

March 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

New measures to
suppress office sales

Residential

New measures to
stabilise home prices

Retail

New measures to
dampen shop speculation

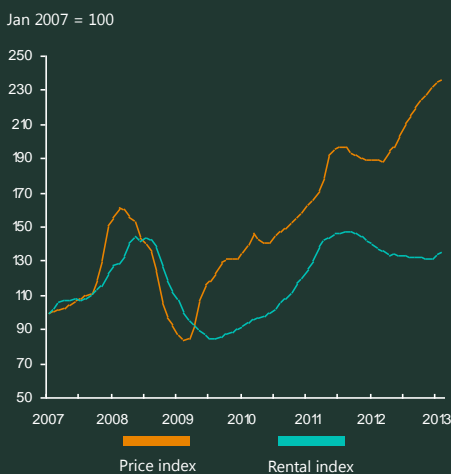
MARKET IN BRIEF

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	Q4 2012	+2.5%	+4.9%	+1.4%	+3.0%
Inflation rate	Jan 2013	+3.0%	+5.3%	+4.1%	+4.4%
Unemployment	Nov 2012- Jan 2013	3.4%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00-5.25%	5.0%*	5.0%*	5.0%*

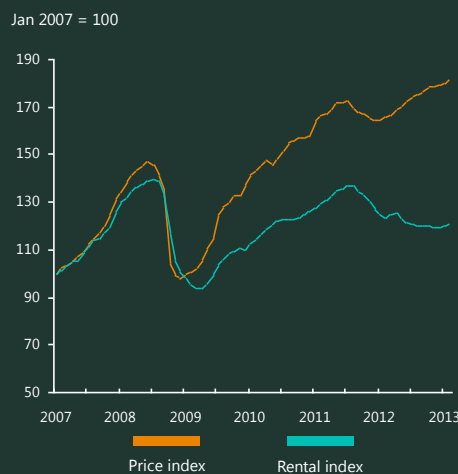
Source: EIU CountryData / Census & Statistics Department / Knight Frank
Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents



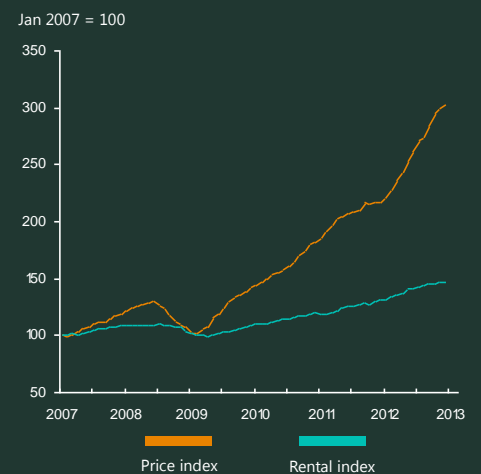
Source: Knight Frank

Figure 2
Luxury residential prices and rents



Source: Knight Frank

Figure 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank

MONTHLY REVIEW

Late February, the Hong Kong government announced further measures to cool the property market, but this time applicable to all types of property. In doing so, speculative activity may be curtailed, but prices are not expected to fall, as demand from end-users and long-term investors remains strong. With increased transaction costs, potential buyers will have golden opportunities to purchase quality property, with more room for price negotiation.

PRIME OFFICE

While Hong Kong's Grade-A office leasing market remained quiet over the Chinese New Year holiday, vacant offices in Central continued to be absorbed. A Chinese firm leased a high floor covering 25,079 sq ft of space in Citibank Plaza in Central. The leasing appetite of Mainland Chinese firms for local premium offices grows, as they see Hong Kong as a platform for internationalising their businesses.

Meanwhile, in-house expansion was also witnessed in non-core business districts. An Internet search engine company took up an additional 12,000-sq-ft, mid-high floor in Times Square Tower 2 in Causeway Bay and an investment bank leased an extra floor measuring 21,300 sq ft in One Island East in Quarry Bay.

The government rolled out another round of tightening measures, which targeted non-residential property for the first time in recent years. Demand in the office sales market will be suppressed by the increased stamp duty costs and we believe local investors will adopt a wait-and-see attitude until the market has acclimatised to the new measures, as they did when the Buyer Stamp Duty (BSD) and extended Special Stamp Duty (SSD) were introduced in

October 2012. Vendors with less 'holding power' may be more flexible on prices, but as the effect of the SSD fades, demand will rebound, as long as inflation and interest rates remain low.

The 2013–14 Budget reiterated the government's plans to increase land supply. Nine commercial sites will be included in the land sales plan, but they will take some time to materialise and the total supply will not relieve the current office shortage in the city. Relocation of the Wan Chai government offices involves complex procedures and inter-departmental coordination and the sites will not be available for development until 2018–2019 at the earliest. We expect office supply will remain limited until 2017, when major government projects such as CBD2 in Kowloon East start to come together.

RESIDENTIAL

The residential market experienced a roller-coaster ride in February. The traditionally quiet season did not see a drop in buying sentiment—in fact, developers sped up their flat sales, with encouraging results recorded.

Residential sales increased 16.2%, month on month, to 6,307, while mass and luxury residential prices

“**Demand in the office sales market will be suppressed by increased stamp duty costs.**”

“**To take control of land supply from developers, the government announced plans to scrap the application list system. Instead, from April, it will release a schedule for land sales every quarter.**”

gained a further 3.4% and 0.6%, respectively. Sun Hung Kai Properties (0016.HK) sold more than 500 units in RESIDENCE 88 in Yuen Long and The Wings 2 in Tseung Kwan O, while 360 hotel rooms in Kwai Chung reportedly sold within two days.

Concerned about potential overheating in the property market, the government imposed further tightening measures on 23 February, doubling the stamp duty rates for property purchases. The new rates apply to both individual and corporate buyers, but do not apply to local first-home purchasers.

Meanwhile, the Hong Kong Monetary Authority tightened mortgage lending for the sixth time in two years, requiring banks to increase the interest rates in mortgage stress tests by 100 basis points. We believe the new measures will dampen property sales in the short term and luxury residential investors in particular will hesitate due to increased transaction costs when making property investments.

With no developers having bid for the MTR Corporation's (0066.HK) Tin Shui Wai residential site, the plausibility of the government's plan to supply 20,000 homes per year was questioned. To take control of land supply from developers, the government announced plans to scrap the application list system. Instead, from April, it will release a schedule for land sales every quarter. We believe this will help stabilise the market, as the public will have a clearer picture on the number of units available each year.

More tightening measures might be introduced, should property prices continue to increase. We therefore maintain our previous forecast that residential property prices will remain stable, with mild upward or downward movement of less than 5% in 2013.

RETAIL

Before the government announced new measures to cool the non-domestic property market, investors remained active in the retail property sales market. The OLIV, a Ginza-type retail building at 15–21 Sharp Street East in Causeway Bay, began presale activity and reportedly sold a number of floors in the first day at an average price of over HK\$39,300 per sq ft.

On 22 February, the government announced measures to curb speculative activity in the property market, which affected both individual and corporate buyers. The stamp duty rates when purchasing retail property was doubled to up to 8.5% and will now be charged immediately after the signing of Sales and Purchase Agreements, rather than upon execution of conveyance.

The measures are expected to suppress retail property sales in the short-term, particularly those involving speculators and confirmors. However, with increased transaction costs, potential buyers will have golden opportunity to acquire quality retail property, with more room for price negotiation. After the announcement of the new stamp duty rates, a 700-sq-ft unit on the ground floor of Graceful Court in Sai Wan was reportedly sold for HK\$18 million, a reduction of over 10% from the original asking price.

In January, the local retail sales value surged 10.5%, year on year, to reach HK\$47.4 billion. The monthly sales value of 'jewellery, watches and clocks and valuable gifts' grew over 12%, year on year.

On the leasing front, robust activity continued in prime areas. South Korean cosmetics brand ETUDE HOUSE will reportedly open its second Hong Kong store on the ground floor of 50 Yun Ping Road in Causeway Bay at a monthly rent of

HK\$600,000, after opening its first shop in Mong Kok last year. Meanwhile, units E–G totaling 2,500 sq ft on the ground floor of 54–66 Canton Road in Tsim Sha Tsui were reportedly preleased for HK\$8 million per month, roughly three times more than its current lease.

Looking forward, the gross retail sales value is set to see close to double-digit growth in 2013, with the continuing influx of tourist arrivals and gradual economic growth. However, upset by increased staff costs and rentals, retailers' expansion plans are expected to turn cautious. Despite this, with expansion demand from retailers and limited supply of retail space in prime districts, rents are set to rise another 5–10% this year.

“**The value of local retail sales is set to see close to double-digit growth in 2013.**”

PRIME OFFICE

Investors will adopt a wait-and-see attitude in the short to medium-term, with the new round of policy tightening measures having been announced.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Admiralty	Lippo Centre	Tower 1 / 38 th floor	17,700	\$505	\$28,500
Central	China Insurance Group Building	4 th floor	14,500	\$185.66	\$12,800
Wan Chai	Sunshine Plaza	25 th floor	5,100	\$53.8	\$10,500
Central	The Chinese Manufacturers Association of Hong Kong Building	17 th floor	3,000	\$52.57	\$17,500
Central	Bank of America Tower	10 th floor / unit 4	1,800	\$51.4	\$27,980






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

Vacant offices in Central continue to be absorbed.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Gross area (sq ft)	Tenant
Central	Citibank Plaza	30 th floor	25,079	A Chinese firm
Causeway Bay	Times Square	Tower 2 / mid-high floor	12,000	An internet search engine company
Quarry Bay	One Island East	Mid floor	21,300	JP Morgan

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

Grade-A office rents continued to rise in major business districts last month.

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

Grade-A office prices remained firm over the past month.

Table 5 Prime office market indicators (Feb 2013)									
District	Net effective rent		Change			Price		Change	
	HK\$psf/mth	From Jan 13	From Nov 12	From Feb 12	HK\$ psf	From Jan 13	From Nov 12	From Feb 12	
Premium Central	141.9	1.2%	3.1%	-7.9%	n/a	n/a	n/a	n/a	
Traditional Central	106.5	1.6%	1.9%	-6.8%	27,470	0.0%	0.8%	14.3%	
Admiralty	82.9	0.0%	2.0%	-0.8%	22,871	1.2%	5.2%	23.4%	
Sheung Wan	61.2	0.0%	3.4%	-1.0%	20,962	0.0%	3.5%	29.6%	
Wan Chai	62.6	0.0%	0.4%	-4.3%	18,514	0.7%	5.5%	36.0%	
Causeway Bay	64.3	0.0%	0.4%	-2.1%	17,886	0.0%	2.7%	31.8%	
North Point	40.5	0.0%	5.6%	9.6%	n/a	n/a	n/a	n/a	
Quarry Bay	49.3	0.0%	4.3%	-2.7%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	54.0	1.2%	3.0%	11.6%	12,300	0.4%	2.3%	16.4%	
Cheung Sha Wan	24.7	0.0%	0.0%	10.7%	n/a	n/a	n/a	n/a	
Hung Hom	36.7	2.6%	8.4%	20.0%	n/a	n/a	n/a	n/a	
Kowloon East	37.0	2.9%	3.9%	10.2%	n/a	n/a	n/a	n/a	
Mong Kok / Yau Ma Tei	50.3	0.0%	1.8%	4.7%	n/a	n/a	n/a	n/a	

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

RESIDENTIAL

A number of major luxury residential sales transactions were recorded in the first-hand property market.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Peak	3 Gough Hill Road	House	8,085 (Gross)	\$650	\$80,396
Island South	8 Tai Tam Road	House	3,833	\$193	\$50,352
Happy Valley	The Signature	42nd floor / duplex B	3,128	\$151.3	\$48,362
Happy Valley	Broadwood Twelve	50 th -51 st floors / units A	2,508	\$132.8	\$52,591
Mid-level west	AZURA	46 th floor / unit A	1,297	\$46.2	\$35,944

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

A number of luxury residential leasing transactions of houses were recorded last month.



Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	Horizon Lodge	House	2,464	\$210,000	\$85.2
Mid-Levels Central	Kennedy Heights	High floor / unit B	2,929	\$140,000	\$47.8
The Peak	74 Mount Kellet Road	House	3,106	\$205,000	\$66.0
Pokfulam	Baguio Villa	Tower 31 / low floor unit	2,119	\$74,000	\$34.9

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

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Luxury residential rents dropped in three of the five major luxury districts, during the low season of Lunar New Year.

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

Pokfulam recorded notable increases in both luxury residential prices and rents in February.

Table 9 Luxury residential market indicators (Feb 2013)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Jan 13	From Nov 12	From Feb 12		From Jan 13	From Nov 12	From Feb 12
The Peak	\$58.6	-0.9%	-0.2%	-4.3%	\$23,660	0.0%	0.0%	0.0%
Mid-Levels	\$42.1	-0.8%	-1.3%	-6.4%	\$21,872	1.0%	1.9%	11.3%
Pokfulam	\$31.8	3.5%	4.7%	4.0%	\$19,466	4.2%	4.2%	21.3%
Jardine's Lookout & Happy Valley	\$41.5	-1.9%	4.6%	3.1%	\$20,328	3.0%	5.0%	14.5%
Island South	\$42.7	0.5%	0.4%	-5.7%	\$25,844	0.0%	2.7%	12.1%

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

RETAIL

Wan Chai witnessed several major retail property sales transactions in February.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Net area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Wan Chai	132 Johnston Road	Ground floor	N/A	\$202.18	N/A
Central	Lyndhurst Building	Ground floor / unit E	N/A	\$290	N/A
Yuen Long	OTB Yuen Long Building	Ground – 1 st floors	N/A	\$208	N/A
Wan Chai	Sing Kong Building	1 st –3 rd floors	N/A	\$170	N/A
Wan Chai	44–46 Johnston Road	Ground floor	1,750(G)	\$158	\$90,286

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

Major retail leasing transactions were clustered in Wan Chai and Mong Kok last month.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Net area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Wan Chai	Fortune Building	Ground floor / unit 1	743	\$238,000	\$320.3
Mong Kok	Foo Tat Building	Ground floor / units 1–2	728	\$182,000	\$250.0
Wan Chai	Golden Hill Mansion	Ground floor / unit A	680	\$100,000	\$147.06
Mong Kok	Lee Hing Building	Ground floor / unit F	395	\$76,000	\$192.41

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

Rents in Causeway Bay and Tsim Sha Tsui remained flat in February.

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

In January, the local retail sales value rose 10.5% year on year to HK\$47.4 billion, with the value of consumer durable goods surging 51.4% from January 2012.

Table 13 Retail sales by outlet type (Jan 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Dec 12	From Oct 12	From Jan 12
Jewellery, watches and clocks and valuable gifts	\$10.5	22.0%	-0.7%	39.3%	12.7%
Clothing, footwear and allied products	\$6.3	13.3%	-5.5%	33.9%	-1.8%
Department stores	\$4.4	9.3%	-20.3%	29.1%	1.4%
Fuel	\$0.9	1.8%	4.0%	-0.3%	4.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.4	7.1%	8.8%	13.4%	-1.4%
Consumer durable goods	\$9.4	19.6%	9.1%	53.7%	51.4%
Supermarkets	\$4.3	9.0%	5.8%	12.5%	-3.0%
Others	\$8.5	17.8%	12.0%	40.4%	4.4%
All retail outlets	\$47.7	100.0%	1.4%	34.1%	10.5%

Source: Census and Statistics Department

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