

RESEARCH



August 2012

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

**Knight Frank** 萊坊

## OFFICE

Leasing activity increases,  
but rents remain soft

## RESIDENTIAL

Primary residential  
market outperforms

## RETAIL

Retail sales pick up

# 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	Q1 2012	+0.4%#	+6.8%	+5.0%#	+3.8%
Inflation rate	June 2012	+3.7%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to June 2012	3.2%#	4.4%	3.4%	3.4%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

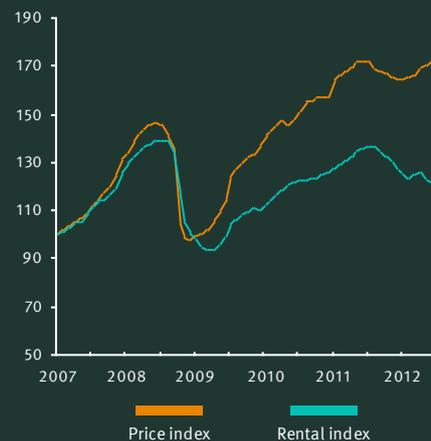
Source: EIU CountryData / Census & Statistics Department / Knight Frank  
 # Provisional \* HSBC prime lending rate

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 number of office leasing transactions grew last month, with firms from the Mainland being one of the main sources of demand. The luxury residential leasing market remained quiet, however, due to the unclear outlook of the global economy. The retail leasing sector continued to outperform, with some retailers shifting their attention to more cost-effective locations, moving out of street-based premises to cheaper shopping centres.**

## PRIME OFFICE

Recently, with the stock market remaining sluggish and banks having relaxed loan conditions to provide more liquidity, many investors have shifted towards the property market. While there were no major deals last month, Grade-A office prices still saw a 3.6% increase in July, after having risen 10.9% in the first half of the year.

On the leasing front, more transactions were recorded in July compared with the previous month, with Mainland-based firms being one of the main sources of demand. A Mainland insurance firm, for example, leased an 8,800-sq-ft, mid-floor unit in Fairmont House in Admiralty for about HK\$42 per sq ft per month, while a Mainland coal mining company leased a 13,000-sq-ft, low-floor unit in Two IFC in Central.

Meanwhile, tenants continued to move out of Central in July. A Malaysian bank, for example, moved its Central office to Admiralty, committing to a 16,171-sq-ft floor in CITIC Tower.

Kowloon East remained a popular district for relocation. An IT services company in Quarry Bay will soon move to a 38,000-sq-ft space in Octa Tower, Kowloon Bay, while a labelling and packaging supplier will occupy a

70,000-sq-ft premise in the same building. Over 70% of the office space in Octa Tower had been leased.

Grade-A office rents in Central fell at a slower rate of 0.3% month on month, following an improvement in leasing activity during July. However, rents in non-core districts such as Kowloon East and Tsim Sha Tsui grew over 1% month on month.

Although the take-up of offices in core areas increased slightly last month, we believe the downward pressure on rents in core districts will continue for the rest of the year. As the macroeconomic outlook remains uncertain, the market will continue to see corporate downsizing or closures, particularly in the financial sector. Vacancy pressure will continue to rise in a number of buildings in Central and we expect there will be increasing competition for tenants among landlords. We maintain our previous forecast that Grade-A office rents in Central will drop 5–10% in the second half of 2012.

## RESIDENTIAL

Sentiment in the residential market weakened further over the past month. According to the Land Registry, there were only 5,709 residential sales transactions in July, representing the lowest figure since February this year

“**We expect the downward pressure on office rents in core districts will continue, with minor rental correction of 5-10% expected in the second half of 2012.**”

“**Luxury residential sales dropped 3% in July, despite a strong performance in the primary market.**”

and a drop of 3% month on month. Sales of luxury homes valued at HK\$10 million or above fell approximately 16% month on month to 441.

The secondary market remained quiet, with some buyers deferring purchase decisions due to the poor performance of the stock market. Homebuyers expected lower asking prices because of the unclear outlook of the global economy, but cash-rich owners were not prepared to sell their homes at a discount—a holding position that was supported by low mortgage rates. Combined, these factors resulted in a further drop in secondary residential sales in July.

Meanwhile, primary sales rebounded in July. The number of new launches by developers was at its highest level since June 2011 and represented about a third of total domestic transactions.

A number of new developments received positive responses, especially those priced close to secondary market levels. The Beaumont in Tseung Kwan O, for example, reportedly sold about 1,500 of the 1,777 units available, yielding about HK\$7 billion in a week. Meanwhile, High West in Western District reportedly sold over 80% of its flats during July, according to the developer.

Prices remained resilient in both the luxury and mass sectors, rising about 1% last month. The government's announcement of enlarging the secondary market of the Home Ownership Scheme (HOS), including 5,000 "white-form" applicants each year without paying a land premium, stimulated speculation activity with a rise in HOS home prices. A 717-sq-ft unit in Kornhill Garden in Quarry Bay, for example, was sold at a record-breaking price of HK\$4.26 million in the 'green-form' market.

The luxury market also reported a number of record-breaking sales transactions. For example, a 2,250-sq-ft house with two parking

spaces in Pine Lodge, Island South was sold for HK\$69.2 million or HK\$30,756 per sq ft—the highest-ever price in the development.

The leasing market remained quiet in July. Demand from multinational corporate tenants was weak, with companies remaining conservative due to the worsening global economy. Luxury home rents fell for the third consecutive month, dropping 0.4% in July, month on month.

Looking ahead, we believe sales and rental activity will both remain slow in August, with market participants preferring to close transactions after the Olympic Games. There is still fear of a global downturn resulting from the European debt crisis and a slowdown of economic growth in China. We expect luxury residential prices to drop by up to 10% over the next 12 months, while mass residential prices could drop by up to 15% during the same period.

## RETAIL

The retail leasing market remained active in core areas in July, with international fashion and luxury retailers continuing to enter or expand in Hong Kong as a platform to Mainland consumers. British menswear company Hackett opened its first store in Hong Kong on the ground and first-floor levels of Eton Tower in Causeway Bay. The 10,000-sq-ft space was reportedly leased at a monthly rent of HK\$1.8 million. Meanwhile, fashion brand CK Jeans leased a 2,000-sq-ft, ground-floor unit at 50 Wellington Street in Central for a monthly rent of HK\$400 per sq ft—one of the highest rents in the street.

While expansion opportunities continued to be sought, retailers were reluctant to bid up rents for prime space, given the slower local retail sales growth this year and weaker economic data coming out of the Mainland. Retail rents generally

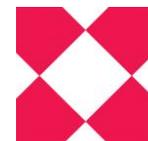
remained stable last month. Some retailers shifted their attention to more cost-effective locations, swapping shopping malls for street shops. Watch retailers Rolex and Seiko are planning to open in tmtplaza in Tuen Mun to appeal to cross-border shoppers. These will be the first stores for these brands in the district.

Sogo Department Store has agreed to terminate the lease of its 115,000-sq-ft underground shopping mall in Tsim Sha Tsui, effective from February 2014. New World Development is expected to redevelop the space together with the nearby New World Centre, to create a large commercial area.

The pace of retail sales growth picked up in June, rising 12% year on year, following the single-digit growth recorded in May. This was thanks to strong local demand and the continual inflow of tourists. However, sales growth has shown signs of a slowdown in 2012 after a surge of about 25% in 2011. Despite this, Hong Kong continued to record strong growth in visitor arrivals. In the first half of 2012, arrivals from Mainland China rose 23% year on year to about 16 million, accounting for approximately 70% of total arrivals. A further increase in tourism spending is expected, as the traditional high season has yet to start.

We expect retail rents to rise 5-7% over the rest of the year, despite the moderate growth in retail sales and signs that economic uncertainty has affected Mainlanders' spending on luxury items. The limited availability of space in prime areas and sustained expansion demand from both local and global retailers will also provide support to prime retail rents.

**“Retail rents are expected to rise 5-7% over the rest of the year, given the sustained expansion demand.”**



# PRIME OFFICE

While there were no major deals in the market last month, Grade-A office prices still saw a 3.6% increase in July.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Admiralty	United Centre	26 <sup>th</sup> floor / unit C	N/A	\$93.00	N/A
Central	Nine Queen's Road Central	15 <sup>th</sup> floor / units 10A-10B	1,820	\$42.50	\$23,352
Admiralty	Lippo Centre	Tower 2 / high floor / unit 7	1,786	\$40.18	\$22,497
Admiralty	Lippo Centre	Tower 1 / 22 <sup>nd</sup> floor / unit 3	2,581	\$51.62	\$20,000
Tsim Sha Tsui	Star House	Low floor / units 33-35	4,350	\$42.24	\$9,710

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

Mainland firms were one of the main sources of leasing demand last month.

Table 3 Selected office leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Tenant	
Admiralty	CITIC Tower	18 <sup>th</sup> floor	16,170	Malayan Banking Berhad	
Admiralty	Fairmont House	18 <sup>th</sup> floor	8,000	China Bocom Insurance	
Central	Two IFC	Part of 11 <sup>th</sup> floor	13,000	China KingHo Group	
Kowloon Bay	Octa Tower	One floor	38,000	Atos Origin	
Kowloon Bay	Octa Tower	Two floors	70,000	Avery Dennison	

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

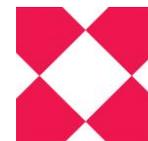
Rents in non-core districts such as Kowloon East and Tsim Sha Tsui saw growth of over 1%, month on month.

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

As the economic downturn looks to be prolonged, we anticipate there will be more aggressive competition among Central landlords.

Table 5 Prime office market indicators (Jul 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Jun 12	From Apr 12	From Jul 11		From Jun 12	From Apr 12	From Jul 11
<b>Premium Central</b>	140.0	-0.5%	-3.8%	-22.2%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	108.7	-0.2%	-1.9%	-20.9%	26,165	2.7%	5.2%	6.1%
<b>Admiralty</b>	83.2	-1.0%	1.7%	-8.8%	19,872	2.6%	5.4%	4.5%
<b>Sheung Wan</b>	60.7	-0.2%	-0.2%	-1.3%	18,626	6.2%	12.0%	11.5%
<b>Wan Chai</b>	62.6	-1.1%	-1.0%	-2.0%	16,120	4.4%	12.5%	13.4%
<b>Causeway Bay</b>	67.0	0.2%	2.1%	6.7%	15,569	3.6%	8.0%	4.9%
<b>North Point</b>	36.7	-0.4%	1.4%	3.5%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	47.7	-2.1%	-1.3%	-1.1%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	50.3	1.4%	2.5%	8.3%	11,581	1.9%	6.6%	1.6%
<b>Cheung Sha Wan</b>	22.3	0.0%	0.0%	6.4%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	33.5	2.9%	9.3%	19.4%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	34.4	1.4%	2.0%	11.3%	n/a	n/a	n/a	n/a
<b>Mong Kok / Yau Ma Tei</b>	48.0	0.0%	0.0%	-2.1%	n/a	n/a	n/a	n/a

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



# RESIDENTIAL

Two houses in Island South and on the Peak were sold for more than HK\$50,000 per sq ft last month.

Table 6  
Selected residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Island South	Scape	Cederus	4,578	\$250	\$54,609
Peak	Strawberry Hill	House 13	3,190	\$165	\$51,724
Mid-Levels	39 Conduit Road	32 <sup>nd</sup> floor / unit A	3,284	\$130.047	\$39,600
Tsim Sha Tsui	The Harbourside	Tower 1 / 65 <sup>th</sup> floor / unit A	1,422	\$55	\$38,678
Island South	Grenbelle Garden	House 9	3,273	\$120	\$36,664

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

Despite weak demand in the luxury rental market, a leasing transaction with a monthly rent of over HK\$80 per sq ft was closed in July.

Table 7  
Selected residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Island South	The Beachfront	House	3,047	\$250,000	\$82.0
The Peak	8 Mount Austin Road	House	4,956	\$310,000	\$62.6
Mid-Levels	Dynasty Court	Tower 2 / mid floor / unit B	2,256	\$110,000	\$48.8
Mid-Levels	Silver Fair Mansion	Penthouse	1,450	\$63,000	\$43.4
Island South	Villa Martini	House	2,800	\$110,000	\$39.3

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

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## HONG KONG MONTHLY

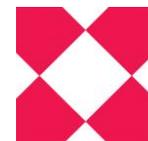
Residential rents dropped or remained stable in the five major luxury districts last month.

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

Luxury residential prices grew 1.0% in July, while rents dropped 0.4%.

Table 9 Luxury residential market indicators (Jul 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Jun 12	From Apr 12	From Jul 11		From Jun 12	From Apr 12	From Jul 11
<b>The Peak</b>	\$59.9	-0.1%	-3.4%	-10.2%	\$23,667	0.0%	0.0%	-2.4%
<b>Mid-Levels</b>	\$42.6	-0.7%	-6.5%	-16.8%	\$20,815	1.1%	4.8%	2.0%
<b>Pokfulam</b>	\$30.5	0.0%	-2.2%	-10.1%	\$18,573	2.5%	7.6%	4.4%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$40.9	0.0%	0.6%	-5.3%	\$18,615	1.2%	4.7%	-0.7%
<b>Island South</b>	\$43.3	-1.0%	-6.4%	-14.3%	\$24,902	1.0%	2.4%	3.6%

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



# RETAIL

Investment interest in retail properties remained strong last month, with a number of major sales transactions being recorded.

Table 10  
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Lyndhurst Tower	Lower ground floor / unit 1	825	\$50.68	\$61,430
Tsim Sha Tsui	Tao Hing Lau	Ground floor / unit B	1,225	\$58	\$47,347
Shatin	Greenwood Garden Arcade	1 <sup>st</sup> floor / unit 5	355	\$16.5	\$46,479
North Point	City Garden Shopping Centre	Ground floor / unit 82F	144	\$6.5	\$45,139
Mong Kok	Sino Centre	Basement / units 16-17	631	\$26.3	\$41,680

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

Major leasing transactions were focused on secondary streets in core shopping areas and shopping centres in non-core districts.

Table 11  
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Mong Kok	171 Fa Yuen Street	Ground floor	980	\$168,000	\$171.4
Shatin	Shatin Plaza Arcade	3 <sup>rd</sup> floor / unit 19B	251	\$50,000	\$199.2
Fanling	Fanling Centre Shopping Arcade	1 <sup>st</sup> floor / unit 274	158	\$21,800	\$140.0
Shatin	Shatin Plaza Arcade	3 <sup>rd</sup> floor / unit 22	1,647	\$190,000	\$115.4
Causeway Bay	Kyoto Plaza	2 <sup>nd</sup> floor	3,289	\$300,000	\$91.2

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

In July 2012, retail rents rose in Causeway Bay, but remained stable in all other major shopping districts.

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

Retail sales growth improved in July, after single-digit growth in May. Consumer durable goods recorded the largest year-on-year gain of 29.5%.

Table 13 Retail sales by outlet type (Jun 2012)					
Outlet	Value	Share of total	Change		
	HK\$ billion	%	From May 12	From Mar 12	From Jun 11
Jewellery, watches and clocks, and valuable gifts	\$7.5	21.6%	-3.9%	-3.6%	3.1%
Clothing, footwear and allied products	\$4.0	11.5%	-11.7%	-14.8%	11.6%
Department stores	\$3.1	8.8%	-17.0%	-3.6%	8.7%
Fuels	\$0.8	2.3%	-9.4%	-8.4%	-4.5%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.5	7.2%	-5.8%	-8.7%	7.2%
Consumer durable goods	\$6.8	19.7%	4.7%	0.2%	29.5%
Supermarkets	\$3.8	10.9%	-1.0%	4.5%	11.7%
Others	\$6.3	18.0%	3.8%	-8.1%	8.4%
<b>All retail outlets</b>	<b>\$34.8</b>	<b>100.0%</b>	<b>-3.3%</b>	<b>-4.9%</b>	<b>11.0%</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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