

RESEARCH



MAY 2015

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY MARKET



## Office

Vacant office space in Central  
being taken-up

## Residential

Future supply of private homes  
rises to record high

## Retail

Activity further slows as  
retail sales weaken



## KEY FINDINGS

With a number of major Grade-A office leasing transactions recorded in Central, the vacancy rate in the district experienced a notable drop last month.

The projected supply of private homes in Hong Kong rose to a record high of 78,000 units for the coming 3-4 years.

Hong Kong's retail sector is expected to experience further downturn if the Chinese government's proposal of a tariff cut on imported consumer goods materialises.

# MONTHLY REVIEW

In April, the take-up of Grade-A office space in Central notably improved, while Grade-A office sales were robust in decentralised business districts. In the housing market, the number of mass residential sales decreased in the past two months due to the introduction of new cooling measures, while the primary market continued to record encouraging sales results. Meanwhile, retail rents remained under pressure because of declining retail sales and visitor arrivals.

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	Mar 2015	+4.5%	+4.1%	+4.3%	+4.4%
Unemployment	Jan-Mar 2015	3.3%#	3.1%	3.3%	3.2%
Prime lending rate	Current	5-5.25%	5%*	5%*	5%*

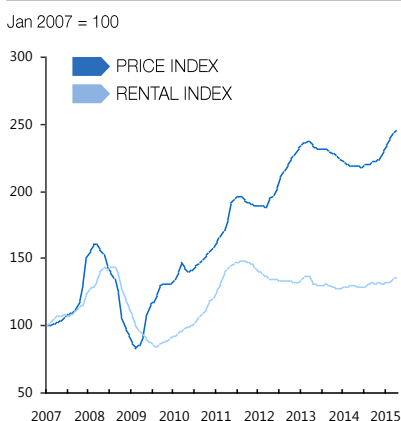
Source: EIU CountryData / Census & Statistics Department / Knight Frank

# Provisional \* HSBC prime lending rate

start-ups are opting for serviced offices over traditional spaces, as they offer more flexible rental terms. Cost-saving aside, new businesses usually require less space and often adopt 'Alternative Workplace Strategies' (AWS) to further reduce the need for office space. With small companies remaining one of the major drivers of office take-up, we expect demand for affordable serviced offices to continue.

If the low supply and low vacancy situation continues, we expect office rents on Hong Kong Island will rise steadily throughout the year. Meanwhile, rents in decentralised areas are likely to stabilise given ample new supply in the pipeline.

FIGURE 1  
Grade-A office prices and rents



Source: Knight Frank

## Prime Office

April saw a flurry of major leasing deals in the Grade-A office market. Although the recent stock market rallies had not generated large leasing demand from Mainland firms, a few buildings in Central with abundant vacancy previously saw significant take-up from firms seeking large floor plates.

Last month, Bloomberg expanded its offices by leasing two additional floors covering around 40,000 sq ft at Citibank Tower, while Thomson Reuters relocated from Island East to Central, leasing a 40,000-sq-ft office space in the same building.

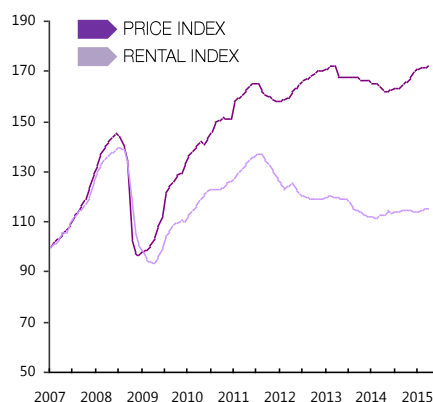
As a result, Central vacancy rate dropped from 4.3% in March to 3.2% in April. Most of those available were pocket spaces of 3,000-5,000 sq ft.

Another notable trend in the past few months has been the expansion of serviced offices. Many new business

FIGURE 2

### Luxury residential prices and rents

Jan 2007 = 100

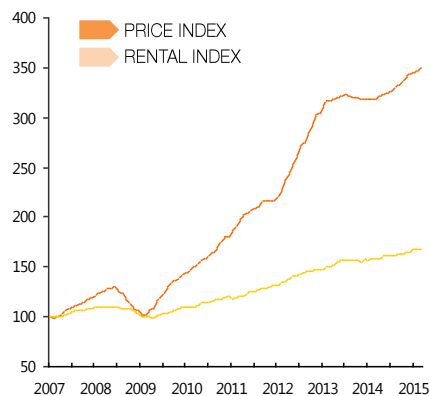


Source: Knight Frank

FIGURE 3

### Retail property prices and rents

Jan 2007 = 100

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

## Residential

The number of residential sales transactions in March and April fell to over 4,000 each month, compared with over 6,000 each month in January and February. The decrease can be attributed to tightening mortgage measures launched by the Hong Kong Monetary Authority in February.

There were about 3,000 mass residential sales transactions below HK\$10 million each month in March and April, compared with over 5,000 each month in the first two months of 2015, as the tightening measures targeted homes worth HK\$7 million or below, in particular.

Meanwhile, the first-hand home sales market witnessed robust activity with several new projects having launched in April. Several developments were oversubscribed upon launch and cleared most of their available flats within short periods of time. For instance, in Tseung Kwan O, Lohas Park Phase III—Hemera sold all 1,648 available units in two weeks, while Twin Peaks in the same district sold most of its last batch of 39 units several hours after launch. More new projects are in the pipeline and we expect their prices to remain competitive.

The projected supply of private homes in Hong Kong rose to a record high of 78,000 units for the coming 3-4 years, as the government accelerated land sales. However, this is not expected to affect home prices in the short term, as the new supply will take some time to materialise.

## Retail

The total retail sales value continued to decrease in March, falling 2.9% year on year. The value decreased in most retail categories, except 'consumer durable goods' as well as 'food, alcoholic drinks and tobacco'. The value of 'jewellery, watches and clocks, and valuable gifts' fell the most—a drop of 18.6% year on year.

The sluggish performance was attributed to the decline in total visitor arrivals, which dropped 8.7% year on year in March. The strong Hong Kong Dollar was a main reason why many visitors

shifting to other destinations such as Seoul and Tokyo. Some negative publicity of tourist harassment did not help, either. As a result, activity in the retail property leasing market remained subdued last month.

Looking ahead, the retail sector is expected to experience further downturn. While the Hong Kong dollar will remain strong, the impact of the one-entry-per-week permit will become more apparent. Meanwhile, the Chinese government has proposed a tariff cut on imported consumer goods. If this is materialised, this will to some extent affect the price competitiveness of goods sold in Hong Kong.

We expect some retail landlords will be under pressure to review their asking rents. Prime street shop rents could decrease by 10-15% this year. Meanwhile, mall operators are expected to be active in asset enhancement, tenant mix adjustment and marketing events, to stimulate footfall. Nevertheless, prime malls will be less impacted than street shops and we expect their rents to remain flat this year.

## SNAPSHOT

In April, a number of office sales transactions were recorded in decentralised areas (Table 2).

A number of large-scale office leasing transactions took place in Citibank Tower last month. (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)
<b>Tsim Sha Tsui</b>	Silvercord Tower 2	Low	2,584	\$40	\$15,461
<b>Kwun Tong</b>	56 Tsun Yip Street	High	3,623	\$47	\$12,842
<b>Kowloon Bay</b>	Exchange Tower	Low	26,686	\$272	\$10,200
<b>Sha Tin</b>	1 On Kwan Street	Mid	15,690	\$110	\$7,029

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)
<b>Central</b>	Citibank Plaza	Low	67,137 (L)
<b>Central</b>	Citibank Plaza	Mid	40,000 (L)
<b>Admiralty</b>	CITIC Tower	Low	18,080 (L)
<b>North Point</b>	633 King's Road	Mid	10,045 (G)

Source: Knight Frank

Note: All transactions are subject to confirmation.

## SNAPSHOT

In April, Grade-A office rents in Causeway Bay, Quarry Bay and Kowloon East decreased month on month (Table 4).

Grade-A office prices in most major business districts continued to increase last month (Table 5).

TABLE 4

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






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

TABLE 5

### Prime office market indicators (Apr 2015)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From Mar 15	From Jan 15	From Apr 14		From Mar 15	From Jan 15	From Apr 14
<b>Premium Central</b>	\$154.1	-0.6%	0.6%	4.4%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	\$107.2	0.4%	4.5%	1.1%	n/a	n/a	n/a	n/a
<b>Overall Central</b>	\$123.5	0.0%	2.8%	2.5%	\$27,070	1.6%	4.1%	6.9%
<b>Admiralty</b>	\$87.2	0.0%	4.4%	13.1%	\$23,216	1.0%	4.5%	10.4%
<b>Sheung Wan</b>	\$70.1	0.0%	7.3%	15.5%	\$21,520	0.0%	3.7%	13.7%
<b>Wan Chai</b>	\$67.2	0.2%	3.4%	8.2%	\$20,215	1.1%	7.3%	13.7%
<b>Causeway Bay</b>	\$71.7	-0.6%	5.0%	8.4%	\$21,049	0.5%	9.9%	24.0%
<b>North Point</b>	\$49.0	-1.6%	2.3%	7.3%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	\$55.8	-0.2%	5.9%	8.0%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	\$56.7	1.4%	3.2%	2.6%	\$13,145	0.6%	3.7%	13.9%
<b>Cheung Sha Wan</b>	\$29.0	-0.7%	-0.1%	8.0%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	\$36.5	0.0%	2.6%	-4.3%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	\$33.8	-0.1%	-1.1%	-5.0%	n/a	n/a	n/a	n/a
<b>Mong Kok / Yau Ma Tei</b>	\$51.2	0.0%	1.0%	6.2%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

## SNAPSHOT

Most major luxury residential sales transactions were recorded in Kowloon in April (Table 6).

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

# RESIDENTIAL

TABLE 6

**Selected residential sales transactions**

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Tsim Sha Tsui</b>	The Harbourside	Tower 2 / high floor unit	1,147	\$58.6	\$51,053
<b>Tsim Sha Tsui</b>	Cullinan	High floor units	2,156	\$108.8	\$50,459
<b>Kowloon Tong</b>	1 & 3 Ede Road	Low floor unit	1,747	\$66.2	\$37,906
<b>Kowloon Tong</b>	One Beacon Hill	Tower 10 / mid floor unit	1,867	\$62.9	\$33,680

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

**Selected residential leasing transactions**

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>Mid-Levels</b>	Queen's Garden	Mid floor unit	2,181	\$185,700	\$85.1
<b>The Peak</b>	Oasis	High floor unit	1,869	\$100,000	\$53.5
<b>Island South</b>	Belgravia	Low floor unit	1,875	\$110,000	\$58.7
<b>Pokfulam</b>	Bel-Air Phase 1	Tower 6 / mid floor unit	1,190	\$57,000	\$47.9
<b>Mid-Levels</b>	Regent on the Park	Tower 1 / high floor unit	2,072	\$95,000	\$45.8

Source: Knight Frank

Note: All transactions are subject to confirmation.

## SNAPSHOT

In April, luxury residential rents recorded a slight decrease in Pokfulam (Table 8).

Luxury residential prices recorded modest increases last month (Table 9).

TABLE 8

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






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

TABLE 9

### Luxury residential market indicators (Apr 2015)

District	Rent		Change		Price		Change	
	HK\$ psf / mth	From Mar 15	From Jan 15	From Apr 14	HK\$ psf	From Mar 15	From Jan 15	From Apr 14
<b>The Peak</b>	\$67.3	0.4%	1.3%	4.1%	\$41,354	0.0%	0.0%	5.1%
<b>Mid-Levels</b>	\$56.6	0.5%	2.5%	6.8%	\$27,187	0.7%	2.4%	8.8%
<b>Pokfulam</b>	\$38.6	-0.4%	0.5%	1.8%	\$24,970	1.5%	3.4%	7.6%
<b>Jardine's Lookout / Happy Valley</b>	\$50.5	0.9%	0.5%	2.1%	\$25,694	0.4%	1.4%	8.7%
<b>Island South</b>	\$51.6	0.9%	1.5%	-3.9%	\$31,926	0.0%	0.0%	5.7%

Source: Knight Frank

Rents and prices are subject to revision.

## SNAPSHOT

Two shops in Lee Garden Road in Causeway Bay were sold in April. (Table 10).

Last month, a number of major retail leasing transactions involved small units in 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)
<b>Causeway Bay</b>	11 Lee Garden Road	Ground floor unit	800 (G)	\$174.8	\$218,500
<b>Kwun Tong</b>	Yue Man Building	Ground floor / units 4-6 and lower ground floor / units 2-6	6,905	\$458.3	\$66,370
<b>Causeway Bay</b>	9 Lee Garden Road	Ground floor unit	n/a	\$172.0	n/a
<b>Sheung Wan</b>	Universal Building	Ground floor / units A-B and 1st-3rd floors	n/a	\$145.0	n/a

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)
<b>Central</b>	Sea Bird House	Ground floor	510	\$178,000	\$349.0
<b>Causeway Bay</b>	Po Wing Building	Ground floor / unit F	990	\$310,000	\$313.1
<b>Mong Kok</b>	Island Centre	Ground floor / units 2-3	724	\$145,000	\$200.3
<b>Mong Kok</b>	Good Hope Building	Ground floor / unit A	n/a	\$680,000	n/a

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



## SNAPSHOT

In April, prime street shop rents dipped across all major retail districts (Table 12).

In March, the total retail sales value decreased 2.9% year on year, to reach HK\$38.4 billion (Table 13).

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

### Retail sales by outlet type (Mar 2015)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Feb 15	From Dec 14	From Mar 14
<b>Jewellery, watches and clocks and valuable gifts</b>	\$6.4	16.8%	-25.5%	-33.2%	-18.6%
<b>Clothing, footwear and allied products</b>	\$5.4	14.0%	-14.4%	-21.2%	-3.3%
<b>Department stores</b>	\$3.6	9.4%	-22.2%	-36.8%	-7.1%
<b>Fuel</b>	\$0.7	1.8%	5.6%	-8.8%	-16.3%
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	\$3.0	7.8%	-28.2%	-16.0%	4.0%
<b>Consumer durable goods</b>	\$7.9	20.7%	-10.4%	-8.0%	19.0%
<b>Supermarkets</b>	\$4.1	10.6%	-13.4%	-4.6%	-0.7%
<b>Others</b>	\$7.3	18.9%	-15.0%	-12.1%	-5.5%
<b>All retail outlets</b>	\$38.4	100.0%	-17.4%	-19.5%	-2.9%

Source: Census and Statistics Department / Knight Frank



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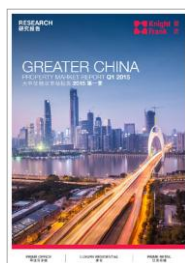
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