

RESEARCH



FEBRUARY 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Kowloon to offer plenty of
affordable leasing options

Residential
Market to see comeback of
primary project launch

Retail
Inbound tourism gets off to a
good start in 2017

MARKET HIGHLIGHTS

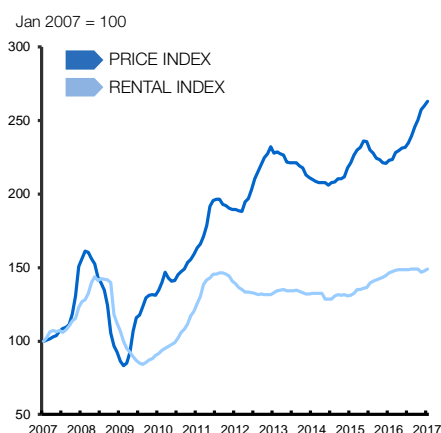
- ♦ The Hong Kong Island market was active even during the holiday season last month with tenants acting fast to compete for scarce space.
- ♦ The stamp duty rate rise and seasonal effect were a further drag on home sales volume in January, but prices remained stable. In the first quarter we expect to see a comeback in the launch of first-hand flats.
- ♦ Visitor arrivals have increased year on year for two consecutive months. The market is expected to bottom during the first quarter of 2017 as it establishes a new normal.

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	Dec 2016	+1.2%	+4.3%	+4.4%	+3.0%
Unemployment	Oct-Dec 2016	3.3%#	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

In January, Island East saw major leasing activity. Freshfields, an international law firm, relocated from Central, taking two floors at One Island East in Quarry Bay. With high rental levels and a lack of space in Central, this trend is expected to continue because of cost savings and space availability.

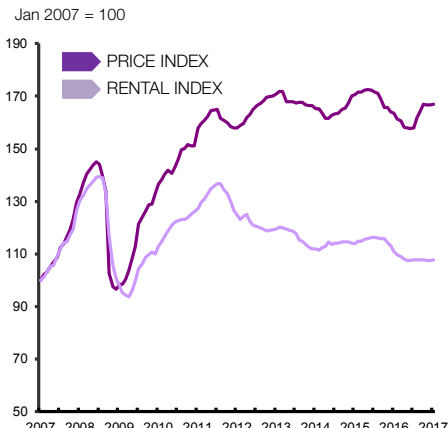
The extremely tight availability has prompted some large companies to study their office leasing plans in advance and make pre-lease decisions early. For example, Alibaba has reportedly pre-leased about 110,000 sq ft of space on scattered floors of Times Square in Causeway Bay to consolidate its businesses, despite some of their existing leases expiring more than two years from now.

Kowloon

There were not many major leasing transactions in January, and activity remained subdued with the approach of Chinese New Year. However, the market is expected to revive in the coming months, in particular Kowloon Bay, where a number of sizeable transactions involving over 10,000 sq ft of space are in the concluding stage. New benchmarks for Kowloon East are expected to be set in 2017.

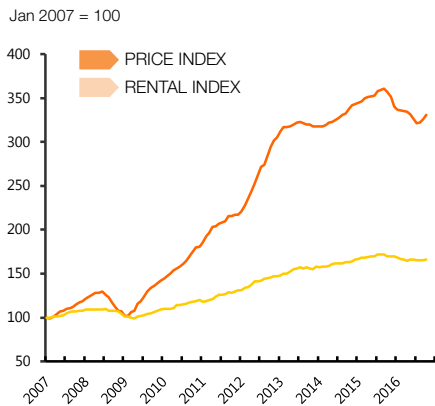
Looking ahead, major new developments in Kowloon, including Mapletree Bay Point, One Harbour Square Phase 2, Hong Kong Pacific Tower and 33 Tseuk Luk Street, are all scheduled for completion this year. We expect Kowloon office rents to continue to face pressure in 2017, in particular Kowloon East, where rents could drop more than 5%, given abundant supply.

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 Jul to Dec 2016

Residential

Residential sales dropped further in January 2017, falling 7.4% month on month, as a result of the combined impact of the stamp duty rise last November and the seasonal effect during the Chinese New Year period. Home prices, however, continued to grow, though at a much slower pace than in previous months.

The primary sector actually saw improvement with the comeback of first-hand unit launches, as the market started to absorb the impact of the stamp duty rate rise. Primary sales are expected to rebound in the first half of the year.

Mainland buyers remained active in Hong Kong’s property market. HNA, for example, snapped up its third residential site in Kai Tak for a high accommodation value (AV) of HK\$13,000 per sq ft. The super-luxury sector also remained resilient, with the property at 1-3 Pollock Path on the Peak acquired for HK\$2.8 billion, representing a sky-high AV of nearly HK\$110,000 per sq ft.

The US Federal Reserve decided to keep its interest rate unchanged in its January meeting. We expect a mild hike this year. However, economic uncertainty and abundant supply in the pipeline will suppress residential price growth in 2017

Retail

Hong Kong’s inbound tourism got off to a good start in 2017 as the number of visitor arrivals increased 4.8% year on year last month, following a 5.4% year-on-year increase in December 2016, according to government data.

Meanwhile, retail sales saw a narrower year-on-year decline, falling 2.9% in December, compared with 5.4% in November and 8.1% in full-year 2016.

Fuelled by a recovering retail sector, retail property sales remained active in January. Emperor International acquired a number of ground floor shops in Fairview Heights in Mid-Levels for HK\$515 million. Three commercial podium levels at Harbourfront Landmark in Hung Hom were reportedly acquired by a local investor for about HK\$886 million. A ground floor shop in Alpha Building in Tsui Sha Tsui was also sold for HK\$176 million.

The leasing market remained relatively quiet during the Christmas and Lunar New Year periods. Looking ahead, early signs of a resurgence in inbound tourism and retail sales recovery are expected to boost retailer confidence. The market is expected to bottom during the first quarter of 2017 as the market establishes a new normal.

SNAPSHOT

A number of major office sales transactions were registered both on Hong Kong Island and in Kowloon last month.

International law firm Freshfields leased about 44,000 sq ft of space at One Island East in Quarry Bay in January.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Causeway Bay	Fortune Centre	Mid	1,118	\$22.5	\$20,125
Sheung Wan	China Insurance Group Building	Low	13,017	\$175	\$13,444
Tsim Sha Tsui	Wing On Plaza	Low	1,771	\$23	\$13,000
Kwun Tong	MG Tower	Mid	3,722	\$38.3	\$10,280

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)
Quarry Bay	One Island East	High	44,000 (L)
Central	Two IFC	Mid	15,776 (L)
Hung Hom	Two Harbourfront	Mid	23,936 (G)
Tsim Sha Tsui	World Finance Centre North Tower	10F	19,372 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

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

Grade-A office prices increased in all major business areas in January.

TABLE 4
Month-on-month movement in Grade-A office rents (Jan 2017)






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

TABLE 5
Prime office market indicators (Jan 2017)

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	\$182.7	1.0%	2.2%	5.0%	n/a	n/a	n/a	n/a	
Traditional Central	\$127.7	1.3%	4.0%	9.5%	n/a	n/a	n/a	n/a	
Overall Central	\$146.3	1.2%	3.3%	7.6%	\$32,689	5.1%	9.3%	21.4%	
Admiralty	\$101.2	0.1%	1.2%	5.7%	\$26,925	0.7%	5.7%	21.3%	
Sheung Wan	\$73.8	0.3%	0.3%	-2.6%	\$23,260	1.0%	5.6%	17.2%	
Wan Chai	\$74.1	1.4%	2.7%	3.7%	\$25,763	1.7%	5.6%	22.2%	
Causeway Bay	\$77.4	0.8%	2.0%	5.9%	\$22,539	0.0%	0.3%	12.4%	
North Point	\$50.1	1.5%	1.5%	0.6%	n/a	n/a	n/a	n/a	
Quarry Bay	\$51.8	0.2%	0.3%	0.3%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$61.3	0.3%	-2.4%	-4.9%	\$13,802	0.6%	2.0%	9.0%	
Cheung Sha Wan	\$30.8	0.2%	2.5%	5.9%	n/a	n/a	n/a	n/a	
Hung Hom	\$39.0	-0.3%	7.8%	13.7%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.0	-0.7%	0.9%	-0.5%	\$12,181	0.2%	1.3%	11.0%	
Mong Kok / Yau Ma Tei	\$53.6	0.0%	1.6%	1.6%	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 Mid-Levels last month.

A number of large homes were leased in Island South in January.

RESIDENTIAL

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	Arezzo	High floor / unit B	979	\$68,000	\$69.5
Happy Valley	Leighton Hill	Tower 6 / mid floor	1,724	\$93,000	\$53.9
Mid-Levels Central	Dynasty Court	Tower 4 / high floor / unit B	1,513	\$80,000	\$52.9
Island South	Helene Garden	Low floor / unit C	2,718	\$123,000	\$45.3
The Peak	La Hacienda	Tower A / low floor	2,734	\$110,000	\$40.2

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	House	9,950	\$1,080	\$108,543
Island South	1 Shouson Hill Road East	House	2,840	\$140.5	\$49,472
Happy Valley	Evergreen Villa	Tower F / mid floor / unit 2	1,525	\$31.5	\$20,656
Island South	Hong Kong Parkview Parkview Club & Suites	Tower 5 / low floor / unit 41	1,042	\$20	\$19,194
Island South	Pacific View	Tower 5 / mid floor / unit A	1,077	\$19.5	\$18,106

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Overall luxury home prices also remained stable last month.

TABLE 8

Month-on-month changes in luxury residential rents (Jan 2017)






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

TABLE 9

Luxury residential market indicators (Jan 2017)

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	\$60.5	0.0%	0.2%	-4.4%	\$40,091	0.0%	0.0%	0.0%	
Island South	\$49.5	0.3%	-0.3%	-2.1%	\$30,970	0.0%	0.1%	8.8%	
Mid-Levels Jardine's	\$52.1	0.1%	0.5%	-4.7%	\$27,225	0.1%	0.6%	5.4%	
Lookout / Happy Valley	\$48.1	0.3%	-0.4%	-2.1%	\$25,833	0.2%	1.8%	-0.6%	
Pokfulam	\$36.9	0.1%	-3.3%	-4.8%	\$22,995	0.0%	0.1%	-4.2%	

Source: Knight Frank Research

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

SNAPSHOT

The retail property capital market remained active in January.

Major retail property leasing transactions focused on traditional shopping areas 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)
Tsim Sha Tsui	Alpha House	Ground floor / unit E1	565	\$176	\$311,504
Central	Champion Building	Ground floor / unit A	1,429	\$187	\$130,861
Yuen Long	Siu Fung Building	Ground floor / unit 12	275	\$32.3	\$117,455
Wan Chai	Kam Shing Building	Ground floor / unit F	224	\$24	\$107,143

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)
Tsim Sha Tsui	Knutsford Commercial Building	Ground floor / units 1-2	1,746	\$370,000	211.9
Causeway Bay	Lockhart House Arcade	Ground floor / units F-G	3,001	\$320,000	\$106.6
Tsim Sha Tsui	Manley House	Ground floor / unit 4 and 1 st floor	8,616 (G)	\$800,000	\$92.9
Causeway Bay	501 Lockhart Road	Ground floor	N/A	\$210,000	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 January.

Total retail sales value decreased 2.9% year on year to HK\$42.4 billion in December 2016.

TABLE 12

Month-on-month movement in prime street shop rents (Jan 2017)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Dec 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	\$8.2	19.3%	44.4%	56.2%	2.3%
Clothing, footwear and allied products	\$5.8	13.7%	23.5%	47.3%	-3.7%
Department stores	\$4.9	11.5%	-4.1%	40.7%	-3.2%
Fuel	\$0.8	1.8%	1.7%	-1.3%	3.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.8	9.0%	12.5%	-4.1%	5%
Consumer durable goods	\$6.3	14.9%	6.6%	6.5%	-20.0%
Supermarkets	\$4.5	10.5%	7.9%	2.2%	0.7%
Others	\$8.2	19.3%	28.7%	34.3%	3.6%
All retail outlets	\$42.4	100.0%	17.8%	25.5%	-2.9%

Source: Census and Statistics Department / Knight Frank Research



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