

RESEARCH



JUN 2016

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY MARKET



## Office

Kowloon East remains a  
relocation hotspot

## Residential

Further sales growth does not  
indicate market recovery

## Retail

Food and beverage retailers  
remain resilient

# MARKET HIGHLIGHTS

- ◆ In the current slow economy, indicated by GDP growth of just 0.8% in the first quarter of 2016, a number of companies have opted to relocate or downsize, benefiting decentralised business areas with ample supply and lower occupancy costs.
- ◆ Residential sales rose slightly in May, but polarisation lingered in the market, which continued to be led by the primary and super-luxury segments.
- ◆ The retail market saw some good news recently, including a slower drop in Mainland visitor numbers year on year and robust leasing activity involving the resilient food and beverage sector.

TABLE 1

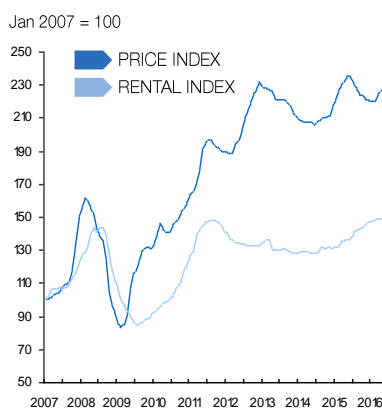
## Economic indicators

| Economic indicator | Period       | Latest reading | 2013  | 2014  | 2015          |
|--------------------|--------------|----------------|-------|-------|---------------|
| GDP growth         | Q1 2016      | +0.8%#         | +2.9% | +2.3% | +2.4%         |
| Inflation rate     | Apr 2016     | +2.7%          | +4.3% | +4.4% | +3.0%         |
| Unemployment       | Feb-Apr 2016 | 3.4%#          | 3.3%  | 3.2%  | 3.3%#<br>(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

On Hong Kong Island, Grade-A office leasing remained subdued in May, because of limited supply. Mainland firms remained the key demand driver, one of them being China Zheshang Bank, which reportedly leased office space of 11,000 sq ft in Three Exchange Square in Central.

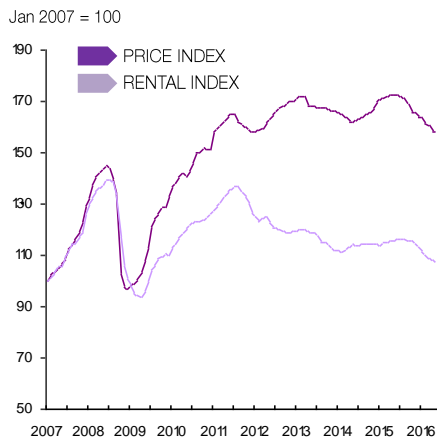
Decentralised business areas, in contrast, were very active, with a number of major leasing transactions recorded. For example, Siemens reportedly leased two additional floors covering 62,000 sq ft in Manulife Financial Centre in Kwun Tong. In the future, large office occupiers seeking space of more than 20,000 sq ft for relocation or expansion will continue to prefer Kowloon East, where there is abundant supply of large whole floors at relatively low cost.

The en-bloc office sales market remained active. Last month, leather goods maker Sityo Group reportedly acquired The Mark, a revitalised office building in Kwun Tong, from Pamfleet Real Estate Fund for HK\$560 million or HK\$8,000 per sq ft.

Looking ahead, we remain optimistic about Hong Kong's Grade-A office market. Office rents on Hong Kong Island are expected to increase by 5% this year, as the low vacancy rates will continue to support rental growth. Meanwhile, office rents in decentralised areas may drop by 5% with abundant supply in the pipeline, but rental activity will remain robust.

FIGURE 2

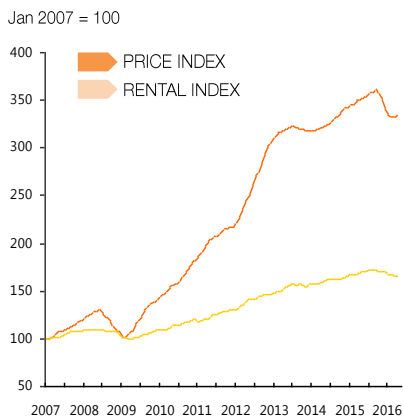
### Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

### Retail property prices and rents



Source: Rating and Valuation Department  
/ Knight Frank Research

Note: Provisional figures from Nov 2015 to Apr 2016

## Residential

Residential sales volume grew further in May, but was up just a mild 2% month on month to 4,586, according to the Land Registry. The figure was still down 11% on a year-on-year basis. With developers offering deeper discounts and more incentives, a number of primary projects received a positive market response.

Prices have dropped for seven consecutive months by a cumulative 11%, according to provisional figures from the Rating and Valuation Department. Mass residential prices led the decline, losing 11% in the period, while luxury residential prices dipped 8%.

Clouded by a potential US interest-rate rise and abundant upcoming supply, residential land prices continued to edge down. A domestic site in Pak Shek Kok, Tai Po was sold last month for an accommodation value of HK\$3,620 per sq ft, down about 20% from eight months ago when the adjacent site was sold.

The super-luxury sector remained strong, indicated by a Shenzhen buyer's acquisition of a 9,212-sq-ft luxury house at 15 Gough Hill Road on The Peak for a reported HK\$2.1 billion approximately, a record price for the city. We expect more Mainland buyers to return to the market in the future.

A number of primary projects are scheduled for release, hoping to reach the market before a possible US interest-rate rise in the coming months. While the government restated in May the continued implementation of cooling measures, we do not consider the sales rebound in the past two months an indication of a general market recovery. We maintain our forecast of a 5-10% drop in the luxury segment and up to a 10% drop in mass residential prices.

## Retail

Hong Kong remains a food paradise for tourists, despite a gloomy retail market and shrinking visitor arrival numbers. According to the government, the value of total restaurant receipts were up 4% year on year in 2015 and another 2% in the first quarter of 2016, thanks to both local residents and visitors, with a 4% rise in visitor spending on "meals outside hotels".

Strong demand in the food and beverage sector led to a growing number of food licences being granted. An additional 579 licences for general and light refreshment restaurants were granted in 2015, a 4.6% year-on-year increase.

We saw a number of restaurant start-ups and expansion take place in the city as street shop rents fell. For instance, American restaurant chain Hooters will open its first store in Hong Kong in Wyndham Street, Central. Restaurant space was taken up quickly in some newly built Ginza-type commercial buildings in core retail areas, such as 8 Observatory Road in Tsim Sha Tsui.

A recent survey found that exploring cuisines in foreign places has become the most popular travel activity for both affluent Chinese travellers and their Asian peers. With exotic menu combinations, international gourmet expertise as well as high standards of services and food hygiene, Hong Kong's catering sector will continue to benefit from this trend. With the slowdown in the local economy, we expect to see further expansion of the food and beverage industry, especially affordable casual dining and fast food as some local residents tighten their belts.

## SNAPSHOT

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

Siemens leased over 62,000 sq ft of office space in Manulife Financial Centre 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) |
|---------------|-----------------|------|--------------------------|----------------------|------------------------|
| Central       | Wing On House   | High | 1,400                    | \$30.1               | \$21,486               |
| Tsim Sha Tsui | Concordia Plaza | High | 2,431                    | \$34                 | \$13,986               |
| Kwun Tong     | COS Centre      | Mid  | 1,908                    | \$23.3               | \$12,212               |
| Tsim Sha Tsui | Wing On Plaza   | Mid  | 4,337                    | \$45.5               | \$10,500               |

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) |
|--------------|---------------------------|------|--------------------|
| Causeway Bay | Tower 535                 | Mid  | 93,696 (G)         |
| Kwun Tong    | Manulife Financial Centre | Low  | 62,756 (G)         |
| Quarry Bay   | Dorset House              | High | 14,725 (L)         |
| Central      | Two Exchange Square       | High | 13,500 (N)         |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable; N: Net

## SNAPSHOT

Grade-A office rents decreased in all major business districts in Kowloon last month.

Causeway Bay led the market with the strongest growth in Grade-A office prices in May.

TABLE 4

## Month-on-month movement in Grade-A office rents (May 2016)






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

TABLE 5

## Prime office market indicators (May 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>       | \$172.2            | 0.2%         | 0.6%         | 11.2%        | n/a      | n/a           | n/a          | n/a          |  |
| <b>Traditional Central</b>   | \$120.3            | 1.0%         | 2.5%         | 10.3%        | n/a      | n/a           | n/a          | n/a          |  |
| <b>Overall Central</b>       | \$138.3            | 0.7%         | 1.6%         | 10.7%        | \$27,639 | 0.4%          | 2.6%         | -1.7%        |  |
| <b>Admiralty</b>             | \$100.1            | 0.7%         | 2.2%         | 15.3%        | \$22,933 | 0.6%          | 3.3%         | -2.5%        |  |
| <b>Sheung Wan</b>            | \$79.4             | 0.2%         | 0.4%         | 13.3%        | \$20,445 | 0.0%          | 3.0%         | -6.9%        |  |
| <b>Wan Chai</b>              | \$72.2             | 0.1%         | 1.1%         | 7.2%         | \$20,258 | 1.3%          | 3.9%         | -2.4%        |  |
| <b>Causeway Bay</b>          | \$78.0             | -0.3%        | 1.9%         | 8.9%         | \$21,989 | 2.2%          | 9.7%         | 4.0%         |  |
| <b>North Point</b>           | \$54.1             | -0.5%        | 0.8%         | 9.5%         | n/a      | n/a           | n/a          | n/a          |  |
| <b>Quarry Bay</b>            | \$57.0             | 0.0%         | 0.5%         | 2.3%         | n/a      | n/a           | n/a          | n/a          |  |
| <b>Tsim Sha Tsui</b>         | \$64.2             | -0.9%        | -0.1%        | 11.1%        | \$13,048 | 0.9%          | 3.0%         | -2.5%        |  |
| <b>Cheung Sha Wan</b>        | \$28.6             | -1.8%        | -2.8%        | -1.3%        | n/a      | n/a           | n/a          | n/a          |  |
| <b>Hung Hom</b>              | \$31.2             | -3.7%        | 0.9%         | -14.3%       | n/a      | n/a           | n/a          | n/a          |  |
| <b>Kowloon East</b>          | \$34.0             | -1.5%        | -1.0%        | 1.7%         | \$11,291 | 1.7%          | 2.9%         | -7.5%        |  |
| <b>Mong Kok / Yau Ma Tei</b> | \$52.3             | -2.3%        | -0.9%        | 2.0%         | n/a      | n/a           | n/a          | n/a          |  |

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

## SNAPSHOT

Most major luxury residential sales transactions were recorded on Hong Kong Island last month.

A number of luxury units were leased in Island South last month.

# 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>Island South</b>     | 2 Headline Road    | House                            | 11,936                | \$1,020              | \$85,449               |
| <b>North Point Hill</b> | Pavilia Hill       | Tower 1 / 31st floor / unit B    | 1,521                 | \$70.713             | \$46,491               |
| <b>Mid-Levels East</b>  | 8 Chun Fai Terrace | 37th floor / unit B              | 1,566                 | \$66.8               | \$42,656               |
| <b>Kowloon Tong</b>     | Eden Gate          | Tower 1 / 11th floor / units A-B | 3,039                 | \$121.56             | \$40,000               |

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>Island South</b> | Belgravia          | Mid floor / unit A            | 1,875                 | \$115,000           | \$61.3                        |
| <b>The Peak</b>     | 11 Coombe Road     | Mid floor / unit A            | 1,885                 | \$115,000           | \$61.0                        |
| <b>Island South</b> | Le Palais          | House                         | 3,337                 | \$190,000           | \$56.9                        |
| <b>Pokfulam</b>     | Residence Bel-Air  | Phase 2 / Tower 8 / mid floor | 1,376                 | \$60,000            | \$43.6                        |
| <b>Island South</b> | Hong Kong Parkview | Tower 18 / high floor         | 2,171                 | \$85,000            | \$39.2                        |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

Rents continued to fall in all major luxury residential districts in May.

Home prices fell slightly or remained stable in major luxury areas last month.

TABLE 8

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






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

TABLE 9

### Luxury residential market indicators (May 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>                         | \$60.2         | -0.5%        | -3.9%        | -10.4%       | \$39,039 | 0.0%         | -2.6%        | -5.7%        |  |
| <b>Island South</b>                     | \$49.7         | -0.1%        | -1.5%        | -4.0%        | \$28,084 | 0.0%         | 0.0%         | -12.0%       |  |
| <b>Mid-Levels</b>                       | \$51.6         | -0.1%        | -3.7%        | -9.8%        | \$25,089 | -0.3%        | -1.8%        | -8.3%        |  |
| <b>Jardine's Lookout / Happy Valley</b> | \$48.4         | -0.1%        | -0.5%        | -4.2%        | \$25,130 | -0.4%        | -2.1%        | -2.6%        |  |
| <b>Pokfulam</b>                         | \$36.6         | -0.5%        | -2.2%        | -5.5%        | \$21,636 | -0.7%        | -4.9%        | -13.4%       |  |

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 shopping districts last month.

Shop leasing was relatively active in core retail districts in May.

## 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> | Prosperity Building | Ground floor / unit A    | 490                         | \$22                 | \$44,898               |
| <b>San Po Kong</b> | 3 Tai Yau Street    | Ground floor / unit E    | 1,055                       | \$45.064             | \$42,715               |
| <b>San Po Kong</b> | 3 Tai Yau Street    | Ground floor / unit F    | 1,325                       | \$55.459             | \$41,856               |
| <b>Ma On Shan</b>  | Kam Ying Court      | Retail and carpark block | N/A                         | \$471                | 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>Tsim Sha Tsui</b> | Golden Glory Mansion    | Ground floor / unit C   | 199                         | \$130,000           | \$653.27                      |
| <b>Central</b>       | Nine Queen Road Central | Ground floor / unit G01 | 1,400 (G)                   | \$620,000           | \$442.86                      |
| <b>Tsim Sha Tsui</b> | Howard Building         | Ground floor / unit 44A | 695                         | \$280,000           | \$402.88                      |
| <b>Causeway Bay</b>  | Po Wing Building        | Ground floor / unit F   | 990                         | \$230,000           | \$232.32                      |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross



## SNAPSHOT

Prime street shop rents fell in all major retail districts in May.

Total retail sales value decreased 7.5% year on year to HK\$35.2 billion in April.

TABLE 12

## Month-on-month movement in prime street shop rents (May 2016)





| Central   | Causeway Bay  | Tsim Sha Tsui   | Mong Kok  |
|---|---|---|---|
|  |  |  |  |

TABLE 13

## Retail sales by outlet type (Apr 2016)

| Outlet   | Value<br>(HK\$ billion) | Share of total<br>% | Change          |                 |                 |
|--|-------------------------|---------------------|-----------------|-----------------|-----------------|
|  |                         |                     | M-o-M<br>change | Q-o-Q<br>change | Y-o-Y<br>change |
| <b>Jewellery, watches,<br/>and clocks and valuable<br/>gifts</b>           | \$5.3                   | 15.1%               | 3.2%            | -30.6%          | -16.6%          |
| <b>Clothing, footwear and<br/>allied products</b>                          | \$5.0                   | 14.1%               | 2.7%            | -18.6%          | -5.9%           |
| <b>Department stores</b>   | \$3.4                   | 9.6%                | -1.7%           | -21.7%          | -6.9%           |
| <b>Fuel</b>  | \$0.7                   | 2.0%                | 5.0%            | 0.4%            | -1.1%           |
| <b>Food, alcoholic drinks and<br/>tobacco (excluding<br/>supermarkets)</b> | \$3.2                   | 9.1%                | 3.9%            | -20.0%          | 5.0%            |
| <b>Consumer durable goods</b>  | \$5.7                   | 16.2%               | -7.1%           | -18.1%          | -20.8%          |
| <b>Supermarkets</b>  | \$4.1                   | 11.7%               | 0.5%            | -15.3%          | 2.3%            |
| <b>Others</b>  | \$7.8                   | 22.2%               | 7.3%            | -13.1%          | 0.2%            |
| <b>All retail outlets</b>  | \$35.2                  | 100.0%              | 1.5%            | -19.3%          | -7.5%           |

Source: Census and Statistics Department / Knight Frank Research



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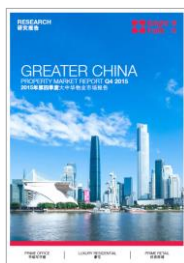
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