

RESEARCH



July 2012

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

**Knight Frank** 萊坊

## OFFICE

Office sales and  
leasing markets quieten

## RESIDENTIAL

Luxury home sales  
remain sluggish

## RETAIL

Investors shift to  
non-core shopping malls



## MARKET IN BRIEF

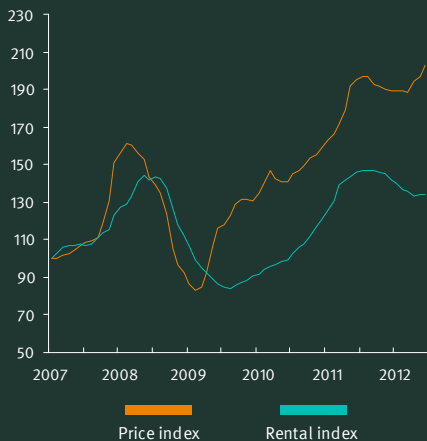
The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2010	2011	2012 forecast
GDP growth	Q1 2012	+0.4%#	+6.8%	+5.0%#	+3.8%
Inflation rate	May 2012	+4.3%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to May 2011	3.2%#	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**

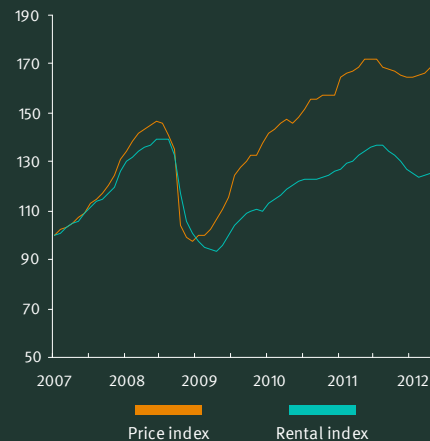
Jan 2007 = 100



Source: Knight Frank

Figure 2  
**Luxury residential prices and rents**

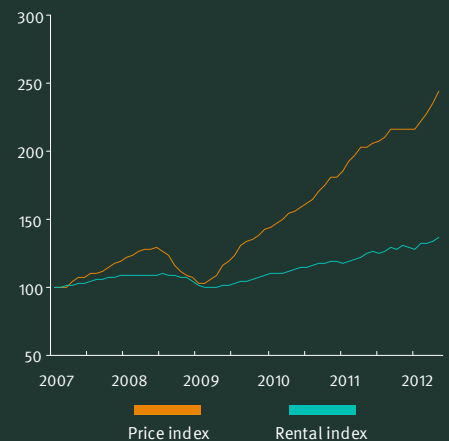
Jan 2007 = 100



Source: Knight Frank

Figure 3  
**Retail property prices and rents**

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



# MONTHLY REVIEW

**The property market has been clouded by local and external uncertainty, including the continuation of the global financial crisis, slowing growth in the Chinese economy and domestic policy risks associated with the change in Chief Executive to Leung Chun-ying. Hong Kong's office and residential markets were both sluggish in June, while the retail property sector continued to outperform, despite slower growth in retail sales figures.**

## PRIME OFFICE

The office sales market quietened in June, with about 250 deals being concluded—a month-on-month drop of over 15%. However, total consideration soared, due to a number of notable transactions including four floors of Kowloon Commerce Centre in Kwai Chung, which reportedly sold for about HK\$760 million or HK\$7,280 per sq ft.

Momentum in the office leasing market also weakened in June, particularly in Central, owing to a decrease in demand from the financial sector. Transactions in Central in the past month mainly involved small floor plates. For example, Pine River Capital Management leased a 5,700-sq-ft space in Two IFC for HK\$130 per sq ft.

By comparison, non-core business districts saw more activity last month. In Wan Chai, for instance, a 1,600-sq-ft unit on the 43rd floor of Central Plaza was renewed for HK\$50 per sq ft per month, while Starbucks expanded its space in Sun Hung Kai Centre by leasing the 15,000-sq-ft 12Ath floor. In Kwun Tong, Adidas renewed its lease on 18-19th floors in Two Landmark East.

Grade-A office rents in Central fell a further 2.3%, month on month, while other districts saw stable or slight increments in rents. Quarry Bay led the market with a 6.8% rental gain, followed by Hung Hom and Admiralty where rents rose 3.0% and 2.7%, respectively. North Point and Causeway Bay both recorded rent growth of around 2%.

Looking ahead, some major leasing transactions are expected to be concluded in the coming months, as concrete offers have been made on a number of office premises. Leasing activity will continue to mainly involve relocations and renewals and non-core districts will continue to outperform in terms of both activity and rent levels. With the external environment remaining uncertain, we maintain our previous forecast that Grade-A office rents in Central will drop about 10–15% over 2012. Rents in non-core districts are expected to remain resilient.

## RESIDENTIAL

Sentiment in the residential market remained sluggish in June before the new government cabinet took office, with market participants taking a

**“A number of major office leasing transactions are expected to be concluded in the coming months, as concrete offers have been made on certain office premises.”**

**“Luxury residential rents dropped 1.2% in June despite the market's entrance into the peak season.”**

wait-and-see attitude. Combined with the worsening global economy, there were only 5,886 residential sales in June according to the Land Registry. This represents a drop of 29.5% month on month and 34.9% year on year. Sales of luxury homes valued at HK\$10 million or above also fell 27.7% month on month or 42.8% year on year, to 522.

The number of primary sales dropped 24.3% to 827 in June, given the lack of major new launches. However, a number of new developments received satisfactory sales results. For example, Heya Green in Sham Shui Po, which was developed by the Hong Kong Housing Society, reportedly sold its entire first batch of 320 flats. Meanwhile, The Riverside in Tai Wai reportedly sold over 70% of available flats on the first day of launch, according to the developer.

The secondary market was sluggish, due to uncertainty in the market. Some potential buyers had expected home prices to fall after policies were introduced by the new government. Meanwhile, most homeowners enjoyed low mortgage rates and were therefore reluctant to sell at reduced prices. The widening gap between bidding and asking prices resulted in a 30% drop in the number of secondary sales, to 5,059.

Prices, however, remained resilient. Luxury and mass residential prices both rose over 1% last month. The luxury market even reported a number of record-breaking sales transactions. For example, a 9,254-sq-ft house in Villa Bel-Air in Pokfulam sold for HK\$310 million or HK\$33,499 per sq ft—the highest-ever price in the development. A 1,422-sq-ft unit in the Harbourside in Tsim Sha Tsui, meanwhile, sold for HK\$53 million or HK\$37,271 per sq ft—the highest non-duplex price ever recorded in the development.

The leasing market showed little improvement, with weak demand from

corporate tenants, despite the onset of the traditional summer peak season. Multinational companies were conservative on bidding rents, due to uncertainty in the local and global economy. Luxury home rents fell by an average of 1.2% month on month.

Looking ahead, we expect residential sales to rebound in July, as the new government has promised to avoid vigorous measures to regulate home prices. Meanwhile, central banks in Europe and China lowered interest rates in June, thereby promoting liquidity. However, the risk of slow economic growth in China and across the globe persists and the local luxury-home leasing market is set to remain weak. We believe home prices and rents will both fall during the remainder of the year, but at modest rates.

## RETAIL

The adverse external environment continued to weigh on consumer sentiment in Hong Kong. Retail sales growth notably eased to 8.8% in May, the smallest gain since September 2009, disregarding January and February due to seasonal distortions during the Chinese New Year holidays.

Despite the slowdown in retail sales, global retailers remained keen to expand in Hong Kong amid sluggish performance in Europe and the US. Coupled with limited availability, retail rents in prime locations edged up another 2% quarter on quarter in the second quarter.

Meanwhile, second-tier streets continued to benefit from relocation and expansion demand from mid-end retailers. Mainland fashion brand Canudilo, for example, reportedly pre-leased two shops totaling 4,000 sq ft in Hankou Road, Tsim Sha Tsui, for a monthly rent of about HK\$1 million—doubling that of the previous lease.

Amid skyrocketing prices for prime

retail space, investment interest turned to shopping malls in non-core areas, given their competitive prices and yields. Laguna Plaza in Kwun Tong owned by Hang Lung Properties (0101.HK) was reportedly sold to an investment fund for HK\$1.5 billion, representing a yield of about 4%. Meanwhile, Mongkok Computer Centre changed hands for HK\$1.018 billion or approximately HK\$38,000 per sq ft, representing a yield of about 4.4%. Finally, Wheelock Properties (0020.HK) sold Bellagio Mall, the shopping arcade in its Sham Tseng residential project, for HK\$280 million.

About 98% of the 450,000-sq-ft retail space in Hysan Place in Causeway Bay has been pre-leased and full occupancy is expected when it opens next month. Major tenants include T Galleria owned by DFS and Eslite Bookstore, which will occupy about 45,000 sq ft and 41,000 sq ft, respectively. Rents in the mall average HK\$150 per sq ft.

Inbound tourism remained strong, despite an uncertain economic outlook. In the first five months of 2012, visitor arrivals increased 4.8% year on year. The number of Mainland tourists, which accounts for 69.9% of total arrivals, rose 21.3%. The continual growth of tourism and retailers' expansion needs should render support to the retail property market. Prime retail rents are set to remain stable or rise marginally in the second half of 2012, having risen over 5% in the first half of the year.

**“Prime retail rents are expected to remain stable or rise marginally in the second half of 2012, having risen over 5% in the first half of the year.”**



# PRIME OFFICE

Despite a 15% month-on-month drop in office sales volume, total consideration soared due to the conclusion of a number of notable deals.

Table 2  
Selected office sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Wings Building	21 <sup>st</sup> floor	3,393	\$50.89	\$14,999
Sheung Wan	Shun Tak Centre East Wing	9 <sup>th</sup> floor / unit 15	1,057	\$15.85	\$14,995
Wan Chai	The Sun's Group Centre	16 <sup>th</sup> floor	7,388	\$99.74	\$13,500
Wan Chai	AXA Centre	13 <sup>th</sup> floor	14,500	\$188	\$12,966
Kwai Chung	Kowloon Commerce Centre	4 floors	104,400	\$760	\$7,280

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






Non-core business districts saw more office leasing activity than the CBD in June.

Table 3  
Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	International Financial Centre Two	Part of 8 <sup>th</sup> floor	5,700	An investment fund
Kowloon Bay	Enterprise Square Three	Mid floor unit	8,930	N/A
Sheung Wan	Infinitus Plaza	19 <sup>th</sup> & 35 <sup>th</sup> floors	23,000	Hoi Tung Securities
Kowloon Bay	Skyline Tower	Two mid floors	50,000	N/A
Tsim Sha Tsui	International Commercial Centre	69 <sup>th</sup> floor	25,000	N/A

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

Rents in non-core locations are expected to outperform those in core business districts this year.

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

In Central, Grade-A office rents underperformed in June compare with other districts.

Table 5 Prime office market indicators (Jun 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From May 12	From Mar 12	From Jun 11		From May 12	From Mar 12	From Jun 11
<b>Premium Central</b>	140.7	-2.5%	-7.1%	-22.1%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	108.9	-2.2%	-3.8%	-20.9%	25,484	2.4%	6.1%	3.3%
<b>Admiralty</b>	84.1	2.7%	2.1%	-7.9%	19,372	1.6%	4.4%	2.5%
<b>Sheung Wan</b>	60.8	0.0%	-0.2%	-1.1%	17,538	3.7%	9.8%	5.0%
<b>Wan Chai</b>	63.3	-1.1%	-2.7%	-0.9%	15,437	3.9%	13.4%	9.1%
<b>Causeway Bay</b>	66.8	1.9%	2.3%	7.9%	15,029	4.3%	10.7%	1.3%
<b>North Point</b>	36.9	1.8%	-0.1%	3.9%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	51.6	6.8%	4.4%	7.0%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	49.7	0.2%	1.8%	8.9%	11,365	4.6%	7.8%	1.6%
<b>Cheung Sha Wan</b>	22.3	0.0%	0.0%	6.4%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	32.5	3.0%	6.2%	17.4%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	33.9	0.3%	0.6%	11.6%	n/a	n/a	n/a	n/a
<b>Mong Kok / Yau Ma Tei</b>	48.0	0.0%	0.0%	-2.1%	n/a	n/a	n/a	n/a

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



# RESIDENTIAL

A number of luxury homes were sold at over HK\$32,000 per sq ft in Tsim Sha Tsui and Mid-Levels.

Table 6  
Selected residential sales transactions

District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
<b>Tsim Sha Tsui</b>	The Masterpiece	66-67 <sup>th</sup> floors / duplex unit E	3,333	\$124.588	\$37,380
<b>Mid-levels</b>	Serenade	Tower 2 / 68 <sup>th</sup> floor / unit A	3,778	\$140	\$37,057
<b>Mid-levels</b>	The Albany	Block A / 25 <sup>th</sup> floor	2,549	\$88	\$34,523
<b>Mid-levels</b>	Kennedy Park at Central	20 <sup>th</sup> floor / unit A	2,478	\$84.995	\$34,300
<b>Tsim Sha Tsui</b>	The Arch	Moon Tower / 79 <sup>th</sup> floor / unit A	1,665	\$53.8	\$32,312

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

A number of major leasing transactions were recorded on the Peak and in Mid-Levels, involving rents of over HK\$60 per sq ft, per month.

Table 7  
Selected residential leasing transactions

District	Building	Tower / Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
<b>The Peak</b>	The Mount Austin	Block 1 / high floor / unit B	1,847	\$125,000	\$67.7
<b>The Peak</b>	Kellet House	House	3,880	\$250,000	\$64.4
<b>Mid-levels</b>	Branksome Crest	High floor / unit A	2,369	\$145,000	\$61.2
<b>Island South</b>	Belgravia	High floor / unit B	2,790	\$158,000	\$56.6
<b>Island South</b>	The Lily	Tower 3 / low floor	3,533	\$189,900	\$53.8

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

Residential rents fell in four of the five major luxury residential districts on Hong Kong Island.

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

Luxury residential prices grew 1.3% in June, while rents dropped 1.2%.

Table 9 Luxury residential market indicators (Jun 2012)								
District	Net effective rent HK\$psf/mth	Change			Price HK\$psf	Change		
		From May 12	From Mar 12	From Jun 11		From May 12	From Mar 12	From Jun 11
<b>The Peak</b>	\$59.9	-3.1%	-1.4%	-8.4%	\$23,667	0.0%	0.0%	-2.4%
<b>Mid-Levels</b>	\$42.9	-0.6%	-6.7%	-16.9%	\$20,586	2.2%	4.1%	1.0%
<b>Pokfulam</b>	\$30.5	-0.9%	-1.8%	-10.0%	\$18,112	2.8%	5.8%	1.8%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$40.9	0.6%	0.9%	-4.8%	\$18,389	1.4%	4.0%	-1.4%
<b>Island South</b>	\$43.8	-1.2%	-4.8%	-12.7%	\$24,646	1.4%	6.7%	2.6%

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





# RETAIL

Investment interest in retail properties remained strong, with a number of major sales transactions being recorded last month.

Table 10  
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
<b>Wan Chai</b>	Perfect Commercial Building	Ground floor / unit F	133	\$14.65	\$110,150
<b>Tsim Sha Tsui</b>	Peninsula Centre	Ground floor / units 2-3	620	\$60	\$96,774
<b>Causeway Bay</b>	Causeway Bay Commercial Building	Ground floor / unit B	855	\$75	\$87,719
<b>Tuen Mun</b>	Dorboa Building	Ground floor / unit 38	94	\$7.5	\$79,787
<b>Kwun Tong</b>	Kwun Tong Plaza	1 <sup>st</sup> floor / unit 22	255	\$19.89	\$78,000

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





The limited availability of prime retail space resulted in higher rent levels. A ground-floor unit in Po Ming Building, Causeway Bay, was leased at over HK\$900 per sq ft, per month.

Table 11  
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
<b>Causeway Bay</b>	Po Ming Building	Ground floor / unit L	300	\$280,000	\$933.3
<b>Mong Kok</b>	Sun Hing Building	Ground floor / unit 5	490	\$350,000	\$714.3
<b>Causeway Bay</b>	Empire Court	Ground floor / unit 8	845	\$310,000	\$366.9
<b>Wan Chai</b>	Lap Tak Building	Ground floor / unit 2B	236	\$83,000	\$351.7
<b>Sha Tin</b>	Sha Tin Plaza Shopping Arcade	3 <sup>rd</sup> floor / unit 40	332	\$113,825	\$342.9

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

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

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

Retail sales grew at a moderate pace in May. Consumer durable goods recorded the largest year-on-year gain of 24.3%.

Table 13 Retail sales by outlet type (May 2012)					
Outlet	Value	Share of total	Change		
	HK\$ billion	%	From Apr 12	From Feb 12	From May 11
Jewellery, watches and clocks, and valuable gifts	\$7.9	21.8%	1.0%	6.7%	3.1%
Clothing, footwear and allied products	\$4.5	12.6%	-4.3%	2.6%	5.0%
Department stores	\$3.7	10.3%	18.3%	20.4%	8.8%
Fuels	\$0.9	2.5%	8.4%	17.2%	3.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.7	7.4%	-0.2%	-2.6%	2.5%
Consumer durable goods	\$6.5	18.1%	5.6%	11.9%	24.3%
Supermarkets	\$3.8	10.6%	8.0%	14.8%	12.2%
Others	\$6.0	16.8%	-12.0%	-3.9%	6.6%
<b>All retail outlets</b>	<b>\$36.0</b>	<b>100.0%</b>	<b>0.9%</b>	<b>6.6%</b>	<b>8.8%</b>

Source: Census and Statistics Department



## Americas

Bermuda  
Brazil  
Canada  
Caribbean  
Chile  
USA

## Australasia

Australia  
New Zealand

## Europe

Belgium  
Czech Republic  
France  
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Italy  
Monaco  
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