

RESEARCH



SEP 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Central and Kowloon East
continued to outperform

Residential
Home prices to gain 10-13% over
2017 despite recent slower growth

Retail
Market bottoming out but risks
remain

MARKET HIGHLIGHTS

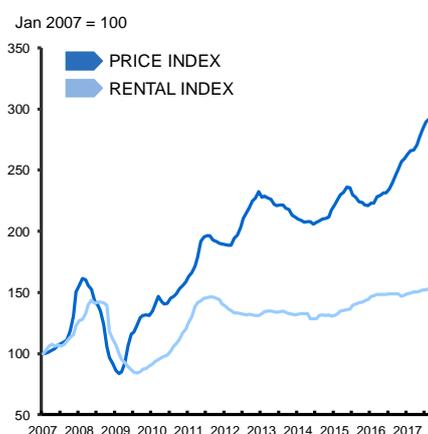
- ◆ Central continued to outperform the other business districts with increased requirements from international financial firms and sustained demand from Mainland companies.
- ◆ Home sales rebounded in August, with more primary units launched. Home price growth continued to slow down, but we still expect prices to increase 10-13% this year.
- ◆ The retail market recovered further but faces a number of risks. Shop leasing slowed down, with some landlords becoming firm on rental rates and potential tenants remaining cautious.

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	Jul 2017	+2.0%	+4.4%	+3.0%	2.4%
Unemployment	May-Jul 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

The low vacancy rate and sustained demand continued to support Central Grade-A office rentals. Premium buildings with sizeable whole floors available are particularly favoured by large occupiers. A bank, for example, is negotiating for leasing three whole floors in One IFC to consolidate its offices.

Office demand from traditional financial institutions saw improvement in the past few months, with expansion requirements from major foreign firms. Mainland firms, meanwhile, became a less dominant force than in previous years, although they remained a key demand driver for Central office space.

Over the first half of 2017, Central office rentals increased 3.5%, outperforming all other districts. We believe this trend will continue and expect Central rents to increase 5-7% for the whole year.

Kowloon

Kowloon's office leasing transaction numbers in August shrank 20% month on month, as market momentum softened during the summer. Most transactions were recorded in Kowloon East and involved mainly IT and sourcing companies.

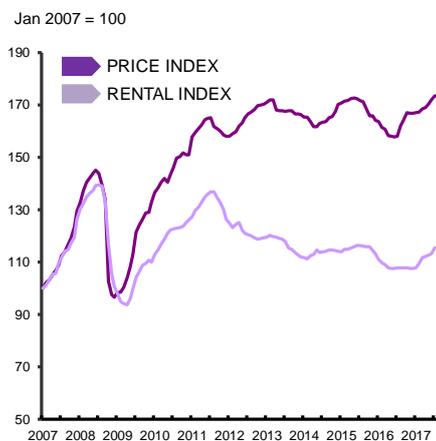
Kowloon East Grade-A offices remained competitive with their high quality-price ratio. WeWork, for instance, leased over 71,000 sq ft of space in Mapletree Bay Point in Kwun Tong. This will be their first co-working centre in Kowloon, in addition to the three on Hong Kong Island.

We expect more sizable transactions to be concluded in September and October. As landlords tend to secure anchor tenants with discounted rents, rental growth in Kowloon should be suppressed by the end of 2017.

Residential

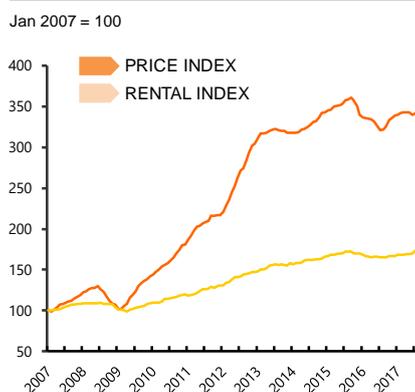
Retail

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 Jan to Jun 2017

Residential sales rebounded 14.2% month on month to 4,014 in August 2017, with more primary units launched. Home prices continued to trend upwards, but growth in July slowed to a mere 0.1% compared with June, according to official data.

Primary sales were robust last month. Parc City in Tsuen Wan, for example, sold all of its 953 units in just two days, with an oversubscription rate of over 3,000%, setting a record for the fastest sold-out project along the West Rail Line and the most oversubscribed project so far since 1997.

On the leasing front, the peak season for the market passed along with the start of the new school year. However, the market still saw sustained activity involving local moves and those who opted for renting after selling their homes to capture the capital gain from holding the properties for some years.

Another interest-rate hike is generally not expected during the remainder of the year. Hong Kong’s housing supply is expected to increase, but not in the short term. Given sustained demand, we expect prices to grow 5-10% for luxury homes and 10-13% for mass residential units over 2017.

Visitor arrivals grew another 2.4% year on year in July, led by a 3.7% growth in visitors from the Chinese Mainland. Same-day and overnight visitor arrivals rose 0.6% and 4.2% respectively, with those from the Mainland up 1.1% and 7.1% respectively. The rise in Mainland visitors was attributable to a stronger RMB in recent months.

With the improved tourism industry, retail sales value gained a notable 4.0% year on year in July, the fifth consecutive month of growth. All categories saw positive growth, except “consumer durable goods”. The category “jewellery, watches and clocks, and valuable gifts” grew 12.9%, the largest increase since May 2014.

In view of the encouraging visitor arrival and retail sales figures, some retail property landlords became firmer on rental rates, which slowed leasing activity, with potential tenants remaining cautious.

August’s retail sales growth may have been suppressed by two typhoons that hit Hong Kong on successive weekends. Risks facing the retail market include the sustainability of Mainland visitor arrivals, currency fluctuation, retailers’ ability to adapt to the “new normal” and international political instability. We remain cautiously optimistic and expect the market to bottom out in the second half of 2017.

SNAPSHOT

There were not many major office sales transactions registered last month.

WeWork leased two floors, totalling 71,000 sq ft, in Mapletree Bay Point in Kwun Tong in August.

PRIME OFFICE

TABLE 2
Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tsim Sha Tsui	Wing On Plaza	Mid	1,351	\$29.2	\$21,605
Sai Ying Pun	118 Connaught Road West	Mid	2,438	\$43.2	\$17,719
San Po Kong	Maxgrand Plaza	High	2,910	\$33.1	\$11,370
Shatin	Kings Wing Plaza 2	Low	1,437	\$13.6	\$9,450

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	One Exchange Square	High	13,384 (N)
Wan Chai	Three Pacific Place	High	16,290 (L)
Kwun Tong	Mapletree Bay Point	Low	71,588 (G)
Tsim Sha Tsui	The Gateway Tower 6	High	25,669 (G)

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

SNAPSHOT

Grade-A office rents remained stable in Wan Chai / Causeway Bay and Island East last month.

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

TABLE 4

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

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

TABLE 5

Prime office market indicators (Aug 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	\$185.3	0.5%	0.6%	4.4%	n/a	n/a	n/a	n/a	
Traditional Central	\$132.7	0.5%	1.7%	9.0%	n/a	n/a	n/a	n/a	
Overall Central	\$150.5	0.5%	1.3%	7.1%	\$36,469	0.5%	5.8%	27.3%	
Admiralty	\$109.0	1.7%	3.2%	9.3%	\$30,552	1.5%	4.7%	26.5%	
Sheung Wan	\$75.5	1.2%	1.6%	2.2%	\$26,915	1.3%	10.6%	29.3%	
Wan Chai	\$75.0	0.0%	-0.2%	4.5%	\$27,452	0.0%	3.2%	18.0%	
Causeway Bay	\$77.3	0.0%	-0.5%	3.3%	\$23,824	0.0%	2.5%	7.0%	
North Point	\$51.7	0.0%	-0.5%	4.4%	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	\$63.0	1.2%	1.8%	-3.0%	\$15,081	0.3%	4.4%	13.4%	
Cheung Sha Wan	\$30.4	-0.1%	-0.3%	6.4%	n/a	n/a	n/a	n/a	
Hung Hom	\$42.0	0.4%	0.8%	19.2%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.1	0.6%	0.5%	1.4%	\$12,674	0.7%	1.8%	9.6%	
Mong Kok / Yau Ma Tei	\$55.8	3.3%	4.1%	7.4%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A luxury apartment in Mid-Levels West was sold for over HK\$100 million last month.

Mid-Levels performed well, with a number of major sales and leasing transactions recorded in August.

RESIDENTIAL

TABLE 7

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	39 Conduit Road	High floor / unit A	2,351	\$159.9	\$67,992
Mid-Levels East	Leon Court	Mid floor / unit A	2,480	\$74.5	\$30,040
Island South	Repulse Bay Garden	Block 30 / high floor	2,049	\$59.5	\$29,039
Mid-Levels Central	Tregunter	Tower 1 / high floor / unit A	2,559	\$73.0	\$28,527
Mid-Levels Central	Macdonnell House	High floor / unit A	2,228	\$59.0	\$26,481

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	Azura	High floor / unit A	1,292	\$103,000	\$79.7
Pokfulam	Bel-Air on the Peak	Tower 5 / low floor	1,798	\$125,000	\$69.5
Island South	Marinella	Tower 6 / mid floor / unit B	1,650	\$95,000	\$57.6
Mid-Levels Central	Clovelly Court	Block 1 / high floor / unit B	2,348	\$110,000	\$46.9
Happy Valley	Elm Tree	Block A / mid floor	1,570	\$71,000	\$45.0
Mid-Levels Central	Garden Terrace	Block 3 / low floor	2,828	\$115,000	\$40.7

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In August, 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 (Aug 2017)

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

TABLE 9

Luxury residential market indicators (Aug 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	-0.3%	0.4%	7.4%	\$41,978	0.0%	1.7%	4.7%
Island South	\$54.2	1.4%	3.4%	9.0%	\$33075	0.8%	2.2%	16.2%
Mid-Levels	\$56.2	0.7%	3.0%	8.6%	\$28,461	0.5%	2.4%	9.7%
Jardine's Lookout / Happy Valley	\$49.9	0.8%	1.1%	3.0%	\$27,073	0.6%	2.4%	8.7%
Pokfulam	\$40.3	1.1%	4.3%	9.5%	\$24,096	0.5%	2.5%	6.1%

Source: Knight Frank Research

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

SNAPSHOT

All major retail property sales transactions were recorded in non-core districts last month.

A major street shop in Russell Street was leased in August.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Net floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
North Point	Victor Court	Ground floor / unit 4	428	\$37.0	\$86,402
Yau Ma Tei	Arts Mansion	Ground floor / unit 1	791	\$61.0	\$77,118
Sham Shui Po	Yun Fat Building	Ground floor / unit B	1,524	\$89.0	\$58,399
Kennedy Town	Treasure Court	Ground floor / unit A	502	\$19.1	\$38,008
Cheung Sha Wan	On Fat Building	Ground floor / unit D	670	\$19.3	\$28,806

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)
Causeway Bay	26-28 Russell Street	Ground floor / unit 26	330 (S)	\$940,000	\$2,848.5
Tsim Sha Tsui	Hanyee Building	Ground floor / unit G	145 (S)	\$80,000	\$551.7
Tsim Sha Tsui	Luxury Court	Ground floor / unit A	162 (G)	\$68,000	\$420.0
Kwun Tong	On Ning Building	Ground floor / unit L	500 (S)	\$150,000	\$300.0
Kwun Tong	Kin Tak House	Ground floor / unit A	415 (S)	\$110,000	\$265.1

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

S: Saleable; G: Gross

SNAPSHOT

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

Total retail sales value grew another 4.0% year on year to HK\$36.0 billion in July 2017.

TABLE 12

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

Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jul 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	\$6.2	17.2%	14.1%	16.6%	12.9%
Clothing, footwear and allied products	\$5.0	13.7%	11.9%	-1.8%	0.6%
Department stores	\$3.7	10.2%	9.8%	4.7%	5.5%
Fuel	\$0.8	2.2%	-1.1%	5.0%	2.2%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.1	8.5%	3.3%	-6.9%	4.9%
Consumer durable goods	\$5.1	14.0%	-0.1%	1.4%	-0.9%
Supermarkets	\$4.4	12.3%	2.5%	8.8%	0.0%
Others	\$7.9	21.9%	7.2%	-4.3%	4.6%
All retail outlets	\$36.0	100.0%	7.0%	2.4%	4.0%

Source: Census and Statistics Department / Knight Frank Research



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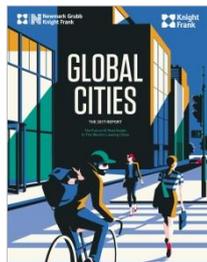
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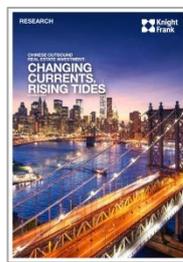
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