

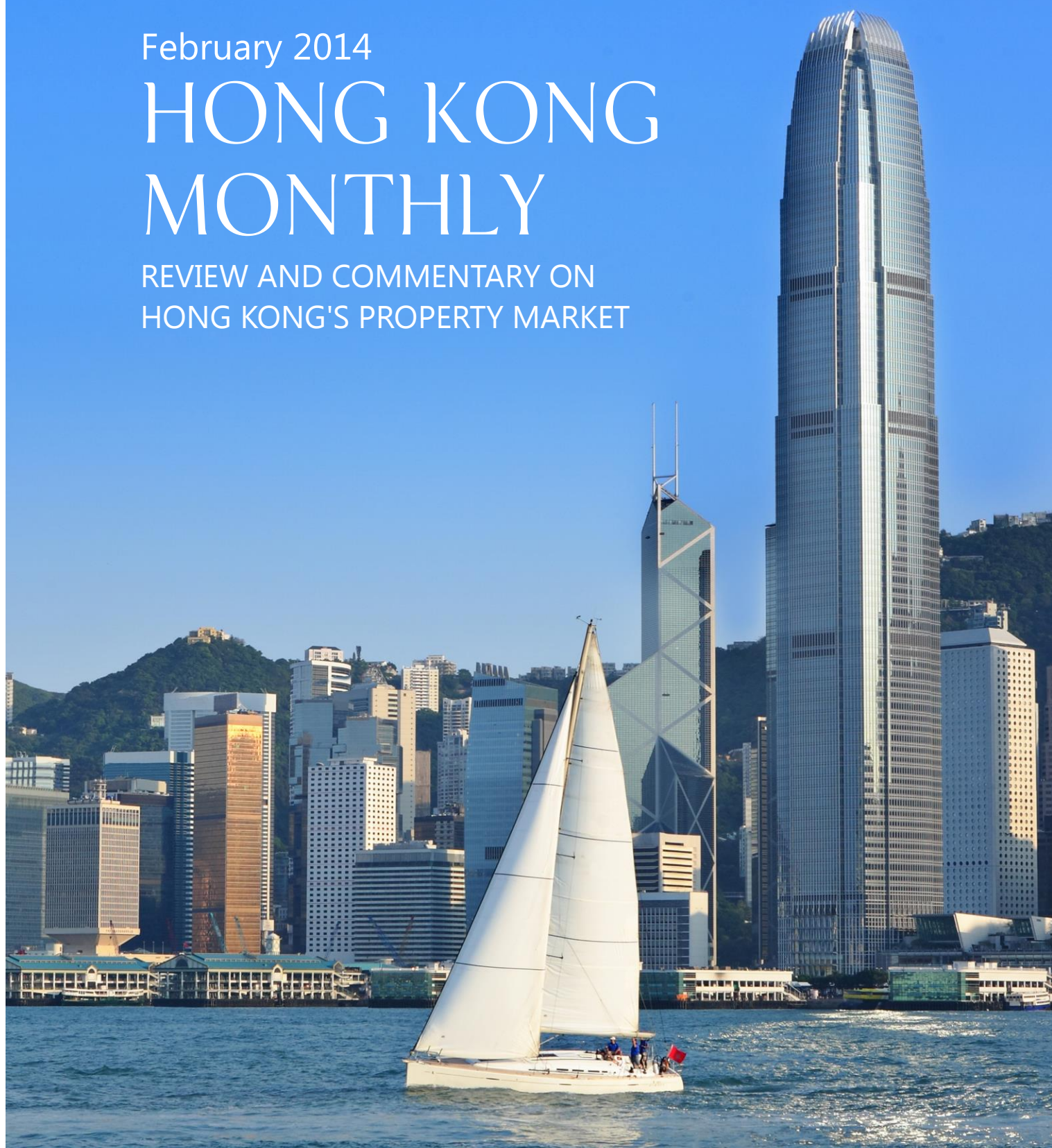
RESEARCH



February 2014

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



OFFICE

Grade-A rents record first
growth in five months

Residential

2014 Policy Address sets
right direction

Retail

Number of inbound tourists
continues to rise

MARKET IN BRIEF

The following table and figures present a selection of key trends in Hong Kong's economy and property markets.

Table 1 Economic indicators and forecasts					
Economic indicator	Period	Latest reading	2011	2012	2013
GDP growth	Q3 2013	+2.9%	+4.9%	+1.4%	+3.0% [^]
Inflation rate	Dec 2013	+4.3%	+5.3%	+4.1%	+4.3%
Unemployment	Oct 2013– Dec 2013	3.2% [#]	3.4%	3.1%	3.3%
Prime lending rate	Current	5.00–5.25%	5.0% [*]	5.0% [*]	5.0% [*]

Source: EIU CountryData / Census & Statistics Department / Knight Frank
[#] Provisional ^{*} HSBC prime lending rate [^] forecast

Figure 1
Grade-A office prices and rents



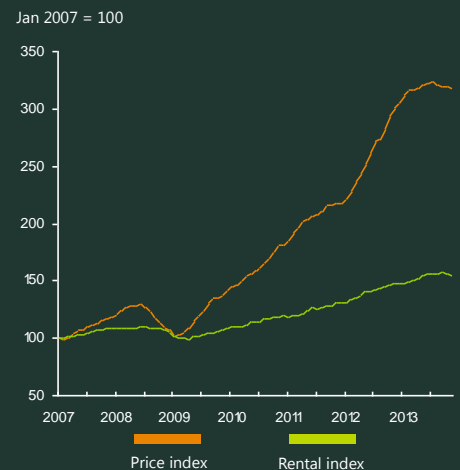
Source: Knight Frank

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 Jun to Nov 2013

MONTHLY REVIEW

The 2014 Policy Address, announced on 15 January, highlighted the government's aims to increase residential and commercial property supply. However, we expect such supply to remain tight in the short to medium term. How the government establishes and accelerates the implementation timeline and whether it will be able to maintain the momentum of enforcement will be the determining factors of success.

The traditional January holiday season saw relatively low activity in the Grade-A office and residential sectors, while the retail market was robust with duplex shops continuing to be sought after.

PRIME OFFICE

The Grade-A office leasing market was relatively quiet during the traditional January holiday season. However, there were some bright spots in the market, with demand continuing from Chinese companies. Activity last month mainly focused on units below 5,000 sq ft, but there were some exceptions: Core Pacific-Yamaichi took a 20,000-sq-ft floor in China Resource Building in Wan Chai, while Wellington Global Investment Management leased a 23,000-sq-ft, low-level floor in Two International Finance Centre in Central.

In January, the average Grade-A office rent grew 0.6%, the first trend upwards in the past five months. The growth was led by Cheung Sha Wan, where rents grew 3.5% month on month, followed by Central and Tsim Sha Tsui, where rents increased more than 1%. Non-core business areas, such as North Point, Quarry Bay and Hung Hom, witnessed rental declines of over 1%. Meanwhile, all major Grade-A office districts experienced slight drops in prices, led by Central where prices decreased 1.6% month on month.

A notable land transaction, involving Kwun Tong Inland Lot No. 761 at the junction of Hang Yip, Wai Yip and Yan Yip Streets as well as Kwun Tong Road, was recorded last month. The 55,026-sq-ft site, acquired by Mapletree Investments for HK\$3.769 billion, will enable the company to create its first green-field commercial development in Hong Kong. The proposed Grade-A office project is expected to be completed by 2017.

The 2014 Policy Address proposed an increase in land supply for commercial and business uses in Central and Wan Chai through land sales as well as increased office supply in decentralised locations in Kowloon and on Lantau Island. However, in the short to medium term, office supply on Hong Kong Island is set to remain tight, while Kowloon East—with the completion of the Kai Tak development, is set to receive a boost in office supply. We expect Grade-A office rents and prices to remain stable or record slight drops in 2014.

“In the short to medium term, office supply on Hong Kong Island is set to remain tight.”

“We believe the 2014 Policy Address has set the right direction for the long-term property policy in Hong Kong.”

RESIDENTIAL

The Chief Executive announced a series of measures concerning the government's housing and land planning in his second Policy Address, including site rezoning and reclamation to boost land supply for residential use and the continuing of existing cooling measures.

We believe the government's plans to increase long-term land supply, by developing new towns on Lantau Island and in Hung Shui Kiu, increasing the development density of Pokfulam and Kai Tak and reclamation, set a right direction for development blueprints. Moreover, we also welcome the government's proposed 'Pilot Scheme for Arbitration on Land Premium' as an independent, third-party arbitration mechanism to facilitate the land-premium negotiation process between developers and the government and increase the level of independence and fairness in the process.

However, how the government is going to establish and accelerate the implementation timeline and whether it will be able to keep up the momentum of enforcement will be the determining factors of success.

The announcement of the 2014 Policy Address did not activate the residential market and sentiment among property buyers remained low. Concerned over the government's aim to provide an average of about 20,000 Public Rental Housing units, 8,000 Home Ownership Scheme (HOS) units and 18,800 private residential units per year, potential buyers continued to adopt a wait-and-see attitude amid this prospect of a substantial increase in residential supply. Price-cutting deals were observed in the secondary markets, especially for small to medium-sized units, which are expected to be more affected by an increase in HOS supply. Despite a more flexible attitude

among homeowners towards asking prices and greater room for negotiation, secondary sales remained sluggish.

In the primary market, expecting keener competition ahead, developers offered extra sweeteners to boost sales. Henderson Land Development (0012.HK) sold more than 80% of units in Double Cove in Wu Kai Sha in the northeastern New Territories last month, with buyers lured by discounts of up to 11.5%. A pipeline of new projects, including The Golden Gate in Tai Po and The Riva in Yuen Long, are expected to heat the market again and home seekers are expected to return to the table when major new projects are launched for pre-sale.

RETAIL

Hong Kong remains a major shopping destination for Mainland tourists, although their consumption pattern has become more conservative. In 2013, the total number of inbound tourist arrivals reached over 54 million, of which over 40 million were Mainlanders. The number of Mainland tourist arrivals increased 16.7% year on year, a faster growth rate than the 11.7% growth rate in overall tourist arrival numbers.

Retailers remained encouraged by the favourable tourism statistics. Duplex retail space continued to be sought after in January, led by mid-end brands and local jewellery stores, especially in prime shopping spots. For example, four floors in Hang Lung Centre in Causeway Bay were leased by fast-fashion brand H&M. This 46,000-sq-ft prime retail space is set to become H&M's largest flagship store in Asia when it opens in 2015. In Mong Kok, meanwhile, a local jewellery brand targeting Mainland tourists reportedly pre-leased the entire block at 1L-1M Sai Yeung Choi Street South, covering 4,800 sq ft, for a monthly rent of around HK\$1.8 million or HK\$375 per sq ft per month.

In the retail property sales market, investors remained cautious due to the prevalence of cooling measures. However, some major transactions were witnessed in both core and non-core retail districts in January, indicating the return of veteran investors to the market, as the impact of the cooling measures began to be absorbed amid the low interest-rate environment. For example, the ground to third floors of Thai Kong Building in Causeway Bay, together with its basement, were sold for HK\$600 million. Meanwhile, the basement of Stamps Gallery at 28 Marble Road in North Point, covering around 15,748 sq ft, was sold for HK\$140 million.

For the coming year, we maintain our forecast that retail rents in prime streets will remain stable, supported by increasing tourist arrivals and limited supply. Rents in shopping centres in prime shopping areas or along the railway targeting Mainland travellers are expected to remain stable or witness slight gains. We also expect to see improvement in the retail property investment market in 2014. Prices of prime street shops should remain stable or experience slight drops in the coming year.

“Increasing tourist arrivals and limited supply will continue to lend support to prime retail rents.”

PRIME OFFICE

Core business districts saw major sales deals last month.

Table 2 Selected office sales transactions					
District	Building	Zone	Gross floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Central	Nine Queen's Road Central	High	13,742	\$325.75	\$23,705
Admiralty	Bank of America Tower	Low	3,110	\$68.5	\$22,026
Admiralty	Lippo Centre Tower 2	Low	2,049	\$38.32	\$18,700
Tsim Sha Tsui	New East Ocean Centre	High	1,850	\$20.78	\$11,239

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






Major Grade-A office leasing transactions were still witnessed, despite it being the traditional low season.

Table 3 Selected office leasing transactions			
District	Building	Zone	Lettable floor area (sq ft)
Central	Two International Finance Centre	Low	22,982
Central	Two International Finance Centre	Low	15,212
Wan Chai	China Resources Building	Mid	20,000
Quarry Bay	One Island East	High	12,000
Kowloon Bay	Kowloon Bay International Trade & Exhibition Centre	High	100,000

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

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In January, the overall Grade-A office rent gained 0.6%, the first trend upwards in the past five months.

Table 4 Month-on-month movement of Grade-A office rents (Jan 2014)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

All major Grade-A office districts experienced slight drops in prices, led by Central where prices lost 1.6% month on month.

Table 5 Prime office market indicators (Jan 2014)									
District	Net effective rent		Change			Price		Change	
	HK\$psf /mth	From Dec 13	From Oct 13	From Jan 13	HK\$ psf	From Dec 13	From Oct 13	From Jan 13	
Premium Central	143.1	1.0%	1.8%	2.1%	n/a	n/a	n/a	n/a	
Traditional Central	104.5	1.3%	0.8%	-0.6%	26,039	-1.6%	-1.8%	-5.2%	
Admiralty	78.5	-0.5%	-3.6%	-5.3%	21,273	-0.8%	-3.1%	-5.9%	
Sheung Wan	60.7	0.5%	-1.7%	-0.9%	19,296	-0.7%	-3.2%	-7.9%	
Wan Chai	61.8	1.0%	0.9%	-1.0%	17,821	-0.9%	-2.1%	-3.1%	
Causeway Bay	64.1	0.8%	-0.4%	-2.6%	17,103	-1.0%	-1.9%	-3.1%	
North Point	44.2	-1.2%	-1.6%	9.3%	n/a	n/a	n/a	n/a	
Quarry Bay	49.9	-1.2%	-1.2%	1.4%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	52.7	1.2%	1.3%	-1.2%	11,644	-0.8%	-2.8%	-5.0%	
Cheung Sha Wan	31.3	3.5%	0.6%	26.9%	n/a	n/a	n/a	n/a	
Hung Hom	37.4	-1.6%	-0.7%	4.6%	n/a	n/a	n/a	n/a	
Kowloon East	38.3	0.1%	0.3%	6.5%	n/a	n/a	n/a	n/a	
Mong Kok/ Yau Ma Tei	50.6	-1.5%	1.4%	0.6%	n/a	n/a	n/a	n/a	

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

RESIDENTIAL

A premium house was sold for more than HK\$690 million on the Peak last month.

Table 6 Selected residential sales transactions					
District	Building	Floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Peak	28 Barker Road	House 7	6,847	\$690	\$100,774
Aberdeen	Marinella	High floor unit	2,587	\$134.3	\$51,921
Mid-Levels	39 Conduit Road	High floor unit	2,476	\$126.5	\$51,101
Pokfulam	Residence Bel-air	High floor unit	2,659	\$64.9	\$24,400

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

A few luxury apartments were leased in Island South last month.

Table 7 Selected residential leasing transactions					
District	Building	Floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Island South	Stanley Crest	House	2,836	\$280,000	\$98.7
Island South	Evergreen Garden	Duplex	2,888	\$155,000	\$53.7
Mid-Levels	The Albany	High floor unit	1,948	\$115,000	\$59.0
Island South	Redhill Peninsula	House	2,836	\$112,000	\$39.5

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

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Luxury residential rents dropped in four of the five major districts last month.

Table 8 Month-on-month movement of luxury residential rents (Jan 2014)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

The overall luxury residential prices dipped month on month in January 2014.

Table 9 Luxury residential market indicators (Jan 2014)								
District	Net effective rent			Price				
	HK\$psf/mth	Change From Dec 13	Change From Oct 13	Change From Jan 13	HK\$psf	Change From Dec 13	Change From Oct 13	Change From Jan 13
The Peak	\$51.8	-0.5%	-4.0%	-12.4%	\$22,919	0.0%	0.0%	-3.1%
Mid-Levels	\$40.7	-0.4%	-0.6%	-4.0%	\$21,128	-1.2%	-1.6%	-2.5%
Pokfulam	\$30.3	-0.3%	-2.0%	-1.5%	\$18,418	-1.1%	-1.1%	-3.4%
Jardine's Lookout & Happy Valley	\$36.9	-0.3%	-1.8%	-9.6%	\$19,638	-0.3%	-1.1%	-2.3%
Island South	\$41.6	0.4%	0.1%	-1.9%	\$24,728	-0.7%	-0.7%	-4.3%

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

RETAIL

In January 2014, Kowloon witnessed several major retail property sales transactions.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
Mong Kok	Sincere Plaza	Ground floor unit	52	\$28	\$538,462
Tsim Sha Tsui	Hankow Centre Arcade	Ground floor unit	500	\$32.8	\$65,600
Yuen Long	Kam Hei House	Ground floor unit	137 (gross)	\$8.2	\$59,854
Western	Jade Court Arcade	Ground floor unit	87	\$4.738	\$54,460
Hung Hom	Whampoa 108	Ground floor unit	50	\$1.76	\$35,200

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

Non-core retail districts saw a number of major leasing transactions in January 2014.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
Yuen Long	Fung Cheung Building	Ground floor unit	60	\$60,800	\$1,013.3
Tsim Sha Tsui	Luna Court	Ground floor unit	476 (gross)	\$378,800	\$795.8
Chai Wan	Walton East Commercial Complex	Ground floor unit	249	\$87,000	\$349.4
North Point	King's Parklane	Ground floor unit	491	\$95,000	\$193.5
Mong Kok	Nathan Road 660	Ground floor	1,450 (gross)	\$270,000	\$186.2

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

Prime retail rents in the four core retail districts remained stable in January 2014.

Table 12 Month-on-month movement of prime street shop rents (Jan 2014)			
Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

Over 2013, the value of total retail sales was \$494.5 billion, up 11.0% from 2012.

Table 13 Retail sales by outlet type (Dec 2013)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Nov 13	From Sep 13	From Dec 12
Jewellery, watches and clocks and valuable gifts	\$11.5	23.2%	35.3%	52.9%	9.1%
Clothing, footwear and allied products	\$7.1	14.3%	38.3%	74.3%	5.8%
Department stores	\$6.1	12.2%	23.0%	58.2%	8.9%
Fuel	\$0.9	1.7%	6.4%	-0.2%	3.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.3	6.7%	11.3%	-9.0%	6.9%
Consumer durable goods	\$8.3	16.8%	22.3%	41.2%	-2.9%
Supermarkets	\$4.3	8.6%	7.4%	1.4%	5.1%
Others	\$8.2	16.5%	27.3%	42.8%	8.4%
All retail outlets	\$49.7	100.0%	25.4%	38.7%	5.7%

Source: Census and Statistics Department

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Contacts

Alan Child

Executive 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

Research & Consultancy

Thomas Lam

Director, Head of Research & Consultancy,
Greater China
+852 2846 4819
thomas.lam@hk.knightfrank.com

Pamela Tsui

Senior Manager, Research & Consultancy,
Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

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