

RESEARCH

July 2013

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

## Office

Rent gap between HK Island and Kowloon narrowing

## Residential

Sales volume plunges but  
Prices remain resilient

## Retail

Mid-market retailers  
looking to expand

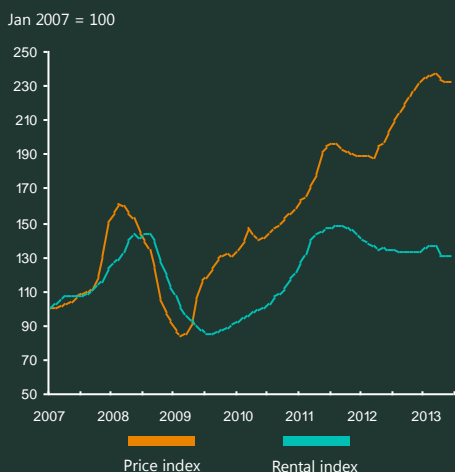
# MARKET IN BRIEF

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	Q1 2013	+2.8%	+4.9%	+1.4%	+3.0%
Inflation rate	May 2013	+3.9%	+5.3%	+4.1%	+4.4%
Unemployment	Mar 2013- May 2013	3.4%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00-5.25%	5.0%*	5.0%*	5.0%*

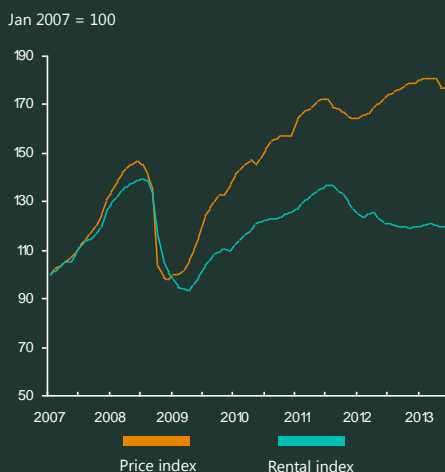
Source: EIU CountryData / Census & Statistics Department / Knight Frank  
 # Provisional \* HSBC prime lending rate

Figure 1  
**Grade-A office prices and rents**



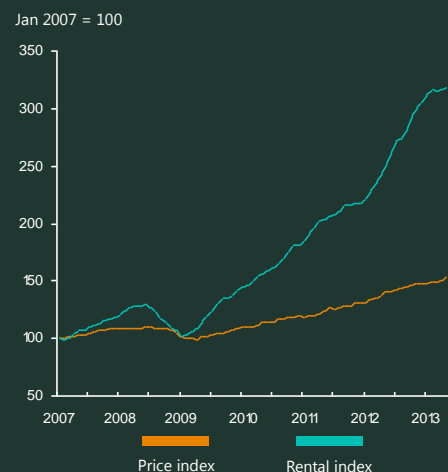
Source: Knight Frank

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 Dec 2012 to May 2013

# MONTHLY REVIEW

**On 27 June, the Hong Kong government announced plans to remove three residential sites in Shek Mun, Sha Tin from its List of Land for Sale by Application to instead be used for public housing. Also, as of July, the pre-sale period of homes was extended from 20 to 30 months. In the short term, we do not expect these changes to alleviate home shortage, as the new Shek Mun flats will take time to build and the longer pre-sale period will not increase actual supply volume.**

## PRIME OFFICE

In June, the Grade-A office sales market remained quiet, but a few major transactions took place. The 12,790-sq-ft, 38<sup>th</sup> floor of Lippo Centre in Admiralty and the 3<sup>rd</sup> through 6<sup>th</sup> floors of Citibank Plaza in Central totalling 66,317 sq ft were both sold for over HK\$30,000 per sq ft. The latter was sold through government tender. Grade-A office prices in all major business districts dipped another 0.4% in June. They dropped about 2% in the second quarter of 2013.

The leasing sector remained stable, with transactions continuing to involve mainly relocation and renewal. Limited supply, exacerbated by increased relocation demand triggered by the redevelopment of Sunning Plaza in Causeway Bay and three Innotech buildings in Quarry Bay, placed mobility constraints on tenants. With tenants continuing to take cost-cutting measures, spaces with monthly rents of between HK\$40 and HK\$60 per sq ft were in high demand for relocation purposes. As such, leasing activity was the most active at 28 Hennessey Road and Hysan Place in Causeway Bay and One Island East in Quarry Bay.

Major leasing transactions last month included a 17,520-sq-ft space at United Centre in Admiralty and a

10,231-sq-ft unit in Millennium Tower in Kwun Tong. Grade-A office rents in major business districts remained stable in June. They dipped about 2% in the first half of 2013.

In the office sales sector, the number of transactions has dipped dramatically since the implementation of the Double Stamp Duty in February 2013. According to the Rating and Valuation Department, transactions fell from 412 in February to 78 in April and the figure is expected to remain low in the coming months.

Central's Grade-A office rents remained virtually unchanged in June and we believe they will remain largely stable in 2013. The gap in rents between Hong Kong Island and Kowloon East is narrowing, as rents in Kowloon East have risen significantly following robust relocation activity in the past few years. This gap reduction is expected to discourage Hong Kong Island tenants from relocating to Kowloon East, so we expect rents in Kowloon East to hover at their current levels until the end of 2013.

## RESIDENTIAL

Following hints by the US Federal Reserve that it would taper its monetary stimulus, Hong Kong's Financial Secretary warned that

“The market saw high demand for Grade-A offices with monthly rents of between HK\$40 and HK\$60 per sq ft.”

“In the first half of 2013, the volume of residential transactions dropped 32.1% year on year.”

interest-rate expectations in the US would gradually affect Hong Kong's property market. After the enforcement of the Double Stamp Duty in February and the Residential Properties (First-hand Sales) Ordinance in April, the volume of residential transactions in the first half of 2013 dropped 32.1% year on year, according to the Land Registry. The lowest volume so far this year was recorded in April, when only 3,427 transactions were recorded, lower than the SARS-affected period of 2003.

Transactions in the secondary market dropped a substantial 38.8% year on year, in the first five months of 2013. However, after the government announced an interim scheme to allow eligible 'White Form Applicants' to buy second-hand Home Ownership Scheme (HOS) flats without paying the usual premium, the HOS and public housing market was stimulated. Data from the Land Registry show that more than 75% of flats sold in June were small to medium-sized units costing less than HK\$5 million.

In the first-hand property market, the government announced that the presale period for uncompleted flats would be extended from 20 months to 30 months, meaning developers will be allowed to pre-sell unfinished projects 10 months earlier, to meet market demand. The change, which took effect in July, is not expected to affect the demand and supply situation, as it will not increase actual supply volume.

Less than 500 units have been available for sale since the Residential Properties (First-hand Sales) Ordinance came into effect. We believe more flats will be available in the coming months when developers—keen to accelerate sales in the second half of the year to fulfill annual sales targets—launch or re-launch projects after having modified or prepared their marketing materials

to comply with the ordinance.

Even though the residential transaction volume dropped substantially in the first half of the year, prices showed no significant change. Our records show that luxury prices dipped only 2.2% in April, but have since remained stable. Long-term investors and foreign buyers have been staying away from the market, which is now dominated by first-time buyers and end-users. We expect this smaller customer pool to cause residential sales to fall about 10% this year, with mass residential prices dropping around 10% and prices in the more resilient luxury sector falling 5%.

## RETAIL

Although the short-lived, gold-buying spree in early May drove the sales value of 'Jewellery, watches and clocks and valuable gifts' to increase 34.5% year on year, overall, consumer sentiment remained cautious. In May 2013, the value of total retail sales increased 12.8% year on year, amounting to HK\$40.6 billion.

With rents in core retail districts currently sky high and the spending pattern of tourists changing from luxury to mid-market, high-end retailers remained cautious in their expansion plans. In contrast, mid-market retailers were active, viewing Hong Kong as a stepping stone to the Mainland. For example, Topshop opened a 14,000-sq-ft flagship store at the junction of Queen's Road Central and Pottinger Street, while Spanish fashion retailer Desigual opened its first standalone store in New Town Plaza in Sha Tin. Desigual reportedly plans to open ten stores in Hong Kong in the next three years.

The Double Stamp Duty announced in February continued to drag down the number of retail property sales transactions. In May, the volume fell

to around 175, compared with 1,260 in January 2013.

Although most short-term investors had retreated from the market, long-term investors continued to look for quality retail properties. For example, the entire first floor plus unit 6 of the ground floor of Prat Mansions at 26–36 Prat Avenue, Tsim Sha Tsui—a total of 11,600 sq ft—were reportedly sold for HK\$202.8 million or HK\$17,483 per sq ft. Meanwhile, the 60,000-sq-ft retail portion of Allway Gardens Phase III in Tsuen Wan, along with 125 car-parking spaces, were reportedly sold for HK\$290 million or HK\$4,833 per sq ft.

In Kowloon East, the Kai Tak Cruise Terminal opened in June. The government plans to develop an 80-hectare site, from the tip of the former runway to the Kwun Tong ferry pier and typhoon shelter, into a tourism and entertainment destination. Meanwhile, a giant observation wheel is scheduled to open in front of Central's Piers 9 and 10 in 2014. We expect shopping centres and street shops in these districts to benefit from the new facilities and see rent increases. Overall, with Mainlanders easing back on their spending on luxury items, we expect prime retail rents to rise a relatively moderate 3–5% over 2013.

**Luxury retailers remained cautious in their expansion plans, while mid-market retailers were active in the retail leasing market.**

# PRIME OFFICE

**Most major Grade-A office sales transactions in June involved smaller floor plates.**

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Admiralty</b>	Lippo Centre	Block 1 / 38 <sup>th</sup> floor	12,790	\$505	\$39,484
<b>Central</b>	Citibank Plaza	Block A / 3 <sup>rd</sup> -6 <sup>th</sup> floor	66,317	\$2155.302	\$32,500
<b>Admiralty</b>	Lippo Centre	Block 2 / 36 <sup>th</sup> floor / unit 4B	2,240	\$59.818	\$26,704
<b>Admiralty</b>	Admiralty Centre	Block 1 / 10 <sup>th</sup> floor / unit 4B	2,975	\$55	\$18,487
<b>Sheung Wan</b>	Shun Tak Centre	17 <sup>th</sup> floor / units 2-5	6,830 (net)	\$107.231	\$15,700
<b>Tsim Sha Tsui</b>	Concordia Plaza	22 <sup>nd</sup> floor / unit 16	3,329	\$44.942	\$13,500

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

**A number of major Grade-A office leasing transactions were recorded in Kowloon East last month.**






Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
<b>Sheung Wan</b>	Shun Tak Centre	16 <sup>th</sup> floor / units 1-3	4,366 (net)
<b>Admiralty</b>	Two Pacific Place	31 <sup>st</sup> floor / units 17-22	4,824 (net)
<b>Admiralty</b>	United Centre	30 <sup>th</sup> floor	17,520 (net)
<b>Kwun Tong</b>	Millennium City	BEA Tower / 23 <sup>rd</sup> floor / units 2-3	10,231 (gross)
<b>Kwun Tong</b>	Landmark East	AIA Kowloon Tower / 8 <sup>th</sup> floor / units 3-5	9,900 (gross)
<b>Kwun Tong</b>	Landmark East	AXA Tower / 28 <sup>th</sup> floor	5,882 (gross)

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

# July 2013

## HONG KONG MONTHLY

**Grade-A office rents in Wan Chai rose slightly in June 2013.**

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

**Grade-A office prices in major business districts dipped slightly in June 2013.**

Table 5 Prime office market indicators (Jun 2013)								
District	Net effective rent HK\$psf /mth	Change			Price HK\$ psf	Change		
		From May 13	From Mar 13	From Jun 12		From May 13	From Mar 13	From Jun 12
<b>Premium Central</b>	144.1	0.0%	1.5%	2.4%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	107.0	0.0%	0.0%	-1.8%	26,958	0.0%	-1.9%	5.8%
<b>Admiralty</b>	82.6	0.0%	0.6%	-1.7%	22,455	-0.2%	-2.1%	15.9%
<b>Sheung Wan</b>	61.4	1.1%	0.2%	0.9%	20,437	-1.1%	-2.5%	16.5%
<b>Wan Chai</b>	60.9	0.6%	-1.9%	-3.8%	18,290	-0.3%	-1.9%	18.5%
<b>Causeway Bay</b>	63.6	0.0%	-0.9%	-4.2%	17,631	0.0%	-1.4%	17.3%
<b>North Point</b>	41.3	0.0%	2.2%	12.7%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	50.7	0.0%	2.7%	4.0%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	53.3	-0.3%	-2.1%	7.3%	12,165	-0.4%	-1.5%	7.0%
<b>Cheung Sha Wan</b>	25.3	0.0%	-3.5%	13.6%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	37.0	-0.9%	-1.8%	15.5%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	38.7	0.0%	1.6%	14.0%	n/a	n/a	n/a	n/a
<b>Mong Kok/ Yau Ma Tei</b>	48.9	-2.2%	-3.1%	1.7%	n/a	n/a	n/a	n/a

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

# RESIDENTIAL

**A number of residential sales transactions worth over HK\$100 million were recorded in June.**

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Island South</b>	Shouson Peak	House	2,893	\$192.8	\$66,644
<b>Happy Valley</b>	Signature	40 <sup>th</sup> -41 <sup>st</sup> floors / unit A	3,128	\$140.8	\$45,009
<b>Tsim Sha Tsui</b>	Cullinan	Sun Sky / 71 <sup>st</sup> floor / unit C	1,037	\$37.9	\$36,509
<b>Island South</b>	Ruby Court	Tower 1 / 23 <sup>rd</sup> floor / unit A	1,804	\$56.8	\$31,458
<b>Mid-Levels Central</b>	Hong Villa	19 <sup>th</sup> floor	3,226	\$100	\$30,998

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

**A number of large houses were leased on the Peak and in Island South 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>	74 Mount Kellett Road	House	2,713	\$245,000	\$90.3
<b>Island South</b>	110 Repulse Bay Road	House	4,101	\$295,000	\$71.9
<b>The Peak</b>	1-3 Pollock's Path	Mid floor / unit A	2,467	\$175,000	\$70.9
<b>Mid-Levels</b>	Dynasty Court	Tower 3 / mid floor / unit B	1,513	\$100,000	\$66.1

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

# July 2013

## HONG KONG MONTHLY

Both the Peak and Mid-Levels recorded slight increases in luxury home rents last month.

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

Jardine's Lookout / Happy Valley recorded the largest drop in rents among major luxury residential districts.

Table 9 Luxury residential market indicators (Jun 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From May 13	From Mar 13	From Jun 12	HK\$psf	From May 13	From Mar 13	From May 12
<b>The Peak</b>	\$58.3	0.5%	-0.4%	-2.8%	\$22,919	0.0%	-3.1%	-3.2%
<b>Mid-Levels</b>	\$41.6	0.5%	-0.6%	-2.9%	\$21,484	0.0%	-2.0%	4.4%
<b>Pokfulam</b>	\$31.7	-0.1%	-0.3%	4.0%	\$19,148	0.0%	-1.6%	5.7%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$40.1	-1.4%	-2.6%	-2.0%	\$20,328	0.0%	0.0%	10.5%
<b>Island South</b>	\$42.5	-0.6%	-0.3%	-2.9%	\$25,080	0.0%	-3.0%	1.8%

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



# RETAIL

**In June, a number of major retail property sales transactions were recorded in core districts.**

Table 10  
**Selected retail sales transactions**

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Wan Chai</b>	Fu Wing Court	Ground floor / unit C	53 (gross)	\$6.52	\$123,019
<b>Wan Chai</b>	EIB Tower	Ground floor / unit A	217 (gross)	\$16.55	\$76,267
<b>Causeway Bay</b>	Causeway Place	2 <sup>nd</sup> floor / unit 270	307 (gross)	\$21.678	\$70,612
<b>Sai Ying Pun</b>	Lucky Commercial Centre	Ground floor / unit A9	328 (net)	\$22.8	\$69,512
<b>Yau Ma Tei</b>	Keybond Commercial Building	Ground floor / unit 6	243 (gross)	\$12	\$49,383

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





**Several major leasing transactions were witnessed in Kowloon in June.**

Table 11  
**Selected retail leasing transactions**

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>Tsim Sha Tsui</b>	Tsim Sha Tsui Mansion	Ground floor / unit 1A	245	\$85,000	\$347.0
<b>Tsuen Wan</b>	Kam Shing Building	Ground floor / unit B	195	\$360,000	\$184.6
<b>Wan Chai</b>	Sun Hey Mansion	Ground floor / unit A	821	\$135,000	\$164.4
<b>Tai Kok Tsui</b>	Ming Tai House	Ground floor / unit A	323	\$50,000	\$154.8
<b>Mong Kok</b>	Oscar Court	Ground floor / unit G	590	\$66,000	\$111.8

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

Retail rents in all business districts remained stable in June 2013.

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

In May, the value of retail sales in Hong Kong grew 12.8% year on year, with the value of 'Jewellery, watches and clocks and valuable gifts' surging 34.5%.

Table 13 Retail sales by outlet type (May 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Apr 13	From Feb 13	From May 12
<b>Jewellery, watches and clocks and valuable gifts</b>	\$10.5	25.9%	-19.6%	9.7%	34.5%
<b>Clothing, footwear and allied products</b>	\$5.0	12.4%	1.6%	-8.7%	11.4%
<b>Department stores</b>	\$4.6	11.3%	20.0%	-14.0%	23.7%
<b>Fuel</b>	\$0.9	2.1%	3.1%	18.0%	-3.2%
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	\$2.7	6.8%	-0.9%	-10.2%	3.6%
<b>Consumer durable goods</b>	\$5.9	14.6%	-5.1%	-16.8%	-9.5%
<b>Supermarkets</b>	\$4.1	10.0%	6.9%	-2.5%	5.9%
<b>Others</b>	\$6.9	16.9%	-9.1%	-5.2%	14.1%
<b>All retail outlets</b>	\$40.6	100.0%	-5.7%	-2.0%	12.8%

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](http://KnightFrank.com).

© Knight Frank 萊坊 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.