

RESEARCH



March 2012

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

**Knight Frank** 萊坊

## OFFICE

Office leasing market  
remains quiet

## RESIDENTIAL

Secondary residential  
market revives

## RETAIL

Retail leasing market  
remains active

## 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	Q4 2011	+3.0%#	+6.8%	+5.0%#	+3.8%
Inflation rate	January 2012	+6.1%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to January 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**

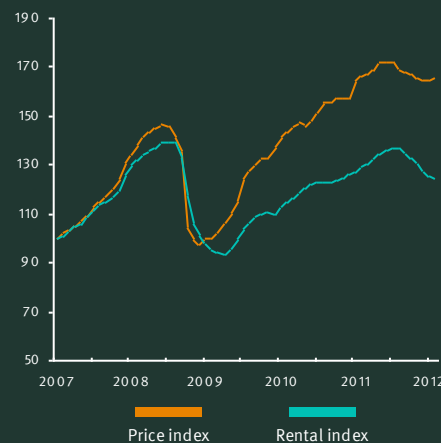
Jan 2007 = 100



Source: Knight Frank

Figure 2  
**Luxury residential prices and rents**

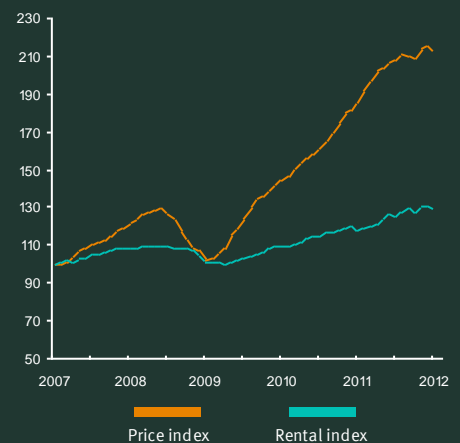
Jan 2007 = 100



Source: Knight Frank

Figure 3  
**Retail property prices and rents**

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



# MONTHLY REVIEW

**The retail market remained strong and continued to outperform other property sectors last month, with rents in core shopping districts continuing to grow. Meanwhile, the residential market saw a notable rebound in sales volume with prices stabilising after the Lunar New Year. The office market stayed relatively quiet with uncertainty in the global economy remaining.**

## PRIME OFFICE

The threat of global uncertainty continued to pummel Hong Kong, where impetus relies heavily on international trade and investment flow. In December 2011, Hong Kong's exports rose a mere 3.0% year on year, while air cargo shipments dropped 17.5% in January 2012 from a year earlier—the worst performance for 12 months.

With many firms facing static budgets, demand for office space—particularly in Central—continued to shrink. As a result, office leasing activity failed to pick up after the Lunar New Year holiday. Companies, particularly those from the financial sector, scaled back their operations, leading to a rise in surrender cases. A UK-based financial firm, for instance, is looking for a replacement tenant for its about 25,000-sq-ft office in Central, while a Chinese securities firm in the CBD is also intending to surrender one of its three floors.

Last month, leasing transactions mainly involved small spaces and the relocation of tenants to cheaper premises. For example, a marine insurance firm moved from Bank of America Tower in Central to the 6,350-sq-ft, 25th floor of Fortis Tower in Wan Chai. Meanwhile, an aluminium producer decided to relocate from Admiralty Centre in Admiralty to a 4,300-sq-ft office at 88

Gloucester Road in Wan Chai.

With major landlords becoming more flexible during lease negotiations, office rents dropped a further 2.1% in February month on month, following the 1.0% fall in January. Central led the rental decline with an overall drop of 4.0% and rents in its premium buildings falling 4.4%. Admiralty also saw rents decline 2.4% in the month.

Kowloon East, meanwhile, continued to outperform, as most quality office spaces were absorbed amid fierce competition among tenants looking for more affordable options. Availability was particularly tight in Grade-A buildings near MTR stations, bringing down the overall vacancy rate in this area to less than 9%.

Looking forward, companies are likely to become more cost-sensitive and the number of tenants surrendering existing leases is expected to rise. Landlords are therefore likely to exhibit even greater flexibility in the short term. We expect Grade-A office rents in Central to drop 10–15% in the first half of 2012. Office rents in core business districts will remain relatively soft until the global economy shows signs of emerging out of recession.

## RESIDENTIAL

Overall, sentiment in the residential

“Office rents in core business districts will remain relatively soft until the global economy shows signs of emerging out of recession.”

“We expect residential rents and prices to drop in 2012 due to uncertainty in the global and local economy.”

market improved after the Lunar New Year. Sales rebounded significantly in February 2012, with the release of purchasing power that had accumulated over the past few months. Other positive factors included the absence of further regulatory measures in the 2012–2013 Budget and a low-interest-rate environment, with HSBC, Bank of China (Hong Kong), Wing Hang Bank and ICBC (Asia) reportedly lowering their mortgage rates. According to the Land Registry, the number of home sales grew 10.7% month on month to 3,884 in February—the first rise since November 2011. However, sales of luxury homes valued over HK\$10 million decreased a further 23.6% to total 294.

Sales in the secondary market revived in February, with some transactions reportedly having closed at record-breaking prices. For instance, a 570-sq-ft, top-floor unit in Block 11 of City One Shatin was sold for HK\$7,754 per sq ft, the highest price in the development so far. Meanwhile, a house at Bel-Air Phase 5, with a total gross floor area of 5,232 sq ft, was sold for HK\$160 million or about HK\$30,600 per sq ft, the highest ever secondary price in the development. The average luxury home price grew 0.6% in February, led by growths of 3.6% in Pokfulam and 0.6% in Mid-Levels.

The primary sales market continued to receive a good response. A number of new developments were launched and recorded encouraging sales results. Baker Residences in Hung Hom, for example, sold its entire first batch of 51 units in the first hour of launch, while all 75 units released in the first batch of The Green, Fanling were sold on the first day of launch, according to the developers. 101 out of the 104 units available in Lexington Hill, Sai Wan were reportedly sold within three days of launch for a total of HK1.1 billion.

On the leasing front, transaction

volume remained low. The absorption of luxury flats for rent remained weak following waves of layoffs in a number of financial institutions. Some landlords were eager to lower asking rents to secure tenants and luxury rents decreased 1.3% month on month.

Looking ahead, uncertainty in the property market is likely to remain given the slow progress in solving the European sovereign debt crisis, despite the injection of liquidity from central banks worldwide. Meanwhile, high oil prices resulting from unrest in the Middle East will threaten the global economic recovery. In light of these issues, residential sales may dip again in the coming months, while the rental market will remain lukewarm. We believe both luxury prices and rents are likely to fall during the year.

## RETAIL

The retail leasing market remained active last month, with a number of major transactions featuring notable rent rises concluded in core shopping areas, due to limited availability and fierce competition. For instance, a 2,900-sq-ft, ground-floor shop in Canton Road, Tsim Sha Tsui was reportedly pre-leased by a watch and jewellery retailer for a monthly rent of HK\$7.25 million or HK\$2,500 per sq ft—four times more than the current lease which was signed in 2010.

Meanwhile, Zara reportedly pre-leased over 6,500 sq ft of space on the ground to second floors of Loke Yew Building in Central for a monthly rent of HK\$3.5 million or HK\$538 per sq ft. This will be Zara's first street-level shop in Hong Kong.

Rental growth was also witnessed in less prime locations, with more mid-market retailers looking for expansion opportunities at affordable rents. A recent example involved Adidas' Y-3, which reportedly leased 2,800-sq-ft units in Wellington Street

in Central for a monthly rent of HK\$760,000 or HK\$271 per sq ft—a 50% increase on the rent paid by the previous tenant.

The first phase of MTR Corporation (0066.HK)'s new mall Popcorn in Tseung Kwan O is now fully let. Due to open in the second quarter of this year, the phase covers 200,000 sq ft and will feature tenants new to the district, such as Agnes b Cafe, Sport b and a six-house MCL cinema. The second phase of the mall, comprising another 200,000 sq ft, will open in 2013.

The uptrend in rents was supported by retail sales, which rose another 14.9% year on year to HK\$43.2 billion in January 2012. Tourism spending from Mainlanders remained a dominating contributor. Fashion brand Coach says that half of its Hong Kong sales derive from Mainland tourists. Given China's stable economic growth and the competitive pricing of luxury products in Hong Kong, we expect Mainlanders' visitor spending to maintain a double-digit growth in 2012.

Looking forward, despite the fragile economic recovery in the US and the ongoing Eurozone debt crisis, Hong Kong has strong growth potential and is likely to remain the focus for international retailers looking to expand. We expect this trend to continue and spill over from prime locations to non-core areas. We maintained our forecast that rents in core retail districts will increase by about 10% this year, compared with about 5% growth in non-core areas.

**“We expect the expansion of international retailers to spill over from prime locations to non-core areas.”**



# PRIME OFFICE

In February, the office sales market was relatively active compared to the leasing sector.

Table 2  
Selected office sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	Harbour Centre	11 <sup>th</sup> floor / units 2-7	9,366	\$213.5	\$22,795
Wan Chai	Bank of East Asia Harbour View Centre	19 <sup>th</sup> floor	7,940	\$103	\$12,972
Kwun Tong	49 King Yip Street	11 <sup>st</sup> -12 <sup>th</sup> floors	12,618	\$87.57	\$6,940
Wong Chuk Hang	One Island South	6 <sup>th</sup> floor / units 26-28	2,914	\$19.81	\$6,798
Wong Chuk Hang	One Island South	6 <sup>th</sup> floor / unit 29	1,004	\$6.87	\$6,843

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






With many firms facing static budgets, demand for office space—particularly in Central—failed to pick up after the Lunar New Year holiday.

Table 3  
Selected office leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Two IFC	38 <sup>th</sup> floor / units 12-13	About 3,700	Wah Nam International
Wan Chai	88 Gloucester Road	10 <sup>th</sup> floor	4,300	Alcoa International Asia Ltd
Wan Chai	Fortis Tower	25 <sup>th</sup> floor	6,350	Andrew Liu & Co Ltd

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

Among major business districts, non-core areas continued to outperform last month.

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

With major landlords becoming more flexible during lease negotiation, office rents dropped a further 2.1% in February, month on month.

Table 5 Prime office market indicators (Feb 2012)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Jan 12	From Nov 11	From Mar 11	HK\$psf	From Jan 12	From Nov 11	From Mar 11
<b>Premium Central</b>	\$155.1	-4.4%	-8.5%	-7.9%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	\$114.1	-3.7%	-11.9%	-5.4%	\$24,028	0.0%	0.0%	12.5%
<b>Admiralty</b>	\$83.6	-2.4%	-5.3%	0.2%	\$18,539	0.0%	0.0%	16.6%
<b>Sheung Wan</b>	\$61.9	-1.5%	-0.9%	14.9%	\$16,168	0.0%	0.0%	15.6%
<b>Wan Chai</b>	\$65.4	-0.8%	-2.6%	23.5%	\$13,616	0.0%	0.0%	12.8%
<b>Causeway Bay</b>	\$65.7	0.6%	0.6%	13.9%	\$13,572	0.0%	0.0%	9.4%
<b>North Point</b>	\$36.9	-0.2%	-0.7%	18.7%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	\$50.6	-0.9%	-2.0%	10.7%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	\$48.4	0.2%	0.6%	22.7%	\$10,567	-1.7%	-4.9%	7.0%
<b>Cheung Sha Wan</b>	\$22.3	0.0%	0.0%	19.1%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	\$30.6	0.0%	3.2%	28.6%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	\$33.6	0.5%	1.7%	21.9%	n/a	n/a	n/a	n/a
<b>Mong Kok / Yau Ma Tei</b>	\$48.0	0.0%	-1.5%	14.3%	n/a	n/a	n/a	n/a

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



# RESIDENTIAL

A number of luxury-home sales were recorded in the primary market, in the past month.

Table 6  
Selected residential sales transactions

District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
<b>Pokfulam</b>	Residence Bel-Air Phase 5, Villa Bel-Air	House 7	9,254	\$295	\$31,878
<b>Happy Valley</b>	The Altitude	41 <sup>st</sup> floor / unit A	1,923	\$57.43	\$29,864
<b>Sheung Wan</b>	Centrepont	27 <sup>th</sup> floor / unit A	1,089	\$22.341	\$20,515
<b>Yau Ma Tei</b>	The Coronation	Tower 1 / 26 <sup>th</sup> floor / unit A	1,478	\$24.247	\$16,405
<b>Hung Hom</b>	Harbourfront Landmark	Tower 3 / 67 <sup>th</sup> floor / unit A	1,891	\$29	\$15,336

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






High-end luxury residential leasing transactions focused on the Peak and Island South last month.

Table 7  
Selected residential leasing transactions

District	Building	Tower / Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
<b>Island South</b>	Rocky Bank	House	3,000	\$235,000	\$78.3
<b>The Peak</b>	Mount Austin Estate	House	3,523	\$188,000	\$53.4
<b>The Peak</b>	Mountain Lodge	High floor / unit B	2,650	\$115,000	\$43.4
<b>Island South</b>	Hong Kong Parkview	Tower 13 / mid floor / unit 73	2,787	\$120,000	\$43.1
<b>Island South</b>	Bluewater	Tower 13 / unit A	2,500	\$95,000	\$38.0

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

Residential rents dropped in all five major luxury districts on Hong Kong Island.

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

The residential sales market improved in February, with prices in Mid-Levels and Pokfulam rising by 0.7% and 3.6% month on month, respectively.

Table 9 Luxury residential market indicators (Feb 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Oct 11	From Aug 11	From Nov 10		From Oct 11	From Aug 11	From Nov 10
<b>The Peak</b>	\$61.2	-1.4%	-4.3%	-1.1%	\$23,667	0.0%	0.0%	-1.7%
<b>Mid-Levels</b>	\$45.0	-1.8%	-5.9%	-9.2%	\$19,777	0.7%	-0.3%	2.6%
<b>Pokfulam</b>	\$30.6	-1.3%	-5.7%	-3.4%	\$16,633	3.6%	4.0%	-0.7%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$39.6	-0.9%	-2.5%	-5.0%	\$17,709	0.0%	-1.3%	-0.4%
<b>Island South</b>	\$45.3	-1.0%	-6.8%	-5.4%	\$23,062	0.0%	-0.8%	-0.7%

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





# RETAIL

A number of major retail sales transactions were recorded in Mongkok in the past month.

Table 10  
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
<b>Tsim Sha Tsui</b>	Carnarvon Mansion	Ground floor / unit H	161	\$37.6	\$233,540
<b>Mongkok</b>	Sincere Plaza	Ground floor / unit G7	192	\$34.5	\$179,688
<b>Central</b>	Duke Wellington House	Ground floor / unit 24	650	\$108	\$166,154
<b>Mongkok</b>	69-69A Bute Street	Ground floor / unit 69	1,480	\$156.3	\$105,662
<b>Mongkok</b>	Sun Ming Building	Ground floor / unit 2	136	\$10.38	\$76,324

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





Ground-floor units in Tsim Sha Tsui remained sought after by expanding retailers.

Table 11  
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
<b>Tsim Sha Tsui</b>	Hai Phong Mansion	Ground floor / unit 6A	295	\$780,000	\$2,644.1
<b>Tsim Sha Tsui</b>	Tsim Sha Tsui Mansion	Ground floor / unit 36	560	\$660,000	\$1,178.6
<b>Tsim Sha Tsui</b>	Far East Mansion	Ground floor / unit 11	210	\$105,000	\$500
<b>Tsim Sha Tsui</b>	Lucky House	Ground floor / unit E	470	\$180,000	\$383
<b>Mongkok</b>	Foo Tat Building	Ground floor / unit 8	902	\$310,000	\$343.7

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

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

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

In January 2012, all types of retail outlets recorded year-on-year increases in sales value.

Table 13 Retail sales by type of retail outlet (Jan 2012)					
Outlet	Value	Share of total	Change		
	million	%	From Oct 11	From Aug 11	From Nov 10
<b>Jewellery, watches and clocks, and valuable gifts</b>	\$9,313	21.6%	-1.9%	20.2%	18.4%
<b>Clothing, footwear and allied products</b>	\$6,458	15.0%	2.1%	37.4%	16.3%
<b>Department stores</b>	\$4,376	10.1%	-13.0%	34.4%	13.8%
<b>Fuels</b>	\$827	1.9%	-1.2%	-1.8%	4.9%
<b>Food, alcoholic drinks and tobacco (exclude supermarkets)</b>	\$3,449	8.0%	6.5%	14.5%	1.1%
<b>Consumer durable goods</b>	\$6,182	14.3%	-13.1%	13.8%	20.5%
<b>Supermarkets</b>	\$4,437	10.3%	17.0%	22.6%	21.0%
<b>Others</b>	\$8,112	18.8%	12.1%	45.1%	11.3%
<b>All retail outlets</b>	\$43,154	100.0%	0.2%	26.2%	14.9%

Source: Census and Statistics Department



## Americas

Bermuda  
Brazil  
Canada  
Caribbean  
Chile  
USA

## Australasia

Australia  
New Zealand

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Belgium  
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