

RESEARCH



February 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Office market quiets
amid shrinking demand

RESIDENTIAL

Home prices and rents
soften further

RETAIL

Prime retail supply set to
increase in 2012

MARKET IN BRIEF

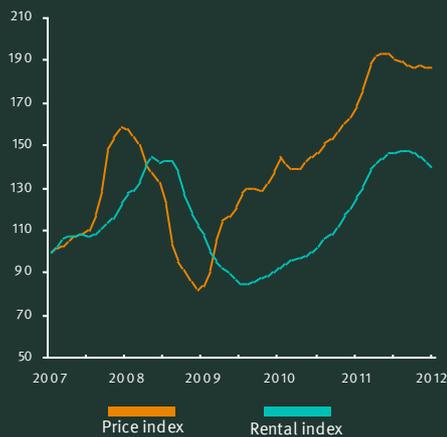
The following table presents a selection of key trends in the economy and property markets in Hong Kong

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	December 2011	+5.7%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to December 2011	3.3%#	4.4%	3.3%#	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

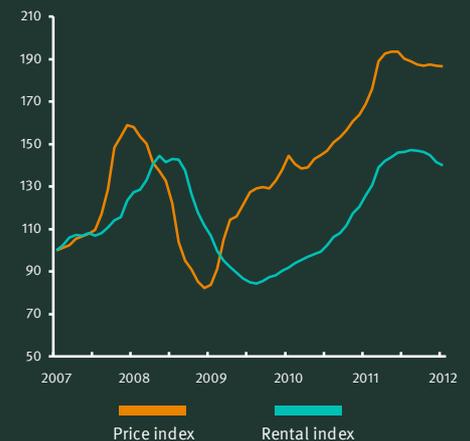
Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



MONTHLY REVIEW

Hong Kong's property market remained quiet last month with the global economic outlook still unclear and this period being a traditional low season over the Chinese New Year holiday. While the office and residential markets recorded low levels of activity, the retail leasing sector continued to outperform as international brands—continuing to enter or expand in Hong Kong—competed for prime spaces.

PRIME OFFICE

Layoffs threatened a number of financial institutions in Hong Kong, as uncertainty in the global economy started to take its toll. A Korean securities firm reportedly shed more than half of its total workforce, signaling a new wave of restructuring in the sector. Some investment banks are also likely to cut their staff, as the European sovereign debt crisis will continue to loom over the global markets in the coming months.

The office leasing market saw only a handful of transactions over the past month, with demand in core districts mainly involving relatively small floor plates. In Central, a law firm took up a mid floor measuring 5,483 sq ft in Prosperity Tower, while a 5,479-sq-ft low floor in Henley Building was also leased.

Offices in non-core areas continued to be sought after, mainly as relocation premises. One insurance firm relocated from Wan Chai to two mid floors totaling 50,000 sq ft in Harbourfront, Hung Hom, while another committed to a 27,700-sq-ft mid-low floor in Two Landmark East, Kwun Tong. A construction advisory firm, meanwhile, leased a 20,100-sq-ft mid floor in Island Place Tower, North Point for relocation.

Grade-A office rents in Hong Kong continued their downward trend, with the average rent dropping 1.0% in January. Central recorded the biggest correction of 1.9%, followed by Mong Kok / Yau Ma Tei, where rents decreased 1.5%. Hung Hom and Kowloon East, however, saw rents grow a respective 3.2% and 1.2% last month, thanks to strong relocation demand.

The global economic outlook remains uncertain, though most EU countries agreed to join the Fiscal Compact as a response to the European sovereign debt crisis. Demand for office space in Hong Kong from the corporate sector is likely to remain low in the coming year.

Major landlords in Central are likely to offer deeper rent discounts, with over a million sq ft of office space expected to be vacant in the district by the first half of this year. As a result, Grade-A office rents in the CBD are likely to see a 10–15% correction in the first half of the year. Meanwhile, asking rents in non-core areas are likely to remain firm, with landlords enjoying low vacancies amid strong relocation demand.

“Major landlords in the CBD are likely to offer deeper rent discounts in the coming months.”

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RESIDENTIAL

The number of residential sales dropped further in January 2012, with the global economy remaining uncertain as well as potential homebuyers and landlords traveling abroad during the Chinese New Year holiday. The drop was recorded despite an improvement in market sentiment following better performance in the local stock market. According to the Land Registry, residential sales fell 18.4% month on month to 3,507 in January—the lowest figure since November 2008. Sales of luxury homes valued over HK\$10 million fell 17.4% to 385.

The primary market remained under the spotlight last month. New developments that were priced close to secondary levels received encouraging responses, especially from investors. Chatham Gate in Hung Hom, for example, reportedly sold 35 units out of an initial batch of 50 on the first day of launch. About 20 of these were sold to a Mainland investor for a total of over HK\$100 million. Meanwhile, according to market news, an investor bought three units at The Coronation, Yau Ma Tei, for a total of HK\$60 million. Three units at The Hampton in Happy Valley were also reportedly sold to an investor for HK\$400 million.

However, transactions in the secondary market further declined as both homebuyers and owners suspended flat inspections during Chinese New Year. Despite the drop in transaction volume, luxury home prices remained stable, while mass residential prices dropped just 1.0% month on month. The traditional low season still recorded a number of major transactions. For example, House E of Kelleteria on the Peak, measuring 3,198 sq ft, was sold for HK\$150 million or HK\$46,904 per sq ft.

Leasing transaction volume also remained low given the holiday period.

An increasing number of landlords released their flats for lease amid low sentiment in the sales market.

However, absorption was weak during the traditional low season for leasing and more landlords became willing to lower asking rents to secure tenants. Luxury rents, as a result, decreased a further 1.3% month on month.

Looking ahead, announcements confirming no further regulatory measures in the 2012–2013 Government Budget have cleared some uncertainty in the property market. The government's efforts to increase home supply prompted homeowners and buyers to resume flat inspections soon after the holiday season. We believe residential sales volume will rebound in February, while the rental market will also slowly revive. As such, we expect both luxury prices and rents to remain stable.

RETAIL

Retail sales in Hong Kong grew a strong 24.8% in 2011 to HK\$405.7 billion. Among the different types of goods, 'jewellery, watches, clocks and other valuable gifts' accounted for 22.0% and the largest share of retail sales, with its retail sales value surging 46.6% year on year.

Strong growth continued last month with a number of shopping centres and high-end retailers reporting double-digit sales growth during the Chinese New Year period.

International brands continued to expand. H&M, for instance, reportedly renewed its lease covering the basement to third floor of Crawford House, Central for a monthly rent of HK\$6.5 million—an increase of 60% from its previous lease.

The shortage of prime retail space in Causeway Bay will be relieved, to some extent, with the completion of the 470,000-sq-ft Hysan Place in the second quarter of 2012. Currently, over 80% of this retail space has already been pre-leased. Major tenants

reportedly include Apple, Eslite Bookstore, DFS and Gap. Meanwhile, the relocation of UA Cinemas in Times Square has released over 21,800 sq ft of retail space. The 3,800-sq-ft ground floor is expected to be leased at about HK\$2,000 per sq ft per month.

The retail market will continue to expand this year amid a solid economic foundation in Hong Kong and strong demand for luxury goods from Mainlanders. Competition among international retailers is expected to remain fierce to secure prime retail premises in core shopping districts, which will further push up retail rents.

Many retailers, especially mid-market operators who cannot afford the sky-high rents in prime locations, are expected to move to non-core areas or up to higher floors. This will push up the rents of these types of premises. However, local consumers are expected to become more cautious in spending given the anticipation of slower growth in the local economy and concern over the global economic climate. Thus, we expect rents in non-core areas to rise by a moderate 5% this year. Areas such as Sheung Shui and Tuen Mun could enjoy higher rent growth given their proximity to Mainland China, which facilitates cross-border shopping trips.

“
Primary residential developments that were priced close to secondary levels received encouraging responses last month.”



PRIME OFFICE

Transactions involving relatively small floor plates continued to dominate the office sales market in January.

Table 2 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	Harbour Centre	11 th floor / units 8-9	3,700	\$76	\$20,500
Sheung Wan	Cosco Tower	Mid-low floor / unit 3	1,550	\$23.5	\$15,200
Central	China Insurance Group Building	2 nd floor / units 3 & 5	3,300	\$32	\$9,700
Sheung Wan	Kam Sang Building	14 th floor unit	1,500	\$12	\$8,134
Kowloon Bay	Enterprise Square One	Tower 2 / 18 th floor	12,900	\$65.00	\$5,047

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

Offices in non-core areas continued to be sought after, mainly as relocation premises.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Henley Building	Low floor	5,479	n/a
Central	Prosperity Tower	19 th floor	5,483	A law firm
Hung Hom	Harbourfront	Two floors	50,000	Sun Life Financial
Kwun Tong	Two Landmark East	10 th floor	27,724	AIA
North Point	Island Place Tower	11 th floor	20,090	Widnell Sweett Limited

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

Grade-A office rents in core districts remained under downward pressure.

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

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RESIDENTIAL

A number of major luxury-home sales were recorded in the past month, despite the quieter Chinese New Year holiday period.

Table 5 Selected residential sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Island South	33 Island Road	House 5	6,079	\$300	\$49,350
Island South	Marinella	Tower 9 / 33 rd & 35 th floors / units B	2,661	\$105.5	\$39,647
Tsim Sha Tsui	The Cullinan	Tower 1 / 73 rd floor / unit A	2,070	\$57.8	\$27,923
Tsim Sha Tsui	The Harbourside	Tower 1 / 43 rd floor / unit C	1,383	\$37.5	\$23,761
Happy Valley	The Hampton	6 th floor / unit A	3,350	\$88.3	\$26,358

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

More owners released their flats for lease, pushing up the number of lease transactions last month, despite January being a traditional low season.

Table 6 Selected residential leasing transactions					
District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
The Peak	2 Barker Road	House	4,082	\$250,000	\$61.2
The Peak	The Mount Austin	Block 3 / duplex unit B	2,657	\$155,000	\$58.3
Island South	Horizon Lodge	House	2,230	\$130,000	\$58.3
Mid-Levels	Dynasty Court	Tower 1 / high floor / unit A	2,256	\$120,000	\$53.2
Island South	The Repulse Bay	Penthouse / unit C	4,378	\$230,000	\$52.5

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

Residential rents dropped in all five major luxury districts on Hong Kong Island.

Table 7 Month-on-month movement of luxury residential rents (Jan 2012)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				



RETAIL

Shops in non-core retail areas continued to be sought after by investors, given their lower prices and greater availability compared to those in prime districts.

Table 8
Selected retail sales transactions in non-core areas

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Kwun Tong	Yan On Mansion	Ground floor / unit K	400	\$52.5	\$131,250
Tai Po	Tai Po Plaza Arcade	1 st floor / unit 23	149	\$9.46	\$63,940
Tsuen Wan	Tsuen Cheong Centre	1 st floor / unit 37	76	\$4.25	\$55,921
Wan Chai	298 Computer Zone	UG floor / unit 153A	61	\$2.6	\$42,623
Kwun Tong	Hip Wo House	Ground floor / unit 11	525	\$22	\$41,905

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

Units 1–2 on the third floor of Tuen Mun Parklane Square were renewed at a rent 20% higher than that of its previous lease signed in 2008.

Table 9
Selected retail leasing transactions in non-core areas

District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Tuen Mun	Tuen Mun Parklane Square	3 rd floor / units 1-2	1,503	\$456,000	\$303.4
Yau Ma Tei	Double Set Commercial Centre	Ground floor / unit 2	429	\$70,000	\$163.2
Tsuen Wan	City Landmark	1 st floor / unit 64	324	\$45,020	\$139.0
Fanling	Fanling Town Centre Arcade	2 nd floor / unit 3	591	\$80,000	\$135.4
Wan Chai	Avery House	Ground floor / unit 5	596	\$65,000	\$109.1

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

In January 2012, all major retail districts saw month-on-month rent growth.

Table 10
Month-on-month movement of prime street shop rents (Jan 2012)

Central	Causeway Bay	Tsim Sha Tsui	Mong Kok

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Americas

Bermuda
Brazil
Canada
Caribbean
Chile
USA

Australasia

Australia
New Zealand

Europe

Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
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