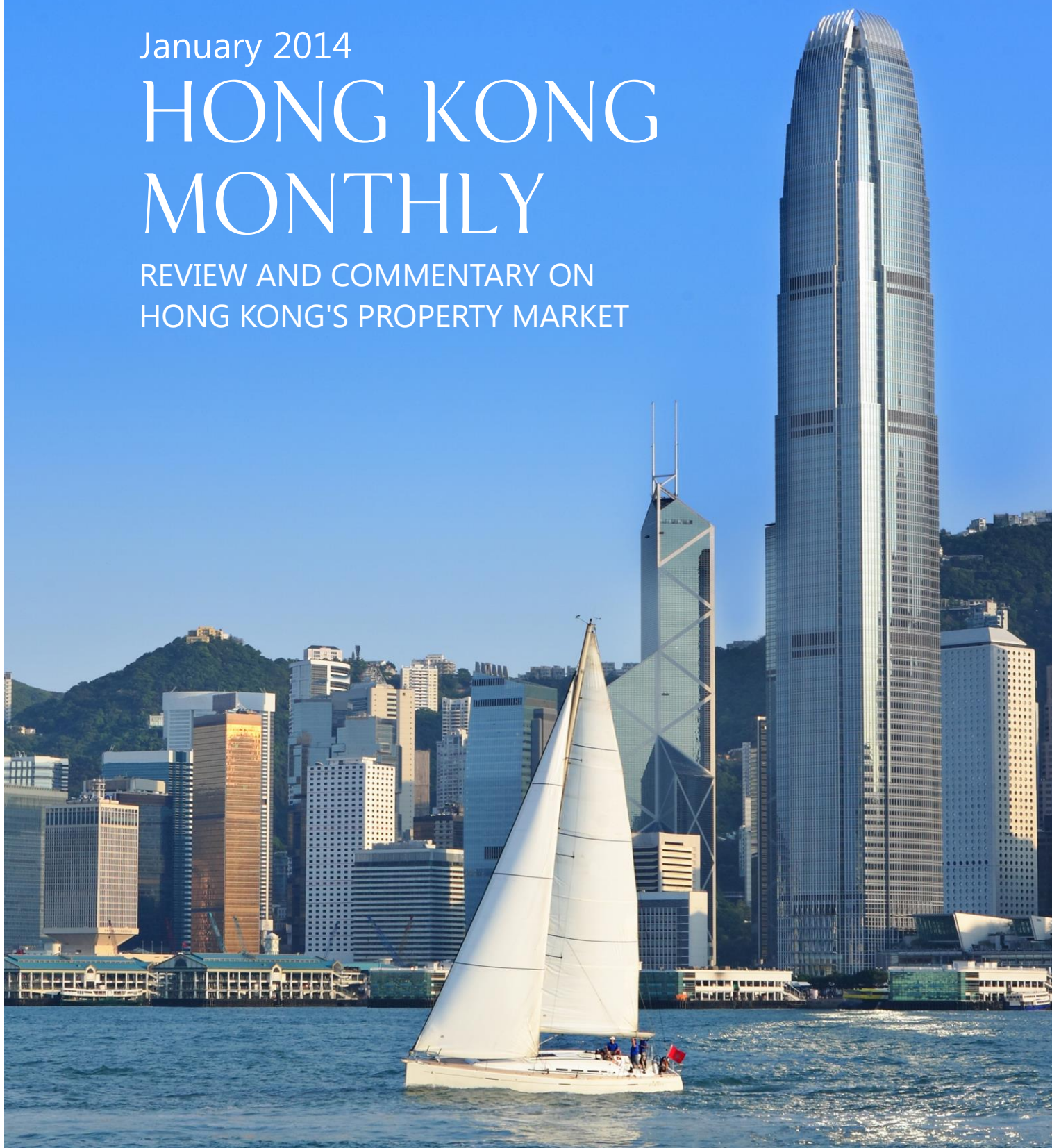


RESEARCH

January 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



OFFICE

Activity subdued during the holiday season

Residential

Market remains dominated by primary sales

Retail

Duplex shops sought after by international retailers

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	Nov 2013	+4.3%	+5.3%	+4.1%	+4.4%
Unemployment	Sep 2013– Nov 2013	3.3%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

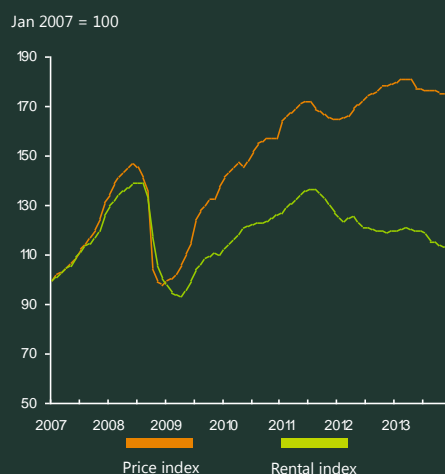
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents



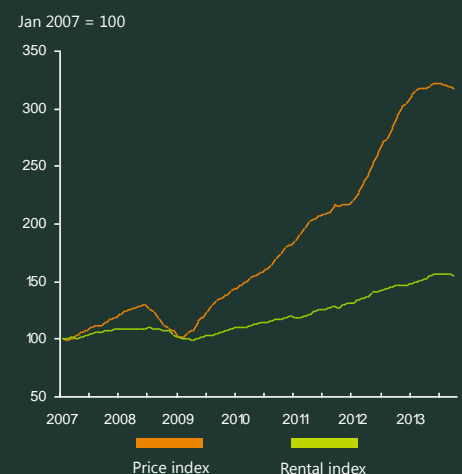
Source: Knight Frank

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 Jun to Nov 2013

MONTHLY REVIEW

In December, the primary residential market remained the most active among property sectors. Grade-A office leasing and sales remained sluggish with the impact of the holiday season and the government's continuing implementation of cooling measures. Meanwhile, in the retail sector, a number of retailers continued to expand in major shopping districts, with some transactions involving duplex shops. In 2014, we expect both home rents and prices to edge down. In the Grade-A office market, core business areas will see stable rents and slight drops in prices, while those in decentralised business areas will remain stable. Rents of stores on prime streets will remain stable, but their prices could drop slightly.

PRIME OFFICE

In December, as the year-end holidays approached, leasing activity was subdued. More corporate firms were pursuing cost-saving initiatives, so it became common for tenants to negotiate rent renewals early, before their leases expired. Notable leasing transactions last month involved FWD Life Insurance, which took two floors covering over 53,000 sq ft in Devon House in Quarry Bay, and the Hong Kong Government, which leased a low floor measuring roughly 16,000 sq ft in Manulife Financial Centre in Kwun Tong.

Throughout 2013, Grade-A office rents remained stable in Central. Non-core business areas led the way in rent growth, with Cheung Sha Wan and North Point witnessing the largest year-on-year gains among major business districts, increasing 16.8% and 22.6% respectively.

Last month, the most notable transaction in the Grade-A office sales market was Swire's en-bloc purchase of the 389,000-sq-ft DCH Commercial Centre in Quarry Bay at about HK\$10,000 per sq ft. This acquisition enables Swire to further

expand its office portfolio in Island East. Meanwhile, in Kowloon Bay, numerous sales transactions were recorded in the newly completed YHC Tower.

According to the Rating and Valuation Department, office sales in the first ten months of 2013 plunged 74% year on year, affected by the cooling measures implemented by the government. Market yields decreased to 2.9%.

In 2014, about one million sq ft of new Grade-A offices is scheduled for completion, primarily in Kwun Tong and Aberdeen. The US Federal Reserve's announcement to cut the purchase of mortgage-backed and treasury securities could have positive implications for Asian real estate markets, as it clears a number of uncertainties and allows firms to make business decisions. We expect Grade-A office rents and prices to remain stable or record slight drops in 2014. The office sales sector could start to warm up as capital accumulates and the market absorbs the effects of the government's cooling measures.

“In 2014, about one million sq ft of new Grade-A offices is scheduled for completion, primarily in Kwun Tong and Aberdeen.”

“Twelve residential sites will be released during the first quarter of 2014, providing 5,500 flats.”

January 2014

HONG KONG MONTHLY

RESIDENTIAL

The residential market remained dominated by primary property sales in December, with benefit packages offered by developers offsetting some of the impact of the government's cooling measures. With primary prices in certain districts now close to or even lower than secondary prices in the same area, sales of secondary properties were further suppressed. Sun Hung Kai Properties (0016.HK) sold its entire first batch of 120 flats at Phase 2, Century Gateway in Tuen Mun within seven hours of launch. Discounts and rebates of up to 11.5% were offered to boost sales and prices of the first batch were 15% lower than those of secondary homes nearby.

The leasing market was quiet in the traditional low season. Luxury residential rents dropped 6.2% over 2013 and could dip a further 5–10% in 2014, as supply increases with the sales sector continuing to be suppressed by various cooling measures.

The government will release 12 residential sites in the first quarter of 2014, providing 5,500 flats. This is the largest number of sites and the highest estimate of production capacity since the launch of the quarterly land sale programme in 2011. According to the government, new-home supply from land sales in the financial year ending March 2014 will provide 13,700 flats.

However, none of the 12 residential sites to be released in the first quarter involves the MTR Corporation. Around 80% of the supply, providing an estimated 4,520 flats, will come from five sites in Kai Tak, Tai Po and Tin Shui Wai. We believe it will be difficult for the government to achieve its annual target if no timeframe is set for MTR projects, which could offer as many as 6,000 flats.

We expect mass home prices to drop

10–15% in 2014, with the increased supply and the continuing implementation of cooling measures. Luxury residential prices will be more resilient, dropping only 5–10% in 2014. The second half of the year will see the most notable price drops, as during the first half of the year, the market is expected to be supported by the release of previously accumulated purchasing power.

RETAIL

In November 2013, the value of retail sales in Hong Kong reached HK\$39.6 million, an increase of 8.5% compared with a year earlier. Despite the change in consumption pattern of tourists for the first eleven months of 2013, the retail sales value still saw a double-digit increase, up around 11.6% compared with the same period of 2012.

This positive growth—albeit slower than in previous years—combined with the limited supply of retail space in major shopping districts, continues to support retail rents in prime streets. Although space remained sought after by both international and local retailers, rents stabilised towards the latter half of 2013. In recent months, there have been fewer leasing transactions with headline-grabbing rent hikes. For instance, the lease of a ground-floor unit at 16 Canton Road in Tsim Sha Tsui was reportedly renewed at a monthly rent of around HK\$1.85 million, only 9% higher than the previous rent.

In order to improve rental performance, some landlords combined units into larger duplex shops, which are particularly popular with international retailers. For example, a 7,000-sq-ft duplex retail space in Leighton Centre in Causeway Bay, together with advertising space on the exterior wall, was reportedly preleased by a Korean sports brand for around

HK\$2.5 million or HK\$357 per sq ft per month.

The retail property sales market was dampened by the government's cooling measures in 2013. According to the Land Registry, up to 10 December 2013, only 3,875 retail property sales transactions were made over the year and we expect the figure to reach no more than 4,000 for the entire year, compared with 5,645 in 2012. Their total value is expected to drop to around HK\$46 billion, from HK\$84.8 billion in 2012—a steeper drop than the plunge in transaction volume. However, the market could start to pick up in 2014 as capital accumulates and the impact of the cooling measures absorbed.

Looking forward, we expect retail rents in prime streets to remain stable in 2014. With retail space in secondary streets, landlords will face more pressure during the negotiation process, due to the slower growth of retail sales and weaker affordability of potential tenants. Rents in shopping centres should see slight rises, while prices of prime street shops should see slight drops.

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

PRIME OFFICE

The acquisition of DCH Commercial Centre in Quarry Bay was the largest office sales transaction in December.

Table 2 Selected office sales transactions					
District	Building	Zone	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Central	Lippo Centre	High	1,455	\$30.5	\$20,962
Quarry Bay	DCH Commercial Centre	En bloc	389,000	\$3,900	\$10,026
Kowloon Bay	Exchange Tower	Mid	26,686	\$247.65	\$9,280

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






Major Grade-A office leasing transactions were still witnessed, despite it being the traditional low season.

Table 3 Selected office leasing transactions			
District	Building	Zone	Floor area (sq ft)
Kwun Tong	Manulife Financial Centre	Low	15,966 (G)
Quarry Bay	Devon House	Mid	53,412 (L)
Wan Chai	28 Hennessy Road	Mid	4,935 (L)
Central	Two International Finance Centre	Mid	7,642 (L)

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

January 2014 HONG KONG MONTHLY

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

Table 4 Month-on-month movement of Grade-A office rents (Dec 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 December.

Table 5 Prime office market indicators (Dec 2013)								
District	Net effective rent HK\$psf /mth	Change			Price HK\$ psf	Change		
		From Nov 13	From Sep 13	From Dec 12		From Nov 13	From Sep 13	From Dec 12
Premium Central	141.7	0.5%	-0.7%	2.9%	n/a	n/a	n/a	n/a
Traditional Central	103.1	0.1%	-1.1%	-1.9%	26,464	-0.2%	-0.6%	-3.7%
Admiralty	78.9	-0.8%	-4.6%	-0.7%	21,447	-1.1%	-3.4%	-3.3%
Sheung Wan	60.3	-1.5%	-2.8%	1.8%	19,429	-0.5%	-2.8%	-6.8%
Wan Chai	61.2	0.5%	-0.1%	-1.8%	17,987	-0.7%	-1.2%	-0.9%
Causeway Bay	63.6	-0.1%	-0.9%	-3.2%	17,271	-0.3%	-1.6%	-3.4%
North Point	44.8	0.1%	0.8%	16.8%	n/a	n/a	n/a	n/a
Quarry Bay	50.6	0.1%	0.1%	7.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	52.1	0.0%	-1.1%	-1.4%	11,738	-1.0%	-2.8%	-3.3%
Cheung Sha Wan	30.3	0.0%	-0.2%	22.6%	n/a	n/a	n/a	n/a
Hung Hom	38.0	0.0%	0.9%	12.2%	n/a	n/a	n/a	n/a
Kowloon East	38.2	-0.2%	-1.2%	7.4%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	51.4	1.0%	0.7%	4.0%	n/a	n/a	n/a	n/a

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

RESIDENTIAL

A few houses were sold for more than HK\$200 million in Island South last month.

Table 6 Selected residential sales transactions					
District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	Shouson Peak	House 11E	3,603	\$262.8	\$72,949
Island South	Shouson Peak	House 19A	3,227	\$229.9	\$71,242
Island South	Shouson Peak	House 17F	2,932	\$211	\$71,965
Island South	Marinella	High floor unit	2,587	\$134.3	\$51,921
Mid-Levels West	39 Conduit Road	Mid floor unit	2,192	\$68.5	\$31,271

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

A few luxury apartments were leased in Pokfulam last month.

Table 7 Selected residential leasing transactions					
District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Pokfulam	Residence Bel-Air	High floor unit	1,118	\$49,975	\$44.7
Pokfulam	The Belcher's	High floor unit	1,444	\$61,948	\$42.9
Kowloon Tong	One Mayfair	Mid floor unit	1,269	\$62,054	\$48.9
Tsim Sha Tsui	The Harbourside	High floor unit	1,054	\$56,800	\$53.9

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

January 2014

HONG KONG MONTHLY

Luxury residential rents dropped in all five major districts in December 2013.

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

Luxury residential prices and rents dropped by 2.2% and 6.2% respectively in 2013.

Table 9 Luxury residential market indicators (Dec 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Nov 13	From Sep 13	From Dec 12	HK\$psf	From Nov 13	From Sep 13	From Dec 12
The Peak	\$52.0	-1.3%	-4.6%	-11.6%	\$22,919	0.0%	0.0%	-3.1%
Mid-Levels	\$40.9	-0.1%	-1.0%	-3.6%	\$21,375	-0.4%	-1.0%	-0.6%
Pokfulam	\$30.4	-0.9%	-2.2%	-0.8%	\$18,620	0.0%	-2.0%	-0.3%
Jardine's Lookout & Happy Valley	\$37.0	-0.4%	-3.1%	-9.5%	\$19,705	-0.5%	-2.0%	-1.2%
Island South	\$41.5	-0.3%	-0.9%	-1.9%	\$24,910	0.0%	-0.4%	-3.6%

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

RETAIL

In December 2013, both core and non-core areas witnessed 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)
Yau Ma Tei	Nathan Apartment	Ground floor unit	404	\$60	\$148,515
Sheung Wan	Hollywood Centre	Ground floor unit	128	\$12.0	\$93,750
Sai Ying Pun	Wo Yick Mansion	Ground floor unit	443	\$37	\$83,521
Kowloon City	Metropolitan Rise	Ground floor unit	487	\$28.68	\$58,891
Sham Shui Po	Chi Fai Court	Ground floor unit	74	\$3.9	\$52,703

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

Causeway Bay recorded a number of major retail property leasing transactions last month.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Causeway Bay	Plaza 2000	Ground floor unit	N/A	\$1,552,500	N/A
Causeway Bay	East South Building	Ground floor unit	409	\$350,000	\$855.8
Tsuen Wan	City Landmark	Second floor unit	111	\$55,000	\$495.5
Tuen Mun	Trend Plaza North Wing	Lower ground floor unit	355	\$120,000	\$338.0
Mong Kok	Hung Hay Building	Ground floor unit	650 (gross)	\$178,000	\$273.9

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

January 2014

HONG KONG MONTHLY

Prime retail rents in the four core retail districts remained stable in December 2013.

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

For the first eleven months of 2013, the retail sales value saw a double-digit increase, up around 11.6% compared with the same period of 2012.

Table 13 Retail sales by outlet type (Nov 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Oct 13	From Aug 13	From Nov 12
Jewellery, watches and clocks and valuable gifts	\$8.5	21.5%	2.2%	-6.9%	8.6%
Clothing, footwear and allied products	\$5.1	13.0%	1.0%	9.5%	9.5%
Department stores	\$4.9	12.5%	27.7%	17.4%	12.1%
Fuel	\$0.8	2.0%	-3.9%	-5.3%	-2.2%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.0	7.6%	-4.7%	1.7%	6.5%
Consumer durable goods	\$6.8	17.1%	18.1%	16.6%	8.6%
Supermarkets	\$4.0	10.1%	-4.1%	-6.2%	6.7%
Others	\$6.4	16.2%	-2.6%	-5.2%	8.3%
All retail outlets	\$39.6	100.0%	4.8%	2.3%	8.5%

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, Greater China
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

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

Paul Hart

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

Alnwick Chan

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

China Valuation**Clement Leung**

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

Commercial Agency**Colin Fitzgerald**

Managing Director, Greater China
+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 & Consultancy**Thomas Lam**

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

Pamela Tsui

Senior Manager, Research & Consultancy,
Greater China
+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 萊坊 2014

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.