

RESEARCH



September 2013

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office
Stable leasing activity
across major business districts

Residential
Secondary sales suppressed
with new projects launched

Retail
Market focus shifts to local
retailers and non-core areas

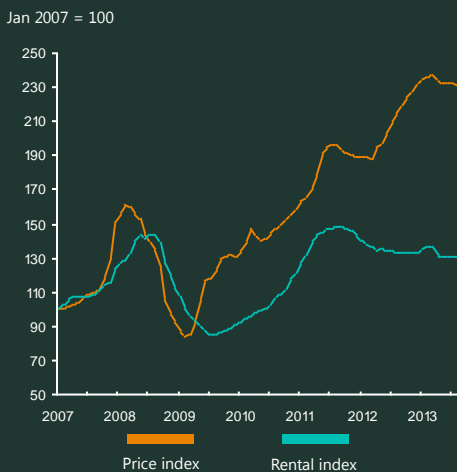
MARKET IN BRIEF

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	Jul 2013	+6.9%	+5.3%	+4.1%	+4.4%
Unemployment	May 2013- Jul 2013	3.3%#	3.4%	3.1%	3.2%
Prime lending rate	Current	5.00–5.25%	5.0%*	5.0%*	5.0%*

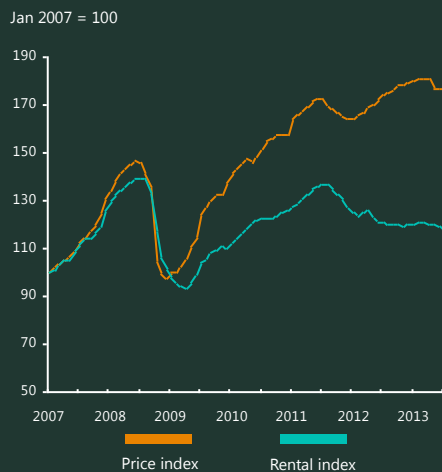
Source: EIU CountryData / Census & Statistics Department / Knight Frank
 # Provisional * HSBC prime lending rate

Figure 1
Grade-A office prices and rents



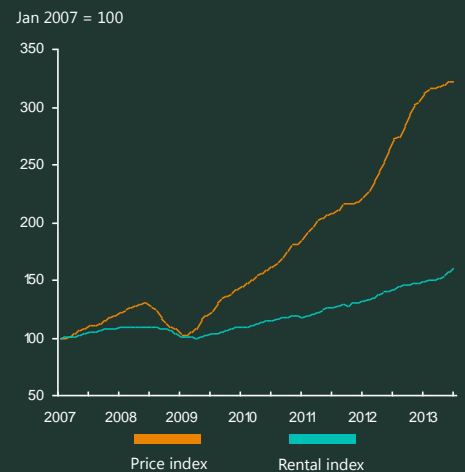
Source: Knight Frank

Figure 2
Luxury residential prices and rents



Source: Knight Frank

Figure 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank
 Note: Provisional figures from Jan to Jun 2013

MONTHLY REVIEW

Hong Kong's Grade-A office leasing market remained stable last month, with expansion activity brisk, but the sales sector remained sluggish amid the government's cooling measures. In the residential market, the primary sector revived, but the secondary market was further suppressed with the launch of new projects. In the retail property market, rents in core shopping areas appeared to peak as expansion from international brands slowed. Market focus shifted to local retailers who continued to target Mainland visitors and strengthen their market share in locations with lower rents, such as second-tier shopping streets and non-core areas such as the New Territories.

PRIME OFFICE

Sentiment in the Grade-A office sales market remained cautious in August. However, despite limited transactions, a result of the sustained effect of the government's various stamp duties, prices stood firm. One major sales transaction last month involved 9,420 sq ft of space and some car-parking spaces in Enterprise Square Two in Kowloon Bay sold for HK\$7,696 per sq ft.

The Grade-A office leasing sector witnessed stable activity, especially towards the end of the month as the summer holidays ended. A number of firms from the financial, advertising, media and IT industries, requiring small to medium-sized office space, underwent expansion. For example, Dutch asset management firm Robeco expanded in Man Yee building in Central, taking a 5,935-sq-ft space, while Japanese media firm Nikkei increased its office size at 28 Hennessy Road in Wan Chai, leasing a 4,935-sq-ft unit.

The recent, brisk relocation activity driven by the redevelopment of Somerset House in Quarry Bay and Sunning Plaza in Causeway Bay

slowed considerably, as most tenants had settled in new locations.

However, both districts remained relatively active, with a number of transactions reported. Networking website LinkedIn relocated from a business centre in Causeway Bay to a 16,481-sq-ft floor in Hysan Place in the same district, while American marketing and communications firm Young & Rubicam took a 10,743-sq-ft floor in Oxford House in Quarry Bay.

Kowloon witnessed a growing trend in tenants choosing to renew existing contracts rather than relocate, as office supply remained tight. The narrowing gap in rents between core and non-core areas also discouraged relocation to non-core districts.

In Central, an annual average of only 100,000 sq ft of new Grade-A offices will be completed in 2013 and 2014. Limited supply and stable demand will keep rents stable. Some buildings are actually seeing rental growth—rents of premium buildings have risen 4.8% from a year ago. Meanwhile, Grade-A office prices in Hong Kong will remain stable as long as the government continues to implement cooling measures.

“**Relocation demand driven by redevelopment slowed considerably, as most tenants had settled in new locations.**”

“**In 2013, the total number of residential sales is expected to fall about 20% to fewer than 70,000 units.**”

RESIDENTIAL

The local secondary home market became even more sluggish in August, with the total number of transactions dropping a further 14.5% month on month, to 3,407—the lowest figure since January 2013. Few deals were recorded in major residential estates last month and the secondary home market is expected to remain inactive in coming months, as new mass-market projects continue to attract buyers.

Transaction volume will only rebound when homeowners become willing to cut prices sharply.

The primary sector showed signs of revival, with more mass-market projects becoming available for sale or in the pipeline. In particular, The Rise in Tsuen Wan, developed by Cheung Kong (Holdings) (0001.HK) managed to sell around 200 units on the first day of launch, the strongest response recorded since the Residential Properties (First-hand Sales) Ordinance took effect on 29 April. Meanwhile, New World Development (0017.HK) also sold about 82% of the 238 flats on offer at Park Signature in Yuen Long on the first day of launch

Developers redefined their sales strategies, postponing project launches as market sentiment deteriorated after stricter sales rules came into practice and more property measures were implemented by the government. As buyers became more cautious, developers cut prices and offered attractive financial terms to make their new projects more financially appealing. We expect developers to pitch new releases at a smaller premium over prices in the secondary market. Some areas, such as Tseung Kwan O and Yuen Long, will see ample new supply and prices will be under pressure in the coming months.

On the leasing front, there was a shift

in demand from 'super luxury' to 'mid-range luxury' units, probably due to the lowering of accommodation allowances for staff in the finance sector and greater cost-awareness among tenants, of them many were shifting to personal leases. Although landlords of luxury properties remained negotiable, the leasing market was less active, despite it being the traditional peak summer season. Luxury residential rents dropped 2.7% in August, the biggest dip since August 2009.

With various cooling policies in place and market sentiment remaining cautious, we believe there will be a drop in activity in both the primary and secondary markets over the year. In 2013, the total number of residential sales is expected to fall about 20% to fewer than 70,000, with mass residential prices dropping less than 5% and prices in the more resilient luxury sector falling less than 3% in the rest of the year.

RETAIL

In July, retail sales growth slowed compared to the double-digit growth in the same period last year, but still increased 9.5% to HK\$40 billion. For the first seven months of 2013, retail sales recorded double-digit annual growth in both value and volume, increasing 14.2% and 13.6% respectively.

The unstable global economy coupled with softening local consumption continued to put a damper on expansion by leading international brands. In contrast, local and Japanese retailers increased their presence in both core and non-core retail districts. Local department store Sincere will reportedly open two stores in September—one in Li Po Chun Chambers in Sheung Wan and the other in Kingwah Centre in Mong Kok—plus another in Causeway Bay by the end of 2013. The third store

will total 20,000 sq ft on the first and second floors of Po Wing Building.

With the Japanese economy remaining sluggish and domestic retail sales shrinking, Japanese retailers are being driven into other Asian markets. Muji, for example, opened a second Tuen Mun store in V City, atop the MTR station.

Man Kam To Port in Shenzhen, across the river from Sheung Shui, reopened in August and is expected to boost the retail market in the Northern New Territories. To take advantage of the increase in potential shoppers, Landmark North in Sheung Shui is providing a cross-border express bus service between the port and the shopping centre. We expect the Northern New Territories to attract more attention from both retailers and consumers, as a major shopping spot for same-day travellers.

In August, retail property rents in prime streets appeared to have peaked. The ground to first floors of Star House in Tsim Sha Tsui, covering 36,500 sq ft of space, were reportedly leased to a number of jewellers for HK\$15 million per month. The average rent of HK\$410 per sq ft was virtually unchanged compared with the previous lease. Over 2013, we maintain our forecast that rents in prime retail districts will witness annual growth of 3–5%.

“We expect the Northern New Territories to attract more attention from both retailers and consumers.”

PRIME OFFICE

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

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kowloon Bay	Enterprise Square Two	12 th floor (various units and car-parking spaces)	9,420	\$72.5	\$7,696
Tsim Sha Tsui	Lippo Sun Plaza	8 th floor / unit 16	3,254	\$50.43	\$15,498
Admiralty	Lippo Centre	Tower 2 / 4 th floor / unit A	1,585	\$26.94	\$16,997

Source: Economic Property Research Centre / Knight Frank
 Note: All transactions are subject to confirmation.
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The Grade-A office leasing market remained active across all major business districts last month.






Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
Central	Man Yee Building	27 th floor / units 04–05	5,935 (I)
Causeway Bay	Hysan Place	38 th floor	16,481 (L)
Quarry Bay	Oxford House	16 th floor	10,743 (L)
Wan Chai	28 Hennessy Road	18–19 th floor	9,870 (L)
Mong Kok	Langham Place Office Tower	39 th floor	17,399 (G)

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

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Grade-A office rents remained stable or rose slightly in major districts in August.

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

In August, Grade-A office prices remained stable in all districts.

Table 5 Prime office market indicators (Aug 2013)									
District	Net effective rent		Change			Price		Change	
	HK\$psf /mth	From Jul 13	From May 13	From Aug 12	HK\$ psf	From Jul 13	From May 13	From Aug 12	
Premium Central	143.3	0.0%	-0.5%	4.8%	n/a	n/a	n/a	n/a	
Traditional Central	105.5	-0.6%	-1.4%	-1.8%	26,958	0.0%	0.0%	1.4%	
Admiralty	81.9	-0.5%	-0.5%	-1.2%	22,455	0.0%	-0.2%	10.8%	
Sheung Wan	62.1	0.0%	2.2%	3.0%	20,437	0.0%	-1.1%	5.5%	
Wan Chai	61.2	0.3%	1.1%	-2.1%	18,265	0.0%	-0.4%	10.3%	
Causeway Bay	64.9	-0.3%	-0.4%	-4.0%	17,631	0.0%	0.0%	12.1%	
North Point	43.2	2.1%	4.6%	19.2%	n/a	n/a	n/a	n/a	
Quarry Bay	49.8	1.1%	1.1%	6.2%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	53.9	1.0%	1.0%	6.6%	12,098	-0.4%	-1.0%	4.1%	
Cheung Sha Wan	29.8	1.7%	9.1%	23.9%	n/a	n/a	n/a	n/a	
Hung Hom	37.0	0.0%	-0.9%	15.5%	n/a	n/a	n/a	n/a	
Kowloon East	40.0	5.2%	3.4%	15.3%	n/a	n/a	n/a	n/a	
Mong Kok/ Yau Ma Tei	50.3	3.9%	0.6%	4.6%	n/a	n/a	n/a	n/a	

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

RESIDENTIAL

Only 234 luxury residential sales transactions worth HK\$10 million or above were recorded in August.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Happy Valley	The Leighton Hill	Tower 7 / 16 th floor / unit A	1,485	\$50	\$33,670
Tsim Sha Tsui	The Arch	Tower 2A / 38 th floor / unit B	1,041	\$31.5	\$30,259
Tsim Sha Tsui	The Masterpiece	33 rd floor / unit G	1,038	\$26.8	\$25,800
Happy Valley	Cavendish Heights	Tower 6 / 28 th floor / unit A	1,583	\$40.3	\$25,458
Mid-Levels Central	Hillsborough Court	Tower 1 / 27 th floor / unit B	776	\$15.8	\$20,361

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

A number of luxury residential properties 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)
The Peak	Conduit Road 39	Mid floor / unit A	2,042	\$168,000	\$82.3
Island South	Grosvenor Place	Mid floor	1,974	\$150,000	\$76.0
Island South	Le Palais	House	2,546	\$160,000	\$62.8
Mid-Levels	Bel-Air No 8	Tower 6 / high floor / unit A	1,439	\$70,000	\$48.6

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

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Residential rents in all five major luxury districts dropped in August.

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

The Peak recorded a drop of 7.9% in luxury home rents, the largest dip among the five districts.

Table 9 Luxury residential market indicators (Aug 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Jul 13	From May 13	From Aug 12	HK\$psf	From Jul 13	From May 13	From Aug 12
The Peak	\$53.3	-7.9%	-8.0%	-10.5%	\$22,919	0.0%	0.0%	-3.2%
Mid-Levels	\$41.4	-0.2%	0.1%	-3.1%	\$21,691	0.3%	1.0%	2.9%
Pokfulam	\$31.3	-0.4%	-1.4%	2.0%	\$19,287	1.0%	0.7%	3.6%
Jardine's Lookout & Happy Valley	\$38.5	-2.3%	-5.2%	-4.3%	\$20,255	-0.2%	-0.4%	6.7%
Island South	\$41.9	-0.3%	-2.1%	-2.3%	\$24,786	0.0%	-1.2%	-0.6%

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

RETAIL

In August, non-core districts witnessed a number of major retail property sales transactions.

District	Building	Floor / unit	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Wan Chai	Hang Tat Mansion	Ground floor / unit A	583	\$65	\$111,492
North Point	City Golden	Basement / unit 203	31 (net)	\$3.154	\$101,742
Kwun Tong	Kwok Tai Building	Ground floor / units A-B	4,530	\$278.9	\$61,568
Shau Kei Wan	i.UniQ Grand	Ground floor / units 1-3	14,000	\$408	\$29,143
Tsim Sha Tsui	New Mandarin Plaza Arcade	Ground floor / unit 9	16,867	\$185.54	\$11,000

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

In August, second-tier streets saw a number of major leasing transactions.

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Aberdeen	Mosbert Mansion	Ground floor / unit 6	344	\$107,800	\$313.4
Causeway Bay	Yan Wo Yuet Building	Ground floor / unit 2	345 (gross)	\$120,000	\$347.8
Yau Ma Tei	Tougha Mansion	Ground floor / unit 504A	405	\$128,000	\$316.1
Tuen Mun	Eldo Garden Shopping Centre	Ground floor / unit 18	240	\$63,000	\$262.5
Ma On Shan	Sunshine City Plaza	2 nd floor / unit 202	313	\$53,424	\$170.7

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 August 2013.

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

For the first seven months of 2013, retail sales recorded double-digit annual growth in both value and volume, up 14.2% and 13.6% respectively.

Table 13 Retail sales by outlet type (Jul 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Jun 13	From Apr 13	From Jul 12
Jewellery, watches and clocks and valuable gifts	\$10.1	25.3%	-5.5%	-22.7%	28.2%
Clothing, footwear and allied products	\$5.3	13.1%	18.4%	5.9%	6.5%
Department stores	\$4.1	10.2%	2.8%	6.6%	22.0%
Fuel	\$0.8	2.1%	-4.7%	0.8%	4.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.5	6.3%	0.2%	-9.5%	2.7%
Consumer durable goods	\$6.0	15.1%	-1.2%	-3.2%	-9.8%
Supermarkets	\$4.1	10.3%	1.3%	8.5%	4.8%
Others	\$7.1	17.7%	-2.1%	-6.6%	8.4%
All retail outlets	\$40.0	100.0%	0.3%	-7.1%	9.5%

Source: Census and Statistics Department

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