

RESEARCH



DECEMBER 2016
HONG KONG
MONTHLY
REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Abundant supply in Kowloon
should suppress rental growth

Residential
Large-scale deals concluded
despite stamp duty rate rise

Retail
Market should reach the
bottom in 1H 2017

MARKET HIGHLIGHTS

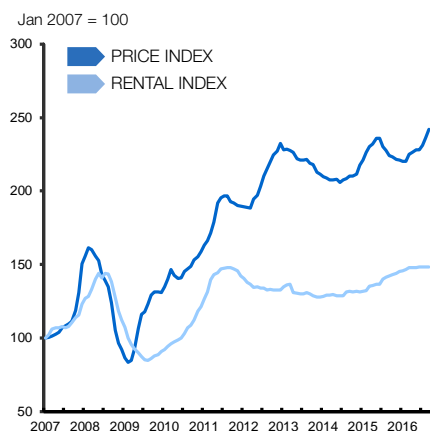
- ◆ Grade-A office leasing was slow in November, both on Hong Kong Island because of limited availability and in Kowloon owing to seasonal factors towards the year end.
- ◆ The rise in the double stamp duty rate is expected to reduce the number of residential sales transactions in the coming months, but prices should remain steady given sustainable demand from end-users and super-rich buyers.
- ◆ Improved retail sales and visitor figures in October reaffirmed our forecast that the local retail market should reach the bottom in the first half of 2017.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q3 2016	+1.9%#	+2.9%	+2.3%	+2.4%
Inflation rate	Oct 2016	+1.2%	+4.3%	+4.4%	+3.0%
Unemployment	Aug-Oct 2016	3.4%#	3.3%	3.2%	3.3%
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

Hong Kong Island

The Grade-A office leasing market on Hong Kong Island remained subdued last month, as the lack of options limited activity. The key demand driver remained Mainland firms, especially those in the financial sector. Meanwhile, multinational corporations continued to downsize or relocate to reduce costs.

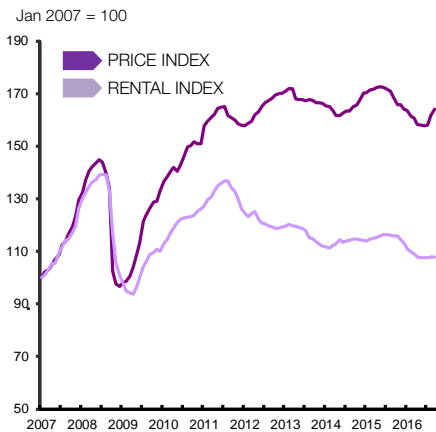
Looking ahead, we expect Central's Grade-A office rents to continue to outperform the market in 2017 because of tight availability. Other Hong Kong Island districts with new completion, such as 18 King Wah Road in North Point and Lee Garden Three in Causeway Bay, should see limited office rental growth.

Kowloon

On Kowloon side, leasing activities were relatively slow in the past month, with fewer companies looking to consolidate or relocate towards the year end. Insurance companies, a key demand driver for office space in the past months, also slowed down their expansion plans after the introduction of tightening policies restricting Mainland purchases of insurance products.

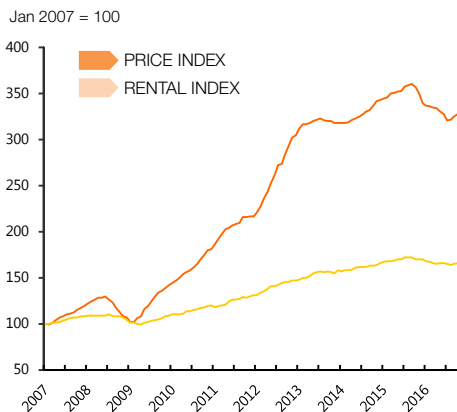
Abundant new supply in the pipeline will impose downward pressure on Kowloon office rents in 2017. Supply will be concentrated in Kowloon East, with over 2 million sq ft scheduled for completion. Atelier K11, in Tsim Sha Tsui, will provide another 370,000 sq ft of office space next year.

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 May to Oct 2016

Residential

To reign in rising home prices, the government raised the double stamp duty rate to a standardised 15% in early November. However, the month's residential sales volume increased slightly from October, according to the Land Registry, mainly because the figures reflect the situation in the weeks before the stamp duty rise. The December figures are expected to drop with the combined impact of the stamp duty rise and seasonal effects.

Primary sales became quiet in November, with limited new launches, as the market was absorbing the impact of the stamp duty rise. The super-luxury sector, however, remained strong, with two connected units in Mount Nicholson on the Peak selling for HK\$912 million, or HK\$104,803 per sq ft, making them the third most expensive apartments in Hong Kong.

From now until 2020, the average annual number of residential completions is expected to reach about 20,000 units. We do not expect a mild US interest-rate rise to dampen the local residential market, but abundant supply, as well as economic and policy uncertainties, may drag down mass residential prices by about 5% next year. Given the relative scarcity of stock, luxury residential prices will remain stable. Home rents are set to move upwards next year, with some potential homebuyers shifting to the leasing market given home unaffordability.

Retail

The retail market saw further improvements in recent months. The decline in retail sales continued to narrow, falling just 2.9% year on year in October. In particular, we saw sales of luxury products begin to stabilise, suggested by a decrease of only 0.1% in sales of the "jewellery, watches, and clocks" category. This came with a 2.4% year on year decrease in the number of inbound visitors, an improvement from decreases of 3.0% and 9.4% in September and August, respectively.

However, more international retailers became reluctant to retain their prime street presence. For instance, Abercrombie & Fitch earlier surrendered its flagship store in Central, while Ralph Lauren also gave up its 20,000-sq-ft store in Causeway Bay.

Looking forward, we expect a more notable fall in retail sales in December, as the strong dollar will encourage outbound tourism in the Christmas holiday. On the leasing front, retrenchment by international brands will put further pressure on landlords in the near term. However, we reiterate our forecast that prime street shop rents should reach the bottom in the first half of 2017 if the recent signs of stabilisation of inbound tourism and retail sales persist after the holiday season.

SNAPSHOT

A number of major office sales transactions were registered in Tsim Sha Tsui last month.

A financial firm leased about 11,500 sq ft of space at Two Pacific Place in Admiralty in November.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Lippo Centre Tower 1	High	1,565	\$44.3	\$28,294
Wan Chai	Bank of East Asia Harbour View Centre	Mid	7,857	\$178	\$22,655
Tsim Sha Tsui	Wing On Plaza	Mid	1,800	\$33.3	\$18,500
Tsim Sha Tsui	Concordia Plaza	High	3,329	\$41.6	\$12,500

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)
Tsuen Wan	CDW Building	Low	140,700 (G)
Kwun Tong	Manulife Financial Centre Tower B	Mid	30,724 (G)
Admiralty	Two Pacific Place	High	11,529 (L)
Central	Bank of China Tower	High	5,635 (L)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

Grade-A office rents increased or remained stable in most major business districts last month.

Grade-A office prices increased in all major business districts in November.

TABLE 4

Month-on-month movement in Grade-A office rents (Nov 2016)






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

TABLE 5

Prime office market indicators (Nov 2016)

District	Net effective rent		Change			Price (Gross)		Change	
	HK\$ psf / mth	M-o-M Change	Q-o-Q Change	Y-o-Y Change	HK\$ psf	M-o-M Change	Q-o-Q Change	Y-o-Y Change	
Premium Central	\$176.9	0.7%	1.4%	6.2%	n/a	n/a	n/a	n/a	
Traditional Central	\$123.6	0.6%	1.6%	7.4%	n/a	n/a	n/a	n/a	
Overall Central	\$142.1	0.7%	1.5%	6.9%	\$30,776	2.9%	7.5%	13.6%	
Admiralty	\$100.0	0.0%	0.3%	7.1%	\$26,382	3.6%	9.2%	18.1%	
Sheung Wan	\$75.5	0.0%	-0.5%	-0.2%	\$22,890	3.9%	10.0%	14.9%	
Wan Chai	\$69.1	-0.2%	0.3%	1.4%	\$22,575	1.1%	6.2%	14.6%	
Causeway Bay	\$77.1	0.2%	1.1%	5.7%	\$22,539	0.3%	1.3%	12.4%	
North Point	\$49.4	0.0%	-0.2%	-0.4%	n/a	n/a	n/a	n/a	
Quarry Bay	\$56.0	0.1%	0.1%	0.1%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$62.0	-1.1%	-3.1%	-1.6%	\$13,684	1.2%	2.9%	7.9%	
Cheung Sha Wan	\$30.3	4.0%	5.8%	3.3%	n/a	n/a	n/a	n/a	
Hung Hom	\$34.9	7.8%	11.7%	9.2%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.6	-0.3%	0.0%	-1.5%	\$12,119	0.8%	4.8%	9.9%	
Mong Kok / Yau Ma Tei	\$53.6	1.8%	3.2%	1.7%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A number of major residential sales transactions were recorded in traditional luxury districts last month.

A number of large units were leased in traditional luxury residential districts in November.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Happy Valley	23-39 Blue Pool Road	39th floor / unit A	4,571	\$288.3	\$63,072
Mid-Levels Central	Estoril Court	44th floor / units A-B	5,890	\$380	\$64,516
Island South	Marina South	Tower 2 / 36th floor / unit B	2,659	\$148.278	\$55,765
Mid-Levels West	Cluny Park	10th floor / unit A	2,369	\$101.131	\$42,689

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\$ per sq ft)
Mid-Levels West	Imperial Kennedy	High floor / unit C	725	\$51,000	\$70.3
Pokfulam	Villa Bel-Air	House	4,190	\$280,000	\$66.8
Mid-Levels Central	Hillsborough Court	Tower 1 / low floor / unit B	761	\$31,800	\$41.8
Island South	Redhill Peninsula	Tower 4 / low floor / unit B	1,575	\$62,000	\$39.4
The Peak	Cloud Nine	Low floor	2,625	\$100,000	\$38.1

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In November, rents remained stable in all major luxury residential districts.

Overall luxury home prices remained stable last month.

TABLE 8

Month-on-month changes in luxury residential rents (Nov 2016)






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

TABLE 9

Luxury residential market indicators (Nov 2016)

District	Rent		Change			Price		Change	
	HK\$ psf / mth	M-o-M change	Q-o-Q change	Y-o-Y change	HK\$ psf	M-o-M change	Q-o-Q change	Y-o-Y change	
The Peak	\$60.7	0.4%	0.4%	-6.1%	\$40,091	0.0%	0.0%	-1.6%	
Island South	\$49.3	-0.5%	-0.7%	-3.8%	\$30,970	0.1%	8.8%	8.8%	
Mid-Levels	\$51.8	0.1%	0.1%	-8.9%	\$26,602	-1.7%	2.5%	0.5%	
Jardine's Lookout / Happy Valley	\$48.2	-0.2%	-0.6%	-4.8%	\$25,624	1.0%	2.9%	-2.2%	
Pokfulam	\$36.6	-0.4%	-0.6%	-5.0%	\$22,967	0.0%	1.1%	-5.8%	

Source: Knight Frank Research

Note: Rents and prices are based on saleable area and are subject to revision.

SNAPSHOT

The retail property sales market was relatively active in November.

A number of street shops were leased in prime streets last month.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wan Chai	Yan Yee Court	Ground floor / unit A	742	\$55	\$74,124
Wan Chai	Henning House	Ground floor / unit 3	953	\$50	\$52,466
Kwun Tong	COS Centre	Ground floor / unit D	5,421	\$250.2	\$46,154
Causeway Bay	McDonald's Building	Ground floor / units A & F and basement floor	N/A	\$203.8	N/A

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\$ per sq ft)
Causeway Bay	Hoi To Court	Ground floor / unit 3	1,111	\$168,000	\$151.22
Mong Kok	Good Hope Building	Ground floor / unit 4A	N/A	\$2,000,000	N/A
Central	Wellington Place	Ground floor / units 1-2	N/A	\$1,230,000	N/A
Mong Kok	Ginza Plus	Ground floor / unit G08	N/A	\$500,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

SNAPSHOT

Prime street shop rents fell in all major retail districts in November.

Total retail sales value decreased 2.9% year on year to HK\$36.1 billion in October.

TABLE 12

Month-on-month movement in prime street shop rents (Nov 2016)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Oct 2016)

Outlet	Value (HK\$ billion)	Share of total %	M-o-M change	Q-o-Q change	Y-o-Y change
Jewellery, watches and clocks, and valuable gifts	\$6.1	17.0%	16.8%	11.6%	-0.1%
Clothing, footwear and allied products	\$4.3	11.9%	8.5%	-12.8%	-3.6%
Department stores	\$3.8	10.5%	9.5%	8.9%	-0.8%
Fuel	\$0.8	2.1%	-3.2%	-0.5%	5.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.4	9.5%	-13.2%	17.5%	1.0%
Consumer durable goods	\$6.6	18.2%	10.6%	28.8%	-14.0%
Supermarkets	\$4.5	12.4%	2.4%	0.6%	3.5%
Others	\$6.7	18.5%	9.9%	-11.5%	-0.4%
All retail outlets	\$36.1	100.0%	6.9%	4.2%	-2.9%

Source: Census and Statistics Department / Knight Frank Research



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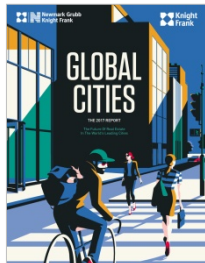
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