

RESEARCH



October 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Vacancy pressure to remain high in Central

RESIDENTIAL

Local demand further boosts residential market

RETAIL

Slowdown in Chinese economy curbs tourist spending

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	Aug 2012	+3.7%	+2.4%	+5.3%	+3.4%
Unemployment	Jun-Aug 2012	3.2%#	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

Hong Kong's office property market saw divergent performances last month, with sales activity remaining buoyant but leasing activity turning quiet. Positive signs were seen in both the primary and secondary residential markets, with a number of record-breaking transactions concluded. Meanwhile, the retail property market remained heated, despite the slower growth in retail sales over recent months.

PRIME OFFICE

The office investment market remained heated last month, as it continued to record major transactions. A 20,500-sq-ft floor in COSCO Tower in Sheung Wan sold for approximately HK\$471 million or HK\$23,000 per sq ft, marking a per-sq-ft price record in the building. The average Grade-A office price grew for the sixth consecutive month, rising 2.2% month on month.

In contrast, the leasing market was relatively quiet in September, amid an uncertain economic outlook despite the announcement of the third round of Quantitative Easing (QE3). Only a handful of transactions involving large floor plates were recorded. One financial institution reportedly took up four floors of 169 Electric Road in North Point totaling about 42,000 sq ft. Meanwhile, an investment bank renewed its lease of a whole floor in One Exchange Square, Central, measuring 12,973 sq ft.

Hiring intentions remained weak, particularly in the financial sector. According to one recruiting firm, only 37% of financial firms they interviewed are planning to increase headcount in the third quarter, resulting in low demand for office space. The corporate sector continued to seek low-cost office solutions,

particularly medium-sized companies with offices in Central.

In recent months, an increasing number of small-to-mid sized Grade-A floor plates have come onto the market in Central. A number of traditional Grade-A office buildings in the district have experienced a rise in vacancy rates, with some as high as 20%.

Central landlords are expected to show greater flexibility in rent negotiation, as vacancy pressure is unlikely to ease in the short term and the rent gap between core and non-core districts remains substantial. We maintain our forecast that Grade-A office rents in Central will drop 5–10% in the second half of 2012.

RESIDENTIAL

The flow of liquidity into Hong Kong's property market was virtually assured with the announcement of QE3 by the US Federal Reserve. This further fuelled the property market and record-breaking prices were witnessed in both the primary and secondary markets.

Luxury residential prices stayed firm, given the limited supply in traditional luxury residential areas. A number of record-breaking deals were reportedly concluded. For instance, a 3,866-sq-ft

“An increasing number of small-to-mid sized, Grade-A floor plates came onto the Central office market.”

“Overall, we expect home prices to increase 5% over the year and rise another 10% in 2013.”

duplex in Kennedy Park at Central sold for HK\$48,629 per sq ft—a new price-high for Mid-Levels Central.

OPUS HONG KONG in Mid-Levels East sold an 8th floor, 6,755-sq-ft apartment for HK\$430 million or HK\$63,000 per sq ft—the second highest price for an apartment in Asia.

Sentiment in the primary market remained strong and last month, the market was dominated by two major project launches, namely Century Gateway in Tuen Mun and Double Cove in Lok Wo Sha. A 1,855-sq-ft penthouse at Century Gateway sold for HK\$18,300 per sq ft—the highest property price ever recorded in Tuen Mun. Meanwhile, Double Cove reportedly sold more than 70% of its units within a month.

As the government had sped up the approval process of pre-sale flats, the total number of flats launched for pre-sale in September was more than double that of August. We expect the number to grow further in the coming months.

Luxury residential rents dipped 0.4% in September, with demand weakened after the summer peak season. Landlords became more flexible and willing to reduce asking rents. We expect the leasing market to remain stable in the remaining months of the year.

To reduce credit risk, the Hong Kong Monetary Authority announced further regulatory measures, requiring banks to further tighten the underwriting criteria for mortgage loans to borrowers with mortgages on multiple properties. This measure is expected to affect only people with multiple properties and non-local residents applying for loans in Hong Kong. Therefore, we do not anticipate this measure to have a big impact on both transaction volumes and prices.

With home supply limited in the short term and the low-interest-rate

environment likely to last until 2015, we expect home prices to increase about 5% over the year and about 10% in 2013. However, we believe a price correction may take place in 2014–2015 with the eventual realisation of the government's various initiatives to increase home supply.

RETAIL

At end September, the soft opening of Housing Authority (HA)'s eight-storey Domain added 484,380 sq ft of retail space to Yau Tong. The biggest mall in East Kowloon had been 98% preleased for HK\$39 per sq ft per month on average. This is HA's first major centre since its divestment of retail properties to The Link REIT. HA has introduced new retailers such as Esprit, SaSa, Genki Sushi, Thai Hing, Hak Ka Hut, Food Republic and SUPA DEPA, a brand new concept under A.S. Watson Group. There is also a small retail zone for NGOs, sole proprietors and local designers' labels.

This is the first time HA has employed a private consultant, Knight Frank, to undertake leasing activities. We have been involved in this project since 2003, helping re-plan the conceptual design. In 2008, we were appointed as a Principal Leasing Advisor to advise on the overall leasing and marketing strategy.

In August, a slightly faster year-on-year increase in retail sales was posted along with increased visitor arrivals from July. However, the sales value of jewelry, watches and clocks and valuable gifts declined 3.4% from July 2011—the biggest decline since 2009. In the first four days of the eight-day Golden Week national holiday, a 10% year-on-year decline in the number of Mainland tourists cast a cloud over Hong Kong retailers. With rising economic uncertainty, both local consumers and Mainland tourists had curbed their spending, especially on luxury items.

Despite shoppers' cautious behaviour, the retail leasing market remained active in September. International brands continued to enter and expand in Hong Kong. Some major retailers shifted their attention to non-core districts, taking advantage of increased shopper flow in these more cost-effective locations.

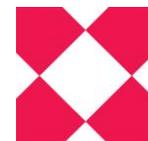
Apple Inc (AAPL.NASDAQ), for example, launched its second branded Hong Kong store in Festival Walk, Kowloon Tong, more than a year after its flagship Hong Kong store opened at IFC mall in Central. The 150,000-sq-ft space was reportedly leased for HK\$3.7 million or HK\$250 per sq ft per month.

Meanwhile, fashion brand Agnes b. expanded its space on the 3rd floor of New Town Plaza in Sha Tin from 2,500 sq ft to 7,000 sq ft, becoming its second flagship store in Hong Kong.

On the investment front, QE3 spurred the prices of retail property and the volume of retail sales transactions and some foreign institutional investors began to return to the market. Several floors of Ever Gain Plaza in Kwai Chung, totaling 560,000 sq ft, were reportedly sold to a foreign fund for HK\$1.6 billion or HK\$2,857 per sq ft.

Looking forward, Hong Kong will remain a major platform for international brands to reach Mainland shoppers. The pick-up in visitor arrivals and the sustainable local labour market should support retail businesses. Given the limited availability of prime space, we expect retail rents in core retail districts to rise 10–15% over 2012. The expansion of international retailers will continue to spill over to non-core areas.

“Retail rents in core retail districts are set to rise 10–15% over 2012.”



PRIME OFFICE

The office investment market remained heated over the past month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Sheung Wan	COSCO Tower	33 rd floor	20,506	\$471.6	\$22,998
Admiralty	Lippo Centre	Tower 2 / 32 nd floor / unit 1	3,852	\$82.82	\$21,500
Sheung Wan	COSCO Tower	23 rd floor / units 1-5 and 13	10,741	\$225.55	\$20,999
Sheung Wan	Shun Tak Centre West Wing	31 st floor / units 1-5	9,200	\$160.05	\$17,397
Sheung Wan	Shun Tak Centre East Wing	33 rd floor / units 16, 18, 26 and 28	13,174	\$220	\$16,700

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

The leasing market was relatively quiet, despite the announcement of QE3.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	100 QRC	28-29 th floor	12,354	Orient Financial Holdings
Central	Man Yee Building	20 th floor / units 01-05	9,091	Vanguard Investment
Central	One Exchange Square	32 nd floor	12,973	Wellington Global Investment Management
Wan Chai	Central Plaza	49 th floor / units 02-03	3,045	Clyde & Co.

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

Grade-A office rents in non-core areas are set to remain stable or grow modestly in the near future.

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

Central landlords are likely to remain flexible on rent negotiation, amid diminishing office demand in the area.

Table 5 Prime office market indicators (Sep 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Aug 12	From Jun 12	From Sep 11		From Aug 12	From Jun 12	From Sep 11
Premium Central	136.4	-0.3%	-3.1%	-23.0%	n/a	n/a	n/a	n/a
Traditional Central	107.1	-0.2%	-1.6%	-21.1%	26,752	0.6%	5.0%	11.3%
Admiralty	82.9	0.0%	-1.4%	-9.1%	21,079	4.0%	8.8%	12.9%
Sheung Wan	60.0	-0.4%	-1.3%	-3.8%	19,464	0.5%	11.0%	17.9%
Wan Chai	62.5	-0.0%	-1.3%	-4.2%	16,940	2.3%	9.7%	22.2%
Causeway Bay	65.9	-0.1%	-0.7%	2.6%	16,000	1.8%	6.5%	9.8%
North Point	37.0	2.0%	0.9%	-0.6%	n/a	n/a	n/a	n/a
Quarry Bay	46.5	-0.9%	-4.5%	-7.7%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	51.7	2.2%	4.1%	9.2%	11,784	1.4%	3.7%	4.9%
Cheung Sha Wan	24.0	0.0%	7.7%	13.2%	n/a	n/a	n/a	n/a
Hung Hom	32.7	2.2%	2.2%	15.3%	n/a	n/a	n/a	n/a
Kowloon East	35.2	1.5%	3.7%	12.1%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	49.4	2.9%	2.9%	-0.2%	n/a	n/a	n/a	n/a

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



RESIDENTIAL

A number of sales transactions were recorded in traditional, luxury residential areas 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	29-30 th floors / units A	3866	\$188	\$48,629
Peak	La Hacienda Lower Townhouse	Unit 10	2,800	\$139.8	\$49,929
Peak	Severn 8	House 8	4,650	\$285	\$61,290
Kowloon Tong	One Mayfair	Tower 3 / 10 th floor / unit A	3,097	\$105.8	\$34,162
Island South	Regalia Bay	House 36	4,212	\$80	\$18,993

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

The luxury residential leasing market stabilised towards the end of the summer peak season.

Table 7
Selected residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
Island South	Pacific View	Tower 2 / duplex	3,913	\$170,000	\$43.4
Island South	The Lily	Tower 4 / low floor	3,612	\$160,000	\$44.3
Island South	Redhill Peninsula	Palm Drive house	3,214	\$130,000	\$40.4
Mid-Levels	Dynasty Court	Tower 3 / high floor / unit A	1,970	\$90,000	\$45.7
The Peak	The Mount Austin	Duplex	2,600	\$155,000	\$59.6

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

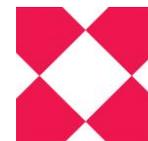
Residential rents dropped in four of the five major luxury districts last month.

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

Both luxury residential prices and rents remained stable in September.

Table 9 Luxury residential market indicators (Sep 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Aug 12	From Jun 12	From Sep 11		From Aug 12	From Jun 12	From Sep 11
The Peak	\$59.0	-1.0%	-1.5%	-11.5%	\$23,667	0.0%	0.0%	0.0%
Mid-Levels	\$42.8	0.1%	-0.1%	-14.4%	\$21,227	0.7%	3.1%	5.9%
Pokfulam	\$30.5	-0.7%	0.1%	-8.9%	\$18,682	0.3%	3.1%	10.8%
Jardine's Lookout & Happy Valley	\$40.1	-0.4%	-2.0%	-3.9%	\$19,360	2.0%	5.3%	5.5%
Island South	\$42.8	-0.3%	-2.3%	-13.8%	\$25,157	0.9%	2.1%	6.6%

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



RETAIL

Investment demand for retail property was stimulated by the launch of QE3 last month, with growing interest in non-core retail districts.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Mong Kok	Sincere Plaza	Ground floor / unit G106	51	\$13.18	\$258,431
North Point	Park View Mansion	Ground floor / unit A6	110	\$17.6	\$160,000
North Point	Wah Lai Mansion	Ground floor / unit 8	179	\$12.68	\$70,838
Kowloon City	South Mansion	Ground floor / unit 7	115	\$6.08	\$52,870
Causeway Bay	Professional Building	Ground floor / unit 4	741	\$34.5	\$46,559

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

Leasing activity in core retail districts remained buoyant, despite moderate retail sales growth.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
Causeway Bay	Po Foo Building	Ground floor / unit D	527	\$340,000	\$645.16
Causeway Bay	Po Hon Building	Ground floor / unit B	705	\$450,000	\$638.3
Tsim Sha Tsui	Lee Wai Commercial Building	Ground floor / unit 8	425	\$150,000	\$352.94
Sha Tin	On Hong Building	Ground floor / unit 1D	662	\$132,000	\$199.4
Mong Kok	Allied Plaza	Ground floor / units 15-16	587	\$106,000	\$180.58

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

In September 2012, retail rents rose in Central as well as Mong Kok and remained stable in Causeway Bay and Tsim Sha Tsui.

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

In August, retail sales increased 4.5% from a year earlier, but experienced a slight decrease from July. The sales value of Jewellery, watches and clocks and valuable gifts declined 3.4% from July 2011.

Table 13 Retail sales by outlet type (Aug 2012)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Jul 12	From May 12	From Aug 11
Jewellery, watches and clocks and valuable gifts	\$7.6	21.3%	-3.4%	-2.5%	-3.4%
Clothing, footwear and allied products	\$4.3	12.1%	-12.5%	-4.6%	4.2%
Department stores	\$3.4	9.5%	2.4%	-7.8%	8.8%
Fuel	\$0.9	2.5%	10.0%	0.0%	2.5%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.8	7.8%	14.0%	5.2%	-1.7%
Consumer durable goods	\$6.5	18.1%	-2.9%	-0.7%	9.0%
Supermarkets	\$4.0	11.2%	2.0%	4.6%	9.9%
Others	\$6.3	17.5%	-3.7%	4.1%	8.8%
All retail outlets	\$35.8	100.0%	-2.0%	-0.5%	4.5%

Source: Census and Statistics Department



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