

RESEARCH



June 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

Leasing market driven by
relocation and renewal

Residential

Secondary home sales
find support

Retail

Retailers looking at more
cost-effective locations

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	Apr 2013	+4.0%	+5.3%	+4.1%	+4.4%
Unemployment	Feb 2013 - Apr 2013	3.5%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00-5.25%	5.0%*	5.0%*	5.0%*

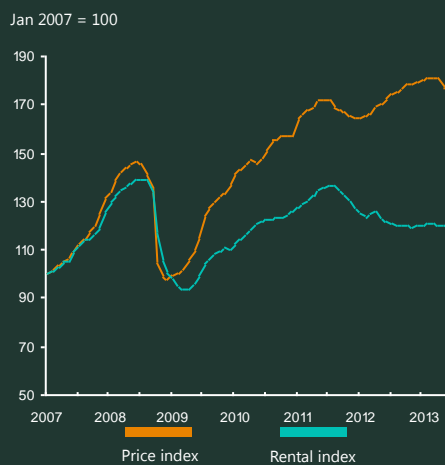
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents



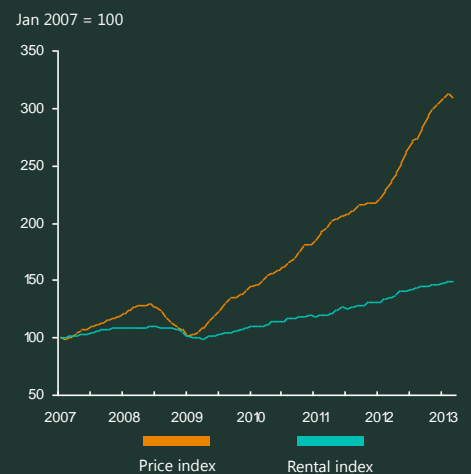
Source: Knight Frank

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 Oct 2012 to Mar 2013

MONTHLY REVIEW

Property sales were quiet in May, due to the implementation of the Double Stamp Duty on all property sectors in February and the Residential Properties (First-hand Sales) Ordinance on the residential sector in April. However, leasing markets across all sectors were steady amid the stable local economy and the shift of some potential buyers from purchasing to leasing.

PRIME OFFICE

Hong Kong's Grade-A office sales market remained subdued in May, with investors deterred by the higher transaction costs from the Double Stamp Duty implemented in February 2013. Grade-A office prices in all major business districts dipped another 0.3%, month on month.

There were only a few major office deals last month. China Mobile purchased a number of floors that they had already been occupying in Kowloon Commerce Centre, Kwai Chung, for end use. The space totaled 100,000 sq ft and cost them HK\$860 million or HK\$8,600 per sq ft. Another deal involved multiple floors totaling 224,000 sq ft in Exchange Tower, Kowloon Bay, which sold for HK\$2,500 million.

The leasing sector remained stable, but transactions mainly involved relocation and renewal.

Redevelopment plans, such as the 330,000-sq-ft Wharf T&T Square in Kowloon Bay and the 200,000-sq-ft Sunning Plaza in Causeway Bay, created relocation demand from existing tenants in nearby buildings and districts.

Due to the limited availability of space for relocation, some tenants had no choice but to renew their leasing contracts and in some cases

had to downsize to cut costs due to higher rents upon lease renewal. However, there were some transactions involving expansion. For example, JP Morgan leased an additional floor in Chater House, Central, in addition to the over 120,000 sq ft of space it had already been occupying in the building.

Other major leasing deals over the month included a 17,823-sq-ft, mid-level floor in Cityplaza Three, Quarry Bay, taken up by Sun Life Assurance Company of Canada and a 16,694-sq-ft, mid-level floor in Cosco Tower, Sheung Wan, leased by The Hong Kong Mortgage Corporation. 28 Hennessy Road in Wan Chai, completed in the third quarter of 2012, registered robust leasing activity. A number of deals were reportedly concluded with tenants including an interior designer firm and a recruiting agency.

Having bottomed out, Central's Grade-A office rents rose 0.2% in May and we believe they will remain largely stable in 2013. We maintain our view that rents in Kowloon East will see 10–15% growth over the year.

RESIDENTIAL

With the new Residential Properties (First-hand Sales) Ordinance having come into effect on 29 April, most developers suspended the launch of

“**Activity in the Grade-A office leasing market mainly involved relocation and renewal in May.**”

“**In the near future, we expect the low-priced home market to be relatively active compared to the luxury sector.**”

new projects or the remaining units of primary projects previously launched. Only three residential projects offering less than 200 units were available for sale in May and the transaction volume for primary sales in the month is expected to hit a record low. Major developers were preparing new marketing materials to comply with the tighter sales regulations and we expect limited residential properties available for sale in June.

Meanwhile, sentiment in the secondary residential market recovered slightly, with an increase in transactions of small to medium-sized units due to landlords softening their stance on asking prices and there being a lack of available units in the primary market. We expect the mass residential market to be more active compared to the luxury market where supply is limited and owners are generally firmer on asking prices, due to their stronger property holding power.

On the leasing front, there was a recent increase in "super luxury" properties for rent and accordingly rental levels were slightly more negotiable than they previously were, while rentals for "mid-range" luxury units remained less negotiable due to the faster take-up rate. Our records show that luxury residential rentals remained stable last month with a slight increase in the transaction volume.

According to the Rating and Valuation Department, 13,551 homes are forecast to be completed in 2013 and 15,817 in 2014, with the majority located in the New Territories. Meanwhile, the Transport and Housing Bureau forecasts that 67,000 homes could be available in the coming three to four years, representing an average of 16,750–23,333 units a year. Considering the annual average take-up of around 20,000 homes in the past 20 years, a shortage of homes is expected to remain in the

coming one to two years, lending support to residential prices.

However, with the various tightening policies in place and market sentiment remaining cautious, we believe there will be a drop in activity in both the primary and secondary markets over the next few months. We estimate that residential sales will fall about 10% this year to 70,000–75,000 units, with mass residential prices dropping around 10% and prices in the more resilient luxury sector falling 5%.

RETAIL

April's retail sales volume rose a notable 20.7% year on year, after the fall in the price of gold sparked a buying spree, which led to a growth of about 70% in the sales of 'jewellery, watches and clocks and valuable gifts'. However, the growth of spending by Mainland visitors continued to lag the increase in their arrival number during the Labour Day holiday. During the three-day holiday period, local retail sales grew only about 5% from last year, although Mainland visitor arrivals increased 15% year on year.

With the slower growth in visitor expenditure and increasing shop rents in traditional core retail districts, luxury retailers became more cautious in their expansion activity, shifting to more cost-effective space in emerging retail districts. For instance, about 100,000 sq ft of retail space covering three floors in Kwun Tong Harbour Plaza was reportedly leased to a watch retailer for approximately HK\$1 million per month. It was reported that the space could be developed into a 'clock city' aimed at Mainland shoppers, taking advantage of the increased foot-flow following the official opening of the Kai Tak Cruise Terminal in June 2013. Meanwhile, a watch brand leased a 3,000-sq-ft shop in New Town Plaza in Shatin.

Local retailers also engaged in

expansion activity. For example, Sincere Department Store took 30,000 sq ft of space in King Wah Centre, Mong Kok, on a nine-year lease, according to market sources.

While retail investors remained cautious due to the implementation of the Double Stamp Duty, end-users were still on the lookout for quality properties. A supermarket chain reportedly bought a ground-floor unit in Billionnaire Avant, Kowloon City, for around HK\$132.5 million, while a retailer bought the ground and 'Basement 1' floors of New East Ocean Centre in Tsim Sha Tsui East totaling 26,677 sq ft for HK\$238 million.

With local retail sales slowing, we maintain our forecast that rents in core retail districts will only increase 5% year on year, in 2013. We expect northern districts along the East Rail Line, such as Shatin and Sheung Shui, to attract increasing attention from luxury retailers targeting Mainland cross-border shoppers.

“We expect northern districts along the East Rail Line, such as Shatin and Sheung Shui, to attract increasing attention from luxury retailers.”

PRIME OFFICE

Despite the implementation of the Double Stamp Duty, a few major Grade-A office sales transactions were recorded in non-core locations last month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kwai Chung	Kowloon Commerce Centre	Block A / multiple floors	100,000	\$860	\$8,600
Kowloon Bay	Exchange Tower	23 rd , 25 th –31 st floors	224,000	\$2,500	\$11,161
Sheung Wan	Shun Tak Centre	22 nd floor / unit 10	1,402	\$36.452	\$26,000

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

Major Grade-A office leasing transactions last month mainly involved relocation and lease renewal.

Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Net floor area (sq ft)
Quarry Bay	Cityplaza Three	14 th floor	17,823
Sheung Wan	Cosco Tower	29 th floor	16,694
Sheung Wan	Li Po Chun Chambers	11 th , 13 th , 15–18 th , 25–28 th floors	87,315
Admiralty	Admiralty Centre	Tower 2 / 20 th floor	9,261

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

Grade-A office rents in Quarry Bay and Kowloon East rose slightly in May 2013.

Table 4

Month-on-month movement of Grade-A office rents (May 2013)

Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

Grade-A office prices in major business districts remained stable in May 2013.

Table 5

Prime office market indicators (May 2013)

District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Apr 13	From Feb 13	From May 12	HK\$ psf	From Apr 13	From Feb 13	From May 12
Premium Central	149.2	2.5%	5.1%	3.4%	n/a	n/a	n/a	n/a
Traditional Central	107.0	-1.4%	-0.2%	-3.9%	26,958	0.0%	-1.9%	8.4%
Admiralty	82.6	0.0%	-0.3%	1.0%	22,505	-0.7%	-1.6%	18.1%
Sheung Wan	60.7	-2.0%	-0.8%	-0.2%	20,658	0.0%	-1.4%	22.1%
Wan Chai	60.6	-2.6%	-3.3%	-5.4%	18,336	0.0%	-1.0%	23.4%
Causeway Bay	63.6	0.0%	-1.1%	-3.1%	17,631	0.0%	-1.4%	22.3%
North Point	41.3	0.0%	2.1%	14.0%	n/a	n/a	n/a	n/a
Quarry Bay	50.7	3.0%	2.9%	4.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	53.4	-0.6%	-1.1%	7.8%	12,219	0.0%	-0.7%	12.4%
Cheung Sha Wan	25.3	0.0%	2.6%	13.6%	n/a	n/a	n/a	n/a
Hung Hom	37.3	0.0%	1.6%	18.3%	n/a	n/a	n/a	n/a
Kowloon East	38.7	1.6%	4.8%	14.5%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	50.0	0.0%	-0.7%	4.0%	n/a	n/a	n/a	n/a

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

RESIDENTIAL

A number of major transactions were recorded in traditional luxury areas such as Island South and Mid-Levels in May.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	Scape	House	8,164 (gross)	\$450	\$55,120
Causeway Bay	yoo Residence	31 st floor / unit A	1,396	\$72.5	\$51,934
Mid-Levels West	39 Conduit Road	23 rd floor / unit B	2,488	\$119	\$47,830
Tsim Sha Tsui	Masterpiece	58 th floor / unit D	1,722	\$66.8	\$38,792
Mid-Levels West	Argenta	33 rd floor	2,182	\$78.9	\$36,156

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

With landlords more open to price negotiation, a few big amount leasing transactions were recorded in Island South

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	6 Stanley Beach Road	House	3,182	\$380,000	\$119.4
Island South	56 Repulse Bay Road	Penthouse	2,598	\$220,000	\$84.7
Mid-Levels	Aigburth	High floor / unit A	2,119	\$158,000	\$74.6
The Peak	8 Severn Road	House	2,377	\$175,000	\$73.6

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

Only Mid-Levels recorded a notable increase in rentals last month.

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

Both luxury residential prices and rents remained stable last month.

Table 9 Luxury residential market indicators (May 2013)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Apr 13	From Feb 13	From May12		From Apr 13	From Feb 13	From May 12
The Peak	\$58.0	-0.5%	-1.0%	-6.2%	\$22,919	-3.1%	-3.2%	-3.1%
Mid-Levels	\$41.4	0.7%	-1.6%	-4.0%	\$21,534	-0.2%	-1.8%	6.7%
Pokfulam	\$31.8	-0.5%	-0.2%	3.1%	\$19,148	0.0%	-1.6%	8.7%
Jardine's Lookout & Happy Valley	\$40.6	-0.9%	-2.2%	-0.1%	\$20,328	0.0%	0.0%	12.1%
Island South	\$42.8	-0.5%	0.3%	-3.4%	\$25,080	0.0%	-3.0%	3.1%

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

RETAIL

In May, a number of major retail property sales transactions were recorded in non-core districts.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kowloon City	Billionaire Avant	Ground floor / unit A	n/a	\$132.528	n/a
Tsuen Wan	Allway Garden Shopping Centre	2nd floor	n/a	\$105	n/a
Causeway Bay	Percival House	Ground floor / unit G	113 (net)	\$12.5	\$110,619
Yuen Long	Ho Shun Lee Building	Ground floor / unit 57	279 (gross)	\$18	\$64,516
Shau Kei Wan	Winner Mansion	Ground floor / unit G	138 (net)	\$10	\$72,464

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




Several major leasing transactions were witnessed in Kowloon in May.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
North Point	Fok Ying Building	Ground floor / unit A	1,617 (gross)	\$293,250	\$181.4
Tsim Sha Tsui	Cumberland House	Ground floor / units A–B	2,400 (net)	\$880,000	\$366.7
Mong Kok	Newish Mansion	Ground floor / unit A	1,718 (net)	\$200,000	\$116.4
Mong Kok	Concord Building Arcade	Ground floor / unit 5	635 (gross)	\$85,000	\$133.9
Tsuen Wan	Jade Plaza	Ground floor / units A–B	2,306 (gross)	\$270,000	\$117.1

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

Retail rents in Central, Causeway Bay and Tsim Sha Tsui remained stable in May 2013.

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

In April, the value of retail sales in Hong Kong grew 20.7% year on year, with the value of 'jewellery, watches and clocks and valuable gifts' surging 68.4%.

Table 13 Retail sales by outlet type (April 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Mar 13	From Jan 13	From Apr 12
Jewellery, watches and clocks and valuable gifts	\$13.1	30.4%	50.9%	24.9%	68.4%
Clothing, footwear and allied products	\$5.0	11.5%	-6.6%	-21.9%	5.0%
Department stores	\$3.8	8.8%	-0.4%	-14.2%	21.7%
Fuel	\$0.8	1.9%	-6.1%	-2.7%	1.7%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.8	6.5%	5.2%	-18.2%	4.4%
Consumer durable goods	\$6.2	14.5%	-20.7%	-33.3%	0.8%
Supermarkets	\$3.8	8.8%	-0.6%	-12.1%	6.9%
Others	\$7.6	17.6%	6.3%	-10.5%	10.6%
All retail outlets	\$43.1	100.0%	7.3%	-9.6%	20.7%

Source: Census and Statistics Department

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