

RESEARCH



May 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Office sales and leasing
activity improve

RESIDENTIAL

Luxury home sales slow

RETAIL

Retail sales grow steadily

MARKET IN BRIEF

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

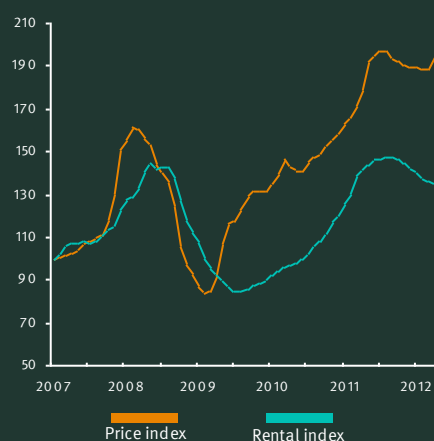
Table 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2010	2011	2012 forecast
GDP growth	Q1 2012	+0.4%#	+6.8%	+5.0%#	+3.8%
Inflation rate	March 2012	4.9%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to March 2011	3.4%#	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

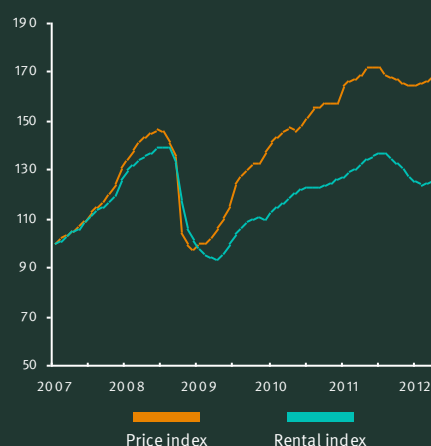
Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

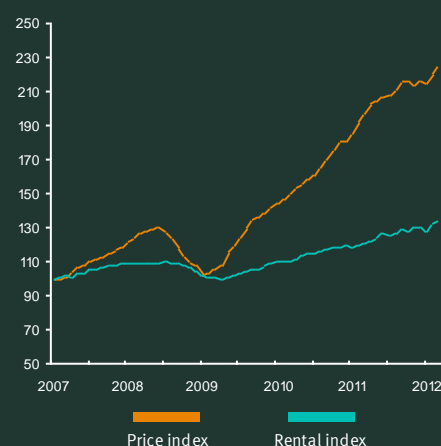
Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



MONTHLY REVIEW

There was improved sentiment in Hong Kong's Grade-A office sales and leasing sectors in April. However, residential sales and leasing activity slowed over the Easter holiday and examination season. The retail sector maintained its momentum with the influx of visitors during the holiday period. 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

Signs of increasing economic recovery in the US and improved local business sentiment encouraged both office sales and leasing activity over the past month. However, price and rental performances diverged, with prices witnessing a month-on-month increase for the first time this year, while rents continued to fall.

The number of office sales in April remained above 200. A number of landmark deals were recorded, including the en-bloc sale of 50 Connaught Road Central—a 29-storey Grade-A office tower in Central—to Agricultural Bank of China for HK\$4.88 billion or HK\$27,111 per sq ft.

Capital values of Grade-A offices saw a month-on-month rise of 3.3% on the back of strong sales activity in April. Causeway Bay led the market with an increase of 6.2%, followed by Wan Chai with 5.2%.

Leasing activity improved in April, particularly in Central where landlords showed more flexibility at the negotiation table. Beauty salon operators were one of the most active players during the month. One leased a 16,700-sq-ft, mid floor in World-Wide House, Central while another

expanded its business, taking two floors totaling 42,300 sq ft in Two Pacific Place, Admiralty. Meanwhile, water services supplier Veolia Water took up a 14,000-sq-ft, high-floor unit in The Center in Queen's Road Central and LouisVuitton leased two mid floors totaling 22,600 sq ft in Oxford House, Quarry Bay.

Looking ahead, corporate expansion plans are likely to be suppressed as eurozone citizens voted for political parties against the EU bailout deal, leading to more uncertainty in the global economy. On top of this, more space in Central will be vacated during the second half of the year. We therefore maintain our forecast and expect office rents to continue falling for the rest of the year. Grade-A office rents in Central are anticipated to drop 10–15% over 2012. Rents in non-core districts such as Causeway Bay and Kowloon East are expected to remain resilient, thanks to their exceptionally low vacancy rates.

RESIDENTIAL

Residential sales slowed in April, with homeowners and homebuyers leaving town over the Easter holiday. In addition, landlords remained firm on asking prices in view of improved market sentiment over the last few

“Office rents in Central will remain suppressed until the global economy shows signs of emerging out of recession.”

“Both luxury residential rents and prices rose in April, despite market activity being slow.”

May 2012

HONG KONG MONTHLY

months. According to Land Registry, in April, residential sales plunged 27.6% month on month to 8,217—the first drop so far in 2012. Sales of luxury homes valued HK\$10 million or above also declined in April, by 30.3% to 712.

The secondary market was quieter with the number of transactions dropping 25.3% to 7,413. However, prices increased, with a number of units transacting at record-breaking prices. A 2,517-sq-ft, high-floor duplex in Tower 1 of The Arch in Tsim Sha Tsui and a 2,519-sq-ft, low-floor unit in Macdonell House, Mid-Levels Central were sold for HK\$50,854 and HK\$15,879 per sq ft, respectively—the highest-ever prices in these developments. Mass residential prices, meanwhile, grew about 1.0% during the month.

The average luxury home price rose 1.6% in April. Island South outperformed other major luxury residential districts on Hong Kong Island, with a price increase of 5.5% month on month.

In the primary market, sales plunged 44.0% to 804, with no major new projects being launched in April. However, previously launched new flats received good responses from the market. Park Summit, for example, sold about 440 of the 462 available units in a week, according to the developer. Meanwhile, a local investor bought three units in Park Haven in Causeway Bay for a total of HK\$35 million and The Signature in Happy Valley sold over 40 of its 66 available flats in April for a total of HK\$1.9 billion.

The leasing market remained quiet in April during the holiday and examination season. Luxury home rents remained stable, rising 0.6% month on month. Rents on the Peak grew 1.9%—the most among the five major luxury districts on Hong Kong Island—followed by Island South (0.7%) and Pokfulam (0.5%).

Looking ahead, residential transactions are expected to decline further in May, given the poor performance of the local stock market. Buyers will become more reluctant to make purchase decisions, in response to slower local economic growth amid uncertainty in the Chinese and European economies. However, the rental market is set to enter its peak season. We believe home prices will fall during the year, but the rate will be modest given limited supply. Residential supply is projected to total 11,888 units during the year—28.7% lower than the average annual completion of 16,664 units over the past decade. Meanwhile, residential rents are expected to marginally rise during the year.

RETAIL

According to Hong Kong Retail Management Association, retailers experienced slower growth in sales values during the three-day Labour Day holiday compared with the same period last year, mainly due to a high base in 2011. Retail sales, which surged 25% in 2011, are set to grow at a more moderate pace of 10–15% in 2012, backed by strong tourist-arrival numbers to Hong Kong.

A large-scale transaction was recently recorded in the core retail district of Causeway Bay. In Po Wing Building in Lee Garden Road, a basket of properties totaling 23,932 sq ft—including shops A–B on the ground floor; the 1st and 2nd floors; unit S on the 12th floor and the flat roof—was sold for HK\$1.15 billion or HK\$48,053 sq ft.

Meanwhile, amid tight supply, competition remained fierce for street shops in prime shopping locations such as Queen's Road Central in Central and Russell Street in Causeway Bay, despite sky-rocketing rents. Zara reportedly pre-leased the basement to third-floor levels of Crawford House at 70 Queen's Road Central, currently occupied by H&M

and baby product retailer Eugene Group, for a monthly rent of HK\$11 million. This represents an increase of 220% compared with the previous lease. Meanwhile, second-hand luxury goods retailer Brand Off reportedly outbid another retailer of a similar business, to lease a 1,000-sq-ft retail unit at 60 Russell Street for HK\$1.1 million or HK\$1,100 per sq ft.

In view of the acute shortage of space in prime streets and the continuous strong demand by international brands for flagship stores, we remain positive on the outlook for the rental growth of prime street shops. We expect rents to rise by 10% over the year. This represents a slower pace, reflecting the more balanced growth of retail sales in Hong Kong.

Due to the lack of land in core districts, new shopping centres tend to be located in non-core areas close to MTR stations. These include PopCorn in Tseung Kwan O, which opened in the first quarter of this year; Domain in Yau Tong due to open in the second quarter and V-City in Tuen Mun due to open in 2013. They are expected to attract strong footfall given their high accessibility, while asking relatively affordable rents. These centres will appeal to established international brands and even high-end retailers aiming to expand out of the core shopping areas of Hong Kong. Mid-end retailers who cannot afford the high rents in core locations are also expected to relocate to these decentralised shopping centres. Both trends should provide firm support to the rental growth of shopping malls in non-core areas.

Retail sales are set to grow at a more moderate pace of 10–15% in 2012, compared with 25% in 2011.



PRIME OFFICE






The number of office sales in April remained above 200 and a number of landmark deals were recorded.

Table 2 Selected office sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	50 Connaught Road Central	En bloc	180,000	\$4,880	\$27,111
Wan Chai	AXA Centre	14 th floor	14,500	\$184.15	\$12,700
Kwun Tong	Elite Centre	26 th floor	11,876	\$85.50	\$7,199
Wan Chai	Morrison Plaza	21 st , 23 rd and 26 th floors	10,488	\$68.17	\$6,500
North Point	K. Wah Centre	27 th floor unit	7,000	\$67.20	\$9,600
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.					

Leasing activity improved in April, particularly in Central where landlords showed more flexibility at the negotiation table.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Admiralty	Two Pacific Place	23 rd —24 th floors	42,300	A beauty salon operator
Causeway Bay	Hysan Place	Mid floor	16,000	Wuliangye
Central	The Center	High floor	14,000	Veolia Walter
Central	World-Wide House	11 th floor	16,700	A beauty salon operator
Quarry Bay	Oxford House	Two floors	22,600	LouisVuitton
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 will remain firm.

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

Grade-A office prices grew 3.3% month on month, the first rise so far this year.

Table 5 Prime office market indicators (Apr 2012)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Mar 12	From Jan 12	From Apr 11	HK\$psf	From Mar 12	From Jan 12	From Apr 11
Premium Central	\$148.5	-4.8%	-8.5%	-17.8%	n/a	n/a	n/a	n/a
Traditional Central	\$110.1	-2.6%	-7.0%	-17.5%	\$24,878	3.5%	3.5%	6.4%
Admiralty	\$81.8	-0.6%	-7.7%	-8.6%	\$18,855	1.6%	1.7%	9.7%
Sheung Wan	\$60.8	-0.2%	-4.4%	0.6%	\$16,634	4.1%	2.9%	12.4%
Wan Chai	\$63.3	-2.8%	-4.1%	3.7%	\$14,328	5.2%	5.2%	9.6%
Causeway Bay	\$65.6	0.4%	0.4%	7.9%	\$14,412	6.2%	6.2%	5.3%
North Point	\$36.2	-1.9%	-2.1%	5.5%	n/a	n/a	n/a	n/a
Quarry Bay	\$48.3	-2.3%	-5.4%	0.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$49.1	0.7%	1.7%	13.8%	\$10,867	3.1%	1.1%	3.9%
Cheung Sha Wan	\$22.3	0.0%	0.0%	11.3%	n/a	n/a	n/a	n/a
Hung Hom	\$30.6	0.0%	0.0%	20.3%	n/a	n/a	n/a	n/a
Kowloon East	\$33.8	0.0%	1.0%	18.4%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$48.0	0.0%	0.0%	6.9%	n/a	n/a	n/a	n/a
Source: Knight Frank Rents and prices are subject to revision.								



RESIDENTIAL

During April, a number of houses were sold in Island South, while Tsim Sha Tsui also recorded some major sales deals.

Table 6 Selected residential sales transactions					
District	Building	Tower / Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Island South	Shouson Peak	House 17A	4,396	\$208	\$47,316
Island South	56 Repulse Bay Road	House 9	3,279	\$155	\$47,271
Tsim Sha Tsui	The Cullinan	Sun Sky / 87 th floor / unit A	2,289	\$93.56	\$40,874
Tsim Sha Tsui	The Arch	Block 1A / 79 th floor / unit 17	1,665	\$64.9	\$38,979
Tsim Sha Tsui	The Harbourside	Tower 1 / 42 nd floor / unit A	1,439	\$46.96	\$32,634
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Major leasing transactions mainly took place on the Peak and in Island South during April.

Table 7 Selected residential leasing transactions					
District	Building	Tower / Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Island South	36 Island Road	House	3,319	\$265,000	\$79.8
The Peak	11 Coombe Road	High floor	2,200	\$170,000	\$77.3
The Peak	21 Coombe Road	House	5,289	\$400,000	\$75.6
Island South	66 Deepwaterbay Road	House	4,200	\$300,000	\$71.4
The Peak	1-3 Pollock's Path	High-floor duplex	2,777	\$180,000	\$64.8
Source: Knight Frank Note: All transactions are subject to confirmation.					

May 2012

HONG KONG MONTHLY

Residential rents rose in four of the five major luxury residential districts on Hong Kong Island.

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

Luxury residential prices and rents grew 1.6% and 0.6% in April, respectively.

Table 9 Luxury residential market indicators (Apr 2012)								
District	Net effective rent HK\$psf/mth	Change			Price HK\$psf	Change		
		From Mar 12	From Jan 12	From Apr 11		From Mar 12	From Jan 12	From Apr 11
The Peak	\$62.0	1.9%	-0.3%	-2.9%	\$23,667	0.0%	0.0%	-2.4%
Mid-Levels	\$45.5	-0.9%	-0.6%	-9.2%	\$19,859	0.4%	1.1%	0.9%
Pokfulam	\$31.2	0.5%	0.6%	-6.4%	\$17,262	0.2%	7.6%	-0.8%
Jardine's Lookout & Happy Valley	\$40.6	0.4%	1.7%	-3.6%	\$17,782	0.6%	0.4%	-2.4%
Island South	\$46.3	0.7%	1.2%	-5.4%	\$24,316	5.3%	5.4%	3.3%
Source: Knight Frank Rents and prices are subject to revision.								



RETAIL





Shops in core locations remained popular among buyers. A ground-floor unit in Mong Kok was sold for over HK\$200,000 per sq ft.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Mong Kok	Richmond Shopping Centre	Ground floor / unit 5	164	\$36.5	\$222,561
Wan Chai	Fu Wing Court	Ground floor / units A-B	152	\$19.3	\$126,974
Wan Chai	New Century Plaza	Ground floor / units 48-49	755	\$62	\$82,119
Mong Kok	Lee Wai Building	Ground floor unit A, mezzanine units A-B and 1 st floor unit C1	3,150	\$225	\$71,429
Tsim Sha Tsui	Wing Fu Mansion	Ground floor / unit 3	569	\$38	\$66,784
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

Shops in non-core areas continued to be sought after by tenants.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Area (sq ft)	Monthly Rent (HK\$)	Monthly Rent (HK\$psf)
Tuen Mun	Hong Lai Garden Arcade	Ground floor / unit 14B	174	\$100,000	\$574.7
Tsuen Wan	City Landmark	2 nd floor / unit 39	152	\$57,820	\$380.4
Tsim Sha Tsui	Granville House	Ground floor / unit B	700	\$220,000	\$314.3
Tsuen Wan	City Landmark	2 nd floor / unit 72	205	\$56,000	\$273.2
Causeway Bay	Dragon Rise	Ground floor / unit D	517	\$138,000	\$266.9
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

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

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

All types of retail outlets recorded year-on-year increases in retail sales value in March, but the largest growth was in the 'jewellery, watches and clocks and valuable gifts' sector.

Table 13 Retail sales by type of retail outlet (Mar 2012)					
Outlet	Value	Share of total	Change		
	HK\$ billion	%	From Feb 12	From Dec 11	From Mar 11
Jewellery, watches and clocks and valuable gifts	\$7.9	21.4%	6.4%	-17.3%	19.0%
Clothing, footwear and allied products	\$4.7	12.8%	6.4%	-25.9%	15.7%
Department stores	\$3.2	8.7%	3.7%	-36.6%	14.5%
Fuels	\$0.9	2.4%	15.9%	5.5%	11.3%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.7	7.5%	0.5%	-15.3%	0.6%
Consumer durable goods	\$6.8	18.7%	17.3%	-3.9%	30.0%
Supermarkets	\$3.9	9.9%	8.7%	-4.6%	11.8%
Others	\$6.8	18.6%	8.4%	-5.9%	17.8%
All retail outlets	\$36.7	100.0%	8.4%	-15.0%	17.3%
Source: Census and Statistics Department					



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Contacts

Alan Child

Executive Chairman
T: (+852) 2846 9522
E: alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director
T: (+852) 2846 4848
E: colin.fitzgerald@hk.knightfrank.com

Valuation and Professional Services

Alnwick Chan

Executive Director
T: (+852) 2846 9551
E: alnwick.chan@hk.knightfrank.com

China Valuation

Clement Leung

Executive Director
T: (+852) 2846 9593
E: clement.leung@hk.knightfrank.com

Corporate Consultancy

Paul Hart

Executive Director
T: (+852) 2846 9537
E: paul.hart@hk.knightfrank.com

Commercial Agency

Mark Bernard

Executive Director
T: (+852) 2846 4811
E: mark.bernard@hk.knightfrank.com

Residential Agency

Renu Budhrani

Executive Director
T: (+852) 2846 9550
E: renu.budhrani@hk.knightfrank.com

Retail Services

Livian Har

Director, Head of Retail Services
T: (+852) 2846 9543
E: livian.har@hk.knightfrank.com

Research

Thomas Lam

Director, Head of Research, Greater China
T: (+852) 2846 4819
E: thomas.lam@hk.knightfrank.com

Pamela Tsui

Senior Research Manager
T: (+852) 2846 4843
E: pamela.tsui@hk.knightfrank.com

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