

RESEARCH



DECEMBER 2014 HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Leasing and sales activity robust
in Kowloon

Residential
Home sales to rise 15–20%
in 2014 from 2013

Retail
Rents of street shops drop
in all major retail areas

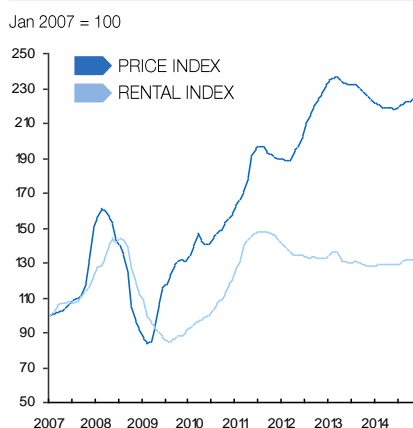
KEY FINDINGS

Despite the launch of Shanghai-Hong Kong Stock Connect, Grade-A office leasing activity in the CBD was not as robust as expected in November.

In 2015, we expect home prices to remain stable and transaction volume to continue to rise.

A number of retailers reshuffled their store network to reduce rental costs.

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank

MONTHLY REVIEW

Despite the launch of Shanghai-Hong Kong Stock Connect, the Grade-A office leasing market in Central was subdued in November. However in Kowloon, leasing and sales activity remained robust, thanks to the availability of large spaces in the area. In the residential sector, robust activity continued to be registered in the primary sector with developers actively clearing their flat stock towards the end of the year. Meanwhile, land sales were also active with a number of residential plots being acquired. With consumer patterns changing and the political environment uncertain, street shops in all major retail districts continued to register rent declines. Prime street shop rents are forecast to fall up to 10% next year, while those in secondary streets could decline up to 15%.

TABLE 1
Economic indicators and forecasts

| Economic indicator | Period | Latest reading | 2011 | 2012 | 2013 |
|--------------------|--------------|----------------|-------|-------|-------|
| GDP growth | Q3 2014 | +2.7%# | +4.8% | +1.5% | +2.9% |
| Inflation rate | Oct 2014 | +5.2% | +5.3% | +4.1% | +4.3% |
| Unemployment | Aug-Oct 2014 | 3.3%# | 3.4% | 3.1% | 3.3% |
| Prime lending rate | Current | 5–5.25% | 5%* | 5%* | 5%* |

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

Prime Office

Despite the launch of Shanghai-Hong Kong Stock Connect, Grade-A office leasing activity in the CBD was not as robust as expected in November. Mainland financial firms, which showed significant demand for office space in previous months, slowed their expansion plans amid local political uncertainties. Rents in Central stabilised in November, rebounding only 0.3% after falling 1.4% in the previous month.

In November, Hong Kong's overall Grade-A office vacancy rate fell 0.1 percentage point to settle at 3.2%—the lowest level since late 2011. This was aided by the take-up of large office space in several buildings, including about 40,000 sq ft in Citibank Tower in Central by two companies.

Meanwhile, office leasing and sales activity remained robust in Kowloon, driven by solid demand for large office space, which was in short supply on Hong Kong Island. Firms in industries which required large office space, such

as banking and insurance, continued taking up space in Kowloon East. The largest transaction in the month was the lease of an around 40,000-sq-ft office space at Millennium City 1 in Kwun Tong by an insurance company.

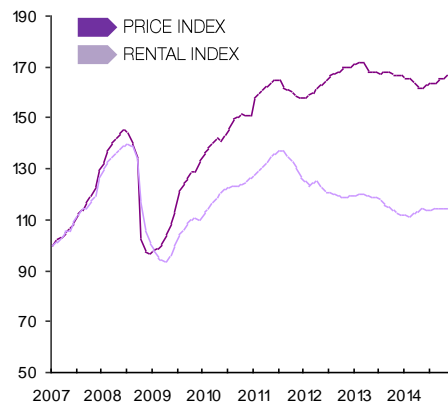
With the prospect of rental growth and potential capital appreciation in Kowloon, more firms purchased offices for owner-occupation in the area. In coming months, we expect to see increasing sales activity in Kowloon, especially in Ngau Tau Kok where a number of newly revitalised projects will be completed and put up for sale.

Looking ahead, rents in the last month of 2014 will be stable. The leasing market on Hong Kong Island is likely to be quiet in the short-term, as Chinese firms will adopt a relatively less aggressive attitude in their expansions.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

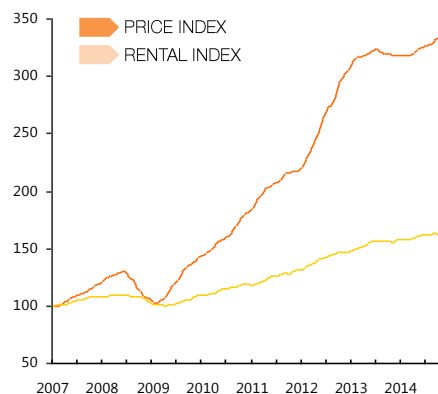


Source: Knight Frank

FIGURE 3

Retail property prices and rents

Jan 2007 = 100



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

Residential

According to the Rating and Valuation Department, prices of residential properties grew around 10% in October 2014, year-to-date. This coincided with a rebound in transaction volume as the impact of cooling measures launched previously was gradually digested. Strong buying demand was seen from end-users, with upgraders re-emerging in recent months following the relaxation of the Double Stamp Duty. Price rises were mainly driven by small to medium-sized flats measuring below 100 sqm, with their prices rising 6–11% during the period. This compares with growth of 2–5% for large units sized 100 sqm or above.

In November, we continued to see positive sentiment in the primary market. For example, Henderson Land (0012.HK) reportedly sold the first 38 units at High One in Cheung Sha Wan within 40 minutes of launch. Meanwhile, larger units in The Parkside in Tseung Kwan O and Dragons Range in Kau To Shan were also warmly received by upgraders, according to market news. Around 58,000 residential sales transactions were recorded during the first 11 months of 2014, an increase of 26% from the same period in 2013. We expect the total sales volume to reach more than 60,000 over 2014, a rise of around 20% from 2013.

In the land market, the government continued to put up residential sites for tender in order to reach its supply target. A Tuen Mun plot was acquired by Sun Hung Kai Properties (0016.HK) for HK\$1.05 billion last month. Meanwhile, Wheelock Properties clinched the exclusive right to develop Phase Five of Lohas Park in Tseung Kwan O. The Lands Department will launch two more plots for tender on 19 December in Beacon Hill and Kwai Chung.

Looking forward, developers are expected to continue offloading their primary projects in the coming year. We believe they will continue to offer sweeteners to boost transactions amid fierce competition and the government's cooling measures that are still in place. With projected housing supply abundant and the prospect of a potential interest-rate rise, luxury home prices are expected to drop within 5% in 2015, while the most sought-after mass residential units could enjoy a mild price growth of under 5%.

Retail

In October, Hong Kong's retail sales value continued to record mild growth, with a 1.4% year-on-year rise to reach HK\$38.3 billion. However, excluding the boost from the surge in sales of 'consumer durable goods' due to the launch of new smartphone models, retail sales actually slackened to show a year-on-year decline in October, according to the government. Indeed, total retail sales for the first 10 months of this year showed a 0.2% dip from a year earlier.

Amid changing consumer pattern and uncertain political environment, street shops in all major prime retail districts continued to register modest rental decreases. While the vacancy rates continued to rise in secondary streets, leasing activity in prime streets also remained subdued.

As rents of prime street shops remained at high levels, some retailers began to reshuffle their store network to reduce rental costs. For instance, Prince Jewellery & Watch reportedly pre-leased around 3,000 sq ft of space in MOKO in Mong Kok, previously known as Grand Century Place, and 6,000 sq ft of space in YOHO Town in Yuen Long instead of renewing the leases of some of its prime street shops with very high rents. The monthly rents of the two shopping-mall stores were reportedly nearly half that of some of its prime street stores. Meanwhile, a cosmetics retailer also reportedly closed some stores in tourism hotspots due to declined gross profit margin and lower ticket size of Mainland shoppers who showed increasing demand for lower price point products.

Notably, it was reported that in early December, Fortune REIT (0778.HK) entered into contract to acquire Laguna Plaza in Kwun Tong for around HK\$1.9 billion. The transaction reflected investors' long-term confidence in the local retail market, particularly in Kowloon East.

Looking ahead, we expect landlords to continue to soften their stance on the asking rents of prime street shops in the coming year. Meanwhile, rents in prime shopping malls are expected to increase in 2015, while rents in non-core shopping malls—such as those in the New Territories near MTR stations—could increase more notably, thanks to their convenient locations for both Mainland tourists and local consumers.

KEY FINDINGS

An en-bloc office sales transaction was recorded in North Point.

In November, an insurance company leased a large office space measuring around 40,000 sq ft in Millennium City 1 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) |
|-----------------------|----------------------|---------|--------------------------|----------------------|------------------------|
| Central | Silver Fortune Plaza | High | 4,397 | \$77 | \$17,550 |
| Wong Chuk Hang | Global Trade Square | High | 8,571 | \$150 | \$17,500 |
| Kwun Tong | Legend Tower | High | 18,156 | \$203 | \$11,200 |
| North Point | Union Park Tower | En bloc | 39,452 | \$430 | \$10,899 |

Source: Economic Property Research Centre / market news

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

| District | Building | Zone | Floor area (sq ft) |
|-----------------------|-------------------|------|--------------------|
| Kwun Tong | Millennium City 1 | High | 40,000 (G) |
| Central | Citibank Plaza | Low | 26,428 (L) |
| Cheung Sha Wan | Trade Square | High | 21,650 (G) |
| Causeway Bay | The Lee Gardens | Mid | 15,608 (L) |

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

KEY FINDINGS

In November, Grade-A office rents in Central and Admiralty slightly rebounded.

Grade-A office prices slightly increased last month.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Nov 2014)

| District | Net effective rent | Change | | | Price | Change | | |
|-----------------------|--------------------|-------------|-------------|-------------|----------|-------------|-------------|-------------|
| | HK\$ psf / mth | From Oct 14 | From Aug 14 | From Nov 13 | HK\$ psf | From Oct 14 | From Aug 14 | From Nov 13 |
| Premium Central | \$152.9 | 0.0% | 0.1% | 8.4% | n/a | n/a | n/a | n/a |
| Traditional Central | \$104.9 | 0.5% | -2.3% | 1.7% | \$25,451 | 0.0% | 0.2% | -4.0% |
| Admiralty | \$82.5 | 1.2% | 1.6% | 3.7% | \$21,325 | 0.6% | 1.4% | -1.7% |
| Sheung Wan | \$65.1 | 0.0% | 3.0% | 6.2% | \$19,469 | 0.7% | 2.1% | -0.3% |
| Wan Chai | \$64.7 | 0.0% | 1.8% | 5.3% | \$17,954 | 0.1% | 0.5% | -0.9% |
| Causeway Bay | \$67.4 | -1.6% | -0.5% | 5.8% | \$18,286 | 0.3% | 2.5% | 5.6% |
| North Point | \$48.2 | 0.0% | 2.8% | 7.9% | n/a | n/a | n/a | n/a |
| Quarry Bay | \$53.9 | -0.1% | 1.4% | 6.7% | n/a | n/a | n/a | n/a |
| Tsim Sha Tsui | \$54.0 | 0.3% | 0.2% | -5.9% | \$12,077 | 1.3% | 2.9% | 1.8% |
| Cheung Sha Wan | \$28.2 | 1.8% | 5.2% | -1.6% | n/a | n/a | n/a | n/a |
| Hung Hom | \$35.4 | -0.2% | -2.7% | 1.7% | n/a | n/a | n/a | n/a |
| Kowloon East | \$34.2 | -0.5% | 3.0% | -9.4% | n/a | n/a | n/a | n/a |
| Mong Kok / Yau Ma Tei | \$49.5 | 0.0% | 1.5% | -0.8% | n/a | n/a | n/a | n/a |

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In November, a number of major luxury residential sales transactions were recorded in Kowloon and the New Territories.

A number of major luxury residential leasing transactions were recorded in Island South last month.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$M) | Price (HK\$ psf) |
|----------------------|-----------------------|-----------------------------|-----------------------|---------------|------------------|
| Tsim Sha Tsui | The Arch | Sky Tower / high floor unit | 6,131 | \$528.8 | \$86,250 |
| Tsim Sha Tsui | The Harbourside | High floor unit | 2,355 | \$132.0 | \$56,051 |
| Tai Po | Mayfair by the Sea II | House | 3,649 | \$166.7 | \$45,697 |
| North Point | The Pavilia Hill | High floor unit | 1,519 | \$66.0 | \$43,430 |
| Tsuen Wan | Deauville | House | 4,132 | \$171.5 | \$41,500 |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

| District | Building | Floor / unit | Saleable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ psf) |
|---------------------|--------------------|-----------------|-----------------------|---------------------|-------------------------|
| Island South | Casa del Sol | House | 3,173 | \$148,000 | \$46.6 |
| Island South | Repulse Bay Garden | Mid floor unit | 1,513 | \$70,000 | \$46.3 |
| Pokfulam | Residence Bel-Air | High floor unit | 1,213 | \$55,000 | \$45.3 |
| Mid-Levels | Park View Court | Low floor unit | 1,686 | \$63,000 | \$37.4 |

Source: Knight Frank

Note: All transactions are subject to confirmation.

KEY FINDINGS

In November, increases in luxury residential rents were witnessed on the Peak, in Mid-Levels and Pokfulam.

Luxury residential prices slightly rose month on month in November.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Nov 2014)

| District | Rent | Change | | | Price | Change | | |
|---|----------------|-------------|-------------|-------------|----------|-------------|-------------|-------------|
| | HK\$ psf / mth | From Oct 14 | From Aug 14 | From Nov 13 | HK\$ psf | From Oct 14 | From Aug 14 | From Nov 13 |
| The Peak | \$66.2 | 0.3% | 1.5% | 2.0% | \$40,348 | 2.6% | 2.6% | -0.7% |
| Mid-Levels | \$54.9 | 0.2% | 0.7% | 2.5% | \$26,165 | 1.3% | 2.8% | 2.1% |
| Pokfulam | \$38.7 | 0.4% | 1.2% | 3.1% | \$23,254 | 0.0% | 0.9% | -4.9% |
| Jardine's Lookout / Happy Valley | \$51.1 | -0.3% | -0.8% | 5.8% | \$24,770 | 1.7% | 3.5% | 2.6% |
| Island South | \$51.6 | -0.9% | -1.4% | -4.6% | \$31,926 | 0.0% | 2.6% | 3.3% |

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In November, most major retail property sales transactions were recorded in non-core shopping areas.

Last month, a number of notable retail property leasing transactions were recorded in Yau Tsim Mong.

RETAIL

TABLE 10

Selected retail sales transactions

| District | Building | Floor / unit | Saleable floor area (sq ft) | Price (HK\$M) | Price (HK\$ psf) |
|----------------------|------------------|----------------------|-----------------------------|---------------|------------------|
| Tsim Sha Tsui | Koon Fook Centre | Ground floor | 1,820 | \$98.0 | \$53,846 |
| Sheung Wan | Diamond Square | 3rd floor / unit 119 | 84 | \$4.0 | \$47,619 |
| Kwun Tong | Elite Centre | 7th floor | 7,398 | \$120.0 | \$16,221 |
| Kwun Tong | Laguna Plaza | En bloc | 163,203 (Gross rentable) | \$1,918.5 | N/A |

Source: Economic Property Research Centre / market news

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) |
|----------------------|--------------------|------------------------|-----------------------------|---------------------|-------------------------|
| Tsim Sha Tsui | Carlton Building | Ground floor / unit 1 | 1,325 | \$350,000 | \$264.2 |
| Yau Ma Tei | Alhambra Building | Ground floor / unit 14 | 380 | \$100,000 | \$263.2 |
| Yau Ma Tei | Sheung On Building | Ground floor / unit 3 | 232 | \$49,000 | \$211.2 |
| Mong Kok | Kai Wan Building | Ground floor / unit C | 1,114 | \$185,000 | \$166.1 |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

KEY FINDINGS

Prime retail rents continued to fall in all major retail districts in November.

In October, Hong Kong's retail sales value rose 1.4% year on year to reach HK\$38.3 billion—slower growth compared with September.

TABLE 12

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





| Central | Causeway Bay | Tsim Sha Tsui | Mong Kok |
|---|---|---|---|
|  |  |  |  |

TABLE 13

Retail sales by outlet type (Oct 2014)

| Outlet | Value | Share of total | Change | | |
|--|----------------|----------------|-------------|-------------|-------------|
| | (HK\$ billion) | % | From Sep 14 | From Jul 14 | From Oct 13 |
| Jewellery, watches and clocks and valuable gifts | \$7.4 | 19.2% | -4.8% | -5.7% | -11.6% |
| Clothing, footwear and allied products | \$4.7 | 12.2% | 6.7% | -15.7% | -8.0% |
| Department stores | \$3.9 | 10.2% | 4.6% | -3.0% | 0.9% |
| Fuel | \$0.8 | 2.2% | -4.7% | -3.2% | -1.2% |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | \$3.3 | 8.6% | -1.5% | 21.7% | 4.2% |
| Consumer durable goods | \$7.2 | 18.9% | 4.4% | 28.0% | 25.8% |
| Supermarkets | \$4.3 | 11.1% | -1.3% | -2.1% | 2.4% |
| Others | \$6.8 | 17.7% | 8.3% | -12.3% | 2.6% |
| All retail outlets | \$38.3 | 100.0% | 2.1% | -0.9% | 1.4% |

Source: Census and Statistics Department / Knight Frank

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

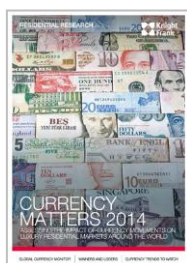
Director, Head of Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

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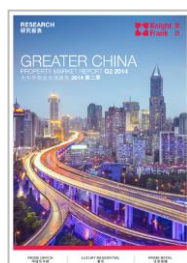
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