

RESEARCH

October 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office

More room for rent negotiation

Residential

Low land prices reflect uncertain outlook

Retail

Slower growth in retail sales

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	Aug 2013	+4.5%	+5.3%	+4.1%	+4.4%
Unemployment	Jun 2013– Aug 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

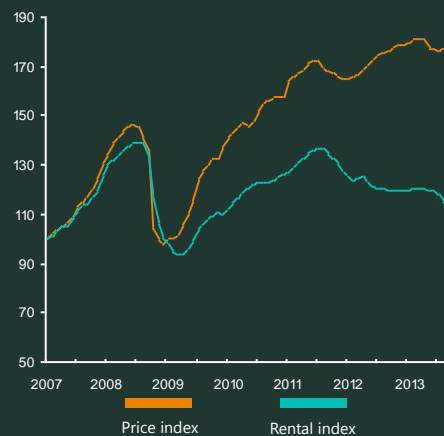
Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

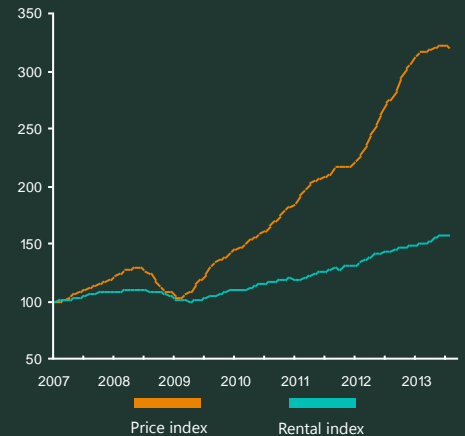
Jan 2007 = 100



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

Grade-A office rents were stable in September, but Grade-A office sales were sluggish, due to the continuing implementation of cooling measures that has caused prices to fall 3.3% in six months. Residential sales were also slow and the leasing sector—having entered the slow season—quietened, resulting in a slight dip in rents. The retail property sector remained the most resilient of the three main markets, witnessing expansion by both local and international retailers on the back of increasing visitor-arrival numbers.

PRIME OFFICE

In September, sentiment remained cautious in the Grade-A office sales market. There were just a few major transactions, mainly involving small floor plates, with the exception of the sale of a 25,000-sq-ft space in Exchange Tower in Kowloon Bay for HK\$12,240 per sq ft.

During the first eight months of 2013, the volume of office sales contracted 39.3% year on year, as a result of the government's cooling measures. Having already fallen 3.3% in the last six months, prices across all major business districts recorded further small drops in September. During the last six months, prices dropped the most in Sheung Wan, while those in Causeway Bay were the most resilient.

The Grade-A leasing sector, however, witnessed stable activity, with a number of financial firms having undergone expansion. Swiss asset-management firm Pictet (Asia) Limited, for example, expanded within Chater House in Central, taking an 18,397-sq-ft space, while Italian bank Intesa Sanpaolo SpA leased a 20,000-sq-ft space in International Commerce Centre in Tsim Sha Tsui.

Although some buildings recorded a substantial amount of vacant space, overall vacancy rates remained low in major business districts, ranging from 1% to 6% during the third quarter of 2013. Landlords in buildings with higher vacancy rates showed more flexibility during rent negotiations. Some landlords in Kowloon East, in particular, became more flexible and offered more incentives to attract tenants, as rents have surged significantly in previous years. Grade-A office rents in Kowloon East fell 3.4% in September, compared with the previous month and some Kowloon tenants relocated back to Hong Kong Island as the rent gap between the two locations continued to narrow.

Limited supply and continuing demand will keep Grade-A office rents stable in most districts and some buildings are actually seeing modest rent growth. However, the volume of Grade-A office sales is expected to remain low, as long as the government continues to implement cooling measures.

RESIDENTIAL

Sentiment in the residential market remained sluggish in September. Unlike in previous years, developers

“Landlords became more flexible during rent negotiation and offered more incentives to attract tenants.”

“The land sales programme for the fourth quarter of 2013 was recently announced, providing about 3,300 flats in total.”

failed to tap the holiday mood for new-home sales during the three-day Mid-Autumn Festival break, with total sales amounting to just one-eighth of those last year. Though developers offered more discounts to lure buyers, sales at two large projects—namely The Rise in Tsuen Wan and The Woodsville in Yuen Long—reflected signs of slowdown. The secondary market was also sluggish.

The government repeatedly stressed its firm stand on cooling the property market, warning that any concession on the regulatory measures could provide incentive for tax evasion to buyers. International investors have virtually disappeared from the flat-buying market, while home-seekers are putting their buying plans on hold as they await a notable fall in property prices.

Developers also appear pessimistic about the property market, judging by the dissatisfactory results from two recent land sales in Sha Tin. Chun Wo Development (0711.HK) acquired a 354,136-sq-ft site for luxury homes in Kau To Shan for an accommodation value of only HK\$8,382 per sq ft, while another luxury residential site in the area was sold to the consortium of Paliburg Holdings and Regal Hotels International for HK\$2.39 billion or an accommodation value of HK\$6,837 per sq ft, 18% lower than the Chun Wo site, a new low in the district. The two deals reflect a sluggish market amid the government's cooling curbs, which have even affected the luxury sector, where developers have become more conservative.

As well as cooling demand for residential properties through regulatory policies, the government is also actively finding ways to increase supply. The land sales programme for the fourth quarter of 2013 was recently announced, with eight residential sites to be released, which will provide about 3,300 flats in total. Moreover, roughly 3,800

new flats have been approved for sale in the third quarter, including the Tung Chung Site 55B project and the second phase of Century Gateway in Tuen Mun, which will offer 1,419 and 911 units, respectively. However, the actual supply situation will depend on developers' sales strategies and we do not expect housing supply and demand to regain balance in the short run.

RETAIL

In September, local department-store group Sincere opened new branches in Li Po Chun Chambers in Sheung Wan and Kingwah Centre in Mong Kok. The latter features a Korean fashion zone, introducing several popular Korean brands targeting the youth market, including Blue Rabbit and Zoo Zoom. Sincere will continue to expand by opening another branch in Causeway Bay.

Although luxury brands are acting cautiously with regards to expansion, some international retailers are not willing to miss the opportunity of increasing their exposure in prime streets, with such limited availability of quality retail space in these areas. According to market news, Prada leased several floors totaling about 15,000 sq ft in Plaza 2000 in Causeway Bay, at a monthly rent of about HK\$9 million or HK\$600 per sq ft. Meanwhile, units E–G covering about 2,318 sq ft on the ground floor of Imperial Building in Tsim Sha Tsui were pre-leased to Chow Tai Fook Jewellery for a monthly rent of HK\$6 million, almost tripling the current rent.

With the emergence of the North and West New Territories as new shopping areas for same-day Mainland Chinese travelers and nearby residents, developers are investing in their existing retail properties in these districts, to increase their competitiveness. It is

reported that Sun Hung Kai Properties (0016.HK) has spent about HK\$280 million renovating Tsuen Wan Plaza, adding three 10,000-sq-ft duplex stores, which have already been leased to Muji, PULL&BEAR and Bershka respectively. It will also start renovating Metro Plaza in Kwai Fong in 2014. Meanwhile, new commercial development 'Spot' near Sheung Shui MTR Station, offering over 100,000 sq ft of retail space, has started pre-leasing its dining floors, with 80% of available space already let. The development is expected to open in 2014.

In August, Hong Kong's total sales value reached HK\$38.7 billion—an 8.1% rise year on year, compared with year-on-year growth of 14.7% and 9.5% in June and July respectively. Despite the slower growth, the retail industry is expected to remain supported by inbound tourism in the foreseeable future. In the first six days of the Golden Week in October, there were 920,000 tourist arrivals from Mainland China, an increase of 17% year on year. Further growth in the arrival number is expected to offset the negative influence of the change in the consumption pattern of Mainlanders.

“Further growth in the arrival number is expected to offset the negative influence of the change in the consumption pattern of Mainlanders.”

PRIME OFFICE

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

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Central	Admiralty Centre	Tower 1 / 10 th floor / units 3 and 4A	6,189	\$31.594	\$5,105
Tsim Sha Tsui	Lippo Sun Plaza	8 th floor / unit 16	2,632	\$50.437	\$19,163
Tsim Sha Tsui	East Ocean Centre	13 th floor / unit 2D	2,644 (G)	\$35.694	\$13,500
Kowloon Bay	Exchange Tower	26 th floor	25,000 (G)	\$306	\$12,240
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.					






Major Grade-A office leasing transactions occurred mainly in Central and Tsim Sha Tsui last month.

Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
Central	Citibank Plaza	Citibank Tower / 6 th floor	14,094 (L)
Central	Chater House	9 th floor	18,397 (N)
Central	China Construction Bank Tower	25 th floor	7,419 (L)
Tsim Sha Tsui	International Commerce Centre	Part of 80 th floor	20,000 (G)
Tsim Sha Tsui	Miramar Tower	7 th floor / unit 14	1,171 (G)
Source: Economic Property Research Centre / Knight Frank Note: All transactions are subject to confirmation.			

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Grade-A office rents fell slightly in Tsim Sha Tsui and Kowloon East in September.

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

In September, Grade-A office prices dipped in all major business districts.

Table 5 Prime office market indicators (Sep 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Aug 13	From Jun 13	From Sep 12	HK\$ psf	From Aug 13	From Jun 13	From Sep 12
Premium Central	142.8	-0.4%	0.5%	4.7%	n/a	n/a	n/a	n/a
Traditional Central	104.3	-1.1%	-2.5%	-2.6%	26,633	-1.2%	-1.2%	-0.4%
Admiralty	82.7	1.0%	0.5	-0.2%	22,195	-1.2%	-1.2%	5.3%
Sheung Wan	62.1	0.0%	1.1%	3.4%	19,995	-2.2%	-2.2%	2.7%
Wan Chai	61.2	0.1%	0.7%	-2.0%	18,199	-0.4%	-0.5%	7.4%
Causeway Bay	64.2	-1.1%	-1.5%	-4.9%	17,554	-0.4%	-0.4%	9.7%
North Point	44.4	2.7%	7.5%	20.0%	n/a	n/a	n/a	n/a
Quarry Bay	50.5	1.3%	2.4%	8.6%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	52.6	-2.4%	-1.2%	1.8%	12,072	-0.2%	-0.8%	2.4%
Cheung Sha Wan	29.5	-0.9%	5.6%	22.8%	n/a	n/a	n/a	n/a
Hung Hom	37.7	1.9%	1.9%	15.1%	n/a	n/a	n/a	n/a
Kowloon East	38.7	-3.4%	-0.1%	9.8%	n/a	n/a	n/a	n/a
Mong Kok/ Yau Ma Tei	51.0	1.5%	4.4%	3.2 %	n/a	n/a	n/a	n/a
Source: Knight Frank Rents and prices are subject to revision.								

RESIDENTIAL

Only 236 luxury residential sales transactions worth HK\$10 million or above were recorded in September 2013.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Tsim Sha Tsui	The Arch	Block 2 / high floor / unit B	1,529	\$62	\$40,549
Island South	Henredon Court	2 nd –3 rd floors / units B2	4,009	\$147	\$36,667
Causeway Bay	yoo Residence	High floor / unit D	349	\$13.2	\$37,716
Wan Chai	Starcrest	Tower 2 / low floor / unit A	935	\$20	\$21,390
Island South	Regalia Bay	House A17	4,212 (Gross)	\$78.8	\$18,708
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

A number of luxury residential properties in Island South were leased last month.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Mid-Levels	Palatial Crest	Mid floor / unit F	727	\$52,000	\$71.5
Island South	Stanley Knoll	House	2,598	\$118,000	\$45.4
Island South	Las Pinadas	House	2,917	\$138,000	\$47.3
Island South	Helene Tower	Low floor unit	1,437	\$63,000	\$43.8
Source: Knight Frank Note: All transactions are subject to confirmation.					

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Luxury residential rents remained stable on the Peak in September 2013.

Table 8 Month-on-month movement of luxury residential rents (Sep 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 (Sep 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Aug 13	From Jun 13	From Sep 12	HK\$psf	From Aug 13	From Jun 13	From Sep 12
The Peak	\$54.6	0.0%	-6.3%	-7.5%	\$22,919	0.0%	0.0%	-3.2%
Mid-Levels	\$41.3	-0.3%	-0.7%	-3.5%	\$21,598	-0.4%	0.5%	1.7%
Pokfulam	\$31.1	-0.7%	-2.0%	1.9%	\$19,005	-1.5%	-0.7%	1.7%
Jardine's Lookout & Happy Valley	\$38.2	-0.9%	-4.7%	-4.7%	\$20,115	-0.7%	-1.0%	3.9%
Island South	\$41.8	-0.1%	-1.6%	-2.1%	\$25,009	0.9%	-0.3%	-0.6%
Source: Knight Frank Rents and prices are subject to revision.								

RETAIL

North Point recorded two major retail property sales transactions last month.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Tsim Sha Tsui	Parkes Commercial Centre	Ground floor / unit 4	166	\$24.7	\$148,795
North Point	City Garden	Basement / unit 46	40	\$2.672	\$66,800
To Kwa Wan	Whampoa Building	Ground floor / unit A108	285	\$16	\$56,140
North Point	Victor Court	Ground floor / unit 2	510	\$26.95	\$52,843
Wan Chai	Bo Fung Mansion	Ground floor / unit A	908	\$47	\$51,762
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

In September, a number of major retail property leasing transactions were registered in Tsim Sha Tsui.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Tsim Sha Tsui	Golden Glory Mansion	Ground floor / unit C	199	\$158,000	\$794.0
Tsim Sha Tsui	Lucky Building	Ground floor / unit 1	112	\$66,000	\$589.3
Kwun Tong	On Ning Building	Ground floor / unit B	480	\$158,000	\$329.2
Tsim Sha Tsui	Tsim Sha Tsui Mansion	Ground floor / unit 1A	445	\$84,000	\$188.8
Wan Chai	Hang Shun Mansion	Basement / units A–H	1,967	\$210,000	\$106.8
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

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Retail rents in Hong Kong's four core shopping areas remained stable in September 2013.

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

In August, the retail sales value reached HK\$38.7 billion, an 8.1% rise year on year.

Table 13 Retail sales by outlet type (Aug 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Jul 13	From May 13	From Aug 12
Jewellery, watches and clocks and valuable gifts	\$9.2	23.7%	-9.2%	-12.9%	19.9%
Clothing, footwear and allied products	\$4.7	12.1%	-10.7%	-7.1%	8.2%
Department stores	\$4.2	10.9%	3.4%	-8.3%	23.2%
Fuel	\$0.9	2.2%	0.7%	-1.5%	-4.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.0	7.6%	17.5%	7.2%	5.7%
Consumer durable goods	\$5.8	15.1%	-3.3%	-1.6%	-10.1%
Supermarkets	\$4.2	11.0%	3.5%	5.0%	6.3%
Others	\$6.8	17.5%	-3.9%	-1.5%	8.1%
All retail outlets	\$38.7	100.0%	-3.1%	-4.7%	8.1%
Source: Census and Statistics Department					

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