

RESEARCH



April 2012

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

**Knight Frank** 萊坊

## OFFICE

Office leasing market  
remains quiet

## RESIDENTIAL

Luxury home leasing  
market stabilises

## RETAIL

Prime retail rents  
continue to rise

# MARKET IN BRIEF

The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2010	2011	2012 forecast
GDP growth	Q4 2011	+3.0%#	+6.8%	+5.0%#	+3.8%
Inflation rate	February 2012	4.7%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to February 2011	3.4%#	4.4%	3.4%	3.4%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank  
# Provisional \* HSBC prime lending rate

Figure 1  
**Grade-A office prices and rents**

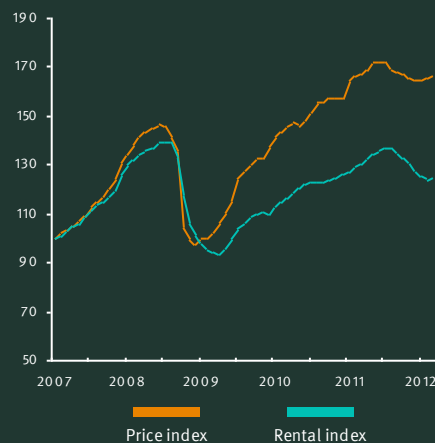
Jan 2007 = 100



Source: Knight Frank

Figure 2  
**Luxury residential prices and rents**

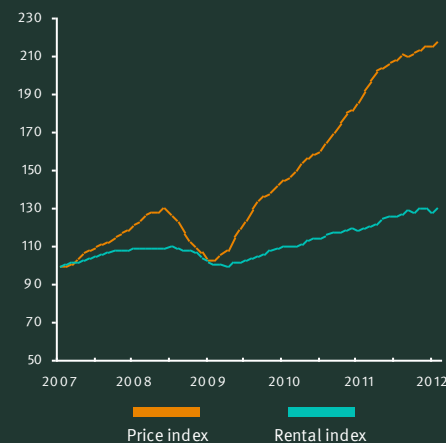
Jan 2007 = 100



Source: Knight Frank

Figure 3  
**Retail property prices and rents**

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



# MONTHLY REVIEW

**The Grade-A office market remained the weakest property sector in Hong Kong last month. The retail sector continued to outperform on the back of strong demand from retailers, while the residential market posted further rebounds during the traditional peak season. However, the Grade-A office leasing market saw signs of further correction, with large-scale transactions remaining scarce.**

## PRIME OFFICE

Although Europe's recent efforts to solve its debt crisis have brought temporary relief to the market, the global economic outlook remains gloomy. The International Monetary Fund's recent assessment of the world economy found that there are still sizable downside risks, which could lead to another falter in the global growth rate. The Eurozone crisis could also enter a new phase if Spain becomes the second Eurozone country to require bailing out.

As a result, corporates continued to scale back their operations, with only a few expanding, resulting in relatively sluggish leasing activity. Only a handful of Grade-A office leasing transactions were recorded last month. Notable deals included a 12,000-sq-ft low floor in Exchange Square in Central, taken up by Hong Kong Exchanges and Clearing for HK\$100 per sq ft per month. Armani leased two floors totaling 34,000 sq ft in Kerry Centre, Quarry Bay for HK\$40 per sq ft per month, while Swatch committed to one and a half floors in the same building, covering 25,000 sq ft.

Last month saw more companies surrendering existing leases because of the weak business environment. A number of tenants in key office buildings in Quarry Bay were looking

to surrender a total of over 60,000 sq ft of space.

Office rents in core business districts will continue to be under pressure in the coming months, as leasing demand—particularly from the financial sector—is set to remain weak. This is also reflected in the relatively low hiring expectations among financial firms, according to various employment surveys. Grade-A office rents in Central had declined by 16.1% by the end of March 2012, from its peak in mid-2011. We expect them to drop a further 10–15% in the remainder of 2012. Meanwhile, rents in non-core districts such as Wan Chai, Causeway Bay and Kowloon East will continue to remain firm thanks to low vacancy levels and sustained relocation demand.

## RESIDENTIAL

Sentiment in the residential market remained robust in March, fueled by further reductions in mortgage interest rates. Lower rates were offered by HSBC, Standard Chartered, Bank of China (Hong Kong), Chong Hing Bank and Dah Sing Bank. Sentiment was also encouraged by the results of two residential site tenders in Ap Lei Chau and Sai Kung.

As a result, residential sales in March surged 192% month on month to

**“Office rents in core business districts will remain relatively depressed until the global economy shows signs of emerging out of recession.”**

**“Luxury residential rents and prices rose in March, despite uncertainties in the global economy.”**

11,358, according to the Land Registry. This is the highest level since November 2010 when Special Stamp Duty was implemented. Sales of luxury homes valued over HK\$10 million rose 247% to 1,020, a record high since August 2010.

The number of secondary home sales rocketed 200% to 9,923 and some luxury flats were reportedly transacted at record-breaking prices. A 3,966-sq-ft, high-floor duplex in Hong Kong Parkview, Island South and a 2,169-sq-ft duplex in Hillsborough Court, Mid-Levels Central were sold for HK\$19,617 and HK\$25,357 per sq ft, respectively—the highest prices in these developments to date. The average luxury home price rose 0.5% in March. Pokfulam outperformed the four other major luxury residential districts, with prices there growing 3.6% month on month.

In the primary market, sales volume jumped 147% to 1,435, with newly launched flats receiving a good market response. AnaCapri, for example—the last phase of Park Island in Ma Wan—sold 64 of the 65 units in two days, according to the developer. Meanwhile, Baker Residences in Hung Hom reportedly sold its entire last batch of 17 units in the first hour of launch. A number of new developments may be launched in April, including Park Haven in Causeway Bay, Park Summit in Tai Kok Tsui and Century Gateway in Tuen Mun. We expect the primary market to remain active.

On the leasing front, transaction volume rebounded in March as the slow season over the spring festival passed. With some owners opting to sell their flats rather than rent them out, given the improved sentiment in the sales sector, there were fewer units available for rent. Due to the limited supply, some landlords lifted their asking rents and the average luxury rent increased 1.2% month on month.

Looking ahead, although the residential property market performed impressively in early 2012, we believe its momentum will not be sustained. Slow progress in the global economic recovery poses a threat to Hong Kong's economy and thus the local property market. Homebuyers will hesitate to purchase in an atmosphere of decreasing available flats, rising asking prices and limited room for negotiation and residential sales may drop again in the coming months. However, the rental market is about to enter its peak season and should remain strong. We believe home prices will fall slightly during the year, while rents will marginally rise.

## RETAIL

The retail sector remained the brightest spot in Hong Kong's property market in March, with strong expansion demand from retailers. From February, the sales value of retail properties doubled to about HK\$7 billion and shop rents in prime retail areas rose 3.5% in the first quarter of this year. Retail sales stayed buoyant amid vibrant inbound tourism and in the first two months of the year, the total retail sales value increased 15.2%, year on year.

Competition among retailers for prime retail space showed no signs of abating. One recent major leasing transaction involved Italian shoe brand Geox, which reportedly pre-leased a 2,000-sq-ft, ground-floor shop in Entertainment Building in Central for a monthly rent of HK\$3.5 million or HK\$1,750 per sq ft. The unit is currently occupied by Armani Exchange.

Meanwhile, watch retailer Swatch has been expanding aggressively in recent months, leasing shops in Russell Street and Lockhart Road in Causeway Bay as well as Sai Yeung Choi Street in Mong Kok. The Swiss retailer has also reportedly pre-leased ground to first floor units at 90–94C Nathan Road in Tsim Sha Tsui for a monthly rent of

HK\$700,000 or HK\$565 per sq ft.

On the supply side, the first phase of PopCorn in Tseung Kwan O opened in late March, covering 200,000 sq ft. The mall mainly accommodates fashion and cosmetic stores and is positioned at the mid end of the market. Meanwhile, Hysan Place in Causeway Bay is set to open in August. Around 90% of its 270,000 sq ft of retail space has been pre-leased for an average rent of HK\$150 per sq ft per month.

The retail market has been supported by the increase in spending by Mainland overnight visitors, which rose 10.3% to HK\$8,220 per capita in 2011. This is 30.4% higher than the average spending of HK\$6,299 by visitors from other countries. Looking forward, we expect spending by Mainlanders to maintain its uptrend and see double-digit growth in 2012.

The outlook for Hong Kong's prime retail market remains positive amid sustained leasing demand. Luxury retailers, particularly those from the jewellery and watch industries, are likely to continue to outbid existing tenants and secure prime spaces. We expect retail rents in core areas to rise about 10% in 2012.

**“We expect spending by Mainland overnight visitors to maintain double-digit growth in 2012.”**



# PRIME OFFICE

The past month saw only few major sales transactions in the office sector.

Table 2 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Bank of America Tower	High floor / unit A2A	3,857	\$96.43	\$25,000
Admiralty	Lippo Centre	Tower 1 / high floor	15,686	\$300	\$19,125
Sheung Wan	Shun Tak Centre West Wing	18 <sup>th</sup> floor / unit 7	2,500	\$46	\$18,400
Wan Chai	AXA Centre	Mid floor	14,500	\$180	\$12,414
Kowloon Bay	Enterprise Square	Towers 1-3 / 16 <sup>th</sup> floor	40,600	\$223.30	\$5,500






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

More companies looked to surrender existing leases last month because of the weak business environment.

Table 3 Selected office leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Tenant	
Central	Exchange Square	Tower 2 / 6 <sup>th</sup> floor	12,000	Hong Kong Exchange and Clearing	
Central	LHT Tower	23 <sup>rd</sup> floor	5,570	n/a	
Central	The Center	High floor / unit 11	3,300	n/a	
Quarry Bay	Kerry Centre	15-16 <sup>th</sup> floors	34,000	Armani	
Quarry Bay	Kerry Centre	One and a half floors	25,000	Swatch	

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

Rents in non-core areas remained resilient amid strong relocation demand.

Table 4 Month-on-month movement of Grade-A office rents (Mar 2012)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

Grade-A office rents in Central had declined by 16.1% by the end of March 2012, from its peak in mid-2011. We expect them to drop a further 10–15% in the remainder of 2012.

Table 5 Prime office market indicators (Mar 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Feb 12	From Dec 11	From Mar 11		From Feb 12	From Dec 11	From Mar 11
<b>Premium Central</b>	\$155.1	0.0%	-4.2%	-11.8%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	\$114.1	-0.9%	-7.5%	-14.5%	\$24,028	0.0%	0.0%	9.2%
<b>Admiralty</b>	\$83.6	-1.5%	-4.5%	-7.3%	\$18,556	0.1%	0.1%	12.0%
<b>Sheung Wan</b>	\$61.9	-1.5%	-2.4%	5.3%	\$15,975	-1.2%	-1.2%	12.5%
<b>Wan Chai</b>	\$65.4	-0.5%	-3.1%	11.2%	\$13,616	0.0%	0.0%	8.9%
<b>Causeway Bay</b>	\$65.7	-0.6%	0.0%	8.2%	\$13,572	0.0%	0.0%	2.9%
<b>North Point</b>	\$36.9	0.0%	-0.7%	12.9%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	\$50.6	-2.3%	-4.3%	4.0%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	\$48.4	0.8%	1.3%	20.4%	\$10,540	-0.3%	-3.2%	7.0%
<b>Cheung Sha Wan</b>	\$22.3	0.0%	0.0%	13.6%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	\$30.6	0.0%	3.2%	28.6%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	\$33.6	0.5%	2.3%	20.2%	n/a	n/a	n/a	n/a
<b>Mong Kok / Yau Ma Tei</b>	\$48.0	0.0%	-1.5%	11.9%	n/a	n/a	n/a	n/a

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



# RESIDENTIAL

A number of luxury flats over 2,500 sq ft in size were sold in March.

Table 6 Selected residential sales transactions					
District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
<b>Tsim Sha Tsui</b>	The Arch	Block 1 / 59 <sup>th</sup> floor / unit A	2,517	\$110	\$43,703
<b>Ho Man Tin</b>	15 Homantin Hill	48 <sup>th</sup> floor	4,210	\$152.8	\$36,295
<b>Mid-Levels</b>	Regence Royale	Tower 2 / 37 <sup>th</sup> floor / unit B	2,522	\$80	\$31,721
<b>Pokfulam</b>	Bel-Air Rise (Residence Bel-Air Phase 3)	House 17	5,232	\$160	\$30,581
<b>Mid-Levels</b>	Chantilly	7 <sup>th</sup> floor / unit A	3,650	\$94.591	\$25,915

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

Several houses on the Peak were leased last month.

Table 7 Selected residential leasing transactions					
District	Building	Tower / Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
The Peak	King's Court	House	4,577	\$300,000	\$65.6
The Peak	2 Barker Road	House	4,745	\$300,000	\$63.2
The Peak	La Hacienda	House	3,220	\$188,000	\$58.4
The Peak	Sunshine Villa	House	2,300	\$130,000	\$56.5
<b>Mid-Levels</b>	Dynasty Court	Tower 2 / high floor / unit B	2,256	\$109,000	\$48.3

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

**Residential rents rose 1.5–2.3% in four of the five major luxury residential districts on Hong Kong Island.**

Table 8 Month-on-month movement of luxury residential rents (Mar 2012)				
Peak	Island South	Mid-Levels	Jardine's Lookout /Happy Valley	Pokfulam
				

**The residential sales and rental markets improved in March, with prices and rents growing 0.5% and 1.2%, respectively.**

Table 9 Luxury residential market indicators (Mar 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Feb 12	From Dec 11	From Mar 11		From Feb 12	From Dec 11	From Mar 11
<b>The Peak</b>	\$60.8	-0.8%	-2.5%	-3.0%	\$23,667	0.0%	0.0%	-2.4%
<b>Mid-Levels</b>	\$45.9	2.2%	-0.7%	-7.7%	\$19,778	0.0%	0.7%	1.9%
<b>Pokfulam</b>	\$31.1	1.5%	-0.6%	-3.9%	\$17,225	3.6%	7.3%	-0.2%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$40.5	2.3%	0.4%	-2.9%	\$17,674	-0.2%	-0.5%	-1.0%
<b>Island South</b>	\$46.0	1.6%	-3.1%	-5.0%	\$23,094	0.1%	0.1%	-0.5%

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





# RETAIL

The retail portion of the serviced apartment property Chi Residences 314 in Yau Ma Tei was sold for HK\$245 million.

Table 10  
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Yau Ma Tei	Chi Residences 314	Ground floor / units 1-2 and part of 1 <sup>st</sup> floor	n/a	\$245	n/a
Wan Chai	New Century Plaza	Ground floor / unit 48	376	\$31	\$82,447
Yau Ma Tei	Ming Fong Building	Ground to 1 <sup>st</sup> floors	5,000	\$260	\$52,000
Shatin	Greenwood Garden Arcade	L1 <sup>st</sup> floor / unit 5	355	\$16.5	\$46,479
Kwai Chung	Kwai Chung Plaza Arcade	1 <sup>st</sup> floor / unit 1049	109	\$5.13	\$47,064

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





A number of retail leasing transactions were recorded in Wan Chai in the past month.

Table 11  
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Tai Po	88 Square	Ground floor / unit 16	107	\$29,000	\$271
Wan Chai	Chun Fai Building	Ground floor / shop 7 of unit 1	338	\$82,000	\$242.6
Wan Chai	Lee West Commercial Building	Ground floor / unit E	593	\$110,000	\$185.5
North Point	Maylun Apartment	Ground floor / units 9-10	810	\$195,000	\$240.7
Wan Chai	Silvervale Mansion	Ground floor / unit 5	300	\$48,000	\$160.0

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

In March 2012, all major retail districts saw rental growth, month on month.

Table 12 Month-on-month movement of prime street shop rents (Mar 2012)			
Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

As Lunar New Year fell in January this year, all types of retail outlets recorded month-on-month decreases in retail sales value in February.

Table 13 Retail sales by type of retail outlet (Feb 2012)					
Outlet	Value	Share of total	Change		
	HK\$ billion	%	From Jan 12	From Nov 11	From Feb 11
<b>Jewellery, watches and clocks and valuable gifts</b>	\$7.4	21.8%	-20.8%	6.6%	14.4%
<b>Clothing, footwear and allied products</b>	\$4.4	13.0%	-31.8%	1.6%	11.8%
<b>Department stores</b>	\$3.1	9.1%	-29.7%	-22.5%	8.8%
<b>Fuels</b>	\$0.8	2.3%	-7.9%	-8.2%	20.2%
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	\$2.8	8.1%	-20.9%	-1.3%	7.4%
<b>Consumer durable goods</b>	\$5.8	17.3%	-5.7%	2.6%	43.4%
<b>Supermarkets</b>	\$3.6	10.7%	-26.3%	-4.1%	4.3%
<b>Others</b>	\$6.3	18.6%	-22.6%	15.3%	12.2%
<b>All retail outlets</b>	<b>\$33.8</b>	<b>100.0%</b>	<b>-21.7%</b>	<b>1.2%</b>	<b>15.7%</b>

Source: Census and Statistics Department



## Americas

Bermuda  
Brazil  
Canada  
Caribbean  
Chile  
USA

## Australasia

Australia  
New Zealand

## Europe

Belgium  
Czech Republic  
France  
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Ireland  
Italy  
Monaco  
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