

RESEARCH



January 2013

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

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## OFFICE

Downward pressure on  
Central rents eases

## RESIDENTIAL

Cooling policies curb  
transactions, but not prices

## RETAIL

Shop rents rise further  
alongside retail 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<br>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                               | Nov 2012     | +3.7%          | +2.4% | +5.3% | +3.4%         |
| Unemployment                                 | Sep-Nov 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**

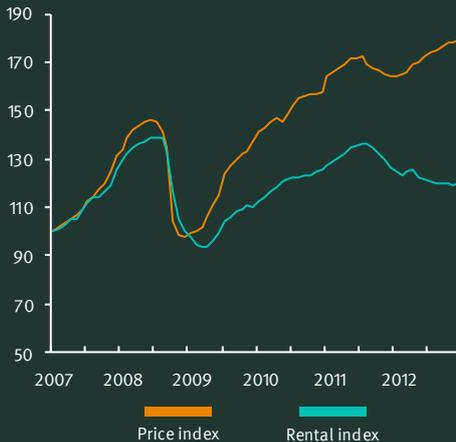
Jan 2007 = 100



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 tightening measures on the property market continued to suppress residential sales volume, but home prices remained stable. Sentiment in the retail and office sales markets sustained, with the continual influx of capital shifting over from the residential sector. In the leasing market, the retail sector continued to outperform, while residential leasing was quiet during the traditionally slow season and office leasing remained sluggish with demand being low.**

## PRIME OFFICE

The Grade-A office leasing market was quiet in the traditionally slow season of December in 2012. There were few headline-grabbing leasing deals and most deals involved lease renewals or relatively small premises.

Vacant space in Central continued to be absorbed in a market where relatively low rents were being asked. A US bank, for example, reportedly committed to seven floors totaling 150,000 sq ft in Cheung Kong Center—one of the largest deals of the year. A German bank, meanwhile, renewed the lease of its 22,000-sq-ft office in Two IFC.

Retailers continued to expand their offices. American boat paint supplier Interlux took a 10,000-sq-ft mid floor at 633 King's Road in Quarry Bay, while a data centre expanded its office in Central Plaza, Wan Chai, lifting the total amount of space taken in the building to about 15,000 sq ft.

While the office leasing market was relatively quiet, the office sales sector remained heated last month. Seven floors covering a total of 196,000 sq ft in Exchange Tower in Kowloon Bay, along with 30 car-parking spaces, were sold for about HK\$1.57 billion or

HK\$8,000 per sq ft. Meanwhile, two mid-floor units totaling 3,900 sq ft in Bank of America Tower in Central were snapped up for about HK\$103 million or HK\$26,560 per sq ft.

2012 was not the best year for Hong Kong's office leasing market, particularly for Central, as the corporate sector was clouded by the slow world economy. While leasing demand needs more time to recover, we believe the downward pressure on Central rents will ease in 2013, after having fallen 14.6% in 2012.

An increasing number of office buildings in Central saw satisfactory take-up rates in the past few months. Moreover, Grade-A office supply in the area is tipped to remain limited in the foreseeable future, especially after the call-off of the former Central Government Offices redevelopment following its Grade One Historic Building classification. We therefore believe CBD rents will fall no more than 5% in 2013. Meanwhile, rents in non-core districts should rise about 5%, with Kowloon East likely to see 10–15% growth.

## RESIDENTIAL

Sentiment in the residential market remained sluggish after the

“We believe rent correction in Central will be limited to 5% in 2013.”

“Potential homebuyers have started to digest the impact of the government's cooling policies and return to the market.”

reinforcement of the Buyer's Stamp Duty and Special Stamp Duty towards the end of last year. Residential sales volume plunged 53.3% in December 2012 to 3,286—the lowest monthly level in the year. However, due to low interest rates, an inflationary environment and the strong financial position of landlords, sales involving significant price-cuts or losses were scarce. Luxury residential prices remained stable last month, while mass residential prices increased 1.2%. Over 2012, the number of residential transactions dropped 3.7% year on year to 81,333. Their total consideration, however, increased 2.2% to HK\$452 billion, with price rises over the year of 2.7% in the luxury market and 23.0% in the mass market.

Having adopted a wait-and-see attitude for nearly two months, potential homebuyers appeared to have digested the impact of the cooling policies and started to return to the market. Developers also started to regain momentum in launching new projects. In December, High Place in Kowloon City and The Wings II in Tseung Kwan O, developed by Henderson Land (0012.HK) and Sun Hung Kai Properties (0016.HK) respectively, were launched with promotional packages to boost demand. In the first few hours of release, all the 50 units launched in The Wings II were sold out for an average of HK\$10,688 per sq ft—far lower than market expectation. Car-parking spaces worth HK\$1.38 million apiece were offered to buyers for free.

The residential sales market was also heated up by the launch of Greenview Villa in Tsing Yi, a subsidised housing project developed by the Hong Kong Housing Society (HKHS). Originally planned as a Rent-to-buy Scheme project by the previous government, Greenview Villa has since reverted to a Home Ownership Scheme (HOS) project at prices 30% lower than market rate, to help people climb the property ladder. More than 20,000

applications were received for the 1,000 available units in the first two weeks of subscription.

The leasing market remained stable in December, a traditionally quiet season. With business expansion by international corporations slowing and demand from expatriates weakening, rents in the luxury market dropped 6.7% over 2012. However, rents in the mass market grew 17.5% last year, as some potential homebuyers shifted to the leasing market amid uncertain conditions in the sales sector.

To meet housing demand, the Chief Executive is expected to announce further measures in his first Policy Address on 16 January 2013. However, supply is still expected to lag behind demand in the short to medium term. We therefore expect residential prices to remain stable in 2013, with only minor corrections.

## RETAIL

In November 2012, the retail sales value climbed 9.5% year on year to reach a four-month high of HK\$36.5 billion, beating analysts' earlier estimation of 4.4%. Notably, the sales value of 'Jewellery, watches, clocks and valuable gifts' experienced a strong surge, rebounding 13.7% year on year, after falling about 3% in October. This reflected a significant improvement in consumer sentiment.

Brisk retail activity continued to encourage business expansion, with international retailers continuing to dominate prime retail space, due to their high tolerance of increasing rents. According to market news, Hugo Boss leased a 24,000-sq-ft shop in Central Building, Central, while in the same district, a 3,000-sq-ft unit on the ground floor of Wheelock House was reportedly leased by Italian menswear brand Canali for HK\$3 million per month.

With greater policy risks in the

residential property market, capital continued to flow into the retail investment sector. Retail space totaling 61,347 sq ft attached to the residential development Florient Rise in Tai Kok Tsui was sold to a local investor for HK\$630 million or HK\$10,269 per sq ft. Meanwhile, strata-title sales of retail space in Ginza-type commercial buildings were also robust last month. All shops in H8 in Tsim Sha Tsui, for example, were sold in December for HK\$16,300–20,000 per sq ft, less than a month after it was acquired en bloc. Due to limited investment channels and strong liquidity, sentiment in the retail investment market is expected to remain strong in the near future.

Early December saw the official opening of the 485,000-sq-ft Domain Shopping Centre, strategically located adjoining Yau Tong MTR station and the first major centre in the area. Domain has attracted a number of quality tenants including Supa Depa, a new lifestyle department store developed by A.S. Watson; the first J+ from Jumping Gym and a 20,000-sq-ft food court on the top level developed by Food Republic.

Over 2012, prime retail rents grew about 10%, while capital values surged more than 30%, given the tight supply. In 2013, we maintain our positive outlook for the retail sector and expect rents in prime retail areas to increase another 10–15%.

“Rents in prime retail areas are expected to rise another 10-15% in 2013.”



# PRIME OFFICE

Sentiment in the office sales sector remained heated over the past month.

| Table 2<br>Selected office sales transactions |                       |                            |                    |               |                  |
|---|-----------------------|----------------------------|--------------------|---------------|------------------|
| District                                      | Building              | Tower / floor / unit       | Gross area (sq ft) | Price (HK\$M) | Price (HK\$ psf) |
| <b>Kowloon Bay</b>                            | Exchange Tower        | 16th-22nd floors           | 196,000            | \$1,567       | \$7,995          |
| <b>Tsim Sha Tsui</b>                          | Metropole Building    | 8th-15th floors            | 22,000             | \$280         | \$12,727         |
| <b>Kwun Tong</b>                              | Rykadan Capital Tower | 11th floor                 | 12,060             | \$128         | \$10,614         |
| <b>Central</b>                                | Bank of America Tower | 32nd floor / units A2A-A2B | 3,878              | \$103         | \$26,560         |
| <b>Central</b>                                | Silver Fortune Plaza  | 10th floor                 | 4,397              | \$72.55       | \$16,500         |

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

Retailers continued to expand their offices in the city.

| Table 3<br>Selected office leasing transactions |                    |                                   |                    |                |
|---|--------------------|-----------------------------------|--------------------|----------------|
| District  | Building           | Tower / floor / unit              | Gross area (sq ft) | Tenant         |
| <b>Central</b>                                  | Cheung Kong Center | Total 7 floors                    | 150,000            | A US bank      |
| <b>Central</b>                                  | Two IFC            | 29th floor / units 1-14 and 16-17 | 22,000             | Commerzbank AG |
| <b>Quarry Bay</b>                               | 633 King's Road    | 20th floor                        | 10,000             | Interlux       |
| <b>Wan Chai</b>                                 | Central Plaza      | 53rd floor                        | 7,000              | Equinix        |

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

Downward pressure on Central rents will ease in 2013, after having fallen 14.6% in 2012.

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

Grade-A office supply in the CBD is tipped to remain limited in the foreseeable future, especially after the call-off of the former Central Government Offices redevelopment.

| Table 5<br>Prime office market indicators (Dec 2012) |                                       |             |             |             |                   |             |             |             |
|--|---------------------------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|
| District   | Net effective rent<br>HK\$psf/<br>mth | Change      |             |             | Price<br>HK\$ psf | Change      |             |             |
|  |                                       | From Nov 12 | From Sep 12 | From Dec 11 |                   | From Nov 12 | From Sep 12 | From Dec 11 |
| Premium Central                                      | 137.7                                 | -0.0%       | 0.9%        | -15.5%      | n/a               | n/a         | n/a         | n/a         |
| Traditional Central                                  | 105.1                                 | 0.6%        | -1.9%       | -14.0%      | 27,470            | 0.8%        | 2.7%        | 14.3%       |
| Admiralty  | 79.4                                  | -2.3%       | -4.2%       | -7.9%       | 22,183            | 2.1%        | 5.2%        | 19.7%       |
| Sheung Wan   | 59.2                                  | 0.0%        | -1.3%       | -5.1%       | 20,836            | 2.9%        | 7.0%        | 28.9%       |
| Wan Chai   | 62.3                                  | 0.0%        | -0.2%       | -7.2%       | 18,157            | 3.4%        | 7.2%        | 33.4%       |
| Causeway Bay   | 64.2                                  | 0.2%        | -2.6%       | -1.8%       | 17,886            | 2.7%        | 11.8%       | 31.8%       |
| North Point  | 38.3                                  | 0.0%        | 3.7%        | 3.1%        | n/a               | n/a         | n/a         | n/a         |
| Quarry Bay   | 47.2                                  | 0.0%        | 1.5%        | -8.6%       | n/a               | n/a         | n/a         | n/a         |
| Tsim Sha Tsui  | 52.8                                  | 0.7%        | 2.1%        | 9.6%        | 12,143            | 1.0%        | 3.0%        | 11.5%       |
| Cheung Sha Wan                                       | 24.7                                  | 0.0%        | 2.8%        | 10.7%       | n/a               | n/a         | n/a         | n/a         |
| Hung Hom   | 33.9                                  | 0.0%        | 3.6%        | 14.2%       | n/a               | n/a         | n/a         | n/a         |
| Kowloon East   | 35.6                                  | 0.0%        | 1.1%        | 7.8%        | n/a               | n/a         | n/a         | n/a         |
| Mong Kok / Yau Ma Tei                                | 49.4                                  | 0.0%        | 0.0%        | 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 sales transactions were recorded in Mid-Levels and Island South last month.

| Table 6<br>Selected residential sales transactions |                 |                               |                      |               |                  |
|--|-----------------|-------------------------------|----------------------|---------------|------------------|
| District   | Building        | Tower / floor / unit          | Salable area (sq ft) | Price (HK\$M) | Price (HK\$ psf) |
| <b>Island South</b>                                | Shouson Peak    | House 17F                     | 3,043                | \$211         | \$69,399         |
| <b>Mid-Levels East</b>                             | Chantilly       | 2nd floor / unit A            | 2,816                | \$122         | \$43,324         |
| <b>Tsim Sha Tsui</b>                               | The Harbourside | Tower 2 / 60th floor / unit B | 1,153                | \$45          | \$39,029         |
| <b>Island South</b>                                | Brentwood       | 7th floor / unit B            | 1,135                | \$33.9        | \$29,850         |
| <b>Mid-Levels Central</b>                          | Estoril Court   | Tower 1 / 24th floor / unit A | 2,945                | \$75          | \$25,467         |

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

With business expansion slowing and demand from expatriates weakening, sentiment in the luxury home leasing market remained gloomy.

| Table 7<br>Selected residential leasing transactions |                    |                               |                      |                     |                         |
|--|--------------------|-------------------------------|----------------------|---------------------|-------------------------|
| District   | Building           | Tower / floor / unit          | Salable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ psf) |
| <b>Mid-Levels West</b>                               | Azura              | High floor / unit A           | 1,297                | \$88,000            | \$67.8                  |
| <b>Island South</b>                                  | The Somerset       | Low floor / unit B            | 2,463                | \$130,000           | \$52.8                  |
| <b>Pokfulam</b>                                      | The Belcher's      | Tower 6 / high floor / unit G | 1,121                | \$49,000            | \$43.7                  |
| <b>The Peak</b>                                      | 1-3 Pollock's Path | Low floor unit                | 1,872                | \$85,000            | \$45.4                  |
| <b>The Peak</b>                                      | La Hacienda        | Low floor / unit B            | 2,643                | \$110,000           | \$42.6                  |

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

Residential rents increased slightly in three of the five major luxury districts last month.

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

Although the sales volume of luxury homes worth HK\$10 million or above dropped 62.7% month on month, their prices remained stable in December 2012.

| Table 9<br>Luxury residential market indicators (Dec 2012) |                                       |             |             |             |                  |             |             |             |
|--|---------------------------------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|
| District   | Net effective rent<br>HK\$psf/<br>mth | Change      |             |             | Price<br>HK\$psf | Change      |             |             |
|  |                                       | From Nov 12 | From Sep 12 | From Dec 11 |                  | From Nov 12 | From Sep 12 | From Dec 11 |
| <b>The Peak</b>  | \$58.6                                | 0.3%        | -0.1%       | -5.5%       | \$23,660         | 0.0%        | 0.0%        | 0.0%        |
| <b>Mid-Levels</b>  | \$42.4                                | -0.5%       | -1.0%       | -8.4%       | \$21,502         | 0.2%        | 1.3%        | 9.5%        |
| <b>Pokfulam</b>  | \$30.7                                | 0.9%        | -0.4%       | -1.9%       | \$18,682         | 0.0%        | 0.0%        | 16.4%       |
| <b>Jardine's Lookout &amp; Happy Valley</b>                | \$40.9                                | 1.9%        | 2.0%        | 1.3%        | \$19,935         | 1.0%        | 3.0%        | 12.3%       |
| <b>Island South</b>  | \$42.3                                | -0.5%       | -1.2%       | -10.9%      | \$25,844         | 0.0%        | 2.7%        | 12.1%       |

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



# RETAIL

Capital from the residential market continued to flow into the retail investment sector in December 2012.

| Table 10<br>Selected retail sales transactions |                    |                          |                    |               |                  |
|--|--------------------|--------------------------|--------------------|---------------|------------------|
| District                                       | Building           | Floor / unit             | Gross area (sq ft) | Price (HK\$M) | Price (HK\$ psf) |
| <b>Mong Kok</b>                                | Sincere Plaza      | First floor / unit F60   | 57 (Net)           | \$11.88       | \$208,421        |
| <b>Tsim Sha Tsui</b>                           | Century House      | Ground floor / units 25  | 56                 | \$7.28        | \$130,000        |
| <b>Mong Kok</b>                                | New Town Mall      | Ground floor / unit G26A | 4,521              | \$415         | \$91,794         |
| <b>Kowloon City</b>                            | Fook Hing Building | Ground floor / units 3-5 | 2,100              | \$110         | \$52,381         |
| <b>Tai Kok Tsui</b>                            | Floriant Rise      | En bloc                  | 61,347             | \$630         | \$10,269         |

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

In December 2012, shop leasing activity was relatively robust in non-core retail areas.

| Table 11<br>Selected retail leasing transactions |                  |                       |                  |                     |                         |
|--|------------------|-----------------------|------------------|---------------------|-------------------------|
| District   | Building         | Floor / unit          | Net area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ psf) |
| <b>Sheung Shui</b>                               | Lung Fung Plaza  | First floor / unit 1  | 327              | \$130,000           | \$397.6                 |
| <b>Causeway Bay</b>                              | Pun Tak Building | Ground floor / unit F | 598              | \$180,000           | \$301.0                 |
| <b>Kwun Tong</b>                                 | Wah On House     | Ground floor / unit Y | 515              | \$139,800           | \$271.5                 |
| <b>Yuen Long</b>                                 | Kin Wah Building | Ground floor / unit G | 468              | \$82,000            | \$175.2                 |
| <b>Yuen Long</b>                                 | Fu Ho Building   | First floor           | 5,955            | \$600,000           | \$100.8                 |

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

Last month, retail rents remained stable in Causeway Bay and Tsim Sha Tsui, while Central and Mong Kok saw retail-rent growth.

In November 2012, retail sales saw a robust rebound. Retail sales value grew 9.5% year on year to HK\$36.5 billion, beating analysts' earlier estimation.

Table 12  
Month-on-month movement of prime street shop rents (Dec 2012)

| Central   | Causeway Bay  | Tsim Sha Tsui   | Mong Kok  |
|---|---|---|---|
|  |  |  |  |

Table 13  
Retail sales by outlet type (Nov 2012)

| Outlet  | Value<br>(HK\$ billion) | Share of total<br>% | Change         |                |                |
|---|-------------------------|---------------------|----------------|----------------|----------------|
|   |                         |                     | From<br>Oct 12 | From<br>Aug 12 | From<br>Nov 11 |
| Jewellery, watches and clocks and valuable gifts            | \$7.9                   | 21.5%               | 4.6%           | 3.1%           | 13.7%          |
| Clothing, footwear and allied products                      | \$4.7                   | 12.8%               | -1.0%          | 8.5%           | 8.1%           |
| Department stores   | \$4.4                   | 12%                 | 28.1%          | 29%            | 10.9%          |
| Fuel  | \$0.8                   | 2.3%                | -4.6%          | -7.6%          | -0.7%          |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | \$2.8                   | 7.7%                | -5.9%          | 0.9%           | 2.0%           |
| Consumer durable goods                                      | \$6.2                   | 17.1%               | 2.6%           | -3.8%          | 9.9%           |
| Supermarkets  | \$3.7                   | 10.2%               | -2.4%          | -6.6%          | 9.2%           |
| Others  | \$5.9                   | 16.3%               | -1.8%          | -5.3%          | 9.2%           |
| <b>All retail outlets</b>                                   | <b>\$36.5</b>           | <b>100.0%</b>       | <b>2.8%</b>    | <b>2.0%</b>    | <b>9.5%</b>    |

Source: Census and Statistics Department



## Americas

Bermuda  
Brazil  
Canada  
Caribbean  
Chile  
USA

## Australasia

Australia  
New Zealand

## Europe

Belgium  
Czech Republic  
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