

RESEARCH



AUG 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Relocation demand was strong
amid new office supply

Residential

New flat supply to peak and price
growth slows

Retail

Rental market on track to
bottom out

MARKET HIGHLIGHTS

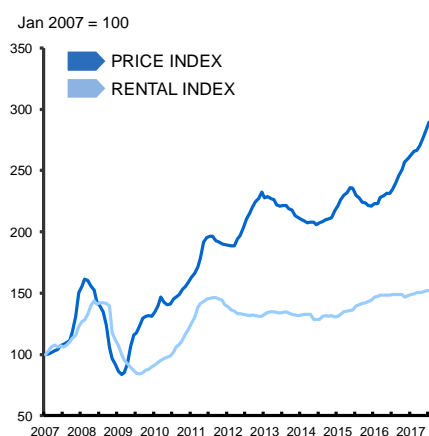
- ◆ Relocation demand for Grade-A offices remained strong, with tenants attracted by affordable new space on Hong Kong Island and in Kowloon East.
- ◆ Home sales plunged in July with fewer primary units launched. Home prices continued to rise and could grow further, but at a slower pace amid rate rises and increasing supply.
- ◆ The retail market continued to recover. The remainder of 2017 is expected to see steady growth, with more realignments for retail stores.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q2 2017	+3.8%#	+2.3%	+2.4%	+1.4%
Inflation rate	Jun 2017	+1.9%	+4.4%	+3.0%	2.4%
Unemployment	Apr-Jun 2017	3.1%#	3.2%	3.3%	3.4%
Prime lending rate	Current	5.00–5.25%	5.00%*	5.00%*	5.00%*

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

Numerous pre-lease transactions were recorded in July. Shared-office provider WeWork pre-leased 14 floors totaling 85,000 sq ft in LKF Tower in Central. The tower was previously Hotel LKF, but is being converted into an office building. This will be WeWork's third co-working centre in Hong Kong, with the other two located in Tower 535 in Causeway Bay and Asia Orient Tower in Wan Chai.

Maybank pre-leased two floors in Lee Garden Three in Causeway Bay. In Quarry Bay, MetLife pre-leased a whole floor in One Taikoo Place.

Looking ahead, the upcoming office supply on Hong Kong Island will provide more options for relocation from Central. Chinese firms, however, will continue to prefer Central and remain the key demand driver for offices in the CBD.

Kowloon

Most leasing transactions in Kowloon involved relatively small units of around 4,000 sq ft in July, mainly in Kowloon East and Kowloon West. Tenants were mainly from the sourcing and IT industries.

With many major companies having moved their offices to Kowloon, small and medium-sized enterprises are following suit, as they prefer to stay close to their business partners. Meanwhile, amid increasing supply, landlords are more willing to offer incentives to attract potential tenants.

We maintain our previous view that Kowloon rents will continue to face downward pressure during the remainder of 2017. More leasing transactions will be concluded after the summer, however, before the market slows down again towards the year end.

FIGURE 2
Luxury residential prices and rents

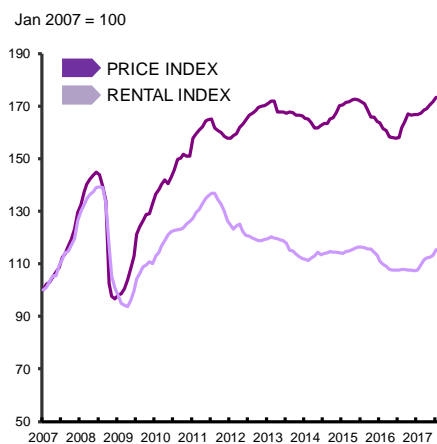
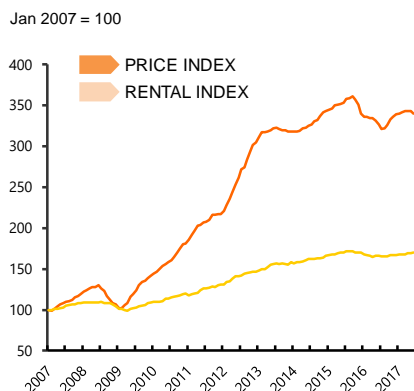


FIGURE 3
Retail property prices and rents



Residential

Residential sales plunged 42.4% month on month to only 3,515 in July 2017. Primary sales fell about 60% to 952 transactions, as fewer new flats were launched. However, home prices continued to trend upwards. Official data show that they continued to climb for 15 consecutive months ended June 2017, rising 23.8%. The mass sector led with 24.3% growth, while luxury home prices gained 14.8% during the period.

In the luxury segment, home sales worth HK\$10 million or above plunged 48.6% to 710 last month. However, a number of enquires were received from Chinese Mainlanders, reflecting their continued interests in Hong Kong properties, particularly primary homes in emerging luxury areas, where transportation is more convenient than in traditional luxury districts.

On the leasing front, the market continued to see robust activity during the peak season before the start of the new school year. Some record-breaking transactions were recorded. For example, a house in The Beverly Hills in Tai Po was rented for HK\$30.6 per sq ft per month, a five-year high in the development.

The US Federal Reserve decided to keep the interest rate unchanged in July, and another interest-rate hike is generally not expected during the remainder of the year. Hong Kong's supply of new private flats will climb to a high of 98,000 units over the next three to four years, according to The Transport and Housing Bureau, but this additional supply is unlikely to drag down home prices. We expect residential prices to grow 2-5% during the second half of 2017, led mainly by the mass sector.

Retail

Hong Kong's retail market continued to recover and recorded positive growth for 4 months in a row, with retail sales value rising another 0.1% year on year in June 2017. Half of the 20 retail categories registered positive growth. According to the Hong Kong Retail Management Association, most of its member companies are looking forward to a steady growth for the remainder of 2017.

Visitor arrivals during the first half of the year gained 2.4% year on year, led by a 2.3% growth in visitors from the Chinese Mainland. Overnight and same-day visitor arrivals rose by 5.0% and 0.2% respectively, with those from the Mainland up 5.4% and 0.3% respectively.

Rental levels for prime street retail stores in different districts have mostly undergone adjustments. Recognising that additional capital cost is required to recruit new tenants and at the same time to avoid the risk of having empty shops for an extended period, landlords are now willing to make more adjustments during negotiations. For example, a restaurant renewal in Soho was recently completed at a discount of 30% to the previous lease.

Following the stabilisation in overall retail sales, we expect to see more realignments for retail stores in the coming days. We believe the retail rental market is on track to bottom out in the second half of 2017.

SNAPSHOT

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

Otis leased two floors totalling 69,000 sq ft in Goldin Financial Centre in Kowloon Bay in July.

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	High	2,073	\$70.0	\$33,767
Cheung Sha Wan	The Globe	High	1,313	\$15.9	\$12,122
Tsim Sha Tsui	New East Ocean Centre	Low	3,224	\$31.8	\$9,864
Kowloon Bay	Enterprise Square Tower 2	Low	1,755	\$13.0	\$7,407

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)
Causeway Bay	Lee Garden Three	High	35,797 (L)
Kowloon Bay	Goldin Financial Global Centre	Mid	69,310 (G)
Kwai Chung	Kowloon Commerce Centre Tower A	Mid	47,122 (G)
Hung Hom	The Harbourfront Apex	High	35,000 (G)

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

SNAPSHOT

Grade-A office rents declined slightly in Wan Chai and North Point last month.

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

TABLE 4

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






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

TABLE 5

Prime office market indicators (Jul 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	0.0%	0.4%	4.4%	n/a	n/a	n/a	n/a	
Traditional Central	\$132.1	0.0%	1.5%	9.0%	n/a	n/a	n/a	n/a	
Overall Central	\$149.8	0.0%	1.0%	7.1%	\$36,281	3.3%	8.4%	28.8%	
Admiralty	\$107.1	0.0%	3.3%	7.7%	\$30,087	0.0%	6.5%	28.8%	
Sheung Wan	\$74.7	0.3%	0.5%	1.9%	\$26,571	4.4%	12.8%	28.8%	
Wan Chai	\$75.0	-0.1%	0.5%	4.1%	\$27,452	2.1%	4.8%	21.9%	
Causeway Bay	\$77.3	0.0%	-0.5%	3.2%	\$23,824	1.5%	4.3%	7.0%	
North Point	\$51.7	-0.5%	2.1%	4.7%	n/a	n/a	n/a	n/a	
Quarry Bay	\$52.6	0.0%	1.5%	1.7%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$62.2	0.2%	-0.3%	-4.0%	\$15,042	3.0%	5.7%	14.1%	
Cheung Sha Wan	\$30.5	-0.7%	-0.2%	6.5%	n/a	n/a	n/a	n/a	
Hung Hom	\$41.8	0.3%	0.8%	18.4%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.9	0.1%	-0.1%	-0.7%	\$12,583	0.5%	1.6%	10.3%	
Mong Kok / Yau Ma Tei	\$54.0	1.8%	0.9%	3.7%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A number of luxury houses were sold in Island South last month.

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

RESIDENTIAL

TABLE 7

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	8 Tai Tam Road	House	3,957	\$300	\$75,815
Island South	56 Repulse Bay Road	House	2,621	\$190	\$72,491
Island South	Mount Nicholson	Tower B / low floor	4,289	\$287.36	\$66,999
Mid-Levels Central	The Mayfair	High floor / unit A	2,242	\$129.88	\$57,930
Mid-Levels West	39 Conduit Road	High floor / unit A	2,476	\$124.644	\$50,341

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

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	Alassio	High floor / unit C	1,702	\$125,000	\$73.4
Island South	The Lily	Tower 4 / mid floor	2,488	\$155,000	\$62.3
Island South	Marina South	Tower 2 / mid floor / unit A	1,907	\$96,000	\$50.3
Island South	Redhill Apartment	Tower 1 / high floor / unit A	1,575	90,000	57.1
Island South	Repulse Bay Garden	Tower 2 / mid floor	2,049	83,500	40.8

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Luxury home prices continued to increase last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Jul 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	\$65.1	0.2%	0.7%	7.6%	\$41,978	0.7%	2.6%	7.5%	
Island South	\$53.4	1.1%	3.4%	8.1%	\$32,809	1.4%	2.5%	16.8%	
Mid-Levels	\$55.8	1.7%	3.3%	8.1%	\$28,317	0.9%	2.4%	12.2%	
Jardine's Lookout / Happy Valley	\$49.6	0.4%	-0.7%	2.6%	\$26,916	0.8%	2.4%	8.6%	
Pokfulam	\$42.4	8.8%	10.6%	15.3%	\$23,980	0.9%	3.4%	10.4%	

Source: Knight Frank Research

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

SNAPSHOT

A number of shops were sold in non-core retail districts last month.

Retail property leasing transactions were slow in July.

RETAIL

TABLE 10
Selected retail sales transactions

District	Building	Floor / unit	Net floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Sham Shui Po	Koon Kay Mansion	Ground floor / unit 4	150	\$13.97	\$93,120
Chai Wan	Lok Hin Terrace	Ground floor / unit 313	75	\$6.0	\$80,000
Causeway Bay	Yee Hing Mansion	Ground floor / unit A	1,250	\$60.0	\$48,000
Cheung Sha Wan	On Fat Building	Ground floor / unit D	670	\$19.3	\$28,806
Shatin	Kings Wing Plaza 2	2nd floor / unit 225	1,581	\$32.53	\$20,577

Source: Economic Property Research Centre

TABLE 11
Selected retail leasing transactions

District	Building	Floor / unit	Floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Quarry Bay	King's House	Ground and 1st floors / units A-B	1,881 (N)	\$455,800	\$242.3
Tsim Sha Tsui	Valiant Commercial Building	Ground floor / unit A	1,329 (G)	\$190,000	\$143.0
Sheung Wan	Kinwick Centre	1st floor unit*	4,855 (G)	\$640,860	\$132.0

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.
G: Gross; N: Net
* street entrance level

SNAPSHOT

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

Total retail sales value grew another 0.1% year on year to HK\$33.7 billion in Jun 2017.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jun 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	\$5.4	16.1%	-2.4%	-2.3%	-0.8%
Clothing, footwear and allied products	\$4.4	13.1%	-8.2%	-9.3%	-1.9%
Department stores	\$3.3	9.9%	-32.7%	-2.7%	0.8%
Fuel	\$0.8	2.3%	-0.4%	5.2%	-0.8%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.0	8.8%	-6.4%	-6.2%	2.5%
Consumer durable goods	\$5.0	15.0%	5.0%	-16.5%	-0.2%
Supermarkets	\$4.3	12.9%	-0.1%	3.5%	0.4%
Others	\$7.4	21.8%	-1.0%	-3.9%	0.7%
All retail outlets	\$33.7	100.0%	-6.1%	-5.6%	0.1%

Source: Census and Statistics Department / Knight Frank Research



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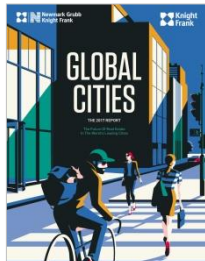
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