

RESEARCH



FEBRUARY 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Grade-A office leasing market
revives after the holiday season

Residential

Robust sales of new small to
medium-sized units

Retail

Premium street shop rents
to remain firm in 2015

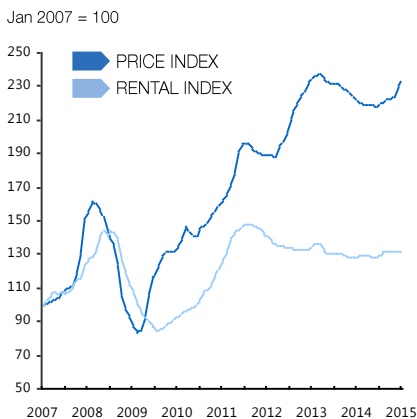
KEY FINDINGS

The office leasing market became more active in January, following the traditional low holiday season of December.

In January 2015, buyers continued to seek new, small to medium-sized flats.

Rents of retail properties in the prime sections of main shopping streets are expected to remain firm in 2015.

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank

MONTHLY REVIEW

The Hong Kong government announced the 2015 Policy Address in January, highlighting its intention to increase housing supply in the coming decade, develop various decentralised business areas and further promote Hong Kong's position as an international tourist city.

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	Dec 2014	+4.9%	+5.3%	+4.1%	+4.3%
Unemployment	Oct-Dec 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

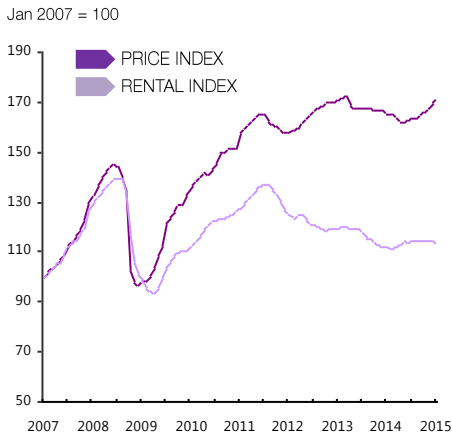
In Central last month, there were a number of office leasing transactions involving small spaces between 2,000 and 4,000 sq ft. Demand was also strong for fully-fitted offices, as tenants were becoming increasingly wary of rising renovation costs.

The 2015 Policy Address announced in January again emphasised the importance of Kowloon East as the CBD II of Hong Kong. The district could provide about five million sqm of commercial and office floor area—about three times the equivalent area in Central.

Leasing activity was robust in Kowloon East last month, driven by continuing demand from companies relocating from Island East. Shipping companies were particularly active, with a notable example being OOCL's relocation from Quarry Bay to a 55,000-sq-ft office space at One Harbour Square in Kwun Tong. In the same district, Zim Integrated Shipping Services from Israel leased two floors at Pioneer Place covering a total of 46,000 sq ft.

Looking ahead, we expect Grade-A office rents in Hong Kong's core business areas to remain stable or increase by a slight 5% in 2015, given the limited supply and low vacancy rates. Mainland Chinese companies, with their continuing business development in Hong Kong, are expected to remain the key drivers of demand for Grade-A offices in Central.

FIGURE 2
Luxury residential prices and rents



Source: Knight Frank

Residential

Buyers continued to seek small to medium-sized flats, evidenced by the positive response to the launch of Century Link in Tung Chung. Over 1,300 new flats were quickly sold in January. Meanwhile, buyers flocked to purchase small, one and two-bedroom apartments, due to their relatively low cost, underlining confidence in home prices in the long term.

In the 2015 Policy Address, the government proposed a pilot scheme to sell public rental housing to “Green Form” applicants, i.e. existing tenants of public rental housing. We believe the scheme’s impact to the overall residential market will be minimal, given the limited number of units being offered.

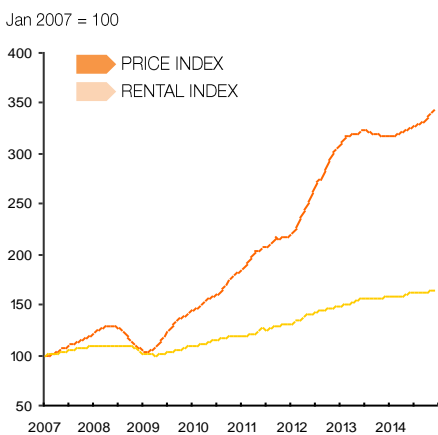
In the Address, the government’s target for total housing supply in the next decade was set at 480,000 units—a minor increase of 10,000 units from its 2014 target. In the short to medium term, we believe the government should be able to meet this target, but after 2020, success will largely depend on whether the government can secure enough land for development.

increasing leasing activity by sportswear brands was witnessed in Central.

We expect the growth rate of Mainland tourist arrivals to Hong Kong to slow in coming years, due to underinvestment in local tourism infrastructure, intense regional competition for tourists, local political issues and the strengthening of the Hong Kong dollar.

This year, we expect overall rents of street shops in major shopping districts to slightly decline, but rents of stores in prime sections of main shopping streets to remain firm, due to their scarcity. Rents in core shopping centres are estimated to slightly rise in 2015.

FIGURE 3
Retail property prices and rents



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

Retail

In December 2014, Hong Kong’s retail sales value fell 3.9% on a yearly basis to settle at HK\$47.8 billion. The value over 2014 dipped 0.2% year on year—the first decline after 2003. The drop was mainly attributable to decreases in the sales of “jewellery, watches and clocks, and valuable gifts”.

Over 2014, the total number of visitor arrivals to Hong Kong increased 12% year on year, rising to above 60 million for the first time. Mainland Chinese visitors accounted for 78% of the total—a record high. However, some retailers, including international fashion brands and high-end jewellery traders, reported slower sales in Hong Kong in 2014 compared with the year before, reflecting the weakening of visitor spending on luxury products.

As consumers continued to shift towards the middle end of the retail sector, mass-market retailers remained active in the retail property leasing market. A mid to high-end watch label, for instance, reportedly renewed its lease in Russell Street in Causeway Bay. Meanwhile,

SNAPSHOT

Most office sales transactions involved small units last month (Table 2).

In January, the largest leasing deal was OOCL's lease at One Harbour Square in Kwun Tong. (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	56 Tsun Yip Street	High	1,461	\$19.0	\$12,980
Sai Ying Pun	118 Connaught Road West	High	13,265	\$161.8	\$12,200
Cheung Sha Wan	Billion Plaza II	High	5,748	\$56.6	\$9,849
Sha Tin	3 On Kwan Street	High	15,175	\$110.3	\$7,270

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)
Kwun Tong	One Harbour Square	Mid	54,942 (G)
Kowloon Bay	Exchange Tower	Low	26,868 (G)
Tsim Sha Tsui	Gateway Tower 6	Low	24,547 (G)
Central	One Exchange Square	Mid	15,000 (N)

Source: Knight Frank

Note: All transactions are subject to confirmation.

SNAPSHOT

In January, Grade-A office rents in Central / Admiralty and Tsim Sha Tsui increased month on month (Table 4).

Grade-A office prices in all major business districts increased last month (Table 5).

TABLE 4

Month-on-month movement of Grade-A office rents (Jan 2015)






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

TABLE 5

Prime office market indicators (Jan 2015)

District	Net effective rent			Price		Change		
	HK\$ psf / mth	From Dec 14	From Oct 14	From Jan 14	HK\$ psf	From Dec 14	From Oct 14	From Jan 14
Premium Central	\$153.2	1.0%	0.2%	7.1%	n/a	n/a	n/a	n/a
Traditional Central	\$104.6	0.3%	0.2%	0.1%	\$26,014	0.9%	2.2%	-0.1%
Admiralty	\$83.5	0.2%	2.5%	6.3%	\$22,217	1.7%	4.8%	4.4%
Sheung Wan	\$64.2	0.0%	-1.3%	5.9%	\$20,743	1.7%	7.3%	7.5%
Wan Chai	\$65.0	-0.3%	0.4%	5.2%	\$18,846	2.4%	5.1%	5.8%
Causeway Bay	\$68.3	0.0%	-1.1%	5.5%	\$19,159	1.8%	5.3%	12.6%
North Point	\$47.7	0.0%	-1.1%	7.9%	n/a	n/a	n/a	n/a
Quarry Bay	\$52.6	0.0%	-2.3%	5.4%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$54.4	0.2%	0.4%	-6.6%	\$12,677	1.8%	6.3%	8.9%
Cheung Sha Wan	\$29.0	4.1%	4.9%	2.7%	n/a	n/a	n/a	n/a
Hung Hom	\$35.6	0.2%	0.2%	4.1%	n/a	n/a	n/a	n/a
Kowloon East	\$34.2	-1.0%	-0.5%	-8.2%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$50.7	1.5%	2.5%	4.3%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

SNAPSHOT

A number of major luxury homes were sold in Kowloon and the New Territories last month (Table 6).

A number of luxury homes were leased for over HK\$100,000 a month in January 2015 (Table 7).

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kowloon Tong	One Mayfair	Tower 06 / mid floor unit	1,893	\$80.685	\$42,623
Tai Po	Mayfair By The Sea II	Tower 6 / high floor unit	2,380	\$85.051	\$35,736
Ho Man Tin	8 Lasalle	High floor unit	1,703	\$59.399	\$34,879
Tai Tam	Redhill Peninsula	House	3,000 (G)	\$85	\$28,333

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)
Mid-Levels	Scenic Heights	High floor unit	1,081	\$52,000	\$48.1
Island South	Redhill Peninsula	House	2,623	\$120,000	\$45.7
Pok Fu Lam	Villa Cecil	High floor unit	2,052	\$87,000	\$42.4
Mid-Levels	Villa Elegant	High floor units	2,528	\$105,000	\$41.5
Island South	Pacific View	High floor unit	1,674	\$52,500	\$31.4

Source: Knight Frank

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Luxury residential prices rose slightly month on month in January 2015 (Table 9).

TABLE 8

Month-on-month movement of luxury residential rents (Jan 2015)






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

TABLE 9

Luxury residential market indicators (Jan 2015)

District	Rent		Change		Price		Change	
	HK\$ psf / mth	From Dec 14	From Oct 14	From Jan 14	HK\$ psf	From Dec 14	From Oct 14	From Jan 14
The Peak	\$66.5	0.7%	0.7%	4.1%	\$41,354	0.0%	5.1%	1.8%
Mid-Levels	\$55.2	0.2%	0.8%	3.7%	\$26,540	0.5%	2.8%	5.2%
Pokfulam	\$38.4	-0.3%	-0.5%	3.5%	\$24,146	0.0%	3.8%	0.1%
Jardine's Lookout / Happy Valley	\$50.3	-0.7%	-1.8%	4.8%	\$25,345	1.3%	4.1%	5.9%
Island South	\$50.8	-0.7%	-2.3%	-6.1%	\$31,926	0.0%	0.0%	4.1%

Source: Knight Frank

Rents and prices are subject to revision.

SNAPSHOT

A number of major retail property sales transactions worth over HK\$100 million were recorded last month (Table 10).

A number of major retail property leasing transactions involved small units in Mong Kok last month (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	Tung Hing Building	Ground floor / unit C	700 (G)	\$130.0	\$185,714
Tsim Sha Tsui	South Sea Apartment	Ground floor / unit C	420	\$34.5	\$82,024
Yuen Long	Prosper Centre	Ground floor / unit 22	609	\$49.5	\$81,281
Central	United Centre	2nd floor / units 3-6	4,372 (G)	\$109.0	\$24,931

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 Mans	Ground floor / unit C	227	\$149,443	\$658.3
Mong Kok	Bijou Court	Ground floor / unit 2	276	\$70,000	\$253.6
Fanling	Fanling Centre Shopping Arcade	Ground floor / unit 115	172	\$42,000	\$244.2
Tsuen Wan	City Landmark	2nd floor / unit 25	312	\$76,000	\$243.6

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

Prime retail rents remained stable in all major retail districts last month (Table 12), after falling for three consecutive months.

Total retail sales value fell 3.9% year on year to reach HK\$47.8 billion in December 2014 (Table 13).

TABLE 12

Month-on-month movement of prime street shop rents (Jan 2015)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Dec 2014)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Nov 14	From Sep 14	From Dec 13
Jewellery, watches and clocks and valuable gifts	\$9.6	20.2%	15.6%	24.5%	-16.3%
Clothing, footwear and allied products	\$6.8	14.3%	37.2%	56.0%	-3.7%
Department stores	\$5.7	12.0%	9.7%	53.8%	-5.3%
Fuel	\$0.8	1.6%	-0.3%	-11.5%	-10.5%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.6	7.5%	8.5%	7.6%	7.4%
Consumer durable goods	\$8.7	18.1%	11.4%	25.0%	4.1%
Supermarkets	\$4.3	9.0%	3.8%	-0.7%	0.0%
Others	\$8.2	17.3%	22.2%	31.8%	0.7%
All retail outlets	\$47.8	100.0%	15.7%	27.2%	-3.9%

Source: Census and Statistics Department / Knight Frank



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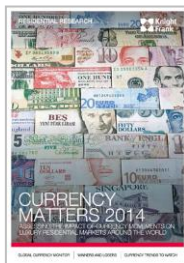
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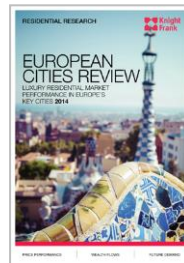
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