

RESEARCH



MARCH 2017
**HONG KONG
MONTHLY**

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Activity returned after Chinese
New Year

Residential
Increase in home supply
reaffirmed in The Budget

Retail
New normal under
establishment

MARKET HIGHLIGHTS

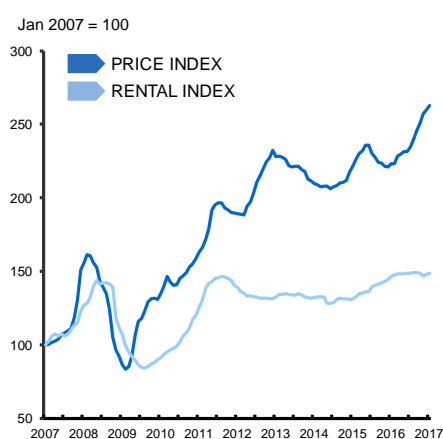
- ◆ The activity level rose after Chinese New Year in the Grade-A office market. Kowloon, in particular, saw strong relocation demand for both revitalised and Grade-A office buildings.
- ◆ Residential sales volume rebounded in February, with both sellers and buyers returning to the market after the Lunar New Year festival, particularly in the primary market.
- ◆ Both visitor arrivals and retail sales figures recorded a significant improvement in January. Mainland visitor numbers, in particular, rose for two consecutive months.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q4 2016	+3.1%#	+2.9%	+2.3%	+2.4%
Inflation rate	Jan 2017	+1.3%	+4.3%	+4.4%	+3.0%
Unemployment	Nov 2016- Jan 2017	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 the past few months, there were a number of major leasing transactions involving relocation from Central to Quarry Bay. For example, BNP and Freshfield have confirmed to relocate from Exchange Square to One Island East.

Even though some firms are moving out, Central's office rents continued to approach record highs. With the tight availability, space released by these relocated firms are quickly taken up, in particular by Chinese companies which prefer Central for office set up.

We expect Central rents to continue outperforming the market and increase 5-7% in 2017.

Kowloon

The Kowloon leasing market became active after Chinese New Year, with a number of transactions involving relocations. For example, a sourcing company relocated to an entire floor of 17,000 sq ft at Enterprise Square Five.

Kowloon East, where demand is driven by cost-saving motives, saw stronger demand for revitalised space with more affordable rents, resulting in a narrowing rental gap between revitalised space and their higher-grade counterparts. This trend is expected to continue until the market reaches equilibrium to justify the rental difference.

Looking ahead, office rents in Kowloon will face downward pressure in the coming year, as abundant supply will prompt landlords to offer more discounts. Nevertheless, leasing activity is expected to remain robust as the decentralisation trend continues.

FIGURE 2
Luxury residential prices and rents

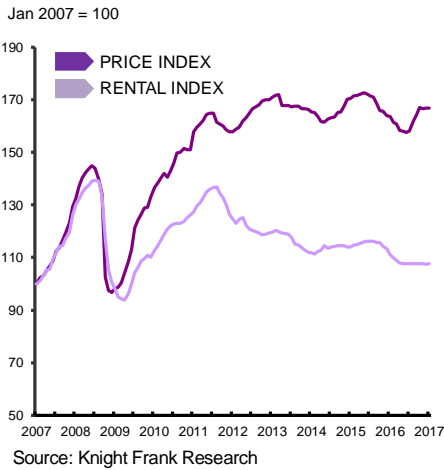
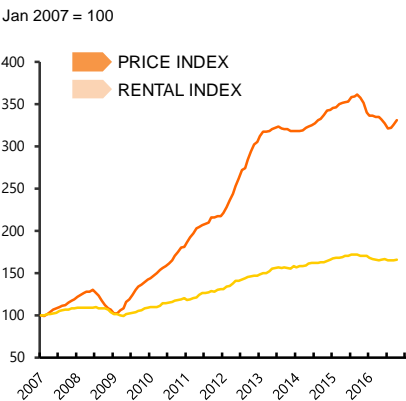


FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research
Note: Provisional figures from Jul to Dec 2016

Residential

Residential sales rebounded 24% in February 2017, with the comeback of both sellers and buyers after the Lunar New Year holiday. More new flats were launched during the month, with developers offering various sweeteners to offset the impact of the Stamp Duty rise. The secondary market remained relatively quiet, resulting in stable home prices during the month.

The luxury residential market remained active. Mount Nicholson on the Peak, for instance, sold two houses for over HK\$70,000 per sq ft last month.

The land market remained robust. One residential site in Ap Lei Chau and another in Wong Chuk Hang were snapped up by Mainland developers. The former was the most expensive residential land ever sold by the government.

The Budget echoed the Policy Address in reaffirming the government's determination to increase housing supply in the coming decade. While abundant supply will suppress price growth, high land prices and strong housing demand will lend support to prices, which are expected to rise a mild 5% in 2017.

Retail

Hong Kong's visitor arrivals in January 2017 rose for the second consecutive month, attributable mainly to the number of Mainland travellers to Hong Kong, which recorded positive growth for two months in a row. Retail sales in January also saw continued improvement, with the magnitude of the drop narrowing to only 0.9% year on year.

The figures reconfirmed our expectation of the bottoming of the local retail market in the first quarter of this year. With retailers continuing to adjust their business, the retail market has evolved further towards a new normal, with the focus shifting further from luxury to widely-affordable products. This has resulted in the expansion of mass-market retailers, such as Gu, the second line of Uniqlo, which will make its debut in Hong Kong in the spring, opening one store in Tsim Sha Tsui and another in Causeway Bay.

We remain optimistic about Hong Kong's tourism market. Hong Kong, as a mature city for travellers, has advantages, including a unique culture, a comprehensive direct flight network and a safe environment. The retail market is set to rebound along with the tourism market in the coming months.

SNAPSHOT

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

AllianceBernstein leased about 16,000 sq ft of space at One Island East in Quarry Bay in February.

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	Low	1,542	\$41.4	\$26,835
Causeway Bay	First Commercial Building	Mid	2,285	\$35.4	\$15,500
Tsim Sha Tsui	Concordia Plaza	High	2,185	\$32.8	\$15,000
Tsim Sha Tsui	Silvercord Tower 1	High	1,443	\$21.6	\$15,000

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	Mid	16,549 (L)
Causeway Bay	Lee Garden Two	Mid	15,732 (L)
Kwun Tong	1 Hung To Road	Low	33,221 (G)
Kowloon Bay	Enterprise Square Five Tower 2	High	17,400 (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 February.

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






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

TABLE 5
Prime office market indicators (Feb 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	\$182.8	0.1%	1.6%	4.8%	n/a	n/a	n/a	n/a	
Traditional Central	\$128.4	0.5%	3.9%	9.7%	n/a	n/a	n/a	n/a	
Overall Central	\$146.8	0.3%	2.9%	7.6%	\$33,245	1.7%	8.0%	23.5%	
Admiralty	\$102.5	1.3%	2.5%	5.7%	\$27,585	2.4%	4.6%	24.2%	
Sheung Wan	\$74.2	0.6%	0.9%	-1.9%	\$23,294	0.1%	1.8%	17.4%	
Wan Chai	\$74.3	0.3%	2.7%	3.6%	\$25,894	0.5%	4.1%	22.1%	
Causeway Bay	\$77.9	0.7%	2.6%	6.3%	\$22,539	0.0%	0.0%	12.4%	
North Point	\$50.1	0.0%	1.5%	0.7%	n/a	n/a	n/a	n/a	
Quarry Bay	\$51.8	0.0%	0.2%	0.3%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$62.2	1.5%	0.2%	-4.6%	\$13,802	0.0%	0.9%	9.0%	
Cheung Sha Wan	\$30.4	-1.3%	-2.4%	3.5%	n/a	n/a	n/a	n/a	
Hung Hom	\$40.9	1.1%	1.1%	13.9%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.7	-0.9%	-1.4%	-1.6%	\$12,290	0.9%	1.4%	12.0%	
Mong Kok / Yau Ma Tei	\$53.6	0.0%	-0.1%	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 large homes were leased in Happy Valley in February.

A number of major residential sales transactions were recorded in Mid-Levels Central last month.

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)
Island South	Casa del Sol	House M	3,047	\$126,000	\$41.4
Happy Valley	Rose Court	4 th floor / apartment B4	2,049	\$85,000	\$41.5
Island South	The Lily	Low floor	2,541	\$150,000	\$59.0
Happy Valley	The Leighton Hill	Tower 6 / high floor / unit A	1,724	\$107,000	\$62.1
Mid-Levels Central	Regence Royale	Block 1 / high floor / unit B	1,805	\$97,000	\$53.7

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential sales transactions

District	Building	Unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels Central	Po Garden	Unit 6B	1,940	\$39	\$20,103
Mid-Levels Central	Park Mansion	Unit 20B	1,723	\$45	\$26,117
Mid-Levels Central	Park Mansion	Unit 1B	1,723	\$30.5	\$17,702
Mid-Levels Central	The Mayfair	Unit 20A	2,142	\$113.8	\$53,128

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

In February, rents grew in all major luxury residential areas.

Luxury home prices remained stable or rose slightly last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Feb 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	\$63.4	2.6%	4.6%	1.2%	\$40,091	0.0%	0.0%	0.0%	
Island South	\$50.2	1.4%	1.7%	-0.7%	\$30,970	0.0%	0.0%	10.3%	
Mid-Levels Jardine's	\$52.8	1.5%	1.9%	-1.3%	\$27,346	0.4%	0.8%	7.1%	
Lookout / Happy Valley	\$48.8	1.4%	1.2%	-0.3%	\$26,017	0.7%	1.5%	1.4%	
Pokfulam	\$37.4	1.4%	2.1%	0.0%	\$23,035	0.2%	0.3%	1.3%	

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 February.

Major retail property leasing transactions focused on non-core 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)
Wan Chai	Po Wah Building	Ground floor / unit E	445	\$141.247	\$317,409
Wan Chai	Po Wah Building	Ground floor / unit C	701	\$153.888	\$219,526
Wan Chai	Po Wah Building	Ground floor / unit B	597	\$124.865	\$209,154
Causeway Bay	Po Wing Building	Portion of Ground floor, 1 st - 2 nd floors	N/A	\$468	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	Dragon Rise	Ground floor / unit C	451	\$180,000	\$399.1
Tuen Mun	Tuen Mun Centre	Ground floor / units 6-7	1,470	\$280,000	\$190.5
Jordan	68-70 Parkes Street	Ground floor / units C-D	622	\$115,000	\$184.9
Kowloon Bay	Richland Gardens Arcade	Ground floor / unit 1	1,633	\$280,000	\$171.5
Tsim Sha Tsui	Granville Building	Ground floor	N/A	\$350,000	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 February.

Total retail sales value decreased 0.9% year on year to HK\$43.1 billion in January 2017.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jan 2017)

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	\$7.3	17.0%	-10.5%	19.6%	-3.9%
Clothing, footwear and allied products	\$5.9	13.6%	0.7%	36.5%	-3.6%
Department stores	\$4.4	10.2%	-9.3%	17.0%	2.8%
Fuel	\$0.8	1.8%	-0.1%	1.9%	7.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.4	10.2%	15.6%	27.5%	9.9%
Consumer durable goods	\$5.7	13.3%	-9.3%	-12.8%	-17.8%
Supermarkets	\$5.1	11.8%	14.4%	14.3%	5.4%
Others	\$9.5	22.1%	16.8%	42.7%	5.9%
All retail outlets	\$43.1	100.0%	1.8%	19.5%	-0.9%

Source: Census and Statistics Department / Knight Frank Research



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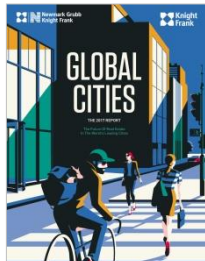
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