

RESEARCH



JUL 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Wong Chuk Hang continues to
emerge as a major office area

Residential
Leasing market enters the peak
season before school starts

Retail
Retail market continues to
recover

MARKET HIGHLIGHTS

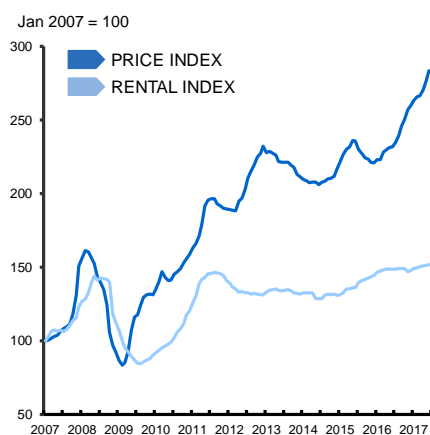
- ◆ In the Grade-A office leasing market, Central continued to outperform, while Causeway Bay and Wan Chai faced increasing competition from Wong Chuk Hang.
- ◆ Home sales rebounded slightly in June, as the impact of the cooling measures faded. However, home prices are expected to rise at a slower pace amid interest-rate rises and increasing supply.
- ◆ The retail market recovered further. The speed of the continued recovery will depend to some extent on government steps to strategically boost visitor arrivals and retail sales.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q1 2017	+4.3%#	+2.3%	+2.4%	+1.4%
Inflation rate	May 2017	+2.0%	+4.4%	+3.0%	2.4%
Unemployment	Mar-May 2017	3.2%#	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

Central's Grade-A office rents continued to outperform other districts, recording a growth rate of 3.5% in the first six months of the year. Rents in Wan Chai, Causeway Bay and Island East increased 2.0-2.5% during the period.

In the previous few months, rental growth in some parts of Hong Kong Island slowed amid the launch of new buildings such as Lee Garden Three in Causeway Bay. Causeway Bay and Wan Chai also faced increasing competition from Wong Chuk Hang, along with the completion of the MTR station and new buildings in the area.

As Central rents continue to edge higher, cost-conscious tenants are expected to continue to relocate to other areas.

Kowloon

Most leasing transactions in Kowloon involved relatively small units of around 4,000 sq ft in June, focusing on Kowloon East and Tsim Sha Tsui. As the summer holiday approaches, the market is expected to become relatively quiet in July and August.

Compared with a few months ago, renewals were preferred to new lettings, as landlords increased their incentive offerings to retain tenants in view of the huge amount of upcoming supply in the second half of 2017, including Two Harbour Square, Mapletree Bay Point and Hong Kong Pacific Tower.

This supply is set to impose pressure on rental growth in decentralised areas during the second half of 2017.

FIGURE 2
Luxury residential prices and rents

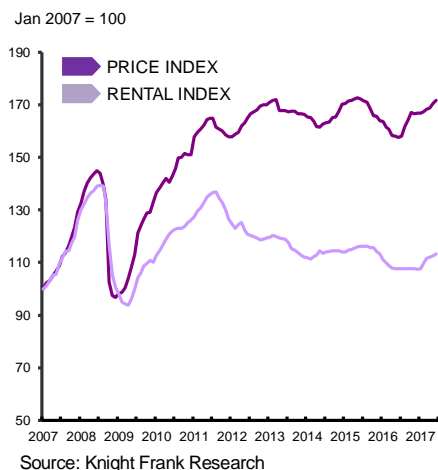
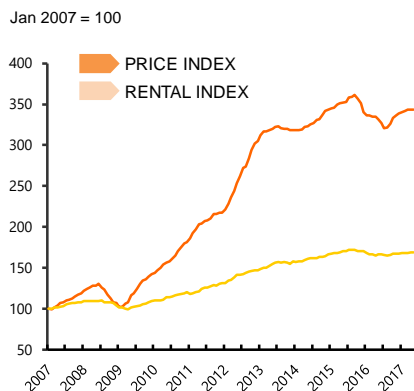


FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research
Note: Provisional figures from Dec 2016 to May 2017

Residential

Residential sales rebounded slightly by 6% month on month in June 2017, with the market having digested part of the cooling impact of policy tightening measures.

Home prices continued on their upward trend. Official data show that they continued to climb in the 14 months ended June 2017, rising over 22%.

Developers continued to offer various sweeteners to attract buyers, and primary sales remained stable. The secondary market was relatively quiet, but a number of luxury residential developments registered record-breaking transactions last month, including Carolina Garden on the Peak, The Mayfair in Mid-Levels Central, Sorrento and The Arch in Tsim Sha Tsui as well as Mount Beacon in Kowloon Tong.

On the leasing front, the market entered the peak season before the new school year starts in August / September. With reduced housing budgets, some tenants shifted to less prestigious areas and some landlords became more flexible in offering rent-free periods.

Potential buyers have started to feel the impact of rising rates, after the US Fed raised interest rate twice this year and major local banks raised mortgage rates slightly. Combined with the impact of increasing housing supply, which could amount to 18,000 units in the second half of the year, we expect residential price growth to slow down in the coming months. Over 2017, home prices are expected to increase 5-10%.

Retail

Hong Kong's retail sales continued to recover, rising 0.5% year on year in May, the third consecutive month of positive growth. The "Jewellery, watches and clocks, and valuable gifts" category also recorded retail sales growth for the third month in a row, gaining 1.4% year on year in May, stronger than the overall year-on-year-growth of 0.5%.

Visitor arrivals have also been rising since March, led by the growth in visitors from the Chinese Mainland. It is noteworthy that the number of overnight Mainland visitors, who spend more than sameday visitors, recorded double-digit year-on-year growth of 12.6% in March and 10.3% in May, while in April the figure was up 2.8%.

The retail property sales market has also improved, recording 870 transactions during the first five months of 2017, up 77.6% compared with the same period last year. Prime street shop prices, as a result, edged up 2.5% during the first half of 2017.

The local retail market is expected to continue to recover. Along with the lease expiry and renewal of retail units taken up during the heyday of the retail market before 2014, leasing transactions in the coming months will see narrower rental concessions. The timing of a market rebound hinges on what steps the new government takes to strategically boost visitor arrivals and retail sales in the coming years.

SNAPSHOT

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

A Chinese financial firm leased around 11,000 sq ft of space in Two IFC in Central in June.

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 Block 1	Low	2,646	\$97.8	\$36,961
Sheung Wan	CMA Building	Mid	3,200	\$81	\$25,312
Tsim Sha Tsui	Silvercord Block 1	High	1,443	\$23.3	\$16,112
Kwun Tong	Montery Plaza	High	1,810	\$25.3	\$14,000

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)
Central	Two IFC	Low	11,349 (L)
Causeway Bay	Hysan Place	High	12,606 (L)
Cheung Sha Wan	Trade Square	High	26,970 (G)
Kwun Tong	Landmark East - AIA Kowloon Tower	High	19,850 (G)

Source: Knight Frank Research
Note: All transactions are subject to confirmation.
G: Gross; L: Lettable

SNAPSHOT

Grade-A office rents declined in Wan Chai / Causeway Bay and Kowloon East last month.

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

TABLE 4

Month-on-month movement in Grade-A office rents (Jun 2017)






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

TABLE 5

Prime office market indicators (Jun 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	\$184.3	0.1%	0.4%	4.9%	n/a	n/a	n/a	n/a	
Traditional Central	\$132.1	1.2%	1.5%	9.6%	n/a	n/a	n/a	n/a	
Overall Central	\$149.8	0.8%	1.0%	7.6%	\$35,119	1.9%	5.6%	27.1%	
Admiralty	\$107.1	1.4%	3.3%	8.0%	\$30,087	3.1%	9.1%	31.2%	
Sheung Wan	\$74.4	0.1%	0.2%	1.1%	\$25,449	4.5%	9.3%	24.5%	
Wan Chai	\$75.1	-0.1%	0.9%	4.6%	\$26,881	1.0%	3.8%	20.6%	
Causeway Bay	\$77.3	-0.5%	-0.7%	3.6%	\$23,480	1.0%	4.2%	6.8%	
North Point	\$51.9	0.0%	2.6%	4.8%	n/a	n/a	n/a	n/a	
Quarry Bay	\$52.6	1.5%	1.4%	1.7%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$62.1	0.3%	-0.5%	-4.8%	\$14,609	1.1%	4.0%	12.0%	
Cheung Sha Wan	\$30.7	0.5%	0.8%	6.1%	n/a	n/a	n/a	n/a	
Hung Hom	\$41.7	0.0%	1.9%	15.9%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.9	-0.2%	0.2%	-0.8%	\$12,388	0.3%	1.7%	11.5%	
Mong Kok / Yau Ma Tei	\$53.1	-0.9%	-0.9%	2.8%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

Residence Bel-Air in Pokfulam was active with a number of properties leased and sold in June.

Mid-Levels and Island South performed well with a number of major leasing transactions recorded last month.

RESIDENTIAL

TABLE 7
Selected residential sales transactions

District	Building	Tower / floor	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Pokfulam	Villa Bel-Air	House	3,603	\$205	\$56,897
Island South	56 Repulse Bay Road	House	2,131	\$110	\$51,619
The Peak	Carolina Garden	Block C / low floor	2,448	\$120	\$49,019
Island South	Las Pinadas	House	2,917	\$120	\$41,138
Pokfulam	South Tower Residence	Tower 8 / high floor	3,243	\$96.8	\$29,849

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6
Selected residential leasing transactions

District	Building	Tower / floor	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 1 / low floor	2,577	\$198,000	\$77
Mid-Levels West	Palatial Crest	High floor	1,503	\$110,000	\$73
Pokfulam	Bel-Air on the Peak	Tower 5 / low floor	1,798	\$113,000	\$63
Island South	Hong Kong Parkview	Tower 15 / high floor	2,067	\$105,000	\$51
Mid-Levels West	Imperial Court	High floor	1,222	\$62,000	\$51

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In June, rents grew in most major luxury residential areas.

Luxury home prices continued to increase last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Jun 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	\$64.9	0.0%	1.1%	7.4%	\$41,693	1.0%	2.3%	6.8%
Island South	\$52.9	1.4%	3.1%	6.8%	\$32,364	0.0%	2.7%	15.2%
Mid-Levels	\$54.9	0.6%	1.9%	6.3%	\$28,076	1.0%	2.0%	12.2%
Jardine's Lookout / Happy Valley	\$49.4	-0.1%	1.0%	1.5%	\$26,712	1.0%	1.9%	7.0%
Pokfulam	\$39.0	0.8%	2.4%	6.0%	\$23,756	1.1%	3.1%	10.4%

Source: Knight Frank Research

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

SNAPSHOT

A ground floor unit in Causeway Bay was sold for over HK\$300,000 per sq ft last month.

Not many major retail property leasing transactions were recorded in June.

RETAIL

TABLE 10
Selected retail sales transactions

District	Building	Floor / unit	Net floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Causeway Bay	Hong Kong Mansion	Ground floor / unit F	217	\$73.8	\$340,092
Causeway Bay	Sharp Street East	25 th floor unit	1,106	\$52.14	\$47,143
Shau Kei Wan	Parker 33	Ground floor / unit 3	560	\$25.9	\$46,250
San Po Kong	Maxgrand Plaza	Ground floor / unit B	1,860	\$74.66	\$40,143
Shatin	Kings Wing Plaza 2	Ground floor / unit 8	1,617	\$55.13	\$34,094

Source: Economic Property Research Centre

TABLE 11
Selected retail leasing transactions

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Western	Rockson Mansion	Ground floor / unit 1	245	\$250,000	\$1,020.4
Wan Chai	Valiant Court	Ground floor / unit 3	177	\$53,000	\$299.4
North Point	Tung Po Building	Ground floor / units E-F	1,812	\$130,000	\$71.7

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

SNAPSHOT

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

Total retail sales value grew another 0.5% year on year to HK\$35.9 billion in May 2017.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (May 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	\$5.6	15.5%	5.0%	-6.9%	1.4%
Clothing, footwear and allied products	\$4.8	13.4%	-4.3%	4.6%	-0.8%
Department stores	\$5.0	13.8%	42.0%	44.8%	3.8%
Fuel	\$0.8	2.2%	6.6%	17.3%	0.6%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.2	8.8%	-3.8%	-9.0%	3.1%
Consumer durable goods	\$4.8	13.4%	-3.2%	-8.2%	-6.0%
Supermarkets	\$4.3	12.1%	6.5%	15.7%	-1.1%
Others	\$7.4	20.7%	-9.9%	-2.3%	3.0%
All retail outlets	\$35.9	100.0%	2.1%	3.2%	0.5%

Source: Census and Statistics Department / Knight Frank Research



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RESEARCH & CONSULTANCY

David Ji

Director
Head of Research & Consultancy
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Pamela Tsui

Senior Manager
Research & Consultancy
Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

CONTACTS

Alan Child

Chairman
+852 2846 9522
alan.child@hk.knightfrank.com

Piers Brunner

Chief Executive Officer
Greater China
+852 2846 4848
piers.brunner@hk.knightfrank.com

Paul Hart

Executive Director
Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

CHINA VALUATION

Clement Leung

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

COMMERCIAL AGENCY

Ross Criddle

Senior Director
+852 2846 9527
ross.criddle@hk.knightfrank.com

RESIDENTIAL AGENCY

Maggie Lee

Senior Director
Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

RETAIL SERVICES

Helen Mak

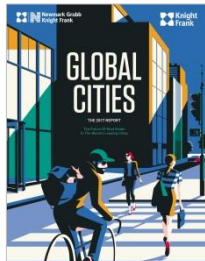
Senior Director
Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

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