

RESEARCH



NOVEMBER 2015

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Abundant availability to emerge
in Kowloon next year

Residential

Home sales hit 19-month low
with slower primary launch

Retail

Mass-market shopping
arcades sought after

MARKET HIGHLIGHTS

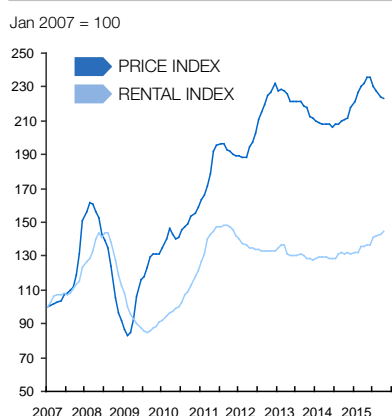
- ◆ With leasing interest from Mainland Chinese firms unabated, the Grade-A office leasing market in Hong Kong remained active.
- ◆ The government's intention to increase residential supply and continue implementing cooling measures in the near future is expected to impose downward pressure on prices.
- ◆ With sales of luxury products subdued, mid-tier retailers remained the pillar of the shop leasing market.

TABLE 1
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q2 2015	+2.8%#	+1.7%	+2.9%	+2.3%
Inflation rate	Sep 2015	+2.0%	+4.1%	+4.3%	+4.4%
Unemployment	Jul-Sep 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

Hong Kong's Grade-A office rents rose for the tenth consecutive month in October (figure 1), with the vacancy rate dropping further to 1.6% on the back of strong leasing demand.

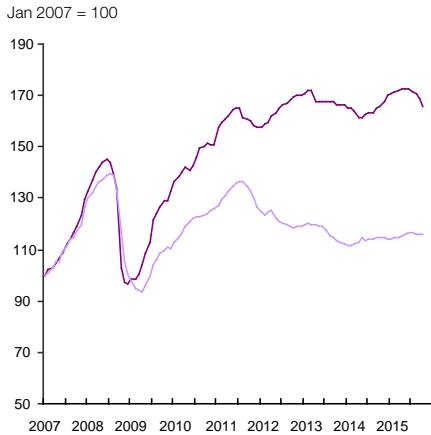
On Hong Kong Island, Mainland Chinese companies continued to expand or set-up new offices, mostly in Central. Meanwhile, there were robust relocation activities in Island East, with space in Dorset House previously occupied by Citibank being absorbed by tenants relocating from the nearby Warwick House. In 2016, we expect rents in core business districts to further increase by 5%, given sustained demand and limited availability.

Across the harbour, the Kowloon office market also recorded a number of major

leasing transactions. For instance in Tsim Sha Tsui, German supermarket chain Lidl reportedly leased a large office premise covering around 90,000 sq ft at International Commerce Centre (table 3).

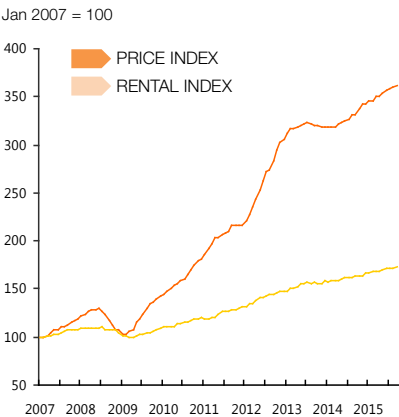
Looking ahead, over 2.5 million sq ft of Grade-A office supply in decentralised business districts is expected to be available in 2016, exceeding the annual average take-up of 2 million sq ft across Hong Kong in the past 20 years. Grade-A office rents in these decentralised areas, therefore, may slightly drop by 5% next year.

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 Apr 2015 to Sep 2015

Residential

According to the Land Registry, in October, Hong Kong’s residential transaction volume fell 22.6% from September to 3,300, a 19-month record low, as the launch of primary housing became slower, while sales in the secondary market remained quiet.

A number of new projects are in the pipeline, including the 1,129-unit Yuccie Square in Yuen Long, the 1,100-unit The Bloomsway in Tuen Mun and the 428-unit CAPRI in Tseung Kwan O, all to be launched in November. Developers are expected to continue offering various incentives to offset the negative impact brought about by the potential interest-rate rise.

The government reaffirmed its intention to increase land and new-home supply in the near term. As at Q3 2015, The Transport and Housing Bureau said that around 86,000 new private homes are projected to enter the market over the next 3-4 years, up 3,000 units from the projection in Q2.

We expect residential prices to remain relatively stable for the rest of the year. Luxury residential prices are set to grow 1-2% over the year, while mass residential price could increase around 10%. However, with abundant future supply, home prices are likely to be under pressure, estimated to fall 5-10% next year.

Retail

Hong Kong’s total retail sales value fell 6.4% in September from a year earlier, with most types of retail outlets recording negative growth in sales. The declines were attributable to slower inbound tourist traffic, particularly from the Mainland. However, the official category of “Food, alcoholic drinks and tobacco (excluding supermarkets)” saw stable growth thanks to strong local demand. Therefore, luxury retailers remained quiet in the shop leasing market, while mid-end retailers were relatively active.

Slower consumer spending has had an impact on retail property sales. According to the government’s Rating and Valuation Department, there were only 95 such sales transactions in September, the lowest since 1998. However in October, a number of

mass-market shopping arcades were sold, including five by The Link REIT for a total consideration of HK\$1.7165 billion, well above the valuation. Meanwhile, Optimall, a 17-storey retail building in Tsuen Wan, was also reportedly sold en bloc by Pamfleet for HK\$800 million or HK\$9,037 per sq ft.

Looking ahead, we expect the tough retail environment to persist in the remainder of the year and possibly next year due to diminishing inbound tourist arrivals. However, shopping malls are expected to remain resilient with limited supply. Prime shopping mall rents are expected to increase 2-3% in 2016, while non-core shopping malls could see a 5-10% increase in rents, on the back of strong local demand for mid-tier goods and necessities.

SNAPSHOT

There were generally not many major office sales transactions last month.

Last month, Lidl Hong Kong Ltd., a German supermarket chain, reportedly leased a large office premise covering 91,000 sq ft in ICC.

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	United Centre	High	20,489	\$439	\$21,426
Tsim Sha Tsui	Wing On Plaza	Mid	2,015	\$24.5	\$12,159
Sheung Wan	Chun Wo Commercial Centre	High	2,725	\$31.3	\$11,486
Kwun Tong	Legend Tower	Mid	1,094	\$11	\$10,100

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)
Tsim Sha Tsui	International Commerce Centre	Low	91,000 (G)
Tsim Sha Tsui	International Commerce Centre	Mid	20,000 (G)
Kwun Tong	One Harbour Square	High	18,972 (G)
Wan Chai	Central Plaza	Mid	11,074 (L)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Grade-A office rents increased month on month in Central and Kowloon East.

Grade-A office prices in most districts stabilised in October, after declining in the previous month.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Oct 2015)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From Sep 15	From Jul 15	From Oct 14		From Sep 15	From Jul 15	From Oct 14
Premium Central	\$164.0	1.2%	3.3%	7.3%	n/a	n/a	n/a	n/a
Traditional Central	\$114.0	0.5%	1.7%	9.3%	n/a	n/a	n/a	n/a
Overall Central	\$131.3	0.8%	2.3%	8.4%	\$27,083	0.0%	-2.2%	6.4%
Admiralty	\$93.5	1.7%	3.7%	14.7%	\$22,547	-0.2%	-2.4%	6.4%
Sheung Wan	\$76.3	0.7%	4.1%	17.3%	\$20,197	-0.9%	-5.8%	4.5%
Wan Chai	\$70.3	-0.4%	2.3%	8.7%	\$19,767	0.0%	-1.7%	10.2%
Causeway Bay	\$75.0	0.2%	2.6%	8.6%	\$20,289	0.0%	-2.0%	11.5%
North Point	\$53.4	-0.6%	3.6%	10.7%	n/a	n/a	n/a	n/a
Quarry Bay	\$56.9	-1.1%	-0.5%	5.5%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$62.9	1.5%	3.4%	16.2%	\$12,854	0.0%	-1.6%	7.8%
Cheung Sha Wan	\$29.0	-2.0%	-2.0%	4.8%	n/a	n/a	n/a	n/a
Hung Hom	\$31.9	-3.0%	-6.6%	-10.1%	n/a	n/a	n/a	n/a
Kowloon East	\$34.6	1.0%	2.3%	0.8%	\$11,304	-1.3%	-3.0%	-2.3%
Mong Kok / Yau Ma Tei	\$52.0	1.5%	-0.4%	5.1%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Rents and prices are subject to revision.

SNAPSHOT

Both residential prices and rentals are to remain relatively stable by the end of the year.

Last month, a number of major luxury apartments were leased.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
Wan Chai	The Avenue Phase 2	Tower 2 / high floor unit	1,158	\$49.1	\$42,432
Mid-Levels	39 Conduit Road	Low floor unit	2,192	\$87.1	\$39,725
Kowloon Tong	12 Oxford Road	N/A	4,988 (G)	\$195.0	\$39,094 (G)
Happy Valley	Winfield Building	Block B / mid floor unit	1,567	\$53.8	\$34,333

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)
Island South	56 Repulse Bay Road	A unit	3,463	\$219,901	\$63.5
Mid-Levels	The Albany	A unit	1,948	\$118,000	\$61.0
Happy Valley	Leighton Hill	A unit	1,127	\$63,000	\$56.0
The Peak	Watford Villa	House	2,640	\$138,000	\$52.3
Pokfulam	Residence Bel-Air	A unit	1,352	\$70,000	\$52.0

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In October, rents remained firm in the five major luxury residential districts.

Luxury residential prices decreased in most major luxury residential areas last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Oct 2015)

District	Rent			Price				
	HK\$ psf / mth	Change From Sep 15	From Jul 15	From Oct 14	HK\$ psf	Change From Sep 15	From Jul 15	From Oct 14
The Peak	\$65.9	0.0%	-2.2%	-0.1%	\$40,747	-1.5%	-1.5%	3.6%
Island South	\$51.8	0.0%	-0.3%	-0.4%	\$28,463	-3.3%	-7.5%	-10.8%
Mid-Levels	\$57.5	0.0%	0.0%	5.0%	\$26,483	-1.6%	-3.5%	2.5%
Jardine's Lookout / Happy Valley	\$51.1	0.0%	0.8%	-0.1%	\$26,342	-0.1%	0.6%	8.2%
Pokfulam	\$38.9	0.0%	0.0%	1.1%	\$24,383	0.0%	-3.3%	4.9%

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

SNAPSHOT

A few major retail property sales deals were recorded in Sheung Wan last month.

Prime retail districts recorded a number of major leasing transactions in October.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
Sheung Wan	Kai Fung Mansion	Ground floor / unit 2	233	\$23.0	\$98,712
Sheung Wan	Kwan Fat House	Ground floor/ units A-B	N/A	\$103.0	N/A
Kowloon City	388 Prince Edward Road West	Ground floor	N/A	\$42.2	N/A
Sheung Wan	20 Gage Street	Ground floor	N/A	\$40.0	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)
Mong Kok	Hung Tat Building	Ground floor / unit 1	483	\$150,000	\$310.6
Tsim Sha Tsui	Fook Kiu Mansion	Ground floor / unit D	791	\$163,800	\$207.1
Wan Chai	Oversea Building	Ground and mezzanine floors	12,576	\$520,000	\$41.6
Causeway Bay	18 Russell Street	Ground floor	N/A	\$700,000	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 (Table 12).

The total retail sales value decreased 6.4% year on year, to settle at HK\$35.2 billion (Table 13).

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Sep 2015)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Aug 15	From Jun 15	From Sep 14
Jewellery, watches and clocks and valuable gifts	\$6.0	17.0%	-23.8%	-13.1%	-22.9%
Clothing, footwear and allied products	\$3.9	11.0%	-11.9%	-15.0%	-11.6%
Department stores	\$3.5	10.1%	-10.3%	-4.3%	-5.2%
Fuel	\$0.8	2.2%	-5.1%	-6.8%	-11.8%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.1	11.6%	28.9%	45.2%	22.8%
Consumer durable goods	\$6.5	18.6%	3.7%	-4.7%	-5.7%
Supermarkets	\$4.4	12.5%	-2.9%	3.3%	1.7%
Others	\$6.0	17.1%	-13.5%	-15.6%	-4.1%
All retail outlets	\$35.2	100.0%	-7.3%	-4.9%	-6.4%

Source: Census and Statistics Department / Knight Frank Research



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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
+852 2846 9522
alan.child@hk.knightfrank.com

Piers Brunner

Chief Executive Officer
Greater China
+852 2846 4848
piers.brunner@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

Ross Criddle

Director
+852 2846 9527
ross.criddl@hk.knightfrank.com

RESIDENTIAL AGENCY

Renu Budhrani

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

RETAIL SERVICES

Mont Leung

Director
Retail Services and Asset Management
+852 2846 9535
mont.leung@hk.knightfrank.com

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