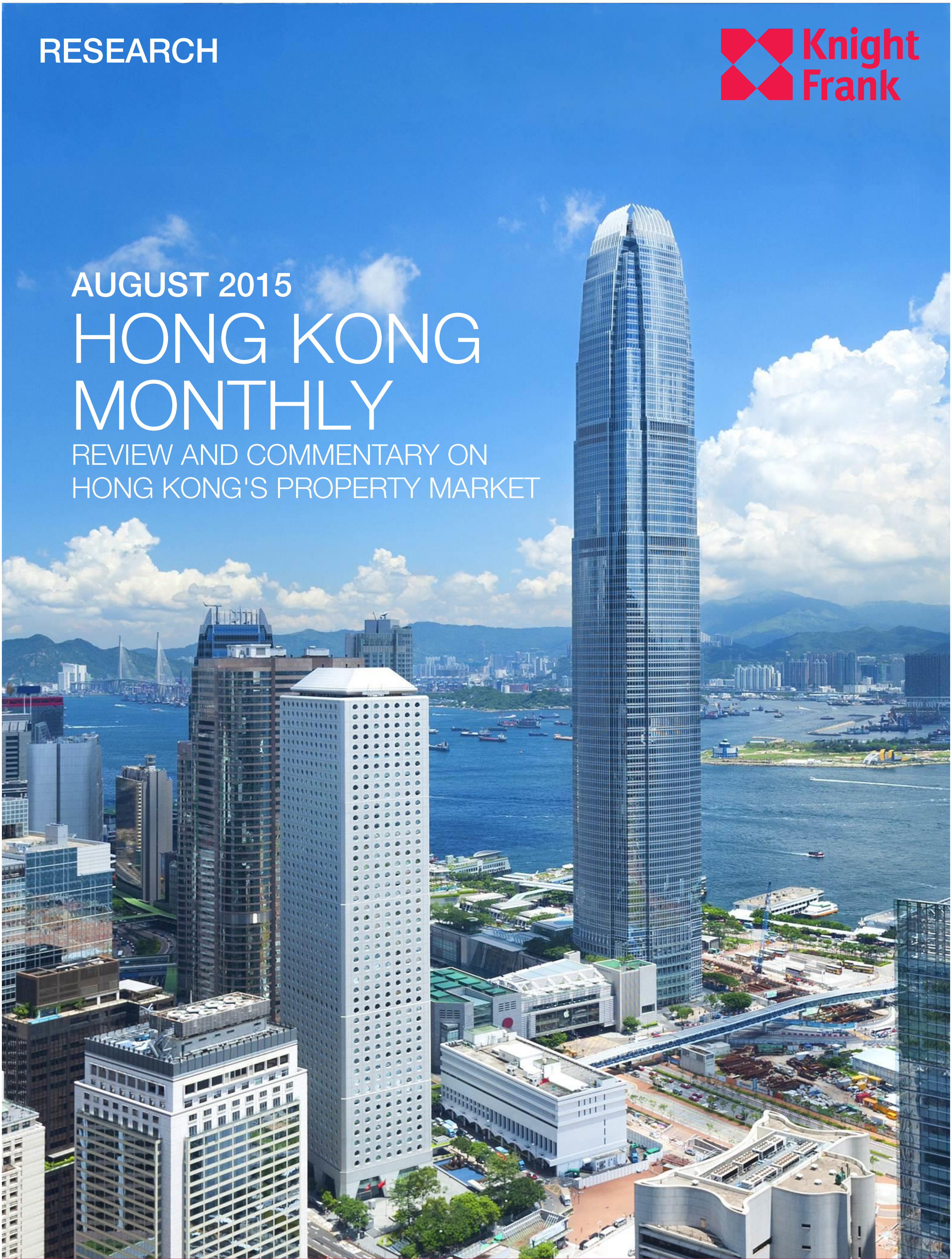
RESEARCH

AUGUST 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET



Office
Office sales active with several en-bloc transactions

Residential
Prices rise further alongside robust new-home sales

Retail
Luxury brands seek reductions in retail rents

KEY FINDINGS

The office vacancy rate in Central dropped further to settle at 1.8% in July. This represented the lowest level in over six years, driven by strong demand from Mainland financial firms.

Although the total residential sales volume declined 6.6% month on month in July, luxury residential sales grew further from June.

In June, the total retail sales value declined for the fourth consecutive month, imposing pressure on the retail property leasing market.

MONTHLY REVIEW

In July, the Grade-A office sales market was active, with a number of en-bloc transactions being recorded. Meanwhile, the office leasing market was also robust, particularly in Central. In the housing market, primary sales remained active, both in the mass and luxury sectors. However, the retail property leasing market remained subdued, with most transactions involving the relocation and expansion of mid-tier retailers.

TABLE 1

Economic indicators and forecasts

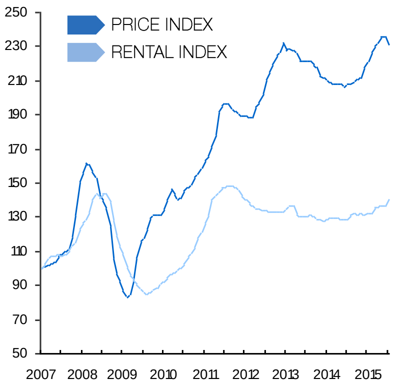
Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q1 2015	+2.1%#	+1.7%	+2.9%	+2.3%#
Inflation rate	Jun 2015	+3.1%	+4.1%	+4.3%	+4.4%
Unemployment	Apr–Jun 2015	3.2%#	3.1%	3.3%	3.2%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

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

FIGURE 1

Grade-A office prices and rents

Jan 2007 = 100



Source: Knight Frank

Prime Office

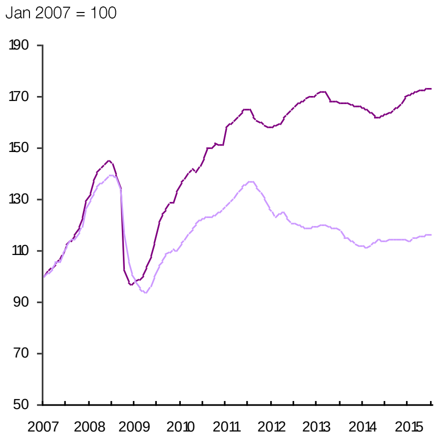
The Hong Kong office sales market recorded strong performance in July, with several large-scale, en-bloc transactions having been concluded during the month. The biggest deal involved Hanison Construction Holdings' acquisition of Park Building in Cheung Sha Wan for HK$998 million. Meanwhile, ITC Properties bought the entire block of Cheuk Nang 21st Century Plaza in Wan Chai for HK$785 million and in Mong Kok, Bing Fu Commercial Building was reportedly sold en-bloc for about HK$350 million.

These transactions indicate that investors and end-users remain optimistic about Hong Kong's office property market in the long term. With office prices reaching record highs, investors are seeking out undervalued properties in decentralised areas to capture potential growth of both rents and capital values. In the coming months, we expect office sales activity to further improve and prices to continue edging up.

In the leasing market, sustained demand from Mainland Chinese companies continued to drive up office rents. The vacancy rate in Central dropped further to settle at 1.8% in July, the lowest level in over six years. With limited space available in the CBD, some financial companies opted to expand elsewhere, such as International Commerce Centre in Tsim Sha Tsui, where rents notably increased last month, as a result of the spillover effect from Central.

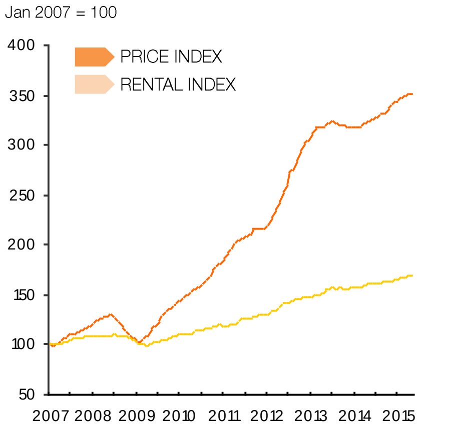
Looking forward, we believe sustained demand for office space and low vacancy rates will continue to drive up Grade-A office rents, particularly in Central, the preferred district of Chinese financial companies. Over 2015, we expect Central's Grade-A office rents to rise more than 10%.

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 2015 to Jun 2015

Residential

Although Hong Kong's residential sales volume declined 6.6% month on month in July, partly attributable to recent stock market volatility, luxury residential sales worth HK$10 million or above grew a further 24.4% compared with June.

Primary luxury homes were well received. For instance, ten of the 14 units available at The Redhill Peninsula in Island South were sold in mid-July. Meanwhile, the super-luxury development Opus Hong Kong on the Peak reportedly sold its last unit in July. All 12 units in the project have now been taken up, with nine having been sold and three having been leased.

Mass market new-home sales also performed well. Heya Crystal in Cheung Sha Wan, developed by the Hong Kong Housing Society, received an overwhelming response. More than 6,000 applications were received from potential buyers and the 350-flat project almost sold out within a day. 2,000 new units are pending pre-sale in August.

The Transport and Housing Bureau announced that around 83,000 new private homes are projected to enter the market over the next 3-4 years, the highest level in almost 11 years. In the first half of 2015, 7,900 flats commenced construction, an increase of 58.0% from the second half of 2014. However, prices are expected to stay firm with demand anticipated to remain ample and interest rates to remain relatively low, even with a potential slight rise in the US interest rate in September.

Retail

In the first half of 2015, Hong Kong's retail industry suffered as store traffic and spending momentum among inbound visitors showed little signs of improvement. According to official data, the total retail sales value in the first six months of 2015 fell 1.6% from a year earlier to reach HK$245.6 million.

Amid the anti-corruption campaign on the Mainland, the Chinese economy's structural slowdown and the strengthening of the Hong Kong dollar, luxury retailers continued to suffer from drastic declines in sales. Retail sales of 'jewellery, watches and clocks and valuable gifts' in the first six months of 2015 fell 15.9% compared to the same period last year. To improve space productivity, global luxury brands and jewellery retailers are reportedly seeking reductions in rents for certain stores and considering closing unprofitable stores upon lease expiry.

In July, most leasing activity involved the relocation and expansion of mid-tier retailers. British entertainment retail firm HMV reportedly leased the 2nd through 5th floors of Pearl City Mansion in Causeway Bay, relocating from The Park Lane in the same district. Bensimon and Palladium, both French footwear retailers, will reportedly open stores in Kwun Tong.

Current challenges in the local retail market are expected to prevail, at least in the near term and rent corrections are expected in prime retail locations. However, the healthy labour market conditions will continue to spur consumer confidence in mid-tier products, resulting in rent growth in non-core shopping malls in high-density residential areas.

SNAPSHOT

In July, the office sales market recorded a number of large-scale, en-bloc transactions (Table 2).

Last month, a number of large office premises were leased in Kowloon (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	Mid	1,440	$30.3	$21,042
Wan Chai	Cheuk Nang 21st Century Plaza	En bloc	55,622	$785	$14,113
Kwun Tong	TG Place	High	10,945	$136.742	$12,494
Cheung Sha Wan	Park Building	En bloc	145,394	$998	$6,864

Source: 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)
Tsim Sha Tsui	International Commerce Centre	Mid	26,000
Central	The Center	Mid	25,596
Kwun Tong	SML Tower	Low	24,100
Kwun Tong	Pioneer Place	High	21,093

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

SNAPSHOT

In July, Grade-A office rents in all major business districts increased month on month (Table 4).

Grade-A office prices declined last month after hitting record highs in June (Table 5).

TABLE 4
Month-on-month movement of Grade-A office rents (Jul 2015)

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

TABLE 5
Prime office market indicators (Jul 2015)

	Net effective rent	Change			Price	Change		
District	HK$ psf / mth	From Jun 15	From Apr 15	From Jul 14	HK$ psf	From Jun 15	From Apr 15	From Jul 14
Premium Central	$158.8	2.5%	3.0%	6.9%	n/a	n/a	n/a	n/a
Traditional Central	$112.2	3.0%	4.6%	6.9%	n/a	n/a	n/a	n/a
Overall Central	$128.3	2.8%	3.9%	6.9%	$27,689	-2.5%	2.3%	9.0%
Admiralty	$90.1	3.9%	3.4%	15.0%	$23,108	-1.9%	-0.5%	9.2%
Sheung Wan	$73.3	4.5%	4.5%	17.5%	$21,443	-2.4%	-0.4%	14.1%
Wan Chai	$68.8	2.1%	2.4%	10.2%	$20,118	-3.1%	-0.5%	12.6%
Causeway Bay	$73.1	2.0%	2.0%	9.1%	$20,699	-2.1%	-1.7%	17.9%
North Point	$51.6	4.3%	5.3%	13.5%	n/a	n/a	n/a	n/a
Quarry Bay	$57.1	2.8%	2.5%	9.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	$60.9	4.5%	7.4%	12.2%	$13,066	-2.5%	-0.6%	11.4%
Cheung Sha Wan	$29.8	2.4%	2.8%	11.2%	n/a	n/a	n/a	n/a
Hung Hom	$34.2	-3.0%	-6.3%	-6.9%	n/a	n/a	n/a	n/a
Kowloon East	$34.0	0.4%	0.7%	2.9%	$11,503	-3.4%	-5.6%	4.0%
Mong Kok / Yau Ma Tei	$52.2	0.9%	1.9%	8.2%	n/a	n/a	n/a	n/a

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

SNAPSHOT

In July, a number of major luxury residential sales transactions were recorded in Tsim Sha Tsui (Table 6).

Last month, a number of luxury apartments were leased in Pokfulam (Table 7).

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$M)	Price (HK$ psf)
The Peak	Opus Hong Kong	Low floor unit	4,819	$459.6	$95,372
Tsim Sha Tsui	The Harbourside	Tower 1 / high floor duplex	1,828	$115	$62,910
Tsim Sha Tsui	The Harbourside	Tower 2 / high floor unit	1,070	$61	$57,009
Tsim Sha Tsui	Masterpiece	High floor unit	1,722	$75.5	$43,844

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)
Island South	Belgravia	Mid floor	2,197	120,000	54.6
Mid-Levels Central	Dynasty Court	Tower 3 / high floor / flat A	1,519	83,500	54.9
Pokfulam	Bel-Air on the Peak	Tower 5/ low floor / flat A	1,798	98,000	54.5
Pokfulam	Scenic Villa	Block K / mid floor	2,311	93,000	40.2
The Peak	Mount Austin Estate	House	2,726	205,000	75.2

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

SNAPSHOT

In July, residential rents slightly increased in three of the five major luxury districts (Table 8).

Residential prices remained stable in major luxury districts last month (Table 9).

TABLE 8
Month-on-month movement of luxury residential rents (Jul 2015)

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

TABLE 9
Luxury residential market indicators (Jul 2015)

	Rent	Change			Price	Change		
District	**HK$ psf / mth**	**From Jun 15**	**From Apr 15**	**From Jul 14**	**HK$ psf**	**From Jun 15**	**From Apr 15**	**From Jul 14**
The Peak	$67.4	-0.3%	0.2%	3.9%	$41,383	0.0%	0.1%	5.2%
Island South	$51.9	-0.2%	0.7%	0.0%	$31,926	0.0%	0.0%	2.6%
Mid- Levels	$57.5	0.3%	1.6%	6.3%	$27,434	0.1%	0.9%	7.9%
Jardine's Lookout / Happy Valley	$50.7	0.2%	0.4%	-2.7%	$26,176	0.3%	1.9%	10.0%
Pokfulam	$38.9	0.2%	1.0%	2.2%	$25,221	0.0%	1.0%	9.5%

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

SNAPSHOT

Last month, retail property sales transactions were mainly recorded in non-prime retail districts (Table 10).

A number of major retail leasing transactions last month were recorded in prime retail districts (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	Lap Tak Building	Ground floor / unit 2B	236	$35	$148,305
Wan Chai	Cheung Lok Mansion	Ground floor / unit C	535	$72	$134,579
Sha Tin	Kam Shan Building	Ground floor / units 11–13	N/A	$123	N/A
Sheung Shui	San Fung House	Ground floor / unit D	N/A	$88	N/A

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)
Tsim Sha Tsui	Hankow Centre Arcade	Ground floor / unit 13	500	$720,000	$1,440.0
Causeway Bay	Po Foo Building	Ground floor / unit L	280	$150,000	$535.7
Central	Silver Fortune Plaza	1st and 2nd floor units	19,991 (G)	$3,162,500	$158.2
Mong Kok	Kwok Wing House	Ground floor / units A–B and 1st floor	N/A	$1,480,000	N/A

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

SNAPSHOT

In July, prime street shop rents dipped across all major retail districts (Table 12).

In June, the total retail sales value decreased 0.4% year on year, to settle at HK$37.0 billion (Table 13).

TABLE 12

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

Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
↘	↘	↘	↘

TABLE 13

Retail sales by outlet type (Jun 2015)

Outlet	Value (HK$ billion)	Share of total %	Change From May 15	From Mar 15	From Jun 14
Jewellery, watches and clocks and valuable gifts	$6.9	18.6%	1.7%	6.6%	-10.4%
Clothing, footwear and allied products	$4.5	12.3%	-12.1%	-15.6%	-4.6%
Department stores	$3.7	10.0%	-27.3%	2.1%	-3.3%
Fuel	$0.8	2.2%	2.8%	17.8%	-5.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	$2.8	7.6%	-5.6%	-6.3%	3.6%
Consumer durable goods	$6.9	18.6%	4.5%	-13.4%	22.2%
Supermarkets	$4.2	11.5%	-2.1%	3.9%	-0.5%
Others	$7.1	19.3%	-2.6%	-1.8%	-3.8%
All retail outlets	$37.0	100.0%	-5.2%	-3.7%	-0.4%

Source: Census and Statistics Department / Knight Frank

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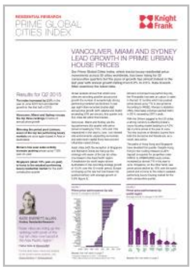

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