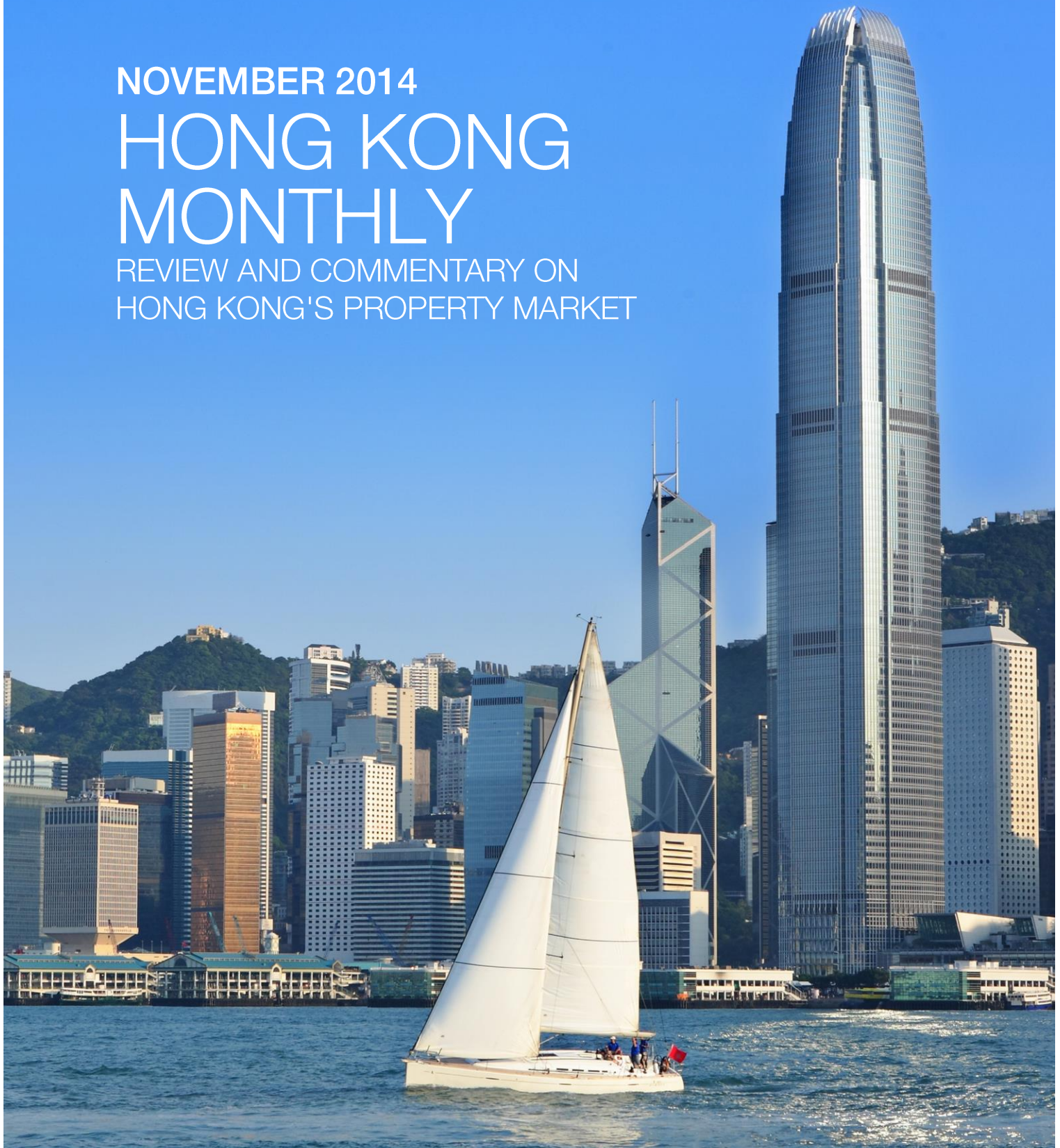


RESEARCH



NOVEMBER 2014
HONG KONG
MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Two-pronged development in
CBD's Grade-A office market

Residential

Home sales to rise 15–20%
in 2014 from 2013

Retail

Rents of street shops drop
in all major retail areas

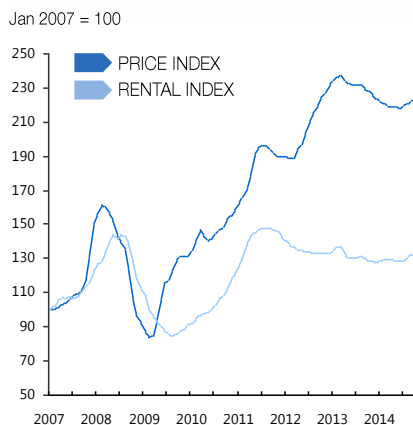
KEY FINDINGS

The Grade-A office leasing market in Kowloon East rebounded towards the fourth quarter, as rents have fallen to more affordable levels.

Over 2014, we expect home prices to remain stable or slightly drop and transaction volume to rise 15–20%, compared with 2013.

We expect prime street shop rents to fall up to 10% next year and those in secondary streets to decline up to 15%.

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank

MONTHLY REVIEW

Amidst the recent unstable political atmosphere and the delay in the launch of the Shanghai-Hong Kong Stock Connect, prime office rents dropped slightly in Central and Admiralty in October, but continued to rise in other areas of Hong Kong Island. In the residential sector, prices came under downward pressure amidst abundant housing supply in coming years and concerns of a potential interest rate rise next year. Meanwhile, retail leasing activities in the prime retail areas remained subdued with vacancy levels rising in secondary streets.

TABLE 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q2 2014	+1.8%#	+4.8%	+1.5%	+2.9%
Inflation rate	Sep 2014	+6.6%	+5.3%	+4.1%	+4.3%
Unemployment	Jul-Sep 2014	3.3%#	3.4%	3.1%	3.3%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

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

Provisional * HSBC prime lending rate

Prime Office

Amidst the recent political events and a delay in the launch of Shanghai-Hong Kong Stock Connect, prime office rents dropped slightly in Central and Admiralty in October, but continued to rise in other areas of Hong Kong Island.

Recently, the office market in Central has followed two prongs of development. On one hand, due to a lack of space in most prime Grade-A office buildings, expanding Mainland financial institutions are finding it difficult to secure new office space. On the other hand, international finance firms that had been downsizing since the financial crisis are requiring less space in the CBD, leading to large amount of vacant space in certain buildings.

The Grade-A office leasing market in Kowloon East rebounded towards the end of the quarter, as rents have fallen to more affordable levels. Strong demand for large-scale office space resulted in robust letting activity in the district. Following the trend in decentralisation, tenants have continued to relocate from Hong Kong Island, slightly pushing up rents in the area. However, absorption of revitalised industrial buildings of relatively lower standard has remained

slow and some landlords have had to offer competitive asking rents to attract tenants.

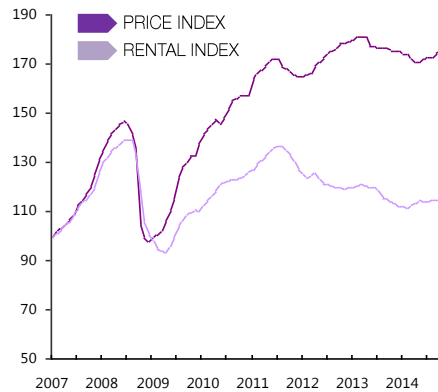
Despite negative factors such as local political uncertainty, the on-going market-cooling policies and the potential US interest rate rise, investment sentiment remained positive with a few large en-bloc office acquisitions recorded in October. For instance, KOHO, a new Grade-A office tower in Kowloon East, was reportedly acquired for HK\$1.8 billion by New World Development, while Empire Land Commercial Centre in Wan Chai was purchased for HK\$818 million by Emperor International Holdings.

Looking ahead, office rents across the city are expected to remain largely stable for the remainder of the year. Notably however, office rents in Kowloon East are likely to outperform the overall market by increasing 2–3% in coming months.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

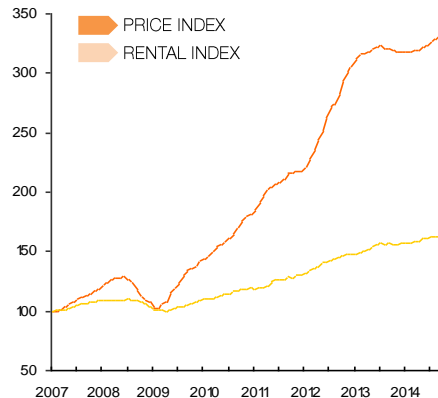


Source: Knight Frank

FIGURE 3

Retail property prices and rents

Jan 2007 = 100

Source: Rating and Valuation Department / Knight Frank
Note: Provisional figures from Apr 2014 to Sep 2014

Residential

Last month, 6,189 residential sales transactions were registered, an increase of 3.9% month on month. Sales of luxury homes worth HK\$10 million or above surged 45% from September to reach 1,093. The growth was mainly attributable to strong sales performance in the primary sector. For example, 70% of the first batch of new units launched at 8 LaSalle in Ho Man Tin was sold on the first day of launch.

During the first nine months of 2014, the total volume of residential sales reached 46,764, an increase of 21% year on year. Of these sales, 5,324 involved luxury homes worth HK\$10 million or above, a rise of 53% year on year. The number of primary home sales transactions during the period reached 12,242, an increase of 73% year on year, while secondary residential sales rose a mere 9% to reach 34,519.

At the end of October, the US Federal Reserve announced its decision to end the bond-buying stimulus programme (QE3), while still pledging that rates would remain near zero for a “considerable time”. In addition to concerns of a potential interest-rate rise next year, residential prices also came under downward pressure from the fact that housing supply is expected to be abundant in coming years.

In order to reach its supply target, the government continued to launch sites for tender. In October, phase five of Lohas Park in Tseung Kwan O—which could provide 1,600 units by 2020—was put up for tender. Meanwhile, New World Development purchased the residential portion of the Tai Wai Station project for HK\$2.856 billion, which could deliver around 2,900 residential units upon completion. According to the government, residential supply could reach 74,000 units in the next 3-4 years, representing an annual supply of 18,500–24,700 units.

By the end of the year, many new residential projects will be launched, while several high-end projects in traditional luxury residential areas such as Ho Man Tin and Kowloon Tong are in the pipeline. Over 2014, we expect home prices to remain stable or slightly drop and the transaction volume to rise 15–20% compared with last year.

Retail

Hong Kong’s retail sales value continued to pick up, with a 4.8% increase in September year on year. This growth can be attributed to the 17.5% surge in the retail sales of ‘consumer durable goods’, while retail sales of ‘jewellery, watches and clocks and valuable gifts’ rebounded 2.7% after consecutive year-on-year drops since February. For the first nine months of 2014, total retail sales declined a mere 0.4% year on year.

Amidst the recent unstable political atmosphere in Hong Kong, with slower retail sales so far this year, all four of the major retail districts—namely Central, Causeway Bay, Mong Kok and Tsim Sha Tsui—experienced slight declines in street-shop rents last month. This was despite the “Golden Week” holiday in early October.

Leasing activity in prime retail areas remained subdued, with vacancy levels rising in secondary streets. Few deals were recorded, apart from one involving an international fashion brand, which reportedly leased an entire building in Russell Street in Causeway Bay for a monthly rent of HK\$8.5 million.

Meanwhile, shopping malls continued to adjust their strategies and reposition themselves to cope with the changing consumer demand. A case in point being the Mikiki mall in San Po Kong, which has been restructuring its tenant mix towards food and beverage, fast fashion and beauty products since early this year. Consequently, the mall is expected to see its footfall and turnover rise by a respective 16% and 20% in the fourth quarter.

With the changing consumption pattern of Mainland visitors, the retail market is expected to continue to evolve towards the mid-end of the market. We expect prime street shop rents to fall up to 10% next year and those in secondary streets to decline up to 15%. In contrast, rents in prime shopping malls are expected to climb 3–5% in 2015, while those in non-core shopping malls—such as those in the New Territories near MTR stations—could increase up to 5%, thanks to their convenient locations for both Mainland tourists and local consumers.

KEY FINDINGS

A few en-bloc office sales transactions were recorded in the month.

In October, the MTRC leased a large office space spanning several floors in Shui On Centre in Wan Chai.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wan Chai	Empire Land Commercial Centre	En bloc	53,426	\$818	\$15,328
Kwun Tong	KOHO	En bloc	200,000	\$1,800	\$9,000
Sheung Wan	Cosco Tower	Mid	19,746	\$375	\$18,992
Kwai Chung	Kowloon Commerce Centre	High	26,292	\$257	\$9,800

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Gross floor area (sq ft)
Wan Chai	Shui On Centre	Low and high	51,000
Kwun Tong	Rykadan Capital Tower	Low	12,067
Tsim Sha Tsui	East Ocean Centre	Mid	11,427
Aberdeen	Global Trade Square	Low	9,770

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

KEY FINDINGS

In October, Grade-A office rents dropped slightly, month on month, in Central/Admiralty and Tsim Sha Tsui.

Grade-A office prices in all major business areas remained virtually unchanged last month.

TABLE 4

Month-on-month movement of Grade-A office rents (Oct 2014)






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

TABLE 5

Prime office market indicators (Oct 2014)

District	Net effective rent			Price		Change		
	HK\$ psf / mth	From Sep 14	From Jul 14	From Oct 13	HK\$ psf	From Sep 14	From Jul 14	From Oct 13
Premium Central	\$152.9	-1.6%	2.9%	8.7%	n/a	n/a	n/a	n/a
Traditional Central	\$104.4	-1.3%	-0.5%	0.7%	\$25,451	0.0%	0.2%	-4.0%
Admiralty	\$81.5	-0.7%	3.9%	0.0%	\$21,194	0.0%	0.1%	-3.5%
Sheung Wan	\$65.1	2.3%	4.3%	5.4%	\$19,336	0.0%	2.9%	-3.0%
Wan Chai	\$64.7	0.1%	3.7%	5.8%	\$17,932	0.0%	0.4%	-1.5%
Causeway Bay	\$68.4	0.5%	3.1%	6.3%	\$18,240	0.0%	3.5%	4.6%
North Point	\$48.2	1.5%	6.2%	7.4%	n/a	n/a	n/a	n/a
Quarry Bay	\$53.9	1.2%	3.6%	6.6%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$53.8	-0.2%	-0.1%	-7.0%	\$11,920	0.0%	1.6%	-0.5%
Cheung Sha Wan	\$27.7	0.7%	3.3%	-10.4%	n/a	n/a	n/a	n/a
Hung Hom	\$35.5	-4.7%	-3.3%	2.8%	n/a	n/a	n/a	n/a
Kowloon East	\$34.3	1.5%	3.8%	-8.8%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$49.5	0.0%	2.6%	-0.8%	n/a	n/a	n/a	n/a

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In October, Kowloon recorded a number of major luxury residential sales transactions.

A number of major luxury residential leasing transactions were recorded in Island South last month.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Saleable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Tsim Sha Tsui	The Harbourside	High floor unit	1,685	\$91.916	\$54,550
Tsim Sha Tsui	The Harbourside	High floor unit	1,828	\$97.692	\$53,442
North Point	The Pavilia Hill	High floor unit	1,197	\$43.7	\$36,511
Kowloon Tong	One Mayfair	Low floor unit	1,686	\$58	\$34,401
Ho Man Tin	Celestial Heights	High floor unit	2,672	\$65	\$24,326

Source: Knight Frank

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	Branksome Crest	High floor unit	1,766	\$108,000	\$61.2
Pokfulam	Bel-Air No.8	High floor unit	1,119	\$56,000	\$50.0
Island South	The Redhill Peninsula	High floor unit	1,667	\$74,000	\$44.4
Island South	Repulse Bay Apartments	High floor unit	2,230	\$93,000	\$41.7

Source: Knight Frank

Note: All transactions are subject to confirmation.

KEY FINDINGS

In October, The Peak and Pokfulam saw increases in luxury residential rents.

Luxury residential prices remained stable last month.

TABLE 8

Month-on-month movement of luxury residential rents (Oct 2014)






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

TABLE 9

Luxury residential market indicators (Oct 2014)

District	Net effective rent			Price				
	HK\$ psf / mth	Change From Sep 14	From Jul 14	From Oct 13	HK\$ psf	Change From Sep 14	From Jul 14	From Oct 13
The Peak	\$53.3	0.3%	1.6%	-1.2%	\$22,195	0.0%	0.0%	-3.2%
Mid-Levels	\$41.9	-0.3%	1.3%	2.3%	\$21,650	0.1%	1.7%	0.8%
Pokfulam	\$31.5	0.3%	1.1%	1.8%	\$17,777	0.9%	1.1%	-4.5%
Jardine's Lookout / Happy Valley	\$39.4	0.0%	-1.7%	4.9%	\$19,988	0.9%	2.3%	0.7%
Island South	\$40.0	-0.4%	0.1%	-3.8%	\$25,808	0.0%	2.5%	3.6%

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In October, most major retail property sales transactions involved small units.

Last month, the most notable retail property leasing transactions were recorded in the New Territories.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Kennedy Town	Sun On Building	Ground floor / unit 1	810	\$85.5	\$105,556
Mong Kok	Sun Fung House	Ground floor / unit 3	155	\$11.0	\$70,968
Tuen Mun	Tuen Mun Fa Yuen	Ground floor / unit 0	390	\$24.8	\$63,590
Mong Kok	Sun Fung House	Ground floor / unit 4	178	\$11.2	\$62,921

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)
Sha Tin	Grandway Garden	Ground floor / unit 21	295	\$178,000	\$603.4
Tsuen Wan	City Landmark	2nd floor / unit 37	154	\$58,000	\$376.6
Central	Tak Woo House	Ground floor / unit 3	534	\$160,000	\$299.6

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

KEY FINDINGS

Drops in prime retail rents were witnessed across all major retail districts in October.

In September, the total retail sales value was HK\$37.6 billion, an increase of 4.8% year on year.

TABLE 12

Month-on-month movement of prime street shop rents (Oct 2014)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Sep 2014)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Aug 14	From Jun 14	From Sep 13
Jewellery, watches and clocks and valuable gifts	\$7.7	20.6%	-9.9%	1.0%	2.7%
Clothing, footwear and allied products	\$4.4	11.7%	-11.5%	-7.9%	7.6%
Department stores	\$3.7	9.9%	-13.6%	-2.4%	-2.8%
Fuel	\$0.9	2.3%	-0.2%	-0.1%	0.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.3	8.9%	-5.8%	22.3%	-9.1%
Consumer durable goods	\$6.9	18.4%	20.7%	23.1%	17.5%
Supermarkets	\$4.3	11.5%	-4.2%	1.1%	2.1%
Others	\$6.3	16.7%	-16.8%	-15.2%	9.4%
All retail outlets	\$37.6	100.0%	-6.2%	1.2%	4.8%

Source: Census and Statistics Department / Knight Frank



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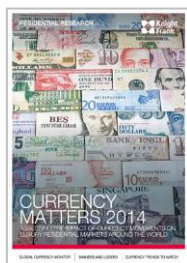
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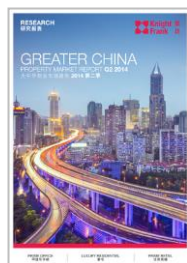
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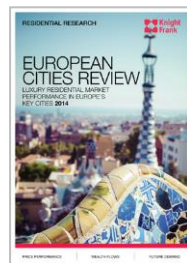
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