RESEARCH

SEPTEMBER 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office
Both Grade-A office leasing and sales markets remain robust

Residential
Sales volume declines, but prices continue to grow

Retail
Rents in prime streets could fall 10–15% over 2015

SNAPSHOT

The Grade-A office market was active in August, with a number of en-bloc sales transactions and major leasing deals being recorded. Vacancy declined further in all major districts.

In the residential market, primary sales remained active, although the total sales volume declined month on month.

The retail leasing market remained subdued, with some retailers closing stores, surrendering spaces or asking for rent reductions during lease renewals.

MARKET HIGHLIGHTS

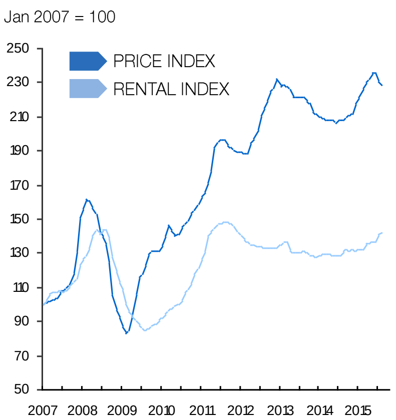
- The stock markets of both the Mainland and Hong Kong experienced a volatile August, weakening housing demand from both investors and end-users.
- With uncertainties in the stock markets and the devaluation of the RMB, Hong Kong's prime retail property market continued to slow, alongside declines in Mainland visitor arrivals and their purchasing power.
- However, the Grade-A office sales and leasing markets were not notably affected. They are expected to remain resilient, with supply in major business districts being limited.

TABLE 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q2 2015	+2.8%#	+1.7%	+2.9%	+2.3%#
Inflation rate	Jul 2015	+2.5%	+4.1%	+4.3%	+4.4%
Unemployment	May–Jul 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

The office sales market remained active in August, with a number of en-bloc transactions being recorded. For example, Emperor International reportedly acquired Wincome Centre in Central for HK$1.3 billion, the biggest office deal of 2015 so far, in terms of total consideration. Meanwhile, The L. Plaza in Sheung Wan reportedly sold for about HK$810 million.

The Grade-A office leasing market also remained robust last month, despite uncertainties in the stock market. Vacancy rates continued to decrease across the territory, with only pockets of space left available in the market.

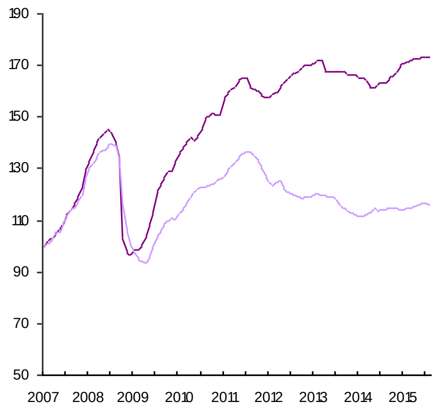
With fit-out and reinstatement costs associated with relocations increasing as well as a lack of available alternatives, tenants tended to renew their leases. In such a landlord's market, Grade-A office rents increased another 0.8% in August.

The Grade-A office market in Kowloon East continued to benefit from strong demand for new and large office space, which is scarcely available on Hong Kong Island. With space being swiftly taken up, the vacancy rate in the area declined to 3.8% in August.

Looking ahead, we expect vacancy rates to remain low for a sustained period of time. In Central, rents could increase another 2% by the end of the year, while rents in Kowloon East will remain stable during the same period. Meanwhile, a continual surge in office rents and a shortage of office space will trigger more companies to consider purchasing their own offices.

FIGURE 2
Luxury residential prices and rents

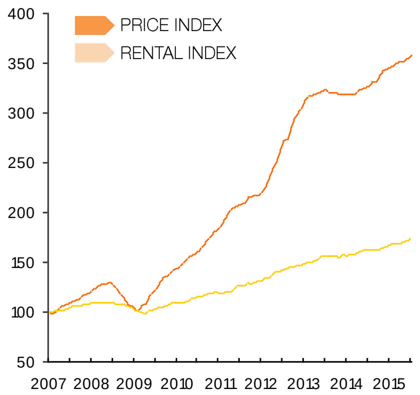
Jan 2007 = 100



Source: Knight Frank

FIGURE 3
Retail property prices and rents

Jan 2007 = 100



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

Residential

According to the Land Registry, in August, the number of residential transactions in Hong Kong decreased 27.8% from the previous month to settle at 3,896. The drop was attributable to weakened demand caused by the slump in both the Mainland and local stock markets. However, home prices still recorded minor growth, due to strong end-user demand. Residential land prices also remained firm, with the asking land premium for Lohas Park phase eight in Tseung Kwan O hitting a record high for a residential project in the area at HK$2.955 billion, or an accommodation value of HK$2,830 per sq ft.

The primary sector remained the market focus, with developers active in launching new flats and offering beneficial packages, including deep discounts and second mortgages. For example, deeper discounts of 10–20% were offered for the latest batch of units at High Park Grand in Mong Kok. In Aspen Crest in Diamond Hill, meanwhile, second mortgages worth 30% of the total purchase price were offered, meaning homebuyers only needed to pay a 10% down-payment.

Looking ahead, we expect residential prices in Hong Kong to remain firm for the rest of the year. Luxury residential prices are set to grow 2–5% in the year, while mass residential prices could increase 5–8%.

Retail

The recent plunge in the Mainland stock market further hindered Mainland Chinese travellers from coming to Hong Kong and weakened their purchasing power. In July, the number of visitors to Hong Kong from Mainland China decreased 9.8% year on year to settle at 3.9 million, driving down the total number of visitor arrivals by 8.4% year on year. The retail sales value in July contracted across most types of retail outlets, resulting in an overall decrease of 2.8% year on year.

The recent closure of DSC, a local furniture and electrical appliances retailer, has sparked further concerns about the deteriorating retail environment in Hong Kong. Persistent inflation in rents and labour costs, alongside the softening consumption of Mainland visitors, continued to impose downward pressure on the profitability of retail business, especially towards the higher end of the market. To survive the headwind, some retailers are consolidating their retail networks and shutting down underperforming stores. In particular, a luxury handbag retailer reportedly surrendered its flagship store in Central.

Looking ahead, with the devaluation of the RMB and China's economic slowdown, Hong Kong's retail sector is expected to continue to face challenges. More vacant street shops are expected to emerge as retail tenants surrender their spaces. Street shop landlords are expected to become more negotiable on rents and provide more concessions upon rent renewal. Rents of street shops in major retail districts could fall 10-15% over 2015.

SNAPSHOT

In August, a number of major office sales transactions were recorded in Kowloon (Table 2).

Last month, a number of large office premises were leased in decentralised districts (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)
Wan Chai	Portwealth Centre	Low	1,538	$39.3	$25,553
Kwun Tong	C-Bons International Centre	Mid	17,308	$250.704	$14,485
Tsim Sha Tsui	Star House	Low	2,754	$28.324	$10,285
Tsim Sha Tsui	Cheuk Nang Centre	Mid	2,472	$22.5	$9,102

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

TABLE 3

Selected office leasing transactions

District	Building	Zone	Gross floor area (sq ft)
Kwun Tong	AIA Kowloon Tower, Landmark East	High	20,670
Causeway Bay	ACE Tower, Windsor House	Mid	19,897
North Point	Citicorp Centre	Low	14,074
Kwun Tong	Millennium City 2	Mid	11,064
Kwun Tong	The Rays	Mid	7,285

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

SNAPSHOT

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

Grade-A office prices declined for the second consecutive month in August, after hitting record highs in June (Table 5).

TABLE 4

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

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

TABLE 5

Prime office market indicators (Aug 2015)

	Net effective rent	Change			Price	Change		
District	HK$ psf / mth	From Jul 15	From May 15	From Aug 14	HK$ psf	From Jul 15	From May 15	From Aug 14
Premium Central	$160.3	0.9%	3.5%	4.9%	n/a	n/a	n/a	n/a
Traditional Central	$113.1	0.8%	3.6%	5.3%	n/a	n/a	n/a	n/a
Overall Central	$129.4	0.9%	3.6%	5.2%	$27,196	-1.8%	-3.3%	7.0%
Admiralty	$90.9	0.8%	4.7%	12.0%	$22,871	-1.0%	-2.8%	8.8%
Sheung Wan	$74.1	1.2%	5.8%	17.4%	$21,198	-1.1%	-3.5%	11.1%
Wan Chai	$69.1	0.4%	2.5%	8.6%	$19,943	-0.9%	-3.9%	11.6%
Causeway Bay	$73.6	0.7%	2.8%	7.8%	$20,359	-1.6%	-3.7%	14.4%
North Point	$52.5	1.7%	6.1%	11.8%	n/a	n/a	n/a	n/a
Quarry Bay	$57.2	0.2%	2.7%	7.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	$61.7	1.4%	6.8%	13.7%	$12,964	-0.8%	-3.1%	10.4%
Cheung Sha Wan	$29.6	0.0%	2.1%	10.5%	n/a	n/a	n/a	n/a
Hung Hom	$32.9	-3.7%	-9.6%	-9.6%	n/a	n/a	n/a	n/a
Kowloon East	$34.5	1.5%	3.3%	4.1%	$11,378	-1.1%	-6.8%	1.3%
Mong Kok / Yau Ma Tei	$51.7	-0.9%	1.0%	6.1%	n/a	n/a	n/a	n/a

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

SNAPSHOT

In August, a number of major luxury residential sales transactions were recorded on the Peak and in Ho Man Tin (Table 6).

Last month, a number of luxury residential leasing transactions were recorded 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)
The Peak	OPUS HONG KONG	Mid floor unit	5,271	$415.00	$78,733
The Peak	OPUS HONG KONG	Mid floor unit	5,199	$375.4	$72,201
Ho Man Tin	Ultima Phase 1	Tower 6 / high floor unit	2,018	$95.6	$47,349
Ho Man Tin	Ultima Phase 1	Tower 7 / high floor unit	2,018	$94.1	$46,649

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)
Island South	127 Repulse Bay Road	A unit	2,334	$141,000	$60.4
The Peak	Eredine	A unit	2,836	$140,000	$49.4
Island South	Le Palais	House	3,302	$150,000	$45.4
Mid-Levels	Garden Terrace	A unit	2,454	$110,000	$44.8
Pokfulam	Residence Bel Air	A unit	1,376	$60,000	$43.6

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

SNAPSHOT

In August, luxury residential rents edged down in three of the five major luxury districts (Table 8).

Residential prices remained stable in major luxury districts last month (Table 9).

TABLE 8
Month-on-month movement of luxury residential rents (Aug 2015)

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

TABLE 9
Luxury residential market indicators (Aug 2015)

District	Rent HK$ psf / mth	Change From Jul 15	From May 15	From Aug 14	Price HK$ psf	Change From Jul 15	From May 15	From Aug 14
The Peak	$67.3	-0.2%	0.0%	3.2%	$41,383	0.0%	0.0%	5.2%
Island South	$51.8	-0.3%	0.0%	-1.0%	$31,926	0.0%	0.0%	2.6%
Mid-Levels	$57.5	0.0%	0.5%	5.5%	$27,512	0.3%	0.6%	8.1%
Jardine's Lookout / Happy Valley	$50.6	-0.2%	0.2%	-1.6%	$26,262	0.3%	1.8%	9.8%
Pokfulam	$38.9	0.0%	0.5%	1.9%	$25,235	0.1%	1.1%	9.5%

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

RETAIL

SNAPSHOT

Last month, major retail property sales transactions were mainly recorded on Hong Kong Island (Table 10).

A number of major retail leasing transactions were recorded in prime retail districts last month (Table 11).

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK$M)	Price (HK$ psf)
Wan Chai	Pak Ling Building	Ground floor / units 1–4	1,227	$164.1	$133,741
Western	Grand Scholar	Ground floor / unit 2	7,766	$105.0	$13,520
Causeway Bay	50 Yun Ping Road, 9 Jardine's Crescent	Ground floor / unit 50	N/A	$380.0	N/A
Causeway Bay	Causeway Place	Ground floor / unit L2	N/A	$108.2	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)
Causeway Bay	Hennessy Apartment	Ground floor / unit 11	220	$146,800	$667.3
Mong Kok	Rejoice Court	Ground floor / unit 3	240	$100,000	$416.7
Central	Ho Lee Commercial Building	Upper ground floor / unit F	563	$137,000	$243.3
Central	Alexandra House	Ground floor / unit G2	N/A	$2,695,650	N/A

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

SNAPSHOT

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

In July, the total retail sales value decreased 2.8% year on year, to settle at HK$37.6 billion (Table 13).

TABLE 12
Month-on-month movement of prime street shop rents (Aug 2015)

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

TABLE 13
Retail sales by outlet type (Jul 2015)

Outlet	Value (HK$ billion)	Share of total %	Change From Jun 15	From Apr 15	From Jul 14
Jewellery, watches and clocks and valuable gifts	$7.4	19.8%	8.2%	17.2%	-5.0%
Clothing, footwear and allied products	$4.9	12.9%	6.8%	-7.7%	-12.3%
Department stores	$3.7	9.9%	0.9%	3.2%	-7.3%
Fuel	$0.8	2.1%	-6.0%	6.6%	-9.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	$2.9	7.7%	2.3%	-5.4%	7.0%
Consumer durable goods	$6.3	16.8%	-8.0%	-12.4%	11.7%
Supermarkets	$4.4	11.6%	2.9%	8.8%	0.4%
Others	$7.2	19.2%	1.6%	-7.3%	-6.5%
All retail outlets	$37.6	100.0%	1.6%	-1.1%	-2.8%

Source: Census and Statistics Department / Knight Frank

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

AP Prime Office Rental Index Q2 2015

Prime Global Cities Index Q2 2015

Greater China Report Q2 2015

Wealth Report 2015

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

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
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald
Managing Director
+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

Ross Criddle
Director
+852 2846 9527
ross.criddl@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

Newmark Knight Frank Global