RESEARCH

Knight Frank

DECEMBER 2018

# HONG KONG MONTHLY

## REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

**Office**
Early signs of Mainland firms retreating

**Residential**
Sellers slashed prices to complete transactions

**Retail**
Caution over Christmas sales performance

# PRIME OFFICE

Office rents on Hong Kong Island reached a turning point amid trade war.

## Hong Kong Island

The Grade-A office leasing market on Hong Kong Island remained subdued as uncertainties in the global economy loomed large. Overall rents dipped slightly by 0.2% month on month (MoM) in November, the first drop in 29 months. Rents in Central declined by 0.3% MoM, ending the rally that lasted for almost three years.

Sentiment is weak but this is also a traditionally low season, so there was no large leasing transaction in Central during the month. The deals recorded ranged from 3,000 to 6,000 sq ft. Meanwhile, under financial impact there were early signs of Mainland firms retreating when a few small-sized office spaces that had been rented by non-finance companies were surrendered.

Rents in Central will continue to be under pressure as leasing activities remain restrained. This is exacerbated by the growing sentiment amongst traditional tenants that decentralised areas should feature in their corporate planning.

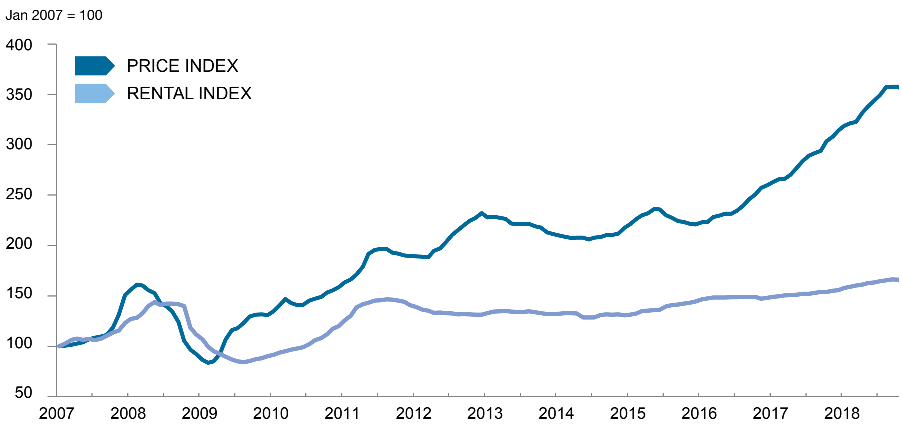
## Kowloon

As expected, trade war has a visible impact on leasing activities on the Kowloon side, with around 80 transactions recorded compared to over 100 on average in the past. Although this is a slight improvement from October when there were only 70 deals. Demand mainly came from IT and electronics sectors.

A number of significant leasing transactions, however, were recorded during the month, most of them in Kowloon East. Two of them were in Neo, a new building in Kwun Tong which is scheduled to open in 2019. Each of the deals involved two floors with an area of 63,000 sq ft, at a rent of between HK$37 to HK$39 per sq ft.

The largely trade-related occupiers in Kowloon are watching the market closely but the outlook remains murky.

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




**Source:** Knight Frank Research

TABLE 1

## Selected office sales transaction (Nov 2018)

| District | Building | Zone | Gross floor areas (sq ft) | Price (HK$ million) | Price (HK$ per sq ft) |
|---|---|---|---|---|---|
| **Sheung Wan** | Shun Tak Centre - China Merchants Tower | Mid | N/A | 680.0 | N/A |
| **Prince Edward** | Capricorn Centre | Low | N/A | 338.0 | N/A |
| **Kwun Tong** | Billion Centre Block A | Mid | N/A | 149.8 | N/A |

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

TABLE 2

## Selected office leasing transactions (Nov 2018)

| District | Building | Zone | Floor area (sq ft) | Rent (HK$ per sq ft per month) | Tenant |
|---|---|---|---|---|---|
| **Central** | Two IFC | Mid | 6,174 (L) | 205.0 | N/A |
| **Central** | 8 Queen's Road Central | Mid | 3,012 (L) | 110.0 | N/A |
| **Mong Kok** | Grand Century Place Tower 2 | High | 33,823 (G) | 39.5 | MassMutual |
| **Kwun Tong** | Neo | High | 63,000 (G) | 39.0 | N/A |
| **Kwun Tong** | Neo | High | 63,000 (G) | 37.0 | N/A |

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

TABLE 3

## Prime office market indicators (Nov 2018)

| | Net effective rent | Change | | | Price (Gross) | Change | | |
|---|---|---|---|---|---|---|---|---|
| District | HK$ psf/mth | M-o-M % | Q-o-Q % | Y-o-Y % | HK$ psf | M-o-M % | Q-o-Q % | Y-o-Y % |
| **Premium Central** | 197.9 | -0.7 | -0.6 | 5.5 | N/A | N/A | N/A | N/A |
| **Traditional Central** | 146.2 | 0.0 | 1.7 | 10.1 | N/A | N/A | N/A | N/A |
| **Overall Central** | 163.7 | -0.3 | 0.7 | 8.2 | 44,563 | -4.9 | -4.9 | 18.6 |
| **Admiralty** | 116.4 | 0.0 | 0.0 | 5.0 | 38,607 | 0.0 | 0.0 | 17.6 |
| **Sheung Wan** | 85.3 | -0.2 | -0.2 | 7.2 | 35,356 | -3.7 | -3.7 | 20.7 |
| **Wan Chai** | 79.8 | 0.1 | 0.1 | 4.3 | 30,031 | 0.0 | 0.3 | 5.7 |
| **Causeway Bay** | 84.1 | 0.0 | 0.3 | 7.2 | 26,024 | 0.0 | 0.4 | 5.8 |
| **North Point** | 54.0 | -0.9 | -0.2 | 1.8 | N/A | N/A | N/A | N/A |
| **Quarry Bay** | 53.2 | 0.0 | 0.0 | 1.4 | N/A | N/A | N/A | N/A |
| **Tsim Sha Tsui** | 71.5 | 0.2 | 0.3 | 13.5 | 18,944 | 0.4 | 0.4 | 21.9 |
| **Cheung Sha Wan** | 32.8 | 0.6 | 1.2 | 8.2 | N/A | N/A | N/A | N/A |
| **Hung Hom** | 43.5 | 1.6 | -3.4 | 2.1 | N/A | N/A | N/A | N/A |
| **Kowloon East** | 35.2 | 0.7 | 0.7 | 2.9 | 13,533 | -0.5 | -0.0 | 4.4 |
| **Mong Kok / Yau Ma Tei** | 59.2 | 0.8 | 0.3 | 0.1 | N/A | N/A | N/A | N/A |

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

# RESIDENTIAL

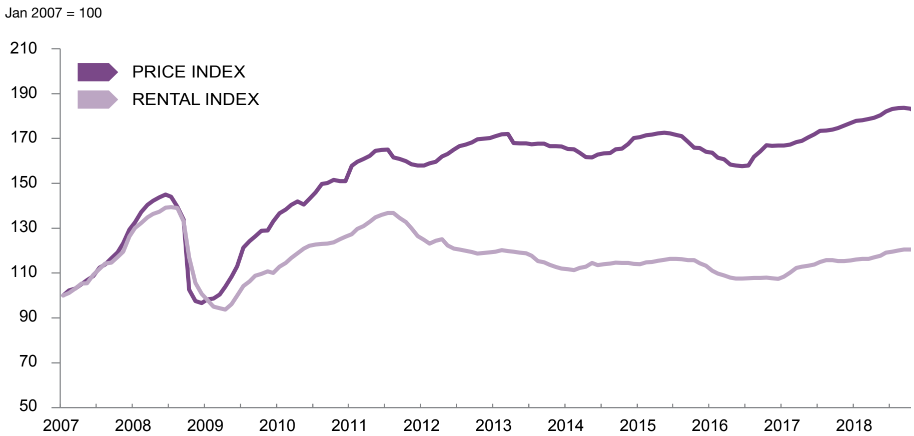
There is concern that if there is sufficient demand to take up the mounting supply.

Residential prices have been falling since August this year, with the latest official number down 2.4% MoM in October, the largest drop in three years. With more new project releases during the month, primary transactions increased to 2,337, up 3.8% year on year (YoY).

Sellers have started to accept the fact that price growth has lost its momentum. For instance, the seller of a 580 sq ft unit in Taikoo Shing lowered the asking price 22.8% in stages from HK$13 million to HK$10.03 million, or HK$17,293 per sq ft. Secondary transactions could pick up if more sellers are willing to slash prices.

New supply available, including unsold and presold units, is expected to reach 25,800 units in 2019. However, as uncertainty grows, there is concern that if there is sufficient demand to take up this mounting supply.

FIGURE 2
**Luxury residential prices and rents**




**Source**: Knight Frank Research

TABLE 4

### Selected residential sales transactions (Nov 2018)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK$ million) | Price (HK$ per sq ft) |
|---|---|---|---|---|---|
| **The Peak** | Twelve Peak | House | 4,661 | 666.5 | 143,000 |
| **The Peak** | Plantation Road 73-77 | House | 4,200 | 296.0 | 70,476 |
| **Island South** | 8 Deep Water Bay Drive | Tower 2 / low floor / unit C | 4,214 | 287.7 | 68,272 |
| **Island South** | Orchid Hill | Block 1 / unit A | 2,903 | 120.0 | 41,337 |
| **Pokfulam** | Bel-Air Rise | Phase 3 / house | 5,631 | 232.0 | 41,200 |

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

TABLE 5

### Selected residential leasing transactions (Nov 2018)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Monthly rent (HK$) | Monthly rent (HK$ per sq ft) |
|---|---|---|---|---|---|
| **The Peak** | Severn 8 | House | 2,378 | 298,000 | 125 |
| **Mid-Levels East** | High Cliff | Mid floor / unit B | 2,624 | 160,000 | 61 |
| **Island South** | 12 South Bay Road | House | 3,250 | 185,000 | 57 |
| **Mid-Level Central** | Clovelly Court | Tower 1 / high floor / unit B | 2,348 | 128,000 | 55 |
| **Mid-Level Central** | Estoril Court | High floor / unit C | 2,888 | 150,000 | 52 |

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

TABLE 6

### Luxury residential market indicators (Nov 2018)

| | Rent | | Change | | Price | | Change | |
|---|---|---|---|---|---|---|---|---|
| District | 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** | 65.4 | 0.0 | 1.3 | 3.6 | 42,615 | -1.6 | -2.1 | 0.2 |
| **Island South** | 57.8 | 0.0 | 1.2 | 6.4 | 33,695 | 0.0 | 0.0 | 1.7 |
| **Mid- Levels** | 59.7 | -0.0 | 0.1 | 6.1 | 30,651 | -1.0 | -1.0 | 6.8 |
| **Jardine's Lookout / Happy Valley** | 51.5 | 0.0 | -1.3 | 2.4 | 30,886 | -0.1 | -0.0 | 11.7 |
| **Pokfulam** | 42.2 | 0.0 | 0.0 | 3.5 | 25,892 | -0.7 | -0.7 | 3.7 |

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

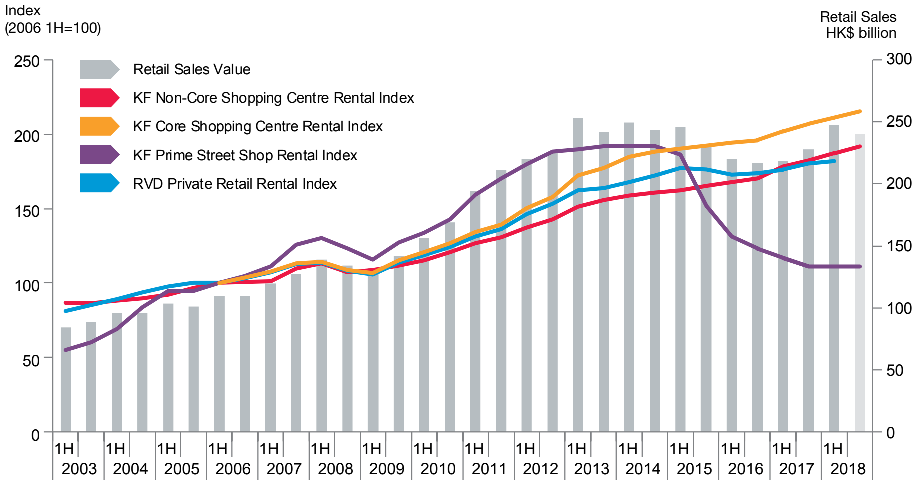
# RETAIL

Amid external uncertainties, leasing activity in prime streets remained subdued, while vacancy rates continued to rise.

Christmas is typically a peak selling season for retailers, but retailers in general remain cautious, if not pessimistic over their expected sales performance. Meanwhile, Renminbi depreciation largely caused by the trade war has dampened Mainland tourists' desire to visit and shop in Hong Kong. A bearish stock market has also eroded local consumer sentiment.

Amid these external uncertainties, leasing activity in prime streets remained subdued during the month, while vacancy rates continued to rise. In Queen's Road Central, for example, more than 10 shops in this prime retail street are presently vacant. Looking ahead, overall retail sales in December and 2019 will remain lacklustre. The recent government forecast of 60 million visitors to Hong Kong this year may provide some relief to the market. We maintain our forecast that prime street shop rents are on a downward trend and should drop by 5% in 2019.

FIGURE 3
**Retail sales and rents**




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

TABLE 7

## Selected retail sales transactions (Nov 2018)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK$ million) | Price (HK$ per sq ft) |
|---|---|---|---|---|---|
| **Kwun Tong** | 92-112 Shui Wo Street | Ground floor / unit H | 594 | 42.8 | 72,054 |
| **Sheung Wan** | 249-253 Des Voeux Road Central | Ground floor / unit 8 | 718 | 48.0 | 66,852 |
| **Prince Edward** | 155 Sai Yeung Choi Street North | Ground floor | N/A | 338.0 | N/A |
| **Wan Chai** | 216-222A Jaffe Road | Ground floor | N/A | 228.0 | N/A |

**Source:** Economic Property Research Centre

TABLE 8

## Selected retail leasing transactions (Nov 2018)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Monthly rent (HK$) | Monthly rent (HK$ per sq ft) |
|---|---|---|---|---|---|
| **Tsim Sha Tsui** | Mirador Mansion | Ground floor | 656 | 140,000 | 213 |
| **Wan Chai** | 9-17 Tin Lok Lane | Ground floor / unit D | 691 | 140,000 | 203 |
| **Jordan** | 31-37 Jordan Road | Ground floor / unit 1-41 | N/A | 500,000 | N/A |
| **Wan Chai** | 101-105 Hennessy Road | Basement | N/A | 325,000 | N/A |

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

TABLE 9

## Retail sales by outlet type (Oct 2018)

| Outlet | Value (HK$ billion) | Share of total % | M-o-M % | Q-o-Q % | Y-o-Y % |
|---|---|---|---|---|---|
| **Jewellery, watches and clocks, and valuable gifts** | 6.9 | 17.3 | 12.0 | -5.5 | 3.3 |
| **Clothing, footwear and allied products** | 4.7 | 11.9 | 20.7 | -7.3 | 3.3 |
| **Department stores** | 4.2 | 10.5 | 8.2 | 4.8 | 3.6 |
| **Fuel** | 0.9 | 2.3 | 1.8 | 1.7 | 10.4 |
| **Food, alcoholic drinks and tobacco (excluding supermarkets)** | 3.7 | 9.3 | -17.3 | 17.0 | -2.0 |
| **Consumer durable goods** | 6.9 | 17.3 | 20.7 | 28.4 | 14.3 |
| **Supermarkets** | 4.5 | 11.2 | -3.9 | -0.2 | -0.9 |
| **Others** | 8.1 | 20.3 | 15.1 | -6.8 | 12.2 |
| **All retail outlets** | 39.7 | 100.0 | 8.7 | 2.3 | 5.9 |

**Source:** Census and Statistics Department / Knight Frank Research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