

RESEARCH



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HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Surrendered space by Chinese firms swiftly taken up by MNCs

Residential

Relocation trend witnessed in luxury residential leasing market

Retail

Wealth effect from stock market supports local retail sale

MARKET HIGHLIGHTS

- ♦ Grade-A office leasing remained active in Central but slowed down in Kowloon in January 2018. The office sales market was robust with a number of en-bloc transactions concluded.
- ♦ Residential sales remained stable in January 2018. Luxury residential leasing was inactive during the low season, and is set to recover in March or April.
- ♦ Retail sales and visitor arrivals figures remained positive, but there is no fundamental development guiding the retail market back to its heyday.

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	Dec 2017	+1.7%	+4.4%	+3.0%	2.4%
Unemployment	Oct-Dec 2017	2.9%#	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

Central's Grade-A office leasing market showed a polarising trend recently, with some Chinese firms looking to surrender and find replacement tenants due to closure or downsizing, while some multinational companies (MNCs) have been expanding. Surrendered or vacated space has been quickly taken up.

In the sales market, a number of en-bloc transactions were recorded, one of which being 18 King Wah Road in North Point that sold for HK\$9.95 billion, involving about 330,000 sq ft of offices and 123 parking spaces.

Looking forward, Grade-A office rentals on Hong Kong Island are expected to grow further, led by Central with sustained demand and limited space available.

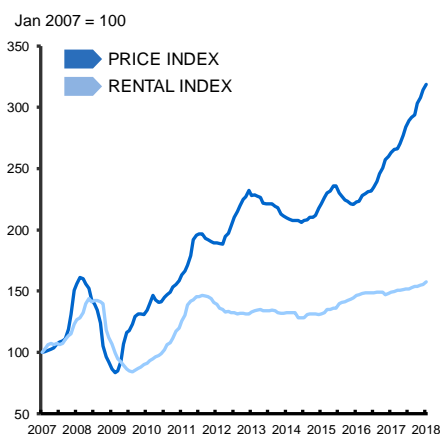
Kowloon

Grade-A office leasing activity shrank around 50% month on month in January 2018. However, transactions mainly involved sizable offices in Kowloon East, with most tenants from the information technology and sourcing sectors.

Co-working operators' expansion in Hong Kong remained robust. Naked Hub, for example, leased the 25-26th floors, totalling 58,000 sq ft, in Two Harbour Square, Kwun Tong. Meanwhile, ARCADIS took up the 16-18th floors in the same building.

We expect Grade-A office rents in Kowloon East to rise about 2% over 2018. The market will remain quiet in February following a typical Chinese New Year pattern.

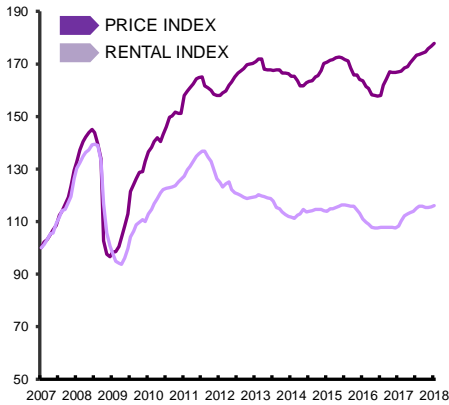
FIGURE 1
Grade-A office prices and rents



Source: Knight Frank Research

FIGURE 2
Luxury residential prices and rents

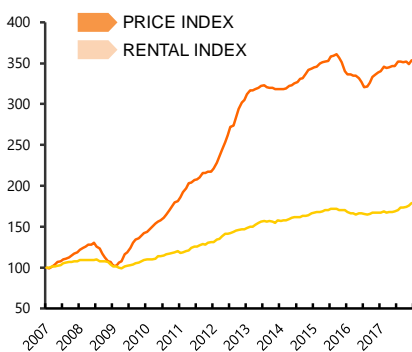
Jan 2007 = 100



Source: Knight Frank Research

FIGURE 3
Retail property prices and rents

Jan 2007 = 100



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

Residential

Residential sales dipped 1.3% month on month to 5,270 in January, traditionally a low season, but surged 60.4% year-on-year (Y-o-Y). Meanwhile, the residential leasing market was quiet at the beginning of the year.

Housing prices continued to trend upward, gaining 1.4% month on month in December 2017, growing for 21 straight months, according to latest official statistics. The accumulated growth reached 14.8% over 2017.

There has been a trend where expatriate families relocate away from traditional luxury residential districts to other areas, such as Tai Po and Tseung Kwan O, where new international schools have opened / will open. The availability of school places and their proximity to new CBDs, coupled with comprehensive facilities and convenient transportation, make these areas increasingly favourable to expatriate families.

Looking forward, the leasing market is likely to become active again in March or April. While luxury units available for lease will remain limited, demand is likely to be sustained. As such, we forecast that luxury residential rents will see further growth, by a mild single-digit magnitude over 2018.

Retail

The annual total retail sales value of Hong Kong reached HK\$446.1 billion in 2017, up 2.2% Y-o-Y. However, this was the second lowest level in the past five years. The trend was similar for the “jewellery, watches and clocks, and valuable gifts” category, with its retail sales value reaching HK\$75 billion in 2017, surging 5.2% Y-o-Y but dropping 36.6% from 2013.

Mainland Chinese visitor arrivals increased by 3.9% Y-o-Y in 2017, reaching 44.4 million. However, tourism is no longer a leading force to drive retail sales in Hong Kong. Despite the return of Mainland visitors, Hong Kong's retail sales value has not recovered to previous high-performing levels.

Prime street shop rents in core retail districts continued to adjust downwards. Space occupied by seasonal business operators for Chinese New Year in core districts recorded significant reductions in rents over prior terms.

Wealth effect from the stock market has continued to support retail sales, but there is, at the moment, no fundamental development guiding the retail market back to its heyday. As Hong Kong's physical retail is still seeking a new identity amid challenges from e-commerce, no reverting signs are expected for street shop rentals in the short term.

SNAPSHOT

18 King Wah Road in North Point was sold en bloc for HK\$9.95 billion in January.

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

PRIME OFFICE

TABLE 2

Selected office sales transactions (Jan 2018)

District	Building	Zone	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Lippo Centre Tower 1	Low	1,202 (N)	\$66.33	\$55,183
North Point	18 King Wah Road	En bloc	329,800 (G)	\$9,950	\$30,170
Tsim Sha Tsui	Concordia Plaza	High	825 (G)	\$14.19	\$17,200

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

N: net; G: gross

TABLE 3

Selected office leasing transactions (Jan 2018)

District	Building	Zone	Lettable floor area (sq ft)
Central	Two IFC	High	1,569
Central	Cheung Kong Center	Mid	2,981
Central	Nexus Building	Mid	9,971
Admiralty	Two Pacific Place	Low	1,624
Wan Chai	Central Plaza	High	2,393

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Tsim Sha Tsui outperformed with the largest Grade-A office price growth in January.

TABLE 4

Month-on-month movement in Grade-A office rents (Jan 2018)






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

TABLE 5

Prime office market indicators (Jan 2018)

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	\$190.5	0.9%	1.7%	4.3%	n/a	n/a	n/a	n/a
Traditional Central	\$135.2	1.3%	1.9%	5.9%	n/a	n/a	n/a	n/a
Overall Central	\$154.0	1.2%	1.8%	5.2%	\$40,150	0.9%	9.8%	22.8%
Admiralty	\$114.1	1.8%	4.7%	12.7%	\$32,838	0.0%	0.0%	22.0%
Sheung Wan	\$82.0	1.9%	4.0%	11.1%	\$31,441	2.8%	13.1%	35.2%
Wan Chai	\$78.1	2.9%	4.6%	5.4%	\$28,828	0.7%	1.8%	11.9%
Causeway Bay	\$81.0	1.6%	4.9%	4.7%	\$24,939	0.8%	1.8%	10.6%
North Point	\$53.0	0.0%	2.6%	5.8%	n/a	n/a	n/a	n/a
Quarry Bay	\$53.2	1.1%	1.1%	2.8%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$64.6	1.6%	2.6%	5.4%	\$17,020	6.1%	10.9%	23.3%
Cheung Sha Wan	\$31.0	0.3%	3.0%	0.5%	n/a	n/a	n/a	n/a
Hung Hom	\$43.1	0.2%	1.0%	10.4%	n/a	n/a	n/a	n/a
Kowloon East	\$34.4	0.4%	1.0%	1.0%	\$13,086	0.3%	1.4%	7.4%
Mong Kok / Yau Ma Tei	\$59.1	0.0%	2.5%	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 nearly HK\$130,000 per sq ft in January.

Major luxury residential leasing transactions were recorded mainly in Island South and Mid-Levels last month.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Jan 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	Tower D / high floor	4,596	\$590.2	\$128,414
Island South	2 Cape Drive	House	3,414	\$213.6	\$62,560
Mid-Levels West	55 Conduit Road	High floor / unit B	4,710	\$286.2	\$60,754
Pokfulam	Pokfulam Peak	House	4,733	\$285.0	\$60,216
Island South	Rosecliff	House	3,209	\$190.0	\$59,208

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Jan 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	High floor / unit A	1,387	\$120,000	\$86.5
Mid-Levels West	39 Conduit Road	Mid floor / unit B	2,355	\$203,000	\$86.2
Sai Ying Pun	Soho 189	High floor / unit A	1,516	\$120,000	\$79.2
Island South	Royal Bay	House	2,724	\$200,000	\$73.4
Mid-Levels East	The Leighton Hill	Tower 2 / high floor / unit A	1,240	\$80,000	\$64.5

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

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

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 (Jan 2018)






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

TABLE 9

Luxury residential market indicators (Jan 2018)

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	\$63.0	-0.3%	-2.9%	3.9%	\$42,888	0.4%	1.6%	7.0%
Island South	\$55.1	0.9%	1.7%	11.7%	\$33,320	0.2%	0.6%	7.6%
Mid-Levels	\$56.9	1.0%	1.2%	9.8%	\$29,241	0.9%	2.5%	7.5%
Jardine's Lookout / Happy Valley	\$50.4	0.0%	0.9%	4.5%	\$28,564	1.6%	5.1%	10.8%
Pokfulam	\$41.0	0.5%	1.5%	11.8%	\$25,079	0.4%	4.1%	9.1%

Source: Knight Frank Research

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

SNAPSHOT

Two major shops were sold for over HK\$110,000 per sq ft last month.

Retail leasing transactions have involved mainly small shops in recent months.

RETAIL

TABLE 10

Selected retail sales transactions (Jan 2018)

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tsim Sha Tsui	Carnarvon Mansions	Ground floor / unit C	460 (N)	\$54	\$117,391
Wan Chai	Fleming Mansion	Ground floor / unit C	369 (N)	\$43	\$116,531
Sham Shui Po	Yun Fat Building	Ground floor / unit B	1,428 (N)	\$89	\$62,325
Tuen Mun	Kai Hei Land Building	Ground floor / unit 15	674 (G)	\$28.8	\$42,730

Source: Economic Property Research Centre

N: net G: gross

TABLE 11

Selected retail leasing transactions (Jan 2018)

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tai Po	Po Hong Building	Ground floor / unit E	208	\$53,000	\$254.8
Causeway Bay	Kyoto Plaza	Basement	3,163	\$335,440	\$106.1
Aberdeen	South View Garden	Ground floor / unit G	737	\$55,000	\$74.6

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 5.8% year on year to HK\$44.8 billion in December 2017.

TABLE 12

Month-on-month movement in prime street shop rents (Jan 2018)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Dec 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	\$8.7	19.4%	42.2%	44.6%	6.3%
Clothing, footwear and allied products	\$6.2	13.8%	26.0%	53.6%	6.0%
Department stores	\$5.1	11.3%	-5.3%	34.2%	4.0%
Fuel	\$0.8	1.7%	-1.1%	-6.4%	1.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.8	8.6%	10.0%	-11.1%	1.1%
Consumer durable goods	\$7.1	15.8%	4.1%	25.9%	12.3%
Supermarkets	\$4.3	9.7%	3.3%	-3.2%	-2.8%
Others	\$8.8	19.7%	25.3%	33.5%	8.5%
All retail outlets	\$44.8	100.0%	15.8%	25.6%	5.8%

Source: Census and Statistics Department / Knight Frank Research



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