

RESEARCH



January 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Non-core districts
to outperform

RESIDENTIAL

Primary market
remains active

RETAIL

Christmas boosts
retail sales

MARKET IN BRIEF

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

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2010	2011 estimate	2012 forecast
GDP growth	Q3 2011	+4.3%#	+6.8%	+4.8%	+3.8%
Inflation rate	November 2011	+5.7%	+2.4%	+5.2%	+3.4%
Unemployment	Three months to November 2011	3.4%#	4.4%	3.3%	3.4%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

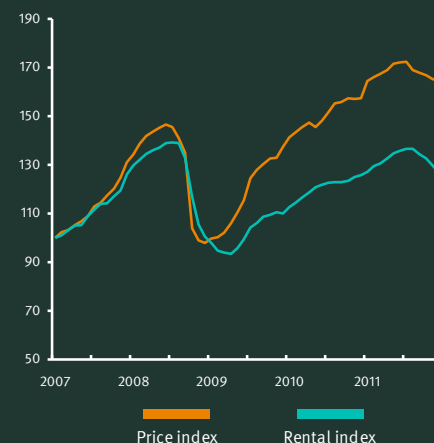
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate

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

The residential market remained quiet last month, with potential buyers taking a wait-and-see attitude at year-end amid cooling measures and uncertainties in the global economy. Meanwhile, the commercial markets continued to outperform, with robust relocation activity in the office market and the continual expansion of international brands in the retail sector.

PRIME OFFICE

Although many companies put their expansion plans on hold amid the economic uncertainties, leasing activity rebounded last month as relocation demand increased, with tenants opting to reduce operating costs by moving to less expensive offices.

Transactions in December therefore increased compared with the previous month, mainly involving relocations and small floor plates. For instance, a mid-floor unit measuring 5,500 sq ft in Prosperity Tower, Central was taken up by Kelly Services, while a Mainland property firm leased three mid-floor units totaling 3,960 sq ft in Two IFC in the same district.

Offices in non-core areas were sought after for their competitive rents. A 20,900-sq-ft mid floor in Windsor House, Causeway Bay was taken up, while a logistics firm committed to about 30,000 sq ft of space in Skyline Tower, Kowloon Bay.

Amid shrinking demand and strong competition from neighbouring districts, vacancies in core business districts started to rise. In order to retain tenants, some landlords in these areas demonstrated greater flexibility in the negotiation of lease terms. However, asking rents in non-core districts remained firm amid increased demand

and low vacancy rates.

As a result, Grade- A office rents in core and non-core districts showed divergent performances in December. While Central and Admiralty saw rents slip 5.0% and 2.3% respectively, rents in Causeway Bay, Wan Chai and Kowloon East remained firm during the month.

Hong Kong's open economy means the city is exposed to the headwind of the global economy. With the external environment worsening in the European Union and US, the local corporate sector will become increasingly cost-sensitive and more companies will seek to decentralise to cut rental costs.

Looking forward, with shrinking demand from the business sector, landlords in core areas will exhibit greater flexibility in rents in the coming months. Those in non-core areas, meanwhile, are likely to remain firm on rents amid rising relocation demand and vaporising vacancies. Grade-A office rents in Central are likely to see a 10–15% correction in the first half of the year, while rents in non-core districts, such as Causeway Bay, Quarry Bay and Wan Chai, will remain firm or see a small growth of 5% over the period.

“**We expect strong office relocation activity from Central to secondary business districts in 2012.**”

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RESIDENTIAL

Residential sales shrank further in December 2011 with continuing uncertainties in the global economy and potential homebuyers and landlords traveling abroad on vacation. According to the Land Registry, home sales dropped 10.3% month on month to 4,301 in December—the lowest figure since November 2008. Sales of luxury homes valued over HK\$10 million dropped 32.9% to 466—the largest decrease among all price categories. Over 2011, transactions of residential units plunged 40% year on year to 84,462.

The primary market outperformed with developers pricing their new developments competitively close to secondary levels. Individual developments received a good sales response. The Coronation in Yau Ma Tei, for example, reportedly sold its entire first batch of 50 units on the first day of launch, while 50 of the 58 mountain-view units at Festival City Phase 3 in Tai Wai were sold on the first day of launch, according to the developer.

Amid poor sentiment in the secondary market, flat owners became flexible with prices. For instance, the asking price of a 2,058-sq-ft flat at Hilltop Mansion in North Point was lowered by HK\$2.35 million within three weeks of being put onto the market and sold for HK\$18.65 million—15% below market value. Luxury prices declined 0.5% in December, as a result.

On the leasing front, transaction volume was low because of the holiday effect. Some landlords opted to lower their asking rents to secure tenants and luxury rents decreased by 2.5% month on month.

Looking ahead, the progress of a solution to the European sovereign debt crisis is set to remain slow, which will suppress residential sales. In this

regard, the primary sector will continue to outperform the secondary sector, while the rental market will remain inactive during this traditional low season. We believe both luxury prices and rents are likely to fall during the year.

RETAIL

Thanks to robust retail sales and strong growth in tourist arrivals, Hong Kong's retail property market outperformed other sectors in 2011. International retailers continued their aggressive expansion plans in order to capture Mainlanders' increasing spending, which drove up prime retail rents by 19.4% year on year in 2011—the largest growth since 2007. New brands entering Hong Kong last year included Apple, Gap, Forever 21, Hollister and A&F. Meanwhile, positive outlook in the retail market pushed up shop prices in prime areas by 12.4% in 2011.

In the first 11 months of 2011, retail sales in Hong Kong increased 25.0% to HK\$362.7 billion, compared with the same period in 2010. Christmas sales were also strong, with growth of over 20% year on year, according to the Hong Kong Retail Management Association. The momentum should continue this month with the coming Lunar New Year holiday further boosting retail sales.

Last month, both Fortune REIT (0778.HK) and the Link REIT (0823.HK) expanded their investment portfolios. Fortune REIT paid HK\$1.25 billion for Belvedere Garden shopping centre in Tsuen Wan and HK\$650 million for Provident Centre shopping centre in North Point, while The Link bought Maritime Bay shopping centre in Tseung Kwan O from Sino Land (0083.HK). This is the Link's second acquisition in six months after its purchase of Nan Fung Plaza in Tseung Kwan O in June.

In the first 11 months of 2011, the number of Mainland visitors surged 23.8% year on year to 25.3 million, comprising 66.9% of total arrivals. Overnight Mainland tourist spending per capita increased 6.6% to HK\$7,869 in the first half of 2011—the highest among visitors from all countries.

Entering 2012, there is growing concern that the global economic downturn may affect local consumption. However, its impact on tourist spending, which accounts for about one-third of retail sales in Hong Kong, should be limited as the uptrend in Mainland visitors is unlikely to reverse in the near term.

The growth of the Hong Kong retail market will depend heavily on the demand for luxury goods from Mainland tourists. As Hong Kong remains a shopping paradise for Mainlanders, with lower prices and wider product choices, global retailers will continue to look for opportunities to expand in Hong Kong, which will provide firm support to retail rents in prime areas. Although the average prime retail rent is set to grow at a slower pace of about 10% in 2012, the retail property market will continue to outperform other property sectors this year.

“
The continual expansion of global retailers would provide firm support to prime retail rents.
”



PRIME OFFICE

Office sales transactions in December 2011 mainly involved small floor plates.

Table 2 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	luki Tower	12 floors	n/a	\$150	n/a
Jordan	Royal Commercial Centre	1 st floor	2,485	\$22.5	\$9,054
Tsim Sha Tsui	Intercontinental Plaza	10 th floor	11,102	\$88	\$7,926
Kwun Tong	MG Tower	10 th floor / units B-C	4,533	\$33.48	\$7,386
Kwun Tong	55 King Yip Street	25 th floor / unit F	1,090	\$8	\$7,300

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

In December 2011, the number of office leasing transactions increased compared with the previous month, mainly due to strong relocation demand.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	Winsor House	19 th floor	20,900	n/a
Central	Prosperity Tower	15 th floor	5,500	Kelly Services
Central	Two IFC	41 st floor / units 6-8	3,960	Logan Property Holdings
Kowloon Bay	Skyline Tower	18 th floor & part of 19 th floor	30,000	APL Logistics
Kwun Tong	Millennium City 6	31 st floor / units 1-2	6,070	A trading firm

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

Grade-A office rents in core and non-core districts showed divergent performances.

Table 4 Month-on-month movement of Grade-A office rents (Dec 2011)				
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 a further drop in total sales volume.

Table 5 Selected residential sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Happy Valley	Broadwood Twelve	42 nd floor / unit B	1,650	\$45.8	\$27,758
Happy Valley	Leighton Hill	Tower 9 / 32 nd floor / unit A	1,438	\$37.5	\$26,078
Mid-Levels	SOHO 38	38 th floor	1,840	\$44	\$23,913
Tsim Sha Tsui	The Arch	Tower 1 / 32 nd floor / unit B	1,130	\$26.85	\$23,761
Island South	Marinella	Tower 3 / 31 st floor / unit B	1,755	\$37.708	\$21,486

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

Lease transactions with monthly rents of over HK\$50 per sq ft were recorded last month despite its 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	King's Court	House	3,165	\$260,000	\$82.2
The Peak	The Mount Austin	House	6,415	\$450,000	\$70.2
Island South	Fairmount Terrace	High floor / unit A	2,990	\$185,000	\$61.9
Mid-Levels	Borrett Mansion	High floor / unit A	2,723	\$140,000	\$51.4
The Peak	La Hacienda Apartment	Mid Floor / unit B	2,700	\$138,000	\$51.1

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 (Dec 2011)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				



RETAIL

A number of major retail sales transactions were recorded in Causeway Bay and Mongkok in the past month.

Table 8
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Causeway Bay	Hoi To Court	Ground floor / unit 23	256	\$29	\$113,281
Mongkok	Kam Ming Court	Ground floor / unit A	145	\$13.3	\$91,724
Mongkok	Hung Wai Building	Ground floor / unit 10	797	\$68	\$85,320
Causeway Bay	Progress Commercial Building	Ground floor / unit 2	482	\$29.5	\$61,203
Mongkok	Rise Commercial Building	Ground floor / unit 25	229	\$11.8	\$51,528

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

A dispensary leased a ground-floor unit in Tsim Sha Tsui Mansion at a monthly rent of HK\$952.4 per sq ft, doubling the rent paid by the previous tenant.

Table 9
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Tsim Sha Tsui	Tsim Sha Tsui Mansion	Ground floor / unit 38	525	\$500,000	\$952.4
Mongkok	Yuen King Building	Ground floor / unit 17	305	\$280,000	\$918.0
Causeway Bay	Po Ming Building	Ground floor / units C-D	1,060	\$550,000	\$518.9
Tsim Sha Tsui	Carnarvon Mansion	Ground floor / unit O	122	\$50,000	\$409.8
Tsim Sha Tsui	Mirador Mansion Shopping Centre	1 st floor / unit 17	902	\$186,000	\$206.2

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

In December 2011, all major retail districts saw month-on-month rent growth.

Table 10
Month-on-month movement of prime street shop rents (Dec 2011)

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
Zambia
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