Residential
US rate rise to have minor impact on local home prices

Office
Kowloon East rents to soften with plenty of supply

Retail
Sportswear brands active in expansion
MARKET HIGHLIGHTS

- 2015 was the best of times and the worst of times in the Hong Kong property market, offering both opportunities and challenges, with the office sector outperforming and the retail sector suffering from slowing down activity.

- The US Federal Reserve raised its interest rate by 25 basis points in December 2015, ending the near-zero interest-rate environment since the 2008 financial crisis.

- Despite this, in his Policy Address on 13 January 2016, the Chief Executive repeated his intention to keep the government’s cooling measures in place, though he tabled plans for increasing future land supply.

### TABLE 1
Economic indicators and forecasts

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>Period</th>
<th>Latest reading</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>Q3 2015</td>
<td>+2.3%#</td>
<td>+1.7%</td>
<td>+2.9%</td>
<td>+2.3%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>Nov 2015</td>
<td>+2.4%</td>
<td>+4.1%</td>
<td>+4.3%</td>
<td>+4.4%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>Sep–Nov 2015</td>
<td>3.3%#</td>
<td>3.1%</td>
<td>3.3%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Prime lending rate</td>
<td>Current</td>
<td>5–5.25%</td>
<td>5%*</td>
<td>5%*</td>
<td>5%*</td>
</tr>
</tbody>
</table>

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

# Provisional * HSBC prime lending rate

### Prime Office

Facilitated by various policies to enhance cross-border financial integration, Mainland financial firms expanded rapidly in Hong Kong’s CBD, driving up Grade-A office rents in Central by as much as 13.7% in 2015. In December, for instance, a Mainland firm secured a 14,773-sq-ft office space in Cheung Kong Center in Central (Table 3).

Kowloon East continued to see robust leasing activity, with many companies relocating from Hong Kong Island and other business districts to the area, attracted by the abundant supply of cost-effective new space. In 2016, landlords will face pressure in rental negotiations as they compete for tenants to drive down vacancies.

In 2015, the office sales market improved, with the total volume and value of transactions rising 21.7% and 49.6% respectively, driven by increased demand from both investors and owner-occupiers seeking to reduce rental costs.

Some Mainland firms which had actively taken up Grade-A office space run into various problems. For example, some delayed renovating the space they had let, while others failed to take up the units at the start of the lease term. There were even cases of firms exiting their Hong Kong business.

However, with limited supply in core business areas, we still expect their vacancy rates to remain low and their rents to rise by up to 5% this year. In decentralised areas, however, rents could drop by up to 5% in 2016.
According to the Land Registry, residential sales in Hong Kong rebounded in December, totaling 4,043, up 43.1% from November. A total of 2,153 primary residential sales transactions were recorded, more than doubling those in November, while secondary home sales increased 6.4%.

In December, over half of new home sales involved three major developments: Capri in Tseung Kwan O, The Bloomsway in Tuen Mun and Yuccie Square in Yuen Long.

However, total residential sales volume for 2015 was still down 12.3% from 2014, with primary sales dropping only 0.2% and secondary sales losing 16.6%, as both landlords and buyers held a wait-and-see attitude amid various uncertainties in both local and external markets.

The housing supply target in the coming ten years was reduced from 480,000 to 460,000 units, according to the Transport and Housing Department, as the projected number of new households during the period was less than previously forecast.

With the US interest-rate hike and a projected increase in housing supply, home prices are expected to come under pressure this year. We expect luxury home prices to fall up to 5%, while mass residential prices could decrease 5-10%.

For the first 11 months of 2015, Hong Kong’s retail sales decreased 3.1% year on year, as a result of a slowdown in inbound tourism. Luxury goods retailers suffered the most, with a 15% decline in the sales of the “jewellery, watches, clocks and valuable gifts” category. As a result, luxury goods retailers remained cautious in shop leasing, while mid-end retailers became increasingly active in prime streets.

Sportswear labels, for example, saw active expansion in 2015, especially in Central. Adidas secured two multi-storey shops last year: a 13,000-sq-ft shop in Queen's Road Central and a 13,800-sq-ft store in Hang Lung Centre in Causeway Bay, both set to open in the first half of 2016. Last year, a 7,000-sq-ft multi-storey Nike Running Outlet opened in Des Voeux Road Central. Since entering Hong Kong in 2014, Under Armour has added three stores in the city, including a 3,000-sq-ft store in Lyndhurst Terrace in Central.

With the availability of the most up-to-date and exclusive limited-edition products, Hong Kong is an important retail hub for international sportswear brands. The increasing appeal of a healthy and sporty lifestyle, the growing popularity of sportswear as smart-casual apparel and the rise of wearable tech are likely to further boost the expansion of sportswear retailers, especially in Central where there is a concentration of fitness centres.
There were only a few major office sales transactions in December 2015.

In Central, a Mainland Chinese firm leased an office of around 14,000 sq ft in Cheung Kong Center.

**TABLE 2**

Selected office sales transactions

<table>
<thead>
<tr>
<th>District</th>
<th>Building</th>
<th>Zone</th>
<th>Gross floor area (sq ft)</th>
<th>Price (HK$ million)</th>
<th>Price (HK$ per sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>Nine Queen’s Road Central</td>
<td>Mid</td>
<td>2,454</td>
<td>$85.7</td>
<td>$34,923</td>
</tr>
<tr>
<td>Wan Chai</td>
<td>Jonsim Place</td>
<td>Low</td>
<td>1,431</td>
<td>$34.5</td>
<td>$24,109</td>
</tr>
<tr>
<td>Tsim Sha Tsui</td>
<td>Wing On Plaza</td>
<td>High</td>
<td>1,771</td>
<td>$31.9</td>
<td>$18,000</td>
</tr>
<tr>
<td>Wan Chai</td>
<td>Citicorp Centre</td>
<td>Low</td>
<td>14,074</td>
<td>$176</td>
<td>$12,505</td>
</tr>
</tbody>
</table>

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

**TABLE 3**

Selected office leasing transactions

<table>
<thead>
<tr>
<th>District</th>
<th>Building</th>
<th>Zone</th>
<th>Floor area (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheung Sha Wan</td>
<td>Cheung Sha Wan Plaza Tower 1</td>
<td>High</td>
<td>17,000 (G)</td>
</tr>
<tr>
<td>Central</td>
<td>Cheung Kong Center</td>
<td>High</td>
<td>14,773 (G)</td>
</tr>
<tr>
<td>Kwai Chung</td>
<td>Kowloon Commerce Centre – Tower A</td>
<td>Mid</td>
<td>11,660 (G)</td>
</tr>
<tr>
<td>Wan Chai</td>
<td>AXA Centre</td>
<td>Low</td>
<td>4,190 (G)</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
Note: All transactions are subject to confirmation.
Grade-A office rents increased month on month in most major business districts in December 2015.

Grade-A office prices remained stable or dropped slightly in December.

### TABLE 4
Month-on-month movement of Grade-A office rents (Dec 2015)

<table>
<thead>
<tr>
<th>District</th>
<th>Central / Admiralty</th>
<th>Wan Chai / Causeway Bay</th>
<th>Quarry Bay</th>
<th>Tsim Sha Tsui</th>
<th>Kowloon East</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$170.1 2.1% 5.0% 12.1%</td>
<td>$117.3 2.0% 3.4% 14.3%</td>
<td>$135.6 2.0% 4.1% 13.3%</td>
<td>$127.31 2.0% 4.5% 15.3%</td>
<td>$130.6 0.0% 0.2% 13.3%</td>
</tr>
</tbody>
</table>

### TABLE 5
Prime office market indicators (Dec 2015)

<table>
<thead>
<tr>
<th>District</th>
<th>Net effective rent</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Central</td>
<td>HK$ psf / mth</td>
<td>From Nov 15</td>
</tr>
<tr>
<td>Traditional Central</td>
<td>$170.1 2.1% 5.0% 12.1%</td>
<td>n/a</td>
</tr>
<tr>
<td>Overall Central</td>
<td>$117.3 2.0% 3.4% 14.3%</td>
<td>n/a</td>
</tr>
<tr>
<td>Admiralty</td>
<td>$96.1 2.0% 4.5% 15.3%</td>
<td>$22,321 -0.1% -1.2% 2.2%</td>
</tr>
<tr>
<td>Sheung Wan</td>
<td>$79.0 2.2% 4.2% 22.9%</td>
<td>$19,916 0.0% -2.3% -2.3%</td>
</tr>
<tr>
<td>Wan Chai</td>
<td>$71.3 1.2% 1.0% 9.4%</td>
<td>$19,916 -0.5% -0.9% 6.5%</td>
</tr>
<tr>
<td>Causeway Bay</td>
<td>$76.7 1.2% 2.5% 12.4%</td>
<td>$20,050 0.0% -1.2% 6.5%</td>
</tr>
<tr>
<td>North Point</td>
<td>$54.1 1.0% 0.7% 13.4%</td>
<td>n/a</td>
</tr>
<tr>
<td>Quarry Bay</td>
<td>$57.1 0.1% -0.6% 8.5%</td>
<td>n/a</td>
</tr>
<tr>
<td>Tsim Sha Tsui</td>
<td>$62.8 -0.4% 1.2% 15.6%</td>
<td>$12,664 -0.1% -1.5% 1.7%</td>
</tr>
<tr>
<td>Cheung Sha Wan</td>
<td>$28.6 -2.4% -3.3% 2.6%</td>
<td>n/a</td>
</tr>
<tr>
<td>Hung Hom</td>
<td>$30.9 -3.1% -6.0% -12.8%</td>
<td>n/a</td>
</tr>
<tr>
<td>Kowloon East</td>
<td>$34.2 0.0% 0.2% -0.9%</td>
<td>$10,970 -0.5% -3.0% -6.0%</td>
</tr>
<tr>
<td>Mong Kok / Yau Ma Tei</td>
<td>$52.8 0.0% 3.0% 5.5%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

Rents and prices are subject to revision.
Two primary units in Cluny Park in Mid-Levels West were sold in December 2015.

Last month, a number of major luxury residential leases were recorded in Island South.

### TABLE 6
Selected residential sales transactions

<table>
<thead>
<tr>
<th>District</th>
<th>Building</th>
<th>Tower / floor / unit</th>
<th>Saleable area (sq ft)</th>
<th>Price (HK$ million)</th>
<th>Price (HK$ psf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tsim Sha Tsui</td>
<td>Cullinan</td>
<td>High floor unit</td>
<td>1,118</td>
<td>$51.13</td>
<td>$45,735</td>
</tr>
<tr>
<td>Mid-Levels West</td>
<td>Cluny Park</td>
<td>Low floor unit</td>
<td>2,551</td>
<td>$103</td>
<td>$40,376</td>
</tr>
<tr>
<td>Mid-Levels West</td>
<td>Cluny Park</td>
<td>Low floor unit</td>
<td>2,384</td>
<td>$92</td>
<td>$38,591</td>
</tr>
<tr>
<td>Repluse Bay</td>
<td>Sea Cliff Mansion</td>
<td>Block C / low floor unit</td>
<td>1,941</td>
<td>$62.8</td>
<td>$32,354</td>
</tr>
</tbody>
</table>

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

### TABLE 7
Selected residential leasing transactions

<table>
<thead>
<tr>
<th>District</th>
<th>Building</th>
<th>Tower / floor / unit</th>
<th>Saleable area (sq ft)</th>
<th>Monthly rent (HK$)</th>
<th>Monthly rent (HK$ psf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Happy Valley</td>
<td>Winfield Building</td>
<td>High floor unit</td>
<td>1,513</td>
<td>$102,500</td>
<td>$68</td>
</tr>
<tr>
<td>Mid-Levels</td>
<td>Eva Court</td>
<td>Mid floor unit</td>
<td>4,017</td>
<td>$260,000</td>
<td>$65</td>
</tr>
<tr>
<td>Island South</td>
<td>Hong Kong Parkview</td>
<td>Low floor unit</td>
<td>1,614</td>
<td>$80,000</td>
<td>$50</td>
</tr>
<tr>
<td>Pokfulam</td>
<td>Bel-Air on the Peak</td>
<td>Low floor unit</td>
<td>1,886</td>
<td>$95,000</td>
<td>$50</td>
</tr>
<tr>
<td>Island South</td>
<td>Las Pinadas</td>
<td>Odd no house</td>
<td>2,917</td>
<td>$120,000</td>
<td>$41</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
Note: All transactions are subject to confirmation.
Rents fell in all the five major luxury residential districts in December.

Residential prices fell in most major luxury areas in December.

### TABLE 9
Luxury residential market indicators (Dec 2015)

<table>
<thead>
<tr>
<th>District</th>
<th>Rent HK$ psf/mth</th>
<th>Change From Nov 15</th>
<th>Change From Sep 15</th>
<th>Change From Dec 14</th>
<th>Price HK$ psf</th>
<th>Change From Nov 15</th>
<th>Change From Sep 15</th>
<th>Change From Dec 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Peak</td>
<td>$64.0</td>
<td>-1.0%</td>
<td>-3.0%</td>
<td>-3.1%</td>
<td>$40,091</td>
<td>-1.6%</td>
<td>-3.1%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Island South</td>
<td>$50.8</td>
<td>-1.0%</td>
<td>-2.0%</td>
<td>-0.8%</td>
<td>$28,463</td>
<td>0.0%</td>
<td>-3.3%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Mid-Levels</td>
<td>$56.3</td>
<td>-1.0%</td>
<td>-2.0%</td>
<td>2.3%</td>
<td>$25,997</td>
<td>-1.8%</td>
<td>-3.4%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Jardine's Lookout / Happy Valley</td>
<td>$50.1</td>
<td>-1.0%</td>
<td>-2.0%</td>
<td>-1.0%</td>
<td>$26,186</td>
<td>-0.1%</td>
<td>-0.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Pokfulam</td>
<td>$38.2</td>
<td>-1.0%</td>
<td>-2.0%</td>
<td>-0.8%</td>
<td>$24,115</td>
<td>-1.1%</td>
<td>-1.1%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

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

A number of major retail property sales transactions were recorded in non-core retail districts in December.

Prime retail districts recorded a few major leasing transactions in December.

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Prime retail districts recorded a few major leasing transactions in December.
**SNAPSHOT**

Prime street shop rents decreased across all major retail districts in December 2015.

The total retail sales value in November 2015 decreased 7.8% year on year to HK$38.1 billion.

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**TABLE 12**

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

<table>
<thead>
<tr>
<th>District</th>
<th>Central</th>
<th>Causeway Bay</th>
<th>Tsim Sha Tsui</th>
<th>Mong Kok</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime street shop rent decrease</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

---

**TABLE 13**

Retail sales by outlet type (Nov 2015)

<table>
<thead>
<tr>
<th>Outlet</th>
<th>Value (HK$ billion)</th>
<th>Share of total</th>
<th>Change From Oct 15</th>
<th>Change From Aug 15</th>
<th>Change From Nov 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jewellery, watches and clocks and valuable gifts</td>
<td>$6.6</td>
<td>17.4%</td>
<td>8.3%</td>
<td>-15.4%</td>
<td>-20.6%</td>
</tr>
<tr>
<td>Clothing, footwear and allied products</td>
<td>$4.6</td>
<td>12.0%</td>
<td>2.4%</td>
<td>3.8%</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Department stores</td>
<td>$5.0</td>
<td>13.1%</td>
<td>30.6%</td>
<td>26.2%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Fuel</td>
<td>$0.7</td>
<td>1.9%</td>
<td>3.4%</td>
<td>-8.5%</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Food, alcoholic drinks and tobacco (excluding supermarkets)</td>
<td>$3.4</td>
<td>8.8%</td>
<td>-1.6%</td>
<td>5.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Consumer durable goods</td>
<td>$7.2</td>
<td>19.0%</td>
<td>-5.4%</td>
<td>14.8%</td>
<td>-7.0%</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>$4.2</td>
<td>11.0%</td>
<td>-3.1%</td>
<td>-7.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Others</td>
<td>$6.4</td>
<td>16.8%</td>
<td>-4.6%</td>
<td>-7.8%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>All retail outlets</td>
<td>$38.1</td>
<td>100.0%</td>
<td>2.4%</td>
<td>0.4%</td>
<td>-7.8%</td>
</tr>
</tbody>
</table>

*Source: Census and Statistics Department / Knight Frank Research*
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