RESEARCH

JANUARY 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office
CBD Grade-A office rents will rise further in 2015

Residential
Mass residential prices could increase up to 5% in 2015

Retail
Street shop and mall rents showing opposite trends

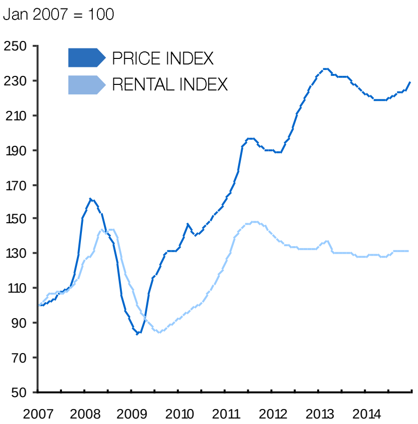
KEY FINDINGS

Grade-A office rents in the CBD are expected to increase up to 5% in 2015, while those in decentralised areas should remain stable.

In 2015, mass residential prices should slightly increase, while luxury home prices may remain stable or experience a slight drop.

Prime street shop rents are set to drop a further 3-5% in 2015, while those in prime shopping malls could increase 3-5%.

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank

MONTHLY REVIEW

The Hong Kong economy improved towards the end of 2014, reflected by the Purchase Manager Index (PMI) in December 2014, which showed expansion for the first time in five months. However, uncertainties over local politics, interest rates and the supply situation will suppress growth in Hong Kong's property market in 2015.

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	Nov 2014	+5.1%	+5.3%	+4.1%	+4.3%
Unemployment	Sep–Nov 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

The office leasing market was quiet in the traditional low season of December. Most firms had either completed their lease renewal early before year-end, or decided to wait until after the holidays to make leasing decisions. Grade-A office rents remained stable in the month. On a year-on-year basis, rents increased 2% across major business districts in Hong Kong, with those on Hong Kong Island rising 5% and those in Kowloon dropping 6%.

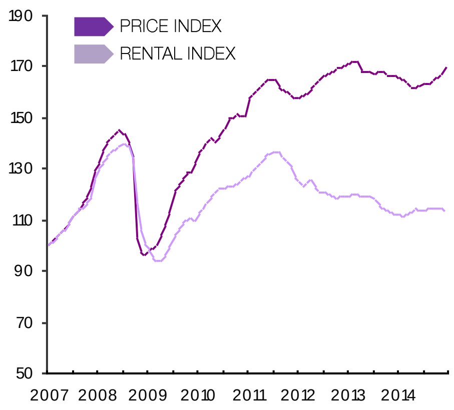
In the office sales sector, the transaction volume dropped 37% from 2013, according to official data, but sentiment improved towards the second half of 2014, driven by demand for large office space from end-users motivated by cost savings in the long run. In 2015, we expect to see this trend continue with increased demand not only from large banks and insurance companies looking to own their offices in Hong Kong, but also from small to medium-sized firms seeking to purchase their own work space to reduce occupation costs.

Looking forward, we expect Grade-A office rents in CBD areas to remain firm or experience a modest increase of up to 5% in 2015, given the limited supply and sustained demand.

Meanwhile, rents in non-core districts should remain stable in 2015 with supply abundant, particularly in Kowloon East where around three million sq ft of new Grade-A office space is scheduled for completion this year.

FIGURE 2
Luxury residential prices and rents

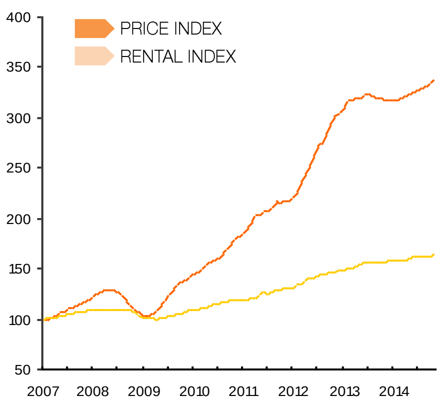
Jan 2007 = 100



Source: Knight Frank

FIGURE 3
Retail property prices and rents

Jan 2007 = 100



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

Residential

In December 2014, the primary residential sales market remained robust, with small to medium-sized units continuing to be sought after. Over 2014, 63,807 residential sales transactions were recorded, according to the Land Registry, an increase of 25.9% from 2013 and the first rebound since 2011 after cooling measures were implemented. Luxury residential sales worth HK$10 million or above rebounded by almost 50% year on year, to reach a total of 7,778 over 2014.

The robust trend has extended into January 2015, when developers remained active in launching new projects, particularly small to medium-sized units which continued to be well received. For example, 320 units at Century Link in Tung Chung reported thousands of subscriptions before their official release in January. Meanwhile, The Nova in Sai Ying Pun, offering 255 units, is also scheduled to launch in January.

In order to tackle Hong Kong's housing shortage, the government has proposed to increase private-home supply to 19,000 units per year in the coming decade. Despite this increase, we still expect to see mild growth of up to 5% in mass residential prices this year, which will remain the focus of the sales market thanks to solid demand from end-users.

Meanwhile, the potential interest-rate rise in the US and the continuing implementation of government cooling measures are expected to suppress the price growth of luxury flats. More landlords will put their flats onto the leasing market instead of the sales market, resulting in an increase in leasing supply which will drag down luxury residential rents.

Retail

The total retail sales value in November 2014 reached HK$41.3 billion, according to official data, a 4.1% increase from the same month in 2013. For the first 11 months of 2014, retail sales rebounded a slight 0.2% on a year-on-year basis, despite having fallen for six consecutive months last year.

Boosted by increased retail sales during the Christmas season, turnover and footfall in a number of prime shopping malls reported double-digit increases. Meanwhile, major shopping centres along the railway in the New Territories reportedly experienced even more significant growth in December, thanks to their convenient locations for both Mainland visitors and local shoppers.

In December, two new MTR stations along the West Island Line—namely Kennedy Town and HKU—started operating, pushing up retail rents nearby. In recent months, clusters of bars and restaurants have started to emerge on Davis Street in Kennedy Town and High Street in Sai Ying Pun, which both have the potential of being developed into Soho-style areas in the future. The trend is expected to grow further after Sai Ying Pun, the last station along the West Island Line, opens in the first quarter of 2015.

With the consumption pattern of Mainland Chinese visitors continuing to shift towards mid-priced products, mass-market retailers remained active in their expansion plans. Last month, American sportswear brand Under Armour opened its first standalone store at Fashion Walk in Causeway Bay, while Korean fashion retailer E-Land opened its first Hong Kong flagship store measuring around 40,000 sq ft in Discovery Park in Tsuen Wan.

In 2015, we expect rents of street shops in prime shopping areas to drop a further 3–5%, after falling 4.2% in 2014. Rents in prime shopping malls, of which new supply is limited, will experience a 3–5% increment this year.

SNAPSHOT

A number of office sales transactions were recorded in Kwun Tong last month (Table 2).

Two large office spaces, each measuring over 10,000 sq ft, were leased in Mong Kok in December 2014 (Table 3).

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Kwun Tong	One Harbour Square	High	18,972	$289	$15,243
Kwun Tong	Enterprise Square Phase 1	Mid	11,487	$104	$9,054
Sha Tin	Grand Central Plaza	High	85,000	$642	$7,553
Kwun Tong	Nanyang Plaza	Mid	21,152	$131	$6,212

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

TABLE 3

Selected office leasing transactions

District	Building	Zone	Floor area (sq ft)
Mong Kok	Park-In Commercial Centre	Mid	17,810 (G)
Mong Kok	Langham Place Office Tower	Mid	17,398 (G)
Sheung Wan	Grand Millennium Plaza, Low Block	Mid	15,451 (G)
Admiralty	One Pacific Place	Mid	10,786 (L)

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

SNAPSHOT

Grade-A office rents in Quarry Bay recorded the most notable decline in December 2014 (Tables 4 and 5).

Grade-A office prices in Causeway Bay led all districts in year-on-year growth last month (Table 5).

TABLE 4

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

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

TABLE 5

Prime office market indicators (Dec 2014)

	Net effective rent	Change			Price	Change		
District	HK$ psf / mth	From Nov 14	From Sep 14	From Dec 13	HK$ psf	From Nov 14	From Sep 14	From Dec 13
Premium Central	$151.8	-0.7%	-2.3%	7.1%	n/a	n/a	n/a	n/a
Traditional Central	$104.3	-0.6%	-1.3%	1.1%	$25,789	1.3%	1.3%	-2.5%
Admiralty	$83.3	1.0%	1.6%	5.6%	$21,838	2.4%	3.0%	1.8%
Sheung Wan	$64.2	-1.3%	1.0%	6.5%	$20,394	4.8%	5.5%	5.0%
Wan Chai	$65.1	0.6%	0.8%	6.5%	$18,400	2.5%	2.6%	2.3%
Causeway Bay	$68.3	0.4%	-0.6%	6.4%	$18,819	3.1%	3.5%	9.4%
North Point	$47.7	-1.1%	0.4%	6.6%	n/a	n/a	n/a	n/a
Quarry Bay	$52.6	-2.3%	-1.1%	4.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	$54.3	-0.1%	0.1%	-6.2%	$12,447	3.1%	4.4%	6.0%
Cheung Sha Wan	$27.9	-1.1%	1.4%	-2.7%	n/a	n/a	n/a	n/a
Hung Hom	$35.5	0.2%	-4.7%	2.0%	n/a	n/a	n/a	n/a
Kowloon East	$34.5	0.9%	2.0%	-8.3%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	$50.0	1.0%	1.0%	1.2%	n/a	n/a	n/a	n/a

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

SNAPSHOT

A number of major luxury residential sales transactions were recorded in Mid-Levels Central last month (Table 6).

A number of luxury homes were leased for over HK$100,000 a month in December 2014 (Table 7).

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	Moon Tower / high floor unit	1,025	$42.88	$41,834
Mid-Levels Central	Estoril Court	Block 3 / high floor unit	2,945	$110	$37,351
Mid-Levels Central	The Pierre	High floor unit	307	$10.92	$35,570
Happy Valley	Leighton Hill	Tower 6 / low floor unit	1,742	$59	$33,869

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)
Peak	Interocean Court	Mid floor unit	2,665	$220,000	$82.6
Island South	Manhattan Tower	Penthouse A	2,267	$180,000	$79.4
Mid-Levels	Bamboo Grove	High floor unit	1,594	$84,700	$53.1
Mid-Levels	Realty Garden	High floor unit	1,165	$53,000	$45.5
Island South	Manderly Garden	House	3,200	$100,000	$31.3

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

SNAPSHOT

Home rents decreased slightly in most traditional luxury residential districts last month (Table 8).

Luxury residential prices rose slightly month on month in December 2014 (Table 9).

TABLE 8
Month-on-month movement of luxury residential rents (Dec 2014)

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

TABLE 9
Luxury residential market indicators (Dec 2014)

District	Rent HK$ psf / mth	Change From Nov 14	From Sep 14	From Dec 13	Price HK$ psf	Change From Nov 14	From Sep 14	From Dec 13
The Peak	$66.0	-0.2%	0.3%	3.0%	$41,354	2.5%	5.1%	1.8%
Mid-Levels	$55.1	0.4%	0.3%	3.0%	$26,411	0.9%	2.4%	3.5%
Pokfulam	$38.5	-0.5%	0.2%	3.6%	$24,146	3.8%	4.7%	-1.2%
Jardine's Lookout / Happy Valley	$50.6	-0.8%	-1.1%	5.3%	$25,024	1.0%	3.7%	4.2%
Island South	$51.2	-0.7%	-2.0%	-5.0%	$31,926	0.0%	0.0%	3.3%

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

SNAPSHOT

A number of notable retail property sales transactions involved small units on Hong Kong Island last month (Table 10).

A number of major retail property leasing transactions were witnessed in the New Territories in December 2014 (Table 11).

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK$M)	Price (HK$ psf)
Wan Chai	Shun Feng International Centre	Ground floor / units 3-4	212	$53.8	$253,774
Kennedy Town	Sun On Building	Ground floor / unit 1	810	$85.5	$105,556
Causeway Bay	Progress Com Building	Ground floor / unit 6	168	$17.2	$102,381
North Point	King Square	1st floor / unit 105	30	$2.8	$92,667

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)
Causeway Bay	Sung Lan Mansion	Ground floor / unit A2	1,120	$478,500	$427.2
Tai Po	Tai Po Plaza Arcade	1st floor / unit 3	526	$180,000	$342.2
Shatin	Yiu Po Mansion	Ground floor / unit 5	1,420	$360,000	$253.5
Causeway Bay	San Kei Tower	Ground floor	1,735	$400,000	$230.6

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

SNAPSHOT

Prime retail rents dropped in all major retail districts last month (Table 12).

Hong Kong's retail sales value rose 4.1% year on year to reach HK$41.3 billion in December 2014 (Table 13).

TABLE 12

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

Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
↘	↘	↘	↘

TABLE 13

Retail sales by outlet type (Nov 2014)

Outlet	Value (HK$ billion)	Share of total %	Change From Oct 14	From Aug 14	From Nov 13
Jewellery, watches and clocks and valuable gifts	$8.4	20.2%	13.1%	-2.9%	-2.0%
Clothing, footwear and allied products	$5.0	12.1%	7.1%	0.9%	-2.6%
Department stores	$5.2	12.5%	32.7%	19.8%	4.9%
Fuel	$0.8	1.9%	-6.8%	-11.4%	-4.3%
Food, alcoholic drinks and tobacco (excluding supermarkets)	$3.3	8.0%	0.5%	-6.6%	10.2%
Consumer durable goods	$7.8	18.9%	7.8%	35.7%	14.3%
Supermarkets	$4.1	10.0%	-3.0%	-8.3%	3.5%
Others	$6.8	16.4%	-0.4%	-10.5%	4.9%
All retail outlets	$41.3	100.0%	7.7%	3.0%	4.1%

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

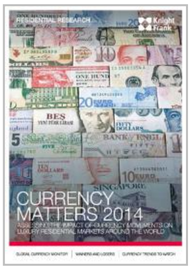
RETAIL SERVICES

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

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Prime Global Cities Index Q3 2014



Currency Matters 2014

Greater China Report Q3 2014

European Cities Review 2014

Knight Frank Research Reports are available at **KnightFrank.com/Research**

© Knight Frank 萊坊 2015
Knight Frank Petty Limited
Knight Frank Hong Kong Limited

Disclaimer
This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright
This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

Knight Frank

Newmark Knight Frank Global