

RESEARCH



MAY 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
More consolidation activity in
Kowloon East

Residential
Housing supply shortage will
remain in the short term

Retail
Improved confidence shown in
retail prospects

HIGHLIGHTS

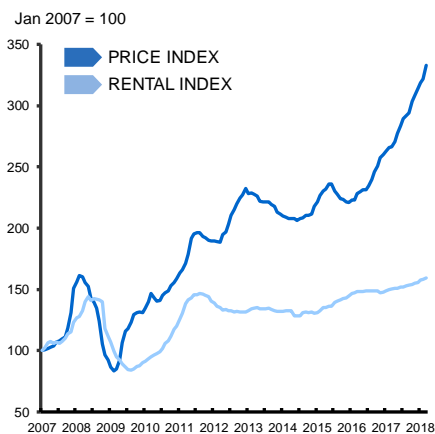
- ◆ Despite the high rents, Chinese financial institutions still favour premium offices in Central. On the Kowloon side, Kowloon East is a popular location for office consolidation.
- ◆ Residential sales surged 56% month on month in April. Home prices continued to hit new highs, led by the mass market segment.
- ◆ Pre-letting activity in retail shops reflects improved market confidence in the retail outlook.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2015	2016	2017
GDP growth	Q1 2018	+4.7%#	+2.4%	+1.4%	3.8%
Inflation rate	Mar 2018	+2.6%	+3.0%	2.4%	1.5%
Unemployment	Feb - Apr 2018	2.8%^	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 Grade-A office space in Central increased 0.6% month on month (M-o-M) to around HK\$158 per sq ft per month in April. Leasing demand was robust during the month, driven mainly by the banking and finance sector. A very low vacancy rate of 1.0% was recorded in April, down 0.1 percentage point M-o-M.

Despite the historically high rents, Chinese financial institutions still favour premium offices in Central. Hua Xia Bank rented 15,340 sq ft in Two IFC for its office expansion. Guotai Junan Securities rented 11,463 sq ft in Man Yee Building. Leasing activity in new office buildings, including Lee Garden Three and One Taikoo Place, was active, with most of their floors already pre-let.

With strong leasing demand, we expect office rents on Hong Kong Island to continue their upward trend for 2018.

Kowloon

Office leasing activity in Kowloon East was active in April, driven by the electronics and sourcing sectors. With limited new supply in Tsim Sha Tsui, rents continued to grow, underpinned by semi-retail tenants.

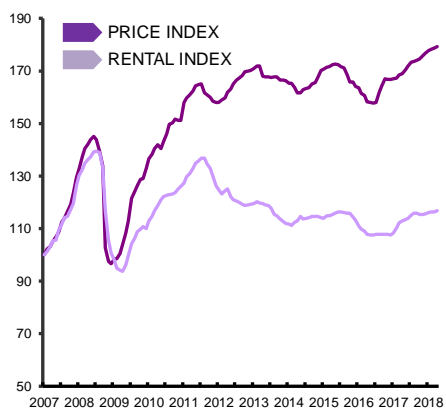
Kowloon East appears to be a preferred location for office consolidation, as there are a number of new buildings offering large floor plates for relatively low rents. As an example, DBS rented 200,000 sq ft in Two Harbour Square in Kwun Tong for around HK\$25 per sq ft per month, which is less than half the rent in Kowloon Central. This consolidation trend is expected to continue, as these office buildings with large units are hard to find in other districts.

Sustainable leasing demand in Kowloon East is making a case for a turnaround in rents, which are expected to rise 0-2% in 2018.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

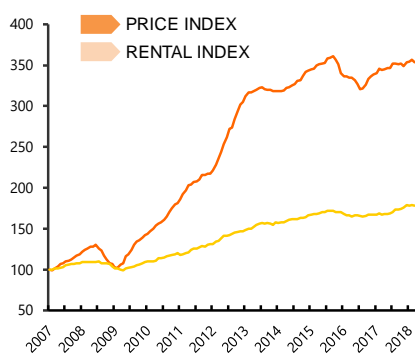


Source: Knight Frank Research

FIGURE 3

Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from Sept 2017 to Feb 2018

Residential

Residential sales in April surged 56% M-o-M to 6,646, the first month since June 2017 that recorded over 6,000 transactions. There was a lack of new launches of major primary projects, but more batches of units from previously launched projects were released. Meanwhile, secondary residential transactions continued to increase, resulting in a 2:8 ratio between primary and secondary sales in the first four months of 2018, compared with 3:7 in previous years.

Led by the mass residential segment, housing prices continued to hit new highs, with the latest official data in March up 20.4% from the previous peak. Meanwhile, the luxury residential sales market saw active Mainland buyers, who eyed prestigious primary luxury properties. Transactions of flats worth HK\$10 million or above jumped 44% M-o-M to 1,337 units, a new high since last June.

There will be around 96,000 private flats available in the coming 3-4 years, according to the official projection. "The Big Debate: Land Demand in Hong Kong" was kicked off, with 18 land supply options open for public consultation. However, most of the solutions are proposed to address long-term housing demand, while supply shortage will remain in the short term given strong demand from both end-users and investors.

With limited signs of the residential market cooling down in the short term, we expect mass residential prices to rise 8-12% in 2018.

Retail

The street shop leasing market in April was more active than in the previous month, with more transactions recorded in core areas. For instance, a 1,200-sq-ft street-front shop in Man Yee Building in Central was leased by Folli Follie, luxury jewellery and watch brand, for HK\$650,000, or around HK\$541.7 per sq ft per month, a reported rent drop of close to 40% compared with that of three years ago. In contrast, a shop in 62 Sai Yeung Choi Street South in Mong Kok was rented by Swatch, a watch brand, for HK\$700,200 or HK\$1,167 per sq ft, which is 17% higher than the rent three years ago.

Apart from core areas, a series of street shop leasing transactions were recorded in non-core areas like Sheung Shui, in the range of HK\$240-290 per sq ft per month. Pre-letting activity in retail shops reflects improved market confidence in the retail outlook. Some retailers are starting to figure out a balance between online sales and physical retail shops to expand their business.

Major shopping centres recorded a 7-10% boost in sales performance, as shown in developers' 2017 financial results. The Retail Management Association expects retail sales for the whole year to surpass the record of HK\$494 billion in 2013.

Amid improved retail prospects, rents are starting to pick up, with vacant shops in prime streets expected to be taken up gradually in the second quarter of 2018.

SNAPSHOT

A number of major office sales transactions were registered on Hong Kong Island in April.

Goldman Sachs leased 90,000 sq ft of office space in Lee Garden Three, Causeway Bay.

PRIME OFFICE

TABLE 2

Selected office sales transactions (Apr 2018)

District	Building	Zone	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Central	1 Lyndhurst Tower	Low	1,097 (N)	\$33	\$29,626
Admiralty	Lippo Centre	Low	1,646 (N)	\$87	\$52,776
Wan Chai	CNT Tower	High	950 (N)	\$22	\$22,716

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

N: net; G: gross

TABLE 3

Selected office leasing transactions (Apr 2018)

District	Building	Zone	Lettable floor area (sq ft)
Central	Two IFC	Low	15,340
Central	Man Yee Building	Low	11,463
Causeway Bay	Lee Garden Three	High	90,000
Sheung Wan	West Exchange Tower	High	10,222
Tsim Sha Tsui	Ocean Centre	High	45,000

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Tsim Sha Tsui and Mong Kok Grade-A office rentals outperformed other major business districts in April.

Admiralty led, with the largest Grade-A office price growth of all major commercial districts last month.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Apr 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	0.0%	1.0%	4.7%	n/a	n/a	n/a	n/a	
Traditional Central	\$140.4	1.0%	3.8%	7.9%	n/a	n/a	n/a	n/a	
Overall Central	\$158.0	0.6%	2.6%	6.5%	\$42,626	1.9%	7.2%	27.4%	
Admiralty	\$115.1	0.2%	0.9%	11.0%	\$35,270	5.9%	7.4%	24.8%	
Sheung Wan	\$84.7	0.7%	3.3%	14.0%	\$33,498	3.2%	9.5%	42.3%	
Wan Chai	\$80.3	0.8%	1.6%	7.2%	\$29,028	0.0%	1.4%	10.8%	
Causeway Bay	\$83.7	0.9%	3.9%	8.4%	\$25,139	0.0%	1.6%	10.1%	
North Point	\$54.1	0.0%	2.0%	6.8%	n/a	n/a	n/a	n/a	
Quarry Bay	\$54.6	0.1%	2.5%	5.4%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$67.6	1.2%	4.6%	8.3%	\$17,506	1.1%	9.1%	23.0%	
Cheung Sha Wan	\$32.3	0.6%	4.1%	5.7%	n/a	n/a	n/a	n/a	
Hung Hom	\$43.3	0.9%	0.6%	4.4%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.2	0.1%	-0.5%	0.9%	\$13,142	0.1%	0.8%	6.1%	
Mong Kok / Yau Ma Tei	\$59.5	1.3%	0.6%	11.0%	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.

Major luxury residential leasing transactions focused on Mid-Levels and Island South in April.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Apr 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	House	7,984	\$780	\$97,695
Island South	Shouson Peak	House	3,212	\$262.26	\$81,650
Happy Valley	23-39 Blue Pool Road	House	4,571	\$328	\$71,757
Homantin	Kadooria	Low floor	3,019	\$216.2	\$71,613
Kowloon Tong	Eden Gate	House	3,099	\$193.8	\$62,536

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Apr 2018)

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	\$101,000	\$78.2
Mid-Levels Central	Regence Royale	Tower 1 / Mid floor / unit B	1,805	\$112,000	\$62.1
Mid-Levels Central	Dynasty Court	Tower 5 / mid floor / unit A	1,513	\$92,000	\$60.8
Island South	The Lily	Tower 3 / low floor	2,758	\$135,000	\$49.0
Island South	HK Parkview	Tower 11 / Mid floor	2,157	\$98,000	\$45.4

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Mid-Levels led all major districts in luxury residential rental growth in April.

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

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Apr 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	\$62.9	-0.5%	-0.4%	-0.8%	\$42,888	0.0%	0.4%	5.3%
Island South	\$56.3	0.3%	3.6%	12.2%	\$33,476	0.0%	0.6%	6.2%
Mid-Levels	\$58.3	1.7%	3.8%	10.4%	\$29,561	0.4%	2.0%	7.4%
Jardine's Lookout / Happy Valley	\$49.7	0.7%	-1.1%	1.9%	\$29,358	0.7%	4.4%	12.0%
Pokfulam	\$41.2	0.5%	1.1%	10.1%	\$25,371	1.1%	1.6%	10.1%

Source: Knight Frank Research

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

SNAPSHOT

A retail space in Wong Chuk Hang was sold for around HK\$754 million last month.

A shop in Sham Shui Po was leased for around HK\$492 per sq ft in April.

RETAIL

TABLE 10

Selected retail sales transactions (Apr 2018)

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wong Chuk Hang	One Island South	N/A	N/A	\$754.1	N/A
North Point	State Theatre Building	Ground floor / Unit 1-2	470 (N)	\$106.0	\$225,532
Aberdeen	185 Aberdeen Main Road	Ground floor / Unit A & C	N/A	\$104.0	N/A
Prince Edward	Orchid House	Ground floor / Unit 171 & 173	N/A	\$96.0	N/A

Source: Economic Property Research Centre

TABLE 11

Selected retail leasing transactions (Apr 2018)

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Sham Shui Po	Golden Building Arcade	Lower ground floor / unit 45	325	\$160,000	\$492.3
Wan Chai	Chun Fai Building	Ground floor / units 1-7	338	\$113,000	\$334.3
Causeway Bay	Diamond Mansion	Ground floor / unit 468	662	\$173,000	\$261.3
Hung Hom	Whampoa Estate Blocks R-V	Ground floor / unit 1A9	N/A	\$410,000	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 11.4% year on year to HK\$39.8 billion in March.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Mar 2018)

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	\$6.8	17.2%	-14.8%	-21.3%	23.1%
Clothing, footwear and allied products	\$5.4	13.7%	-17.1%	-11.9%	11.6%
Department stores	\$4.0	10.1%	-10.7%	-20.4%	17.7%
Fuel	\$0.8	2.0%	10.8%	1.4%	5.8%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.3	8.3%	-27.6%	-14.3%	4.0%
Consumer durable goods	\$6.3	15.9%	-6.0%	-10.7%	4.5%
Supermarkets	\$4.3	10.7%	-5.6%	-1.5%	2.0%
Others	\$8.8	22.0%	-8.9%	-1.2%	14.2%
All retail outlets	\$39.8	100.0%	-12.1%	-11.4%	11.4%

Source: Census and Statistics Department / Knight Frank Research



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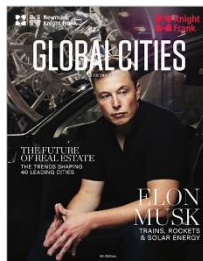
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