

RESEARCH



OCTOBER 2015
**HONG KONG
MONTHLY**
REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Grade-A office vacancy rates
even lower

Residential
Primary home sales surge but
secondary decline

Retail
Retail property market saw
signs of stabilising

MARKET HIGHLIGHTS

- ◆ The Grade-A office market did not see many activities last month despite robust demand due to an extremely tight supply situation, with the overall average vacancy rate reaching as low as 1.7% in September.
- ◆ The residential market saw more secondary homeowners slashed asking prices to boost sales, amid fierce competition from the primary sector and a potential interest-rate rise.
- ◆ The retail market remained subdued, but there were signs of stabilising with space being quickly snapped up given rental discounts.

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	Aug 2015	+2.4%	+4.1%	+4.3%	+4.4%
Unemployment	Jun–Aug 2015	3.3%#	3.1%	3.3%	3.2%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

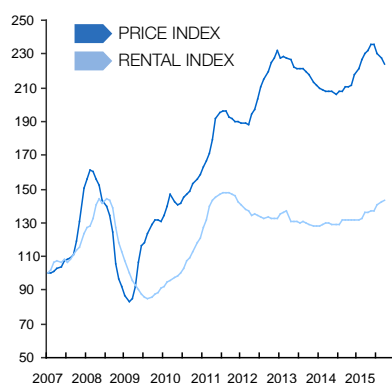
Source: EIU CountryData / Census & Statistics Department / Knight Frank Research

Provisional * HSBC prime lending rate

FIGURE 1

Grade-A office prices and rents

Jan 2007 = 100



Source: Knight Frank Research

Prime Office

Despite strong leasing demand, the Grade-A office market was stable last month amid limited available space, particularly in core business areas. Most firms opted for renewing their leases rather than relocation due to a lack of alternatives. The key demand drivers remained Mainland Chinese firms, which continued to favour Central for setting up offices. As a result, Central's vacancy rate dropped a further 0.2 percentage point to an extremely low level of 1.4% in September, close to the historical low in 2008.

An increasing trend of operation split was witnessed in the office market due to a lack of vacant space. Many firms have to split their operations into smaller offices located in different buildings. Previously, only major firms requiring large premises needed to split their

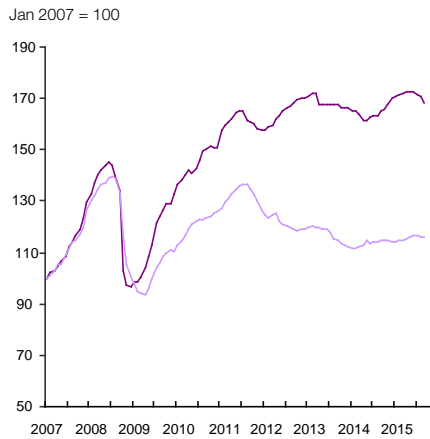
offices, but now even firms requiring units of below 10,000 sq ft are going for such arrangement.

With the tight supply and many offices under multiple offers, landlords have become more aggressive in asking rents. If the trend continues, it could be possible to see a "reversed premium" situation next year—firms requiring large office space have to pay an even higher per-square-foot rental.

Looking ahead, given sustained demand and low vacancy rates, we remain positive towards the long-term outlook for Grade-A offices in Hong Kong. We expect rents in Central to increase 10% this year and another 5% in 2016. In Kowloon East, Grade-A office rents could drop 0-5% next year with increased supply.

FIGURE 2

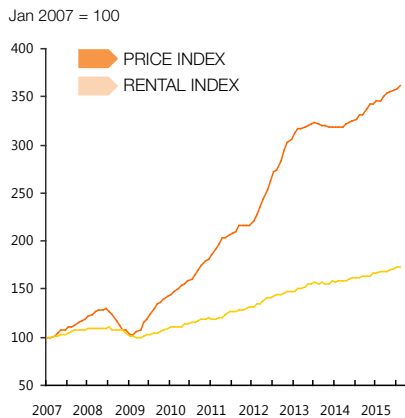
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

Retail property prices and rents



Source: Rating and Valuation Department
/ Knight Frank Research

Note: Provisional figures from Mar 2015 to Aug 2015

Residential

According to the Land Registry, residential sales rebounded 9.4% from August to 4,263 in September. First-hand transactions jumped 110%, while secondary sales declined 15%, month on month (MoM).

Both demand and supply remained robust in the primary market, with around 360 units launched during the Mid-Autumn Festival holiday. For example, 110 units in Century Link in Tung Chung and over 200 flats in Upper East in Hung Hom were snapped up within just a few hours.

In contrast, the secondary market remained subdued last month, amid the recent stock market volatility, a potential interest-rate rise in the US and fierce competition from primary developments.

The Chief Executive has announced that the stamp duty policies will remain in place in the near term. We do not expect home prices to drop significantly. We have found that a 100-bps increase in mortgage rates will only result in a HK\$500 increment in monthly instalment for every HK\$1 million of mortgage loan, based on a 20-year repayment period. Therefore, a minor interest-rate hike is not expected to lead to a significant default risk. On the other hand, market views do not expect a drastic interest-rate hike this year.

Retail

Government data continued to indicate further deterioration of the local retail environment. The total retail sales value in August decreased 5.4% year on year (YoY) to HK\$37.9 billion with slower inbound tourism. Total visitor arrivals in August decreased 6.6% YoY, more than the decline of 2.9% in July.

Prime street shop landlords were under pressure in rental negotiations. For instance in Causeway Bay, a number of tenants in Russell Street reportedly received over 30% rental concessions on lease renewal, while cosmetics retailer Colourmix reportedly preleased the shop at 18 Russell Street for a monthly rent of HK\$1 million, about 40% lower than the existing rent. Meanwhile, sportswear retailer Adidas took up the shop at 36 Queen's Road Central in Central formerly occupied by Coach for a rent about 22% cheaper.

Having dropped about 10% during the first three quarters, rents of prime street

shops are expected to drop further this year. However, there are signs of stabilisation as spaces are usually snapped up quickly provided discounts are offered. The recent rental corrections will bring new tenants to and promote diversity in prime streets, changing the landscape and benefiting the future local retail market in the longer term.

SNAPSHOT

In September, a number of major office sales transactions were recorded in Kowloon (Table 2).

Last month, AIA leased a large office premise at 633 King's Road in North Point (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	2,752	\$51.8	\$18,823
Tsim Sha Tsui	Railway Plaza	Mid	10,880	\$155.6	\$14,300
Kowloon Bay	Enterprise Square Three	Mid	8,970	\$109.9	\$12,250
Kwun Tong	Legend Tower	Mid	2,080	\$21.6	\$10,400

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)
North Point	633 King's Road	Mid	30,135 (G)
Kowloon Bay	Skyline Tower	Mid	27,748 (G)
Kowloon Bay	YHC Tower	High	11,430 (G)
Central	Man Yee Building	Mid	8,500 (L)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In September, Grade-A office rents in all major business districts increased MoM (Table 4).

Grade-A office prices declined for the third consecutive month in September, after hitting record highs in June (Table 5).

TABLE 4

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






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

TABLE 5

Prime office market indicators (Sep 2015)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From Aug 15	From Jun 15	From Sep 14		From Aug 15	From Jun 15	From Sep 14
Premium Central	\$162.0	1.1%	4.6%	4.3%	n/a	n/a	n/a	n/a
Traditional Central	\$113.4	0.3%	4.2%	7.3%	n/a	n/a	n/a	n/a
Overall Central	\$130.3	0.6%	4.3%	6.0%	\$27,083	-0.4%	-4.7%	6.4%
Admiralty	\$91.9	1.1%	5.9%	12.1%	\$22,585	-1.3%	-4.1%	6.6%
Sheung Wan	\$75.8	2.2%	8.1%	19.1%	\$20,382	-3.9%	-7.2%	5.4%
Wan Chai	\$70.6	2.2%	4.8%	9.2%	\$19,767	-0.9%	-4.8%	10.2%
Causeway Bay	\$74.8	1.6%	4.4%	9.0%	\$20,289	-0.3%	-4.0%	11.5%
North Point	\$53.7	2.4%	8.7%	13.1%	n/a	n/a	n/a	n/a
Quarry Bay	\$57.5	0.4%	3.4%	7.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$62.0	0.6%	6.6%	14.4%	\$12,854	-0.8%	-4.1%	7.8%
Cheung Sha Wan	\$29.6	0.0%	1.7%	7.7%	n/a	n/a	n/a	n/a
Hung Hom	\$32.9	0.0%	-6.6%	-11.7%	n/a	n/a	n/a	n/a
Kowloon East	\$34.3	-0.2%	1.4%	1.4%	\$11,304	-0.7%	-5.1%	-0.1%
Mong Kok / Yau Ma Tei	\$51.2	-0.9%	-0.9%	3.5%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Rents and prices are subject to revision.

SNAPSHOT

In September, a number of major luxury residential sales transactions were concluded in Ho Man Tin (Table 6).

Last month, Island South witnessed a number of luxury residential leasing transactions (Table 7).

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
The Peak	OPUS HONG KONG	Mid floor unit	5,154	\$387.0	\$75,087
Ho Man Tin	Ultima Phase 1	Tower 6 / high floor unit	2,050	\$100.5	\$49,024
Mid-Levels	Grenville House	Low floor unit	3,280	\$109.8	\$33,476
Ho Man Tin	5-7 Ho Man Tin Street	N/A	41,060	\$628.0	\$15,295

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)
The Peak	Kelletteria	House	2,423	\$167,900	\$69.3
Island South	9 South Bay Road	House	2,784	\$185,000	\$66.5
Happy Valley	The Leighton Hill	A unit	1,113	\$73,000	\$65.6
Island South	63 Deep Water Bay Road	House	2,882	\$178,000	\$61.8
Pokfulam	Residence Bel-Air	A unit	1,412	\$73,800	\$52.3

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In September, rents remained stable in three of the five major luxury residential districts (Table 8).

Luxury residential prices decreased in Island South, Mid-Levels and Pokfulam last month (Table 9).

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Sep 2015)

District	Rent			Price				
	HK\$ psf / mth	Change From Aug 15	From Jun 15	From Sep 14	HK\$ psf	Change From Aug 15	From Jun 15	From Sep 14
The Peak	\$65.9	-2.0%	-2.5%	0.1%	\$41,383	0.0%	0.0%	5.2%
Island South	\$51.8	0.0%	-0.5%	-0.9%	\$28,960	-4.2%	-7.6%	-9.3%
Mid-Levels	\$57.5	0.0%	0.3%	4.7%	\$26,922	-2.1%	-1.8%	4.4%
Jardine's Lookout / Happy Valley	\$51.1	1.0%	1.0%	-0.1%	\$26,374	0.4%	1.0%	9.3%
Pokfulam	\$38.9	0.0%	0.2%	1.4%	\$24,383	-3.4%	-3.3%	5.7%

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 (Table 10).

Prime retail districts recorded a number of major leasing transactions in September (Table 11).

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
Wan Chai	Cheung Lok Mansion	Ground floor / unit B	334	\$48.0	\$143,713
Kowloon City	81 Lion Rock Road	Ground floor	694	\$28.0	\$40,346
Sheung Wan	Lyndhurst Building	Ground floor / units 4A:G	N/A	\$74.0	N/A
Sheung Wan	21 Elgin Street	Lower ground floor	N/A	\$61.5	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 16	373	\$550,000	\$1,474.5
Causeway Bay	Burlington House	Ground to 1st floors / units A	640	\$480,000	\$750.0
Causeway Bay	Po Foo Building	Ground floor / unit D	527	\$238,000	\$451.6
Tsim Sha Tsui	Island Beverley	Ground floor / units B1-B2	N/A	\$1,643,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

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

In August, the total retail sales value decreased 5.4% YoY, to settle at HK\$37.9 billion (Table 13).

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Aug 2015)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Jul 15	From May 15	From Aug 14
Jewellery, watches and clocks and valuable gifts	\$7.8	20.7%	5.4%	16.0%	-8.8%
Clothing, footwear and allied products	\$4.4	11.5%	-10.2%	-15.5%	-12.0%
Department stores	\$3.9	10.4%	5.8%	-22.4%	-8.6%
Fuel	\$0.8	2.1%	4.4%	1.0%	-7.3%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.2	8.4%	10.0%	6.3%	-10.2%
Consumer durable goods	\$6.3	16.6%	-0.2%	-4.4%	9.5%
Supermarkets	\$4.5	11.9%	3.5%	4.3%	0.4%
Others	\$6.9	18.3%	-3.6%	-5.0%	-7.9%
All retail outlets	\$37.9	100.0%	0.9%	-2.9%	-5.4%

Source: Census and Statistics Department / Knight Frank Research



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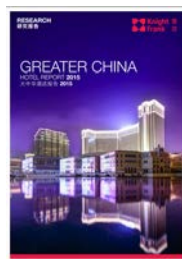
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