

RESEARCH

August 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

Prices sustained across all major business districts

Residential

Residential supply to remain tight in the short term

Retail

Sentiment improved in the retail property sales market

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	Q1 2013	+2.8%	+4.9%	+1.4%	+3.0%
Inflation rate	Jun 2013	+4.1%	+5.3%	+4.1%	+4.4%
Unemployment	Apr 2013- Jun 2013	3.3%#	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

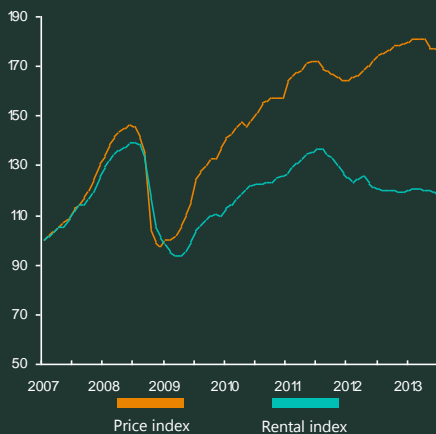
Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

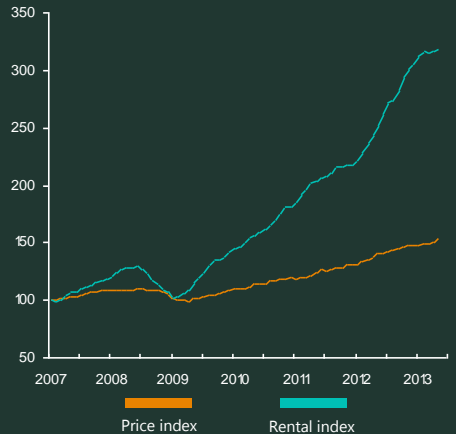
Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank
Note: Provisional figures from Jan to Jun 2013

MONTHLY REVIEW

The office and residential sales markets remained quiet last month, due to the continuing impact of the government's market-cooling measures. However, the retail property sector showed some improvement, bolstered by active sales of subdivided units in a North Point shopping basement.

On the leasing front, the Grade-A office sector remained brisk, with relocation demand continuing to be robust, while in the retail market, transactions mainly involved mid-end retailers, as the spending of Chinese tourists continued to migrate from the high end of the market.

PRIME OFFICE

In July, sentiment in the Grade-A office-sales market remained cautious, due to the continuing impact of the Double Stamp Duty. However, prices remained stable, with most transactions involving small units. Two major sales transactions involved a 1,402-sq-ft unit in Shun Tak Centre in Sheung Wan and a 1,158-sq-ft unit in Concordia Plaza in Tsim Sha Tsui, which sold for HK\$26,000 and HK\$12,700 per sq ft, respectively.

The Grade-A office-leasing sector remained relatively active. High activity was recorded in Quarry Bay, where the Innotech buildings are scheduled for redevelopment and tenants are looking to relocate nearby, likewise in Causeway Bay, with Sunning Plaza. Cigna Worldwide Life Insurance and Grant Thornton, for example, are both relocating from Sunning Plaza in Causeway Bay to 28 Hennessy Road in Wan Chai, each taking up two floors totaling around 10,000 sq ft.

A number of new leases involved in-house expansion. For instance, Wharf T&T expanded by another 50,000 sq ft in Kowloonbay

International Trade & Exhibition Centre, taking up half of the 9th floor. Meanwhile, The Hong Kong Mortgage Corporation expanded in Cosco Tower in Sheung Wan, taking up 20,544 sq ft of space on the 29th floor.

On the supply side, market news indicates that the 94,176-sq-ft, new office property at 33 Des Voeux Road Central—a redevelopment of the former United Chinese Bank Building owned by Bank of East Asia—is scheduled for completion in the fourth quarter of 2013, while the 245,678-sq-ft Pioneer Place in Kwun Tong—a conversion of an industrial building to office use—will be ready for lease in 2014.

The outlook for both the Grade-A office sales and leasing markets remains stable, due to the government's cooling measures and economic uncertainty with the possible retreat of quantitative easing in the US. However, with limited space available and vacancy rates currently very low across core districts, Grade-A office prices and rents are expected to remain stable in the second half of the year.

RESIDENTIAL

Clouded by the US Federal Reserve's

“Prices of Grade-A offices were sustained, despite a plunge in sales volume amid the implementation of the Double Stamp Duty.”

“The number of new flats commencing construction surged 500% in the second quarter of the year to reach 6,600 units—the highest number since 2004.”

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plan to reduce monetary stimulus and a series of anti-speculation policies from the Hong Kong government, the residential market remained sluggish last month. Investors and Mainland buyers had retreated from the market, leaving end-users as the majority of homebuyers, although they were also adopting a wait-and-see attitude in the uncertain market. The luxury residential market was particularly affected, with only a few sales transactions recorded. Luxury residential prices and rents dipped 0.3% and 0.9% month on month, respectively.

Although generally, Hong Kong developers have no capital pressure, poor sales results in the first half of the year are forcing them to speed up the launch of new projects in the second half, to meet sales targets for 2013. As a result, primary residential units were put onto the market at competitive prices, last month. According to the Sales of First-hand Residential Properties Authority, 18 residential projects providing a total of around 1,000 units were available for sale in July, the highest number since the implementation of The Residential Properties (First-hand Sales) Ordinance in April.

On the supply side, latest statistics released by the Transport and Housing Bureau show that the number of new flats commencing construction surged 500% quarter on quarter, in the second quarter of this year, to reach 6,600 units—the highest number since 2004. However, the number of units starting construction in the first half of 2013 still represented a drop of 24.5% year on year, as only 1,100 units commenced construction in the first quarter. 1,300 private residential units were completed in the second quarter, up 550% from only 200 in the first quarter.

With the government's efforts to speed up the supply of private residential units, the imbalance of

supply and demand may start to be alleviated. Government data show that 70,000 new units could be available in the next three to four years. Of these, about 60% will be small to medium-sized units with saleable areas of less than 753 sq ft, meeting the demand from first-time homebuyers.

However, residential supply will remain tight in the short term. With various cooling measures remaining in place, we expect the residential market to stay quiet and sales to fall about 10% in 2013. We believe mass residential prices will drop around 10%, while prices in the more resilient luxury sector will fall 5%.

RETAIL

In June, around 160 sales of retail property were recorded, a drop of 86% from the 1,098 transactions made in February. However, the retail investment market seemed to improve in July, due to the overwhelming response from investors snapping up over 300 units in Maxi Base mall, located in the basement of City Garden Phases 1–3 in North Point. Reportedly, 90% of the available units sold within two weeks of launch, mainly thanks to the small lump sum required for most of the units.

Several other major retail property sales transactions took place in July. For instance, according to market news, a 291-sq-ft unit on the ground floor of 22–24 East Point Road in Causeway Bay sold for HK\$233 million or around HK\$800,000 per sq ft.

On the supply front, the availability of quality retail space in core shopping districts remained very tight. In the non-core district of Tuen Mun, V city—with a total gross floor area of about 300,000 sq ft—opened on 1 August atop the MTR station. Targeting the younger generation, the new mall has attracted around 130 mid to high-end retailers,

including agnès b. and Gap. Notably, Japanese department store chain Yata has opened a 27,000-sq-ft store—its first Hong Kong presence—in V city, selling mainly baby products.

Although the change in the spending habits of Mainland tourists from the high to mid-end of the market continues, the retail sales value still recorded double-digit, year-on-year growth in the first half of 2013—an increase of 15%. The change in the consumption pattern of Mainland tourists gave a big boost to mid-end retailers. For example, local convenience store chain 759 Store will open its first mini supermarket in Sai Wan Ho in August and plans to increase its number of shops to 180, this financial year.

Despite weakening demand for luxury items, retail rents in prime districts are set to remain stable in the second half of 2013, considering the tight supply of prime retail space and the projected sustained growth in inbound tourism. We expect districts near the boundary of Hong Kong and Mainland China—such as Sheung Shui—to attract increasing attention from established brands, due to the rapidly increasing number of same-day tourist arrivals from the Mainland.

“Districts near the boundary of Hong Kong and Mainland China will attract increasing attention from established brands.”

PRIME OFFICE

Most major office sales transactions were recorded in Kowloon in the past month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Sheung Wan	Shun Tak Centre	22 nd floor / unit 10	1,402	\$36.452	\$26,000
Tsim Sha Tsui	Concordia Plaza	10 th floor / unit 1	1,158	\$14.707	\$12,700
Tsim Sha Tsui	Peninsula Centre	10 th floor / unit 20	1,112	\$11.898	\$10,700
Kowloon Bay	Enterprise Square Three	29 th floor / unit 6	2,290	\$22.218	\$9,702
Tsim Sha Tsui	New Mandarin Plaza	Tower B / 8 th floor / unit 13	1,611	\$8.680	\$5,388
Source: Land Registry Note: All transactions are subject to confirmation.					

Last month, major Grade-A office leasing transactions were mainly recorded in non-CBDs.

Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
Sheung Wan	Cosco Tower	29 th floor	20,544 (L)
Admiralty	One Pacific Place	20 th floor / units 01, 07-12	10,480 (L)
Causeway Bay	Time Square	Tower Two / 35 th floor	19,479 (G)
Causeway Bay	Hysan Place	28 th floor	16,433(L)
Wan Chai	28 Hennessy Road	14 th and 15 th floors	9,870 (L)
Kowloon Bay	Kowloon Bay International Trade & Exhibition Centre	Half of 9 th floor	50,000 (G)
Source: Land Registry Note: All transactions are subject to confirmation.			



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Grade-A office rents remained stable in most major business districts in July 2013.

Table 4

Month-on-month movement of Grade-A office rents (Jul 2013)

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

In July 2013, Grade-A office prices remained stable in all districts.

Table 5

Prime office market indicators (Jul 2013)

District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Jun 13	From Apr 13	From Jul 12	HK\$ psf	From Jun 13	From Apr 13	From Jul 12
Premium Central	143.3	0.9%	0.3%	2.4%	n/a	n/a	n/a	n/a
Traditional Central	106.1	-0.8%	-2.3%	-2.4%	26,958	0.0%	0.0%	3.0%
Admiralty	82.3	0.0%	0.0%	-1.1%	22,455	0.0%	-0.9%	13.0%
Sheung Wan	62.1	1.1%	0.2%	2.3%	20,437	0.0%	-1.1%	9.7%
Wan Chai	61.0	0.3%	-1.8%	-2.6%	18,265	-0.1%	-0.4%	13.3%
Causeway Bay	65.1	-0.1%	0.0%	-4.3%	17,631	0.0%	0.0%	13.2%
North Point	42.3	2.4%	2.4%	16.0%	n/a	n/a	n/a	n/a
Quarry Bay	49.3	0.0%	0.2%	3.3%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	53.4	0.2%	-0.6%	6.1%	12,150	-0.1%	-0.6%	4.9%
Cheung Sha Wan	29.3	4.7%	9.8%	31.2%	n/a	n/a	n/a	n/a
Hung Hom	37.0	0.0%	-0.9%	13.8%	n/a	n/a	n/a	n/a
Kowloon East	38.0	-1.8%	-0.3%	10.4%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	48.4	-1.0%	-3.2%	0.7%	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 witnessed in the Mid-Levels last month.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mid-Levels Central	Mayfair	23rd floor / unit B	2,270	\$93	\$40,529
Tsim Sha Tsui	The Arch	Star Tower / 61 st floor / unit F	429	\$12.5	\$29,138
Wan Chai	The Gloucester	29 th floor / unit C	375	\$11.405	\$30,413
Mid-Levels West	39 Conduit Road	28 th floor / unit B	2,488	\$132.55	\$53,275
Mid-Levels Central	Tregunter	Tower 03 / 44 th floor / unit D	2,475	\$76	\$30,707
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

In July, a number of large houses were leased in Island South and on the Peak.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	102 Repulse Bay Road	House	2,486	\$126,000	\$50.7
Island South	Le Palais	House	2,507	\$170,000	\$67.8
The Peak	42 Plantation Road	House	3,607	\$450,000	\$124.8
Mid-Levels	Dynasty Court	Tower 1 / low floor / unit B	1,806	\$103,000	\$57.0
Source: Knight Frank Note: All transactions are subject to confirmation.					

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Residential rents in all five major luxury districts dropped in July.

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

Jardine's Lookout / Happy Valley recorded the largest drop in rents among major luxury residential districts.

Table 9 Luxury residential market indicators (Jul 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Jun 13	From Apr 13	From Jul 12	HK\$psf	From Jun 13	From Apr 13	From Jul 12
The Peak	\$57.9	-0.6%	-0.6%	-3.3%	\$22,919	0.0%	0.0%	-3.2%
Mid-Levels	\$41.5	-0.2%	0.9%	-2.5%	\$21,620	0.0%	0.4%	3.9%
Pokfulam	\$31.5	-0.8%	-1.4%	3.1%	\$19,097	-0.3%	-0.3%	2.8%
Jardine's Lookout & Happy Valley	\$39.4	-1.6%	-3.8%	-3.5%	\$20,292	-0.2%	-0.2%	9.0%
Island South	\$42.0	-1.2%	-2.2%	-3.0%	\$24,786	-1.2%	-1.2%	-0.5%
Source: Knight Frank Rents and prices are subject to revision.								

RETAIL

In July, Causeway Bay saw several major retail property sales transactions.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Net floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Causeway Bay	Causeway Bay Commercial Building	Ground floor / unit B2	1,000 (gross)	\$120	\$120,000
Mong Kok	Sincere Plaza	1st floor / unit F105	65	\$7.5	\$115,385
Sha Tin	Grandeur Garden	Ground floor / unit 9	1,025	\$85	\$82,927
North Point	Triumph Court	Ground floor / unit H	206	\$16.8	\$81,553
Causeway Bay	Haven Court	Ground floor / unit 30	184	\$14.8	\$80,435
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Non-core retail districts witnessed several major leasing transactions in July.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Wan Chai	Fortune Building	Ground floor / unit 2	774	\$215,000	\$277.8
Ma On Shan	Sunshine City Plaza	3rd floor / unit 27	167	\$32,900	\$197.0
Causeway Bay	V Causeway Bay	Ground floor / unit 5	N/A	\$400,000	N/A
Shau Kei Wan	Yip Ning Building	Ground floor / unit 1	817	\$105,000	\$128.5
Sai Ying Pun	Kam Fung Mansion	Ground floor / unit D	240	\$28,000	\$116.7
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

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Retail rents in all business districts remained stable in June 2013.

Table 12 Month-on-month movement of prime street shop rents (Jun 2013)			
Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

For the first half of 2013, the total value of local retail sales increased 15% from the corresponding period a year earlier.

Table 13 Retail sales by outlet type (Jun 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Apr 13	From Feb 13	From May 12
Jewellery, watches and clocks and valuable gifts	\$10.7	26.9%	1.9%	23.5%	42.5%
Clothing, footwear and allied products	\$4.5	11.2%	-11.5%	-16.0%	11.7%
Department stores	\$3.9	9.9%	-14.0%	3.2%	28.3%
Fuel	\$0.9	2.2%	2.7%	-0.6%	9.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.5	6.3%	-8.8%	-4.9%	0.3%
Consumer durable goods	\$6.1	15.3%	2.7%	-22.6%	-10.9%
Supermarkets	\$4.1	10.2%	0.2%	6.4%	7.2%
Others	\$7.2	18.1%	5.0%	1.5%	15.6%
All retail outlets	\$40.0	100.0%	-1.8%	-0.6%	14.7%
Source: Census and Statistics Department					

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Contacts**Alan Child**

Executive Chairman, Greater China
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Paul Hart

Executive Director, Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

China Valuation**Clement Leung**

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

Commercial Agency**Colin Fitzgerald**

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Residential Agency**Renu Budhrani**

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

Retail Services**Livian Har**

Director, Head of Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

Research & Consultancy**Thomas Lam**

Director, Head of Research & Consultancy, Greater China
+852 2846 4819
thomas.lam@hk.knightfrank.com

Pamela Tsui

Senior Manager, Research & Consultancy, Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

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