

RESEARCH

December 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

Prices dip across all major business districts

Residential

Sweeteners continue to boost primary sales

Retail

Retail rental environment remains stable

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	Q3 2013	+2.9%	+4.9%	+1.4%	+3.0%
Inflation rate	Oct 2013	+4.3%	+5.3%	+4.1%	+4.4%
Unemployment	Aug 2013– Oct 2013	3.3%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

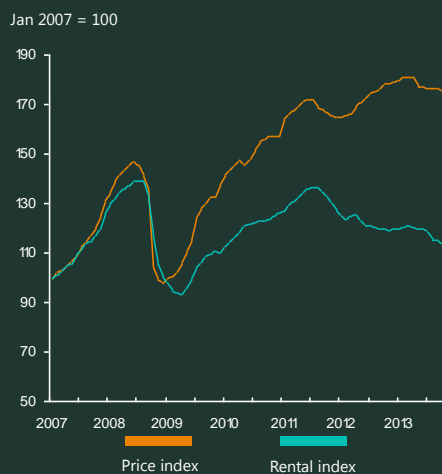
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents



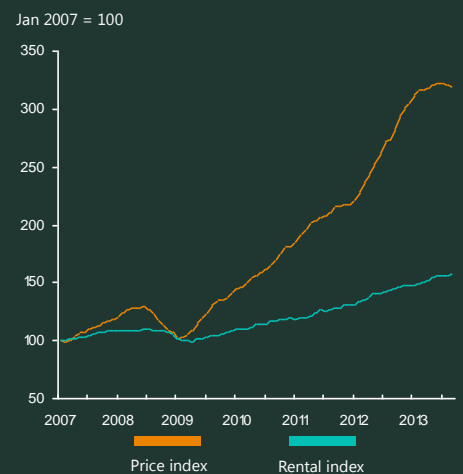
Source: Knight Frank

Figure 2
Luxury residential prices and rents



Source: Knight Frank

Figure 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank
 Note: Provisional figures from Apr to Sep 2013

MONTHLY REVIEW

In November, the primary residential market remained the most active among Hong Kong's property sectors. Grade-A office sales remained sluggish, while the Grade-A office leasing market remained stable. In the retail sector, a number of retailers were still expanding in major shopping districts. In 2014, we expect both home rents and prices to edge down. In the Grade-A office market, core business areas will see both rents and prices drop, but those in decentralised business areas will remain stable. Shop rents on prime streets will remain stable, but their prices could drop slightly.

PRIME OFFICE

With the impact of the government's cooling measures lingering, Grade-A offices sales remained sluggish and prices across all districts experienced slight drops in November. Reportedly, a 3,290-sq-ft mid-floor unit at Nine Queen's Road Central in Central sold for HK\$29,000 per sq ft—the third highest per-sq-ft price ever recorded for a Grade-A office in Hong Kong.

Leasing activity remained stable, with a number of firms requiring medium-sized office space. With more corporate firms pursuing cost-saving initiatives, tenants started to negotiate rent renewals early before their leases expired. Notable transactions last month involved British American Tobacco Hong Kong, which took up the entire 28th floor of DCH Commercial Centre in Quarry Bay and Japanese finance firm Marubeni Asian Power, which leased a 25,062-sq-ft floor in The Gateway Tower 6 in Tsim Sha Tsui, reportedly.

On the supply side, some landlords subdivided large office spaces into smaller units in the hopes of attracting higher rents per sq ft, further reducing the already tight availability of large office space in core business districts. Meanwhile, a new over-300,000-sq-ft office at 181

Hoi Bun Road in Kwun Tong received its Occupation Permit from the Buildings Department in September and another at 1 Sheung Yuet Road in Kowloon Bay became available for preleasing. With a lack of new Grade-A office supply in traditional business districts, both buildings are expected to attract healthy attention from corporate tenants.

In 2014, the volume of Grade-A office sales is expected to remain low, as long as the government continues to implement cooling measures. However, the investment market may start to defrost as investors absorb the impact of the tightening policies and capital accumulates. Grade-A office prices are set to remain stable or experience modest drops next year.

The leasing market is expected to see sustained demand under a stable economic environment in 2014. Grade-A office rents in Central will stabilise or drop slightly, while those in decentralised business areas should remain stable.

“Grade-A office rents in Central will stabilise or drop slightly, while those in decentralised business areas will remain stable in 2014.”

“We expect luxury home prices to drop 5–10% in 2014, while mass residential prices could fall 10–15%.”

RESIDENTIAL

Despite the continuing cooling effect brought about by the government's regulatory policies, interest in deluxe houses remained strong due to their scarcity, with Hutchison Whampoa (0013.HK) selling two premium houses at 28 Barker Road on the Peak last month. A 6,863-sq-ft house was sold for HK\$740 million or HK\$107,825 per sq ft, making it the city's third most expensive house. One week later, a 5,706-sq-ft house with two car-parking spaces in the same development was sold for HK\$94,286 per sq ft.

These notable transactions encouraged other developers to launch their luxury projects, in a bid to capture the improved sentiment among buyers of high-end residential properties. Swire Properties (1972.HK) put up a 5,409-sq-ft unit at Opus in Mid-Levels East for public tender—the first home launched through public tender since the enforcement of the Residential Properties (First Hand Sales) Ordinance in April this year. Meanwhile, Henderson (0012.HK) was also preparing to release luxury homes at 39 Conduit Road in Mid-Levels West.

In order to meet sales targets and trim stock accumulation, developers adopted aggressive sales strategies to boost sales. Of particular note, Sino Land (0083.HK) and Hopewell Holdings (0054.HK) launched their joint residential project, The Avenue in Wan Chai, with a 17.5% discount incentive package. The developers claimed that the discounted prices for the first batch of properties launched were 20% lower than those in the vicinity. Meanwhile, Nan Fung Development (3377.HK) offered discounts of up to 22% on the launch of its first batch of 318 units at The Visionary in Tung Chung.

New projects launched at discounted prices absorbed a large portion of

buying power in the market, shifting demand away from the secondary market. Secondary home prices fell and we expect them to continue dipping with more owners becoming willing to soften their asking prices.

With the government retaining a firm stance on its cooling policies and more new homes being released next year, we expect luxury home prices to drop 5–10% in 2014, while mass residential prices could fall 10–15%. The transaction volume of residential properties is expected to be 10–20% lower in 2014 compared with 2013.

RETAIL

In October, robust consumption during the National Day golden week boosted Hong Kong's retail sales value to HK\$37.8 billion, a rise of 6.3% year on year. Although the retail sales volume of 'jewellery, watches and valuable gifts' rose 16.8%, the retail sales value of this category climbed 10.7% year on year, indicating that lower priced items were purchased.

In the leasing market, several major transactions were recorded in prime retail districts, demonstrating that quality retail space in core retail areas were still sought after. The 1st–2nd floors of Mongkok Plaza in Mong Kok, totaling 6,700 sq ft, were reportedly preleased for around HK\$1.2 million or HK\$182 per sq ft per month. Meanwhile, a ground-floor unit in Mirador Mansion in Tsim Sha Tsui, with a floor area of 1,800 sq ft, was reportedly leased for HK1.2 million or HK\$667 per sq ft per month.

Despite slowing growth of local retail sales in recent months, some international retailers were still seeking to enter or expand their footprint in Hong Kong—especially in prime shopping centres—thanks to the stable local economy and the further growth of inbound tourism. For instance, the British perfume

brand Penhaligon's opened its first flagship store in ifc mall in Central, after the success of its pop-up store in Harbour City in Tsim Sha Tsui. Meanwhile, Japanese home store Francfranc opened a flagship store in Fashion Walk in Causeway, its seventh branch in Hong Kong. The two-storey shop covers a floor area of 7,800 sq ft and houses a special tea bar.

In the retail-property sales sector, only 3,438 transactions were recorded during the first ten months of the year—a drop of 28.8% year on year—mainly due to the impact of the government's stamp duty policies. Their total consideration also fell 39.6% year on year to HK\$39.8 billion, reflecting the decreased average price of retail properties during the period.

Looking forward, we expect rents of prime-street shops to remain stable in the coming year, due to the softened retail sales growth, while rents in prime shopping centres should see a moderate increase of up to 5%. Non-core shopping centres near the border and along the MTR line will continue to attract attention from same-day Mainland visitors, hence their rents are expected to rise another 5% in 2014.

Prime-street shop prices are expected to remain stable or drop slightly in the coming year, as the government's property-market cooling measures are anticipated to continue. However, investment activity could start to defrost in 2014 as investors absorb the impact of the cooling measures and capital accumulates.

“We expect rents of prime-street shops to remain stable in the coming year.”

PRIME OFFICE

An office in Nine Queen's Road Central was sold at the third highest per-sq-ft price ever recorded in Hong Kong.

Table 2 Selected office sales transactions					
District	Building	Floor unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Central	Nine Queen's Road Central	Mid floor unit	3,290	\$95.41	\$29,000
Admiralty	Admiralty Centre	Low floor unit	1,467	\$25	\$17,042
Tsim Sha Tsui	Concordia Plaza	Low floor unit	1,751	\$21.88	\$12,496
Tsim Sha Tsui	Lippo Sun Plaza	Mid floor unit	3,275	\$43.23	\$13,200

Source: market news
Note: All transactions are subject to confirmation.

The office leasing market recorded stable activity in November, with a number of whole-floor transactions concluded.






Table 3 Selected office leasing transactions			
District	Building	Tower / floor	Floor area (sq ft)
Admiralty	United Centre	Mid floor	20,489 (G)
Central	Two International Finance Centre	Mid floor	24,150 (L)
Causeway Bay	World Trade Centre	High floor	12,770 (G)
Quarry Bay	DCH Commercial Centre	High floor	10,949 (L)
Tsim Sha Tsui	The Gateway	Tower 6 / high floor	25,062 (G)

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

December 2013

HONG KONG MONTHLY

Grade-A office rents remained stable in most major business districts last month.

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

Grade-A office prices experienced slight drops in all major business districts in November.

Table 5 Prime office market indicators (Nov 2013)								
District	Net effective rent HK\$psf /mth	Change			Price HK\$ psf	Change		
		From Oct 13	From Aug 13	From Nov 12		From Oct 13	From Aug 13	From Nov 12
Premium Central	141.1	0.3%	-1.6%	2.4%	n/a	n/a	n/a	n/a
Traditional Central	103.1	-0.5%	-2.3%	-1.3%	26,520	0.0%	-1.6%	-2.7%
Admiralty	79.5	-2.4%	-2.9%	-2.2%	21,690	-1.2%	-3.4%	-0.2%
Sheung Wan	61.3	-0.7%	-1.3%	3.4%	19,526	-2.1%	-4.5%	-3.6%
Wan Chai	61.5	0.5%	0.5%	-1.2%	18,121	-0.4%	-0.8%	3.2%
Causeway Bay	63.6	-1.2%	-1.9%	-3.0%	17,317	-0.7%	-1.8%	-0.6%
North Point	44.7	-0.5%	3.5%	16.6%	n/a	n/a	n/a	n/a
Quarry Bay	50.5	-0.1%	1.3%	7.0%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	52.1	0.1%	-3.5%	-0.7%	11,859	-1.0%	-2.0%	-1.3%
Cheung Sha Wan	30.3	-2.9%	0.3%	22.6%	n/a	n/a	n/a	n/a
Hung Hom	38.0	0.9%	2.8%	12.2%	n/a	n/a	n/a	n/a
Kowloon East	38.3	0.4%	-4.3%	7.6%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	50.9	2.0%	1.3%	3.0%	n/a	n/a	n/a	n/a

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

RESIDENTIAL

A number of high-price luxury residential sales transactions were recorded in the primary market last month.

Table 6 Selected residential sales transactions					
District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
The Peak	28 Barker Road	House	6,863	\$740	\$107,825
The Peak	28 Barker Road	House	5,706	\$538	\$94,287
Mid-Levels West	Azura	High floor unit	1,296	\$47.1	\$36,343
Causeway Bay	yoo RESIDENCE	High floor unit	355	\$12.0	\$33,803
Mid-Levels West	Argenta	High floor unit	2,182	\$70.9	\$32,493

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

A few luxury houses were leased in Island South and on the Peak last month.

Table 7 Selected residential leasing transactions					
District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	39 Deep Water Bay Road	House	3,711	\$250,000	\$67.4
Mid-Levels	Grenville House	Low floor unit	3,349	\$165,000	\$49.3
The Peak	La Hacienda	House	2,756	\$140,000	\$50.8
Mid-Levels	Dynasty Court	High floor unit	2,141	\$108,000	\$50.4

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

December 2013

HONG KONG MONTHLY

Luxury residential rents dropped in the four major districts in November 2013.

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

Luxury residential prices remained stable last month.

Table 9 Luxury residential market indicators (Nov 2013)									
District	Net effective rent		Change			Price		Change	
	HK\$psf/mth	From Oct 13	From Aug 13	From Oct 12	HK\$psf	From Oct 13	From Aug 13	From Oct 12	
The Peak	\$52.7	-2.2%	-3.4%	-10.2%	\$22,919	0.0%	0.0%	-3.1%	
Mid-Levels	\$40.9	-0.1%	-1.3%	-4.0%	\$21,461	-0.1%	-1.1%	0.0%	
Pokfulam	\$30.7	-0.8%	-2.0%	1.0%	\$18,620	0.0%	-3.5%	-0.3%	
Jardine's Lookout & Happy Valley	\$37.1	-1.1%	-3.6%	-7.5%	\$19,799	-0.3%	-2.3%	0.3%	
Island South	\$41.6	0.0%	-0.7%	-2.1%	\$24,910	0.0%	0.5%	-3.6%	

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

RETAIL

In November, Causeway Bay and Mong Kok witnessed several major retail property sales transactions.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mong Kok	Ho King Commercial Centre	Ground floor unit	115	\$27	\$234,783
Mong Kok	Sincere Plaza	First floor unit	68	\$8.28	\$121,765
Wan Chai	Hang Tat Mansion	Ground floor unit	583 (gross)	\$65	\$111,492
Causeway Bay	Percival House	Ground floor unit	113	\$12.5	\$110,619
Causeway Bay	Hennessy Road 521	Ground floor	NA	\$380	N/A

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

City Landmark in Tsuen Wan recorded several major retail property leasing transactions in November.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Tsim Sha Tsui	Friends' House	Ground floor unit	228	\$100,000	\$438.6
Tsuen Wan	City Landmark	2nd floor unit	57	\$25,000	\$438.6
North Point	Park View Mansion	Ground floor unit	110	\$41,000	\$372.73
Tsuen Wan	City Landmark	Ground floor unit	969	\$293,265	\$302.7
Mong Kok	Allied Plaza	Ground floor unit	179	\$50,000	\$279.3

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

Rents of prime-street shops in the four core retail districts remained stable in November.

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

Robust consumption during the Golden Week holiday lifted Hong Kong's retail sales value to HK\$37.8 billion in October, a rise of 6.3% year on year.

Table 13 Retail sales by outlet type (Oct 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Sep 13	From Jul 13	From Oct 12
Jewellery, watches and clocks and valuable gifts	\$8.3	22.1%	10.5%	-17.4%	10.7%
Clothing, footwear and allied products	\$5.1	13.4%	24.7%	-3.0%	7.2%
Department stores	\$3.9	10.2%	0.8%	-4.9%	12.5%
Fuel	\$0.8	2.2%	-2.9%	-0.9%	-3.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.2	8.4%	-13.9%	25.6%	5.4%
Consumer durable goods	\$5.7	15.2%	-2.6%	-4.8%	-5.7%
Supermarkets	\$4.2	11.0%	-1.5%	1.1%	8.6%
Others	\$6.6	17.5%	15.1%	-6.5%	9.0%
All retail outlets	\$37.8	100.0%	5.4%	-5.5%	6.3%

Source: Census and Statistics Department

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