

RESEARCH



January 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Downward pressure on
Central rents eases

RESIDENTIAL

Cooling policies curb
transactions, but not prices

RETAIL

Shop rents rise further
alongside retail sales

MARKET IN BRIEF

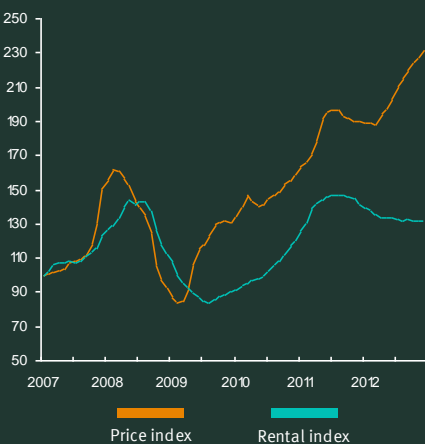
The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2010	2011	2012 forecast
GDP growth	Q3 2012	+1.3%	+6.8%	+5.0%	+3.8%
Inflation rate	Nov 2012	+3.7%	+2.4%	+5.3%	+3.4%
Unemployment	Sep-Nov 2012	3.4%#	4.4%	3.4%	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

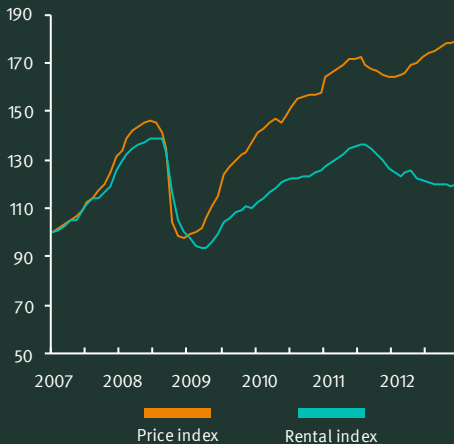
Jan 2007 = 100



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 government's tightening measures on the property market continued to suppress residential sales volume, but home prices remained stable. Sentiment in the retail and office sales markets sustained, with the continual influx of capital shifting over from the residential sector. In the leasing market, the retail sector continued to outperform, while residential leasing was quiet during the traditionally slow season and office leasing remained sluggish with demand being low.

PRIME OFFICE

The Grade-A office leasing market was quiet in the traditionally slow season of December in 2012. There were few headline-grabbing leasing deals and most deals involved lease renewals or relatively small premises.

Vacant space in Central continued to be absorbed in a market where relatively low rents were being asked. A US bank, for example, reportedly committed to seven floors totaling 150,000 sq ft in Cheung Kong Center—one of the largest deals of the year. A German bank, meanwhile, renewed the lease of its 22,000-sq-ft office in Two IFC.

Retailers continued to expand their offices. American boat paint supplier Interlux took a 10,000-sq-ft mid floor at 633 King's Road in Quarry Bay, while a data centre expanded its office in Central Plaza, Wan Chai, lifting the total amount of space taken in the building to about 15,000 sq ft.

While the office leasing market was relatively quiet, the office sales sector remained heated last month. Seven floors covering a total of 196,000 sq ft in Exchange Tower in Kowloon Bay, along with 30 car-parking spaces, were sold for about HK\$1.57 billion or

HK\$8,000 per sq ft. Meanwhile, two mid-floor units totaling 3,900 sq ft in Bank of America Tower in Central were snapped up for about HK\$103 million or HK\$26,560 per sq ft.

2012 was not the best year for Hong Kong's office leasing market, particularly for Central, as the corporate sector was clouded by the slow world economy. While leasing demand needs more time to recover, we believe the downward pressure on Central rents will ease in 2013, after having fallen 14.6% in 2012.

An increasing number of office buildings in Central saw satisfactory take-up rates in the past few months. Moreover, Grade-A office supply in the area is tipped to remain limited in the foreseeable future, especially after the call-off of the former Central Government Offices redevelopment following its Grade One Historic Building classification. We therefore believe CBD rents 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.

RESIDENTIAL

Sentiment in the residential market remained sluggish after the

“We believe rent correction in Central will be limited to 5% in 2013.”

“Potential homebuyers have started to digest the impact of the government's cooling policies and return to the market.”

reinforcement of the Buyer's Stamp Duty and Special Stamp Duty towards the end of last year. Residential sales volume plunged 53.3% in December 2012 to 3,286—the lowest monthly level in the year. However, due to low interest rates, an inflationary environment and the strong financial position of landlords, sales involving significant price-cuts or losses were scarce. Luxury residential prices remained stable last month, while mass residential prices increased 1.2%. Over 2012, the number of residential transactions dropped 3.7% year on year to 81,333. Their total consideration, however, increased 2.2% to HK\$452 billion, with price rises over the year of 2.7% in the luxury market and 23.0% in the mass market.

Having adopted a wait-and-see attitude for nearly two months, potential homebuyers appeared to have digested the impact of the cooling policies and started to return to the market. Developers also started to regain momentum in launching new projects. In December, High Place in Kowloon City and The Wings II in Tseung Kwan O, developed by Henderson Land (0012.HK) and Sun Hung Kai Properties (0016.HK) respectively, were launched with promotional packages to boost demand. In the first few hours of release, all the 50 units launched in The Wings II were sold out for an average of HK\$10,688 per sq ft—far lower than market expectation. Car-parking spaces worth HK\$1.38 million apiece were offered to buyers for free.

The residential sales market was also heated up by the launch of Greenview Villa in Tsing Yi, a subsidised housing project developed by the Hong Kong Housing Society (HKHS). Originally planned as a Rent-to-buy Scheme project by the previous government, Greenview Villa has since reverted to a Home Ownership Scheme (HOS) project at prices 30% lower than market rate, to help people climb the property ladder. More than 20,000

applications were received for the 1,000 available units in the first two weeks of subscription.

The leasing market remained stable in December, a traditionally quiet season. With business expansion by international corporations slowing and demand from expatriates weakening, rents in the luxury market dropped 6.7% over 2012. However, rents in the mass market grew 17.5% last year, as some potential homebuyers shifted to the leasing market amid uncertain conditions in the sales sector.

To meet housing demand, the Chief Executive is expected to announce further measures in his first Policy Address on 16 January 2013. However, supply is still expected to lag behind demand in the short to medium term. We therefore expect residential prices to remain stable in 2013, with only minor corrections.

RETAIL

In November 2012, the retail sales value climbed 9.5% year on year to reach a four-month high of HK\$36.5 billion, beating analysts' earlier estimation of 4.4%. Notably, the sales value of 'Jewellery, watches, clocks and valuable gifts' experienced a strong surge, rebounding 13.7% year on year, after falling about 3% in October. This reflected a significant improvement in consumer sentiment.

Brisk retail activity continued to encourage business expansion, with international retailers continuing to dominate prime retail space, due to their high tolerance of increasing rents. According to market news, Hugo Boss leased a 24,000-sq-ft shop in Central Building, Central, while in the same district, a 3,000-sq-ft unit on the ground floor of Wheelock House was reportedly leased by Italian menswear brand Canali for HK\$3 million per month.

With greater policy risks in the

residential property market, capital continued to flow into the retail investment sector. Retail space totaling 61,347 sq ft attached to the residential development Florient Rise in Tai Kok Tsui was sold to a local investor for HK\$630 million or HK\$10,269 per sq ft. Meanwhile, strata-title sales of retail space in Ginza-type commercial buildings were also robust last month. All shops in H8 in Tsim Sha Tsui, for example, were sold in December for HK\$16,300–20,000 per sq ft, less than a month after it was acquired en bloc. Due to limited investment channels and strong liquidity, sentiment in the retail investment market is expected to remain strong in the near future.

Early December saw the official opening of the 485,000-sq-ft Domain Shopping Centre, strategically located adjoining Yau Tong MTR station and the first major centre in the area. Domain has attracted a number of quality tenants including Supa Depa, a new lifestyle department store developed by A.S. Watson; the first J+ from Jumping Gym and a 20,000-sq-ft food court on the top level developed by Food Republic.

Over 2012, prime retail rents grew about 10%, while capital values surged more than 30%, given the tight supply. In 2013, we maintain our positive outlook for the retail sector and expect rents in prime retail areas to increase another 10–15%.

“Rents in prime retail areas are expected to rise another 10-15% in 2013.”



PRIME OFFICE

Sentiment in the office sales sector remained heated over the past month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kowloon Bay	Exchange Tower	16th-22nd floors	196,000	\$1,567	\$7,995
Tsim Sha Tsui	Metropole Building	8th-15th floors	22,000	\$280	\$12,727
Kwun Tong	Rykadan Capital Tower	11th floor	12,060	\$128	\$10,614
Central	Bank of America Tower	32nd floor / units A2A-A2B	3,878	\$103	\$26,560
Central	Silver Fortune Plaza	10th floor	4,397	\$72.55	\$16,500

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

Retailers continued to expand their offices in the city.






Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Gross area (sq ft)	Tenant
Central	Cheung Kong Center	Total 7 floors	150,000	A US bank
Central	Two IFC	29th floor / units 1-14 and 16-17	22,000	Commerzbank AG
Quarry Bay	633 King's Road	20th floor	10,000	Interlux
Wan Chai	Central Plaza	53rd floor	7,000	Equinix

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

January 2013

HONG KONG MONTHLY

Downward pressure on Central rents will ease in 2013, after having fallen 14.6% in 2012.

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

Grade-A office supply in the CBD is tipped to remain limited in the foreseeable future, especially after the call-off of the former Central Government Offices redevelopment.

Table 5 Prime office market indicators (Dec 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price		Change	
		From Nov 12	From Sep 12	From Dec 11	HK\$ psf	From Nov 12	From Sep 12	From Dec 11
Premium Central	137.7	-0.0%	0.9%	-15.5%	n/a	n/a	n/a	n/a
Traditional Central	105.1	0.6%	-1.9%	-14.0%	27,470	0.8%	2.7%	14.3%
Admiralty	79.4	-2.3%	-4.2%	-7.9%	22,183	2.1%	5.2%	19.7%
Sheung Wan	59.2	0.0%	-1.3%	-5.1%	20,836	2.9%	7.0%	28.9%
Wan Chai	62.3	0.0%	-0.2%	-7.2%	18,157	3.4%	7.2%	33.4%
Causeway Bay	64.2	0.2%	-2.6%	-1.8%	17,886	2.7%	11.8%	31.8%
North Point	38.3	0.0%	3.7%	3.1%	n/a	n/a	n/a	n/a
Quarry Bay	47.2	0.0%	1.5%	-8.6%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	52.8	0.7%	2.1%	9.6%	12,143	1.0%	3.0%	11.5%
Cheung Sha Wan	24.7	0.0%	2.8%	10.7%	n/a	n/a	n/a	n/a
Hung Hom	33.9	0.0%	3.6%	14.2%	n/a	n/a	n/a	n/a
Kowloon East	35.6	0.0%	1.1%	7.8%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	49.4	0.0%	0.0%	1.3%	n/a	n/a	n/a	n/a

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



RESIDENTIAL

A number of major sales transactions were recorded in Mid-Levels and Island South last month.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	Shouson Peak	House 17F	3,043	\$211	\$69,399
Mid-Levels East	Chantilly	2nd floor / unit A	2,816	\$122	\$43,324
Tsim Sha Tsui	The Harbourside	Tower 2 / 60th floor / unit B	1,153	\$45	\$39,029
Island South	Brentwood	7th floor / unit B	1,135	\$33.9	\$29,850
Mid-Levels Central	Estoril Court	Tower 1 / 24th floor / unit A	2,945	\$75	\$25,467






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

With business expansion slowing and demand from expatriates weakening, sentiment in the luxury home leasing market remained gloomy.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Mid-Levels West	Azura	High floor / unit A	1,297	\$88,000	\$67.8
Island South	The Somerset	Low floor / unit B	2,463	\$130,000	\$52.8
Pokfulam	The Belcher's	Tower 6 / high floor / unit G	1,121	\$49,000	\$43.7
The Peak	1-3 Pollock's Path	Low floor unit	1,872	\$85,000	\$45.4
The Peak	La Hacienda	Low floor / unit B	2,643	\$110,000	\$42.6

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

Residential rents increased slightly in three of the five major luxury districts last month.

Table 8 Month-on-month movement of luxury residential rents (Dec 2012)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

Although the sales volume of luxury homes worth HK\$10 million or above dropped 62.7% month on month, their prices remained stable in December 2012.

Table 9 Luxury residential market indicators (Dec 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Nov 12	From Sep 12	From Dec 11		From Nov 12	From Sep 12	From Dec 11
The Peak	\$58.6	0.3%	-0.1%	-5.5%	\$23,660	0.0%	0.0%	0.0%
Mid-Levels	\$42.4	-0.5%	-1.0%	-8.4%	\$21,502	0.2%	1.3%	9.5%
Pokfulam	\$30.7	0.9%	-0.4%	-1.9%	\$18,682	0.0%	0.0%	16.4%
Jardine's Lookout & Happy Valley	\$40.9	1.9%	2.0%	1.3%	\$19,935	1.0%	3.0%	12.3%
Island South	\$42.3	-0.5%	-1.2%	-10.9%	\$25,844	0.0%	2.7%	12.1%

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



RETAIL

Capital from the residential market continued to flow into the retail investment sector in December 2012.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Gross area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mong Kok	Sincere Plaza	First floor / unit F60	57 (Net)	\$11.88	\$208,421
Tsim Sha Tsui	Century House	Ground floor / units 25	56	\$7.28	\$130,000
Mong Kok	New Town Mall	Ground floor / unit G26A	4,521	\$415	\$91,794
Kowloon City	Fook Hing Building	Ground floor / units 3-5	2,100	\$110	\$52,381
Tai Kok Tsui	Floriant Rise	En bloc	61,347	\$630	\$10,269

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

In December 2012, shop leasing activity was relatively robust in non-core retail areas.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Net area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Sheung Shui	Lung Fung Plaza	First floor / unit 1	327	\$130,000	\$397.6
Causeway Bay	Pun Tak Building	Ground floor / unit F	598	\$180,000	\$301.0
Kwun Tong	Wah On House	Ground floor / unit Y	515	\$139,800	\$271.5
Yuen Long	Kin Wah Building	Ground floor / unit G	468	\$82,000	\$175.2
Yuen Long	Fu Ho Building	First floor	5,955	\$600,000	\$100.8

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

Last month, retail rents remained stable in Causeway Bay and Tsim Sha Tsui, while Central and Mong Kok saw retail-rent growth.

In November 2012, retail sales saw a robust rebound. Retail sales value grew 9.5% year on year to HK\$36.5 billion, beating analysts' earlier estimation.





Table 12 Month-on-month movement of prime street shop rents (Dec 2012)			
Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

Table 13 Retail sales by outlet type (Nov 2012)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Oct 12	From Aug 12	From Nov 11
Jewellery, watches and clocks and valuable gifts	\$7.9	21.5%	4.6%	3.1%	13.7%
Clothing, footwear and allied products	\$4.7	12.8%	-1.0%	8.5%	8.1%
Department stores	\$4.4	12%	28.1%	29%	10.9%
Fuel	\$0.8	2.3%	-4.6%	-7.6%	-0.7%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.8	7.7%	-5.9%	0.9%	2.0%
Consumer durable goods	\$6.2	17.1%	2.6%	-3.8%	9.9%
Supermarkets	\$3.7	10.2%	-2.4%	-6.6%	9.2%
Others	\$5.9	16.3%	-1.8%	-5.3%	9.2%
All retail outlets	\$36.5	100.0%	2.8%	2.0%	9.5%

Source: Census and Statistics Department



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
Zimbabwe

Asia

Bahrain
Cambodia
China
Hong Kong
India
Indonesia
Korea
Macau
Malaysia
Singapore
Thailand
Vietnam

Contacts

Alan Child

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

Colin Fitzgerald

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

Alnwick Chan

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

Paul Hart

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

China Valuation

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

Commercial Agency

Colin Fitzgerald

Managing Director
+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 and Consultancy

Thomas Lam

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

Pamela Tsui

Senior Manager
+852 2846 4843
pamela.tsui@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

Our worldwide research reports are also available at KnightFrank.com.

© Knight Frank 2013

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.