

RESEARCH



November 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Office demand to remain weak

RESIDENTIAL

New cooling policies curb demand

RETAIL

Short-term investors stoke investment market

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	Q2 2012	+1.2%	+6.8%	+5.0%	+3.8%
Inflation rate	Sep 2012	+3.8%	+2.4%	+5.3%	+3.4%
Unemployment	Jul-Sep 2012	3.3%#	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

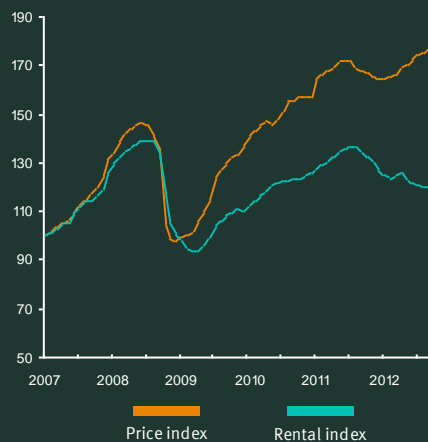
Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

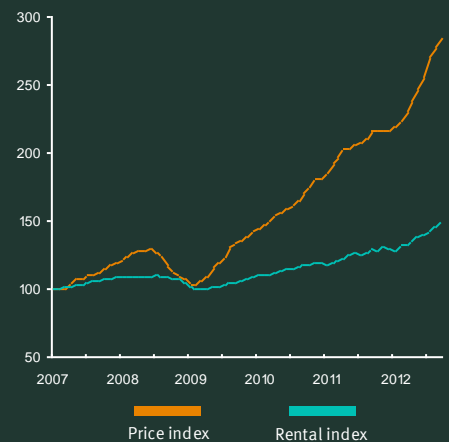
Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



MONTHLY REVIEW

Amid the government's new tightening measures, the residential sales market started to cool. More investors shifted to other property sectors, stimulating the office and retail investment markets. On the leasing front, the retail market was the strongest performer, with sustained demand from Mainland tourists, while residential leasing remained stable and office leasing focused on non-core business areas.

PRIME OFFICE

Amid new tightening measures in the residential market, more investors shifted to other property sectors, helping stoke activity in the office sales market. A landmark office transaction was announced following the introduction of a new Buyer's Stamp Duty (BSD) on non-local investors in the residential market—a Mainland steel producer paid HK\$386 million for a 13,718-sq-ft mid-floor unit in Nine Queen's Road Central in Central. This translated into a record-high, per-sq-ft price tag of HK\$28,160.

Red-hot investment sentiment pushed up the average Grade-A office price by 2.2% month on month. So far this year, Wan Chai had experienced the greatest price appreciation of 26.8%, followed by Sheung Wan with 23.5% and Admiralty with 16.3%. We expect the upward trend to continue, as more investors are likely to divert their capital into commercial properties.

The robust sales market continued to outshine leasing activity. Although a number of major leasing deals were concluded in the past month, the majority of them involved relocations and downsizing. The Consulate General of Canada in Hong Kong decided to relocate its Central office to four floors totaling 52,000 sq ft in DCH

Commercial Centre in Quarry Bay. Meanwhile, an insurance firm will relocate its Quarry Bay offices to a 49,630-sq-ft space in World Finance Centre, Tsim Sha Tsui.

Retailers remained active players in the office leasing market. Samsonite will relocate and expand its office, taking a 17,400 sq ft, mid-floor unit in Tower 2 of The Gateway in Tsim Sha Tsui. In the same district, an Italian fashion retailer leased a 16,000-sq-ft, low-floor space in Ocean Centre.

Leasing demand in Central is expected to remain soft, as hiring intentions by the financial sector continue to contract. With relatively high vacancy pressure, tenants will continue to have the upper hand in negotiations. Meanwhile, competition for relocation space in non-core locations such as Kowloon East will continue to be fierce. We expect Grade-A office rents in non-core districts to remain firm, with Kowloon East likely to see a 10–15% growth over the coming 12 months.

RESIDENTIAL

On 27 October, the Hong Kong Government introduced a new Buyer's Stamp Duty (BSD) as well as extended and intensified the existing Special Stamp Duty (SSD). Under the new policy, local and foreign companies as

“Office leasing demand in Central is expected to remain soft, as hiring intentions by the financial sector continue to contract.”

“Residential demand from speculators and investors is expected to be checked by the increased policy risks and investment costs.”

well as non-permanent Hong Kong residents have to pay an additional 15% BSD when buying homes in Hong Kong. Meanwhile, SSD has been extended for three years and rates have been raised—from 15% to 20% for a resale within six months of purchase, from 10% to 15% for a resale within 6–12 months and from 5% to 10% for a resale within 12–36 months.

Following strong price growth in 2012, to date, the residential market is now likely to cool as a result of the new measures. The number of residential transactions totaled 71,012 in the first ten months of 2012, but is expected to reach only 75,000 by the end of year, compared with 84,442 transactions over 2011.

Demand from speculators and investors is expected to be checked by the increased policy risks and investment costs. This will be particularly apparent for primary residential projects, where a significant proportion of buyers are companies or Mainlanders.

Developers, facing suppressed demand, are expected to become less aggressive while setting prices for pre-sale residential units and adjustments to selling strategies are also anticipated.

Secondary home owners are likely to hold on to their properties or release them onto the leasing market, given the low interest-rate environment and new stamp duty policies. Potential buyers who cannot afford the high prices, or are waiting for a price drop, are expected to shift towards the leasing market. Therefore, the leasing sector is expected to remain strong with sustained supply and stable demand.

Speculators, having been deterred by the new policies, have shifted their focus towards non-residential sectors such as commercial, industrial and even car-parking space. A significant increase in car-parking space transactions was witnessed after the

enforcement of the policy.

The trend for residential price movement will be uncertain in the short term. However, after the market has digested the negative impact of the new policies, we expect demand from buyers—including Mainlanders and speculators—will return in the medium to long run. Prices of luxury homes should remain stable or experience mild price growth, due to limited supply. However, we believe the government may launch further cooling measures if home prices start to rise significantly, again.

RETAIL

In September, retail sales grew 9.4% year on year to HK\$34.1 billion, helped in part by holiday spending during the Mid-Autumn Festival. Hong Kong received 968,846 Mainland visitors during the eight-day Golden Week holiday in October—a year-on-year growth of 23%. Nonetheless, Mainland tourists spent less on luxury goods amid the slowing economy. Month on month spending on jewellery, watches and clocks dropped 6.5% to HK\$7.1 billion in September.

Despite the recent concern over the global economy, competition for prime space in Hong Kong's retail leasing market showed no signs of abating. Watch and jewellery brand Piaget launched its 5,000-sq-ft flagship store on the ground floor of Mandarin Oriental Hotel in Central. This is its largest store in Asia and its eighth store in Hong Kong.

High rents in prime areas had begun to force mid-market retailers to move to upper-level spaces or secondary locations in core areas. An 800-sq-ft unit owned by a local restaurant in Canton Road, Tsim Sha Tsui was sublet to optical retailer Puyi Group for HK\$1.8 million per month or HK\$2,250 per sq ft per month.

On the supply side, the first phase of

Mira Mall in Tsim Sha Tsui, offering 100,000 sq ft of prime retail space, reopened after its renovation. The four-storey mall, owned by Miramar Hotel and Investment Company Limited (0071.HK), targets local female consumers and houses about 30 shops, including the flagship stores of Coach, Twist and Tommy Hilfiger. Japanese multi-label brand Collect Point also launched a 22,000-sq-ft lifestyle store in Mira Mall. The second phase of renovation work in the centre is due to be completed by the end of 2014.

The retail investment market was active in October, with a number of investors seeking opportunities and several major transactions were recorded. Units D–F on the ground floor of Kingstown Mansion in Wan Chai, totaling 11,964 sq ft, were sold for HK\$300 million or HK\$25,113 per sq ft.

Tourism growth is expected to continue to support local retail businesses. Given continued expansion demand from international brands, we maintain our forecast that the local retail market would remain positive and retail rents in core shopping districts would increase 10% over 2012, after rising about 8% in the first three quarters of the year.

“Continued expansion of international brands is expected to support local retail businesses.”



PRIME OFFICE

More investors shifted to other property sectors amid new tightening measures in the residential market.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	Nine Queen's Road Central	27th floor	13,718	\$386.3	\$28,160
Central	Bank of America Tower	32nd floor units	8,717	\$240.36	\$27,574
Central	Bank of America Tower	5th floor / unit 3	1,720	\$44.89	\$26,099
Admiralty	Lippo Centre	Tower 1 / 32nd floor / unit C	4,380	\$96.36	\$22,000
Sheung Wan	Shun Tak Centre, West Wing	Mid-floor / unit 8	1,440	\$31.68	\$22,000

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

Retailers remained active players in the Grade-A office leasing market.






Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	The Landmark	One floor	12,400	Squire Sandors & Demp
Quarry Bay	DCH Commercial Centre	7–10th floors	52,000	Consulate General of Canada in Hong Kong
Tsim Sha Tsui	Ocean Centre	Part of 9th floor	16,000	World International Corporation
Tsim Sha Tsui	The Gateway	Tower 2 / 25th floor	17,400	Samsonite Asia
Tsim Sha Tsui	World Finance Centre	North Tower / part of 8th floor; North & South Towers / 9th floor	49,600	AGEAS

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

November 2012

HONG KONG MONTHLY

Tenants would continue to have the upper hand in negotiations for office space

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

Red-hot investment sentiment pushed up average Grade-A office prices by 2.2%, month on month.

Table 5 Prime office market indicators (Oct 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Sep 12	From Jul 12	From Oct 11		From Sep 12	From Jul 12	From Oct 11
Premium Central	\$136.3	-0.1%	-2.7%	-21.9%	n/a	n/a	n/a	n/a
Traditional Central	\$106.7	-0.4%	-1.8%	-20.1%	\$27,077	1.2%	3.5%	12.7%
Admiralty	\$82.3	-0.8%	-1.1%	-8.9%	\$21,555	2.3%	8.5%	16.3%
Sheung Wan	\$60.3	0.5%	-0.6%	-3.3%	\$19,967	2.6%	7.2%	21.4%
Wan Chai	\$62.3	-0.4%	-0.6%	-4.5%	\$17,268	1.9%	7.1%	24.6%
Causeway Bay	\$65.6	-0.4%	-1.2%	2.2%	\$16,931	5.8%	8.8%	20.1%
North Point	\$37.1	0.4%	1.7%	-0.2%	n/a	n/a	n/a	n/a
Quarry Bay	\$46.3	-0.4%	-2.9%	-8.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$51.8	0.2%	2.9%	8.2%	\$11,951	1.4%	3.2%	6.8%
Cheung Sha Wan	\$24.0	0.0%	7.7%	11.0%	n/a	n/a	n/a	n/a
Hung Hom	\$33.1	1.1%	1.7%	15.2%	n/a	n/a	n/a	n/a
Kowloon East	\$35.2	0.0%	2.2%	8.4%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$49.4	0.0%	2.9%	1.3%	n/a	n/a	n/a	n/a

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



RESIDENTIAL

A number of major sales transactions were recorded in Mid-Levels last month.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Mid-Levels Central	Kennedy Park at Central	29–30th floors / duplex B	3,352	\$154.2	\$46,002
Peak	Severn 8	Odd no. house	4,325	\$250	\$57,803
Pokfulam	Villa Bel-Air	House 15	5,334	\$155	\$29,050
Tsim Sha Tsui	The Masterpiece	62nd floor / unit D	2,384	\$85.1	\$35,701
Mid-Levels West	39 Conduit Road	19th floor / unit B	2,808	\$94.7	\$33,712






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

A number of major luxury houses were leased in October.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
Island South	81 Repulse Bay Road	House	3,006	\$200,000	\$66.5
Island South	Stanley Green	House	2,200	\$125,000	\$56.8
Pokfulam	Felix Villa	House	4,000	\$180,000	\$45.0
Mid-Levels	Borrett Mansion	Mid-floor / unit B	2,800	\$105,000	\$37.5
Peak	Strawberry Hill	Phase 2 / house	3,600	\$200,000	\$55.6

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

Residential rents dropped in four of the five major luxury districts last month.

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

Both luxury residential prices and rents remained stable in October.

Table 9 Luxury residential market indicators (Oct 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Sep 12	From Jul 12	From Oct 11		From Sep 12	From Jul 12	From Oct 11
The Peak	\$58.6	-0.7%	-2.1%	-10.7%	\$23,667	0.0%	0.0%	0.0%
Mid-Levels	\$42.5	-0.7%	-0.1%	-13.8%	\$21,399	0.8%	2.8%	7.3%
Pokfulam	\$30.3	-0.7%	-0.7%	-7.8%	\$18,682	0.0%	0.6%	11.6%
Jardine's Lookout & Happy Valley	\$39.8	-0.6%	-2.5%	-4.1%	\$19,435	0.4%	4.4%	6.1%
Island South	\$42.7	0.0%	-1.4%	-12.6%	\$25,844	2.7%	3.8%	11.2%

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



RETAIL

The retail investment market recorded a number of major transactions in October, as hot money continued to flow into the city.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Yau Ma Tei	Wing Sing Building	Ground floor / units C	250	\$28.8	\$115,200
Tsim Sha Tsui	Carlton Building	Ground floor / unit 1	1,325	\$100	\$75,472
Kwun Tong	Yue Man Mansion	Ground floor / units C-D1	1,065	\$123	\$115,493
North Point	Kings Towers	Ground floor / unit 13	1,747	\$150	\$85,861
Wan Chai	Kingstown Mansion	Ground floor / units D-F	11,946	\$300	\$25,113

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





Leasing activity in October focused on non-core areas and secondary locations in prime districts.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
Tsuen Wan	Fortune Mansion	Ground floor / unit 2	441	\$100,000	\$226.8
Causeway Bay	Po Hon Building	Ground floor / unit B	705	\$450,000	\$638.3
Causeway Bay	Lockhart House	Ground floor	509	\$140,000	\$275.1
Jordan	Lucky House	Ground floor / unit G	536	\$215,000	\$401.1
Causeway Bay	501 Lockhart Road	Ground floor	638	\$380,000	\$595.6

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

Retail rents remained stable in all four core retail areas in October 2012.

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

In September, the value of retail sales grew 9.4%, year on year, to HK\$34.1 billion. For the first nine months of 2012, the value increased 10.6% year on year.

Table 13 Retail sales by outlet type (Sep 2012)					
Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Aug 12	From Jun 12	From Sep 11
Jewellery, watches and clocks and valuable gifts	\$7.1	20.9%	-6.5%	-5.1%	3.3%
Clothing, footwear and allied products	\$3.9	11.5%	-9.3%	-1.8%	5.5%
Department stores	\$3.1	9.1%	-8.8%	1.3%	11.9%
Fuel	\$0.9	2.7%	1.8%	12.2%	6.7%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.6	10.7%	30.1%	45.1%	20.3%
Consumer durable goods	\$6.1	17.8%	-6.4%	-11.2%	11.6%
Supermarkets	\$4.0	11.5%	-1.5%	4.1%	8.5%
Others	\$5.4	15.8%	-14.3%	-14.1%	11.5%
All retail outlets	\$34.1	100.0%	-4.8%	-1.9%	9.4%

Source: Census and Statistics Department



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