

RESEARCH



MARCH 2016

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
En-bloc Grade-A office sales
remain active

Residential
Both home sales volume and
prices drop further

Retail
Street shop leases renewed
at notable discount

MARKET HIGHLIGHTS

- ◆ The CBD recorded limited office leasing transactions, given the scarcity of space, while Kowloon saw robust relocation activity. The en-bloc sales market remained buoyant.
- ◆ Residential sales in February hit a 25-year low, with the market anticipating an increase in supply, as restated by the Financial Secretary in the 2016-17 Budget.
- ◆ The tough environment continued in the retail market, with falling tourist numbers and retail sales figures. Tourism-boosting measures will have limited impact in the short term.

TABLE 1

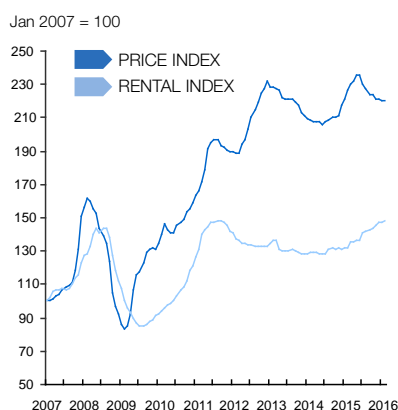
Economic indicators and forecasts

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q4 2015	+1.9%#	+2.9%	+2.3%	+2.4%
Inflation rate	Jan 2016	+2.7%	+4.3%	+4.4%	+3.0%
Unemployment	Nov 2015 -Jan 2016	3.3%#	3.3%	3.2%	3.3% (Q4)
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 February, the spotlight in the Hong Kong Grade-A office market was on another mega investment deal by a Mainland Chinese firm. State-owned China Everbright Group announced the purchase of Dah Sing Financial Centre in Wan Chai for HK\$10 billion from Hong Kong-listed developer SEA Holdings.

This made the building the second most expensive office tower in Hong Kong in terms of total consideration; the most expensive was MassMutual Tower, acquired for HK\$12.5 billion by Mainland developer Evergrande in November 2015.

In the recently announced land sales programme for fiscal year 2016-2017, the government will include the Murray Road car-park site in Central. This is the first commercial site available in Central in the past 20 years, so it is likely to

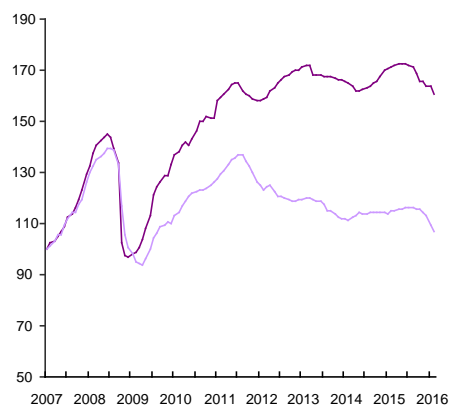
attract strong interest from both developers and investors, given strong demand for office space and rising rents in the core business district.

In the leasing market, amid various economic uncertainties, we expect Grade-A office rents in core business areas to remain stable this year, given the low vacancy rates and continued demand from Mainland firms. However, rents in decentralised areas could drop by 5% this year with abundant supply in the pipeline.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

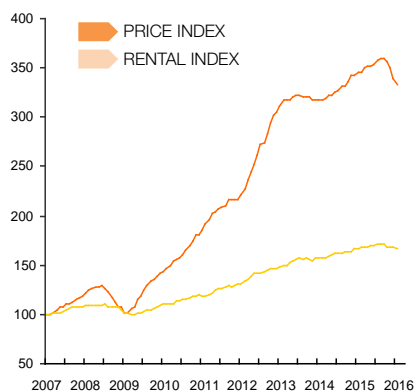


Source: Knight Frank Research

FIGURE 3

Retail property prices and rents

Jan 2007 = 100

Source: Rating and Valuation Department
/ Knight Frank Research

Note: Provisional figures from Aug 2015 to Jan 2016

Residential

In February, residential sales hit the lowest level in 25 years, reaching only 1,807, a plunge of 70.0% year on year, according to the Land Registry. Official figures show that home prices have declined for four consecutive months, back to the level in December 2014.

However, the residential market shows a polarising trend, with the luxury sector remaining resilient, despite continuing property market cooling measures, the recent US interest-rate hike and lukewarm sentiment in the overall market.

In 2016, the market has continued to register record-breaking, big-ticket deals. According to market news, a house on 2 Headland Road in Island South was recently sold for HK\$1.02 billion, while House 6 in Mount Nicholson Phase 1 on the Peak was sold for HK\$830 million, making them the city's two most expensive houses in terms of total consideration.

High-net-worth individuals and cash-rich companies are expected to continue seeking acquisition opportunities for premium properties in traditional luxury districts because of their scarcity and prestigious status. Luxury home prices, being more resilient, are expected to drop only 5% this year, while mass-market prices could drop up to 10%.

Retail

In February, the retail property market continued to be affected by falling visitor numbers, particularly from Mainland China. According to government data, total retail sales value was down another 6.5% year on year in January 2016. This has led to decreased demand for retail space, especially from luxury brands.

The decline in footfall on prime streets, together with deteriorating consumer sentiment owing to economic uncertainties, has made it increasingly difficult for retailers to boost sales, resulting in further drops in prime street shop rents. For instance, a jewellery retailer

renewed the lease for its ground-floor shop in Hanyee Building in Tsim Sha Tsui at a 25% discount from its previous lease signed in 2013. Sincere reportedly renewed the lease for its multi-storey department store in Po Wing Building in Causeway Bay at a discount of more than 20% from its previous lease (Table 11).

To attract more high-spending overnight visitors and to transform the tourism industry into one with more diversified, quality-driven, high value-added services, the government will expand the scale of major events this year and invest in more tourism infrastructure. However, these measures will be insufficient to combat the tough retail environment resulting from the strong Hong Kong dollar and subdued economic growth. Slow retail sales will continue to put downward pressure on retail rents going forward.

SNAPSHOT

There were only a few major office sales transactions in February.

The Kowloon Grade-A office leasing market was active 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)
Kowloon Bay	Billion Centre Block A	High	13,851	\$170.0	\$12,273
Sai Ying Pun	King Kong Commercial Centre	Low	6,884	\$74.5	\$10,822
Sheung Wan	Shun Tak Centre - China Merchants Tower	High	N/A	\$47.1	N/A
Wan Chai	Convention Plaza	High	N/A	\$42.6	N/A

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)
Kowloon Bay	Skyline Tower	High	56,000 (G)
Kowloon Bay	Enterprise Square Five	High	17,400 (G)
Central	Citibank Plaza – Citibank Tower	Low	16,169 (L)
Cheung Sha Wan	Cheung Sha Wan Tower 1	High	15,320 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

Grade-A office rents slightly increased in most business districts in February.

Grade-A office prices remained stable in major commercial areas last month.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Feb 2016)

District	Net effective rent HK\$ psf / mth	Change			Price (Gross) HK\$ psf	Change		
		From Jan 16	From Nov 15	From Feb 15		From Jan 16	From Nov 15	From Feb 15
Premium Central	\$171.3	0.3%	2.8%	11.5%	n/a	n/a	n/a	n/a
Traditional Central	\$117.4	0.1%	2.1%	12.5%	n/a	n/a	n/a	n/a
Overall Central	\$136.1	0.1%	2.4%	12.1%	\$26,927	0.0%	-0.6%	1.1%
Admiralty	\$97.9	0.4%	3.9%	15.7%	\$22,202	0.0%	-0.6%	-2.8%
Sheung Wan	\$79.1	-0.9%	2.5%	17.2%	\$19,842	0.0%	-0.4%	-5.6%
Wan Chai	\$71.4	0.1%	1.4%	8.8%	\$19,503	0.0%	-1.0%	1.4%
Causeway Bay	\$76.6	-0.4%	1.0%	9.4%	\$20,050	0.0%	0.0%	-1.6%
North Point	\$53.7	-0.3%	0.2%	10.8%	n/a	n/a	n/a	n/a
Quarry Bay	\$56.7	-0.6%	-0.6%	4.5%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$64.2	1.2%	2.0%	16.3%	\$12,664	0.0%	-0.1%	-2.0%
Cheung Sha Wan	\$29.4	1.0%	0.4%	1.3%	n/a	n/a	n/a	n/a
Hung Hom	\$30.9	0.9%	-3.1%	-10.9%	n/a	n/a	n/a	n/a
Kowloon East	\$34.3	0.3%	0.4%	1.3%	\$10,970	0.0%	-0.5%	-8.4%
Mong Kok / Yau Ma Tei	\$52.8	0.0%	0.0%	4.0%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

Last month, a primary house in Sai Kung was sold by tender.

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

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	55 Conduit Road	Low floor unit	2,476	\$105.18	\$42,479
Sai Kung	20 & 22 Pik Sha Road	House	3,666	\$131.00	\$35,734
Kennedy Town	Upton	High floor unit	1,053	\$36.91	\$35,052
Ho Man Tin	Paxton	Mid floor unit	1,660	\$46.68	\$28,122

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	Chelsea Court	Garden unit	2,517	\$170,000	\$67.5
Island South	Redhill Peninsula	House	2,583	\$145,000	\$56.1
Island South	Helene Tower	Mid floor unit	1,451	\$80,000	\$55.1
Ap Lei Chau	Marinella	Tower 1 / high floor unit	1,949	\$106,000	\$54.4
The Peak	La Hacienda	High floor unit	2,865	\$140,000	\$49.0

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents continued to fall in all major luxury districts in February.

Last month, home prices fell in most major luxury areas except on the Peak.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Feb 2016)

District	Rent		Change			Price		Change	
	HK\$ psf / mth	From Jan 16	From Nov 15	From Feb 15	HK\$ psf	From Jan 16	From Nov 15	From Feb 15	
The Peak	\$58.9	-5.0%	-8.8%	-11.7%	\$40,091	0.0%	-1.6%	-3.1%	
Island South	\$48.3	-3.0%	-5.9%	-5.5%	\$28,084	-1.3%	-1.3%	-12.0%	
Mid-Levels	\$52.4	-2.0%	-7.8%	-6.7%	\$25,545	-1.1%	-3.5%	-5.1%	
Jardine's Lookout / Happy Valley	\$48.6	-1.0%	-4.0%	-3.5%	\$24,706	-4.9%	-5.7%	-2.8%	
Pokfulam	\$35.9	-1.0%	-6.9%	-6.8%	\$22,742	-5.3%	-6.7%	-7.5%	

Source: Knight Frank Research

Note: Rents and prices are based on saleable area and are subject to revision.

SNAPSHOT

A number of small retail properties in Kowloon were sold.

A number of prime street shop leases were renewed at a discount in February.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
Mong Kok	1K Fife Street	Ground floor / unit 630	476	\$42.2	\$88,655
Shatin	Glamour Garden	Ground floor / unit I	250	\$21.0	\$84,000
Kwun Tong	Yan On Mansion	Ground floor / unit F	875	\$63.8	\$72,914
Tsim Sha Tsui	1A Humphrey's Avenue	Ground floor unit	N/A	\$200.0	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)
Tsim Sha Tsui	Hanyee Building	Ground floor / unit F	395	\$150,000	\$379.8
Causeway Bay	Golden Dragon Building	Ground to 1 st floor units	4,860	\$320,000	\$65.8
Mong Kok	Fa Yuen Plaza	Ground to 2 nd floor units	N/A	\$2,330,000	N/A
Causeway Bay	Po Wing Building	Ground to 2 nd floor units	N/A	\$1,500,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Total retail sales value decreased 6.5% year on year to HK\$43.6 billion in January 2016.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jan 2016)

Outlet	Value (HK\$ billion)	Share of total %	Change		
			From Dec 15	From Oct 15	From Jan 15
Jewellery, watches and clocks and valuable gifts	\$7.6	17.5%	-4.6%	24.6%	-16.3%
Clothing, footwear and allied products	\$6.1	14.0%	0.6%	36.7%	-3.2%
Department stores	\$4.3	9.9%	-14.3%	12.8%	-3.7%
Fuel	\$0.7	1.6%	-3.8%	0.0%	3.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.0	9.2%	10.6%	17.4%	7.2%
Consumer durable goods	\$7.0	16.0%	-11.9%	-8.8%	-19.9%
Supermarkets	\$4.8	11.1%	9.3%	12.3%	8.0%
Others	\$9.0	20.7%	14.3%	34.3%	-1.2%
All retail outlets	\$43.6	100.0%	-0.2%	17.2%	-6.5%

Source: Census and Statistics Department / Knight Frank Research



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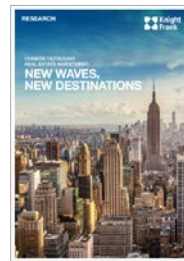
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