

RESEARCH



APRIL 2016

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY MARKET



Office  
Active Grade-A office  
relocation continues

Residential  
Sales rebound but prices slip

Retail  
Businesses evolving  
in downturn

# MARKET HIGHLIGHTS

- ◆ The Grade-A office leasing market witnessed robust relocation activities last month, with tenants moving to larger and cheaper space in non-core and decentralised business districts.
- ◆ Residential sales in March rebounded, with more units launched in the primary market and more deals closed in the secondary market, but prices continued to fall.
- ◆ Notable declines in retail sales and visitor arrivals continued to put pressure on retail property rents. The retail property landscape will continue to evolve to cope with the downturn.

TABLE 1

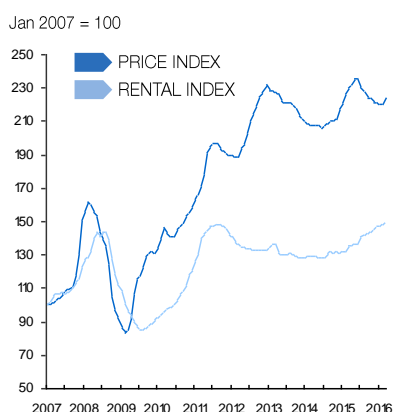
## Economic indicators and forecasts

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q4 2015	+1.9%#	+2.9%	+2.3%	+2.4%
Inflation rate	Feb 2016	+3.1%	+4.3%	+4.4%	+3.0%
Unemployment	Dec 2015 -Feb 2016	3.3%#	3.3%	3.2%	3.3%# (Q4)
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 lack of available space continued to limit Grade-A office leasing activities in core business areas last month. To avoid the high office rents in Central, some firms with a long presence in the area relocated to non-core areas as they became increasingly cost-conscious. Some law firms, for example, had moved from Central to Island East in the past few months.

The high office rents in Central have been supported by lack of supply, rather than strong demand, as office leasing demand from both domestic and overseas firms has weakened in recent months.

The Kowloon Grade-A office leasing market saw a number of relocation deals involving insurance and sourcing companies in March. Office rents in Kowloon East, however, have been under pressure from the increasing

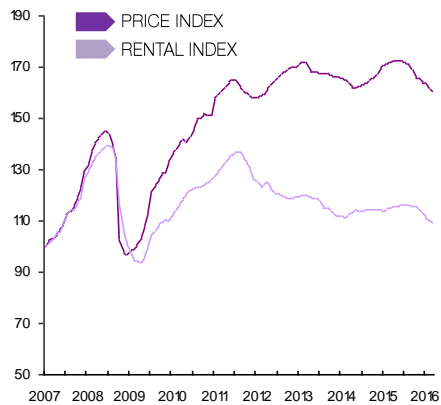
supply coming on line.

Despite the economic uncertainties in Hong Kong and the Mainland, office rents on Hong Kong Island are expected to increase 5% this year, given extremely low vacancy rates. Office rents in decentralised areas, however, could drop 5% in 2016, given abundant supply in the pipeline. This polarisation trend is expected to continue until the new supply is absorbed and the market regains balance.

FIGURE 2

## Luxury residential prices and rents

Jan 2007 = 100

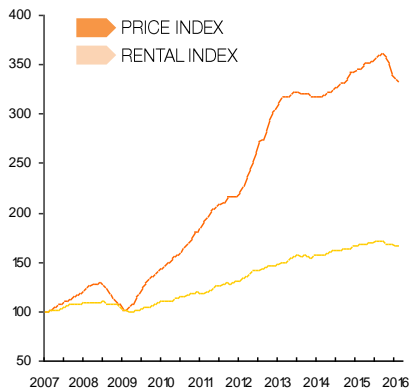


Source: Knight Frank Research

FIGURE 3

## Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from Sep 2015 to Feb 2016

## Residential

In March, residential sales volume rebounded 45% month on month from the lowest level in 25 years, reaching 17,106, according to the Land Registry. The rise was attributable to a number of primary project launches after Chinese New Year and a reviving secondary market, with some flat owners willing to cut prices. As a result, prices fell further, with official figures showing that home prices had decreased for five consecutive months, for a cumulative decline of 11%.

The market continued to polarise, with the luxury sector remaining relatively resilient. Reported landmark deals of the month included an en-bloc transaction at 3 South Bay Close in Repulse Bay for HK\$668 million, or about HK\$30,000 per sq ft and a unit in Cluny Park in Mid-Levels West, which sold for over HK\$53,000 per sq ft, the highest price in the development.

With potential buyers expecting increasing supply and a further drop in home prices, residential sales are expected to fall to around 50,000 units this year. Although luxury home prices overall are expected to drop 5% this year, prices of super-luxury houses and apartments should remain firm. Mass-market prices could drop up to 10% in 2016.

## Retail

Amid deteriorating visitor number and retail sales, Hong Kong's retail industry is seeking new elements and new angles to rebalance business.

In the first two months of the quarter, both retail sales value and visitor arrivals decreased by 13.6% year on year. With an 18% decrease in Mainland visitors during the period, their decade-long shopping spree in Hong Kong is coming to an end. This has put downward pressure on rents in core retail areas.

However, the crowd-pulling success of Art Basel Hong Kong offered perhaps a glimpse of hope.

The annual art fair attracted a record 70,000 visitors and some galleries reported strong sales of art works and collectibles.

In fact, the art atmosphere has been well-cultivated in the city, particularly in the SoHo and NoHo neighbourhoods, with many art galleries, antique and trinket boutiques.

Meanwhile, landlords are also bringing elements of art into their malls. One successful example is K11 Hong Kong, an art mall in Tsim Sha Tsui, which is seeing good footfall as people are increasingly accepting the idea. Another example is H Queen's, a gallery-featured commercial building at 80 Queen's Road Central, which is scheduled to open mid-2017, providing an interesting alternative to the city's shopping scene.

Looking ahead, the retail market is likely to continue going through a period of readjustment to reduce its dependency on Mainland visitors spending. As rents drop, it is becoming more affordable for lifestyle brands to take up space in core shopping areas.

## SNAPSHOT

There were only a few major office sales transactions in March.

China Minsheng Bank leased office space of around 12,000 sq ft in AIA Central last month.

# 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>Kwun Tong</b>	MG Tower	High	2,480	\$30.5	\$12,298
<b>Kwun Tong</b>	Legend Tower	Mid	2,080	\$21.4	\$10,300
<b>Admiralty</b>	Lippo Centre Tower I	Mid	N/A	\$40.2	N/A
<b>Wan Chai</b>	Harbour Centre	High	N/A	\$26.6	N/A

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>Kowloon Bay</b>	Octa Tower	High	23,800 (G)
<b>Quarry Bay</b>	Oxford House	High	22,628 (L)
<b>Causeway Bay</b>	Lee Garden One	High	14,661 (L)
<b>Central</b>	AIA Central	Low	12,550 (L)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

## SNAPSHOT

Grade-A office rents increased in most business districts in March.

Causeway Bay led the market with the highest growth in Grade-A office prices last month.

TABLE 4

### Month-on-month movement of Grade-A office rents (Mar 2016)






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

TABLE 5

### Prime office market indicators (Mar 2016)

District	Net effective rent		Change		Price (Gross)		Change	
	HK\$ psf / mth	M-o-M change	Q-o-Q change	Y-o-Y change	HK\$ psf	M-o-M change	Q-o-Q change	Y-o-Y change
<b>Premium Central</b>	\$171.4	0.1%	0.8%	10.6%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	\$118.9	1.2%	1.3%	11.3%	n/a	n/a	n/a	n/a
<b>Overall Central</b>	\$137.1	0.7%	1.1%	11.0%	\$27,170	0.9%	0.3%	2.0%
<b>Admiralty</b>	\$99.1	1.2%	3.1%	13.7%	\$22,690	2.2%	1.7%	-1.3%
<b>Sheung Wan</b>	\$78.2	-1.2%	-1.0%	11.5%	\$20,445	3.0%	2.7%	-5.0%
<b>Wan Chai</b>	\$71.8	0.6%	0.8%	7.1%	\$19,948	2.3%	1.8%	-0.2%
<b>Causeway Bay</b>	\$77.0	0.6%	0.4%	6.8%	\$20,929	4.4%	4.4%	-0.1%
<b>North Point</b>	\$54.4	1.4%	0.6%	9.4%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	\$57.0	0.5%	-0.2%	2.1%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	\$65.1	1.3%	3.7%	16.4%	\$12,928	2.1%	2.1%	-1.1%
<b>Cheung Sha Wan</b>	\$29.4	0.0%	2.8%	0.8%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	\$32.1	3.9%	3.9%	-11.9%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	\$34.6	0.8%	1.2%	2.2%	\$11,017	0.4%	0.4%	-8.9%
<b>Mong Kok / Yau Ma Tei</b>	\$54.0	2.4%	2.4%	5.4%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

## SNAPSHOT

A number of luxury residential sales transactions were recorded in non-traditional luxury districts last month.

Two luxury houses on the Peak were leased for over HK\$80 per sq ft per month in March.

# RESIDENTIAL

TABLE 6

### Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>North Point Hill</b>	Pavilia Hill	Tower 2 / high floor unit	1,324	\$55.4	\$41,843
<b>Kennedy Town</b>	Upton	High floor duplex	3,518	\$137.7	\$39,140
<b>Causeway Bay</b>	Yoo Residence	High floor duplex	2,683	\$104.76	\$39,047
<b>Hung Hom</b>	Stars by the Harbour	Tower 5 / high floor units	3,180	\$97.84	\$30,769

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\$ per sq ft)
<b>The Peak</b>	5-17 Mount Kellett Road	House	5,699	\$490,000	\$86.0
<b>The Peak</b>	Coombe Road	House	4,012	\$345,000	\$86.0
<b>Island South</b>	Grosvenor House	Mid floor unit	1,975	\$117,000	\$59.2
<b>Mid Levels</b>	Dynasty Court	Tower 4 / mid floor / unit B	1,522	\$82,000	\$53.9
<b>Mid Levels</b>	80 Robinson Road	Tower 2 / mid floor / unit A	1,052	\$55,000	\$52.3

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

Rents continued to fall in all major luxury districts in March.

Home prices fell slightly in most major luxury areas last month.

TABLE 8

### Month-on-month changes in luxury residential rents (Mar 2016)






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

TABLE 9

### Luxury residential market indicators (Mar 2016)

District	Rent		Change		Price		Change	
	HK\$ psf / mth	M-o-M change	Q-o-Q change	Y-o-Y change	HK\$ psf	M-o-M change	Q-o-Q change	Y-o-Y change
<b>The Peak</b>	\$61.6	-1.8%	-3.8%	-8.2%	\$40,091	0.0%	0.0%	-3.1%
<b>Island South</b>	\$50.2	-0.5%	-1.5%	-1.7%	\$28,084	0.0%	-1.3%	-12.0%
<b>Mid-Levels</b>	\$52.5	-2.0%	-6.9%	-6.8%	\$25,394	-0.6%	-2.3%	-6.0%
<b>Jardine's Lookout / Happy Valley</b>	\$48.5	-0.4%	-3.3%	-3.2%	\$25,503	-0.6%	-2.6%	-0.3%
<b>Pokfulam</b>	\$36.9	-1.5%	-3.5%	-4.8%	\$22,266	-2.1%	-7.7%	-9.5%

Source: Knight Frank Research

Note: Rents and prices are based on saleable area and are subject to revision.

## SNAPSHOT

A number of retail properties changed hands in non-core districts last month.

Causeway Bay's retail leasing market was relatively active in March.

## RETAIL

TABLE 10

### Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>North Point</b>	Lucky Court	Ground floor / unit A	478	\$78.8	\$164,854
<b>San Po Kong</b>	3 Tai Yau Street	Ground floor / unit C	797	\$67.642	\$84,871
<b>Aberdeen</b>	Kong Kai Building	Ground floor / unit B	950	\$44.8	\$47,158
<b>Tsuen Wan</b>	Chin Lung Building	Ground floor / unit D	N/A	\$44.0	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\$ per sq ft)
<b>Mong Kok</b>	Ho Mong Kok Shopping Mall	Ground floor / units 23-23A	76	\$43,000	\$565.79
<b>Causeway Bay</b>	508 Lockhart Road	Ground floor	N/A	\$600,000	N/A
<b>Causeway Bay</b>	Po Hon Building	3rd-4th floors	N/A	\$300,000	N/A
<b>Causeway Bay</b>	18 Pak Sha Road	Ground floor / unit 18	N/A	\$260,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



## SNAPSHOT

Prime street shop rents decreased in all major retail districts in March.

Total retail sales value decreased 20.6% year on year to HK\$37.0 billion in February.

TABLE 12

## Month-on-month movement of prime street shop rents (Mar 2016)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

## Retail sales by outlet type (Feb 2016)

Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	M-o-M change	Q-o-Q change	Y-o-Y change
<b>Jewellery, watches, and clocks and valuable gifts</b>	\$5.8	15.8%	-23.4%	-11.9%	-32.5%
<b>Clothing, footwear and allied products</b>	\$5.1	13.9%	-15.8%	12.7%	-18.3%
<b>Department stores</b>	\$3.7	10.0%	-14.2%	-25.9%	-20.7%
<b>Fuel</b>	\$0.6	1.7%	-10.6%	-13.5%	-3.9%
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	\$3.8	10.2%	-5.9%	12.5%	-10.1%
<b>Consumer durable goods</b>	\$6.0	16.3%	-13.3%	-16.5%	-31.8%
<b>Supermarkets</b>	\$4.4	11.8%	-9.8%	4.5%	-7.3%
<b>Others</b>	\$7.5	20.3%	-16.7%	16.9%	-12.1%
<b>All retail outlets</b>	\$37.0	100.0%	-15.1%	-2.9%	-20.6%

Source: Census and Statistics Department / Knight Frank Research



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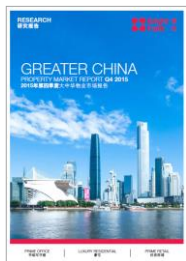
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