

RESEARCH

April 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

Investment activity
hit by new measures

Residential

Gloomy sentiment remains
under tightening policies

Retail

Leasing sector resilient
despite cooling measures

MARKET IN BRIEF

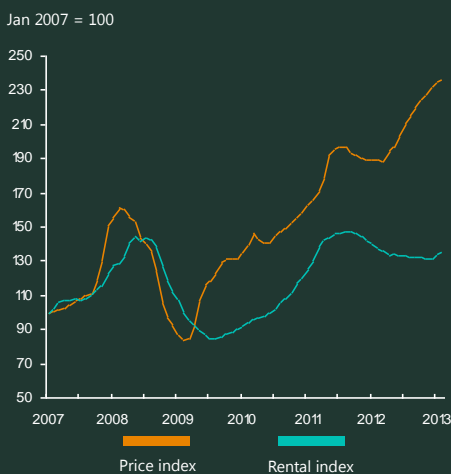
The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2011	2012	2013 forecast
GDP growth	Q4 2012	+2.5%	+4.9%	+1.4%	+3.0%
Inflation rate	Feb 2013	+4.4%	+5.3%	+4.1%	+4.4%
Unemployment	Dec 2012 - Feb 2013	3.4%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

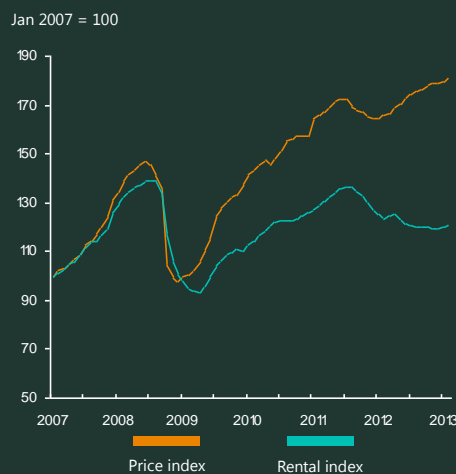
Source: EIU CountryData / Census & Statistics Department / Knight Frank
Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents



Source: Knight Frank

Figure 2
Luxury residential prices and rents



Source: Knight Frank

Figure 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank

MONTHLY REVIEW

The Hong Kong government imposed further tightening measures on all property sectors, cooling down investment activity. However, the market still recorded a major industrial deal: Goodman Hong Kong Logistics Fund paid HK\$3.5 billion for 75% of DP World Asia, giving Goodman 25% ownership of ATL Logistics Centre and partial ownership of CSX World Terminals in Kwai Chung.

PRIME OFFICE

Momentum in Hong Kong's office sales market continued to weaken over the past month, after the introduction of a Double Stamp Duty in late February. No confirmor sales were recorded in March, indicating that speculators have virtually left the Grade-A office sector.

Sales transactions involving large floor plates were scarce last month, amid poor investment sentiment. One major deal involved a 22,800-sq-ft high floor at 1 Hung To Road in Kwun Tong, which reportedly sold for HK\$148 million or HK\$6,491 per sq ft, while the 11th floor of Rykadan Capital Tower in Kwun Tong, covering 12,076 sq ft, reportedly sold for HK\$128 million or HK\$10,600 per sq ft.

The average price of Grade-A offices remained stable in March at HK\$19,658 per sq ft. However, the market saw more vendors lowering their asking prices towards the end of the month. For example, the asking price of a mid floor in Enterprise Square in Kwun Tong was reportedly reduced 15% to about HK\$7,000 per sq ft. We expect the trend to continue and office prices to soften in the coming months.

The new stamp duties encouraged some office end-users to turn to

leasing, particularly those eyeing property in Kowloon East. A 2,000-sq-ft, mid-floor unit in Billion Centre in Kowloon Bay was reportedly leased at HK\$26 per sq ft per month by a financial firm who originally intended to buy a similar office unit in the district, before the announcement of the new duties. A trading firm also shifted from buying to leasing, reportedly committing to a high-floor unit in King Palace Plaza in Kwun Tong, measuring 1,885 sq ft. Meanwhile, Mainland firms continued to take up premium office space in Central. One Chinese firm, for example, reportedly leased a low-floor unit in Two IFC covering about 3,000 sq ft.

Satisfactory take-up rates over the past few months represent that a significant portion of vacant office floors have been absorbed. The vacancy rate in Central fell from 5.0% in the last quarter of 2012 to about 4.1% in the first quarter of 2013, relieving the downward pressure on Central rents. Rents are likely to bottom out in the second to third quarter, should the city's economy remain stable.

Meanwhile, redevelopment projects in Taikoo Place in Quarry Bay, where demolition and construction works are scheduled to commence in the third quarter of 2013, are expected to push up Grade-A office demand in

“Office sales transactions involving large floor plates were scarce last month, amid poor investment sentiment.”

“We expect luxury residential prices to fall no more than 5% in 2013 and mass residential prices to drop no more than 10%.”

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Kowloon East, with tenants relocating to the area from Quarry Bay.

RESIDENTIAL

Sentiment in Hong Kong's residential market remained sluggish, following the series of tightening measures imposed by the government. Data from the Land Registry show that residential transaction volume slumped 28.1% month on month, with only 4,534 sales recorded in March. Investors and non-local buyers—mostly from Mainland China—have been virtually screened out from the residential market, given the heavier taxation and higher investment costs. The market is now dominated by end-users.

Amid uncertainty in the property market, some homeowners—especially those in the mass market—started to soften and became more flexible during price negotiations. Price growth in the luxury and mass residential sectors was a mere 0.6% and 1.2%, respectively, in the past month.

Following the Hong Kong Monetary Authority's tightening of the risk-weighted assets requirement of newly offered mortgages, several leading banks raised home-loan rates and lowered the valuation of residential units, on the back of gloomy market sentiment. Potential buyers, facing more difficulty in financing and waiting for the release of new residential projects in the coming few years, shifted their focus towards the rental market. Meanwhile, some landlords also shifted their units to the leasing market and the increased supply dragged down luxury residential rents by 0.4% in March.

In the primary market, developers continued to launch new projects during the Easter holiday. Some adopted a price-cutting strategy, offering various beneficiary packages to boost sales.

We believe that if Hong Kong's current inflationary environment with low interest rates is sustained, luxury residential prices will remain stable and fall no more than 5% in 2013, while mass residential prices will drop no more than 10%. Domestic transaction volume, meanwhile, could drop 10% in 2013. On the leasing front, potential buyers may shift to renting, while landlords may also shift their units onto the leasing market. We therefore expect luxury residential rents to remain firm in 2013, while mass residential rents could rise by up to 10%.

RETAIL

The government's implementation of a Double Stamp Duty at the end of February cooled the retail property sales market, dragging down the number of transactions. Very few major deals were recorded in March, although a 360-sq-ft (net) ground-floor unit in Hong Ning Building in Kwun Tong sold for HK\$75 million or HK\$208,333 per sq ft.

On the leasing front, robust activity continued in prime areas, with a number of major deals reportedly concluded. In Tsim Sha Tsui, 2,500 sq ft of ground-floor space at 54A–66 Canton Road was leased by a retail brand for HK\$8 million per month or HK\$3,200 per sq ft, while a 1,000-sq-ft ground-floor unit at 68–80 Canton Road was leased by another retail brand for HK\$2 million per month or HK\$2,000 per sq ft. In Causeway Bay, 300 sq ft of space on the ground floor of 59 Russell Street was leased for HK\$900,000 per month or HK\$3,000 per sq ft.

To cut costs, some mid-market brands relocated to secondary streets in core retail areas, pushing up rents in these locations. It was reported that local fashion brand G2000 planned to relocate its store in Sai Yeung Choi Street South in Mong Kok to Soy Street in the same district, preleasing a 3,760-sq-ft

space at a monthly rent of around HK\$900,000—doubling the rent being paid by the present tenant.

In February 2013, visitor arrivals in Hong Kong reached over four million, an increase of 19.3% year on year. Mainland visitors continued to dominate, representing 77.9% of arrivals. Their number increased 36.4% year on year to reach over three million.

In the same month, the local retail sales value rose 22.7% year on year to reach HK\$41.4 billion, attributable to increased sales during the Chinese New Year holiday. The monthly sales value of 'department stores' and 'jewellery, watches and clocks and valuable gifts' grew over 30%, year on year. Promising retail sales results were also recorded during the Easter holiday, with major shopping centres reporting increases in both pedestrian flow and revenue.

Under the various market tightening policies, the retail property market is expected to remain the most resilient property sector in Hong Kong, supported by the continuing influx of tourist arrivals and gradual economic growth. With continuing expansion demand from retailers and limited supply of retail space, both rents and prices of prime retail property are set to record mild growth of 5% this year.

“Prime retail property is expected to see mild growth of 5% in both rents and prices in 2013.”

PRIME OFFICE






Major office sales transactions were focused in Kwun Tong and Admiralty last month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Admiralty	Lippo Centre	Tower 2 / 38 th floor / unit 8	1,653	\$34.71	\$21,000
Admiralty	Lippo Centre	Tower 1 / 18 th floor / units 3-7	7,488	\$154.33	\$20,611
Wan Chai	Wu Chung House	28 th floor / unit 5B	1,300	\$18.7	\$14,385
Kwun Tong	Rykadan Capital Tower	11 th floor	12,076	\$128	\$10,600
Kwun Tong	1 Hung To Road	High floor	22,800	\$148	\$6,491
Source: Land Registry / Knight Frank Note: All transactions are subject to confirmation.					

With vacant offices in Central continuing to be absorbed, we expect the market to bottom out in the second or third quarter of 2013.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Floor area (sq ft)	Tenant
Central	Two IFC	Low-floor unit	3,000	A Chinese firm
Kowloon Bay	Billion Centre	Mid-floor unit	2,000	A finance firm
Kwun Tong	King Palace Plaza	High-floor unit	1,885	A trading company
Source: Knight Frank Note: All transactions are subject to confirmation.				

Grade-A office rents continued to rise in Tsim Sha Tsui and Kowloon East.

Table 4 Month-on-month movement of Grade-A office rents (Mar 2013)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

Grade-A office prices remained stable, despite the new cooling measures.

Table 5 Prime office market indicators (Mar 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Feb 13	From Dec 12	From Mar 12	HK\$ psf	From Feb 13	From Dec 12	From Mar 12
Premium Central	141.9	0.0%	3.1%	-6.3%	n/a	n/a	n/a	n/a
Traditional Central	105.9	-0.6%	0.7%	-6.5%	27,470	0.0%	0.0%	14.3%
Admiralty	82.1	-0.9%	3.4%	-0.2%	22,945	0.3%	3.4%	23.7%
Sheung Wan	61.2	0.0%	3.4%	0.5%	20,962	0.0%	0.6%	31.2%
Wan Chai	62.1	-0.8%	-0.4%	-4.6%	18,653	0.7%	2.7%	37.0%
Causeway Bay	64.2	-0.2%	0.0%	-1.7%	17,886	0.0%	0.0%	31.8%
North Point	40.4	-0.2%	5.4%	9.4%	n/a	n/a	n/a	n/a
Quarry Bay	49.3	0.1%	4.5%	-0.3%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	54.4	0.8%	3.1%	11.6%	12,353	0.4%	1.7%	17.2%
Cheung Sha Wan	26.3	6.3%	6.3%	17.7%	n/a	n/a	n/a	n/a
Hung Hom	37.7	2.6%	11.2%	23.1%	n/a	n/a	n/a	n/a
Kowloon East	38.1	3.1%	7.1%	12.9%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	50.5	0.3%	2.1%	5.0%	n/a	n/a	n/a	n/a
Source: Knight Frank Rents and prices are subject to revision.								

RESIDENTIAL

A number of major luxury residential sales transactions were recorded in Island South.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Pokfulam	Villa Sorrento	House	3,362	\$135	\$40,155
Jardine's Lookout	Jardine's Lookout Garden Houses	House 33	1,725	\$60	\$34,783
Happy Valley	Broadwood Twelve	40th floor / unit B	1,279	\$46.8	\$36,591
Island South	Beachside	Tower A / 1 st floor / unit B	886	\$22.8	\$25,734
Island South	Hong Kong Parkview	Tower 15 / mid floor / unit 75	2,364	\$50	\$21,151
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

The luxury residential rental market cooled slightly, with some companies continuing to impose budget constraints.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Mid-Levels	Dynasty Court	Tower 2 / high floor / unit B	1,794	\$115,000	\$64.1
The Peak	11 Coombe Road	Low-floor unit	1,917	\$120,000	\$62.6
Island South	Le Palais	House	3,305	\$168,000	\$50.8
Pokfulam	Ocean View	House	3,709	\$125,000	\$33.7
Source: Knight Frank Note: All transactions are subject to confirmation.					

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Luxury residential rents dropped in three of the five major luxury districts in March.

Table 8 Month-on-month movement of luxury residential rents (Mar 2013)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

Luxury residential prices remained stable last month, showing the market's resilience to the government's tightening policies.

Table 9 Luxury residential market indicators (Mar 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Feb 13	From Dec 12	From Mar 12	HK\$psf	From Feb 13	From Dec 12	From Mar 12
The Peak	\$58.5	-0.2%	-0.8%	-3.8%	\$23,660	0.0%	0.0%	0.0%
Mid-Levels	\$41.8	-0.6%	-1.3%	-8.9%	\$21,916	0.2%	1.9%	10.8%
Pokfulam	\$31.8	0.0%	3.8%	2.5%	\$19,466	0.0%	4.2%	21.3%
Jardine's Lookout & Happy Valley	\$41.1	-1.0%	0.7%	1.6%	\$20,328	0.0%	2.0%	15.0%
Island South	\$42.6	0.0%	0.9%	-7.2%	\$25,856	0.0%	0.0%	12.0%
Source: Knight Frank Rents and prices are subject to revision.								

RETAIL

A number of major retail property sales transactions were witnessed in Kowloon last month.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mong Kok	Tat Lee Commercial Building	Ground floor / unit 7	132 (gross)	\$65	\$492,424
Happy Valley	Vitus House	Ground floor / unit 2	184 (gross)	\$28	\$152,174
Mong Kok	Wah Po Mansion	Ground floor / unit 10	235 (gross)	\$31.3	\$133,191
Kwun Tong	Hong Ning Building	Ground floor / unit C	360 (net)	\$75	\$208,333
Tsim Sha Tsui	Mirador Mansion	Ground floor / unit 46	318 (net)	\$66.2	\$208,176
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

A number of major retail leasing transactions were recorded on Hong Kong Island last month.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Wan Chai	Golden Hill Mansion	Ground floor / unit A	756	\$100,000	\$132.3
Causeway Bay	24-26 Yiu Wa Street	Ground floor / unit 26	752	\$98,000	\$130.3
Wan Chai	Hung To Building	Ground floor	1,759	\$180,000	\$102.3
Sheung Wan	Li Po Chun Chambers	Ground floor	12,080	\$1,220,000	\$101.0
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Rents in Mong Kok continued to climb in March, while those in other major retail districts remained stable.

In February 2013, Hong Kong's retail sales value reached HK\$41.4 billion, an increase of 22.7% from the same month in 2012.

Table 12

Month-on-month movement of prime street shop rents (Mar 2013)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

Table 13

Retail sales by outlet type (Feb 2013)

Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Jan 13	From Nov 12	From Feb 12
Jewellery, watches and clocks and valuable gifts	\$9.6	23.2%	-8.5%	22.3%	30.5%
Clothing, footwear and allied products	\$5.5	13.3%	-13.1%	17.7%	25.2%
Department stores	\$4.0	9.7%	-9.5%	-8.8%	30.6%
Fuel	\$0.7	1.7%	-15.0%	-11.2%	-3.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.1	7.5%	-9.8%	8.7%	12.3%
Consumer durable goods	\$7.1	17.1%	-24.0%	13.7%	21.8%
Supermarkets	\$4.1	9.9%	-3.6%	11.1%	24.6%
Others	\$7.3	17.6%	-14.4%	22.0%	15.5%
All retail outlets	\$41.4	100.0%	-13.1%	13.5%	22.7%

Source: Census and Statistics Department

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Australia
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