

OFFICE

Lease dispositions spike amidst formidable headwinds

Hong Kong Island

The Grade-A office market has been in the doldrums since June, as the impact of the social unrest and the Sino-US trade conflict continue to linger. Premium Central office space has been hit the hardest, with rents dropping by 11% in the past five months. In terms of industry, demand from retail companies has been particularly sluggish. There have been more lease disposition cases in the sector, as many companies adopt cost control measures.

Remarkably, despite less than promising environment some multinational financial institutions are still taking up spaces. For example, US-based financial firm Citadel Investment Group rented a space of about 24,000 sq ft on the 42nd floor at Two IFC for in-house expansion.

Recent news about financial issues with certain co-working space operators highlighted the challenges the sector faces. This issue will inevitably raise tenants' concern about the financial stability of flexible office operators as they will be more selective when making leasing decisions.

Kowloon

Leasing sentiment weakened in October given the uncertain outlook for both the local and global economy. More lease disposition cases were seen in Kowloon, indicating signs of softening demand. Most of the deals recorded during the month were for less than 3,000 sq ft, and were leased at below HK\$25 per sq ft per month. Demand was mainly from the sourcing sector.

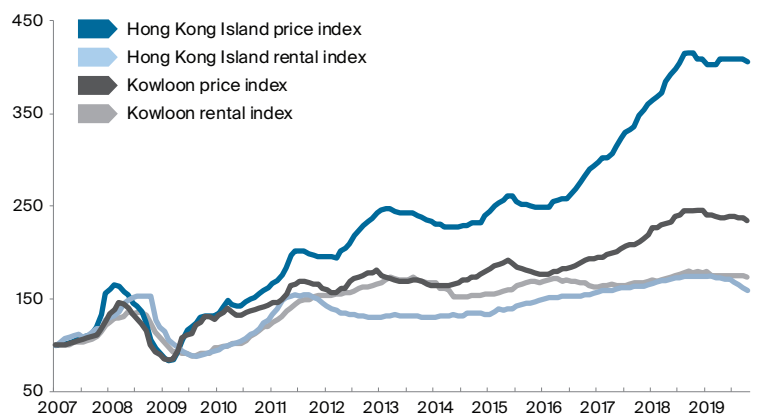
Most of the significant deals recorded were negotiated earlier this year. One of them was sourcing company William E. Connor's lease in Kader Building in Kowloon Bay. The firm rented around 40,000 sq ft for HK\$15 per sq ft per month.

Leasing activity is expected to remain slow in the coming two to three months, especially since this the traditional low season.

FIGURE 1

Grade-A office prices and rents

2007 = 100



Source: Knight Frank Research

TABLE 1

Grade-A office market indicators (Oct 2019)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	168.2	-8.4	-15.5	-	-	-
Traditional Central	132.9	-0.4	-9.1	-	-	-
Overall Central	144.9	-3.7	-11.8	42,676	-2.5	-8.9
Admiralty	100.1	-0.4	-14.0	39,184	0.0	1.5
Sheung Wan	82.4	-0.7	-3.7	33,860	-1.1	-7.8
Wan Chai	75.3	-0.7	-5.6	30,476	0.0	1.5
Causeway Bay	77.7	0.0	-7.5	26,419	0.0	1.5
North Point	49.5	-0.4	-9.1	-	-	-
Quarry Bay	54.5	-2.1	2.4	-	-	-
Tsim Sha Tsui	70.9	-1.3	-0.6	17,983	-1.4	-4.7
Cheung Sha Wan	32.8	-0.4	0.7	-	-	-
Hung Hom	44.0	-0.9	2.9	-	-	-
Kowloon East	31.6	-0.7	-3.9	13,071	-0.5	-3.9
Mong Kok / Yau Ma Tei	60.1	-0.6	2.3	-	-	-

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL

Policy announcements help lift transactions

The relaxation of the mortgage cap for first-time buyers and a lending rate cut helped restore purchasing power in the housing market. According to the Land Registry, overall sales volume recorded MoM growth of 16.1% to 4,001 units after two consecutive months of drops.

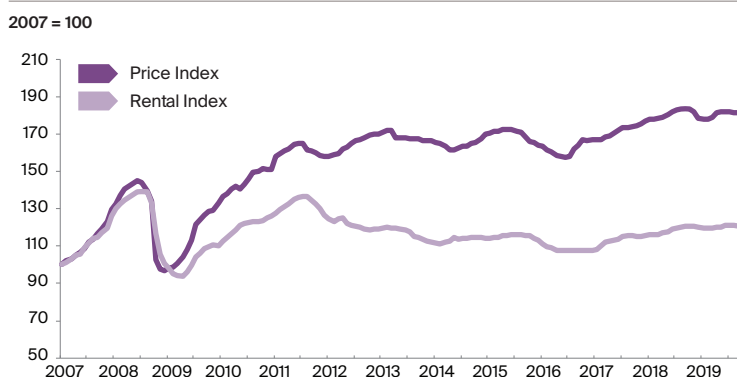
Developers offered flexible payment plans and discounts for both new home projects and unsold stocks, which spurred homebuyers to speed up purchases in the primary market. For instance, all units in The Grand Marine in Tsing Yi and Emerald Bay in Tuen Mun were sold in the first round of sales.

As the ceiling for the mortgage financing program has been raised from HK\$4 million to HK\$8 million, more purchasing options are available to potential buyers. Instead of nano flats, first-time buyers can now afford to purchase small- to medium-sized units. Evidently, demand for these flats rebounded sharply as an immediate reaction to the policy.

For residential land sales, bidding interest in the Wong Chuk Hang MTR tender was affected by the market headwinds with only six bids submitted. The residential development of Wong Chuk Hang Package Four was awarded to a consortium formed by Kerry Properties, Sino Land and Swire Properties at an accommodation value of HK\$10,587 per sq ft. As we go to press, a plot in Kai Tak was sold to a joint venture of Hong Kong and Mainland developers, albeit at the bottom of expected price range. Although this is a reflection of the prevailing cautious and risk-averse sentiment, the activities themselves are a sign of hopefulness.

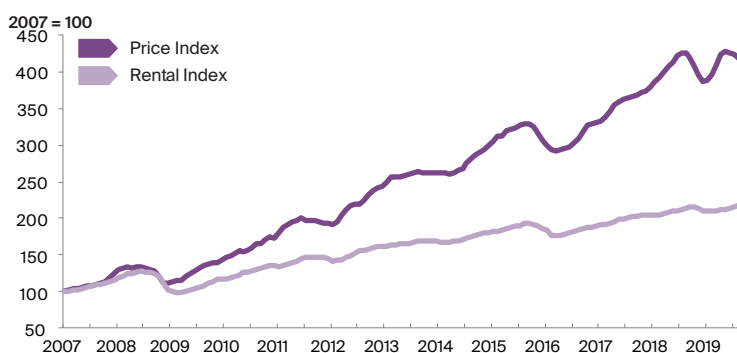
Looking ahead, we expect the upcoming implementation of the vacancy tax to prompt developers to actively dispose unsold stock at attractive prices. On the other hand, favourable factors, such as an interest rate cut, will bring some support to transaction volume.

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 (Oct 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	Alassio	Duplex unit	2,582	197.8	76,607
Shatin	Kam On Garden	House	2,541	178	70,051
The Peak	Altadena	House	4,260	245	57,512
Kowloon Tong	Grampian	Low floor / unit A	2,214	123	55,556
The Peak	9 Coombe Road	House	2,791	147	52,669

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

TABLE 3
Selected residential lease transactions (Oct 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 1 / high floor / unit B	2,683	218,000	81
Island South	8 Deep Water Bay Drive	Tower 2 / high floor / unit C	7,677	600,000	78
Island South	Residence Bel-Air	Phase 2 / tower 7 / high floor / unit A	2,667	150,000	56
Mid-Levels Central	Queen's Garden	Block A / high floor	2,148	115,000	54
Mid-Levels Central	Tregunter	Tower 3 / high floor / unit D	2,407	105,000	44

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

RETAIL

Community malls fared better in difficult times

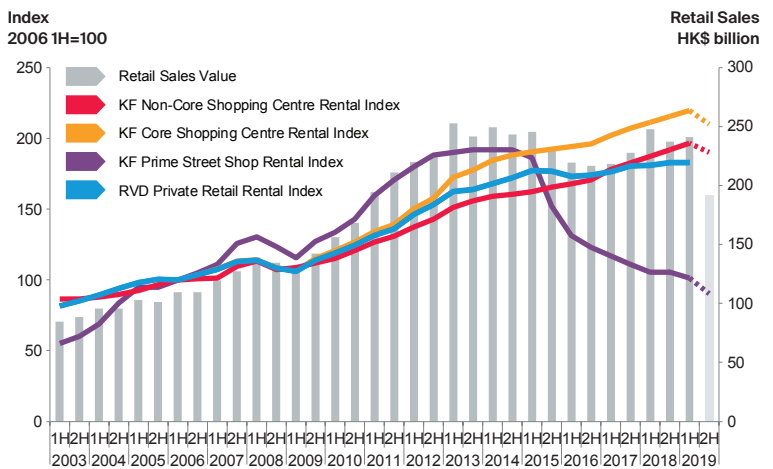
The double whammy of escalating social unrest across the city and the protracted China-US trade war has resulted in further worsening of the retail sales. In September 2019, total retail sales value registered a significant drop of 18.3% YoY to HK\$29.8 billion. For the first nine months of 2019, total retail sales value dropped by 7.3% YoY. “Jewellery, watches and clocks, and valuable gifts” recorded the largest drop (40.8%), followed by “Department store” sales, which dropped by 25.6% in value. Monthly visitor arrivals witnessed a sharp decline in September, down 34.2% YoY to 3.1 million. Arrivals from the Mainland, the biggest group of visitors, which accounts for 78% of the total, plunged 35% YoY to 2.4 million.

There have been waves of shutdowns and lay-offs at retailers. The situation was as adverse as that during the Asian Financial Crisis in 1998, as figures show that retail sales volume fell 19.5% YoY in Q3, on par with the record decline in Q3 of 1998.

Retailers and shopping malls in key shopping districts, such as those in Causeway Bay, Tsim Sha Tsui and Mongkok, have been badly impacted, as the protests centre on these districts. Many of them had to restrict their operation hours or even close temporarily. However, as people have avoided going to crowded areas, sales in community malls, neighbourhood malls and suburban malls, which offer daily necessities to locals, were relatively more resilient and saw solid sales even amid Hong Kong’s social unrest.

Looking ahead, it is difficult to see any upside for the retail sector in the coming months. Given the poor macro-economic conditions, coupled with the social unrest, consumer sentiment will remain weak.

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 (Sept 2019)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.6	12.2	-8.1	-36.9	-40.7
Clothing, footwear and allied products	2.9	9.8	-1.8	-33.3	-24.9
Department stores	2.9	9.6	-1.4	-20.7	-25.6
Fuel	0.9	3.1	8.2	3.0	5.9
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.8	12.8	9.1	19.8	-13.8
Consumer durable goods	5.4	18.1	25.5	15.4	-5.1
Supermarkets	4.5	15.1	-3.2	1.4	-2.6
Others	5.7	19.2	-7.2	-30.1	-18.2
All retail outlets	29.9	100.0	1.6	-15.2	-18.3

Source: Census and Statistics Department / Knight Frank Research

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