

RESEARCH



September 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Luxury brand expansion
fuels office demand

RESIDENTIAL

New policies to have
little immediate impact

RETAIL

Hysan Place boosts
retail market in Causeway Bay

MARKET IN BRIEF

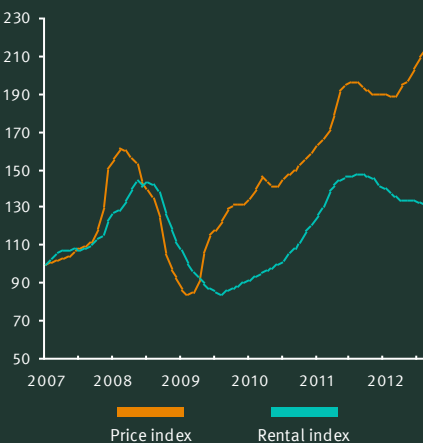
The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2010	2011	2012 forecast
GDP growth	Q2 2012	+1.1%#	+6.8%	+5.0%	+3.8%
Inflation rate	Jul 2012	+1.6%	+2.4%	+5.3%	+3.4%
Unemployment	Three months to Jul 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

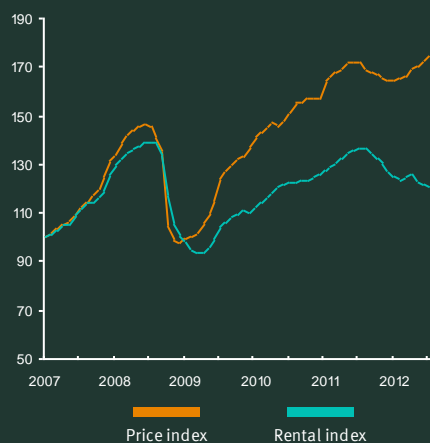
Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

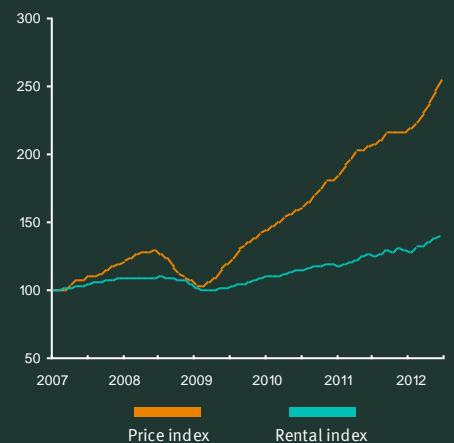
Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



MONTHLY REVIEW

The local property market was robust last month. In the office market, sales remained buoyant while leasing activities were notable in non-core business areas. Residential sales jumped in the absence of stringent measures to suppress price growth and the retail property sector remained vibrant with the continual influx of Mainland tourists and the landmark opening of the Hysan Place shopping mall in Causeway Bay.

PRIME OFFICE

The appetite of investors for buying offices showed no signs of abating last month. While the transaction volume remained stable, the market continued to see major deals being concluded, particularly in Kwai Chung. A Mainland-listed company, for example, bought two floors in Kowloon Commerce Centre Tower B for HK\$376 million or HK\$7,200 per sq ft, while The Open University of Hong Kong bought five floors in the same building for HK\$757 million or HK\$6,087 per sq ft.

On the leasing front, demand for office space by luxury retail brands was fuelled by their continuous store expansion. Gucci (GUCC.US), for instance, leased an 8,600-sq-ft, half-floor office unit in Hysan Place, Causeway Bay. Chanel also expanded, leasing an 8,700-sq-ft, mid-floor unit in Hong Kong Club Building in Central.

Other major leasing deals in the month mainly took place in non-core districts, demonstrating strong leasing demand in these areas. British American Tobacco committed to an 11,300-sq-ft floor in Oxford House in Quarry Bay. Meanwhile, an international advertising agency took up one floor measuring roughly 13,000-sq-ft in DCH Commercial Centre in the same district.

Looking ahead, we expect Central landlords to remain flexible in their asking prices, amid diminishing office demand in the area. Rising vacancy rates are likely to drag down Grade-A office rents in Central by 5–10%, during the second half of 2012.

Grade-A office rents in non-core areas should remain stable or rise slightly in the near future. Office supply in Quarry Bay will fall in the short term, with the commencement of the 1.8 million-sq-ft Taikoo Place Phase Two redevelopment, where existing tenants in the three buildings involved will have to relocate. This will fuel office demand, not only in Quarry Bay but also in other non-core districts such as Kowloon East, pushing up rents in these areas. We therefore expect the rent gap between core and non-core districts to continue to narrow over the rest of the year.

RESIDENTIAL

Sentiment in the residential market improved in August, as people became more convinced that the government would not introduce major cooling measures. Pent-up demand drove up transaction volume by 41.7%, month on month.

While prices in luxury developments

“**The rent gap between core and non-core districts will continue to narrow over the rest of the year.**”

“**We expect luxury residential prices to rise up to 10% by the end of this year, while mass residential prices could rise by up to 15%.**”

remained stable last month, those in the mass residential market continued to rise, growing 1.4% month on month, with a number of record-breaking deals having taken place. For example, a 2,319-sq-ft duplex in Taikoo Shing, Quarry Bay was sold for HK\$31.4 million or HK\$13,540 per sq ft—the highest-ever transacted price in the development. Meanwhile, a mid-level unit in Block 1 of Metro Harbour View in Tai Kok Tsui was sold for HK\$8,553 per sq ft, a new per-sq-ft high for the development.

In the primary market, new projects continued to receive a positive response last month. The Met. Sublime in Sai Wan, for example, reportedly sold over half of the 97 units available in three days. Meanwhile, The Riverpark in Shatin reportedly sold over 710 of its 981 available flats. A number of new developments are expected to launch in September. These include Century Gateway atop the Tuen Mun MTR station, owned by Sun Hung Kai Properties (0016.HK), and Double Cove in Lok Wo Sha, a joint development by Henderson Land (0012.HK), New World Development (0017.HK) and Peterson Group.

The leasing market stabilised in August, towards the end of the summer peak season, with luxury home rents remaining unchanged. Demand from multinational corporate tenants was still impacted by uncertainty in the global economy.

At the end of August, the Hong Kong government announced ten measures to increase housing supply in the short to long term. Major measures included the sales of 830 Home Ownership Scheme (HOS) units in Tin Shui Wai early next year, putting 1,000 flats in Tsing Yi up for sale at a discount under the My Home Purchase Plan and speeding up the approval process for pre-sale flats. We believe the increase in supply will contribute to the healthy growth of the market in the long term. However, the

immediate impact is limited, as only about 1,000 units will be added to the market in the short term.

The government's measures for increasing housing supply will take years to realise. In the near term, favourable factors, such as limited new supply, low interest rates and low unemployment levels, will prevail. We have therefore revised our forecasts and expect luxury residential prices to rise by up to 10% by the end of year, while mass residential prices could increase by up to 15% over the same period. However, a price correction could be witnessed from 2013 onwards, when supply starts to increase notably.

RETAIL

The opening of Hysan Place added 450,000 sq ft of prime retail space to Causeway Bay, after a long period of limited new supply in the district. The 17-storey mall, which features the city's first 24-hour bookstore Eslite and another 119 shops, is fully occupied. Meanwhile, renovation work at Lee Theatre Plaza in Causeway Bay, also owned by Hysan (0014.HK), is due to be completed by mid 2013.

Tenants took advantage of the opening of Hysan Place, which has attracted increased shopper flow, by securing street shops near the mall. A watch retailer, for example, outbid a cosmetics shop to lease the entire 12,000-sq-ft building at 519 Hennessy Road for a monthly rent of HK\$2 million.

On the investment front, quality space in core districts continued to attract interest from investors. Emperor Group (0163.HK) bought Daily House in Tsim Sha Tsui, with a net area of 410 sq ft, for HK\$363 million or HK\$885,000 per sq ft. The sale marked a new per-sq-ft price-high for retail properties in Kowloon, in terms of net floor area.

The scheme to allow non-local

residents in Shenzhen to apply for multi-entry permits to Hong Kong has been delayed. The scheme could allow about 4.1 million Shenzhen residents' multi-entry to Hong Kong, without having to return to their home provinces for application. V City, a 300,000-sq-ft shopping mall atop the Tuen Mun MTR station targeting cross-border shoppers and local consumers, has pre-leased most of its space. The mall is expected to open in mid 2013.

In July, retail sales expanded a modest 3.8%, year on year, as local consumers became more cautious to spend, in view of a weak global economy. Visitor arrivals, meanwhile, grew 13.8% in July compared to a year earlier. Mainland tourists remained the dominant sector, with their number increasing 21.9% year on year and accounting for 74.7% of total visitors.

Despite the slower retail sales growth, the further expansion of tourism and a sustainable local job market should remain supportive to the retail property market, which is expected to outperform other property sectors in Hong Kong. Given limited supply and continued expansion demand, we expect retail rents in core locations to continue to grow, albeit at a slower rate of about 5% over the next 12 months.

“Retail rents in core locations are expected to grow another 5% over the next 12 months.”



PRIME OFFICE

The appetite of investors for buying offices showed no signs of abating over the past month.

Table 2
Selected office sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Kwai Chung	Kowloon Commerce Centre	Tower B / 27 th floor	26,000	\$190.44	\$7,325
Kwai Chung	Kowloon Commerce Centre	Tower B / 8-12 th floors	124,353	\$756.95	\$6,087
Kowloon Bay	Enterprise Square Phase 1	Tower 2-3 / 7 th floor	24,000	\$135.61	\$5,216
Kwun Tong	Millennium City 3	21 st floor	8,140	\$70.00	\$8,600
Wan Chai	Convention Plaza Office Tower	Mid floor unit	2,436	\$53.84	\$22,102

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

Active expansion by luxury retail brands boosted demand for office space.

Table 3
Selected office leasing transactions






District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Causeway Bay	Hysan Place	26 th floor / unit 2602	8,600	Gucci
Central	Hong Kong Club Building	Mid floor	8,700	Chanel
Wan Chai	28 Hennessy Road	10 th floor	4,935	A fund house
Quarry Bay	DCH Commercial Centre	20 th floor	13,100	Saatchi & Saatchi
Quarry Bay	Oxford House	29 th floor	11,300	British American Tobacco

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

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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 (Aug 2012)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

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

Table 5 Prime office market indicators (Aug 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Jul 12	From May 12	From Aug 11		From Jul 12	From May 12	From Aug 11
Premium Central	136.7	-2.3%	-5.2%	-23.9%	n/a	n/a	n/a	n/a
Traditional Central	107.4	-1.2%	-3.6%	-21.9%	26,583	1.6%	6.9%	7.8%
Admiralty	82.9	-0.4%	1.3%	-9.3%	20,262	2.0%	6.3%	6.5%
Sheung Wan	60.3	-0.7%	-0.9%	-2.7%	19,363	4.0%	14.5%	15.9%
Wan Chai	62.5	-0.2%	-2.3%	-2.7%	16,562	2.7%	11.5%	16.5%
Causeway Bay	66.0	-0.6%	0.6%	4.5%	15,723	1.0%	9.1%	5.9%
North Point	36.2	-0.7%	0.0%	0.1%	n/a	n/a	n/a	n/a
Quarry Bay	46.9	-1.6%	-2.9%	-5.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	50.6	0.5%	2.1%	8.4%	11,623	0.4%	7.0%	2.0%
Cheung Sha Wan	24.0	7.7%	7.7%	14.6%	n/a	n/a	n/a	n/a
Hung Hom	32.0	-1.5%	1.5%	12.9%	n/a	n/a	n/a	n/a
Kowloon East	34.7	0.7%	2.5%	10.0%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	48.0	0.0%	0.0%	-3.5%	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 last month.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Island South	Royal Garden	7th floor / unit B	2,680	\$89	\$33,209
Tsim Sha Tsui	The Harbourside	Tower 1 / 47 th floor / unit C	1,383	\$45	\$32,538
Tai Kok Tsui	Imperial Cullinan	Tower 1 / 36 th floor / unit A	1,860	\$59.7	\$32,073
Tsim Sha Tsui	Cullinan	Tower 1 / 72 nd floor / unit B	1,490	\$46.9	\$31,500
Mid-Levels East	Signature	38 th floor / unit B	2,016	\$63.5	\$31,477

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	127 Repulse Bay Road	High floor / unit A	3,008	\$161,400	\$53.6
Island South	Blue Water	Penthouse and roof	2,500	\$120,000	\$48.0
Island South	Evergreen Garden	Duplex A	2,106	\$120,000	\$57.0
Mid-Levels	80 Robinson Road	Tower 1 penthouse duplex	2,198	\$110,000	\$50.0
Pokfulam	Bel-Air No. 8	Tower 8A / mid floor	2,398	\$110,000	\$45.9

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

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

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

Both luxury residential prices and rents remained stable in August.

Table 9 Luxury residential market indicators (Aug 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Jul 12	From May 12	From Aug 11		From Jul 12	From May 12	From Aug 11
The Peak	\$59.6	-0.5%	-3.6%	-10.9%	\$23,667	0.0%	0.0%	0.0%
Mid-Levels	\$42.8	0.5%	-0.8%	-16.3%	\$21,071	1.2%	4.6%	3.6%
Pokfulam	\$30.5	0.0%	-2.2%	-10.1%	\$18,622	0.3%	5.7%	10.3%
Jardine's Lookout & Happy Valley	\$40.2	-1.5%	-1.0%	-6.5%	\$18,976	1.9%	4.6%	1.3%
Island South	\$42.9	-1.0%	-3.2%	-15.7%	\$24,932	0.1%	2.5%	5.7%

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



RETAIL

Investment interest in retail properties remained strong last month, with a number of major sales transactions being recorded.

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 G83	59	\$14.8	\$250,847
Yuen Long	Lin Won Building	Ground floor / unit A	425	\$73.8	\$173,647
North Point	Coronet Court	Ground floor / unit 6	296	\$45.8	\$154,730
Hung Hom	United Building Arcade	Ground floor / unit 10A	374	\$31	\$82,888
Quarry Bay	Oceanic Building	Ground floor / unit D	158	\$12.5	\$79,114

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





A number of major leasing transactions were recorded in core districts, despite slower retail sales growth.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
Mong Kok	Hung Tat Building	Ground floor / unit 1	483	\$190,000	\$393.4
Mong Kok	Cheong Fu Mansion	Ground floor / unit 2	215	\$45,000	\$209.3
Tsim Sha Tsui	Bowring Building	Ground floor / unit 14	870	\$132,000	\$151.7
Causeway Bay	4 Sun Chun Street	Ground floor	324	\$40,000	\$123.5
Happy Valley	Shing Ping House	Ground floor / unit 67B	771	\$90,000	\$116.7

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

In August 2012, retail rents rose in all four of the major retail districts.

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

In July, retail sales growth slowed to 3.8%, year on year, following an 11.0% growth in June. Retail sales of 'Jewellery, watches and clocks, and valuable gifts' edged up a mere 0.9% from a year earlier.

Table 13 Retail sales by outlet type (Jul 2012)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Jun 12	From Apr 12	From Jul 11
Jewellery, watches and clocks, and valuable gifts	\$7.9	21.6%	4.9%	1.4%	0.9%
Clothing, footwear and allied products	\$4.9	13.5%	23.6%	4.5%	0.1%
Department stores	\$3.3	9.1%	7.7%	5.8%	2.7%
Fuel	\$0.8	2.2%	0.4%	-1.5%	-4.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.4	6.7%	-2.2%	-8.0%	-1.6%
Consumer durable goods	\$6.7	18.3%	-2.1%	8.2%	11.3%
Supermarkets	\$3.9	10.7%	3.6%	10.6%	8.4%
Others	\$6.5	17.8%	4.0%	-4.9%	4.3%
All retail outlets	\$36.5	100.0%	5.0%	2.3%	3.8%

Source: Census and Statistics Department



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