

RESEARCH



APRIL 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Kowloon East saw robust leasing and sales activity

Residential

Further cooling measures reduce transaction volume

Retail

Retail rents continue to face downward pressure

KEY FINDINGS

The 'One Belt, One Road' strategy and the Shenzhen-Hong Kong Stock Connect programme will benefit the local office market, with increased workplace demand from related industries.

To tackle the housing problem, we believe the government should effectively increase housing supply and provide assistance to first-time homebuyers.

Retail property rents are facing downward pressure, amid a weakening retail sales value resulting from with the drops in visitors spending on buying high-priced items.

MONTHLY REVIEW

In March, the Grade-A office market in Kowloon East saw robust activity, with large-scale transactions recorded in both the leasing and sales sectors. In the housing market, the number of mass residential sales decreased due to the introduction of new cooling measures, but prices continued to increase. Meanwhile, retail rents remained under pressure because of declining sales so far this year.

TABLE 1

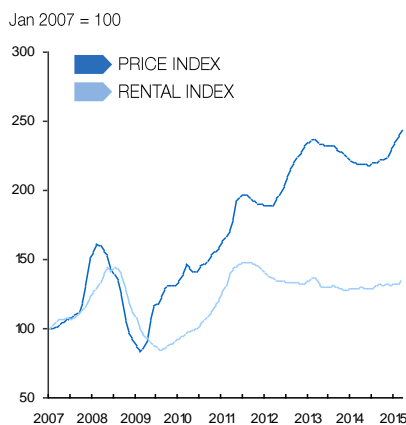
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q4 2014	+2.2%#	+1.7%	+2.9%	+2.3%#
Inflation rate	Feb 2015	+4.6%	+4.1%	+4.3%	+4.4%
Unemployment	Dec 2014–Feb 2015	3.3%#	3.1%	3.3%	3.2%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

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

In March, the biggest leasing deal was recorded in Kowloon East, where the Hong Kong Government leased five floors at One Harbour Square with a total area of around 92,000 sq ft. In line with the 'Energizing Kowloon East' programme, the government is relocating its offices from core business districts to decentralised areas. We believe this will help with the take-up of the abundant new office supply coming online in the areas.

Compared to February, the office sales market was more active last month. Decentralised areas, in particular, saw some large transactions. It was reported that Shanghai Commercial Bank acquired four floors at KCC in Kwai Chung for a total consideration of HK\$950 million or around HK\$9,200 per sq ft. Sino Land also reportedly sold a floor at Exchange Tower in Kowloon Bay for around HK\$270 million.

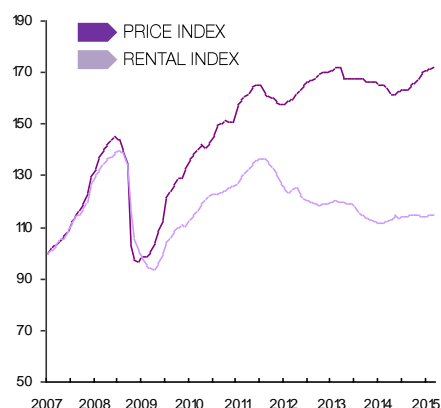
The latest initiatives launched by the Chinese government, including the 'One Belt, One Road' blueprint, the establishment of the Asia Infrastructure Investment Bank and the proposed Shenzhen-Hong Kong through train, will inevitably increase capital flow in the region. Hong Kong, being a global financial hub situated at the crossroads of Asia, is set to benefit from this. We expect this to translate into increased commercial activity, which will stimulate demand for office space from related industries taking the opportunity to expand their businesses in the city.

As a result, we remain optimistic about the office market in Hong Kong. Given the limited supply of office space and sustained demand from Chinese firms and certain industries, we expect Grade-A office rents to rise 0–5% during the year.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

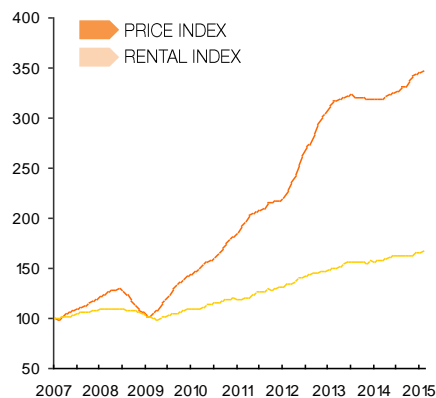


Source: Knight Frank

FIGURE 3

Retail property prices and rents

Jan 2007 = 100

Source: Rating and Valuation Department / Knight Frank
Note: Provisional figures from Sep 2014 to Feb 2015

Residential

Following the introduction of a seventh round of market tightening measures by the Hong Kong Monetary Authority in February, residential sales decreased 28.2% month on month, in March.

Mass residential sales worth below HK\$10 million dropped almost 30%, but luxury residential sales worth HK\$10 million or above lost only 16.2%, as the tightening measures target the below-HK\$7 million market segment.

Despite the declines in transaction volumes, mass residential prices increased another 2.6% in March, while luxury residential prices remained stable.

The primary sector remained the market focus in March, with transactions mainly involving mass residential units, except for luxury project The Cullinan in Tsim Sha Tsui, which sold 14 of the batch of 16 available units on the first day of launch. Another two major mass residential projects will be launched in Tseung Kwan O in April.

The secondary market remained subdued in March, with most landlords remaining firm on asking prices amid strong holding power in a low interest-rate environment.

To tackle the housing problem in Hong Kong, Knight Frank believes the government should not focus on suppressing housing demand, but effectively increase housing supply and provide assistance to first-time homebuyers. The government should ease restrictions on mortgage lending for first-time and young homebuyers, perhaps by borrowing the example of Singapore, which has applied age conditions on housing-mortgage loans.

Retail

The total retail sales value in February 2015 increased 14.9% compared with the same month in 2014. However, taking the first two months of this year together to remove distortions caused by the difference in timing of the Lunar New Year holidays, retail sales dropped 2.0% compared to the same period last year. The subdued performance was primarily due to the notable fall in the sales of

'jewellery, watches and clocks, and valuable gifts', which decreased 15.9% year on year during the period, conceivably reflecting weak tourist spending on high-priced items.

Under such circumstances, a number of European luxury brands lowered their prices in Hong Kong while raising prices in Europe, in order to maintain sales growth in the Asian market and offset the recent exchange rate impact by balancing the price difference between different markets. We expect the price cuts will stimulate sales and help stabilise the prime retail property market in the short-term.

Nevertheless, in March, mainland luxury jeweller Shanghai Lao Feng Xiang opened its first store in Hong Kong at Hai Phong Mansion in Tsim Sha Tsui. Covering 610 sq ft of saleable area at a monthly rent of around HK\$1.9 million, the store will reportedly be followed by a second shop in Mong Kok. The brand's active development shows its confidence in the local retail market and the continuing trend of Mainland retailers using Hong Kong as a platform to springboard overseas.

In general, we expect retail rents to face downward pressure this year, amid weakening visitor arrivals. Prime street shop rents could drop 5–10% over 2015.

SNAPSHOT

A number of major office sales transactions were concluded in non-core office areas last month (Table 2).

In March, the Hong Kong Government leased five floors 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)
Admiralty	Admiralty Centre Tower 1	Mid	4,876	\$122	\$25,021
Central	Wings Building	Low	3,393	\$61.5	\$18,126
Cheung Sha Wan	Billion Plaza II	High	11,668	\$121.3	\$10,400
Sha Tin	1 On Kwan Street	High	7,668	\$58.8	\$7,668

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	92,298 (G)
Causeway Bay	Times Square Tower 2	Mid	19,510 (G)
Kowloon Bay	Manhattan Place	Low	16,850 (L)
Central	Man Yee Building	Mid	11,482 (L)

Source: Knight Frank

Note: All transactions are subject to confirmation.

SNAPSHOT

In March, Grade-A office rents in all major business districts except Kowloon East increased month on month (Table 4).

Grade-A office prices in Causeway Bay increased significantly last month (Table 5).

TABLE 4

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






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

TABLE 5

Prime office market indicators (Mar 2015)

District	Net effective rent			Price		Change		
	HK\$ psf / mth	From Feb 15	From Dec 14	From Mar 14	HK\$ psf	From Feb 15	From Dec 14	From Mar 14
Premium Central	\$155.0	1.0%	2.1%	6.5%	n/a	n/a	n/a	n/a
Traditional Central	\$106.8	2.3%	4.0%	0.5%	\$26,633	0.0%	3.3%	5.2%
Admiralty	\$87.2	3.0%	4.6%	10.8%	\$22,990	0.7%	5.3%	9.4%
Sheung Wan	\$70.1	3.9%	9.1%	13.3%	\$21,520	2.4%	5.5%	13.7%
Wan Chai	\$67.1	2.2%	3.0%	7.5%	\$19,996	4.0%	8.7%	12.5%
Causeway Bay	\$72.1	3.0%	5.6%	9.2%	\$20,949	2.9%	11.3%	23.4%
North Point	\$49.8	2.7%	4.3%	10.1%	n/a	n/a	n/a	n/a
Quarry Bay	\$55.9	2.9%	6.1%	9.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$56.1	1.5%	3.3%	1.1%	\$13,073	1.1%	5.0%	13.2%
Cheung Sha Wan	\$29.2	0.5%	4.7%	5.7%	n/a	n/a	n/a	n/a
Hung Hom	\$36.5	5.1%	2.8%	1.4%	n/a	n/a	n/a	n/a
Kowloon East	\$33.8	-0.1%	-1.9%	-6.3%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$51.2	1.0%	2.5%	9.0%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

SNAPSHOT

Ho Tung Garden changed hands for HK\$5.1 billion, the largest single residential property sales transaction in Hong Kong's history (Table 6).

A number of luxury homes were leased for over HK\$100,000 a month in March 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)
Peak	Ho Tung Garden	En bloc	\$62,000 (developable area)	\$5,100	\$82,258 (accommodation value)
Mid-Levels West	Elegant Terrace	Block 1 / high floor units	2,206	\$74	\$33,545
Wan Chai	Star Crest	Tower 2 / high floor unit	803	\$26.38	\$32,852
Happy Valley	Winfield Building	High floor unit	1,341	\$44	\$32,811

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 West	Gramercy	Mid floor unit	650	\$45,000	\$69.2
Happy Valley	The Leighton Hill	Tower 2 / high floor unit	1,240	\$78,000	\$62.9
Mid-Levels Central	Grenville House	High floor unit	3,348	\$150,000	\$44.8
Happy Valley	47A Stubbs Road	High floor unit	2,038	\$88,000	\$43.2
Happy Valley	White Jade	Mid floor unit	2,377	\$100,000	\$42.1

Source: Knight Frank

Note: All transactions are subject to confirmation.

SNAPSHOT

Housing rents increased in most traditional luxury residential districts last month (Table 8).

Luxury residential prices remained stable in March 2015 (Table 9).

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Mar 2015)

District	Rent		Change			Price		Change	
	HK\$ psf / mth	From Feb 15	From Dec 14	From Mar 14	HK\$ psf	From Feb 15	From Dec 14	From Mar 14	
The Peak	\$67.0	0.4%	1.5%	5.0%	\$41,354	0.0%	0.0%	1.8%	
Mid-Levels	\$56.3	0.1%	2.2%	7.2%	\$27,001	0.3%	2.2%	7.1%	
Pokfulam	\$38.7	0.5%	0.6%	3.5%	\$24,597	0.0%	1.9%	6.0%	
Jardine's Lookout / Happy Valley	\$50.1	-0.7%	-1.1%	1.3%	\$25,583	0.7%	2.2%	8.4%	
Island South	\$51.1	0.1%	-0.1%	-5.8%	\$31,926	0.0%	0.0%	5.7%	

Source: Knight Frank

Rents and prices are subject to revision.

SNAPSHOT

Most major retail property sales transactions were recorded on Hong Kong Island last month (Table 10).

Last month, a number of major retail leasing transactions involved small units across major prime retail districts (Table 11).

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
North Point	King Square	1st floor / unit 67	21	\$2.1	\$99,524
Sheung Wan	Hollywood Centre	Ground floor / unit 20	195	\$16.0	\$82,051
Sha Tin	3 On Kwan Street	Ground floor / unit G43	2,653	\$101.6	\$38,305
Sheung Wan	Winning Heights	Lower ground floor / unit G	16,000 (G)	\$178.0	\$11,125 (G)

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)
Tsim Sha Tsui	Hai Phong Mansion	Ground floor / unit 5	610	\$1,930,000	\$3,163.9
Mong Kok	Richmond Shopping Centre	Ground floor / unit 3	195	\$247,500	\$1,269.2
Causeway Bay	Percival House	Ground floor / unit C	216	\$160,000	\$740.7
Causeway Bay	Dragon Rise	Ground floor / units F-I	716	\$200,000	\$279.3

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

In March, prime street shop rents dipped in Central and Causeway Bay, while remaining stable in Tsim Sha Tsui and Mong Kok (Table 12).

In February, the total retail sales value increased 14.9% year on year, to reach HK\$46.6 billion (Table 13).

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Feb 2015)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Jan 15	From Nov 14	From Feb 14
Jewellery, watches and clocks and valuable gifts	\$8.7	18.6%	-5.1%	3.7%	-9.2%
Clothing, footwear and allied products	\$6.3	13.5%	-0.1%	26.0%	10.4%
Department stores	\$4.7	10.0%	4.4%	-10.9%	11.9%
Fuel	\$0.7	1.4%	-3.3%	-13.9%	-11.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.2	9.0%	12.3%	26.8%	49.9%
Consumer durable goods	\$8.9	19.0%	1.9%	14.0%	36.7%
Supermarkets	\$4.7	10.1%	5.0%	14.3%	27.3%
Others	\$8.6	18.4%	-6.2%	26.7%	15.1%
All retail outlets	\$46.6	100.0%	0.0%	12.8%	14.9%

Source: Census and Statistics Department / Knight Frank



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