

RESEARCH



JULY 2015

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY MARKET



## Office

Polarisation witnessed in  
Kowloon East leasing market

## Residential

Housing prices rise further with  
growth in new-home sales

## Retail

Mid-range brands return to  
prime shopping districts

## KEY FINDINGS

The Grade-A office market remained active in June, driven by continual expansion demand from Chinese financial institutions.

The number of residential sales transactions continued to rebound, reaching 5,776 in June, despite the cooling measures.

Total retail sales value in May witnessed a slight decline, while the number of tourist arrivals showed mild year-on-year growth.

# MONTHLY REVIEW

In June, the Grade-A office leasing market remained robust—in Central in particular—with continual expansion demand coming from Mainland financial institutions. In the housing market, home prices grew further with sales volume continuing to rebound, especially in the primary market. Meanwhile, the retail property leasing market remained subdued, with most transactions involving small floor plates and mid-tier retailers.

TABLE 1

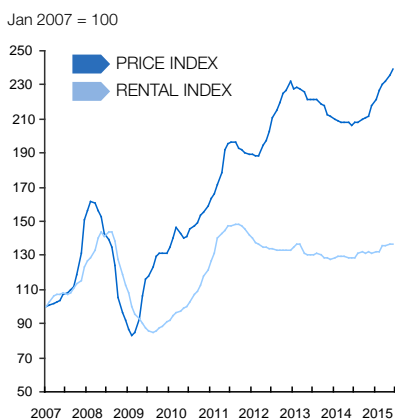
### Economic indicators and forecasts

Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q1 2015	+2.1%#	+1.7%	+2.9%	+2.3%#
Inflation rate	May 2015	+3.0%	+4.1%	+4.3%	+4.4%
Unemployment	Mar–May 2015	3.2%#	3.1%	3.3%	3.2%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

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

# Provisional \* HSBC prime lending rate

FIGURE 1  
Grade-A office prices and rents



Source: Knight Frank Research

## Prime Office

The Grade-A office market remained active in June, driven by continual expansion demand from Chinese financial institutions, most notably fund and asset management companies. In Central, there was strong demand for office premises, leading to significant falls in vacancy rates in certain buildings such as Citibank Plaza.

In Kowloon, Grade-A office leasing demand mainly involved relocations. For example, shipping company Maersk relocated part of its operations from One Kowloon in Kowloon Bay to a floor in Skyline Tower in the same district. Meanwhile, Citibank has reportedly decided not to renew its lease on two floors in Harbour City, Tsim Sha Tsui. Instead, it plans to move to One Bay East in Kwun Tong, which is scheduled for completion by the end of the year.

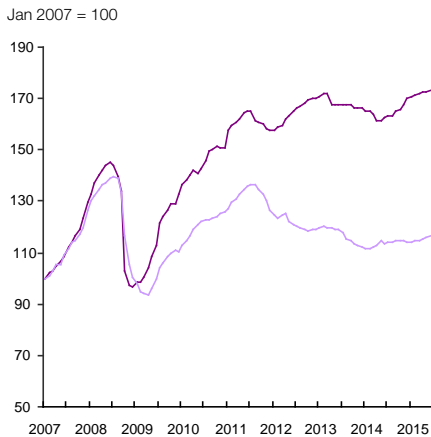
Another notable trend in the Kowloon Grade-A office market has been an increase in polarisation. On the one hand, demand has remained strong for offices in convenient locations near the railway,

reflected in the rapid absorption of available space in Millennium City in Kwun Tong, for example. On the other hand, offices located farther away from public transport facilities are not as popular and taking longer to be leased out.

Looking ahead, we predict Grade-A office rents in Central will continue rising steadily in the second half of 2015, given the expected sustained demand and limited availability. Although the abundant new supply scheduled for completion in Kowloon East may drag down rents of certain buildings, rents will remain firm in prime developments, resulting in a stable average rent in the decentralised area.

FIGURE 2

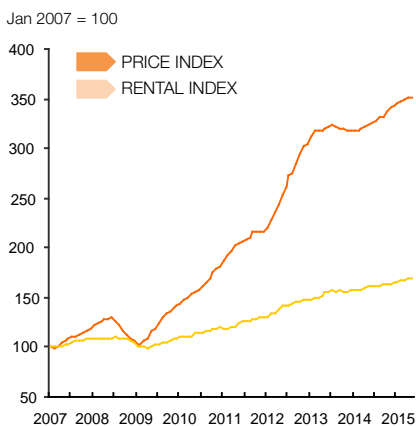
## Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

## Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from Dec 2014 to May 2015

## Residential

According to the Rating and Valuation Department, housing prices in Hong Kong reached a record high in May, increasing more than 20% compared with the same month last year, despite the government's series of property market cooling measures.

The transaction volume of new homes reached over 8,700 for the first half of 2015, a result of strong housing demand; ample liquidity partly attributable to the previous rally in the Mainland and Hong Kong stock markets and the continual return of wealthy Mainland investors to the city's residential sector.

Amid positive market sentiment, property developers have been actively acquiring residential sites this year, in line with the government's target to boost housing supply. In early July, a large residential site in So Kwun Wat in Tuen Mun—estimated to require an investment of up to HK\$8 billion—was sold for HK\$3.82202 billion, representing the second highest-ever accommodation value in the area (HK\$4,541 per sq ft).

During the third quarter, the government will release three residential sites for sale. It has indicated that additional land may be launched by the end of September, depending on the market situation and progress of preparatory work. The annual private housing supply target of 19,000 flats is considered achievable this year. Despite the rising supply, we expect home prices to continue rising this year, as it will take time for the new sites to be developed into flats.

## Retail

During the first five months of 2015, the number of visitor arrivals grew 3.9% year on year, with the number of Mainland visitors increasing 5.9%. The retail sales value registered negative year-on-year growth for three consecutive months from March to May, but the pace of decline is slowing, with the retail sales value recording a mild fall of 0.1% in May.

Last month, with rents in prime retail districts softening, mid-range retailers gained opportunities to enter high-profile streets at lower rents. For instance, in Central, a Greece-based international

jewellery and watch retailer leased a 1,000-sq-ft ground floor shop in Aon China Building. In Mong Kok, a fashion retailer reportedly took up the whole 25,400-sq-ft basement floor at One Grand Tower.

The food and beverage sector showed more resilience. A number of restaurants from the Mainland and Europe were active in searching for retail spaces in Central, Wan Chai and Causeway Bay for launching their brands in Hong Kong.

Looking ahead, we do not expect retail sales in Hong Kong to recover in the near term. The Retail Management Association says that a growing number of apparel and footwear retailers need to slash prices to clear inventory. Prime retail rents will continue to come under downward pressure for the remainder of the year.

## SNAPSHOT

In June, numerous Grade-A office sales transactions were recorded in Admiralty and Wan Chai (Table 2).

Last month, Prudential Assurance leased a large office space measuring approximately 43,000 sq ft in One Island East in Quarry Bay (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	Lippo Centre Tower 1	Mid	2,646	\$57	\$21,485
Wan Chai	Bank of East Asia Harbour View Centre	High	7,857	\$150	\$19,091
Admiralty	United Centre	High	20,489	\$312	\$15,208
Tsim Sha Tsui	Wing On Plaza	Low	4,889	\$70	\$14,318

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)
Quarry Bay	One Island East	Mid	43,324 (I)
Tsim Sha Tsui	One Peking Road	High	23,186 (G)
Kowloon Bay	Manhattan Place	Mid	19,550 (L)
Wan Chai	Three Pacific Place	Mid	15,462 (L)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

In June, Grade-A office rents in Tsim Sha Tsui and Kowloon East increased month on month (Table 4).

Grade-A office prices in Central increased by a significant 3.6% last month (Table 5).

TABLE 4

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






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

TABLE 5

### Prime office market indicators (Jun 2015)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From May 15	From Mar 15	From Jun 14		From May 15	From Mar 15	From Jun 14
Premium Central	\$154.9	0.1%	-0.1%	4.3%	n/a	n/a	n/a	n/a
Traditional Central	\$108.9	-0.2%	2.0%	3.8%	n/a	n/a	n/a	n/a
Overall Central	\$124.8	-0.1%	1.1%	4.0%	\$29,126	3.6%	9.4%	15.0%
Admiralty	\$86.8	0.0%	-0.4%	10.7%	\$24,007	2.1%	4.4%	14.1%
Sheung Wan	\$70.1	0.0%	0.0%	12.4%	\$22,184	1.0%	3.1%	19.0%
Wan Chai	\$67.4	0.0%	0.4%	7.9%	\$21,031	1.3%	5.2%	18.3%
Causeway Bay	\$71.7	0.0%	-0.6%	7.0%	\$21,229	0.4%	1.3%	23.9%
North Point	\$49.4	0.0%	-0.7%	7.6%	n/a	n/a	n/a	n/a
Quarry Bay	\$55.6	-0.3%	-0.5%	6.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$58.2	0.8%	4.2%	8.0%	\$13,443	0.5%	2.8%	16.8%
Cheung Sha Wan	\$29.1	0.4%	-0.3%	7.8%	n/a	n/a	n/a	n/a
Hung Hom	\$35.2	-3.3%	-3.5%	-4.2%	n/a	n/a	n/a	n/a
Kowloon East	\$33.9	1.4%	0.2%	2.0%	\$12,211	0.0%	1.0%	10.4%
Mong Kok / Yau Ma Tei	\$51.7	1.0%	1.0%	7.2%	n/a	n/a	n/a	n/a

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

## SNAPSHOT

In June, an apartment was sold in Opus in Mid-Levels, raising Hong Kong's apartment price record yet again (Table 6).

Last month, a number of houses were leased in Island South (Table 7).

# RESIDENTIAL

TABLE 6

### Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mid-Levels	Opus	Low floor unit	5,188	\$497.9	\$95,971
Island South	Scape	House	5,154	\$450.0	\$87,311
Mid-Levels	Opus	Low floor unit	5,146	\$368.6	\$71,636
Kowloon Tong	One Mayfair	Tower 07 / mid floor unit	1,875	\$81.8	\$43,613

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)
The Peak	Kelletteria	House	2,419	\$218,000	\$90.1
Pokfulam	Residence Bel-Air Phase 3	House	3,952	\$320,000	\$81.0
Island South	63 Deep Water Bay	House	2,727	\$178,000	\$65.3
Island South	Regalia Bay	House	3,034	\$160,000	\$52.7

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

Luxury residential rents slightly increased in all major districts in June (Table 8).

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

TABLE 8

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






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

TABLE 9

### Luxury residential market indicators (Jun 2015)

District	Rent		Change			Price		Change	
	HK\$ psf / mth	From May 15	From Mar 15	From Jun 14	HK\$ psf	From May 15	From Mar 15	From Jun 14	
<b>The Peak</b>	\$67.6	0.5%	0.9%	5.7%	\$41,383	0.0%	0.1%	5.2%	
<b>Island South</b>	\$52.1	0.5%	1.8%	-0.3%	\$31,926	0.0%	0.0%	3.5%	
<b>Mid-Levels</b>	\$57.3	0.2%	1.8%	6.4%	\$27,419	0.3%	1.5%	8.6%	
<b>Jardine's Lookout / Happy Valley</b>	\$50.6	0.2%	1.2%	-3.6%	\$26,104	1.2%	2.0%	9.7%	
<b>Pokfulam</b>	\$38.9	0.3%	0.4%	3.2%	\$25,221	1.0%	2.5%	9.5%	

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

## SNAPSHOT

Last month, a number of retail property sales transactions were recorded in Kwun Tong (Table 10).

Most major retail leasing transactions last month involved small floor plates (Table 11).

## RETAIL

TABLE 10

### Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kwun Tong	Monterey Plaza	Ground floor / unit C	4,472	\$143.6	\$32,108
Quarry Bay	Royal Terrace	Ground floor / units 1-11	9,565 (G)	\$282.0	\$29,482
Kwun Tong	Monterey Plaza	Ground floor / unit A	4,048	\$118.1	\$29,185
Tsim Sha Tsui	Kimberley House	Ground floor / units A-B	6,532 (G)	\$170.0	\$26,026

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)
Wan Chai	EIB tower	Ground floor / unit B	214	\$65,000	\$303.7
Central	Wang Hing Building	Ground floor	400	\$120,000	\$300.0
Mong Kok	Pak Cheung Building	Ground floor / unit A5A	630	\$170,000	\$269.8
Causeway Bay	5 Pak Sha Road	Ground floor	1,523 (G)	\$360,000	\$236.4

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



## SNAPSHOT

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

In May, the total retail sales value decreased 0.1% year on year, to settle at HK\$39.0 billion (Table 13).

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

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

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Apr 15	From Feb 15	From May 14
Jewellery, watches and clocks and valuable gifts	\$6.8	17.3%	6.5%	-21.9%	-15.0%
Clothing, footwear and allied products	\$5.2	13.2%	-2.0%	-17.8%	-2.8%
Department stores	\$5.1	13.0%	40.6%	9.3%	7.6%
Fuel	\$0.8	2.1%	10.2%	20.3%	-7.4%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.0	7.7%	-2.1%	-28.7%	1.9%
Consumer durable goods	\$6.6	16.8%	-8.9%	-25.9%	16.9%
Supermarkets	\$4.3	11.1%	7.9%	-8.2%	0.5%
Others	\$7.3	18.8%	-6.1%	-14.2%	-0.2%
<b>All retail outlets</b>	<b>\$39.0</b>	<b>100.0%</b>	<b>2.6%</b>	<b>-16.2%</b>	<b>-0.1%</b>

Source: Census and Statistics Department / Knight Frank Research



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