

RESEARCH



MARCH 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Divergent office leasing trends
evident among various industries

Residential

Further cooling measures to
reduce number of transactions

Retail

Retail sales value down
14.6% in January 2015

KEY FINDINGS

Only a few major office sales transactions were recorded last month, but there were signs of a return of investors to the market.

The new measures are likely to reduce the number of sales transactions in the small to medium-sized home market in the short-term.

The development trend of the local retail market could be affected by policy changes to the Individual Travel Scheme.

MONTHLY REVIEW

Last month, the Hong Kong Government continued to demonstrate its intention to tackle the imbalance between housing demand and supply in the SAR. The Financial Secretary announced in the 2015–2016 Budget that this year’s Land Sale Programme would include 29 residential sites. Meanwhile, the Hong Kong Monetary Authority announced a seventh round of cooling measures to temper the sales market for small to medium-sized flats.

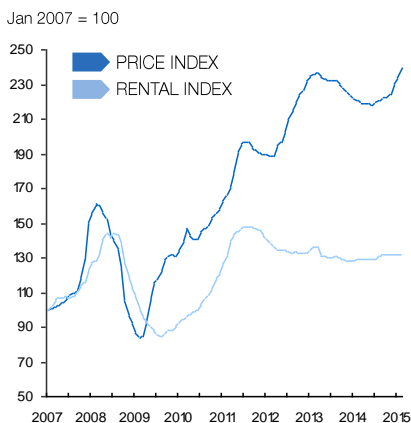
TABLE 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q4 2014	+2.2%#	+1.7%	+2.9%	+2.3%#
Inflation rate	Jan 2015	+4.1%	+4.1%	+4.3%	+4.4%
Unemployment	Nov 2014– Jan 2015	3.3%#	3.1%	3.3%	3.2%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank

Provisional * HSBC prime lending rate

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank

Prime Office

In February, only a few major office sales transactions were recorded, but there were signs of a return of investors to the market. A major deal involved a high floor unit in World-Wide House in Central, which was reportedly sold for HK\$30,260 per sq ft—the second highest price ever achieved for an office unit in Hong Kong.

Grade-A office prices in major business districts have seen notable growth since the end of 2014. Rent growth is expected to support capital appreciation and we expect investors to continue to increase their focus on the office sales market this year.

In the office leasing market, divergent trends have been witnessed among various industries. On the one hand, finance, insurance and medical beauty companies continue to expand—in the form of both in-house expansion and the taking-up of space in other buildings—driving up office demand. However, sourcing and logistic firms—facing intense competition from neighbouring cities such as Shanghai

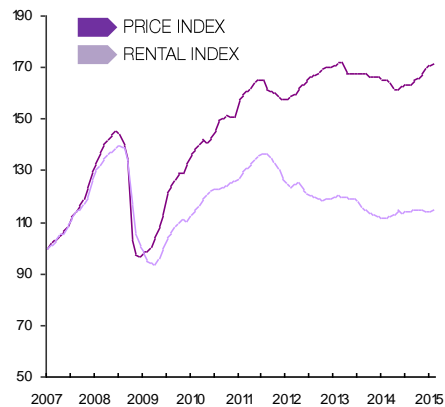
and Singapore—are preferring to relocate to save on rental costs.

Looking ahead, we believe Grade-A office rents on Hong Kong Island will continue to increase in 2015, mainly driven by strong demand from companies looking to expand in these areas with limited new supply and where vacancy rates will remain low.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100



Source: Knight Frank

Residential

Last month, the government announced in the 2015–2016 Budget that this year's Land Sale Programme would include 29 residential sites—mostly located in the New Territories—which will provide about 16,000 flats. Taking into account land supply from all different sources, a total of 19,000 private residential units could be provided in the year, meeting the government's annual average supply target.

Soon after that, the Hong Kong Monetary Authority announced a seventh round of market tightening measures on 27 February. This follows the recent surge in the prices of small to medium-sized residential units, despite the implementation of various property market cooling measures since 2010. For residential properties valued at HK\$7 million or below, the maximum Loan-to-Value (LTV) ratio has been lowered to 60% from the previous 60–70%. Moreover, for borrowers purchasing a second property, the maximum debt-servicing ratio has been lowered from 50% to 40%.

We believe these new measures will affect buying sentiment in the sales market of small to medium-sized homes, in the short-term. However, the policies will only reduce transaction volume and have limited impact on prices, due to strong demand from first-time buyers and the lowering of the LTV ratio by a relatively small 0–10%.

Retail

In January 2015, the total retail sales value plunged 14.6% compared with a year earlier, to settle at \$46.6 billion, despite tourist arrivals having increased 2.8% year on year. It was the first double-digit decline in the first month of a year, since 2002. The sales value of 'jewellery, watches and clocks, and valuable gifts' fell a further 21.4% in January 2015, year on year. However, the declines were partly due to distortion resulting from the difference in the timing of Chinese New Year, which fell in mid-February this year, but in late January last year.

The retail property market recorded a few major leasing transactions last month. A sportswear retailer reportedly

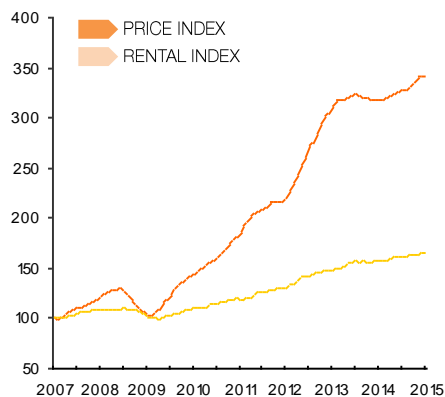
renewed the lease of its 17,000-sq-ft, multiple-floor flagship store at 17 Hankow Road in Tsim Sha Tsui, while an international car brand leased a 4,800-sq-ft, ground-floor space in Entertainment Building in Central.

With the potential modification of the Individual Visit Scheme to restrict Mainland visitor numbers, the development trend of the local retail market could be affected. We expect rents in core shopping centres to grow marginally in 2015, while rents of street shops in prime retail districts may fall 3–5%.

FIGURE 3

Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank
 Note: Provisional figures from Aug 2014 to Jan 2015

SNAPSHOT

A low floor unit at Shun Tak Centre in Sheung Wan was sold for HK\$20,633 per sq ft (Table 2).

In February, two major leasing transactions involved large office space at Pioneer Place in Kwun Tong (Table 3).

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Sheung Wan	Shun Tak Centre	Low	2,559	\$52.8	\$20,633
Kwun Tong	56 Tsun Yip Street	High	1,716	\$20.8	\$12,103
Kwai Chung	Metroplaza Tower 2	High	1,445	\$12.4	\$8,600
Sha Tin	3 On Kwan Street	High	15,073	\$108.8	\$7,220

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Floor area (sq ft)
Kwun Tong	Pioneer Place	Low	42,186 (G)
Kwun Tong	Pioneer Place	Low	21,093 (G)
Central	Two IFC	Low	19,000 (L)
Kowloon Bay	Octa Tower	High	11,900 (G)

Source: Knight Frank

Note: All transactions are subject to confirmation.

SNAPSHOT

In February, Grade-A office rents in Central / Admiralty and Kowloon East decreased month on month (Table 4).

Grade-A office prices in Causeway Bay increased significantly last month (Table 5).

TABLE 4

Month-on-month movement of Grade-A office rents (Feb 2015)






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

TABLE 5

Prime office market indicators (Feb 2015)

District	Net effective rent			Price		Change		
	HK\$ psf / mth	From Jan 15	From Nov 14	From Feb 14	HK\$ psf	From Jan 15	From Nov 14	From Feb 14
Premium Central	\$153.5	0.2%	0.4%	5.9%	n/a	n/a	n/a	n/a
Traditional Central	\$103.7	-0.8%	-1.1%	-2.3%	\$26,633	2.4%	4.6%	2.8%
Admiralty	\$83.7	0.2%	1.5%	6.4%	\$22,833	2.8%	7.1%	8.1%
Sheung Wan	\$66.3	3.2%	1.9%	7.5%	\$21,025	1.4%	8.0%	9.9%
Wan Chai	\$65.6	1.0%	1.4%	4.9%	\$19,235	2.1%	7.1%	8.2%
Causeway Bay	\$68.5	0.4%	0.8%	3.8%	\$20,368	6.3%	11.6%	20.0%
North Point	\$47.5	-0.3%	-1.4%	4.6%	n/a	n/a	n/a	n/a
Quarry Bay	\$54.3	3.1%	0.7%	5.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$54.4	0.1%	0.2%	-1.4%	\$12,924	1.9%	7.0%	11.2%
Cheung Sha Wan	\$29.0	0.0%	3.0%	2.7%	n/a	n/a	n/a	n/a
Hung Hom	\$34.7	-2.4%	-1.9%	1.7%	n/a	n/a	n/a	n/a
Kowloon East	\$33.8	-0.9%	-0.9%	-7.8%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$50.7	0.0%	2.5%	6.2%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

SNAPSHOT

A number of major sales involving luxury homes in Mid-Levels were made last month (Table 6).

A number of luxury homes were leased for over HK\$100,000 a month in February 2015 (Table 7).

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	Pine Crest	Low floor unit	1,778	\$71.68	\$40,315
Mid-Levels West	Merry Terrace	Mid floor unit	1,240	\$46.3	\$37,339
Mid-Levels Central	Grenville House	Block E, F / high floor unit	3,280	\$120	\$36,585
Wan Chai	One Wanchai	High floor unit	1,357	\$45.009	\$33,168

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

District	Building	Floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Mid-Levels Central	The Royal Court	High floor unit	1,107	\$75,000	\$67.8
The Peak	29 Severn Road	Mid floor unit	2,044	\$128,000	\$62.6
Island South	Park Place	Low floor unit	2,070	\$105,000	\$50.7

Source: Knight Frank

Note: All transactions are subject to confirmation.

SNAPSHOT

Home rents increased in most traditional luxury residential districts last month (Table 8).

Luxury residential prices rose slightly month on month in February 2015 (Table 9).

TABLE 8

Month-on-month movement of luxury residential rents (Feb 2015)






Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

TABLE 9

Luxury residential market indicators (Feb 2015)

District	Rent			Price				
	HK\$ psf / mth	Change From Jan 15	From Nov 14	From Feb 14	HK\$ psf	Change From Jan 15	From Nov 14	From Feb 14
The Peak	\$66.8	0.5%	0.9%	5.2%	\$41,354	0.0%	2.5%	1.8%
Mid-Levels	\$56.2	1.9%	2.5%	6.3%	\$26,919	1.4%	2.9%	6.8%
Pokfulam	\$38.5	0.4%	-0.4%	4.9%	\$24,597	1.9%	5.8%	1.9%
Jardine's Lookout / Happy Valley	\$50.4	0.3%	-1.3%	4.8%	\$25,415	0.3%	2.6%	7.2%
Island South	\$51.1	0.5%	-1.0%	-5.2%	\$31,926	0.0%	0.0%	4.1%

Source: Knight Frank

Rents and prices are subject to revision.

SNAPSHOT

Most major retail property sales transactions were recorded in the New Territories last month (Table 10).

Last month, a number of major retail property leasing transactions involved small units (Table 11).

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Wan Chai	Kam Koon Building	Ground floor / unit B2	132	\$28.0	\$212,121
Tsuen Wan	Wing On Man	Ground floor / unit A2	125	\$25.2	\$201,600
Tsuen Wan	Winning Heights	Ground floor / unit U	490	\$51.0	\$104,082
Shatin	3 On Kwan Street	3rd floor	19,480	\$251.8	\$12,927

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Kwun Tong	Yan On Man	Ground floor / unit K	400	\$178,000	\$445.0
Ma On Shan	Sunshine City Plaza	2nd floor / unit 119	594	\$230,000	\$387.2
Kwun Tong	Kin Tak House	Ground floor / unit B	410	\$100,000	\$243.9
Wan Chai	Hip Sang Building	Ground floor / unit 109	590	\$140,000	\$237.3

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

Prime retail rents remained stable across all major retail districts last month (Table 12).

In January, the total retail sales value recorded a 14.6% decrease, year on year, to settle at HK\$46.6 billion (Table 13).

TABLE 12

Month-on-month movement of prime street shop rents (Feb 2015)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jan 2015)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Dec 14	From Oct 14	From Jan 14
Jewellery, watches and clocks and valuable gifts	\$9.1	19.6%	-5.6%	23.4%	-21.4%
Clothing, footwear and allied products	\$6.3	13.5%	-7.6%	35.0%	-13.8%
Department stores	\$4.5	9.6%	-22.0%	14.5%	-11.3%
Fuel	\$0.7	1.5%	-10.6%	-17.0%	-21.5%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.7	8.0%	3.8%	13.2%	-8.7%
Consumer durable goods	\$8.7	18.6%	0.3%	20.0%	-20.3%
Supermarkets	\$4.5	9.6%	4.9%	5.5%	-13.1%
Others	\$9.1	19.6%	10.5%	34.5%	-5.0%
All retail outlets	\$46.6	100.0%	-2.4%	21.5%	-14.6%

Source: Census and Statistics Department / Knight Frank



GLOBAL BRIEFING

For the latest news, views and analysis on the world of prime property, visit KnightFrankblog.com/global-briefing

RESEARCH & CONSULTANCY

David Ji

Director,
Head of Research & Consultancy,
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Pamela Tsui

Senior Manager,
Research & Consultancy, Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

CONTACTS

Alan Child

Chairman, Greater China
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Paul Hart

Executive Director, Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

CHINA VALUATION

Clement Leung

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

COMMERCIAL AGENCY

Colin Fitzgerald

Managing Director, Greater China
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

RESIDENTIAL AGENCY

Renu Budhrani

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

RETAIL SERVICES

Livian Har

Director, Head of Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Prime Global Cities Index Q4 2014



Asia-Pacific residential review



Greater China Report Q4 2014



Wealth Report 2015

Knight Frank Research Reports are available at KnightFrank.com/Research

© Knight Frank 莱坊 2015

Knight Frank Petty Limited
Knight Frank Hong Kong Limited

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

