

RESEARCH



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HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Kowloon East rents to soften
with plenty of supply

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

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

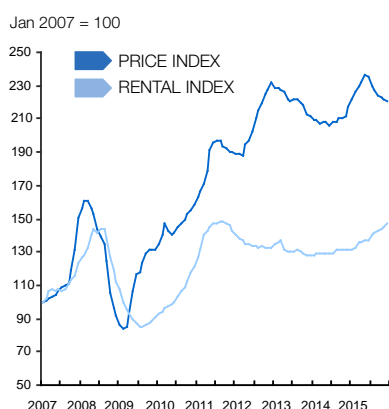
Economic indicators and forecasts

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

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).

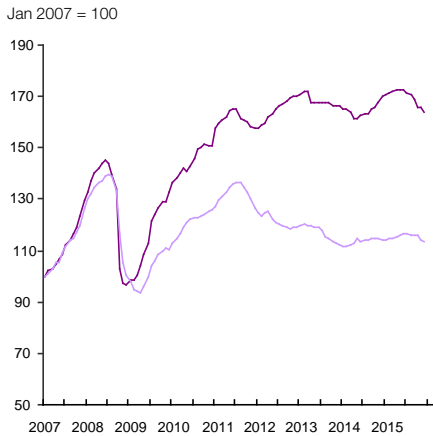
Kowloon East continued to see robust leasing activity, with many companies relocating from Hong Kong Island and other business districts to the area, attracted by the abundant supply of cost-effective new space. In 2016, landlords will face pressure in rental negotiations as they compete for tenants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

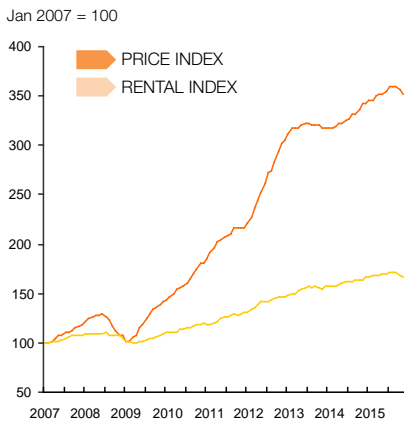
However, with limited supply in core business areas, we still expect their vacancy rates to remain low and their rents to rise by 5% this year. In decentralised areas, however, rents could drop by up to 5% in 2016.

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 Jun 2015 to Nov 2015

Residential

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%.

Retail

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.

We expect mid-end retailers to continue to dominate the retail leasing market. Rents of prime street shops will continue on their downward path this year, while shopping centre rents will remain firm, with mild increments, especially those in non-core shopping areas focusing on mid-end products and necessities.

SNAPSHOT

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.

PRIME OFFICE

TABLE 2

Selected office sales transactions

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

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)
Cheung Sha Wan	Cheung Sha Wan Plaza Tower 1	High	17,000 (G)
Central	Cheung Kong Center	High	14,773 (G)
Kwai Chung	Kowloon Commerce Centre – Tower A	Mid	11,660 (G)
Wan Chai	AXA Centre	Low	4,190 (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 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)






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

TABLE 5

Prime office market indicators (Dec 2015)

District	Net effective rent HK\$ psf / mth	Change			Price HK\$ psf	Change		
		From Nov 15	From Sep 15	From Dec 14		From Nov 15	From Sep 15	From Dec 14
Premium Central	\$170.1	2.1%	5.0%	12.1%	n/a	n/a	n/a	n/a
Traditional Central	\$117.3	2.0%	3.4%	14.3%	n/a	n/a	n/a	n/a
Overall Central	\$135.6	2.0%	4.1%	13.3%	\$27,083	0.0%	0.0%	5.0%
Admiralty	\$96.1	2.0%	4.5%	15.3%	\$22,321	-0.1%	-1.2%	2.2%
Sheung Wan	\$79.0	2.2%	4.2%	22.9%	\$19,916	0.0%	-2.3%	-2.3%
Wan Chai	\$71.3	1.2%	1.0%	9.4%	\$19,598	-0.5%	-0.9%	6.5%
Causeway Bay	\$76.7	1.2%	2.5%	12.4%	\$20,050	0.0%	-1.2%	6.5%
North Point	\$54.1	1.0%	0.7%	13.4%	n/a	n/a	n/a	n/a
Quarry Bay	\$57.1	0.1%	-0.6%	8.5%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$62.8	-0.4%	1.2%	15.6%	\$12,664	-0.1%	-1.5%	1.7%
Cheung Sha Wan	\$28.6	-2.4%	-3.3%	2.6%	n/a	n/a	n/a	n/a
Hung Hom	\$30.9	-3.1%	-6.0%	-12.8%	n/a	n/a	n/a	n/a
Kowloon East	\$34.2	0.0%	0.2%	-0.9%	\$10,970	-0.5%	-3.0%	-6.0%
Mong Kok / Yau Ma Tei	\$52.8	0.0%	3.0%	5.5%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Rents and prices are subject to revision.

SNAPSHOT

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.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

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

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	Winfield Building	High floor unit	1,513	\$102,500	\$68
Mid-Levels	Eva Court	Mid floor unit	4,017	\$260,000	\$65
Island South	Hong Kong Parkview	Low floor unit	1,614	\$80,000	\$50
Pokfulam	Bel-Air on the Peak	Low floor unit	1,886	\$95,000	\$50
Island South	Las Pinadas	Odd no house	2,917	\$120,000	\$41

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents fell in all the five major luxury residential districts in December.

Residential prices fell in most major luxury areas in December.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Dec 2015)

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

Source: Knight Frank Research
Rents 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.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ psf)
Sai Ying Pun	18 Sung Hing Lane	Ground floor / unit B	637	\$33	\$51,805
North Point	Scala Mansion	Ground floor / unit B	786	\$38.28	\$48,702
Shatin	OK Mall	Ground floor / unit G01	1,903	\$71.75	\$37,704
Sheung Wan	Yat Chau Building	Ground to third floors	5,663	\$195	\$34,434

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)
Causeway Bay	Hong Kong Mansion	Ground floor / unit L3	160	\$220,000	\$1,375
Mong Kok	Hung Wai Building	Ground floor / unit 9	1,097	\$201,250	\$183.45
Wan Chai	Lok Moon Mansion	Ground floor / unit B	1,586	\$278,000	\$175.28
Tsim Sha Tsui	Peninsula Apartment	Ground floor / unit 3	N/A	\$310,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

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.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Nov 2015)

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

Source: Census and Statistics Department / Knight Frank Research



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