

RESEARCH



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.

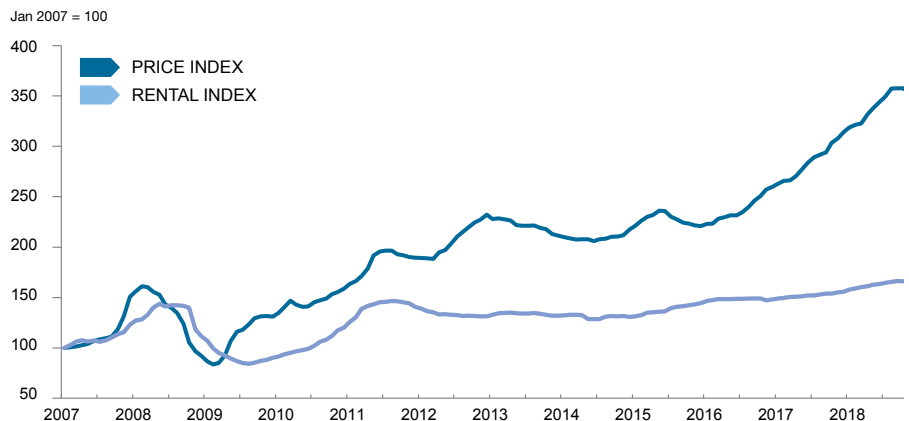
Kowloon

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)

District	Net effective rent		Change			Price (Gross)		Change	
	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.

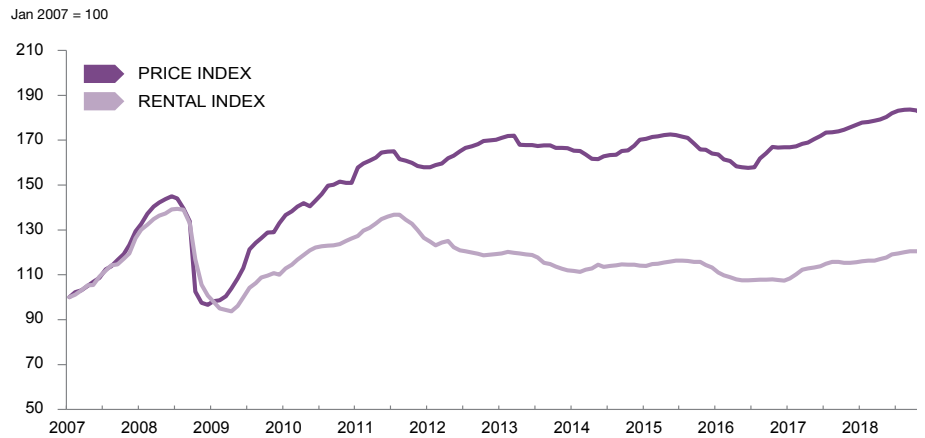
Residential prices have been falling since August this year, with the latest official number down 2.4% MoM in October, the largest drop in three years. With more new project releases during the month, primary transactions increased to 2,337, up 3.8% year on year (YoY).

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)

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	65.4	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

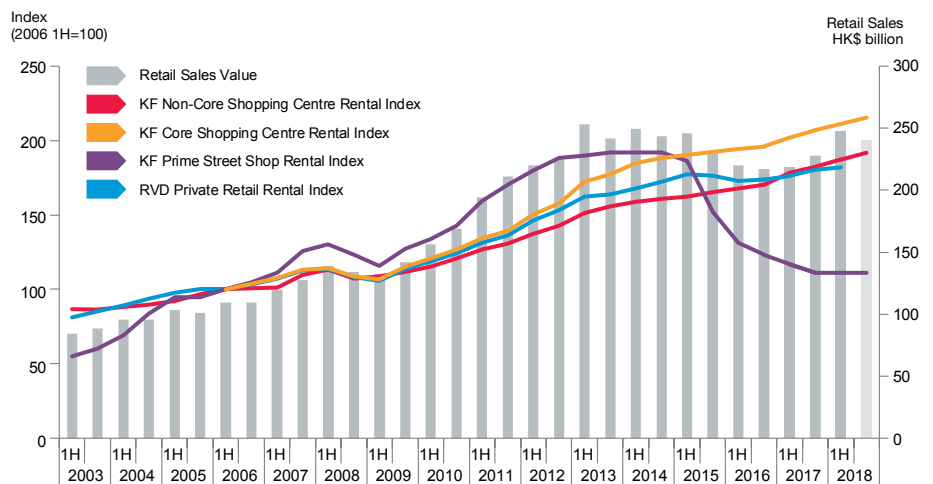


Amid external uncertainties, leasing activity in prime streets remained subdued, while vacancy rates continued to rise.

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. Therefore, we reiterate our forecast that prime street shop rents are on a downward trend and should drop by at least 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



GLOBAL BRIEFING

For the latest news, views and analysis on the world of prime property, visit KnightFrankblog.com/global-briefing

RESEARCH & CONSULTANCY

David Ji

Director
Head of Research & Consultancy,
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

CHINA VALUATION AND ADVISORY

Clement Leung

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

COMMERCIAL AGENCY

Ross Criddle

Executive Director
Head of Global Corporate Services and
Hong Kong Office Services
+852 2846 9527
ross.criddle@hk.knightfrank.com

RESIDENTIAL AGENCY

Maggie Lee

Senior Director
Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

RETAIL SERVICES

Helen Mak

Senior Director
Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

VALUATION & ADVISORY

Thomas Lam

Executive Director
Head of Valuation & Advisory
+852 2846 4819
thomas.lam@hk.knightfrank.com

CONTACTS

Alan Child

Chairman
+852 2846 9522
alan.child@hk.knightfrank.com

Piers Brunner

Chief Executive Officer
Greater China
+852 2846 4848
piers.brunner@hk.knightfrank.com

Paul Hart

Executive Director
Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers and investors, as well as financial and corporate institutions. All recognise the need for the provision of expert independent advice, customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Global House Price Index Q3 2018



(Y)our space



Shanghai Office Market Q3 2018



Beijing Office Market Q3 2018

Knight Frank Research Reports are available at KnightFrank.com/Research

© Knight Frank 莱坊 2018

Knight Frank Petty Limited
Knight Frank Hong Kong Limited

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

