

RESEARCH



APRIL 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Kowloon set to see conclusion of large deals in coming months

Residential

Primary sales gained momentum as the market digests pull factors

Retail

Market looking for a new rental benchmark

MARKET HIGHLIGHTS

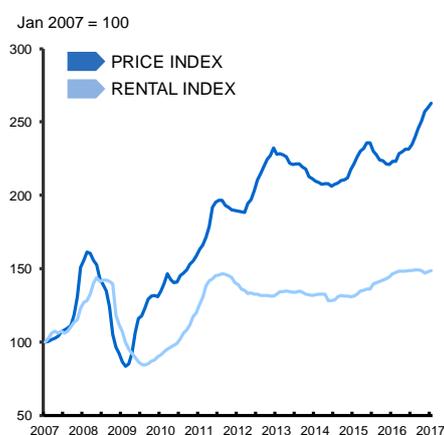
- ◆ The Kowloon office market saw robust negotiation activity involving large floor areas. Their expected conclusion in the coming months will set new rental benchmarks for the market.
- ◆ Home sales jumped month on month in March, with the return of both sellers and buyers, following the absorption of the negative impact of the rise in the Stamp Duty rate.
- ◆ Sales of luxury goods in February recorded the second year-on-year rise in the past 12 months. There were a number of major retail leasing transactions with notable rental cuts.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q4 2016	+3.1%#	+2.3%	+2.4%	+1.9%#
Inflation rate	Feb 2017	-0.1%	+4.4%	+3.0%	2.4%
Unemployment	Dec 2016- Feb 2017	3.3%#	3.2%	3.3%	3.4%
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

Office availability remained very tight in core business districts on Hong Kong Island. Landlords remained aggressive, offering little room for rental negotiation, thus further pushing rental levels upwards.

Although China tightened capital outflow controls in late 2016, Mainland companies remained the most important source of new take-up in Central. For example, HNA Group reportedly leased over 80,000 sq ft in Exchange Square previously occupied by BNP.

However, a number of multinational corporations and professional services firms traditionally located in Central were relocating to non-core areas to reduce costs. We expect the tenant mix in Central to continue to change, with more

Mainland firms taking up the space vacated by Western firms.

Kowloon

In March, there were not many major leasing transactions in Kowloon, but interest remained strong, with one of the demand drivers involving the consolidation of companies as a result of M&A activity. With its availability of large floor space, Kowloon East has become popular for companies looking to consolidate their business operations in a single location.

A number of cases involving large floor space of more than 30,000 sq ft now under negotiation are expected to be concluded in the coming months. They will set the benchmark for future rental levels in the area, with landlords referencing these large transactions while reviewing their market positioning strategies.

Residential

Despite another interest-rate rise in the US, residential sales rose another 44% month on month in March 2017, with a comeback of both sellers and buyers, along with the absorption of the negative impact of the Stamp Duty rate rise last November. An abundance of new flats were launched during the month, with developers offering various sweeteners to boost sales.

Although the secondary market remained relatively quiet, a number of record-breaking deals were recorded, resulting in further growth in home prices. Official data show that home prices went up in the 11 months ending February 2017, gaining an accumulated 15%.

The government's announcement in April of a 15% stamp duty levy on first-time homebuyers purchasing multiple flats in one go is not expected to drag down home prices, as these transactions make up less than 5% of total sales. Some developers could offer further sweeteners to counter the impact of the levy.

The latest figures from the Rating and Valuation Department reconfirmed increasing housing completions in the coming years. While abundant supply and interest-rate rises will help suppress price growth, high land prices and strong housing demand will lend support to home prices, which are expected to rise a mild 5% in 2017.

Retail

Hong Kong's retail sales fell 5.7% year on year in February 2017, mainly due to the fact that this year's Chinese New Year was in January. Retail sales of the "jewellery, watches and clocks and valuable gifts" category actually rose 2.5%, the second increase for this category in the past 12 months. Visitor arrivals dropped 2.7% in February, but during the first two months of the year, the figure rose 1.4%, with Mainland visitor numbers gaining 1.1%, thanks to 3.8% growth in overnight Mainland visitor arrivals.

These figures suggest that the market has continued to improve and evolve. Both landlords and tenants have been adjusting their leasing strategies during this period of consolidation. While a number of retailers have closed or downsized their stores, a number of major street shops were renewed or newly leased recently with rental discounts of up to 50-70% compared with the previous leases.

One of the transactions involved Bonjour, which renewed the lease for its store in Canton Road, Tsim Sha Tsui at a 60% discount, but the lease is for only one year, and either the landlord or tenant can end the lease during that period. We expect that a new rental benchmark for retail premises will be set in the coming few months before the market enters a stabilised period during the second half of the year.

FIGURE 2
Luxury residential prices and rents

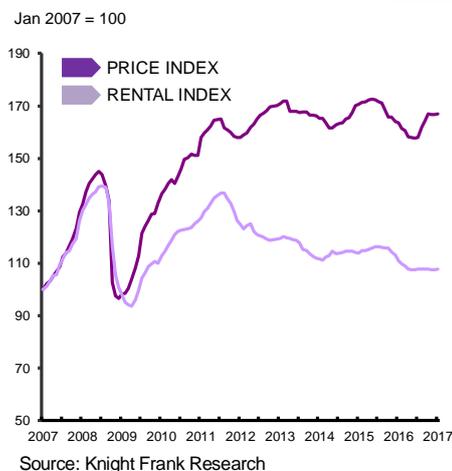
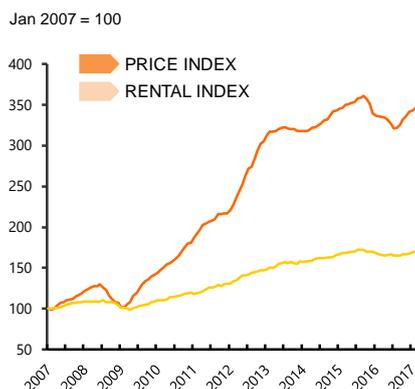


FIGURE 3
Retail property prices and rents



SNAPSHOT

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

Huarong International Financial Holdings leased about 41,000 sq ft of space at Two Pacific Place in Admiralty in March.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Central	Bank of America Tower	Mid	455 (S)	\$23.59	\$51,846
Admiralty	Lippo Centre Block 2	High	1,748 (S)	\$54.532	\$31,197
Tsim Sha Tsui	Concordia Plaza	Low	825	\$12.375	\$15,000
Wan Chai	Kai Kwong Commercial Building	En bloc	30,989	\$410	\$13,231
Tsim Sha Tsui	Star House	High	2,138	\$27.794	\$13,000

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

S: Saleable

TABLE 3

Selected office leasing transactions

District	Building	Zone	Floor area (sq ft)
Admiralty	Two Pacific Place	Low	41,612 (L)
Central	Champion Tower	High	34,602 (L)
Central	The Center	Mid	14,908 (G)
Kowloon Bay	Goldin Financial Global Centre	Low	20,852 (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 remained stable in most major business areas in March.

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

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

TABLE 5
Prime office market indicators (Mar 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	\$183.6	0.4%	1.6%	5.0%	n/a	n/a	n/a	n/a
Traditional Central	\$130.1	1.4%	3.2%	10.2%	n/a	n/a	n/a	n/a
Overall Central	\$148.3	1.0%	2.5%	7.9%	\$33,245	0.0%	6.9%	22.4%
Admiralty	\$103.7	1.1%	2.6%	5.7%	\$27,585	0.0%	3.1%	21.6%
Sheung Wan	\$74.3	0.1%	1.0%	-1.8%	\$23,294	0.0%	1.1%	13.9%
Wan Chai	\$74.5	0.3%	1.9%	3.9%	\$25,894	0.0%	2.2%	19.0%
Causeway Bay	\$77.9	0.0%	1.5%	5.9%	\$22,539	0.0%	0.0%	7.7%
North Point	\$50.6	1.0%	2.5%	1.4%	n/a	n/a	n/a	n/a
Quarry Bay	\$51.8	0.0%	0.2%	-0.1%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$62.4	0.3%	2.0%	-5.6%	\$14,042	1.7%	2.3%	8.6%
Cheung Sha Wan	\$30.4	0.0%	-1.1%	3.5%	n/a	n/a	n/a	n/a
Hung Hom	\$40.9	0.0%	0.8%	9.7%	n/a	n/a	n/a	n/a
Kowloon East	\$33.8	0.1%	-1.5%	-2.3%	\$12,345	0.4%	1.5%	12.1%
Mong Kok / Yau Ma Tei	\$53.6	0.0%	0.0%	-0.8%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

Mid-Levels performed well with a number of major leasing transactions last month.

A luxury house in Island South was sold for nearly HK\$100,000 per sq ft in March.

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	The Lily	Mid floor	2,625	\$181,000	\$69.0
Mid-Levels Central	Tavistock	Mid floor / unit B	1,236	\$84,000	\$68.0
Mid-Levels West	The Belcher's	Tower 1 / high floor	1,448	\$90,000	\$62.2
Island South	The Lily	Low floor	2,541	\$150,000	\$59.0
Mid-Levels Central	Silvercrest	High floor	2,082	\$80,000	\$38.4

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)
Island South	33 Island Road	House	4,720	\$460	\$97,458
Mid-Levels Central	The Albany	Mid floor	1,948	\$96.8	\$49,692
Mid-Levels Central	Grenville House	High floor	3,073	\$128	\$41,653
Mid-Levels Central	Chung Tak Mansion	Low floor	2,549	\$79.5	\$31,188
Mid-Levels Central	Bowen Mansion	Low floor	3,273	\$58	\$17,721

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Luxury home prices grew slightly last month.

TABLE 8

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

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

TABLE 9

Luxury residential market indicators (Mar 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	\$64.2	1.3%	6.1%	0.4%	\$40,746	1.6%	1.6%	1.6%
Island South	\$51.3	2.2%	4.0%	2.1%	\$30,970	0.0%	0.0%	10.3%
Mid-Levels Jardine's	\$53.9	1.9%	3.6%	2.7%	\$27,522	0.6%	1.2%	8.4%
Lookout / Happy Valley	\$49.9	2.3%	4.0%	2.9%	\$26,218	0.8%	1.7%	2.8%
Pokfulam	\$38.1	1.7%	3.8%	3.3%	\$23,035	0.0%	0.2%	3.5%

Source: Knight Frank Research

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

SNAPSHOT

Link Reit sold five more shopping centres with carparks in early 2017.

Major retail leasing transactions focused on Tsim Sha Tsui and Mongkok last month.

RETAIL

TABLE 10
Selected retail sales transactions

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tsing Yi	Cheung Hong Estate shopping arcade	En bloc*	133,256 (I)	\$1,150	N/A
Tsuen Wan	Shek Wai Kok Estate shopping arcade	En bloc*	129,855 (I)	\$733	N/A
Shatin	Sui Wo Court	En bloc*	61,204 (I)	\$728.8	N/A
Kwai Chung	On Yam Estate shopping arcade	En bloc*	40,781 (I)	\$562.8	N/A
Shatin	Sun Tin Wai Estate shopping arcade	En bloc*	55,099 (I)	\$461.119	N/A
Kwai Chung	Kwai Chung Plaza Arcade	Ground floor / unit 75	117 (S)	\$8.5	\$72,650
Shatin	Kings Wing Plaza Phase 1	Ground floor / unit G01	596 (S)	\$55.91	\$93,809

Source: Economic Property Research Centre / public sources
* with carpark
I: Internal; S: Saleable

TABLE 11
Selected retail leasing transactions

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tsim Sha Tsui	54-66 Canton Road	Ground floor / unit A	1,220	\$1,500,000	\$1,230
Mongkok	136 Sai Yeung Choi Street	Ground floor	900	\$300,000	\$333
Tsim Sha Tsui	Luxury Court	Ground floor / unit B	166	\$55,000	\$331.3
Mongkok	Concord Building Arcade	Ground floor / units 12-13	2,537	\$300,000	\$118.3

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

SNAPSHOT

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

Total retail sales value decreased 5.7% year on year to HK\$34.8 billion in February 2017.

TABLE 12

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

Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Feb 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	\$6.0	17.2%	-18.1%	5.6%	2.5%
Clothing, footwear and allied products	\$4.6	13.2%	-21.6%	-2.7%	-10.5%
Department stores	\$3.4	9.9%	-22.1%	-32.0%	-6.7%
Fuel	\$0.7	1.9%	-12.6%	-11.2%	5.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.5	10.0%	-20.7%	3.3%	-7.5%
Consumer durable goods	\$5.3	15.1%	-7.9%	-11.1%	-12.4%
Supermarkets	\$3.8	10.9%	-25.8%	-8.4%	-13.4%
Others	\$7.6	21.8%	-20.2%	19.8%	1.3%
All retail outlets	\$34.8	100.0%	-19.2%	-3.2%	-5.7%

Source: Census and Statistics Department / Knight Frank Research



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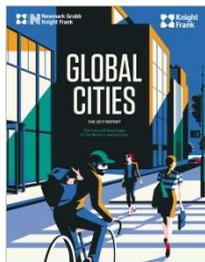
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