

RESEARCH



June 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Office market
regains momentum

RESIDENTIAL

Luxury home
rents soften

RETAIL

New record set
for retail property

MARKET IN BRIEF

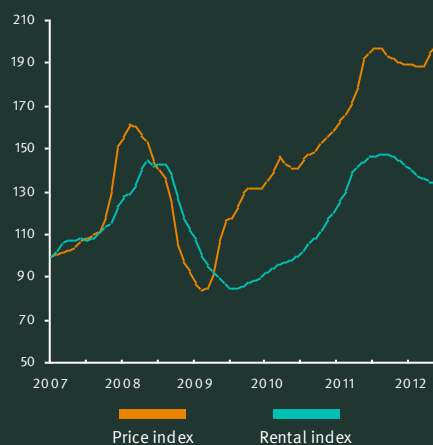
The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

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	April 2012	+4.7%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to April 2011	3.3%#	4.4%	3.4%	3.4%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

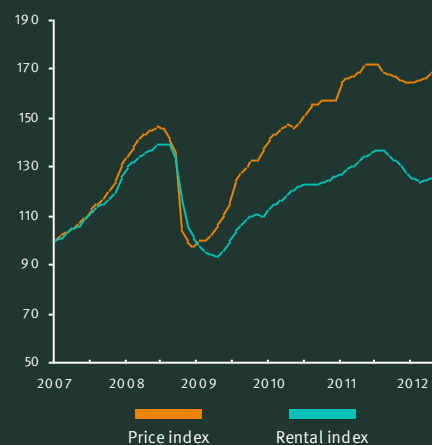
Source: EIU CountryData / Census & Statistics Department / Knight Frank
Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents
Jan 2007 = 100



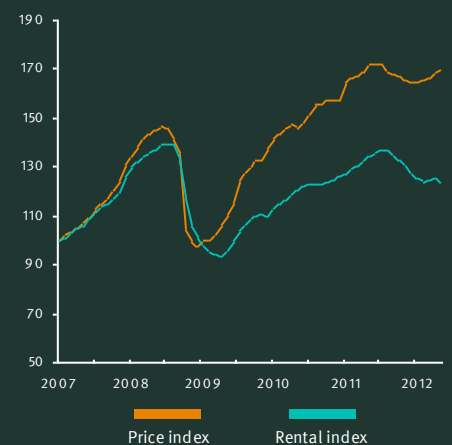
Source: Knight Frank

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

During May, Hong Kong's Grade-A office sales and leasing sectors remained active, while residential sales volume and prices maintained their recent uptrend. Retail sales, however, lost a little momentum following its stunning growth over the last 12 months. For the remainder of the year, we expect the retail sector to continue to outperform, while the office and residential markets will be suppressed by ongoing uncertainty in the global economy.

PRIME OFFICE

The office sales market remained vibrant during May, driven by both end-user and investment demand. A notable transaction involved eight floors of Kowloon Commerce Centre in Kwai Chung, bought by an investment fund for about HK\$1.38 billion or HK\$6,654 per sq ft. It was the third office transaction so far this year worth more than HK\$1 billion, underscoring the robustness of the sales market.

Leasing activity maintained its momentum in May. Tenants continued to take up vacant spaces, particularly small floor plates in Central where rents have fallen by about 18% from their peak last year. A number of new office buildings in Central reported strong occupancy rates, such as Prosperity Tower completed in the fourth quarter of 2011, which achieved an occupancy rate of over 60% last month.

A few major deals were concluded in Central over the past month, including a securities firm's lease of a 10,000-sq-ft space in Nexus Building and a fund that committed to about 7,000 sq ft in AIA Central. Another landmark deal involved the en-bloc lease of the 63,000-sq-ft 8 QRE at 8

Queen's Road East, Wan Chai to an Italian insurance firm. Meanwhile, a 13,800-sq-ft, mid-floor unit in DCH Commercial Centre in Quarry Bay was taken up by environmental consultancy firm ERM.

In Central, Grade-A office rents started to stabilise in May, as a result of improved take-up. Rents in non-core districts remained solid, with Hung Hom leading the market with growth of 3.1%.

Looking ahead, companies needing to relocate to save costs are likely to remain the major influence in the office market in the short term, lending support to demand in non-core districts. Meanwhile, large vacant floor plates in core areas left by relocated tenants have yet to be absorbed. With the external environment remaining uncertain, we maintain our previous forecast that Grade-A office rents in Central will drop by about 10–15% over 2012. Rents in non-core districts are expected to remain resilient.

RESIDENTIAL

Although the auction result of the site near Repulse Bay Road in Island South was encouraging, with the bidding price reaching HK\$1.67 billion—the

Grade-A office rents in Central will drop by about 10–15% over 2012. Rents in non-core districts are expected to remain resilient.

Luxury residential prices rose in May, despite a decline in rents.

second-highest amount ever paid for government land—the number of residential sales increased only slightly, given the deteriorating global economy. According to the Land Registry, the number of residential sales rose 1.6% month on month in May, to 8,349. Sales of luxury homes valued at HK\$10 million or above followed a similar trend, increasing 1.4% to 722.

Quality flats trading at particularly high prices in the secondary market was stable despite the number of transactions dropping 2.1% to 7,257. For example, a 2,257-sq-ft, high-floor duplex in Tower 2 of The Habourside in Tsim Sha Tsui was sold for HK\$55,000 per sq ft and a 6,786-sq-ft, mid-floor duplex in May Tower in Mid-Levels was sold for HK\$28,220 per sq ft—the highest-ever prices in these developments. Driven by strong demand from end-users, mass residential prices grew more than 2% during the month. A 505-sq-ft flat in Charming Garden, Yau Ma Tei—an estate developed under the Home Ownership Scheme (HOS) — was sold for HK\$7,782 per sq ft, the highest price ever paid for an HOS flat. This shows that price increases have spread to subsidised housing. The average luxury-home price rose 0.8% in May.

Developers mainly sold existing projects in May, pushing up primary sales by 35.8%, even though no new major projects were launched. A number of new flats were reportedly sold at record-breaking prices. For example, a high-floor unit measuring 2,468 sq ft in Winfield Building, Happy Valley, was sold for HK\$76 million—the highest price ever paid in the development according to the developer.

Although the leasing market reached its traditional peak season in May, the market remained quiet with weaker than usual leasing demand. Luxury home rents declined by an average of 2.2% month on month.

Looking ahead, we believe the number of residential transactions will decline in June given the uncertainty in the local and global economies. Global demand is likely to continue to shrink, even the US is likely to carry out a new round of stimulus measures following the expiry of the Twist Programme in June. The slowdown in local economic growth will also hinder buyers from purchasing homes. Also rental market sentiment is set to remain weak. We believe home prices will fall during the year, but the rate will be modest given limited supply. Meanwhile, residential rents are expected to drop marginally during the year though the market remains competitive for some of the territory's most luxurious homes which are always in limited supply.

RETAIL

Compared to a year ago, retail sales grew 11.4% in April to reach HK\$35.7 billion—a gain below market expectations, as increased uncertainty in external economies affected local consumption. Despite the moderate pace of growth, we believe the performance was still solid, given that April is a traditional low season for retail sales and the high base level last year. Buoyant labour market conditions and strong inbound tourism should continue to lend support to the retail sector.

Limited supply and rising rents have been driving up shop prices in core locations. A 192-sq-ft unit at 77–83 Percival Street in Causeway Bay was sold for HK\$178 million or HK\$927,000 per sq ft, breaking the previous record of HK\$844,000 per sq ft, held by a neighbouring shop at 76 Percival Street. The shop at 77–83 Percival Street is currently leased out at a monthly rent of HK\$160,000, representing a mere 1.1% yield.

Meanwhile, second-tier streets continued to benefit from the limited availability of prime space. Retailers with expansion needs have been

looking for alternative locations, pushing up rents in second-tier streets such as Haiphong Road and Hankow Road in Tsim Sha Tsui. The landlord of an 850-sq-ft shop in Haiphong Road reportedly asked for a monthly rent of over HK\$2,000 per sq ft, an increase of over 200% from the previous lease.

On the supply side, Mira Mall, the retail portion of The Mira Hong Kong hotel, completed its major renovation and reopened in late April. The four-storey mall features flagship luxury stores such as Coach and Tommy Hilfiger, occupying 5,000 sq ft and 6,000 sq ft, respectively. Meanwhile, over 80% of the retail space in V City in Tuen Mun, expected to open in the second quarter of next year, has been pre-leased at rents of HK\$80–280 per sq ft.

Looking forward, we expect the positive sentiment in the retail market to be sustained over the rest of the year. Leasing demand from both local and international retailers will remain strong, especially in the jewellery and watch trade. Competition for flagship stores will remain fierce due to the scarcity of prime space. While retail sales are expected to rise by only about 10% this year, the retail sector will continue to outperform other property sectors in Hong Kong.

“We expect the positive sentiment in the retail market to continue over the rest of the year, despite the possible slowdown of retail sales growth.”



PRIME OFFICE






The office sales market remained vibrant in May, driven by both end-user and investment demand.

Table 2 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Kwai Chung	Kowloon Commerce Centre	Tower B / 18 th –26 th floors (excluding 24 th floor)	208,000	\$1,384	\$6,654
Jordan	Chi Wo Commercial Building	1 st –13 th floors	34,900	\$185	\$5,306
Wan Chai	Bank of East Asia Harbour View Centre	Mid floor	9,100	\$122.62	\$13,500
Wan Chai	The Sun's Group Centre	27 th floor	7,300	\$103.48	\$14,200
Wong Chuk Hang	One Island South	8 th floor / units 6–9 and 17–20	9,000	\$85.8	\$9,500
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.					

Leasing activity continued to regain momentum in May.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	AIA Central	Part of 20 th floor	7,000	An investment fund
Central	Nexus Building	6 th floor	10,000	Wonderful Sky Financial Group
Quarry Bay	DCH Commercial Centre	16 th floor	13,800	ERM
Wan Chai	8 Queen's Road Central	En bloc	63,000	The Generali Group
Wan Chai	Three Pacific Place	20 th floor / units 4–9	11,168	Goodman
Source: Knight Frank Note: All transactions are subject to confirmation.				

Rents in core business districts are expected to drop this year, while those in non-core locations are expected to remain firm.

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

In Central, Grade-A office rents started to stabilise in May, on the back of improved take-up.

Table 5 Prime office market indicators (May 2012)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Apr 12	From Feb 12	From May 11	HK\$psf	From Apr 12	From Feb 12	From May 11
Premium Central	148.5	0.0%	-4.8%	-18.0%	n/a	n/a	n/a	n/a
Traditional Central	110.9	0.5%	-2.8%	-17.7%	24,878	0.0%	3.5%	2.1%
Admiralty	81.8	0.0%	-2.0%	-10.3%	19,060	1.1%	2.8%	2.7%
Sheung Wan	60.8	0.0%	-1.6%	-1.1%	16,916	1.7%	4.6%	4.6%
Wan Chai	64.3	1.6%	-1.8%	3.5%	14,854	3.7%	9.1%	6.7%
Causeway Bay	65.6	0.0%	-0.2%	7.3%	14,412	0.0%	6.2%	-2.9%
North Point	36.2	0.0%	-1.9%	4.8%	n/a	n/a	n/a	n/a
Quarry Bay	48.3	0.0%	-4.5%	0.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	49.6	0.9%	2.4%	13.6%	10,867	0.0%	2.8%	-1.3%
Cheung Sha Wan	22.3	0.0%	0.0%	11.3%	n/a	n/a	n/a	n/a
Hung Hom	31.6	3.1%	3.1%	19.6%	n/a	n/a	n/a	n/a
Kowloon East	33.8	0.3%	0.8%	14.4%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	48.0	0.0%	0.0%	2.4%	n/a	n/a	n/a	n/a
Source: Knight Frank Rents and prices are subject to revision.								



RESIDENTIAL

During May, a number of homes larger than 2,200 sq ft were sold at over HK\$33,000 per sq ft.

Table 6 Selected residential sales transactions					
District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Tsim Sha Tsui	The Harbourside	Tower 2 / 77 th and 78 th floors / duplex unit C	2,257	\$124.135	\$55,000
Tsim Sha Tsui	The Arch	Block 1 / 57 th floor / unit A	2,517	\$125	\$49,662
The Peak	Kellett View Town Houses	House H	3,986	\$175	\$43,904
Tai Kok Tsui	The Hermitage	Tower 2 / 79 th floor / unit A	2,406	\$73.28	\$34,796
Mid-levels	Argenta	36 th floor	2,728	\$91.46	\$33,526
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					






A number of major leasing transactions with rents over HK\$50 per sq ft per month were recorded in May.

Table 7 Selected residential leasing transactions					
District	Building	Tower / Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
The Peak	Strawberry Hill	House	3,200	\$250,000	\$78.1
Island South	Villa Rosa	House	3,960	\$230,000	\$58.1
Mid-Levels	Seymour	Unit A	2,348	\$125,000	\$53.2
Island South	Evergreen Garden	Duplex unit D	3,084	\$162,000	\$52.5
Island South	Three Bays	House	3,870	\$195,000	\$50.4
Source: Knight Frank Note: All transactions are subject to confirmation.					

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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 (May 2012)				
Peak	Island South	Mid-Levels	Jardine's Lookout /Happy Valley	Pokfulam
				

Luxury residential prices grew 0.8% in May, while rents dropped 2.2%.

Table 9 Luxury residential market indicators (May 2012)								
District	Net effective rent HK\$psf/mth	Change			Price HK\$psf	Change		
		From Apr 12	From Feb 12	From May 11		From Apr 12	From Feb 12	From May 11
The Peak	\$61.8	-0.2%	1.0%	-4.3%	\$23,667	0.0%	0.0%	-2.4%
Mid-Levels	\$43.1	-5.3%	-4.1%	-15.8%	\$20,142	1.4%	1.8%	-0.4%
Pokfulam	\$30.8	-1.3%	0.7%	-8.7%	\$17,617	2.1%	5.9%	-0.7%
Jardine's Lookout & Happy Valley	\$40.6	0.0%	2.7%	-5.2%	\$18,137	2.0%	2.4%	-1.8%
Island South	\$44.3	-4.3%	-2.2%	-11.0%	\$24,316	0.0%	5.4%	1.2%
Source: Knight Frank Rents and prices are subject to revision.								



RETAIL





A number of notable sales transactions were recorded in the prime areas of Causeway Bay last month, with one at 77–83 Percival Street setting a new record.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Causeway Bay	77–83 Percival Street	Ground floor / unit K	182	\$178	\$978,022
Causeway Bay	Po Ming Building	Ground floor / unit L	300	\$125	\$416,667
Causeway Bay	6 Cannon Street	Ground floor unit	650	\$180	\$276,923
Tsim Sha Tsui	42–44 Granville Road	Ground floor / unit 42	3,000	\$268	\$89,333
Causeway Bay	108–120 Percival Street	Ground floor / units A–B	23,932	\$1,150	\$48,053
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Retail space in non-core shopping centres continued to be sought after.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Sha Tin	Sha Tin Plaza Shopping Arcade	3 rd floor / unit 39	301	\$178,000	\$591.4
Ma On Shan	Sunshine City Plaza	2 nd floor / unit 191	98	\$49,000	\$500
Mong Kok	Yuen King Building	Ground floor / unit 26	460	\$220,000	\$478.3
Sha Tin	Sha Tin Plaza Shopping Arcade	3 rd floor / unit 42	320	\$145,500	\$454.7
Sha Tin	Sha Tin Plaza Shopping Arcade	3 rd floor / unit 9	298	\$105,000	\$352.3
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

In May 2012, all major retail districts saw rental growth, month on month.

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

Retail sales grew at a moderate pace in April. Among the various types of retail outlets, consumer durable goods recorded the largest year-on-year gain of 21.7%

Table 13 Retail sales by outlet type (Apr 2012)					
Outlet	Value	Share of total	Change		
	HK\$ billion	%	From Mar 12	From Jan 12	From Apr 11
Jewellery, watches and clocks and valuable gifts	\$7.8	21.9%	0.0%	-16.1%	15.5%
Clothing, footwear and allied products	\$4.7	13.2%	0.6%	-27.0%	7.2%
Department stores	\$3.1	8.8%	-1.9%	-28.5%	9.8%
Fuels	\$0.8	2.3%	-6.7%	-0.4%	3.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.7	7.5%	-2.9%	-22.8%	0.8%
Consumer durable goods	\$6.2	17.3%	-9.5%	0.1%	21.7%
Supermarkets	\$3.5	9.9%	-2.1%	-20.2%	12.1%
Others	\$6.9	19.2%	0.6%	-15.6%	7.5%
All retail outlets	\$35.7	100.0%	-2.3%	-17.2%	11.4%
Source: Census and Statistics Department					



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