

OFFICE

Large occupiers competing for space in decentralised areas

Hong Kong Island

In February, rents of Grade-A office in Central stayed flat at HK\$164 per sq ft and vacancy rate remained low at 1.5%, partly due to the current inadequate supply. Stocks of larger floor space will only be released in around 2020 and 2021. Even though there were some surrender spaces available in the market, those were mainly of less than 5,000 sq ft. As such, major landlords in Central stood firm on rents. In contrast, smaller landlords tended to be more flexible and were willing to offer incentives in order to secure more transactions.

The movement of decentralisation has continued to gather steam. This has resulted in large occupiers competing for office space in Quarry Bay, underpinning rents in the area to rise 2.6% MoM to HK\$ 54.6 per sq ft per month in February and vacancy rate to shrink to 1.0% from 1.1% in the previous month. We also see a trend of large corporates reconfiguring their office layouts, e.g. with agile space arrangement, in order to save cost.

The slowing of the Mainland GDP means that the market will continue to see Mainland activities subdued this year.

Kowloon

In February, the number of office leasing transactions in Kowloon dropped to around 70 from over 120 in the previous month. Most of the deals were renewal cases, and of medium-scale, with an average area of 5,600 sq ft.

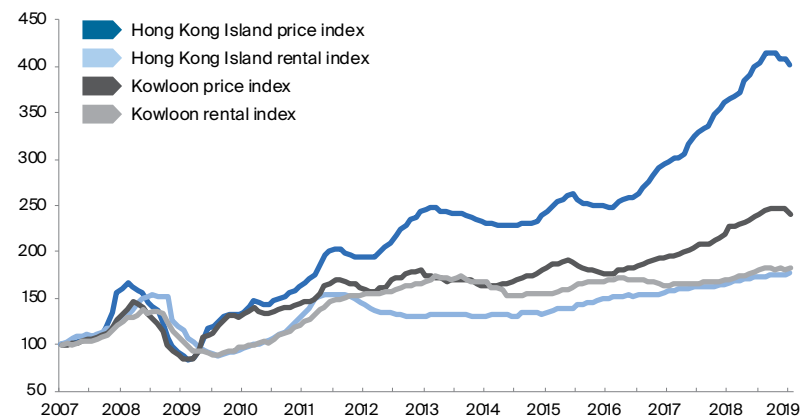
Significant transactions were recorded mainly in Kowloon East. For instance, German supermarket chain ALDI leased three floors in Millennium City 6 in Kwun Tong, with a total area of 51,000 sq ft. Accounting firm Cheng & Cheng CPA relocated from Wan Chai to Kowloon Bay, renting a 32,000 sq ft of office in Enterprise Square 5 Tower 1.

The opening of the High Speed Rail has not significantly boosted office demand from Mainland firms. However, in Tsim Sha Tsui, there were some demand from small and medium-sized Mainland start-ups of various sectors, including semi-retail, investment and healthcare. This has led to more landlords in Tsim Sha Tsui strategically converting office floors into smaller units.

FIGURE 1

Grade-A office prices and rents

2007 = 100



Source: Knight Frank Research

TABLE 1

Grade-A office market indicators (Feb 2019)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	197.9	0.0	3.6	-	-	-
Traditional Central	146.4	0.0	8.3	-	-	-
Overall Central	163.9	0.0	6.3	42,563	0.0	5.4
Admiralty	116.4	0.0	1.6	38,607	0.0	15.9
Sheung Wan	86.0	0.7	3.9	33,696	0.0	5.9
Wan Chai	80.4	0.5	2.5	30,031	0.0	3.8
Causeway Bay	84.9	1.0	2.6	26,024	0.0	3.9
North Point	54.0	0.0	-0.2	-	-	-
Quarry Bay	54.6	2.6	2.7	-	-	-
Tsim Sha Tsui	71.6	0.1	9.2	18,316	0.0	7.5
Cheung Sha Wan	32.8	-0.2	3.0	-	-	-
Hung Hom	44.1	1.1	1.4	-	-	-
Kowloon East	32.2	-3.4	-0.7	13,401	-0.1	2.3
Mong Kok / Yau Ma Tei	59.1	-0.8	-0.0	-	-	-

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL

No sentiment improvement as slow transaction continues

As the traditional low season began in February, total transaction volume of residential units dropped 10% MoM to 4,089, according to The Land Registry. The monthly transaction has been under 5,000 units since July 2018, when the property prices started falling. Although the official data shows that overall property prices were up slightly by 0.1% MoM in January, ending the five-consecutive-month drop, market sentiment remained weak. The low monthly transaction volume did little to improve buyers' perspective of the market prospect.

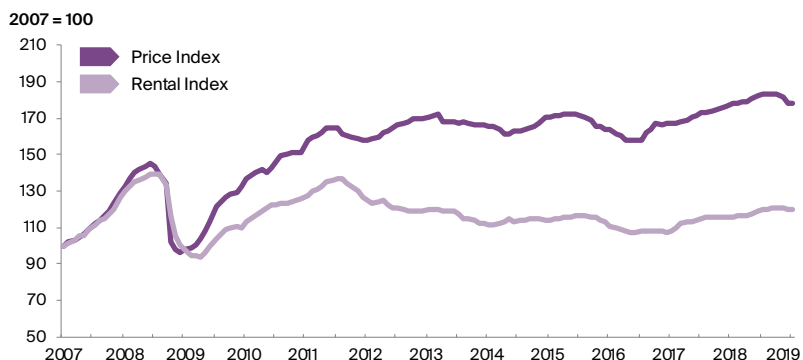
There have been sporadic luxury sales activities recently, as some investors capitalised on the recent stock market rally. However, activities in the luxury segment is unlikely to improve the overall residential market. Nevertheless, Knight Frank's recent research has found that Hong Kong ranks among the world's top cities to attract private wealth. This should provide support for long term price growth.

The luxury leasing market saw a surge of stock of both houses and flats, especially those with relatively high monthly rent of HK\$180,000 or above, although flats with asking rents of between HK\$100,000-\$120,000 per month can be leased out more quickly. In February, most leasing activity in the luxury segment was driven by local moves.

The Government's Budget proposed that the land sale programme in 2019-2020 would provide residential land for 8,800 units, while potential new residential supply could reach 15,500 units, including MTR projects, Urban Renewal Authority sites, and private redevelopments. However, as these projects will not become available soon, they will have only a limited impact on the market.

FIGURE 2

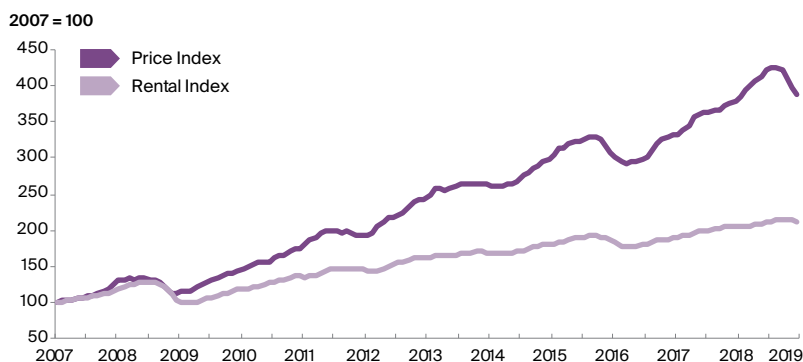
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

Mass residential prices and rents



Source: Knight Frank Research

TABLE 2

Selected residential sales transactions (Feb 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	Mount Nicholson	Tower B / mid floor	4,289	490.0	114,246
Ho Man Tin	8 Deep Water Bay Road	Tower 2 / mid floor / unit C	4,214	292.0	69,300
Tsui Sha Tsim	Masterpiece	High floor / duplex unit H	3,855	220.0	57,069
Island South	Cristallo	High floor / duplex unit A	2,721	148.0	54,392
Island South	62 Begonia Road	House	3,983	168.0	42,179

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 3

Selected residential lease transactions (Feb 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	The Summit	High floor / unit B	2,390	183,000	77
Happy Valley	The Lily	Tower 3 / high floor	2,612	195,000	75
Ho Man Tin	Winfield Building	Block B / mid floor	1,513	90,000	59
Mid-Levels East	The Altitude	Mid floor / unit C	1,451	81,000	56
Mid-Levels Central	Estoril Court	Block 1 / low floor / unit B	2,888	110,000	38

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

RETAIL

Slow growth is the new normal

Hong Kong's retail sales value surged by 7.1% YoY to HK\$48.1 billion in January, higher than market expectations. Three locally related retail categories registered double-digit growth, attributed largely to the festive atmosphere of the Chinese New Year.

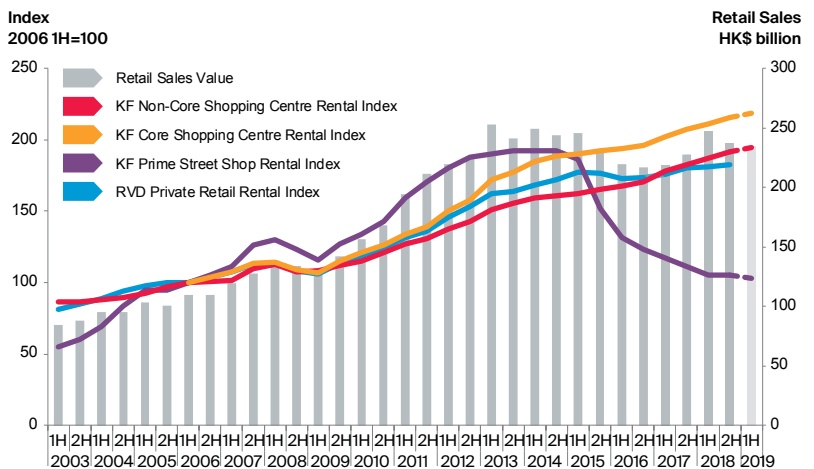
Seasonal variation aside, Hong Kong's retail market has entered a "new normal", a condition characterised by a solid sales performance, but at a lower growth rate. Unlike in earlier years when the sustained spending of Mainland visitors fuelled growth, now purchases by Mainland visitors have stabilised. Retailers have turned cautious about further expansion. We also see more shopping mall landlords willing to lease space to entertainment tenants to diversify their retail mix.

Retail landlords are also active in seeking tenants who embrace unique retail concepts, as retailers that provide bespoke products and services are rapidly gaining popularity among the increasingly sophisticated consumers. For example, Tai Kwun, a multi-faceted cultural landmark in Central, has successfully curated a rich portfolio of passionate and creative retail and F&B tenants. It provides an ideal platform for retailers who want to enhance their brands by associating them with art, culture and history.

There will be a surge in shopping mall supply in 2019. At least four shopping malls – New World's K11 MUSEA, Sun Hung Kai's V Walk, Chinachem's Nina Mall and Swire Properties' Citygate Outlets Extensions – are scheduled for completion this year, adding over 2 million sq ft of retail space to the market. In spite of the keen competition, we expect shopping centres, especially those with better positioning, to stand out from the rest and to see modest growth in rents this year.

FIGURE 4

Retail sales and rents



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

TABLE 4

Retail sales by outlet type (Jan 2018)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	8.5	17.6	2.8	23.4	4.7
Clothing, footwear and allied products	6.3	13.0	0.5	32.4	5.5
Department stores	4.9	10.1	-8.4	16.9	15.1
Fuel	0.8	1.6	0.0	-12.9	-0.9
Food, alcoholic drinks and tobacco (excluding supermarkets)	4.7	9.8	21.3	28.0	13.0
Consumer durable goods	6.6	13.7	2.6	-4.3	-4.6
Supermarkets	4.8	10.0	7.8	7.3	8.6
Others	11.6	24.2	21.5	43.7	11.8
All retail outlets	48.1	100.0	7.2	20.9	7.1

Source: Census and Statistics Department / Knight Frank Research

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