

RESEARCH



February 2013

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

**Knight Frank** 萊坊

## OFFICE

Absorption of vacant Grade-A offices in Central continued

## RESIDENTIAL

Policy Address will have limited short-term impact

## RETAIL

Investors eye subdivided units in shopping centres



# 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	2013 forecast
GDP growth	Q3 2012	+1.3%	+6.8%	+5.0%	+3.0%
Inflation rate	Dec 2012	+3.7%	+2.4%	+5.3%	+4.4%
Unemployment	Oct-Dec 2012	3.3%#	4.4%	3.4%	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



# MONTHLY REVIEW

**Hong Kong's residential sales market rebounded in January following an absence of further tightening measures in the Chief Executive's Policy Address. Despite this, investors' appetite for office and retail properties remained, with several major transactions being recorded even during the New Year holiday period. These involved Grade-A office units and sub-divided retail stores in non-prime shopping centres.**

## PRIME OFFICE

The Grade-A office leasing market was relatively quiet in January, during the traditionally quiet holiday season. Only a few major transactions were concluded: the leasing of 15,000 sq ft of space on the 18<sup>th</sup> floor of Two IFC in Central by a Chinese company; Sanrio reportedly taking up the 14,000-sq-ft 16<sup>th</sup> floor of Landmark East Phase 1 in Kwun Tong; and the Bank of America committing to 117,000 sq ft of space spanning the 18<sup>th</sup>–22<sup>nd</sup> floors in Kowloon Commerce Centre in Kwai Chung.

Following further absorption of vacant space in Central, the vacancy rate in the CBD dropped to 4.2% in January, compared with 5.4% four months ago. Grade-A office rents in Central remained stable, while rents in non-core areas continued to record notable increments, with limited space being available following robust relocation activity.

North Point and Hung Hom led the market, each seeing month-on-month rental growth of 5.6%, followed by Admiralty with 4.4% and Quarry Bay with 4.3%.

Last month, the lowest vacancy rates among major business districts on Hong Kong Island were recorded in North Point (1.0%) and Quarry Bay

(2.1%). Overall, Grade-A office rents gained 1.6% in January, the first upward growth in the past four months.

Despite signs of recovery in the residential sales market, investors' appetite for office space showed no signs of abating. An over 4,000-sq-ft space on the 14<sup>th</sup> floor of Convention Plaza Office Tower in Wan Chai was purchased for HK\$22,399 per sq ft. Meanwhile, Lippo Centre in Admiralty recorded a number of deals last month.

Such robust activity pushed up Grade-A office prices by a further 1.1% in January, month on month. The most notable growth was witnessed in Admiralty, where prices edged up about 2%.

Looking forward, the amount of vacant Grade-A office space in Central is expected to continue shrinking. We therefore believe rents in the CBD will fall no more than 5% in 2013. Meanwhile, rents in non-core districts should rise about 5%, with Kowloon East likely to see 10–15% growth over the year.

## RESIDENTIAL

The residential sales market regained momentum in January, as the negative impact from cooling measures

“With the continuing absorption of vacant space in Central, Grade-A office rents in the CBD are expected to remain stable.”

“The residential sales market regained momentum in January, with an absence of further cooling measures in the latest Policy Address.”

implemented at the end of last year were digested and the absence of further cooling measures was noted in the latest Policy Address. The number of residential transactions surged 65.2% month on month to 5,430, with transactions of luxury homes worth HK\$10 million or above increasing 57.7%.

Developers regained confidence in the market and became more active in launching primary projects. Upper West in Tai Kok Tsui, developed by the Kowloon Development (HK.0034), was released at market prices with an encouraging response received. Developers also re-launched unsold projects to absorb the growing purchasing power.

There will be a sharp rise in primary supply after the Lunar New Year, with new projects such as Imperial KENNEDY in Western District; Residence 88 in Yuen Long; The Grace in Tai Po; and DUNBAR PLACE in Ho Man Tin all scheduled for release after the holiday.

Sentiment in the secondary sales market also significantly improved, with record-breaking transactions being witnessed and some landlords becoming more aggressive in their asking prices. Taikoo Shing, for example, achieved the record-breaking price of HK\$20,000 per sq ft on saleable area.

Landlords in strong financial positions were unwilling to sell their properties at discount, resulting in fewer units being available, which in turn drove up transaction prices.

The Policy Address proposed a series of measures concerning land and housing planning that would increase the future supply of private and public housing.

We believe the government is moving in the right direction with long-term housing policy, but residential supply will continue to lag behind demand in

the near future, as new supply will not come online until 2015–2016 at the earliest.

In the short term, demand will continue to outstrip supply, but the government may introduce further tightening measures should home prices surge again. Therefore, home prices are set to remain stable with upward or downward movements within 5% this year.

Residential sales will slow in February during Chinese New Year, but a rebound is expected from the end of February, after the holiday.

## RETAIL

As expected, brisk investment activity in the retail market continued into 2013.

In January, investors continued to look for small lump-sum investment opportunities, targeting subdivided units in shopping centres and strata-titled retail space. Soundwill Holdings (0878.HK) presold all 29 units in its Ginza-type retail centre The Sharp in Causeway Bay within one day at an average price of HK\$33,576 per sq ft. It was reported that 80–90% of the buyers had shifted from the luxury residential sector. Meanwhile, 600 units in The Capital in Tsim Sha Tsui sold out within a few days.

In January, the retail leasing market witnessed new supply in both core and non-core districts. Midtown in Causeway Bay started to pre-lease its six-storey dining space, which will feature five upscale restaurants: The Penthouse by Michelin-star chef Harlan Goldstein, Ah Yat Harbour View Restaurant, The Chop House, Ja Sushi and Woolloomooloo Prime.

In Repulse Bay, The Pulse owned by Emperor Group (0163.HK) began pre-leasing activity, offering around 200,000 sq ft of retail space at an average monthly rent of HK\$60–70

per sq ft.

Despite the new supply, availability of quality retail premises in prime areas remained tight and sought after, resulting in notable rental increments.

Local retailers, especially restaurants targeting the mass market in prime retail areas, continued to relocate to secondary streets or upper floors in search of more affordable rents. It was reported that a 20-year-old local restaurant in Sai Yeung Choi Street South, Mong Kok will relocate to avoid paying the requested monthly rent of over HK\$2 million upon renewal—2-3 times more than its current lease.

In December 2012, Hong Kong's retail sales value was sustained, with a notable year-on-year growth of 8.8%. The retail sales value for the year reached HK\$445.5 billion, a remarkable annual increase of 9.8%.

The favourable market conditions supported the continual expansion of international retailers. Eslite (2926.TW), encouraged by the success of its trial in Hysan Place, Causeway Bay, plans to open three more shops in Central and Kowloon in the next three years.

Given sustained local consumption and vibrant tourist arrivals, we maintain our positive outlook for the local retail market.

“**Given sustained local consumption and vibrant tourist arrivals, we maintain our positive outlook for the local retail market.**”



# PRIME OFFICE

**Sentiment in the office sales sector remained heated, despite recovery in the residential sales sector.**

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Admiralty</b>	Lippo Centre	Tower 2 / 19 <sup>th</sup> floor / unit 2	1,936	\$40.66	\$21,002
<b>Wan Chai</b>	Convention Plaza Office Tower	14 <sup>th</sup> floor / units 5-7	4,402	\$98.60	\$22,399
<b>Sheung Wan</b>	Shun Tak Centre	16 <sup>th</sup> floor / unit 12	1,631	\$38.247	\$19,000

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

**Only a few major Grade-A office leasing transactions were recorded last month.**






Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Gross area (sq ft)	Tenant
<b>Kwun Tong</b>	Landmark East Phase 1	16 <sup>th</sup> floor	14,000	Sanrio
<b>Central</b>	Two IFC	18 <sup>th</sup> floor (part)	15,000	A Chinese company
<b>Kwai Chung</b>	Kowloon Commerce Centre	Tower B / 18 <sup>th</sup> -21 <sup>st</sup> floors and half of 22 <sup>nd</sup> floor	117,000	Bank of America

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

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## HONG KONG MONTHLY

Grade-A office rents increased in all major business districts last month.

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

Grade-A office prices grew a further 1.1% in January, while their rents gained 1.6%—the first upward growth in the past four months.

Table 5 Prime office market indicators (Jan 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Dec 12	From Oct 12	From Jan 12	HK\$ psf	From Dec 12	From Oct 12	From Jan 12
<b>Premium Central</b>	140.2	1.9%	2.9%	-12.5%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	104.8	-0.3%	-1.8%	-11.6%	27,470	0.0%	1.5%	14.3%
<b>Admiralty</b>	82.9	4.4%	0.7%	-3.2%	22,609	1.9%	4.9%	22.0%
<b>Sheung Wan</b>	61.2	3.4%	1.5%	-2.4%	20,962	0.6%	5.0%	29.6%
<b>Wan Chai</b>	62.6	0.4%	0.5%	-5.1%	18,386	1.3%	6.5%	35.0%
<b>Causeway Bay</b>	64.3	0.2%	-2.0%	-1.6%	17,886	0.0%	5.6%	31.8%
<b>North Point</b>	40.5	5.6%	9.0%	9.3%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	49.3	4.3%	6.4%	-3.6%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	53.3	1.1%	3.0%	10.5%	12,255	0.9%	2.5%	14.0%
<b>Cheung Sha Wan</b>	24.7	0.0%	2.8%	10.7%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	35.8	5.6%	8.2%	16.9%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	35.9	1.0%	2.0%	7.5%	n/a	n/a	n/a	n/a
<b>Mong Kok / Yau Ma Tei</b>	50.3	1.8%	1.8%	4.7%	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 recorded on both Hong Kong Island and in Kowloon last month.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Kowloon Tong</b>	One Mayfair	Tower 2 / 10 <sup>th</sup> floor / unit A	2,421	\$108.5	\$44,816
<b>Western</b>	Harbour One	41 <sup>st</sup> floor	2,631	\$87.301	\$33,182
<b>Island South</b>	Pine Crest	2 <sup>nd</sup> floor / unit B	1,778	\$55.5	\$31,215
<b>Mid-Levels Central</b>	Grenville House	Block I, J / 5 <sup>th</sup> floor / unit J	3,290	\$100	\$30,395
<b>Happy Valley</b>	Winfield Building	Block A / 8 <sup>th</sup> floor / unit 2	2,006	\$58.4	\$29,113


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

A number of major luxury residential leasing transactions were recorded in Mid-Levels Central last month.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>The Peak</b>	28 Gough Hill Road	Odd no. house	5,579	\$502,110	\$90.0
<b>Mid-Levels Central</b>	Clovelly Court	Tower 1 / mid floor / unit C	1,916	\$83,800	\$43.7
<b>Mid-Levels Central</b>	Bamboo Grove	Block 76 / high floor unit	1,564	\$78,000	\$49.9
<b>Pokfulam</b>	Baguio Villa	Tower 31 / mid floor unit	2,119	\$68,000	\$32.1
<b>Tsim Sha Tsui</b>	The HarbourSide	Tower 3 / low floor / unit D	1,062	\$45,000	\$42.4

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

Luxury residential rents increased in four of the five major luxury districts last month.

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

Luxury residential prices in Island South, Pokfulam and Happy Valley recorded double-digit increases year on year.

Table 9 Luxury residential market indicators (Jan 2013)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Dec 12	From Oct 12	From Jan 12		From Dec 12	From Oct 12	From Jan 12
<b>The Peak</b>	\$59.1	0.3%	0.9%	-4.8%	\$23,660	0.0%	0.0%	0.0%
<b>Mid-Levels</b>	\$42.1	0.1%	-0.3%	-7.4%	\$21,659	0.7%	1.2%	9.2%
<b>Pokfulam</b>	\$30.8	0.3%	1.5%	-0.8%	\$19,069	2.1%	2.4%	19.3%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$40.8	-0.2%	2.3%	2.0%	\$20,106	3.5%	6.0%	12.0%
<b>Island South</b>	\$42.4	0.4%	-0.7%	-7.2%	\$25,844	0.0%	3.7%	11.2%

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





# RETAIL

In January, Tsim Sha Tsui saw several major retail property sales transactions.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Net area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Shatin</b>	Grandway Garden	Ground floor / unit 21	295	\$66.8	\$226,441
<b>Yau Mai Tei</b>	Nanking Building	Ground floor / unit G	230	\$31.3	\$136,087
<b>Tsim Sha Tsui</b>	Far East Mansion	Ground floor / unit 9	460	\$60	\$130,435
<b>Tsim Sha Tsui</b>	Chung Wo Commercial Center	Ground floor / unit 4	128	\$15.68	\$122,500
<b>Tsim Sha Tsui</b>	Parkes Commercial Center	Ground floor / unit 1	209	\$24.8	\$118,660

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

Major retail leasing transactions were clustered in secondary streets and non-core districts last month.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Net area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>Tsim Sha Tsui</b>	Mirador Mansion	Ground floor / unit 2	1,460	\$720,000	\$493.2
<b>Mong Kok</b>	Sun Hing Building	Ground floor / unit 8A	1,240	\$550,000	\$443.6
<b>Tsim Sha Tsui</b>	Tsim Sha Tsui Mansion	Ground floor / unit 1A	245	\$85,000	\$346.9
<b>Sheung Shui</b>	Lung Fung Plaza	1 <sup>st</sup> floor / unit 15	259	\$54,000	\$208.5

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

In January, Central and Mong Kok witnessed retail-rent growth, while rents in Causeway Bay and Tsim Sha Tsui remained stable.

In December 2012, Hong Kong's retail sales value was sustained, with a notable year-on-year growth of 8.8%. The retail sales value for the year reached HK\$445.5 billion, an annual increase of 9.8%.

Table 12  
Month-on-month movement of prime street shop rents (Jan 2013)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

Table 13  
Retail sales by outlet type (Dec 2012)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Nov 12	From Sep 12	From Dec 11
Jewellery, watches and clocks and valuable gifts	\$10.5	22.5%	34.2%	47.5%	11%
Clothing, footwear and allied products	\$6.7	14.3%	43.4%	71.3%	6.4%
Department stores	\$5.6	11.9%	26.2%	78.5%	10.5%
Fuel	\$0.8	1.8%	0.4%	-8.9%	-1.2%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.1	6.7%	10.7%	-14.1%	-3.5%
Consumer durable goods	\$8.5	18.1%	35.6%	39.8%	19.2%
Supermarkets	\$4.1	8.7%	9.0%	3.4%	7.3%
Others	\$7.6	16.1%	27.1%	40.4%	4.4%
<b>All retail outlets</b>	<b>\$46.9</b>	<b>100.0%</b>	<b>28.4%</b>	<b>37.4%</b>	<b>8.8%</b>

Source: Census and Statistics Department



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Brazil  
Canada  
Caribbean  
Chile  
USA

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Australia  
New Zealand

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Czech Republic  
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Hungary  
Ireland  
Italy  
Monaco  
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