

RESEARCH



DECEMBER 2015

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY MARKET



## Office

Grade-A office rents to rise 5%  
in core business areas next year

## Residential

Mass residential prices to drop  
5-10% in 2016

## Retail

Prime street shop rents to  
lose 10-15% in coming year



# MARKET HIGHLIGHTS

- ♦ Hong Kong's GDP grew 2.5% during the first three quarters of 2015. The finance industry remained strong, making such companies the main demand driver in the Grade-A office market.
- ♦ The government restated the continual implementation of cooling measures, despite expectation of an interest-rate hike in the US in December. Home prices are set to drop slightly in 2016.
- ♦ More luxury brands offered discounts, riding on the holiday season to boost high-end demand. We expect them to remain cautious and prime street shop rents to drop further in 2016.

TABLE 1

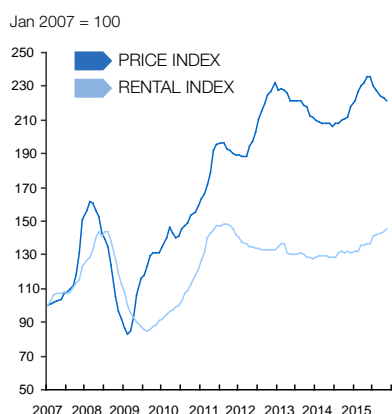
## Economic indicators and forecasts

Economic indicator	Period	Latest reading	2012	2013	2014
GDP growth	Q3 2015	+2.3%#	+1.7%	+2.9%	+2.3%
Inflation rate	Oct 2015	+2.4%	+4.1%	+4.3%	+4.4%
Unemployment	Aug–Oct 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

In November, the highlights of Hong Kong's office market were two mega en-bloc sales involving mainland firms. Developer Evergrande announced the purchase of MassMutual Tower in Wan Chai from Chinese Estates for HK\$12.5 billion or HK\$36,187 per sq ft, breaking both lump-sum and unit-price records of office sales in Hong Kong (Table 2). The previous lump-sum record was set by One Bay East in Kowloon East for \$5.4 billion in 2014.

Meanwhile, China Life Insurance (Overseas) acquired the west tower of One HarbourGate in Hung Hom from Wheelock Properties for HK\$5.85 billion, the second most-expensive office sold in Hong Kong in terms of total consideration (Table 2).

With ample liquidity, Mainland firms have been actively seeking opportunities to acquire whole-block office building for both

owner-occupation and long-term investment purposes. With their further expansion, we expect this trend to continue next year.

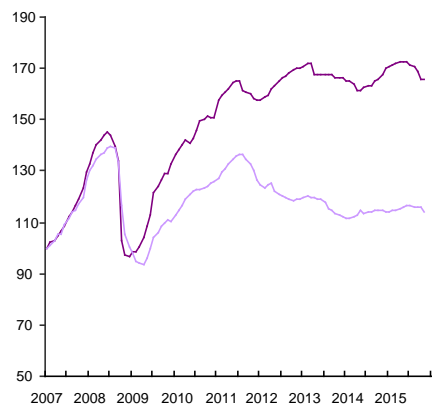
On the leasing front, activities became relatively slow during the traditional low season near the end of the year. In core business districts, the lack of available office space also made companies difficult to expand their businesses.

In the coming year, mainland Chinese firms, especially financial institutions, are expected to continue expanding to capitalise on increasing collaboration between the financial markets of Hong Kong and the mainland along with the impending launch of the Shenzhen-Hong Kong Stock Connect. Given extremely low vacancy rates, we expect Grade-A office rents in core business districts to increase 5% in the coming year, while those in non-core areas could drop 5%.

FIGURE 2

## Luxury residential prices and rents

Jan 2007 = 100

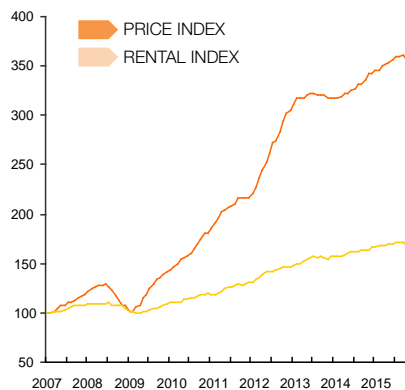


Source: Knight Frank Research

FIGURE 3

## Retail property prices and rents

Jan 2007 = 100

Source: Rating and Valuation Department  
/ Knight Frank Research

Note: Provisional figures from May 2015 to Oct 2015

## Residential

For the first eleven months of 2015, Hong Kong's residential property sales volume reached 51,939, down 10.1% year on year. Around 14,670 primary residential sales transactions were recorded during the period, falling 2.7% year on year. They represented 28% of the total sales, compared with only 10% in 2010. Meanwhile, secondary home sales declined 13% during the period.

While the government's cooling measures are still in place, a potential US interest-rate hike and abundant housing supply in the pipeline have prompted potential buyers to adopt a wait-and-see approach. This has led to subdued sales in recent months. We expect the total sales for 2015 to reach around 55,000, down 13.8% from 2014.

Looking ahead, around 110,000 new homes are expected to go online from 2016 to 2020, representing about 22,000 units per year on average. The units will focus on the New Territories, followed by Kowloon, while Hong Kong Island will see limited supply. Mass home prices are expected to decrease 5-10% next year, while luxury residential prices could drop 0-5%.

## Retail

Hong Kong's visitor arrivals registered negative year-on-year growth for five consecutive months from June to October, but the pace of decline slowed to a mild -2.7% in October. The year-on-year drop in retail sales also decelerated to 3.0% in October, thanks to double-digit growth in the categories of "clothing, footwear and allied products" as well as "consumer durable goods" (Table 13).

Leasing activity in prime retail areas slightly improved in November with softening rents. G2000, a career wear chain retailer, reportedly renewed the lease of its shop at 32 Argyle Street in Mongkok with a rental discount. Meanwhile, Swatch, a Swiss watch company, reportedly took up a

ground-floor shop at AON China Building in Central.

Meanwhile, some landlords in second-tier streets are offering short-term leases of about six months to entice demand associated with Christmas and Lunar New Year holiday sales.

Looking ahead, the challenging retail environment is likely to persist next year due to weaker inbound tourism. Prime street shop rents are expected to see another 10-15% decline next year, while rents of prime and non-core shopping malls could rise 2-3% and 5-10% due to their limited supply and target on the mass market respectively.

## SNAPSHOT

The market recorded two mega en-bloc office sales transactions last month.

There were not many leasing transactions in core districts, due to the limited availability of space.

## PRIME OFFICE

TABLE 2

### Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wan Chai	MassMutual Tower	En bloc	345,426	\$12,500	\$36,187
Hung Hom	One HarbourGate	West tower	393,000	\$5,850	\$14,885
Sheung Wan	Shun Tak Centre	High	2,481	\$58.3	\$23,495
Kwun Tong	Legend Tower	Mid	2,657	\$27.4	\$10,300

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)
Quarry Bay	1063 King's Road	Mid	31,845 (L)
Central	Two IFC	Low	23,638 (L)
Kwun Tong	Landmark East-AXA Tower	Mid	19,517 (G)
Tsim Sha Tsui	The Gateway Tower 1	Mid	18,600 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

Grade-A office rents increased month-on-month in most major business districts in Hong Kong.

Grade-A office prices in most districts continued to decline. However, office prices in Central remained stable.

TABLE 4

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






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

TABLE 5

## Prime office market indicators (Nov 2015)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From Oct 15	From Aug 15	From Nov 14		From Oct 15	From Aug 15	From Nov 14
Premium Central	\$166.6	1.6%	3.9%	9.0%	n/a	n/a	n/a	n/a
Traditional Central	\$115.0	0.9%	1.7%	9.7%	n/a	n/a	n/a	n/a
Overall Central	\$132.9	1.2%	2.7%	9.4%	\$27,083	0.0%	-0.4%	6.4%
Admiralty	\$94.2	0.8%	3.6%	14.2%	\$22,345	-0.9%	-2.3%	4.8%
Sheung Wan	\$77.2	1.2%	4.1%	18.7%	\$19,916	-1.4%	-6.1%	2.3%
Wan Chai	\$70.4	0.2%	2.0%	8.8%	\$19,692	-0.4%	-1.3%	9.7%
Causeway Bay	\$75.8	1.1%	3.0%	11.6%	\$20,050	-1.2%	-1.5%	9.9%
North Point	\$53.6	0.3%	2.1%	11.0%	n/a	n/a	n/a	n/a
Quarry Bay	\$57.0	0.3%	-0.3%	5.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$63.0	0.2%	2.1%	15.9%	\$12,678	-1.4%	-2.2%	5.0%
Cheung Sha Wan	\$29.3	1.0%	-1.0%	4.0%	n/a	n/a	n/a	n/a
Hung Hom	\$31.9	0.0%	-3.0%	-9.9%	n/a	n/a	n/a	n/a
Kowloon East	\$34.2	-0.3%	-0.2%	0.0%	\$11,023	-1.2%	-3.1%	-4.5%
Mong Kok / Yau Ma Tei	\$52.8	1.4%	2.0%	6.6%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Rents and prices are subject to revision.

## SNAPSHOT

A primary house on the Peak was sold for over HK\$100,000 per sq ft.

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)
Peak	28 Barker Road	House 6	6,856	\$698	\$101,809
Ho Man Tin	Ultima Phase 1	Tower 6 / high floor unit	2,151	\$93.73	\$43,576
Repulse Bay	Belgravia	High floor unit	1,900	\$75	\$39,474
Tsim Sha Tsui	Harbour Pinnacle	High floor unit	359	\$13.5	\$37,593

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	A unit	1,240	\$78,000	\$63.0
Mid-Levels	39 Conduit Road	A unit	1,991	\$118,000	\$59.0
Island South	127 Repulse Bay Road	A unit	2,334	\$130,000	\$55.7
Pokfulam	Residence Bel-Air	A unit	1,340	\$74,000	\$55.0
Island South	Hong Kong Parkview	A unit	2,171	\$103,000	\$47.0

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

In November, rents fell in all the five major luxury residential districts.

Luxury residential prices remained stable in most major areas last month.

TABLE 8

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






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

TABLE 9

## Luxury residential market indicators (Nov 2015)

District	Rent	Change			Price	Change		
	HK\$ psf / mth	From Oct 15	From Aug 15	From Nov 14	HK\$ psf	From Oct 15	From Aug 15	From Nov 14
The Peak	\$64.6	-2.0%	-4.0%	-2.4%	\$40,747	0.0%	-1.5%	1.0%
Island South	\$51.3	-1.0%	-1.0%	-0.6%	\$28,463	0.0%	-5.8%	-10.8%
Mid-Levels	\$56.9	-1.0%	-1.0%	3.7%	\$26,470	0.0%	-3.8%	1.2%
Jardine's Lookout / Happy Valley	\$50.6	-1.0%	0.0%	-0.8%	\$26,209	-0.5%	-0.2%	5.8%
Pokfulam	\$38.6	-1.0%	-1.0%	-0.3%	\$24,383	0.0%	-3.4%	4.9%

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

## SNAPSHOT

Retail property sales remained slow with cooling measures still in place.

A few major leasing transactions were recorded in prime retail districts in November.

## RETAIL

TABLE 10

### Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
Sheung Wan	Fook Chi House	Ground floor / unit 4	278	\$24.0	\$86,331
Tsim Sha Tsui	Real Sight Commercial Building	Ground floor unit	881	\$45.0	\$51,078
Mong Kok	162 Tung Choi Street	Ground floor unit	N/A	\$51.5	N/A
Causeway Bay	59 Percival Street	Ground floor unit	N/A	\$92.8	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)
Central	Far East Consortium Building	Ground floor / unit 119	1,000	\$255,000	\$255.0
Wan Chai	Siu Fung Building	Ground floor / unit D	691	\$120,000	\$173.7
Cheung Sha Wan	Hung Yick Building	Ground floor / unit A	705	\$103,000	\$146.1
Tsuen Wan	Kapok Mansion	Ground floor / units A-B	1,930	\$139,000	\$72.02

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



## SNAPSHOT

Prime street shop rents decreased across all major retail districts.

The total retail sales value decreased 3.0% year on year, to settle at HK\$37.2 billion.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

## Retail sales by outlet type (Oct 2015)

Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Sep 15	From Jul 15	From Oct 14
Jewellery, watches and clocks and valuable gifts	\$6.1	16.5%	2.5%	-17.6%	-17.1%
Clothing, footwear and allied products	\$4.4	11.9%	13.9%	-8.8%	-5.1%
Department stores	\$3.8	10.3%	7.7%	2.3%	-2.2%
Fuel	\$0.7	1.9%	-7.1%	-7.6%	-13.8%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.4	9.2%	-16.6%	18.0%	3.7%
Consumer durable goods	\$7.7	20.6%	17.1%	21.6%	6.1%
Supermarkets	\$4.3	11.6%	-1.5%	-1.0%	1.5%
Others	\$6.7	18.0%	11.6%	-7.0%	-1.1%
All retail outlets	\$37.2	100.0%	5.6%	-1.0%	-3.0%

Source: Census and Statistics Department / Knight Frank Research

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