

RESEARCH

May 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

Both sales and leasing sectors quiet

Residential

Primary sales surge before ordinance implementation

Retail

Decreased tourist spending limits retail sales growth

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	Mar 2013	+3.6%	+5.3%	+4.1%	+4.4%
Unemployment	Jan 2013- Mar 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

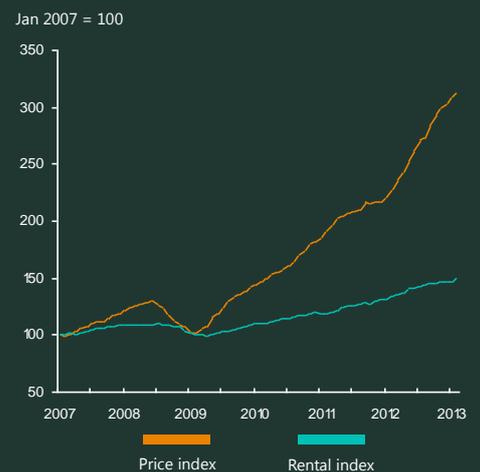
Figure 1
Grade-A office prices and rents



Figure 2
Luxury residential prices and rents



Figure 3
Retail property prices and rents



MONTHLY REVIEW

The primary residential market outperformed last month, with developers actively selling remaining units before the implementation of a new ordinance regulating primary sales. Meanwhile, both the Grade-A office sales and leasing sectors were sluggish, due to economic uncertainty and various cooling measures. Growth in retail property rents was also suppressed, following a decrease in tourist spending.

PRIME OFFICE

Over the past month, Hong Kong's office sales market continued to be clouded by the implementation of the Double Stamp Duty. Grade-A office prices in all major business districts saw a mild consolidation of 1–2% last month, as vendors lowered their asking prices by significant amounts to secure deals.

While investors generally remained cautious, there were signs of recovery in demand from end users. Manulife bought the entire West Block of Wheelock's One Bay East in Kwun Tong for HK\$4.5 billion or HK\$8,789 per sq ft, a total of 512,000 sq ft and the largest office purchase in Kowloon to date. The property will serve as headquarters for Manulife's Hong Kong operations.

Other major Grade-A office sales transactions last month involved small floor plates. For example, over 7,000 sq ft of space was sold on the 43rd floor of Convention Plaza Office Tower in Wan Chai for HK\$29,485 per sq ft.

The leasing sector also remained quiet last month, with the local economy continuing to be affected by external uncertainty and demand largely involving relocations rather than expansions. The low level of activity was also due to a lack of

available space in all major business districts. Landlords were under no pressure to lease, while potential tenants had to spend more time searching for suitable spaces, with choices being limited.

Major leasing deals over the month included a 16,065-sq-ft, mid-level floor in Hysan Place in Causeway Bay, which was reportedly taken up by a financial institution. Most leasing transactions reportedly involved small floor plates, including one involving two high-floor units totaling 4,400 sq ft at The Center in Central.

Grade-A office rents in Central have bottomed out, with rents having risen 1.8% in April—the largest month-on-month increase since March 2011. With vacancy levels remaining at a low level of about 4.5%, we believe Central Grade-A office rents will remain stable in 2013. Meanwhile, the landmark en-bloc transaction in Kowloon East last month underlines solid office demand in that district. We maintain our view that rents in Kowloon East are likely to see 10–15% growth over the year.

RESIDENTIAL

The Residential Properties (First-hand Sales) Ordinance came into effect on 29 April. As the name suggests, the ordinance mainly applies to the sale

“**The office sales market continued to be clouded by the implementation of the Double Stamp Duty.**”

“**With the new ordinance and various other policies coming into effect, we believe there will be a drop in activity in both the primary and secondary residential markets in the coming few months.**”

of primary residential property and sets out detailed requirements in seven areas: sales brochures; price lists; show flats; disclosure of transaction information; advertisements; sales arrangements and the mandatory provisions for Preliminary Agreement for Sale and Purchase as well as Agreement for Sale and Purchase. Moreover, it prohibits the misrepresentation and dissemination of false or misleading information.

Before the implementation of the ordinance, most developers attempted to offer aggressive discounts and beneficiary packages in a bid to sell remaining units, as they would require to renew all sales materials once the new ordinance came into effect. According to market news, about ten residential projects successfully cleared all stock before the new ordinance came into effect.

However, after the ordinance was implemented, only two developments—Green Code in Fanling and Dunbar Place in Ho Man Tin—have obtained approval for their sales arrangements. Therefore, only 331 new flats (278 at Green Code and 53 at Dunbar Place) have become available for sale so far. Major developers have the resources to comply with the new rules. However, small to medium-sized developers will wait to see how the market reacts before following suit. Therefore, we expect the primary market to enter a “window period”, as developers slow their pace in launching new projects and remaining units in primary projects. Consequently, we expect only limited primary residential properties will be launched in the next few months.

With focus shifting towards the primary property market and continual impact from various stamp duty policies, the secondary market remained quiet in April. Luxury residential prices fell 2.2% month on

month—the largest drop since August 2010. In the mass residential market, although landlords became more willing to negotiate, sentiment remained gloomy, as buyers were adopting a wait-and-see attitude, hoping to buy at bargain prices.

Due to the various stamp duty policies which targeted to suppress investment and speculation demand, now the market is more dominated by end-users, but their purchasing power has been largely absorbed due to developers’ active clearance of remaining units before the ordinance’s implementation. The market needs some time to recover and accumulate purchasing power again.

With the new ordinance coming into effect as well as various new policies, we believe there will be a drop in activity in both the primary and secondary markets in the coming few months. We estimate the volume of residential transactions will fall about 10% this year, with mass residential prices dropping around 10% and the more resilient luxury sector falling 5% in 2013.

RETAIL

For the first quarter of 2013, the value of retail sales in Hong Kong rose 13.9% year on year, a slower pace compared with a rise of 15.8% over the same period in the previous year. The slowdown was attributed to cautious consumption caused by the weakened external economy and also to the fact that the majority of Mainland visitors became mid-end consumers from second or third-tier cities with lower consumption power.

As a result, the growth in spending of Mainland visitors lagged that of their arrival number. In March 2013, the retail sales value increased 9.8% year on year, while the annual growth in Mainland visitor arrivals reached 13.8% over the same period. The growth in mid-end consumers boosted demand for mid-end,

branded apparel and accessories. This trend fuelled expansion activity and the debut of a number of international mid-end retailers in Hong Kong.

Uniqlo, for example, plans to open six more stores in Hong Kong, following the launch of its 37,500-sq-ft flagship store in Lee Theatre Plaza, Causeway Bay last month. Two of the new stores will open this summer in Tuen Mun and Tseung Kwan O. Meanwhile, two established American brands—UGG and Victoria’s Secret—made their Hong Kong debuts last month. Apparel retailer UGG opened a flagship store in Yiu Wa Street in Causeway Bay, while Victoria’s Secret launched a 1,500-sq-ft store in IFC mall in Central. The lingerie brand will open a second 1,500-sq-ft store in New Town Plaza, Sha Tin.

May Day Golden Week started at the end of April this year and the total number of Mainland arrivals on 29-30 April increased 13% from last year, implying that the buoyant state of inbound tourism should continue. Despite this, the value of local retail sales is expected to see a more moderate increase of 5–8% over 2013, due to the decrease in expenditure of Mainland visitors.

The decline in expenditure on luxury items and the slowing growth in local retail sales will limit rental growth in prime districts. However, rental growth is still expected to reach about 5% in 2013, due to the limited supply of prime street shops.

“The retail sales value is expected to see a more moderate increase of 5–8% over 2013, due to the decrease in expenditure of Mainland visitors.”

PRIME OFFICE

One office building was sold en bloc, despite higher costs imposed by the new stamp duties.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kwun Tong	One Bay East West Tower Manulife Tower	En bloc	512,000	\$4,500	\$8,789
Wan Chai	Convention Plaza Office Tower	43 rd floor / units 1-3	7,857	\$231,664	\$29,485
Admiralty	Lippo Centre	Tower 2 / 26 th floor / unit 9	1,786	\$36.5	\$20,437
Tsim Sha Tsui	New East Ocean Centre	1 st floor / units 8-9	1,711	\$33	\$19,287
Central	Silver Fortune Plaza	11 th floor	4,397	\$71	\$16,147

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

Leasing transactions last month involved mainly small floor plates.

Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
Tsim Sha Tsui	The Gateway	Tower 6 / 37 th floor / units 2-4	4,626
Central	The Center	68 th floor / units 10-11	4,432
Central	Nine Queen's Road Central	14 th floor / unit 7	3,120 (G)
Admiralty	Lippo Centre	Tower 2 / 4 th floor / unit 22	1,097
Admiralty	Admiralty Centre	Tower 2 / 16 th floor / unit 6	2,064

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

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Grade-A office rents in Central and Admiralty rebounded slightly in April 2013.

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

Grade-A office prices in major business districts dropped 1.4% month on month in April 2013.

Table 5 Prime office market indicators (Apr 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Mar 13	From Jan 13	From Apr 12	HK\$ psf	From Mar 13	From Jan 13	From Apr 12
Premium Central	145.5	2.5%	3.8%	0.0%	n/a	n/a	n/a	n/a
Traditional Central	107.1	1.2%	2.3%	-3.3%	26,958	-1.9%	-1.9%	8.4%
Admiralty	82.6	0.6%	-0.3%	1.0%	22,665	-1.2%	0.2%	20.2%
Sheung Wan	61.9	1.1%	1.1%	1.8%	20,658	-1.4%	-1.4%	24.2%
Wan Chai	62.2	0.1%	-0.7%	-1.7%	18,336	-1.7%	-0.3%	28.0%
Causeway Bay	63.6	-0.9%	-1.1%	-3.1%	17,631	-1.4%	-1.4%	22.3%
North Point	41.3	2.2%	2.1%	14.0%	n/a	n/a	n/a	n/a
Quarry Bay	49.2	-0.3%	-0.1%	1.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	53.7	-1.3%	0.7%	9.4%	12,219	-1.1%	-0.3%	12.4%
Cheung Sha Wan	25.3	-3.5%	2.6%	13.6%	n/a	n/a	n/a	n/a
Hung Hom	37.3	-0.9%	4.3%	22.0%	n/a	n/a	n/a	n/a
Kowloon East	38.1	0.1%	6.2%	13.0%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	50.0	-1.0%	-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 luxury residential sales transactions were recorded in Kowloon Tong and Happy Valley last month.

Table 6
Selected residential sales transactions

District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kowloon Tong	15 Cambridge Road	House	7,300	\$333.8	\$45,726
Tsim Sha Tsui	The Harbourside	Tower 3 / 72 nd floor / unit A	1,691	\$73	\$43,170
Kowloon Tong	2 Oxford Road	House A	7,690	\$295	\$38,362
Happy Valley	The Leighton Hill	Tower 5 / 22 nd floor / unit A	1,742	\$63.9	\$36,670
Happy Valley	Winfield Building	Tower A / 12 th floor / unit 2	2,006	\$66.9	\$33,373

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

With landlords being more willing to enlarge the room for price negotiation, a few leasing transactions of houses were recorded in the past month.

Table 7
Selected residential leasing transactions

District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
The Peak	74 Mount Kellet Road	House	3,111	\$240,000	\$77.1
Mid-Levels	Aigburth	High floor / unit A	2,119	\$135,000	\$62.7
Island South	Fairwind	House	2,191	\$135,000	\$61.6
Island South	The Redhill Peninsula	House	2,623	\$145,000	\$55.3

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

Luxury residential rents dropped in three of the five major luxury districts in April 2013.

Table 8
Month-on-month movement of luxury residential rents (Apr 2013)

Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

Mid-Levels recorded the largest drop in rentals, while prices in the Peak fell most last month.

Table 9
Luxury residential market indicators (Apr 2013)

District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Mar 13	From Jan 13	From Apr 12		From Mar 13	From Jan 13	From Apr 12
The Peak	\$58.3	-0.3%	-1.4%	-6.0%	\$22,919	-3.1%	-3.1%	-3.2%
Mid-Levels	\$41.1	-1.7%	-3.0%	-9.7%	\$21,534	-1.7%	-0.6%	8.4%
Pokfulam	\$31.9	0.3%	3.7%	2.2%	\$19,148	-1.6%	0.4%	10.9%
Jardine's Lookout & Happy Valley	\$41.0	-0.4%	0.6%	0.9%	\$20,328	0.0%	1.1%	14.3%
Island South	\$43.0	0.8%	1.3%	-7.1%	\$25,080	-3.0%	-3.0%	3.1%

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

RETAIL

Several major retail property sales transactions were recorded in both core and non-core districts last month.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Central	Winner Building Block B	Ground floor / unit K	861 (gross)	\$114.98	\$133,542
Kwun Tong	Fu Shing House	Ground floor / unit 3	630 (net)	\$54.68	\$86,794
Ho Man Tin	Tung Nam Mansion	Ground-2 nd floors	4,200 (gross)	\$125	\$29,762
Causeway Bay	Shining Building	1 st floor	n/a	\$176.91	n/a
Tuen Mun	Far East Consortium Tuen Mun Building	1 st -4 th floors	n/a	\$100	n/a

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

Wan Chai and Tsim Sha Tsui witnessed several major leasing transactions in April.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Tsim Sha Tsui	Tsim Sha Tsui Mansion	Ground floor / unit 39	1,005 (net)	\$480,000	\$477.61
Wan Chai	Yau Kwong Building	Ground floor / unit 2C	800	\$260,000	\$325
Kwai Chung	Mai Kwai Mansion	Lower ground floor / unit 1	656	\$200,000	\$304.88
Tsim Sha Tsui	Austin Tower Phase 01	Underground floor / unit 2	622 (net)	\$110,000	\$176.85
Wan Chai	Wah Fat Mansion	Ground floor / unit A	1,640	\$193,000	\$117.68

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

Retail rents in Central increased in April 2013, while those in other major retail districts remained stable.

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

For the first quarter of 2013, the value of retail sales in Hong Kong grew 13.9% year on year, a slowdown from a year ago.

Table 13 Retail sales by outlet type (Mar 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Feb 13	From Dec 12	From Mar 12
Jewellery, watches and clocks and valuable gifts	\$8.7	21.6%	-9.5%	-17.8%	11.2%
Clothing, footwear and allied products	\$5.3	13.2%	-3.8%	-20.9%	13.2%
Department stores	\$3.8	9.5%	-4.8%	-31.3%	19.9%
Fuel	\$0.9	2.2%	21.9%	7.7%	1.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.6	6.6%	-13.9%	-15.5%	-3.8%
Consumer durable goods	\$7.9	19.6%	10.8%	-8.2%	15.3%
Supermarkets	\$3.8	9.5%	-8.2%	-6.4%	5.3%
Others	\$7.1	17.8%	-1.7%	-5.7%	4.8%
All retail outlets	\$40.2	100.0%	-3.1%	-14.5%	9.8%

Source: Census and Statistics Department

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Contacts**Alan Child**

Executive Chairman, Greater China
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Paul Hart

Executive Director, Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

China Valuation**Clement Leung**

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

Commercial Agency**Colin Fitzgerald**

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Residential Agency**Renu Budhrani**

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

Retail Services**Livian Har**

Director, Head of Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

Research & Consultancy**Thomas Lam**

Director, Head of Research & Consultancy,
Greater China
+852 2846 4819
thomas.lam@hk.knightfrank.com

Pamela Tsui

Senior Manager, Research & Consultancy,
Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

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