active in land acquisition. In particular, overwhelming responses to residential sites were witnessed. According to the government, two small residential sites in Tuen Mun attracted a total of 51 bidders and the sites sold at prices higher than market expectations.

Looking forward, several new projects

are in the pipeline and we expect prices to remain competitive. For the whole of 2014, we maintain our forecast that the average mass-market home price will remain stable or adjust by less than 5%.

Retail

For the first seven months of 2014, the number of Mainland tourist arrivals increased 15.5% year on year—a faster rate than the 12.3% growth in overall tourist-arrival numbers. However, Hong Kong's retail sales value started to drop in February, and in July 2014, fell 3.1% year on year. The decline can be attributed to the notable 22.2% decrease in the sales category of 'jewellery, watches and clocks and valuable gifts'.

With the consumption pattern of Mainland Chinese continuing to shift towards the mid-end of the market, demand for shopping space continued to shift to mass-market retailers and those targeting local consumers. The sports trade, for example, has witnessed robust expansion activity in recent months. Wan Kee Group opened an about 20,000-sq-ft sportswear store in Woodhouse in the basement of Chungking Mansion in Tsim Sha Tsui, while another sportswear store measuring about 18,000 sq ft opened at the junction of Hennessy Road and Percival Street in Causeway Bay. There were also a number of retail property leasing transactions involving cosmetics and drug stores. They usually take up relatively small retail premises sized between 1,000 and 2,000 sq ft.

The trend of landlords selling subdivided units in a shopping centre or on a shopping floor continues and a number of these properties were released on to the market last month. King's Square in North Point, for example, received a good market response, with a confirmor sales transaction being recorded recently.

Looking ahead, we expect rents of prime street shops to remain resilient as supply is limited, while shops in secondary streets will see rents drop by up to 5% over 2014. In recent months, retailers have been diversifying their businesses to meet changing consumer demand. For example, an electronic appliance store has started to sell watches and a bakery has opened a cafe. The local retail market is expected to continue to evolve, largely towards the mid end of the market.

KEY FINDINGS

New office building W50 launched for sale in Wong Chuk Hang, receiving a strong market response. The top floor achieved a record-high price in the district.

Leo Burnett, a major advertising agency, will relocate its office from Citiplaza in Quarry Bay to Landmark East in Kwun Tong.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wong Chuk Hang	W50	High	5,306	\$77	\$14,512
Kowloon Bay	Billion Centre	Low	12,590	\$118	\$9,350
Kwai Chung	Kowloon Commerce Centre	Mid	130,000	\$1,170	\$9,000
Kwai Chung	Kowloon Commerce Centre	Mid	25,333	\$211	\$8,329

Source: Knight Frank / Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Gross floor area (sq ft)
Kwun Tong	Landmark East AIA Tower	Low and high	47,203
Wan Chai	Central Plaza	Mid	25,500
Sheung Wan	Cosco Tower	Mid	20,500
Central	Two International Finance Centre	Mid	8,517

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

KEY FINDINGS

Grade-A office rents rose in all major business districts last month.

Grade-A office prices remained stable in August.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Aug 2014)

District	Net effective rent			Price			Change	
	HK\$ psf / mth	From Jul 14	From May 14	From Aug 13	HK\$ psf	From Jul 14	From May 14	From Aug 13
Premium Central	\$152.7	2.9%	4.1%	6.6%	n/a	n/a	n/a	n/a
Traditional Central	\$107.3	2.3%	2.1%	1.8%	\$25,407	0.0%	0.3%	-5.8%
Admiralty	\$81.2	3.6%	3.6%	-0.9%	\$21,024	-0.7%	0.0%	-6.4%
Sheung Wan	\$63.2	1.3%	1.3%	1.7%	\$19,073	1.5%	0.7%	-6.7%
Wan Chai	\$63.6	1.9%	1.9%	4.0%	\$17,869	0.0%	0.5%	-2.2%
Causeway Bay	\$67.7	1.9%	1.8%	4.3%	\$17,840	1.3%	4.4%	1.2%
North Point	\$46.9	3.3%	2.8%	8.6%	n/a	n/a	n/a	n/a
Quarry Bay	\$53.1	2.1%	2.1%	6.6%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$53.9	0.1%	0.6%	-10.1%	\$11,740	0.1%	1.7%	-3.0%
Cheung Sha Wan	\$26.8	0.0%	-1.9%	-11.2%	n/a	n/a	n/a	n/a
Hung Hom	\$36.4	-0.8%	-1.7%	7.2%	n/a	n/a	n/a	n/a
Kowloon East	\$33.2	0.3%	-1.3%	-15.6%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$48.8	1.0%	1.0%	-3.0%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In August, a number of luxury residential sales transactions were recorded on the Peak.

A number of major leasing transactions were recorded in traditional luxury districts on Hong Kong Island last month.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Peak	Twelve Peaks	House 12	3,771	\$413	\$109,424
Peak	Highcliff	High floor unit	2,739	\$125	\$45,637
Mid-Levels West	Argenta	High floor unit	2,182	\$92.36	\$42,327
Happy Valley	339 Tai Hang Road	Low floor unit	2,406	\$96.38	\$40,058
Happy Valley	Altitude	High floor unit	2,992	\$86.2	\$28,804

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)
Island South	63 Deep Water Bay Road	House	2,838	\$178,000	\$62.7
Mid-Levels	Branksome Crest	High floor unit	1,767	\$108,000	\$61.1
The Peak	74 Mount Kellett Road	House	3,106	\$160,000	\$51.5
Mid-Levels	Craigmount	High floor unit	1,790	\$90,000	\$50.3

Source: Knight Frank

Note: All transactions are subject to confirmation.

KEY FINDINGS

In August, most major luxury residential districts recorded slight increases in rents, except Jardine's Lookout / Happy Valley.

In August, luxury residential prices in Hong Kong experienced mild increases.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Aug 2014)

District	Net effective rent			Price				
	HK\$ psf / mth	Change From Jul 14	From May 14	From Aug 13	HK\$ psf	Change From Jul 14	From May 14	From Aug 13
The Peak	\$52.6	0.3%	-0.9%	-3.6%	\$22,195	0.0%	0.0%	-3.2%
Mid-Levels	\$41.7	0.8%	1.2%	0.6%	\$21,329	0.2%	1.9%	-1.7%
Pokfulam	\$31.2	0.3%	1.2%	-0.3%	\$17,606	0.1%	-0.4%	-8.7%
Jardine's Lookout & Happy Valley	\$39.6	-1.2%	-1.7%	2.8%	\$19,645	0.5%	1.1%	-3.0%
Island South	\$40.2	0.6%	-1.4%	-4.1%	\$25,178	0.0%	3.2%	1.6%

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In August, a number of retail property sales transactions were recorded in Yuen Long.

Notable retail property leasing transactions last month were mainly recorded in Kowloon.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Yuen Long	Yuen Long Trade Centre	Ground floor / unit 7	307	\$28.28	\$92,117
Mong Kok	Allied Plaza	Ground floor / unit 40	190	\$16.5	\$86,842
Yuen Long	Tung Sing Building	Ground floor / unit A	353 (G)	\$14.3	\$40,510
Yuen Long	Ho Shun Yee Building Arcade	Ground floor / unit 14	294 (G)	\$11	\$37,415

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)
Mong Kok	Carprio Mansion	Ground floor / unit C	227	\$208,000	\$916.3
Hung Hom	United Building Arcade	Ground floor / unit 18	208	\$120,000	\$576.9
Tuen Mun	Trend Plaza North Wing	Level 1 / unit 3	206	\$95,000	\$461.2
Tsim Sha Tsui	Pearl Oriental Tower	Ground floor / unit G	88	\$38,000	\$431.8

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

KEY FINDINGS

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

In July 2014, the total value of retail sales was HK\$38.7 billion, a drop of 3.1% year on year.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jul 2014)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Jun 14	From Apr 14	From Jul 13
Jewellery, watches and clocks and valuable gifts	\$7.8	20.3%	1.9%	-0.5%	-22.2%
Clothing, footwear and allied products	\$5.5	14.3%	16.6%	0.0%	5.7%
Department stores	\$4.0	10.4%	5.3%	7.5%	-1.3%
Fuel	\$0.9	2.2%	-1.7%	2.8%	1.3%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.7	7.0%	-0.8%	-7.6%	7.6%
Consumer durable goods	\$5.7	14.6%	0.7%	-2.7%	-6.2%
Supermarkets	\$4.3	11.2%	2.1%	7.4%	5.7%
Others	\$7.7	20.0%	4.6%	-3.7%	9.6%
All retail outlets	\$38.7	100.0%	4.2%	-0.3%	-3.1%

Source: Census and Statistics Department / Knight Frank



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