

RESEARCH

May 2013

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

## Office

Both sales and  
leasing sectors quiet

## Residential

Primary sales surge before  
ordinance implementation

## Retail

Decreased tourist spending  
limits retail sales growth



# 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	2011	2012	2013 forecast
GDP growth	Q4 2012	+2.5%	+4.9%	+1.4%	+3.0%
Inflation rate	Mar 2013	+3.6%	+5.3%	+4.1%	+4.4%
Unemployment	Jan 2013–Mar 2013	3.5%#	3.4%	3.1%	3.2%
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 primary residential market outperformed last month, with developers actively selling remaining units before the implementation of a new ordinance regulating primary sales. Meanwhile, both the Grade-A office sales and leasing sectors were sluggish, due to economic uncertainty and various cooling measures. Growth in retail property rents was also suppressed, following a decrease in tourist spending.**

## PRIME OFFICE

Over the past month, Hong Kong's office sales market continued to be clouded by the implementation of the Double Stamp Duty. Grade-A office prices in all major business districts saw a mild consolidation of 1–2% last month, as vendors lowered their asking prices by significant amounts to secure deals.

While investors generally remained cautious, there were signs of recovery in demand from end users. Manulife bought the entire West Block of Wheelock's One Bay East in Kwun Tong for HK\$4.5 billion or HK\$8,789 per sq ft, a total of 512,000 sq ft and the largest office purchase in Kowloon to date. The property will serve as headquarters for Manulife's Hong Kong operations.

Other major Grade-A office sales transactions last month involved small floor plates. For example, over 7,000 sq ft of space was sold on the 43<sup>rd</sup> floor of Convention Plaza Office Tower in Wan Chai for HK\$29,485 per sq ft.

The leasing sector also remained quiet last month, with the local economy continuing to be affected by external uncertainty and demand largely involving relocations rather than expansions. The low level of activity was also due to a lack of

available space in all major business districts. Landlords were under no pressure to lease, while potential tenants had to spend more time searching for suitable spaces, with choices being limited.

Major leasing deals over the month included a 16,065-sq-ft, mid-level floor in Hysan Place in Causeway Bay, which was reportedly taken up by a financial institution. Most leasing transactions reportedly involved small floor plates, including one involving two high-floor units totaling 4,400 sq ft at The Center in Central.

Grade-A office rents in Central have bottomed out, with rents having risen 1.8% in April—the largest month-on-month increase since March 2011. With vacancy levels remaining at a low level of about 4.5%, we believe Central Grade-A office rents will remain stable in 2013. Meanwhile, the landmark en-bloc transaction in Kowloon East last month underlines solid office demand in that district. We maintain our view that rents in Kowloon East are likely to see 10–15% growth over the year.

## RESIDENTIAL

The Residential Properties (First-hand Sales) Ordinance came into effect on 29 April. As the name suggests, the ordinance mainly applies to the sale

**“The office sales market continued to be clouded by the implementation of the Double Stamp Duty.”**

**“With the new ordinance and various other policies coming into effect, we believe there will be a drop in activity in both the primary and secondary residential markets in the coming few months.”**

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of primary residential property and sets out detailed requirements in seven areas: sales brochures; price lists; show flats; disclosure of transaction information; advertisements; sales arrangements and the mandatory provisions for Preliminary Agreement for Sale and Purchase as well as Agreement for Sale and Purchase. Moreover, it prohibits the misrepresentation and dissemination of false or misleading information.

Before the implementation of the ordinance, most developers attempted to offer aggressive discounts and beneficiary packages in a bid to sell remaining units, as they would require to renew all sales materials once the new ordinance came into effect. According to market news, about ten residential projects successfully cleared all stock before the new ordinance came into effect.

However, after the ordinance was implemented, only two developments—Green Code in Fanling and Dunbar Place in Ho Man Tin—have obtained approval for their sales arrangements. Therefore, only 331 new flats (278 at Green Code and 53 at Dunbar Place) have become available for sale so far. Major developers have the resources to comply with the new rules. However, small to medium-sized developers will wait to see how the market reacts before following suit. Therefore, we expect the primary market to enter a “window period”, as developers slow their pace in launching new projects and remaining units in primary projects. Consequently, we expect only limited primary residential properties will be launched in the next few months.

With focus shifting towards the primary property market and continual impact from various stamp duty policies, the secondary market remained quiet in April. Luxury residential prices fell 2.2% month on

month—the largest drop since August 2010. In the mass residential market, although landlords became more willing to negotiate, sentiment remained gloomy, as buyers were adopting a wait-and-see attitude, hoping to buy at bargain prices.

Due to the various stamp duty policies which targeted to suppress investment and speculation demand, now the market is more dominated by end-users, but their purchasing power has been largely absorbed due to developers’ active clearance of remaining units before the ordinance’s implementation. The market needs some time to recover and accumulate purchasing power again.

With the new ordinance coming into effect as well as various new policies, we believe there will be a drop in activity in both the primary and secondary markets in the coming few months. We estimate the volume of residential transactions will fall about 10% this year, with mass residential prices dropping around 10% and the more resilient luxury sector falling 5% in 2013.

### RETAIL

For the first quarter of 2013, the value of retail sales in Hong Kong rose 13.9% year on year, a slower pace compared with a rise of 15.8% over the same period in the previous year. The slowdown was attributed to cautious consumption caused by the weakened external economy and also to the fact that the majority of Mainland visitors became mid-end consumers from second or third-tier cities with lower consumption power.

As a result, the growth in spending of Mainland visitors lagged that of their arrival number. In March 2013, the retail sales value increased 9.8% year on year, while the annual growth in Mainland visitor arrivals reached 13.8% over the same period. The growth in mid-end consumers boosted demand for mid-end,

branded apparel and accessories. This trend fuelled expansion activity and the debut of a number of international mid-end retailers in Hong Kong.

Uniqlo, for example, plans to open six more stores in Hong Kong, following the launch of its 37,500-sq-ft flagship store in Lee Theatre Plaza, Causeway Bay last month. Two of the new stores will open this summer in Tuen Mun and Tseung Kwan O. Meanwhile, two established American brands—UGG and Victoria’s Secret—made their Hong Kong debuts last month. Apparel retailer UGG opened a flagship store in Yiu Wa Street in Causeway Bay, while Victoria’s Secret launched a 1,500-sq-ft store in IFC mall in Central. The lingerie brand will open a second 1,500-sq-ft store in New Town Plaza, Sha Tin.

May Day Golden Week started at the end of April this year and the total number of Mainland arrivals on 29-30 April increased 13% from last year, implying that the buoyant state of inbound tourism should continue. Despite this, the value of local retail sales is expected to see a more moderate increase of 5–8% over 2013, due to the decrease in expenditure of Mainland visitors.

The decline in expenditure on luxury items and the slowing growth in local retail sales will limit rental growth in prime districts. However, rental growth is still expected to reach about 5% in 2013, due to the limited supply of prime street shops.

**“The retail sales value is expected to see a more moderate increase of 5–8% over 2013, due to the decrease in expenditure of Mainland visitors.”**

# PRIME OFFICE

One office building was sold en bloc, despite higher costs imposed by the new stamp duties.

Table 2 Selected office sales transactions					
District	Building	Tower / floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Kwun Tong</b>	One Bay East West Tower Manulife Tower	En bloc	512,000	\$4,500	\$8,789
<b>Wan Chai</b>	Convention Plaza Office Tower	43 <sup>rd</sup> floor / units 1-3	7,857	\$231.664	\$29,485
<b>Admiralty</b>	Lippo Centre	Tower 2 / 26 <sup>th</sup> floor / unit 9	1,786	\$36.5	\$20,437
<b>Tsim Sha Tsui</b>	New East Ocean Centre	1 <sup>st</sup> floor / units 8-9	1,711	\$33	\$19,287
<b>Central</b>	Silver Fortune Plaza	11 <sup>th</sup> floor	4,397	\$71	\$16,147
Source: Land Registry / Knight Frank Note: All transactions are subject to confirmation.					






Leasing transactions last month involved mainly small floor plates.

Table 3 Selected office leasing transactions			
District	Building	Tower / floor / unit	Floor area (sq ft)
<b>Tsim Sha Tsui</b>	The Gateway	Tower 6 / 37 <sup>th</sup> floor / units 2-4	4,626
<b>Central</b>	The Center	68 <sup>th</sup> floor / units 10-11	4,432
<b>Central</b>	Nine Queen's Road Central	14 <sup>th</sup> floor / unit 7	3,120 (G)
<b>Admiralty</b>	Lippo Centre	Tower 2 / 4 <sup>th</sup> floor / unit 22	1,097
<b>Admiralty</b>	Admiralty Centre	Tower 2 / 16 <sup>th</sup> floor / unit 6	2,064
Source: Knight Frank Note: All transactions are subject to confirmation.			

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**Grade-A office rents in Central and Admiralty rebounded slightly in April 2013.**

Table 4 Month-on-month movement of Grade-A office rents (Apr 2013)				
Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

**Grade-A office prices in major business districts dropped 1.4% month on month in April 2013.**

Table 5 Prime office market indicators (Apr 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf /mth	From Mar 13	From Jan 13	From Apr 12	HK\$ psf	From Mar 13	From Jan 13	From Apr 12
<b>Premium Central</b>	145.5	2.5%	3.8%	0.0%	n/a	n/a	n/a	n/a
<b>Traditional Central</b>	107.1	1.2%	2.3%	-3.3%	26,958	-1.9%	-1.9%	8.4%
<b>Admiralty</b>	82.6	0.6%	-0.3%	1.0%	22,665	-1.2%	0.2%	20.2%
<b>Sheung Wan</b>	61.9	1.1%	1.1%	1.8%	20,658	-1.4%	-1.4%	24.2%
<b>Wan Chai</b>	62.2	0.1%	-0.7%	-1.7%	18,336	-1.7%	-0.3%	28.0%
<b>Causeway Bay</b>	63.6	-0.9%	-1.1%	-3.1%	17,631	-1.4%	-1.4%	22.3%
<b>North Point</b>	41.3	2.2%	2.1%	14.0%	n/a	n/a	n/a	n/a
<b>Quarry Bay</b>	49.2	-0.3%	-0.1%	1.8%	n/a	n/a	n/a	n/a
<b>Tsim Sha Tsui</b>	53.7	-1.3%	0.7%	9.4%	12,219	-1.1%	-0.3%	12.4%
<b>Cheung Sha Wan</b>	25.3	-3.5%	2.6%	13.6%	n/a	n/a	n/a	n/a
<b>Hung Hom</b>	37.3	-0.9%	4.3%	22.0%	n/a	n/a	n/a	n/a
<b>Kowloon East</b>	38.1	0.1%	6.2%	13.0%	n/a	n/a	n/a	n/a
<b>Mong Kok/ Yau Ma Tei</b>	50.0	-1.0%	-0.7%	4.0%	n/a	n/a	n/a	n/a
Source: Knight Frank Rents and prices are subject to revision.								

# RESIDENTIAL

A number of major luxury residential sales transactions were recorded in Kowloon Tong and Happy Valley last month.

Table 6 Selected residential sales transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Kowloon Tong</b>	15 Cambridge Road	House	7,300	\$333.8	\$45,726
<b>Tsim Sha Tsui</b>	The Harbourside	Tower 3 / 72 <sup>nd</sup> floor / unit A	1,691	\$73	\$43,170
<b>Kowloon Tong</b>	2 Oxford Road	House A	7,690	\$295	\$38,362
<b>Happy Valley</b>	The Leighton Hill	Tower 5 / 22 <sup>nd</sup> floor / unit A	1,742	\$63.9	\$36,670
<b>Happy Valley</b>	Winfield Building	Tower A / 12 <sup>th</sup> floor / unit 2	2,006	\$66.9	\$33,373
Source: Economic Property Research Centre Note: All transactions are subject to confirmation.					

With landlords being more willing to enlarge the room for price negotiation, a few leasing transactions of houses were recorded in the past month.

Table 7 Selected residential leasing transactions					
District	Building	Tower / floor / unit	Salable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>The Peak</b>	74 Mount Kellet Road	House	3,111	\$240,000	\$77.1
<b>Mid-Levels</b>	Aigburth	High floor / unit A	2,119	\$135,000	\$62.7
<b>Island South</b>	Fairwind	House	2,191	\$135,000	\$61.6
<b>Island South</b>	The Redhill Peninsula	House	2,623	\$145,000	\$55.3
Source: Knight Frank Note: All transactions are subject to confirmation.					

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Luxury residential rents dropped in three of the five major luxury districts in April 2013.

Table 8 Month-on-month movement of luxury residential rents (Apr 2013)				
Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

Mid-Levels recorded the largest drop in rentals, while prices in the Peak fell most last month.

Table 9 Luxury residential market indicators (Apr 2013)								
District	Net effective rent	Change			Price	Change		
	HK\$psf/mth	From Mar 13	From Jan 13	From Apr 12	HK\$psf	From Mar 13	From Jan 13	From Apr 12
<b>The Peak</b>	\$58.3	-0.3%	-1.4%	-6.0%	\$22,919	-3.1%	-3.1%	-3.2%
<b>Mid-Levels</b>	\$41.1	-1.7%	-3.0%	-9.7%	\$21,534	-1.7%	-0.6%	8.4%
<b>Pokfulam</b>	\$31.9	0.3%	3.7%	2.2%	\$19,148	-1.6%	0.4%	10.9%
<b>Jardine's Lookout &amp; Happy Valley</b>	\$41.0	-0.4%	0.6%	0.9%	\$20,328	0.0%	1.1%	14.3%
<b>Island South</b>	\$43.0	0.8%	1.3%	-7.1%	\$25,080	-3.0%	-3.0%	3.1%
Source: Knight Frank Rents and prices are subject to revision.								



# RETAIL

Several major retail property sales transactions were recorded in both core and non-core districts last month.

Table 10 Selected retail sales transactions					
District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$M)	Price (HK\$ psf)
<b>Central</b>	Winner Building Block B	Ground floor / unit K	861 (gross)	\$114.98	\$133,542
<b>Kwun Tong</b>	Fu Shing House	Ground floor / unit 3	630 (net)	\$54.68	\$86,794
<b>Ho Man Tin</b>	Tung Nam Mansion	Ground-2 <sup>nd</sup> floors	4,200 (gross)	\$125	\$29,762
<b>Causeway Bay</b>	Shining Building	1 <sup>st</sup> floor	n/a	\$176.91	n/a
<b>Tuen Mun</b>	Far East Consortium Tuen Mun Building	1 <sup>st</sup> -4 <sup>th</sup> floors	n/a	\$100	n/a

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

Wan Chai and Tsim Sha Tsui witnessed several major leasing transactions in April.

Table 11 Selected retail leasing transactions					
District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ psf)
<b>Tsim Sha Tsui</b>	Tsim Sha Tsui Mansion	Ground floor / unit 39	1,005 (net)	\$480,000	\$477.61
<b>Wan Chai</b>	Yau Kwong Building	Ground floor / unit 2C	800	\$260,000	\$325
<b>Kwai Chung</b>	Mai Kwai Mansion	Lower ground floor / unit 1	656	\$200,000	\$304.88
<b>Tsim Sha Tsui</b>	Austin Tower Phase 01	Underground floor / unit 2	622 (net)	\$110,000	\$176.85
<b>Wan Chai</b>	Wah Fat Mansion	Ground floor / unit A	1,640	\$193,000	\$117.68

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

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Retail rents in Central increased in April 2013, while those in other major retail districts remained stable.

For the first quarter of 2013, the value of retail sales in Hong Kong grew 13.9% year on year, a slowdown from a year ago.

Table 12

## Month-on-month movement of prime street shop rents (Apr 2013)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

Table 13

## Retail sales by outlet type (Mar 2013)

Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	From Feb 13	From Dec 12	From Mar 12
Jewellery, watches and clocks and valuable gifts	\$8.7	21.6%	-9.5%	-17.8%	11.2%
Clothing, footwear and allied products	\$5.3	13.2%	-3.8%	-20.9%	13.2%
Department stores	\$3.8	9.5%	-4.8%	-31.3%	19.9%
Fuel	\$0.9	2.2%	21.9%	7.7%	1.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.6	6.6%	-13.9%	-15.5%	-3.8%
Consumer durable goods	\$7.9	19.6%	10.8%	-8.2%	15.3%
Supermarkets	\$3.8	9.5%	-8.2%	-6.4%	5.3%
Others	\$7.1	17.8%	-1.7%	-5.7%	4.8%
<b>All retail outlets</b>	<b>\$40.2</b>	<b>100.0%</b>	<b>-3.1%</b>	<b>-14.5%</b>	<b>9.8%</b>

Source: Census and Statistics Department

**Americas**

Bermuda  
Brazil  
Canada  
Caribbean  
Chile  
USA

Australasia  
Australia  
New Zealand

**Europe**

Belgium  
Czech Republic  
France  
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Hungary  
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