

RESEARCH



OCTOBER 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Serviced offices gaining in popularity

Residential
Prices remain firm despite a drop in the volume of sales

Retail
Mass-market retailers remain active

KEY FINDINGS

In the past few months, aggressive expansion activity by the medical beauty sector has absorbed considerable office space in Hong Kong.

Developers are expected to speed up their launches of new flats in the coming months. With abundant supply in the pipeline, asking prices will remain competitive.

The landscape of the local retail market is expected to continue evolving, largely towards the mid end of the market.

MONTHLY REVIEW

Amid the recent unstable political atmosphere in Hong Kong, many companies have prepared contingency plans, leasing fully furnished and IT-equipped serviced offices in non-core business areas to be used as temporary operation centres, if necessary. In the residential sector, although transaction volume dropped for the second consecutive month in September, prices remained firm and a number of major luxury sales transactions took place. In the retail property market, landlords further softened their stance on asking rents with retail sales slowing. The sector continued to be supported by the spending on necessities and products towards the mid end of the market, by both locals and Mainland tourists.

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	Aug 2014	+3.9%	+5.3%	+4.1%	+4.3%
Unemployment	Jun–Aug 2014	3.3%#	3.4%	3.1%	3.3%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

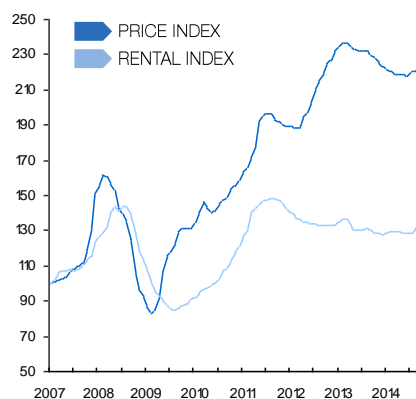
Source: EIU CountryData / Census & Statistics Department / Knight Frank

Provisional * HSBC prime lending rate

FIGURE 1

Grade-A office prices and rents

Jan 2007 = 100



Source: Knight Frank

Prime Office

Hong Kong's Grade-A office leasing market remained relatively stable in September, with the average rent increasing another 0.5% month on month. Despite the fact that financial services and banking tenants were more cost-conscious, they continued to drive considerable office demand in the city. Large take-up cases continued to be recorded in Central, with one noteworthy example being the lease of a mid floor at Two Exchange Square in Central by European financial institution LGT last month.

Meanwhile, aggressive expansion activity by the medical beauty sector has absorbed considerable office space in the past few months. Offices in convenient locations with high footfall rates were especially sought after by this sector. Recent examples include the leasing of around 13,000 sq ft of office space at AIA Tower in North Point by an international cosmetics and beauty brand and the leasing of two

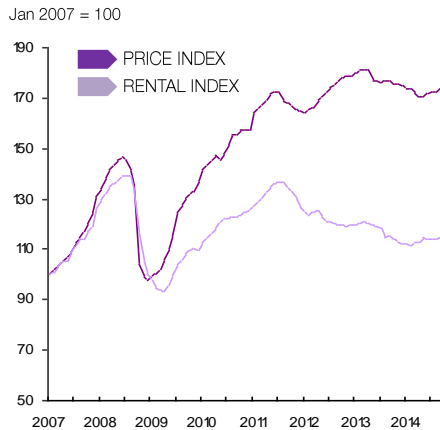
floors in Langham Place Office Tower in Mong Kok by a beauty salon. We expect office demand from the medical beauty sector to continue in the near future.

Another notable trend has been the rapid expansion of serviced offices, especially in non-core business districts such as Tsuen Wan and Sha Tin. Amid the recent unstable political atmosphere in Hong Kong, many companies have prepared contingency plans, leasing fully furnished and IT-equipped serviced offices in non-core business areas to be used as temporary operation centres, if necessary. Demand for this kind of affordable, fully fitted office space is expected to continue.

Looking ahead, office rents across the city are expected to be stable for the remainder of the year.

FIGURE 2

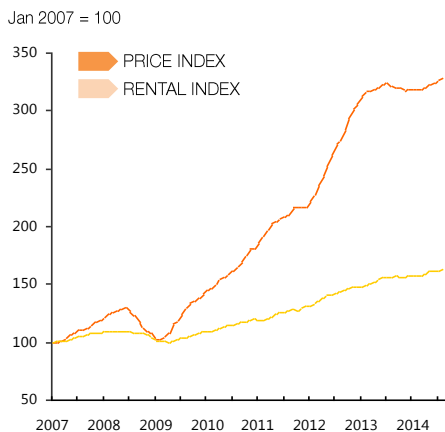
Luxury residential prices and rents



Source: Knight Frank

FIGURE 3

Retail property prices and rents



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

Residential

In September, the number of home sales in Hong Kong dropped for the second consecutive month, by another 4.1% to 5,958 transactions. This was mainly due to a 26.4% drop in primary residential sales, although secondary sales rebounded by a slight 3.7%. Though the overall volume of transactions dropped, sales of luxury units priced HK\$10 million or above rebounded 6.5% and luxury residential prices grew another 1.1% month on month—the most notable growth since prices started to rebound in May. Mass residential prices also gained about 1.5% during the period.

A number of major deals were recorded in the luxury residential market in September, both in the secondary and primary sectors. For example, a house at 35 South Bay Road in Island South sold for HK\$808 million—the largest single house deal in terms of total consideration for the past three years. Meanwhile, Arezzo in Mid-Levels West by Swire Properties (1972.HK) sold its entire first batch of 50 new units within three hours of launch. A number of buyers were long-term investors.

In the fourth quarter of 2014, the government will put out six plots for tender. Together with the Urban Renewal Authority and MTR sites, the supply of new homes could reach 6,700 units during these three months. This will result in 16,800 units of new supply in the first three fiscal quarters, which means the government is likely to reach its annual supply target of 18,800 units this year.

In the US, the Federal Reserve raised the median forecast of fed-fund rates at the end of 2015 during their latest meeting, hinting at a faster-than-expected interest-rate hike next year. If true, given the peg between Hong Kong and the US, this will increase the mortgage burden of homebuyers in Hong Kong, imposing downward pressure on the property market in coming years.

Looking forward, developers are expected to speed up their launches of primary flats in the coming months. With abundant supply in the pipeline, asking prices will remain competitive. We expect overall mass and luxury home prices to drop 0–3% and 3–5%, respectively, over 2014.

Retail

In August, the total value of local retail sales grew 3.4% year on year, bringing an end to six consecutive months of decline. Although sales of ‘jewellery, watches and clocks and valuable gifts’ dropped 6.1% year on year, sales of ‘food, alcoholic drinks and tobacco’ grew around 20%. For the first eight months of 2014, total retail sales decreased only 1.0% on a year-on-year basis.

Slower retail sales continued to soften the stance of retail property landlords during rental negotiation. In September, rent cuts were recorded, but major transactions of prime and high quality retail properties with significant rent increases were still recorded. For example, a 9,400-sq-ft retail space at 82–84 Canton Road in Tsim Sha Tsui was reportedly leased by an international watch group for a monthly rent of around HK\$6.5 million—almost 130% higher than that of the previous lease. Meanwhile, a ground-floor unit of around 1,000 sq ft in iSquare in the same district was reportedly leased by a mid-tier international jeweller for HK\$1,500 per sq ft per month—around 60% higher than the previous lease.

Notably, last month, Link REIT (0823.HK) disposed of five shopping centres selling mainly daily necessities, with the total consideration exceeding the appraised values. The transactions reflected investor confidence in local consumption in the long-term. We expect the relatively low prices and high yields of retail properties in non-core districts to continue to attract investors.

Looking forward, with the steady growth in demand for daily necessities and mid-tier retail items from both Mainland tourists and the local population, related retailers—such as pharmacies and those selling cosmetics—will continue to expand. However, slower sales of luxury products will suppress the growth of retail rents in prime shopping streets. We expect prime street rents to remain stable or slightly decrease during the remainder of the year.

KEY FINDINGS

The majority of office sales transactions recorded in the month involved small floor plates.

A tenant selling baby products relocated its office from Hong Kong Island to Millennium City 1 in Kwun Tong.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Far East Financial Centre	High	6,363	\$180	\$28,289
Sheung Wan	Alliance Building	Low	3,508	\$80	\$22,805
Wan Chai	Caltex House	Low	8,880	\$72	\$8,108
Kowloon Bay	Enterprise Square Phase 2	Mid	9,420	\$73.5	\$7,803

Source: Knight Frank / Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Gross floor area (sq ft)
Kwun Tong	Millennium City 1 – Standard Chartered Tower	Mid and high	40,617
Mong Kok	Pioneer Centre	Mid	34,942
Admiralty	Far East Finance Centre	Low	10,800
Wan Chai	Dah Sing Financial Centre	Mid	10,914 (L)

Source: Knight Frank / market news

Note: All transactions are subject to confirmation.

KEY FINDINGS

Grade-A office rents rose month on month in all major business districts in September.

All major business areas recorded mild increases in Grade-A office prices last month.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Sep 2014)

District	Net effective rent		Change			Price		Change	
	HK\$ psf / mth	From Aug 14	From Jun 14	From Sep 13	HK\$ psf	From Aug 14	From Jun 14	From Sep 13	
Premium Central	\$155.3	1.7%	4.6%	8.8%	n/a	n/a	n/a	n/a	
Traditional Central	\$105.7	-1.5%	0.7%	1.3%	\$25,451	0.2%	0.5%	-4.4%	
Admiralty	\$82.0	1.0%	4.6%	-0.8%	\$21,194	0.8%	0.7%	-4.5%	
Sheung Wan	\$63.6	0.7%	2.0%	2.5%	\$19,336	1.4%	3.7%	-3.3%	
Wan Chai	\$64.6	1.7%	3.5%	5.5%	\$17,932	0.4%	0.9%	-1.5%	
Causeway Bay	\$68.1	0.6%	2.5%	6.1%	\$18,240	2.2%	5.9%	3.9%	
North Point	\$47.5	1.3%	3.4%	7.0%	n/a	n/a	n/a	n/a	
Quarry Bay	\$53.3	0.3%	2.4%	5.5%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$53.9	0.0%	0.7%	-8.1%	\$11,920	1.5%	3.6%	-1.3%	
Cheung Sha Wan	\$27.5	2.6%	1.8%	-9.3%	n/a	n/a	n/a	n/a	
Hung Hom	\$37.3	2.3%	1.3%	7.9%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.8	1.9%	1.8%	-11.2%	n/a	n/a	n/a	n/a	
Mong Kok / Yau Ma Tei	\$49.5	1.5%	2.6%	-2.9%	n/a	n/a	n/a	n/a	

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In September, a luxury house in Island South sold for HK\$808 million—the largest single house deal in terms of total consideration over the past three years.

A number of major leasing transactions were recorded in Island South and Mid-Levels last month.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Island South	35 South Bay Road	House	7,294	\$808	\$110,776
Peak	Severn 8	House 16	2,372	\$188	\$79,587
Island South	Lakeside Apartments	Ground floor	2,066	\$127	\$61,883
Peak	Highcliff	High floor unit	2,739	\$125	\$45,637
Tai Po	4781 Tai Po Road	House	16,774	\$488	\$29,093

Source: Knight Frank

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	Three Bays	House	3,021	\$220,000	\$72.8
Mid-Levels	Hillsborough Court	High floor unit	1,082	\$57,000	\$52.7
Island South	The Carmina	Low floor unit	2,057	\$95,000	\$46.2
Mid-Levels	Birchwood Place	Low floor unit	1,596	\$70,000	\$43.9
Happy Valley	8 Shiu Fai Terrace	Mid floor unit	1,892	\$65,000	\$34.4

Source: Knight Frank

Note: All transactions are subject to confirmation.

KEY FINDINGS

In September, The Peak, Mid-Levels and Pokfulam saw increases in luxury residential rents.

Luxury residential prices in Island South experienced a notable increase last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Sep 2014)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From Aug 14	From Jun 14	From Sep 13		From Aug 14	From Jun 14	From Sep 13
The Peak	\$53.2	1.1%	2.7%	-2.6%	\$22,195	0.0%	0.0%	-3.2%
Mid-Levels	\$42.0	0.8%	1.9%	1.7%	\$21,627	1.4%	2.3%	0.1%
Pokfulam	\$31.4	0.6%	2.1%	1.0%	\$17,623	0.1%	0.2%	-7.3%
Jardine's Lookout / Happy Valley	\$39.4	-0.5%	-2.4%	3.2%	\$19,818	0.9%	1.5%	-1.5%
Island South	\$40.2	-0.1%	0.0%	-4.0%	\$25,808	2.5%	3.5%	3.2%

Source: Knight Frank

Rents and prices are subject to revision.

KEY FINDINGS

In September, a number of retail property sales transactions were recorded on Hong Kong Island.

Notable retail property leasing transactions were witnessed in the New Territories last month.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
North Point	Fulham Court	Ground floor / unit F	141	\$19	\$134,752
Happy Valley	23 Sing Woo Road	Ground floor	840	\$53.8	\$64,048
Tuen Mun	Tuen Mun Fa Yuen	Ground floor / unit 0	390	\$24.8	\$63,590
Sheung Wan	Diamond Square	3rd floor / unit 95	123	\$7.5	\$60,976

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)
Yuen Long	Fu Ho Building	Ground floor / unit 6	570	\$250,000	\$438.6
Sheung Wan	Shun On Commercial Building	Ground floor	920	\$330,000	\$358.3
Tsuen Wan	On Foo Building	Ground floor / unit 3	194	\$64,000	\$329.9
Mong Kok	Hung Hay Building	Ground floor / unit 5	1,094 (G)	\$222,000	\$202.9

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

KEY FINDINGS

Prime retail rents remained stable in Causeway Bay and Mong Kok in September.

In August, the total value of local retail sales grew 3.4% year on year, putting an end to six consecutive months of decline.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Aug 2014)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From July 14	From May 14	From Aug 13
Jewellery, watches and clocks and valuable gifts	\$8.6	21.5%	9.9%	8.2%	-6.1%
Clothing, footwear and allied products	\$5.0	12.4%	-10.6%	-6.7%	5.7%
Department stores	\$4.3	10.7%	6.7%	-9.2%	2.1%
Fuel	\$0.9	2.2%	1.9%	0.9%	2.5%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.5	8.8%	31.2%	20.6%	20.0%
Consumer durable goods	\$5.7	14.3%	1.5%	2.1%	-1.5%
Supermarkets	\$4.5	11.2%	3.5%	4.4%	5.8%
Others	\$7.5	18.9%	-2.4%	2.9%	11.2%
All retail outlets	\$40.0	100.0%	3.5%	2.6%	3.4%

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

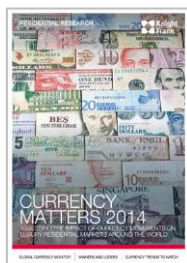
Director, Head of Retail Services
+852 2846 9543
livian.har@hk.knightfrank.com

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.

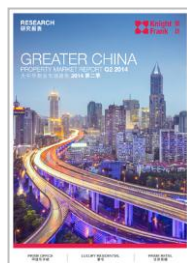
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



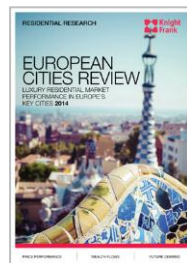
Prime Global Cities
Index Q2 2014



Currency Matters
2014



Greater China Report
Q2 2014



European Cities
Review 2014

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

© Knight Frank 莱坊 2014

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.

