

RESEARCH

November 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

Leasing market stable with
expansions witnessed

Residential

Primary launches suppressed
secondary market

Retail

Growth of retail sales
further slowed

MARKET IN BRIEF

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

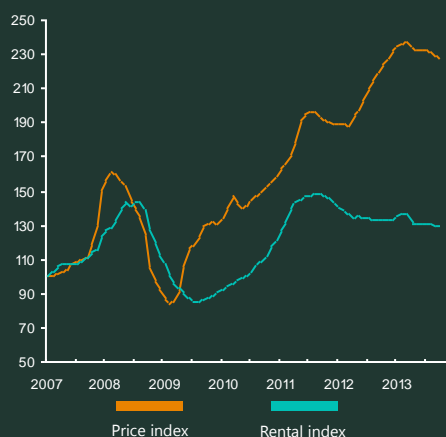
Table 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2011	2012	2013 forecast
GDP growth	Q2 2013	+3.3%	+4.9%	+1.4%	+3.0%
Inflation rate	Sep 2013	+4.6%	+5.3%	+4.1%	+4.4%
Unemployment	Jun 2013– Sep 2013	3.3%#	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

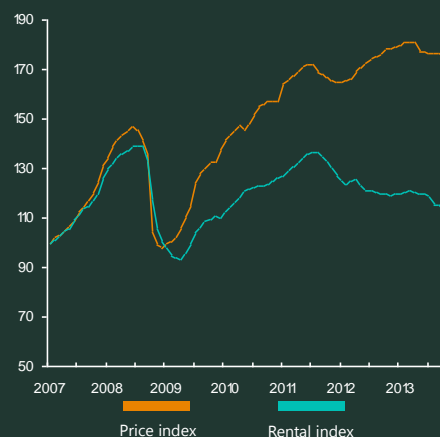
Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

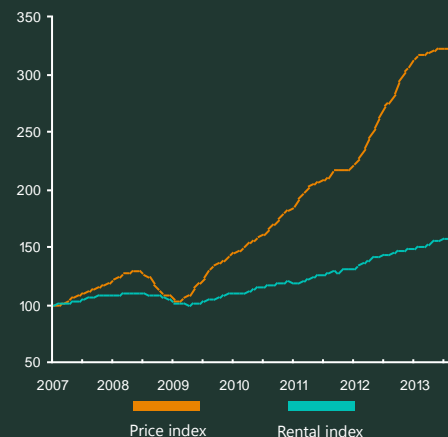
Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank
Note: Provisional figures from Mar to Aug 2013

MONTHLY REVIEW

In October, the primary residential market was the most active among Hong Kong's property sectors. A number of new residential projects launched offered attractive packages to lure buyers, which served to further quieten the second-hand market. Amid the implementation of cooling measures, Grade-A office sales remained sluggish, but the Grade-A office leasing market was stable. Meanwhile, in the retail sector, despite further slowing in sales growth, retailers were still expanding in major shopping districts and shopping areas near the border continued to be supported by custom from same-day Mainland visitors.

PRIME OFFICE

In October, the Grade-A office sales market remained sluggish, with buying sentiment continuing to be affected by the Double Stamp Duty. Prices across most districts experienced slight drops, except for in Wan Chai, where prices remained virtually unchanged. Most transactions involved small floor plates, with the exception of the sale of a 28,000-sq-ft space in Exchange Tower in Kowloon Bay for HK\$8,850 per sq ft.

Activity was stable in the Grade-A leasing sector, with a number of firms requiring small to medium-sized office spaces undergoing expansion. Prudential Assurance Company, for example, increased its space within DCH Commercial Centre in Quarry Bay, taking up the entire over-13,000-sq-ft fifth floor. Other notable transactions involved Chinese conglomerate HNA Group, which leased a 16,000-sq-ft office in Three Pacific Place, Wan Chai and Whirlpool (HK), which took a 12,000-sq-ft space in Elite Centre, Kwun Tong.

With the spending pattern of Mainland visitors shifting from the

high end of the retail market towards the middle, a notable amount of office expansion was witnessed among mid-end retailers. Dutch jeweller Pandora, for example, increased the size of its office in Gateway Tower 6 in Tsim Sha Tsui, taking up around 10,000 sq ft of space. Grade-A office rents across all districts remained on a downward trend, with minor month-on-month falls of up to 2%.

With a lack of new Grade-A office supply in traditional business districts, buildings that have converted into office use are expected to attract attention from companies requiring large spaces. For example, KC100 at 100 Kwai Cheong Road in Kwai Hing is being redeveloped from an industrial building and will provide approximately 300,000 sq ft of gross floor area upon its scheduled completion in late 2014.

With available office space limited and vacancy rates very low across all districts, Grade-A office rents are expected to remain largely stable for the remainder of the year. However, office sales volume and prices will remain subdued.

“Grade-A office rents are expected to remain largely stable for the remainder of the year.”

“We expect the price war to extend into the mass housing sector in coming months.”

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RESIDENTIAL

In October, the stagnant residential market was revived by developers' aggressive sales strategies for their primary residential projects. In several luxury developments, both sweeteners and price cuts were offered to boost sales.

A price war began after Sun Hung Kai Properties (0006.HK) released 118 units at The Cullinan atop Kowloon Station at an average of around HK\$29,000 per sq ft—20% lower than second-hand flats in the development. Incentive packages with 70% stamp-duty subsidies were offered to lure buyers and the first 60 units were sold within one day. The demand prompted the developer to raise the average price of flats that were subsequently launched.

New World Development (0017.HK) and Wheelock Properties (0020.HK) also adopted a discount strategy for their joint project The Austin in Jordan. The competitive prices attracted thousands of potential buyers who absorbed more than 80% of the available units. The overwhelming response encouraged more developers to join the price war to compete for buyers.

The volume of home sales remained suppressed by the government's cooling measures to curb speculation. However, developers' aggressive pricing strategies revitalised the market with the return of long-term investors and local buyers seeking to upgrade their homes—both hindered by the Double Stamp Duty previously—as well as Mainland buyers who were previously saddled with the Buyer's Stamp Duty. With a number of new projects due to be released and developers having now adapted to the strictures of the Residential Properties (First-hand Sales) Ordinance, we expect the price war to extend into the mass housing sector in coming months.

Facing competition from primary projects, transaction volume in the secondary market dropped another 5.8% month on month to 2,653 in October—the second lowest level in 2013 so far. Individual landlords in the second-hand market, unable to compete with developers providing attractive payment terms, started to soften their stance on asking prices.

The leasing market also showed signs of further slowing. Our data show that luxury residential rents dipped another 1.0% month on month in October. Smaller units or flats in less prestigious locations became more popular, as tenants with trimmed housing allowances opted to downsize or relocate in pursuit of lower rents.

We expect luxury and mass residential prices to experience slight declines towards the end of 2013. The downward trend may become more apparent in 2014 if the government continues to implement its cooling measures.

RETAIL

In September, retail sales in Hong Kong grew 5.1% year on year, amounting to HK\$35.8 billion. The pace of growth was slower than in preceding months, mainly due to a further reduction in the sales of luxury items. The sales value of luxury goods—including jewellery, watches and valuable gifts—recorded the lowest gain so far this year, up 8.7% over a year ago, compared with a 22.4% surge in August.

Despite this, expansion activity involving international retailers was still witnessed in prime retail spots. For instance, after opening stores in ifc mall in Central and Harbour City in Tsim Sha Tsui, high-end outdoor sportswear retailer Moncler opened its third flagship store in Hong Kong—a 2,800-sq-ft space in Lee Gardens, Causeway Bay. Meanwhile,

mid-market retailer Zara Home opened its first Hong Kong store in Harbour City, covering over 7,000 sq ft of space.

Decentralised districts continued to benefit from the increasing number of same-day travellers from the Mainland. The middle portion of Yuen Long Main Road, near Futian Port, is becoming a new shopping mecca specialising in daily necessities, medicine and sportswear. The 1,200-sq-ft ground-floor unit at 195–209 Yuen Long Main Road was reportedly leased to a drugstore for HK\$130,000 per month—a rent 40% higher than its previous contract.

Following the introduction of the Double Stamp Duty, only around 730 retail property sales transactions took place in the third quarter of 2013. Their total sales value amounted to around HK\$6.2 billion, the lowest level since the first quarter of 2009.

Looking forward, we expect the growth of retail sales to further slow, weakening the bargaining power of landlords in prime retail areas, resulting in a more stable rental environment. With the continuing support of Mainland shoppers, the retail market in decentralised areas near the border may outperform Hong Kong's core retail districts.

“The retail market in decentralised areas near the border may outperform Hong Kong's core retail districts.”

PRIME OFFICE

A limited number of office sales transactions were recorded last month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Central	Bank of America Tower	10 th floor / units 6-7	3,060 (G)	\$67.32	\$22,000
Admiralty	Lippo Centre	Tower 2 / 38 th floor / units 2-3	NA	\$58	NA
Tsim Sha Tsui	New Mandarin Plaza	Tower A / 5 th floor / unit 10	769 (S)	\$7.3	\$9,493
Kowloon Bay	Exchange Tower	9 th floor	28,000 (G)	\$247.81	\$8,850
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

The leasing market recorded a number of transactions involving floor plates of over 10,000 sq ft.

Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
Quarry Bay	DCH Commercial Centre	5 th floor	13,777 (L)
Causeway Bay	The Lee Gardens Manulife Plaza	36 th floor	16,544 (L)
Wan Chai	Three Pacific Place	26 th floor	16,290 (L)
Central	Two International Finance Centre	22 nd floor / units 1 and 10-17	12,289 (L)
Kowloon Bay	Exchange Tower	23 rd floor	26,925 (G)
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.			






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Grade-A office rents remained stable in Wan Chai / Causeway Bay and Quarry Bay.

Table 4

Month-on-month movement of Grade-A office rents (Oct 2013)

Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

Overall, Grade-A office rents and prices remained stable last month.

Table 5

Prime office market indicators (Oct 2013)

District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Sep 13	From Jul 13	From Oct 12	HK\$ psf	From Sep 13	From Jul 13	From Oct 12
Premium Central	140.6	-1.5%	-1.9%	3.2%	n/a	n/a	n/a	n/a
Traditional Central	103.6	-0.7%	-2.3%	-2.9%	26,520	-0.4%	-1.6%	-2.1%
Admiralty	81.5	-1.5%	-1.0%	-1.0%	21,955	-1.1%	-2.2%	1.9%
Sheung Wan	61.7	-0.6%	-0.6%	2.3%	19,937	-0.3%	-2.4%	-0.2%
Wan Chai	61.2	-0.1%	0.3%	-1.7%	18,199	0.0%	-0.4%	5.4%
Causeway Bay	64.4	0.3%	-1.1%	-4.2%	17,440	-0.7%	-1.1%	3.0%
North Point	44.9	1.2%	6.2%	21.1%	n/a	n/a	n/a	n/a
Quarry Bay	50.6	0.1%	2.5%	9.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	52.0	-1.2%	-2.6%	0.4%	11,976	-0.8%	-1.4%	0.2%
Cheung Sha Wan	29.5	0.0%	0.8%	22.8%	n/a	n/a	n/a	n/a
Hung Hom	37.7	0.0%	1.9%	13.9%	n/a	n/a	n/a	n/a
Kowloon East	38.1	-1.3%	0.3%	8.3%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	49.9	-2.2%	3.2%	1.0%	n/a	n/a	n/a	n/a

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

RESIDENTIAL

264 luxury residential sales transactions worth HK\$10 million or above were recorded in October 2013, up slightly from September.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mid-Levels	Argenta	High floor unit	2,182	\$79.7	\$36,523
Wan Chai	Starcrest	Tower 1 / high floor / unit A	928	\$31.7	\$34,138
Tsim Sha Tsui	Cullinan	Royal sky / high floor / unit A	963	\$30.8	\$31,999
Island South	Belgravia	Mid floor / unit B	2,222	\$69.8	\$31,413
Island South	Twin Brook	Low floor / unit A	2,440	\$73.8	\$30,246
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

A number of major luxury residential leasing transactions were recorded in Island South 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	L'Harmonie	House	2,326	\$150,000	\$64.5
Mid-Levels	Dynasty Court	Tower 2 / high floor / unit A	2,141	\$136,000	\$63.5
Island South	Deepdene	Mid floor / unit B	2,319	\$110,000	\$47.4
Pokfulam	29-31 Bisney Road	Low floor unit	2,096	\$90,000	\$42.9
Source: Knight Frank Note: All transactions are subject to confirmation.					

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Luxury residential rents dipped in all major districts in October 2013.

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

Luxury residential rents and prices dipped slightly last month.

Table 9 Luxury residential market indicators (Oct 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Sep 13	From Jul 13	From Oct 12	HK\$psf	From Sep 13	From Jul 13	From Oct 12
The Peak	\$56.0	-1.2%	-6.8%	-8.0%	\$22,919	0.0%	0.0%	-3.2%
Mid-Levels	\$41.0	-0.8%	-1.3%	-3.7%	\$21,475	-0.6%	-0.7%	0.4%
Pokfulam	\$30.9	-0.5%	-1.7%	2.0%	\$18,620	-2.0%	-2.5%	-0.3%
Jardine's Lookout & Happy Valley	\$37.5	-1.6%	-4.8%	-5.8%	\$19,852	-1.3%	-2.2%	2.1%
Island South	\$41.6	-0.7%	-1.1%	-2.7%	\$24,910	-0.4%	0.5%	-3.6%
Source: Knight Frank Rents and prices are subject to revision.								

RETAIL

Several major retail property sales transactions were recorded in core retail districts last month.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Causeway Bay	16-20 Yee Wo Street	Ground floor / unit 30B	148	\$41.8	\$282,432
Mong Kok	Sincere Plaza	Ground floor / unit G76	113	\$24.8	\$219,469
Tsim Sha Tsui	Parkes Commercial Centre	Ground floor / unit 4	166	\$24.7	\$148,795
Kwun Tong	Hing Tat Mansion	Ground floor / unit 1	368	\$47	\$127,717
Western	Shun Fai Building	Ground floor / unit 3	246	\$16	\$65,041
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

A number of major retail property leasing transactions were witnessed in Causeway Bay and Tsim Sha Tsui in October.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Causeway Bay	Percival House	Ground floor / unit C	216	\$238,000	\$1,101.9
Hung Hom	Whampoa 108	Ground floor / unit 2	84	\$80,000	\$952.4
Tsim Sha Tsui	Alpha House	Ground floor / unit D	645	\$570,000	\$883.7
Tsim Sha Tsui	Dor Fu Court	Ground floor / unit 6	859	\$480,000	\$558.8
Causeway Bay	Po Foo Building	Ground floor / unit C	543	\$203,000	\$373.9
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

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Retail rents remained stable in Causeway Bay and Tsim Sha Tsui, while Central and Mong Kok saw rental growth in October 2013.

In September, the year-on-year growth in the value of local retail sales further slowed to 5.1%.

Table 12

Month-on-month movement of prime street shop rents (Oct 2013)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

Table 13

Retail sales by outlet type (Sep 2013)

Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Aug 13	From Jun 13	From Sep 12
Jewellery, watches and clocks and valuable gifts	\$7.5	21.0%	-17.7%	-29.7%	5.6%
Clothing, footwear and allied products	\$4.1	11.4%	-13.2%	-8.3%	3.7%
Department stores	\$3.8	10.7%	-8.5%	-2.8%	23.5%
Fuel	\$0.9	2.4%	1.3%	-2.8%	-5.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.7	10.2%	24.3%	46.2%	0.9%
Consumer durable goods	\$5.9	16.4%	1.1%	-3.5%	-2.9%
Supermarkets	\$4.2	11.8%	-0.7%	4.0%	7.1%
Others	\$5.7	16.0%	-15.4%	-20.5%	6.7%
All retail outlets	\$35.8	100.0%	-7.4%	-10.2%	5.1%

Source: Census and Statistics Department

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