

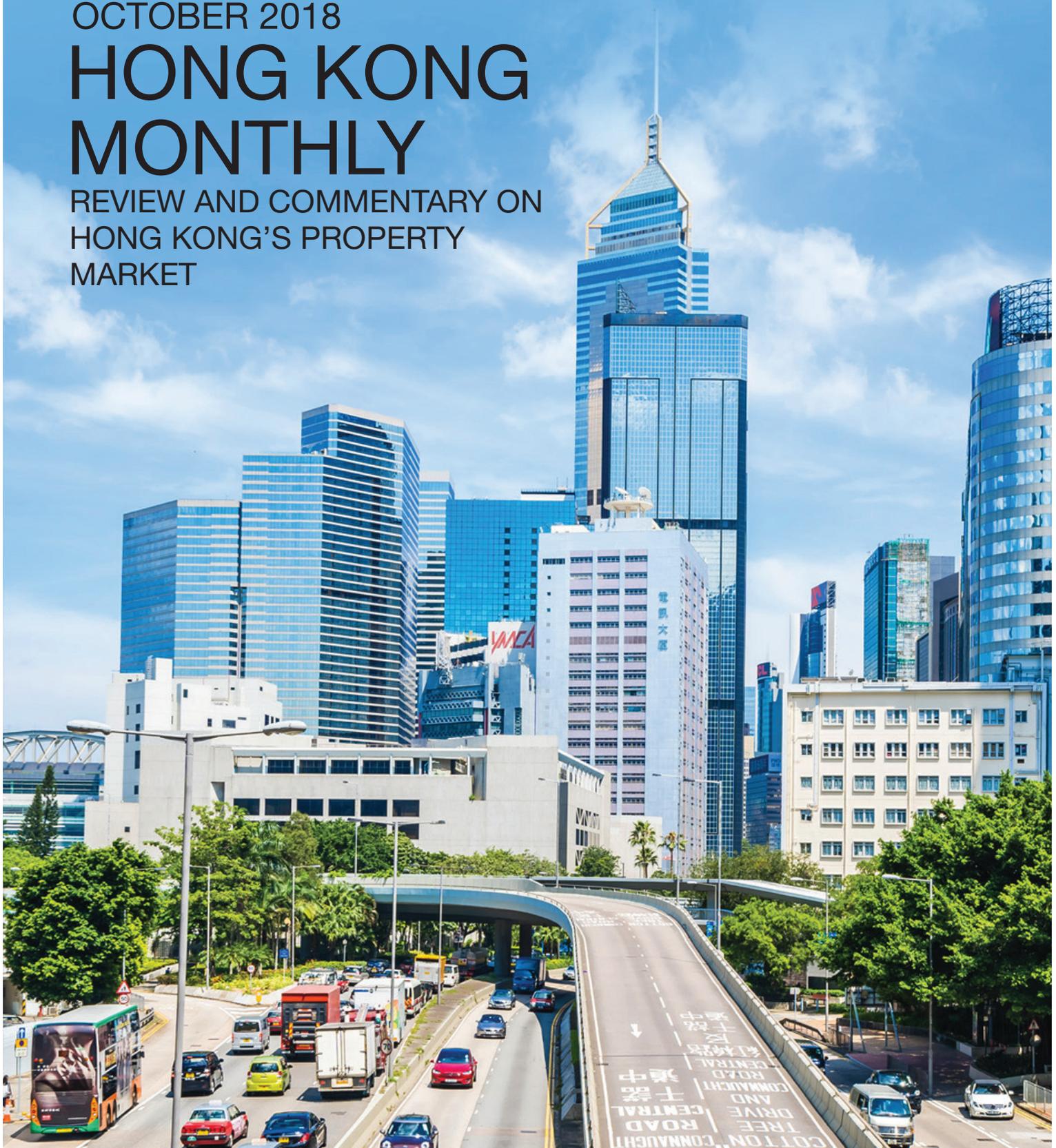
RESEARCH



OCTOBER 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Limited prime office space available
before 2022 in Hong Kong Island

Residential

Price of primary and secondary flats
go in different directions

Retail

New technology for retailers to
revolutionise shopping methods

PRIME OFFICE

Hong Kong Island

Inelastic supply in the Hong Kong Island office market continues to limit the volume of leasing activity, as higher demand cannot translate into more leasing activity. Apart from space already released, there is basically no major new supply of premium office space planned for the next three years on Hong Kong Island. The next major office building to be launched is on the site of the old Murray Road multi-storey carpark in Central, but it is scheduled to be completed no earlier than 2022.

The iconic, 45-year-old Excelsior Hotel, situated by Victoria Harbour in Causeway Bay, will be closed down in March 2019 and redeveloped into an office building. This commercial redevelopment will add close to 700,000 sq ft of office space to the market, but not before 2025, so it will have a limited impact on the current market. Given its prime location, the redevelopment could set a new benchmark for office rent in Causeway Bay once the redevelopment is completed.

The government is currently studying the feasibility of converting the ex-headquarters site of the Electrical and Mechanical Services Department on Caroline Hill Road into a district court and commercial development. According to the latest draft plan, the commercial portion will comprise two 135-metre-tall buildings, with total GFA of about 1 million sq ft. Again, this will not

materialise in the coming 7-8 years, so it will have no imminent impact on the office market.

The latest Policy Address offered few concrete measures to increase office supply on Hong Kong Island. With the market recognising this supply issue, barring any major external shock, there is unlikely to be any downward movement in rents in the Hong Kong Island office market.

Kowloon

Over 100 new leasing transactions were registered in the Kowloon office market in September, similar to that in August. Most of the deals involved office space of 8,000 sq ft or below. The average leasing size was only about 3,900 sq ft, reflecting the downsizing trend amongst tenants.

This downsizing trend has come at the same time when more co-working space operators have entered Kowloon. Cyberport, a quasi-government body, opened a co-working space in CDW Building in Tsuen Wan, known as Smart Space 8. Spanning 20,000 sq ft, it is Cyberport's eighth co-working space and its first outside Pokfulam on Hong Kong Island. More than 40% of the space has already been filled with new start-ups from the fintech, healthtech, big data, mobile app development and ecommerce sectors. Designed specifically for young entrepreneurs, Smart Space 8 also offers funding and incubation programmes for tenants.

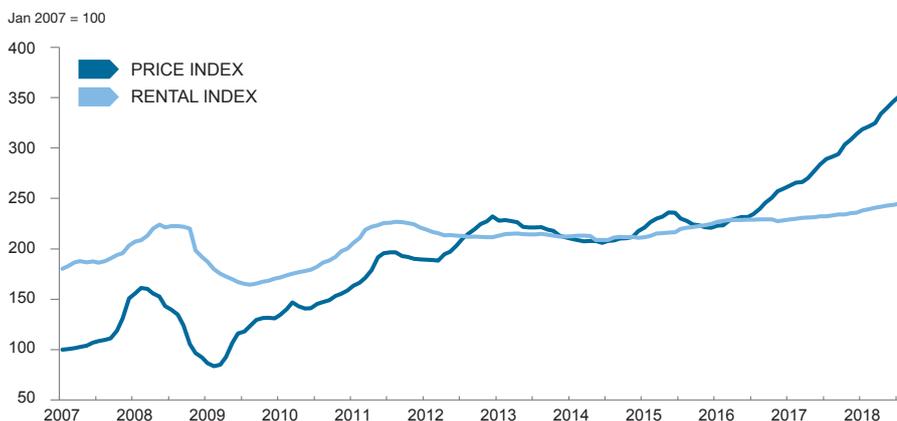
After establishing 35 co-working spaces totalling over 10 million sq ft in 25 cities in China, Tencent has partnered with K11 and VS Media to open its first co-working space in Hong Kong, known as Tencent WeStart (Hong Kong). In Koho, Kwun Tong, Tencent WeStart has leased about 16,000 sq ft. Branding itself as a "creative hub" and offering mixing and recording facilities, it focuses on attracting tenants from the digital entertainment sector.

In the age of the sharing economy, innovative features enable more facilities to be segmented and shared among users, thus encouraging the use of co-working space. However, in the end it's the relatively cheaper rent that will drive more co-working space providers choosing Kowloon.



Given the considerable difference in rents, we expect to see co-working space providers looking increasingly at the Kowloon market.

FIGURE 1
Grade-A office price and rents



Source: Knight Frank Research

TABLE 1
Selected office sales transaction (Sept 2018)

District	Building	Zone	Gross floor areas (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Far East Finance Centre	High	2,800	165.0	58,929
Central	Far East Consortium Building	High	6,663	146.3	21,960
Kwun Tong	Lever Tech Centre	En bloc	114,562	1,250.0	10,911

Source: RCA

Note: All transactions are subject to confirmation.

TABLE 2
Selected office leasing transactions (Sept 2018)

District	Building	Zone	Lettable floor area (sq ft)	Rent (HK\$ per sq ft per month)	Tenant
Central	Henley Building	Mid	5,739	130.0	MVision Strategic
Causeway Bay	Lee Garden One	--	29,322	80.0	ANX Int'l
Tsimshatsui	The Gateway Tower 3 Prudential Tower	Mid	15,381 (G)	60.0	First Commercial Bank
Tsimshatsui	The Gateway Tower 2	High	20,410 (G)	52.5	Fenix Group
Kwun Tong	Mapletree Bay Point	5/F-6/F, 15/F Unit 1-2	89,683 (G)	30.5	Tricor

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

TABLE 3
Prime office market indicators (Sept 2018)

District	Net effective rent		Change		Price (Gross) HK\$ psf	Change		
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %		M-o-M %	Q-o-Q %	Y-o-Y %
Premium Central	200.5	0.7	1.9	7.0	N/A	N/A	N/A	N/A
Traditional Central	146.2	1.7	3.8	10.4	N/A	N/A	N/A	N/A
Overall Central	164.6	1.3	3.0	9.0	46,844	0.0	9.4	28.5
Admiralty	116.6	0.2	0.2	7.0	38,607	0.0	5.6	26.4
Sheung Wan	85.5	0.0	0.3	10.0	36,705	0.0	7.9	34.7
Wan Chai	80.8	0.0	0.3	6.4	30,031	0.3	2.8	6.7
Causeway Bay	84.1	0.3	0.6	9.4	26,024	0.4	2.9	7.1
North Point	54.5	0.8	0.8	5.4	N/A	N/A	N/A	N/A
Quarry Bay	53.2	0.0	0.0	1.6	N/A	N/A	N/A	N/A
Tsim Sha Tsui	72.3	1.5	4.9	14.8	18,864	0.0	6.7	24.7
Cheung Sha Wan	32.6	0.6	-0.4	8.6	N/A	N/A	N/A	N/A
Hung Hom	43.0	-4.5	-4.4	2.1	N/A	N/A	N/A	N/A
Kowloon East	35.0	0.2	1.4	2.8	13,603	0.5	3.3	6.8
Mong Kok / Yau Ma Tei	59.0	0.0	0.0	2.7	N/A	N/A	N/A	N/A

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL



Sales prices in the primary market remained firm, while sentiment takes a toll on secondary market prices.

This could be a month to remember in recent history. After rising for 28 months, the residential price uptrend came to a halt in August, tumbling 0.1% month on month (M-o-M), according to the latest official data. While units under 430 sq ft still saw an average price increase of 0.3%, the price of all larger units fell up to 1% on average.

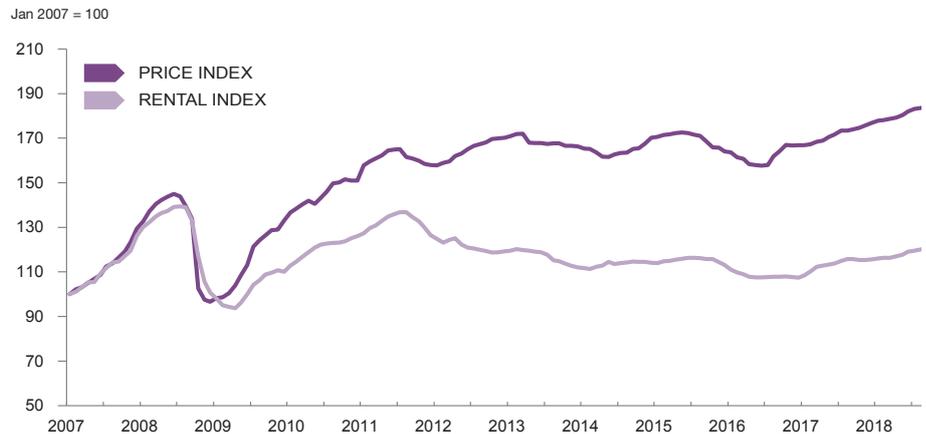
Prices in primary and secondary markets are going in different directions. Thanks to the attractive mortgage plans in the primary market, prices remained firm. In the secondary market however, some sellers cut their asking prices, while others left the market completely. For instance, a 901-sq-ft unit at Imperial Kennedy in Kennedy Town was sold for HK\$23.8 million, for a loss of HK\$2.3 million from the price of HK\$26.1 million when it was purchased from the developer in 2013. Banks started lowering their valuations for major residential estates by 1-3%,

indicating a dented sentiment in the secondary market.

The HK\$500-billion reclamation plan “Tomorrow Lantau Vision”, announced in the Policy Address, is projected to provide 120,000 private homes and 280,000 subsidised flats. But the earliest reclaimed land will not be available for construction before 2028. In the shorter term, the government still needs to find other solutions to make more spade-ready sites available for residential development.

With the Sino-US trade war showing few signs of easing, some investors have decided to slow down the pace of acquisitions. The US dollar, considered a low-risk asset, has remained strong, while the renminbi (RMB) is depreciating. Consequently, for some active Mainland investors, a RMB depreciation may deter them from entering the Hong Kong residential market in the short term.

FIGURE 2
Luxury residential prices and rents



Source: Knight Frank Research

TABLE 4
Selected residential sales transactions (Sept 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Ho Man Tin	Ultima	House	2,803	317.658	113,328
Island South	90 Repulse Bay Road	House	5,588	467.157	83,600
Mid-Levels Central	The Mayfair	High floor / unit B	2,214	155	70,009
Ho Man Tin	Kadooria	High floor	2,040	112.2	55,000
Island South	Fortuna Court	Low floor / unit B	2,480	122	49,194

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

TABLE 5
Selected residential leasing transactions (Sept 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	Seymour	Upper floor, A unit	1,730	142,500	82
Mid-Levels West	39 Conduit Road	Mid floor, A unit	2,355	160,000	68
Mid-Levels Central	Kennedy Heights	High floor, A unit	2,929	178,000	61
Mid-Levels Central	Dynasty Court	Tower 2, mid floor A unit	2,141	131,000	61
Island South	Hong Kong Parkview	Tower 15, low floor unit 88	2,067	108,000	52

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

TABLE 6
Luxury residential market indicators (Sept 2018)

District	Rent		Change		Price		Change	
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %	HK\$ psf	M-o-M %	Q-o-Q %	Y-o-Y %
The Peak	65.2	1.0	1.6	1.7	43,516	0.0	0.5	3.1
Island South	57.5	0.8	1.5	5.9	33,695	0.0	0.1	1.7
Mid- Levels	59.6	0.0	0.4	5.6	30,994	0.1	1.4	8.7
Jardine's Lookout / Happy Valley	51.9	-0.5	1.0	3.4	30,931	0.1	2.8	13.8
Pokfulam	42.3	0.3	1.2	4.2	26,081	0.0	0.7	8.2

Source: Knight Frank Research
Note: Rents and prices are subject to revision.

RETAIL



Hong Kong retailers need to adapt to new technology more quickly to ensure their competitiveness.

Luxury goods sales recorded the highest growth among the various categories, up 21.6% year on year (Y-o-Y) in August. Seeing this, some luxury retailers were active in expanding their retail space.

In the latest example, Mainland jewellery retailer Lao Feng Xiang expanded its footprint in Causeway Bay, renting a 1,000-sq-ft shop at 24-30 Percival Street for HK\$350,000 per month, or HK\$350 per sq ft. This is the brand's second shop in Causeway Bay, after opening its first shop on Paterson Street last year. Lao Feng Xiang, which entered the Hong Kong market in 2013, now has stores in all four core retail districts except Central. Perhaps this is an indication that not all luxury goods retailers are fully confident in the recovery in the Central retail market.

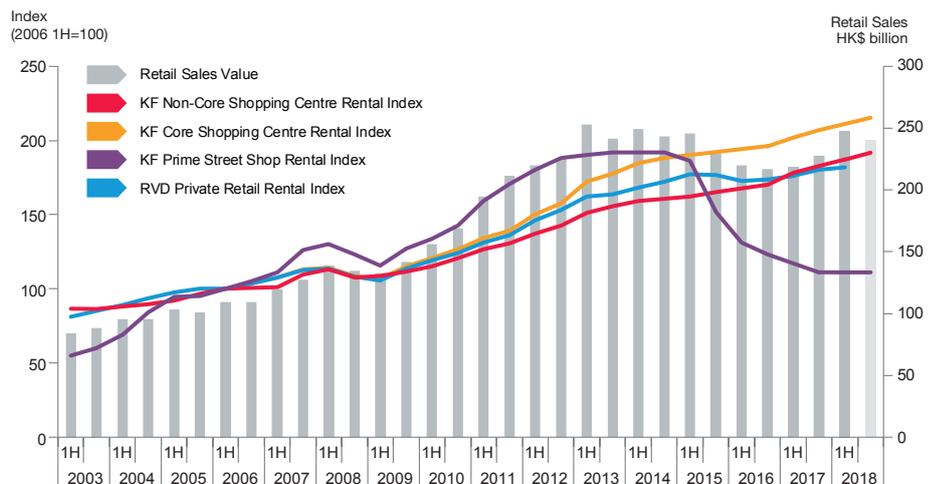
Mid-priced brands, however, are more active in entering prime streets in Central. For instance, Singaporean bags-and-shoes chain Charles & Keith will open a branch in a street-front shop in Parker

House on Queen's Road Central in late October, after opening its first Hong Kong shop in New Town Plaza last month.

Many retailers are incorporating new technology in their business to revolutionise shopping methods and explore new operating models to reduce lifecycle costs. In some recent examples, EASYJOY, a convenience store brand run by Sinopec, installed self-service checkouts in its new location at the Hong Kong Convention & Exhibition Centre in Wan Chai, AlipayHK opened a self-service pop-up store in Olympian City 2 in September, and Tencent partnered with Sun Hung Kai Properties to invest HK\$13 million to promote the use of WeChat Pay in Hong Kong.

The high-speed rail will draw more same-day Mainland visitors to Hong Kong. As some of these new retail technologies are already well-established in the Mainland, Hong Kong retailers need to adapt to new technology more quickly to ensure their competitiveness.

FIGURE 3
Retail sales and rents



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department

TABLE 7

Selected retail sales transactions (Sept 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mong Kok	Cheung Ming Building	Ground floor / unit C	700 (G)	31.4	44,829
Sham Shui Po	75-79 Kweilin Street	Ground floor	N/A	120.0	N/A
Sai Ying Pun	216 Des Voeux Road West	Ground floor	N/A	42.5	N/A
Sai Wan	Lun Fung Court	Basement	N/A	32.5	N/A

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

TABLE 8

Selected retail leasing transactions (Sept 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Causeway Bay	24-30 Percival Street	Ground floor	1,000	350,000	350
Causeway Bay	45 Jardine's Bazaar	Ground floor	1,365	318,000	233
Tsim Sha Tsui	7-8 Knutsford Terrace	Ground floor / unit A	N/A	338,000	N/A
Mong Kok	104-116 Tung Choi Street	Ground floor / unit 104	N/A	328,000	N/A

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

TABLE 9

Retail sales by outlet type (Aug 2018)

Outlet	Value (HK\$ billion)	Share of total %	M-o-M %	Q-o-Q %	Y-o-Y %
Jewellery, watches and clocks, and valuable gifts	7.5	19.7	3.5	9.3	21.6
Clothing, footwear and allied products	4.4	11.6	-13.0	-14.0	7.0
Department stores	4.1	10.8	4.3	-28.4	11.8
Fuel	0.9	2.3	-2.6	-6.7	10.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.5	9.3	12.2	4.9	6.3
Consumer durable goods	5.0	13.2	-6.2	-4.3	0.3
Supermarkets	4.6	12.0	2.5	2.8	0.2
Others	8.1	21.2	-6.8	-7.2	13.2
All retail outlets	38.2	100.0	-1.8	-5.8	9.5

Source: Census and Statistics Department / Knight Frank Research



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