

RESEARCH



JANUARY 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Grade-A office rents in Kowloon East to rebound this year

Residential
Interest-rate rise is not expected to drag down home prices in 2018

Retail
Rents to drop 5-10% in 2018 with limited leasing activity

MARKET HIGHLIGHTS

- ◆ Grade-A office market activity was slow in December 2017, but there were still a few major sales and leasing transactions. Rents in Central are expected to further increase in 2018.
- ◆ Overall home sales volume decreased month on month in December, but the luxury sector remained robust. Mass and luxury prices will increase 5% and 8% respectively in 2018.
- ◆ Retail sales and visitor arrivals figures remained positive, but retail rents are set to drop another 5-10% this year, with a lack of major expansion and new entry plans from retailers.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q3 2017	+3.6%#	+2.3%	+2.4%	+1.4%
Inflation rate	Nov 2017	+1.6%	+4.4%	+3.0%	2.4%
Unemployment	Sep-Nov 2017	3.0%#	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

Prime Office

Hong Kong Island

Activity slowed with less leasing and sales transactions during the traditional holiday season last month. However, co-working space service providers continued to expand: the local Campfire pre-leased nine floors in V Point in Causeway Bay, covering 38,820 sq ft, as its tenth co-working space in Hong Kong.

Grade-A office rents continued to rise in 2017, with Admiralty and Sheung Wan recording the largest growth among districts on Hong Kong Island, up 11% and 9% year on year respectively.

In the sales market, a notable transaction was recorded in Wong Chuk Hang, involving National Electronics Holdings which sold the 15th floor in One Island South for HK\$500 million.

Central's rents will rise 2-5% in 2018 with limited supply and sustained demand.

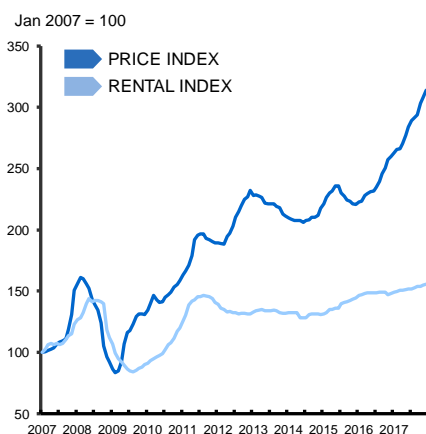
Kowloon

Following a standard year-end pattern, Kowloon's leasing transactions slowed in December 2017, involving mainly small units in East Kowloon, with tenants being mainly professional services and sourcing companies. Kowloon Central and Kowloon West were stagnant.

However, there were still two notable transactions involving a total space of 143,000 sq ft in Mapletree Bay Point in Kowloon East: VF Corporation leased three floors, while Sainsbury's took up one. These transactions suggested that available space in the market continued to be taken up at a certain rate.

The Kowloon East market was under rental pressure in 2017 with an influx of new supply. The pressure will gradually diminish along with absorption. Rentals will stabilise in the first quarter of 2018 and rebound in the second.

FIGURE 1
Grade-A office prices and rents

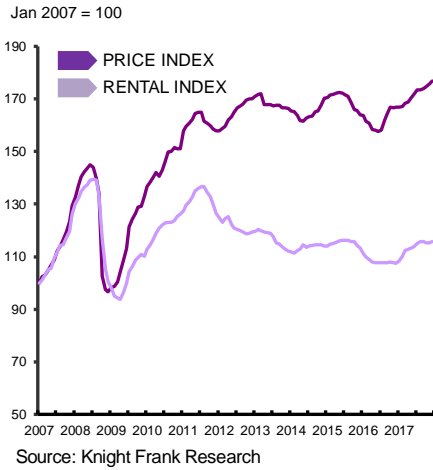


Source: Knight Frank Research

Residential

Retail

FIGURE 2
Luxury residential prices and rents



Residential sales reached 5,337 in December 2017, down 6.3% month on month. However, there were 61,591 transactions in 2017, 12.6% higher than 2016.

The luxury sector remained active during December, the traditional season for bonus distribution. The wealth effect from the bullish stock market also supported the property market, resulting in further price growth.

Housing prices continued to trend upward, up 1.1% month on month in November 2017, moving upward for 20 straight months, according to latest official statistics.

The US Federal Reserve raised the federal funds rate by 25 basis points in December, in line with market expectations. The Fed is expected to have around three more rate hikes in 2018. Although Hong Kong is likely to follow suit, the hike is expected to be moderate, which will not have a significant impact on housing prices.

We believe the uptrend in home prices will continue in 2018 given stable economic conditions and limited housing supply. We forecast that mass residential prices could increase 5% in 2018, while luxury home prices could increase 8%.

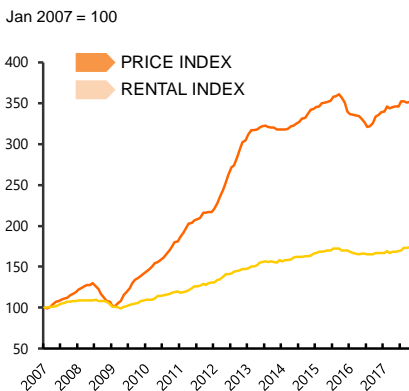
Retail sales value increased for the ninth consecutive month, with latest official data showing growth of 7.5% year on year in November 2017. The growth of “miscellaneous consumer durable goods” and “medicines and cosmetics” led all major categories, reaching 27.4% and 12.5% respectively. The sales value of “jewellery, watches and clocks, and valuable gifts” continued to perform well by growing 7.9% year on year.

Visitor arrivals during the first 11 months of 2017 reached 52.9 million, up 3.1% year on year, the first time it has returned to the over 50 million level since 2015. Overnight visitor arrivals increased 5.0% during the period, while same-day visitor arrivals increased 1.3%.

Near-full employment, wealth effect from the stock market and an improving tourism industry continued to underpin the development of retail sales. Despite improved performance over the prior year, the market is lacking momentum to significantly uplift retail sales value, especially for the luxury goods sector.

With retail leasing activity level remaining low, due to limited expansion and new entry plans from major retailers, we expect rents of prime street shops to drop 5-10% over 2018.

FIGURE 3
Retail property prices and rents



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

SNAPSHOT

A small low floor unit in Lippo Centre in Admiralty was sold for nearly HK\$36,000 per sq ft.

A number of major leasing transactions were recorded in Central last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions (Dec 2017)

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Lippo Centre Tower 1	Low	1,830	\$65.867	\$35,993
Central	Silver Fortune Plaza	Mid	4,397	\$115	\$26,154
Tsim Sha Tsui	Star House	Low	1,424	\$31	\$21,770

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

TABLE 3

Selected office leasing transactions (Dec 2017)

District	Building	Zone	Floor area (sq ft)
Central	The Center	Mid	24,474 (G)
Causeway Bay	V Point	NA	38,820 (G)
Central	Central Tower	Mid	7,898 (L)
Central	Nine Queen's Road Central	Mid	2,990 (G)

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

SNAPSHOT

Grade-A office rents rose in most major business districts last month.

Central outperformed with the largest Grade-A office price growth in November.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Dec 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	\$188.7	0.7%	0.7%	4.4%	n/a	n/a	n/a	n/a	
Traditional Central	\$133.5	-0.2%	0.6%	5.8%	n/a	n/a	n/a	n/a	
Overall Central	\$152.2	0.2%	0.6%	5.2%	\$39,781	5.9%	9.1%	27.9%	
Admiralty	\$112.1	1.2%	2.9%	10.9%	\$32,838	0.0%	7.5%	22.8%	
Sheung Wan	\$80.4	1.1%	3.5%	9.4%	\$30,597	4.4%	12.3%	32.8%	
Wan Chai	\$75.9	0.5%	1.2%	3.8%	\$28,628	0.8%	1.7%	13.0%	
Causeway Bay	\$79.7	1.1%	3.2%	3.9%	\$24,739	0.5%	1.8%	9.8%	
North Point	\$53.0	0.0%	2.6%	7.3%	n/a	n/a	n/a	n/a	
Quarry Bay	\$52.7	0.0%	0.2%	1.9%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$63.6	1.0%	1.0%	4.0%	\$16,040	3.2%	6.0%	16.9%	
Cheung Sha Wan	\$30.9	1.9%	3.0%	0.4%	n/a	n/a	n/a	n/a	
Hung Hom	\$43.0	0.8%	2.0%	10.4%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.3	0.3%	1.3%	-0.1%	\$13,040	0.6%	2.4%	7.2%	
Mong Kok / Yau Ma Tei	\$59.1	0.0%	5.9%	10.3%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A luxury apartment on the Peak was sold for over HK\$132,000 per sq ft in December.

Island South and Mid-Levels were active in luxury residential leasing last month.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Dec 2017)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	Tower D / mid floor	4,579	\$605	\$132,059
Island South	23-39 Blue Pool Road	Unit B	4,599	\$338	\$73,538
Mid-Levels West	Upton	High floor	1,973	\$133	\$67,309
Mid-Levels Central	Grenville House	Block J / high floor	3,366	\$160	\$47,585
Mid-Levels Central	Century Tower	Penthouse	4,166	\$180	\$43,207

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Dec 2017)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 1 / high floor / unit B	3,599	\$229,000	\$63.6
Pokfulam	Bel-Air on the Peak	Tower 3 / low floor / unit A	1,893	\$118,000	\$62.3
Mid-Levels Central	Tregunter	Tower 1 / high floor / unit B	2,330	\$118,000	\$50.6
Mid-Levels Central	Estoril Court	Block 1 / mid floor / unit A	2,888	\$128,000	\$44.3
Island South	Regalia Bay	House	2,781	\$ 110,000	\$39.6

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents in all major luxury residential districts remained stable in December.

Jardine's Lookout / Happy Valley recorded the most notable growth in luxury home prices last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Dec 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	\$63.2	0.1%	-1.4%	4.4%	\$42,738	0.5%	1.2%	6.6%
Island South	\$54.6	0.6%	0.6%	10.7%	\$33,261	0.4%	0.4%	7.4%
Mid-Levels	\$56.3	0.2%	-0.2%	8.4%	\$28,979	0.9%	1.6%	6.6%
Jardine's Lookout / Happy Valley	\$50.4	0.2%	0.4%	5.0%	\$28,109	1.6%	3.4%	9.1%
Pokfulam	\$40.8	0.1%	0.5%	11.2%	\$24,969	0.0%	3.6%	8.6%

Source: Knight Frank Research

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

SNAPSHOT

A ground floor unit in Mong Kok was sold for over HK\$240,000 per sq ft in December.

A number of major retail leasing transactions were recorded in Wan Chai last month.

RETAIL

TABLE 10

Selected retail sales transactions (Dec 2017)

District	Building	Floor / unit	Net floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mong Kok	Richmond Shopping Centre	Ground floor / unit A6	63	\$15.2	\$241,270
Central	Wo On Building	Ground floor / unit C	184	\$25.88	\$140,652
Wan Chai	Capital Building	Ground floor / unit 9	540	\$46.5	\$86,111
Kwun Tong	Kwun Tong Plaza	3rd floor / unit 19	116	\$3.2	\$27,586

Source: Economic Property Research Centre

TABLE 11

Selected retail leasing transactions (Dec 2017)

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Wan Chai	CNT Tower	Ground floor / unit C	1,031	\$210,000	\$203
Tsim Sha Tsui	Mirador Mansion	Ground floor / unit 30	605	\$115,000	\$190
Wan Chai	Lockhart Centre	Ground floor / unit A1	600	\$100,000	\$166

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

SNAPSHOT

Drops in prime street shop rents are expected to narrow to only 5-10% this year.

Total retail sales value increased 7.5% year on year to HK\$38.7 billion in November 2017.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Nov 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	\$6.1	15.8%	-7.9%	-1.1%	7.9%
Clothing, footwear and allied products	\$4.9	12.7%	7.2%	18.4%	3.8%
Department stores	\$5.3	13.8%	33.3%	44.6%	5.7%
Fuel	\$0.8	2.0%	-3.7%	0.4%	4.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.5	9.1%	-6.7%	5.6%	3.8%
Consumer durable goods	\$6.8	17.6%	13.4%	36.2%	15.0%
Supermarkets	\$4.2	10.9%	-6.4%	-7.9%	1.9%
Others	\$7.0	18.1%	-2.6%	-1.7%	10.6%
All retail outlets	\$38.7	100.0%	3.2%	11.1%	7.5%

Source: Census and Statistics Department / Knight Frank Research



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