

RESEARCH



APRIL 2018

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY  
MARKET



**Office**  
Decentralisation and relocation  
continue

**Residential**  
Hong Kong prime rates remain  
unchanged despite US interest rate  
hikes

**Retail**  
More Mainland brands  
expected to expand their  
presence in Hong Kong

# HIGHLIGHTS

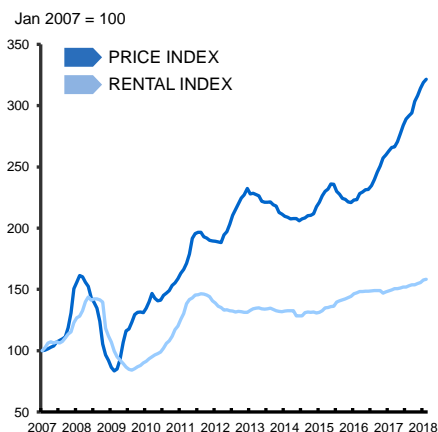
- ◆ The office decentralisation on Hong Kong Island continues. On the Kowloon side, there is increasing demand for relocation to Kowloon East.
- ◆ Residential sales dropped 27% year on year (Y-o-Y) in March. Meanwhile, the luxury residential leasing market has entered the peak season.
- ◆ Mainland retailers are expected to become a significant factor in retail tenancies, underpinning retail rents in the long term.

TABLE 1  
**Economic indicators**

Economic indicator	Period	Latest reading	2015	2016	2017
GDP growth	Q4 2017	+3.4%#	+2.4%	+1.4%	3.8%#
Inflation rate	Feb 2018	+3.1%	+3.0%	2.4%	1.5%
Unemployment	Dec 2017- Feb 2018	2.9%^	3.3%	3.4%	NA
Prime lending rate	Current	5.00–5.25%	5.00%*	5.00%*	5.00%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank Research  
# Preliminary ^ Provisional \* HSBC

FIGURE 1  
**Grade-A office prices and rents**



Source: Knight Frank Research

## Prime Office

### Hong Kong Island

The average rent for Central's Grade-A office space increased 1.2% month on month (M-o-M) to around HK\$157 per sq ft per month in March. Strong demand continued to put pressure on vacancy in Central, with a very low rate of 1.1% recorded in March, a fall of 0.4 percentage points M-o-M.

With limited vacant office space available, some companies are willing to pay higher rent and take more time to look for an office in Central. Landlords are also conducting more background checks of potential tenants regarding their business nature and scale.

Other companies are decentralising. For example, Goldman Sachs is reportedly to move its back office functions from The Centre to Causeway Bay when its lease expires in December. With overall rents in Central expected to rise 6-9% in 2018, we believe this decentralisation trend will continue.

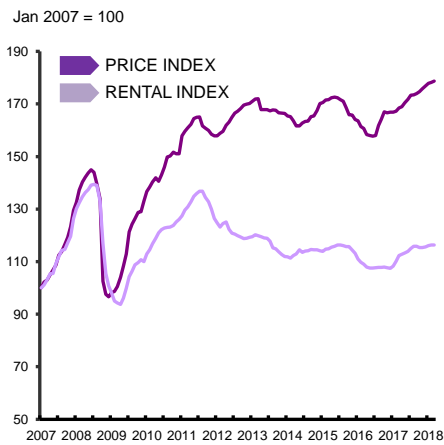
### Kowloon

During the traditional offpeak season, the Grade-A office leasing market in Kowloon remained quiet in March. Leasing demand in Kowloon East was driven by the information technology, sourcing and engineering sectors. Most leasing transactions involved relocations to reduce costs.

Kowloon East has gradually become a preferred location for tenants whose business partners are in Kowloon or the New Territories and for those who are looking to reduce staff commuting costs. Improved infrastructure as well as project redevelopments are adding vibrancy to the area.

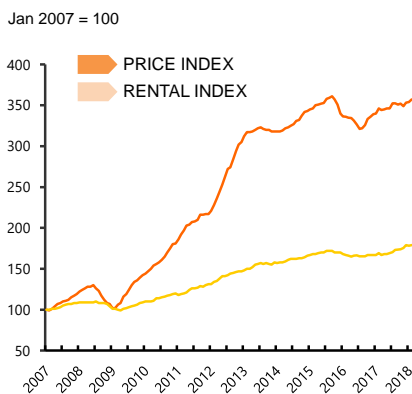
The relocation trend to Kowloon East is expected to continue as rents in the area are still comparatively low. Since new supply level in Kowloon East this year will be lower than in 2016 and 2017, rents are expected to pick up slowly in the second half of 2018.

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 Sept 2017 to Feb 2018

## Residential

Residential sales in March dropped 27% Y-o-Y. Over 15,000 transactions were recorded in the first quarter of 2018. Some developers achieved their 2017-2018 sales targets and were planning to launch new projects in the next financial year.

According to the latest official figures, housing prices continued to trend upwards, gaining 1.6% M-o-M in March, setting a new record, as prices have risen for 23 consecutive months since April 2016.

The luxury residential leasing market entered the peak season in March. With the decentralisation trend in Grade-A office space and the opening of new international schools, some expatriate tenants have shifted their focus from the traditional luxury areas to emerging districts. Leasing transactions are expected to further increase in April, as corporations start executing their plans in the new financial year.

Hong Kong has not followed the US interest rate hikes and is not expected to, so with plenty of hot money remaining in the market, banks in Hong Kong continue to offer attractive mortgage rates to increase their market share. With sustained demand and a shortage of homes, we expect mass residential prices to rise 5-10% and luxury residential prices to rise 8-10% in 2018.

## Retail

Hong Kong's retail sales value reached HK\$45.2 billion in February, an increase of 29.8% Y-o-Y due to a low base in February 2017. Compared to the previous month, however, retail sales value increased only 0.6%. The sales value of luxury goods dipped 1.1% M-o-M to HK\$8.0 billion.

Mainland visitor arrivals increased 40.2% Y-o-Y to 4.4 million in February, because of the late Chinese New Year. As in previous years, domestic consumption still constituted about two-thirds of Hong Kong's retail sales, while purchases by Mainland visitors stabilised, as they continued to pursue quality of life and the physical shopping experience, which could not be replicated online.

With closer economic integration established between Hong Kong and Mainland cities, more leading Mainland brands, especially fashion and lifestyle retailers, are expected to expand their business to Hong Kong. Seeing Hong Kong as a platform to boost their popularity in the international market, these retailers will become a significant new element in retail tenancies and underpin retail rents in the long term.

In the short term, however, prime street retail rents in core districts will continue to fall mildly until the middle of this year, once the existing vacant shops in prime locations are occupied.

## SNAPSHOT

A Grade-A office in Convention Plaza was sold for nearly HK\$57,000 per sq ft in March.

Major Grade-A office leasing transactions were recorded in Central district last month.

# PRIME OFFICE

TABLE 2

### Selected office sales transactions (Mar 2018)

District	Building	Zone	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Sheung Wan</b>	Shun Tak Centre	High	1,533 (N)	\$59	\$38,487
<b>Admiralty</b>	Lippo Centre	Mid	1,935 (G)	\$76	\$39,276
<b>Wan Chai</b>	Convention Plaza	Mid	2,582 (N)	\$146	\$56,545

Source: Economic Property Research Centre  
Note: All transactions are subject to confirmation.  
N: net; G: gross

TABLE 3

### Selected office leasing transactions (Mar 2018)

District	Building	Zone	Lettable floor area (sq ft)
<b>Central</b>	One Exchange Square	High	14,445
<b>Central</b>	Agricultural Bank of China Tower	High	5,759
<b>Admiralty</b>	Lippo Centre Tower I	Low	14,491
<b>Wan Chai</b>	Everbright Centre	High	10,534
<b>Sheung Wan</b>	FWD Financial Centre	Mid	8,016

Source: Knight Frank Research  
Note: All transactions are subject to confirmation.

## SNAPSHOT

Central and Sheung Wan Grade-A office rentals outperformed other Hong Kong Island districts in March.

Central outperformed, with the largest Grade-A office price growth of all commercial districts last month.

TABLE 4

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






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

TABLE 5

### Prime office market indicators (Mar 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	\$192.3	0.7%	1.9%	4.7%	n/a	n/a	n/a	n/a	
Traditional Central	\$139.0	1.6%	4.2%	6.8%	n/a	n/a	n/a	n/a	
Overall Central	\$157.1	1.2%	3.2%	5.9%	\$41,844	3.6%	5.2%	25.9%	
Admiralty	\$114.9	0.4%	2.5%	10.8%	\$33,317	0.0%	1.5%	20.8%	
Sheung Wan	\$84.1	1.7%	4.5%	13.2%	\$32,461	2.0%	6.1%	39.4%	
Wan Chai	\$79.7	0.6%	3.7%	6.6%	\$29,028	0.3%	1.4%	12.1%	
Causeway Bay	\$83.4	0.3%	4.7%	7.1%	\$25,139	0.4%	1.6%	11.5%	
North Point	\$79.7	-1.2%	2.4%	5.1%	n/a	n/a	n/a	n/a	
Quarry Bay	\$54.1	0.0%	2.0%	6.8%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$54.5	0.1%	3.6%	5.3%	\$17,324	1.7%	8.0%	23.4%	
Cheung Sha Wan	\$66.8	1.8%	5.0%	7.1%	n/a	n/a	n/a	n/a	
Hung Hom	\$32.1	0.7%	3.9%	5.4%	n/a	n/a	n/a	n/a	
Kowloon East	\$42.9	-1.4%	0.0%	5.0%	\$13,125	0.2%	0.6%	6.3%	
Mong Kok / Yau Ma Tei	\$34.2	-0.4%	-0.2%	1.2%	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 changed hands last month.

There were major luxury residential leasing transactions in Mid-Levels and Island South in March.

# RESIDENTIAL

TABLE 7

### Selected residential sales transactions (Mar 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>The Peak</b>	Mount Nicholson	House	9,217	\$1,399	\$151,785
<b>Island South</b>	Scape	House	3,053	\$250	\$81,887
<b>Pokfulam</b>	Pokfulam Peak	House	3,757	\$233	\$62,018
<b>Mid-Levels Central</b>	Grenville House	Block E / mid floor	3,349	\$160	\$47,775
<b>Kowloon Tong</b>	Begonia Road	House	3,981	\$168	\$42,200

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

### Selected residential leasing transactions (Mar 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	The Morgan	High floor	1,361	\$113,000	\$83.0
Island South	The Lily	Tower 1 / high floor	3,599	\$232,000	\$64.5
Mid-Levels West	Azura	Mid floor	1,589	\$98,000	\$61.7
Island South	De Ricou, The Repulse Bay	Mid floor	2,522	\$152,000	\$60.3
Island South	Hong Kong Parkview	Tower 9 / low floor	2,157	\$120,000	\$55.6

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

## SNAPSHOT

Rents in most major luxury residential districts grew slightly in March.

Residential prices remained stable or grew slightly in major luxury districts last month.

TABLE 8

### Month-on-month changes in luxury residential rents (Mar 2018)






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

TABLE 9

### Luxury residential market indicators (Mar 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
<b>The Peak</b>	\$63.2	-0.4%	0.3%	2.3%	\$42,888	0.0%	0.9%	7.0%
<b>Island South</b>	\$56.1	1.1%	3.3%	13.4%	\$33,467	0.4%	1.0%	8.1%
<b>Mid-Levels</b>	\$57.3	0.2%	1.6%	10.2%	\$29,457	0.3%	2.6%	7.7%
<b>Jardine's Lookout / Happy Valley</b>	\$49.4	-1.0%	-1.7%	2.7%	\$29,162	0.9%	5.4%	12.1%
<b>Pokfulam</b>	\$41.0	0.2%	1.0%	11.1%	\$25,087	0.0%	0.5%	8.9%

Source: Knight Frank Research

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

## SNAPSHOT

A shop in Mong Kok was sold for HK\$42 million last month.

A shop in Tsim Sha Tsui was leased for around HK\$70 per sq ft in March.

# RETAIL

TABLE 10

### Selected retail sales transactions (Mar 2018)

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Mong Kok</b>	Lisa House	Ground floor / Unit A	665 (N)	\$41.8	\$62,857
<b>Hung Hom</b>	Hung Hum Mansion	Ground floor / Unit B	735 (N)	\$38.8	\$52,789
<b>Wan Chai</b>	David House	First floor	N/A	\$52.0	N/A

Source: Economic Property Research Centre

TABLE 11

### Selected retail leasing transactions (Mar 2018)

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
<b>Tsim Sha Tsui</b>	Universal Commercial Building	Basement	4,220	\$300,000	\$71.1
<b>Tsim Sha Tsui</b>	Cheong Hing Building	Ground floor	N/A	\$1,900,000	N/A
<b>Mong Kok</b>	Nelson Street 15B	Ground floor / unit 62	N/A	\$700,000	N/A

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



## SNAPSHOT

The drop in prime street shop rents is expected to narrow to 5-10% this year.

Total retail sales value increased by 29.8% Y-o-Y to HK\$45.2 billion in March.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

### Retail sales by outlet type (Feb 2018)

Outlet	Value (HK\$ billion)	Share of total %	M-o-M change	Q-o-Q change	Y-o-Y change
<b>Jewellery, watches and clocks, and valuable gifts</b>	\$8.0	17.7%	-1.1%	30.9%	33.7%
<b>Clothing, footwear and allied products</b>	\$6.6	14.5%	10.6%	33.9%	42.3%
<b>Department stores</b>	\$4.5	9.9%	6.2%	-16.3%	30.7%
<b>Fuel</b>	\$0.7	1.6%	-10.2%	-9.5%	6.0%
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	\$4.6	10.1%	9.3%	30.2%	30.4%
<b>Consumer durable goods</b>	\$6.7	14.9%	-2.6%	-1.2%	28.1%
<b>Supermarkets</b>	\$4.5	10.0%	2.7%	7.9%	20.7%
<b>Others</b>	\$9.6	21.3%	-7.5%	36.4%	26.3%
<b>All retail outlets</b>	\$45.2	100.0%	0.6%	16.7%	29.8%

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](mailto:david.ji@hk.knightfrank.com)

## CONTACTS

### Alan Child

Chairman  
+852 2846 9522  
[alan.child@hk.knightfrank.com](mailto:alan.child@hk.knightfrank.com)

### Piers Brunner

Chief Executive Officer  
Greater China  
+852 2846 4848  
[piers.brunner@hk.knightfrank.com](mailto:piers.brunner@hk.knightfrank.com)

### Paul Hart

Executive Director  
Greater China  
+852 2846 9537  
[paul.hart@hk.knightfrank.com](mailto:paul.hart@hk.knightfrank.com)

### Alnwick Chan

Executive Director  
+852 2846 9551  
[alnwick.chan@hk.knightfrank.com](mailto:alnwick.chan@hk.knightfrank.com)

## CHINA VALUATION

### Clement Leung

Executive Director  
+852 2846 9593  
[clement.leung@hk.knightfrank.com](mailto:clement.leung@hk.knightfrank.com)

## COMMERCIAL AGENCY

### Ross Criddle

Senior Director  
+852 2846 9527  
[ross.criddle@hk.knightfrank.com](mailto:ross.criddle@hk.knightfrank.com)

## RESIDENTIAL AGENCY

### Maggie Lee

Senior Director  
Head of Residential Agency  
+852 2846 9550  
[maggie.lee@hk.knightfrank.com](mailto:maggie.lee@hk.knightfrank.com)

## RETAIL SERVICES

### Helen Mak

Senior Director  
Head of Retail Services  
+852 2846 9543  
[helen.mak@hk.knightfrank.com](mailto:helen.mak@hk.knightfrank.com)

## VALUATION & CONSULTANCY

### Thomas Lam

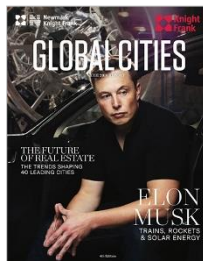
Senior Director  
Head of Valuation & Consultancy  
+852 2846 4819  
[thomas.lam@hk.knightfrank.com](mailto:thomas.lam@hk.knightfrank.com)

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