

RESEARCH



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HONG KONG
MONTHLY
REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Economic uncertainties to affect demand sustainability

Residential

Home sales hit 25-year low following US interest-rate rise

Retail

Big-ticket retail property sales to remain active

MARKET HIGHLIGHTS

- ◆ The Grade-A office market continues to polarise, with Mainland Chinese firms remaining the pillar of leasing demand and some multinational corporations downsizing.
- ◆ Residential sales in the first month of 2016 hit a 25-year low, with the market anticipating an increase in supply and rising mortgage rates to cause a fall in prices.
- ◆ 2016 is set to be another difficult year for retail, with diminishing tourist numbers and spending. Retail leasing will be slow, but more non-prime shopping arcade space could change hands.

TABLE 1

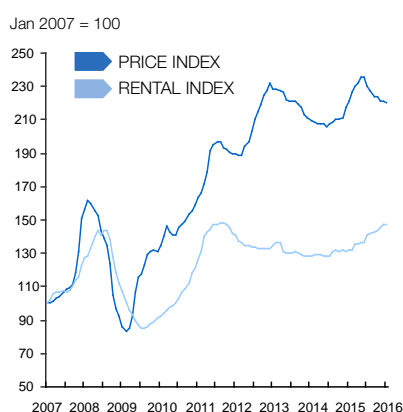
Economic indicators and forecasts

| Economic indicator | Period | Latest reading | 2012 | 2013 | 2014 |
|--------------------|--------------|----------------|-------|-------|-------|
| GDP growth | Q3 2015 | +2.3%# | +1.7% | +2.9% | +2.3% |
| Inflation rate | Dec 2015 | +2.5% | +4.1% | +4.3% | +4.4% |
| Unemployment | Oct–Dec 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 Research

Provisional * HSBC prime lending rate

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank Research

Prime Office

The polarisation in the Grade-A office leasing market has grown more apparent. On the one hand, demand continued to be driven by Mainland Chinese firms. For example last month, a Mainland firm reportedly leased a high-floor premise in a premium building in Central at a record high rental rate after the financial crisis. On the other hand, a number of multinational corporations have been downsizing or even retreating from Hong Kong amid uncertainties in the local and global economies.

In the near future, we expect the Grade-A office market to become more polarised, especially in Central. While premium Grade-A office buildings will continue to attract Mainland firms, given their quality, reputation and sea views, traditional Grade-A buildings in the district will see weaker demand.

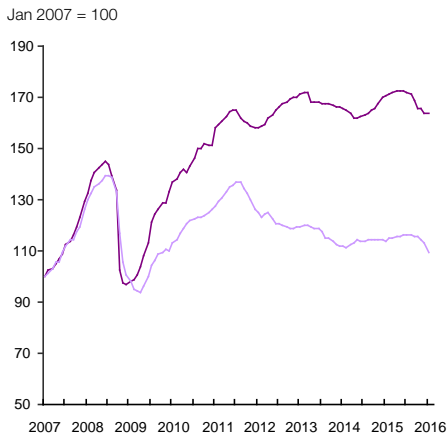
Looking ahead, although the

Grade-A office market is likely to continue outperforming other property sectors, the increasing challenges facing the Hong Kong and Mainland economies could add uncertainty to the sustainability of office demand. We expect office rents in core business areas, which have already been at high levels, to remain largely stable in 2016. The extremely low vacancy rates may also reverse if there are more downsizing and surrender cases.

Meanwhile, Grade-A office rents in Kowloon East are likely to decline this year, with abundant supply in the pipeline, while those in Tsim Sha Tsui and Mong Kok are expected to remain firm or slightly increase, with supply continuing to be limited.

FIGURE 2

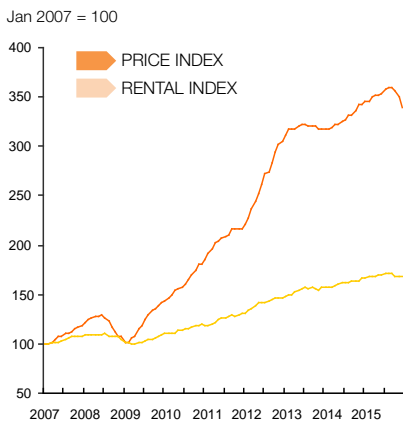
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

Retail property prices and rents



Source: Rating and Valuation Department
/ Knight Frank Research

Note: Provisional figures from Jul 2015 to Dec 2015

Residential

According to the Land Registry, only 2,045 residential sales transactions were recorded in the first month of 2016, following the US interest-rate rise in December 2015. Volume plunged 68.1% year on year, hitting the lowest monthly level in 25 years. Residential sales value in January slumped to HK\$15.8 billion, a 63.4% decline from January 2015.

Buyers took a wait-and-see attitude amid various uncertainties in both local and external markets. After the US interest-rate hike in December, mortgage rates in Hong Kong are expected to rise in the next few months. Developers may have to offer more attractive prices and incentives, especially in the New Territories, where supply will be abundant.

In December 2015, mass residential prices still increased 2.7% from December 2014, while luxury residential prices dropped only around 1%, compared with the 13.8% and 6.4% growth in 2014 for mass and luxury prices respectively, according to the Rating and Valuation Department.

Home prices are expected to decrease further this year, with mass residential prices dropping 5-10% and luxury home prices falling up to 5%, amid the US interest-rate hike and the projected increase in residential supply.

Retail

Hong Kong's retail market saw further deterioration before the Lunar New Year, amid a double-digit decline in visitor arrivals and weaker growth prospects in the local and Mainland economies. Total retail sales value in December 2015 decreased 8.5% year on year, the deepest monthly drop since January 2015. Again, the "jewellery, watches and clocks, and valuable gifts" category suffered the biggest drop—17.0% year on year (Table 13).

As sales declined, many luxury brands suspended the opening of new shops or downsized existing

stores. Therefore, demand for small shops was relatively robust in core retail areas. Meanwhile, the retail property sales market saw a number of arcade transactions last month.

Looking ahead, the retail market will remain challenging in 2016 as the appreciation of the Hong Kong dollar against the RMB and other major Asian currencies, such as the Japanese yen, could further reduce Hong Kong's attractiveness to visitors. The weak job and stock markets may also harm consumer sentiment in the near term.

We expect to see more big-ticket retail property sales transactions in 2016 as some developers and corporations offload part of their retail properties to deleverage their balance sheets in anticipation of future interest-rate rises.

SNAPSHOT

There were only a few major office sales transactions in January 2016.

AXA leased office space of around 50,000 sq ft in Vertical SQ in Wong Chuk Hang last month.

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 China Merchants Tower | High | N/A | \$77.1 | N/A |
| Kowloon Bay | Billion Centre Block A | Low | N/A | \$41.0 | N/A |
| Cheung Sha Wan | Excel Centre | High | 5,961 | \$54.8 | \$9,193 |
| Sheung Wan | Nam Wo Hong Building | Mid | 4,928 | \$41.8 | \$8,480 |

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) |
|----------------|---------------------|------------|--------------------|
| Wong Chuk Hang | Vertical SQ | Mid | 49,350 (G) |
| Kowloon Bay | One Kowloon | Low & high | 35,295 (G) |
| Kwun Tong | One Harbour Square | High | 17,153 (G) |
| Central | Bank of China Tower | Mid | 12,221 (L) |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Grade-A office rents increased in most major business districts in January 2016.

Grade-A office prices dropped slightly in most major commercial areas last month.

TABLE 4

Month-on-month movement of Grade-A office rents (Jan 2016)






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

TABLE 5

Prime office market indicators (Jan 2016)

| District | Net effective rent HK\$ psf / mth | Change | | | Price HK\$ psf | Change | | |
|-----------------------|--------------------------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|
| | | From Dec 15 | From Oct 15 | From Jan 15 | | From Dec 15 | From Oct 15 | From Jan 15 |
| Premium Central | \$170.8 | 0.4% | 4.2% | 11.5% | n/a | n/a | n/a | n/a |
| Traditional Central | \$117.4 | 0.1% | 2.9% | 14.4% | n/a | n/a | n/a | n/a |
| Overall Central | \$135.9 | 0.2% | 3.5% | 13.1% | \$26,927 | -0.6% | -0.6% | 3.5% |
| Admiralty | \$97.5 | 1.5% | 4.3% | 16.8% | \$22,202 | -0.5% | -1.5% | -0.1% |
| Sheung Wan | \$79.9 | 1.1% | 4.6% | 22.3% | \$19,842 | -0.4% | -1.8% | -4.3% |
| Wan Chai | \$71.4 | 0.1% | 1.5% | 9.9% | \$19,503 | -0.5% | -1.3% | 3.5% |
| Causeway Bay | \$76.9 | 0.2% | 2.5% | 12.6% | \$20,050 | 0.0% | -1.2% | 4.6% |
| North Point | \$53.9 | -0.5% | 0.9% | 12.5% | n/a | n/a | n/a | n/a |
| Quarry Bay | \$57.1 | -0.1% | 0.4% | 8.4% | n/a | n/a | n/a | n/a |
| Tsim Sha Tsui | \$63.6 | 1.3% | 1.1% | 15.8% | \$12,664 | 0.0% | -1.5% | -0.1% |
| Cheung Sha Wan | \$29.1 | 1.7% | 0.4% | 0.3% | n/a | n/a | n/a | n/a |
| Hung Hom | \$30.7 | -0.9% | -3.9% | -13.8% | n/a | n/a | n/a | n/a |
| Kowloon East | \$34.1 | -0.2% | -0.5% | -0.1% | \$10,970 | 0.0% | -1.6% | -6.8% |
| Mong Kok / Yau Ma Tei | \$52.8 | 0.0% | 1.4% | 4.0% | n/a | n/a | n/a | n/a |

Source: Knight Frank Research

Rents and prices are subject to revision.

SNAPSHOT

Last month, a number of major luxury residential sales were recorded in Mid-Levels West.

A number of large units were leased in traditional luxury residential districts in January.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ psf) |
|-----------------|------------------|----------------------|-----------------------|----------------------|------------------|
| Mid-Levels West | 39 Conduit Road | High floor unit | 5,732 | \$594.76 | \$103,762 |
| Mid-Levels West | 55 Conduit Road | Low floor unit | 3,235 | \$149.03 | \$46,068 |
| Mid-Levels West | 55 Conduit Road | Mid floor unit | 2,548 | \$105.18 | \$41,279 |
| Kennedy Town | Imperial Kennedy | High floor unit | 1,179 | \$40.97 | \$34,750 |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ psf) |
|--------------------|----------------------|----------------------|-----------------------|---------------------|-------------------------|
| Happy Valley | Leighton Hill | Mid floor unit | 924 | \$59,000 | \$63.9 |
| The Peak | 7 Mount Kellett Road | Low floor unit | 2,382 | \$145,064 | \$60.9 |
| Mid-Levels Central | The Mayfair | High floor unit | 2,169 | \$128,000 | \$59.0 |
| Pokfulam | Residence Bel-Air | Mid floor unit | 1,376 | \$68,000 | \$49.4 |
| Island South | Hong Kong Parkview | High floor unit | 2,067 | \$92,000 | \$44.5 |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents continued to fall in all five major luxury residential districts in January.

Last month, residential prices fell in most major luxury areas.

TABLE 8

Month-on-month movement of luxury residential rents (Jan 2016)






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

TABLE 9

Luxury residential market indicators (Jan 2016)

| District | Rent | | Change | | | Price | | Change | |
|----------------------------------|----------------|-------------|-------------|-------------|----------|-------------|-------------|-------------|--|
| | HK\$ psf / mth | From Dec 15 | From Oct 15 | From Jan 15 | HK\$ psf | From Dec 15 | From Oct 15 | From Jan 15 | |
| The Peak | \$62.0 | -3.0% | -5.9% | -6.6% | \$40,091 | 0.0% | -1.6% | -3.1% | |
| Island South | \$49.7 | -2.0% | -4.0% | -2.1% | \$28,463 | 0.0% | 0.0% | -10.8% | |
| Mid-Levels | \$53.5 | -5.0% | -6.9% | -3.0% | \$25,820 | -0.7% | -2.5% | -2.7% | |
| Jardine's Lookout / Happy Valley | \$49.1 | -2.0% | -4.0% | -2.3% | \$25,977 | -0.8% | -1.4% | 2.5% | |
| Pokfulam | \$36.3 | -5.0% | -6.9% | -5.4% | \$24,015 | -0.4% | -1.5% | -0.5% | |

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

SNAPSHOT

A number of shopping arcade units were sold in non-core retail districts.

A number of small shop units were leased in core retail districts in January.

RETAIL

TABLE 10

Selected retail sales transactions

| District | Building | Floor / unit | Saleable floor area (sq ft) | Price (HK\$ million) | Price (HK\$ psf) |
|---------------|-------------------------------|-----------------------------|-----------------------------|----------------------|------------------|
| Tai Po | Jade Plaza | L1 / unit 23 | 1,566 | \$80.8 | \$51,596 |
| Tsim Sha Tsui | Empress Plaza | Basement | 4,321 | \$75.0 | \$17,357 |
| Kwai Chung | Sun Kwai Hing Shopping Arcade | Ground to third floor units | 50,246 | \$503.0 | \$10,011 |
| Tseung Kwan O | Parkside | Shopping arcade | N/A | \$510.0 | 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) |
|--------------|-----------------------------------|------------------------|-----------------------------|---------------------|-------------------------|
| Causeway Bay | Ying Kong Mansion | Ground floor / unit 1 | 273 | \$665,000 | \$2435.9 |
| Mong Kok | Far East Bank Mongkok Building | Ground floor / unit 2 | 229 (G) | \$400,000 | \$1,746.7 |
| Mong Kok | 66-68 Sai Yeung Choi Street South | Ground floor / unit 66 | N/A | \$638,000 | N/A |
| Central | Lyndhurst Building | Ground floor / unit E6 | N/A | \$630,000 | N/A |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

Prime street shop rents decreased across all major retail districts in January 2016.

The total retail sales value in 2015 decreased 3.7% year on year to HK\$475.2 billion.

TABLE 12

Month-on-month movement of prime street shop rents (Jan 2016)





| Central | Causeway Bay | Tsim Sha Tsui | Mong Kok |
|---|---|---|---|
|  |  |  |  |

TABLE 13

Retail sales by outlet type (Dec 2015)

| Outlet | Value (HK\$ billion) | Share of total % | Change | | |
|---|-------------------------|---------------------|----------------|----------------|----------------|
| | | | From Nov 15 | From Sep 15 | From Dec 14 |
| Jewellery, watches and clocks and valuable gifts | \$8.0 | 18.3% | 20.8% | 34.0% | -17.0% |
| Clothing, footwear and allied products | \$6.0 | 13.8% | 32.4% | 54.9% | -11.6% |
| Department stores | \$5.0 | 11.5% | 0.8% | 41.8% | -12.3% |
| Fuel | \$0.7 | 1.7% | 0.5% | -3.5% | -3.5% |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | \$3.6 | 8.3% | 8.4% | -11.3% | 1.1% |
| Consumer durable goods | \$7.9 | 18.2% | 9.5% | 21.1% | -8.3% |
| Supermarkets | \$4.4 | 10.1% | 6.0% | 1.1% | 3.6% |
| Others | \$7.9 | 18.0% | 23.0% | 31.2% | -4.5% |
| All retail outlets | \$43.7 | 100.0% | 14.7% | 24.0% | -8.5% |

Source: Census and Statistics Department / Knight Frank Research



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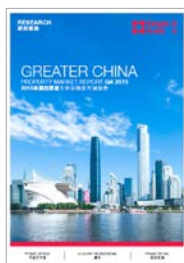
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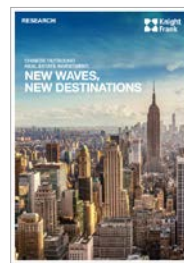
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