

OFFICE

Market uncertainties dampen Central leasing momentum

Hong Kong Island

In May, office tenants were generally taking a cautious market view and were withholding their leasing decisions amid escalating Sino-US trade war and the recent local political tensions. With leasing momentum continuing to weaken, Grade-A office rents in Central fell slightly by 1.0% month on month to HK\$160 per sq ft. Transaction volume in the area was also impacted, with most of the deals recorded in the small or mid-scale level of below 15,000 sq ft.

As concerns increase for economic uncertainties and rising vacancy in Central and Admiralty thanks to large decentralisation moves, rental growth in the CBD is expected to remain sluggish as both tenants and investors will remain cautious in the near term.

Kowloon

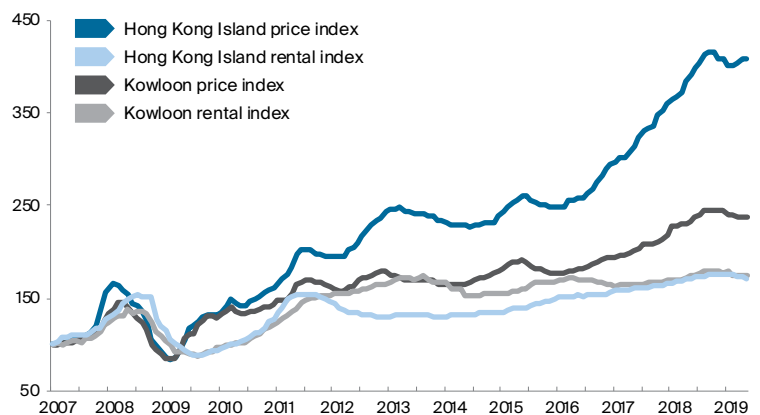
In contrast, the Grade-A office market in Kowloon was active in May, with the number of transactions soaring 65% month on month. Most of the deals were recorded in Kowloon East with an area of 6,000–7,000 sq ft. In the first five months of 2019, half of the transactions over 20,000 sq ft were recorded in Kowloon East. Major demand was driven by shipping, logistics and electronics companies.

One significant leasing deal recorded during the month was FT Life Insurance Company's letting of four floors, totalling 126,000 sq ft, in NEO in Kwun Tong. The company will lease the office space for a monthly rent of around HK\$26–\$28 per sq ft, averaged after calculations of various incentives.

It is noteworthy that landlords are divided in terms of attitudes and strategies to alleviate the negative factors. Some have remained firm in rents despite lingering trade war concerns. Other landlords have been wary of its impact on businesses in the area and started to provide more incentives to lease out vacant office space.

FIGURE 1
Grade-A office prices and rents

2007 = 100



Source: Knight Frank Research

TABLE 1
Grade-A office market indicators (May 2019)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	189.7	-1.8	-2.7	-	-	-
Traditional Central	144.0	-0.4	3.0	-	-	-
Overall Central	159.5	-1.0	0.7	43,907	0.4	2.5
Admiralty	115.0	-0.7	-1.1	39,184	0.0	7.2
Sheung Wan	85.1	-1.0	0.5	34,341	0.8	1.0
Wan Chai	78.9	0.8	-0.9	30,476	0.0	4.4
Causeway Bay	81.0	-3.1	-3.1	26,409	0.0	4.4
North Point	52.2	0.0	-3.5	-	-	-
Quarry Bay	54.5	0.6	2.4	-	-	-
Tsim Sha Tsui	71.6	0.0	4.0	18,140	0.4	2.6
Cheung Sha Wan	33.3	0.0	2.2	-	-	-
Hung Hom	44.3	0.0	-0.5	-	-	-
Kowloon East	32.0	-0.1	-1.3	13,351	-0.6	1.4
Mong Kok / Yau Ma Tei	60.2	0.0	2.1	-	-	-

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL

External uncertainties cloud residential market outlook

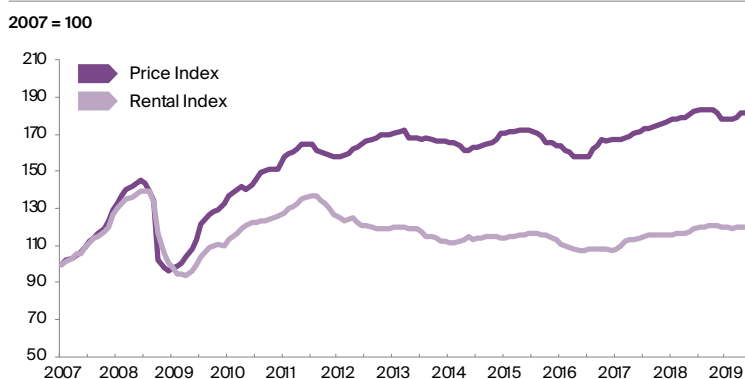
Following a strong rebound in Hong Kong's residential sales in March and April, sales volume only edged up slightly in May, increasing 4.9% MoM to 8,208 units, according to the Land Registry. The latest official data shows that overall residential property prices increased 3.2% MoM in April.

Given the time lag, however, the official statistics has not fully reflected the latest market conditions. Owing to external uncertainties and the slowdown in local economic activity, it was reported that several banks lowered their mortgage valuations by 2–5%, especially for secondary homes in non-urban areas.

Market sentiment has been downbeat since 10 May, when the US slapped new tariffs on China imports. The stock market indices dropped which in turn affected buying confidence. In view of the worsening macro environment, more and more buyers have adopted a wait-and-see attitude. There were 160 forfeitures of preliminary deposits in the first five months of the year, equivalent to about 70% of the total in 2018, according to market data. In a recent case at The Pavilia Hill in North Point, the buyer cancelled the transaction of a penthouse duplex unit, forfeiting the deposit of HK\$7.55 million.

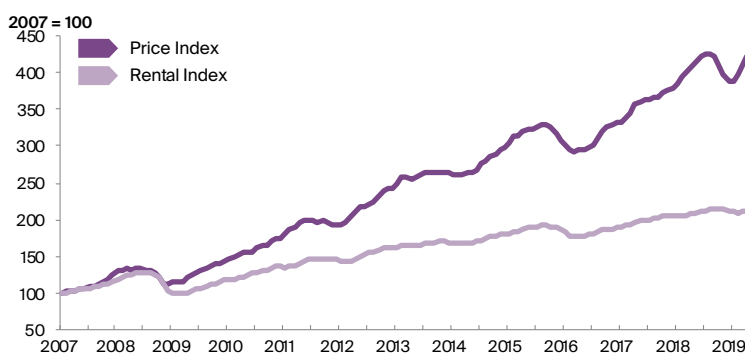
Amid the exacerbated concerns about a global recession, there is expectation that the Fed will cut the interest rate at least twice by the end of the year. This could alleviate the upward pressure on Hong Kong's interest rates and support the existing low-mortgage-rate environment. Nevertheless, we expect that in the near term, the property market will be subdued because of low buyer confidence.

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 (May 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	House	8,674	916	105,603
The Peak	Cameron House	Low floor / unit B	2,659	280	105,303
Island South	50 Stanley Village Road	House	2,760	168.8	61,159
Mid-Level Central	May Tower	Tower II / high floor	2,669	120	44,961
Mid-Level Central	Grenville House	Block F / low floor	3,349	118	35,234

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

TABLE 3
Selected residential lease transactions (May 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Level Central	The Mayfair	High floor / unit A	2,169	200,000	92
Mid-Level West	Seymour	High floor / unit A	1,730	130,000	75
Island South	Ruby Court	Block 1 / high floor	1,775	120,000	68
Mid-Level East	The Summit	Low floor / unit B	2,389	145,000	61
Mid-Level Central	Garden Terrace	Tower 3 / high floor / unit B	2,828	127,000	45

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

RETAIL

Retail climate deteriorates amid adverse conditions

Hong Kong's retail sales fell for the third consecutive month in April. According to government figures, retail sales in April dropped 4.5% YoY in value, following a 0.2% fall in March, contributing to a 2.0% decline year to date.

The jewellery, watches and luxury goods sector continued to see weak performance, with sales value plummeting 11.4% YoY. Weak retail sales figure reflects a still-cautious consumption sentiment amid the various external uncertainties.

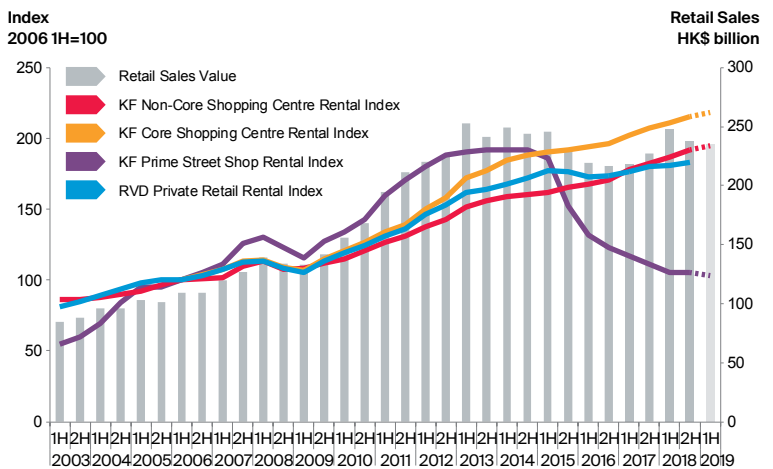
The challenging retail climate and deteriorating global outlook have promoted landlords to take a risk-off approach and offer steep rental concessions to attract tenants. A low floor unit in The Galleria, at 9 Queen's Road Central, covering 6,500 sq ft with a 1,500-sq-ft rooftop flat, was leased to an F&B operator for a monthly rent of HK\$150,000 or HK\$23 per sq ft, much lower than the current market rent level.

On the other hand, leasing momentum has slowed down in recent months, as retailers have adopted a very cautious approach to expansion, which has also exerted downward pressure on rents. In terms of business and operation strategies, many leading retailers have transformed and upgraded their businesses to face market headwinds. Harvey Nichols Hong Kong, for instance, will introduce a new format flagship store in Pacific Place in September 2019, with technology the core element in the shop. The new flagship store will showcase three times the offerings of the existing store, while reducing the size of the store by 50%.

We expect the retail climate in the second half of the year to be largely impacted by the weak economic conditions caused by the US-China trade conflict. Locally, the current political upheaval may also have a longer-term impact on both sentiment and consumer spending. Even in the near term, Hong Kong's retail market is expected to face considerable headwinds.

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 (Apr 2019)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.9	15.5	-12.3	-30.5	-11.4
Clothing, footwear and allied products	5.2	13.9	-2.4	-16.8	-2.6
Department stores	3.8	10.0	-11.1	-22.6	-4.3
Fuel	0.8	2.2	0.0	6.9	3.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.5	9.2	1.2	-26.5	0.8
Consumer durable goods	5.1	13.6	-10.0	-21.9	-10.5
Supermarkets	4.2	11.1	-5.8	-12.9	1.1
Others	9.3	24.6	2.4	-20.4	-2.3
All retail outlets	37.7	100.0	-5.0	-21.5	-4.5

Source: Census and Statistics Department / Knight Frank Research

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