

RESEARCH



December 2012

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Knight Frank 萊坊

OFFICE

Signs of rents bottoming out in core business districts

RESIDENTIAL

Tough new measures reduced home sales

RETAIL

Investors continued to boost retail property sales

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	2010	2011	2012 forecast
GDP growth	Q3 2012	+1.3%	+6.8%	+5.0%	+3.8%
Inflation rate	Oct 2012	+3.8%	+2.4%	+5.3%	+3.4%
Unemployment	Aug-Oct 2012	3.4%#	4.4%	3.4%	3.4%
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

Figure 1
Grade-A office prices and rents

Jan 2007 = 100



Source: Knight Frank

Figure 2
Luxury residential prices and rents

Jan 2007 = 100



Source: Knight Frank

Figure 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank



MONTHLY REVIEW

The government's new tightening measures in November reduced residential transaction volume, but prices remained stable. Some investors shifted to non-domestic assets, boosting sales in office and retail properties. Looking ahead, we expect residential prices to experience only minor adjustments, while office and retail prices should see more notable growth with the ongoing impact of the cooling measures.

PRIME OFFICE

Interest in non-residential properties showed no signs of abating this past month, as these markets remained free from government intervention. Office sales stayed buoyant, with around 450 transactions in November—20% more than the number of transactions recorded in the previous month.

A number of major deals involved new Grade-A office buildings in Kowloon East. The launch of Rykadan Capital Tower in Kwun Tong received a strong response, with all available floor plates presold within the first week. The 28th floor of the building, measuring 12,024 sq ft, sold for HK\$122.4 million or HK\$10,183 per sq ft.

Leasing activity continued to lag behind that of sales last month, driven mainly by the need to move to less expensive space by tenants, or by landlords in Central showing flexibility on asking rents. For example, Vision Century reportedly leased a number of mid-floor units in Two IFC totaling 10,000 sq ft. An Australian Bank committed to a 7,400-sq-ft whole floor in CCB Tower in the same district.

Office rents continued to fall last month, but the pace slowed considerably, compared with the first

half of the year. The average Grade-A office rent fell another 0.2%, after dropping 6.6% in the previous ten months. Rental decline in Central slowed to 0.8%, while rents in non-core districts, such as Kwai Chung and North Point, increased 3.9% and 3.3% respectively.

Asking rents in core areas such as Central showed signs of stabilising, following an increasing number of buildings in the area recording satisfactory take-up rates over the past few months due to more flexible rentals. In the short term, office rents in the area will continue to be under downward pressure, as vacant space in major Grade-A buildings has yet to be fully absorbed. However, this overhang is likely to be cleared from the market in the coming months and we believe office rents may bottom out in the first half of 2013.

RESIDENTIAL

The government showed its determination to curb the growth of residential prices by imposing a series of restrictive buying measures, including the implementation of a Buyer's Stamp Duty (BSD) and extending and intensifying the existing Special Stamp Duty (SSD) on 27 October.

The measures reduced residential

“Asking rents in core areas such as Central showed signs of stabilising.”

“We expect residential prices to remain stable in 2013, with mild upward or downward movements of less than 5%.”

sales by 19.3%, month on month, to 7,035 in November. Sales of luxury homes worth HK\$10 million or more dropped 25.5% to 780. Sales in the primary market were particularly sluggish with no new developments launched last month, while in the ten most popular secondary estates, total sales recorded a drop of over 50%.

However, landlords and developers were not willing to offer significant price discounts, given the prevailing low interest rates and their strong financial conditions. Luxury and mass residential prices in November still recorded month-on-month gains of 0.2% and 1.3%, respectively.

Speculators were deterred by the new policies and some shifted their focus to non-residential markets. A significant increase in car-parking space transactions was witnessed after the the tightening policy took effect. Cheung Kong Holdings (0001.HK), for example, sold over 500 parking spaces in Festival City in Tai Wai in one day, while a number of other developers also put their parking spaces onto the sales market in November.

Despite the uncertainty, land sales results were satisfactory last month, reflecting developers' confidence in the outlook for the local property market. Two sites in Tseung Kwan O and one in Ma On Shan were acquired at prices that exceeded market expectations. Lai Sun Development (0488.HK) outbid five other companies to secure Area 68A2 in Tseung Kwan O at a record-high accommodation value (AV) for the district. The 229,338-sq ft site sold for HK\$2.8 billion, representing an AV of HK\$4,932 per sq ft.

The number of residential transactions totaled 78,047 in the first 11 months of 2012, a year-on-year drop of 2.6%. Due to the limited supply of flats, a low unemployment rate and an inflationary environment, we expect residential prices to remain relatively

stable over 2013, with mild upward or downward movement of less than 5%.

Potential buyers who cannot afford the high prices, or are waiting for a price drop, are expected to shift towards the leasing market. Landlords, to avoid paying the stamp duties, would tend to lease out their properties instead of selling them. The leasing sector is therefore expected to perform strongly, based on sustained supply and demand levels. Home rents are set to increase 10–15% next year.

RETAIL

The implementation of Quantitative Easing (QE3) in the US and the new tightening measures in the local residential market continued to help shore up the retail property investment sector last month.

Several major transactions were recorded in both core and non-core districts, with foreign and local institutional investors actively acquiring quality retail properties for long-term investment.

Cubus, a 68,000-sq-ft Ginza-type building in Causeway Bay, was reportedly sold to a southeast Asian fund for around HK\$1,500 million. Meanwhile, nine units totaling 4,521 sq ft on the ground floor of Argyle Centre Phase 1 in Mong Kok were reportedly sold for HK\$415 million or HK\$91,793 per sq ft.

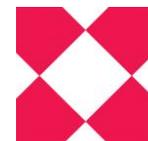
On the supply side, Soundwill Plaza II-Midtown in Causeway Bay commenced pre-lease activity in November. The 216,865-sq-ft shopping centre is expected to be completed in the third quarter of 2013. Meanwhile, renovation work began in Discovery Park Shopping Centre in Tsuen Wan and is scheduled for completion by 2015. The four-phase renovation of this 600,000-sq-ft retail development aims to restructure the tenant mix and enhance the positioning of the centre.

Over the first ten months of 2012, visitor arrivals to Hong Kong grew over 15%, reaching 28.4 million. The number of Mainland tourist arrivals surged 23.8%, year on year, to 20.4 million, representing 71.7% of total tourist arrivals. The sustained growth in tourism continued to support local retail businesses and retail sales value grew 9.9%, year on year, to around HK\$362 billion during the ten-month period.

International brands continued to enter or expand in Hong Kong. Burberry (BRBY.LSS) launched its first flagship store in Hong Kong, taking up a 21,500-sq-ft space in Pacific Place in Admiralty. Meanwhile, Gap opened its first pop-up store in Harbour City, Tsim Sha Tsui, and will launch a 16,500-sq-ft flagship store in the same shopping mall by the end of the year.

Looking ahead, we expect international brands to continue expanding and tourist arrivals to continue contributing significantly to Hong Kong's retail sales market. Given the limited supply of prime retail space, we maintain our forecast that retail rents in prime locations will rise 8–10% in the coming year.

“International brands continued to push up retail rents in prime shopping locations.”



PRIME OFFICE

Interests in office properties showed no signs of abating over the past month.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Central	World-wide House	Mid-low floor	16,693	\$400	\$23,962
Wan Chai	The Sun's Group Centre	30 th floor	7,388	\$119	\$16,107
Kwun Tong	Rykadan Capital Tower	28 th floor	12,024	\$122.44	\$10,183
Kwun Tong	King Palace Plaza	27 th floor	12,682	\$122.38	\$9,650
Kwai Chung	Kowloon Commerce Centre	Tower B / 13 th floor	24,959	\$197	\$7,893

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

Leasing activity continued to lag behind that of sales last month.

Table 3 Selected office leasing transactions				
District	Building	Tower / floor / unit	Area (sq ft)	Tenant
Central	Two IFC	36 th floor / units 3602-08	10,000	Vision Century Corporation Ltd
Central	CCB Tower	One floor	7,400	Westpac Bank Corp.
Causeway Bay	Times Square	Tower 2 / 18 th floor	19,500	Apple Inc.
Kowloon Bay	One Kowloon	17 th and 27 th floors	46,000	Shiseido

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

December 2012

HONG KONG MONTHLY

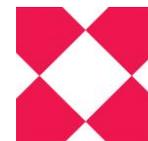
The overall office rents continued to fall last month, but the pace slowed.

Table 4 Month-on-month movement of Grade-A office rents (Nov 2012)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

The average Grade-A office rent in Hong Kong fell another 0.2% in November, after dropping 6.6% in the previous ten months.

Table 5 Prime office market indicators (Nov 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Oct 12	From Aug 12	From Nov 11		From Oct 12	From Aug 12	From Nov 11
Premium Central	\$137.7	1.1%	0.7%	-18.8%	n/a	n/a	n/a	n/a
Traditional Central	\$104.5	-2.1%	-2.7%	-19.4%	\$27,252	0.6%	2.5%	13.4%
Admiralty	\$81.3	-1.2%	-1.9%	-7.9%	\$21,736	0.8%	7.3%	17.2%
Sheung Wan	\$59.2	-1.8%	-1.7%	-5.1%	\$20,252	1.4%	4.6%	25.3%
Wan Chai	\$62.3	0.1%	-0.2%	-7.2%	\$17,556	1.7%	6.0%	28.9%
Causeway Bay	\$64.1	-2.4%	-2.9%	-1.9%	\$17,417	2.9%	10.8%	28.3%
North Point	\$38.3	3.3%	5.8%	3.1%	n/a	n/a	n/a	n/a
Quarry Bay	\$47.2	1.9%	0.6%	-8.6%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$52.4	1.2%	3.5%	9.0%	\$12,020	0.6%	3.4%	8.2%
Cheung Sha Wan	\$24.7	2.8%	2.8%	10.7%	n/a	n/a	n/a	n/a
Hung Hom	\$33.9	2.5%	5.8%	14.2%	n/a	n/a	n/a	n/a
Kowloon East	\$35.6	1.1%	2.5%	7.8%	n/a	n/a	n/a	n/a
Mong Kok / Yau Ma Tei	\$49.4	0.0%	2.9%	1.3%	n/a	n/a	n/a	n/a

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



RESIDENTIAL

A number of major residential sales transactions were recorded in Mid-Levels last month.

Table 6
Selected residential sales transactions

District	Building	Tower / floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Mid-Levels East	Opus Hong Kong	9 th floor	6,683	\$455	\$68,083
Pokfulam	Residence Bel-Air South Tower	Top floors / duplex A	2,903	\$82.5	\$28,419
Mid-Levels Central	Grenville House	Tower J / 5 th floor	3,700	\$100	\$27,027
Mid-Levels Central	Dynasty Court	Tower 1 / 3 rd floor / unit A	2,691	\$67.5	\$25,084
Island South	Hong Kong Parkview	Tower 9 / 2 nd floor / unit 57	2,620	\$45.9	\$17,519

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

Residential leasing remained active in November, with a number of major deals recorded on the Peak and in Island South.

Table 7
Selected residential leasing transactions

District	Building	Tower / floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
The Peak	King's Court	House	3,165	\$248,000	\$78.4
Island South	Burnside Estates	House	2,784	\$175,000	\$62.9
The Peak	Carolina Garden	Low floor/ unit C2	2,800	\$170,000	\$60.7
Pokfulam	Bel-Air Rise	House	4,645	\$240,000	\$51.7
Island South	Regalia Bay	House A6	4,212	\$150,000	\$35.6

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

December 2012

HONG KONG MONTHLY

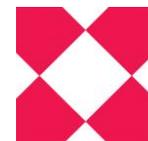
Residential rents increased slightly in four of the five major luxury districts.

Table 8 Month-on-month movement of luxury residential rents (Nov 2012)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

Both luxury residential prices and rents grew 0.2%, month on month, in November.

Table 9 Luxury residential market indicators (Nov 2012)								
District	Net effective rent HK\$psf/ mth	Change			Price HK\$psf	Change		
		From Oct 12	From Aug 12	From Nov 11		From Oct 12	From Aug 12	From Nov 11
The Peak	\$58.6	0.2%	-1.4%	-8.2%	\$23,660	0.0%	0.0%	0.0%
Mid-Levels	\$42.6	0.2%	-0.3%	-10.8%	\$21,466	0.3%	1.9%	8.3%
Pokfulam	\$30.4	0.3%	-1.1%	-6.4%	\$18,682	0.0%	0.3%	16.9%
Jardine's Lookout & Happy Valley	\$40.1	0.7%	-0.3%	-1.2%	\$19,736	1.5%	4.0%	10.0%
Island South	\$42.5	-0.6%	-0.9%	-12.5%	\$25,844	0.0%	3.7%	11.2%

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



RETAIL

In November, the retail property investment market recorded a number of major transactions in both core and non-core retail areas.

Table 10
Selected retail sales transactions

District	Building	Floor / unit	Area (sq ft)	Price (HK\$M)	Price (HK\$psf)
Wan Chai	Pao Woo Mansion	Ground floor / unit 1	427	\$46.8	\$109,602
Quarry Bay	Kam Shan Building	Ground floor / unit 102 1B	242	\$42.88	\$177,190
Mong Kok	Bijou Court	Ground floor / unit 4	159	\$26.1	\$164,151
Wan Chai	Valiant Court	Ground floor / unit 2	127	\$17	\$133,858
Mong Kok	Sincere Plaza	1 st floor / unit 97	56	\$6.25	\$111,607

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

Most retail leasing activity in November focused on non-core areas and secondary streets in core areas.

Table 11
Selected retail leasing transactions

District	Building	Floor / unit	Area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$psf)
Mong Kok	Sun Kong House	Ground floor / unit 4	801	\$446,800	\$557.8
Wan Chai	Hong Kong Building	Ground floor / unit A	517	\$115,000	\$222.4
Central	Grand Progress Building	Ground floor / units A-B	2,060	\$426,520	\$206.9
Central	Lyndhurst Tower	LG floor / unit 1	626	\$125,000	\$199.7
Shatin	Kam Cheong Building	Ground floor / unit D1	693	\$110,000	\$158.7

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

Of the four major retail areas in Hong Kong, three recorded stable retail rents during November.

Table 12 Month-on-month movement of prime street shop rents (November 2012)			
Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

In October, the value of retail sales registered a moderate year-on-year growth of 4.0%, amounting to HK\$35.6 billion.

Table 13 Retail sales by outlet type (Oct 2012)					
Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Sep 12	From Jul 12	From Oct 11
Jewellery, watches and clocks and valuable gifts	\$7.5	21.1%	5.3%	-4.9%	-3.0%
Clothing, footwear and allied products	\$4.7	13.3%	20.6%	-4.0%	0.7%
Department stores	\$3.4	9.7%	10.3%	3.0%	5.5%
Fuel	\$0.9	2.4%	-4.8%	6.4%	2.6%
Food, alcoholic drinks and tobacco excluding supermarkets)	\$3.0	8.4%	-17.6%	22.3%	-0.5%
Consumer durable goods	\$6.1	17.3%	1.2%	-8.1%	13.1%
Supermarkets	\$3.8	10.8%	-2.8%	-2.3%	5.7%
Others	\$6.1	17.0%	12.6%	-7.0%	8.3%
All retail outlets	\$35.6	100.0%	4.3%	-2.7%	4.0%

Source: Census and Statistics Department



Americas

Bermuda
Brazil
Canada
Caribbean
Chile
USA

Australasia

Australia
New Zealand

Europe

Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

Bahrain
Cambodia
China
Hong Kong
India
Indonesia
Korea
Macau
Malaysia
Singapore
Thailand
Vietnam

Contacts

Alan Child

Executive Chairman
+852 2846 9522
alan.child@hk.knightfrank.com

Colin Fitzgerald

Managing Director
+852 2846 4848
colin.fitzgerald@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

Paul Hart

Executive Director
+852 2846 9537
paul.hart@hk.knightfrank.com

China Valuation

Clement Leung
Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

Commercial Agency

Colin Fitzgerald

Managing Director
+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

Thomas Lam

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

Pamela Tsui

Senior Manager
+852 2846 4843
pamela.tsui@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

Our worldwide research reports are also available at KnightFrank.com.

© Knight Frank 2012

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.