HONG KONG
PROPERTY NEWS AND VIEWS – JUNE 09

New Supply ↔
Rent ↓
Demand ↔
Vacancy Rate ↑

OFFICE SERVICES

Rental market stabilises

The month of June saw much more stability in the Hong Kong market, with an average rental drop across the Island of around 1.6%, the slowest rental decline since the market started falling in October 2008.

Central has again seen the largest percentage drop in rents across the Island of some -2%, although this is an improvement from May figures of -5%, evidence that Central landlords are still willing to be flexible for the right tenant.

Wanchai and Admiralty districts have seen little activity or rental change. Causeway Bay is under increased pressure following the relocation of some major tenants from Manulife Plaza to offices in Kowloon.

Sheung Wan is also under pressure, with the highest vacancy rate on Hong Kong Island; RMJM is among the tenants to have vacated the district recently. Island East has been the only district that continued to outperform the rest of the market, with Swire managing to balance low vacancy with stable rents.

The overall vacancy rate in Kowloon remains high, especially in the new developments at Kowloon East, though there are signs that rents have reached affordable levels and are likely to remain fairly stable for the time being. The rental levels at Tsim Sha Tsui Grade A buildings still have room for decline so long as the relocation momentum to decentralized areas continues. TST saw the highest rental drop of 2.66% in June 2009.

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RESIDENTIAL SERVICES

Strong momentum in the residential property market

Although Hong Kong's economy has not yet fully recovered, the residential property market experienced a surprising rebound in June. Transaction volumes have risen to pre-financial crisis levels, while transaction prices have been picking up quickly. A unit at "Severn 8" on The Peak was sold for a record high of $47,000 psf, which is over 100% more than the lowest transaction recorded at $22,800 psf in November 2008. The market is expected to continue rising in the second half of the year amidst the low interest rate environment, heightened Mainland investor participation, and expectations of a global recovery.

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RETAIL SERVICES

Higher occupancy rates lead to reduced transactions

Causeway Bay, Mongkok and Central witnessed fewer transactions than Tsimshatsui this month due to their high occupancy rates. There are three new arcades at Tsimshatsui recruiting for tenants, which will inevitably put pressure on future rent; vacancies are also anticipated to rise. Sasa Cosmetics rented a 2,400-sf shop on Percival Street; a luxury shop took a 3,000-sf space at Pedder Street; and Luk Fook Jewelry rented a 1,500-sf shop on Nathan Road. These businesses are tourist-related and oriented towards loyal customers.

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INDUSTRIAL & LOGISTICS SERVICES

Slightly higher activity amidst weak fundamentals

Most logistics operators were indicating slightly higher activity over the past month. This is, however, coming off a low base and there was further evidence globally to suggest that despite improved sentiment the market fundamentals remain weak, particularly demand. On the positive side are the major government sponsored infrastructure projects in planning and underway in the Pearl River Delta, which will provide significant opportunity for operators aligned towards this sector. Additionally, these forthcoming improvements will enhance the fluid movements of goods and services in the region and promote further trading/retail opportunities. New leasing activity within the month was again low with one of the most sizeable deals seeing a Taiwanese logistics company securing around 50,000 sf in ATL. In the sales market there has been a pick-up in activity with notable transactions including the disposal by Goodman of the Brilliant Cold Store in Kwai Chung at a yield of about 7%. There were also two sales and lease back deals in Kwai Chung: the first was a transaction involving around 25,000 sf in Wyler Centre 2 at a yield under 7%, and the second involved the Gold Peak Industries for $155 million at a yield around 9%.

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Price ↑
Demand ↑

INVESTMENT PROPERTIES

Lung Moon Restaurant in Wanchai sold for $420 million

Investors are now considering strategic acquisitions and planning for a longer investment span in light of the current low interest rates. Stimulated by the finalisation of Urban Renewal Authority project in Wanchai, Lung Moon Restaurant was bought by a local investor for $420 million. The premises is an old low-rise restaurant development located at 130-136 Johnston Road, with a site area of around 4,300 sf and a total existing gross area of about 16,000 sf. The price equates to around $26,500 psf based on the existing area, or over $6,500 commercial accommodation value upon redevelopment.

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Price ↑

Demand ↑

INVESTMENT & PROJECT MARKETING

Residential sector sees record take-up in Singapore and Hong Kong in June

In Singapore, pent-up demand continued as a record 1,825 newly developed units were sold in June. Demand filtered into the luxury segment: Nassim Park Residences Singapore was sold at S$3,813 psf, Ritz Carlton Residences Cairnhill at S$3,404 psf and Orchard Residences Singapore at S$3,299 psf.

Property transactions in Hong Kong continued to climb in June. The total number of signed sale and purchase agreements rose to 15,747 in June, while the total value of agreements signed amounted to $58.2 billion. Among the agreements, 13,805 were for residential units, amounting to $49.7 billion. The buoyant property market reflects investors' confidence in the industry's outlook. Money from the mainland also helped lift property prices.

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