

RESEARCH



AUG 2016

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Medium-sized firms take up
space from MNCs

Residential

93,000 flats to be provided in
coming 3-4 years

Retail

HK remains most popular
destination for Mainlanders

MARKET HIGHLIGHTS

- ◆ More semi-retail tenants with lower rental affordability took up Grade-A office space in Kowloon East, as landlords opted for inventory clearance amid increasing office supply.
- ◆ Although residential sales dropped in July after three consecutive months of growth, prices remained stable. Significant upcoming supply is expected to suppress growth in home prices.
- ◆ The local retail market is set to improve in the coming months as more Mainland visitors return to the city amid the relative strengthening of some other currencies and terrorism threat in other popular destinations.

TABLE 1

Economic indicators

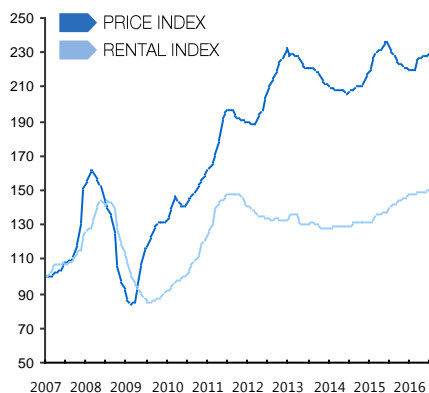
Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q1 2016	+0.8%#	+2.9%	+2.3%	+2.4%
Inflation rate	Jun 2016	+2.4%	+4.3%	+4.4%	+3.0%
Unemployment	Apr-Jun 2016	3.4%#	3.3%	3.2%	3.3%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank Research

Provisional * HSBC prime lending rate

FIGURE 1
Grade-A office prices and rents

Jan 2007 = 100



Source: Knight Frank Research

Prime Office

The Grade-A office market on Hong Kong Island remained subdued in July. Many large financial institutions continued downsizing, which had a negative effect on leasing demand. Some expanding medium-sized firms took advantage of the opportunity to take up space released by multinational corporations (MNCs). Bank of Singapore, for example, leased an entire floor in Three Exchange Square in Central previously occupied by ANZ. Given the increasing leasing demand from medium-size firms we expect this trend to continue.

On the Kowloon side, large supply forced landlords to offer more incentives to tenants considering renewal. In order to accelerate take-up, some office buildings, especially those converted from industrial use, started leasing space to semi-retail tenants, such

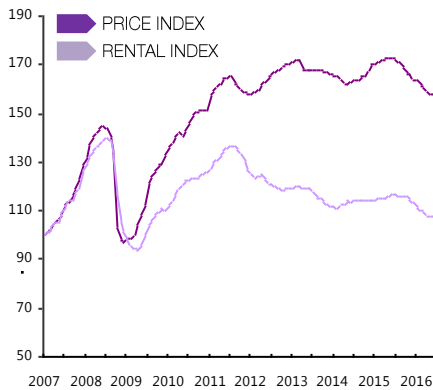
as fitness centres despite their relatively lower rental affordability.

The en-bloc office sales market remained active proven by another large-sum transaction recorded last month. Cheung Kei Group, a Mainland conglomerate based in Shenzhen, purchased One HarbourGate East Tower for HK\$4.5 billion. The unit price was around HK\$16,000 per sq ft, 8% higher than that of West Tower, which was sold to China Life Insurance (Overseas) in November last year.

By the end of the year, we expect Central office rents to increase further because of the tight availability. However, office rents in decentralised areas, such as Kowloon East, are likely to experience rental pressure with increasing upcoming supply.

FIGURE 2
Luxury residential prices and rents

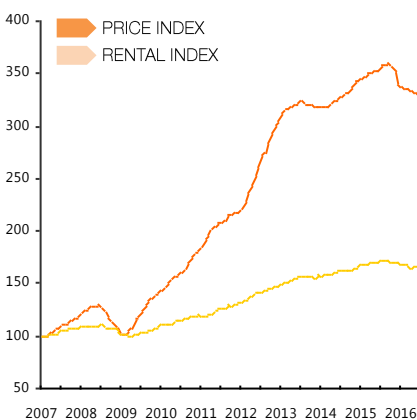
Jan 2007 = 100



Source: Knight Frank Research

FIGURE 3
Retail property prices and rents

Jan 2007 = 100



Source: Rating and Valuation Department
/ Knight Frank Research

Note: Provisional figures from Jan to Jun 2016

Residential

According to the Land Registry, residential sales in July dipped 8% month on month to settle at 4,243 units after three consecutive months of growth. Home prices managed to remain stable thanks to sustainable end-user demand.

The primary home market, which contributed to about one third of total residential transactions, is where major developers generated good sales in their recently launched projects. For instance, Park Yoho Venezia in Yuen Long has sold 95% of its 62 units in its third batch of sales in July and The Ascent in Cheung Sha Wan was oversubscribed seven times and sold over 94% of its first batch of 125 units in one day.

There has been some transactions in the otherwise muted land market. In one notable sale, a domestic site in Pak Shek Kok, Tai Po was sold at an accommodation value of HK\$3,932 per sq ft, up 19.2% from two years ago when the adjacent site was sold.

Despite the recent pickup in sales, the surge in upcoming supply is expected to suppress growth in home prices. According to the latest data from the Transport and Housing Bureau, 93,000 new homes are to be provided in the coming 3-4 years.

Developers are expected to continue offering deep discounts and competitive mortgage schemes to attract buyers in order to offload inventory before a possible US interest-rate hike in the coming months. We maintain our forecast of luxury home prices falling 5-10% this year and mass residential prices dropping up to 10% over the year.

Retail

Hong Kong retailers continued to face headwinds as some high-spending Mainland visitors preferred to shop further afield, amid streamlined visa application processes in some countries and increased direct international flights.

In the first half of 2016, Hong Kong welcomed 20.4 million Mainland visitors, down 10.6% year on year (Y-o-Y). Hong Kong's major Asian peers, in contrast, recorded double digit growth in Mainland visitor numbers. Japan, South Korea and Thailand recorded Y-o-Y increases of 41.2%, 27.2% and 22.3%, respectively, receiving 11.8 million Mainland visitors in total.

Mainland visitors also reduced their spending in Hong Kong while increasing it abroad. In 2015, overnight Mainland visitors spent on average HK\$7,924 per person in Hong Kong, down about 10% from that of 2014. However, their per-capita spending grew 22.5% Y-o-Y in Japan and 11% Y-o-Y in South Korea, respectively.

Despite the slowdown, Hong Kong remained the most popular destination for Mainland travellers. During the first half of 2016, over one third of outbound Chinese tourists chose Hong Kong as their destination. The city is preferred especially by visitors from nearby cities, because of its proximity, attractive pricing and availability of imported consumables.

Looking ahead, the threat of terrorism in Europe, the strengthening Japanese yen and Korean won as well as increased political tension between South Korea and China may deter some Mainland tourists from travelling to these countries, in return benefiting Hong Kong's tourism and retail industries in the coming months.

SNAPSHOT

One HarbourGate East Tower in Hung Hom was sold to Cheung Kei Group for HK\$4.5 billion in July.

Agile Property Holdings leased around 15,000 sq ft of office space in Three Pacific Place in Wan Chai last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Hung Hom	One HarbourGate East Tower	En bloc	280,000	\$4,500	\$16,071
Admiralty	Lippo Centre Tower 1	High	2,392	\$57	\$23,829
Tsim Sha Tsui	Silvercord Tower 1	Low	1,424	\$21.8	\$15,537
Tsim Sha Tsui	New Mandarin Plaza Tower B	High	3,712	\$31.7	\$8,534

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Floor area (sq ft)
Wan Chai	Three Pacific Place	Mid	15,116 (L)
Wan Chai	Sunlight Tower	High	10,589 (G)
Central	The Center	High	9,428 (G)
Mong Kok	Grand Century Place Tower 2	High	8,000 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

Grade-A office rents increased in most business areas last month.

Grade-A office prices increased in all major business districts in July.

TABLE 4

Month-on-month movement in Grade-A office rents (Jul 2016)






Central / Admiralty	Wan Chai / Causeway Bay	Quarry Bay	Tsim Sha Tsui	Kowloon East
				

TABLE 5

Prime office market indicators (Jul 2016)

District	Net effective rent	Change			Price (Gross)	Change		
	HK\$ psf / mth	M-o-M Change	Q-o-Q Change	Y-o-Y Change	HK\$ psf	M-o-M Change	Q-o-Q Change	Y-o-Y Change
Premium Central	\$172.1	-0.1%	0.1%	8.4%	n/a	n/a	n/a	n/a
Traditional Central	\$121.9	0.6%	2.4%	8.7%	n/a	n/a	n/a	n/a
Overall Central	\$139.3	0.3%	1.4%	8.6%	\$28,165	1.9%	2.3%	1.7%
Admiralty	\$101.2	0.2%	1.9%	12.3%	\$23,358	1.9%	2.4%	1.1%
Sheung Wan	\$79.7	0.7%	0.6%	8.8%	\$20,630	0.9%	0.9%	-3.8%
Wan Chai	\$72.2	0.2%	0.0%	4.9%	\$20,541	1.4%	2.7%	2.1%
Causeway Bay	\$78.4	0.9%	0.2%	7.3%	\$22,258	1.2%	3.5%	7.5%
North Point	\$53.3	-0.1%	-2.1%	3.4%	n/a	n/a	n/a	n/a
Quarry Bay	\$57.0	0.4%	-0.1%	-0.3%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$63.9	-0.6%	-1.4%	5.0%	\$13,186	1.1%	2.0%	0.9%
Cheung Sha Wan	\$28.6	-1.0%	-1.8%	-3.4%	n/a	n/a	n/a	n/a
Hung Hom	\$31.2	0.0%	-3.7%	-8.7%	n/a	n/a	n/a	n/a
Kowloon East	\$34.1	0.1%	-1.1%	0.9%	\$11,411	1.1%	2.8%	-0.8%
Mong Kok / Yau Ma Tei	\$52.1	0.9%	-2.6%	-0.2%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A number of luxury houses were sold last month.

A number of luxury houses were leased in Island South in July.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tai Po	Mayair by the Sea II	House	3,609	\$163.8	\$45,387
Island South	Marinella	House	2,647	\$120	\$45,334
Mid-Levels West	Alassio	50th floor / unit C	1,702	\$72.6	\$42,655
Island South	Pine Crest	18th floor / unit A	1,778	\$74	\$41,620

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	Residence Bel-Air	House	3,307	\$230,000	\$69.5
Tin Hau	The Pavilia Hill	Tower 6 / high floor / unit B	1,188	\$78,000	\$65.7
The Peak	Pollock Path	Duplex	2,417	\$145,000	\$60
Island South	1 Shouson Hill Road East	House	2,656	\$140,000	\$52.7
Mid-Levels West	Realty Garden	High floor / unit B	1,165	\$55,000	\$47.2

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In July, rents remained stable in two of the five major luxury residential districts.

Prices decreased slightly in Jardine's Lookout / Happy Valley last month.

TABLE 8

Month-on-month changes in luxury residential rents (Jul 2016)






The Peak	Island South	Mid-Levels	Jardine's Lookout / Happy Valley	Pokfulam
				

TABLE 9

Luxury residential market indicators (Jul 2016)

District	Rent		Change			Price		Change	
	HK\$ psf / mth	M-o-M change	Q-o-Q change	Y-o-Y change		HK\$ psf	M-o-M change	Q-o-Q change	Y-o-Y change
The Peak	\$60.5	0.0%	-0.1%	-10.2%		\$39,039	0.0%	0.0%	-5.7%
Island South	\$49.4	-0.2%	-0.6%	-4.8%		\$28,084	0.0%	0.0%	-8.7%
Mid-Levels	\$51.6	0.0%	0.1%	-10.2%		\$25,236	0.9%	0.3%	-8.0%
Jardine's Lookout / Happy Valley	\$48.3	-0.7%	-0.3%	-4.8%		\$24,788	-0.7%	-1.8%	-5.3%
Pokfulam	\$36.8	0.5%	0.0%	-5.5%		\$21,728	0.9%	-0.3%	-13.9%

Source: Knight Frank Research

Note: Rents and prices are based on saleable area and are subject to revision.

SNAPSHOT

A number of retail properties changed hands in Tsim Sha Tsui in July.

Shop leasing was active in non-core retail areas last month.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tsim Sha Tsui	56-56A Granville Road	Ground floor / unit 56	599 (G)	\$60.0	\$100,167
Aberdeen	Man King Building	Ground floor / unit B	582 (G)	\$50.0	\$85,911
Wan Chai	Overseas Trust Bank Building	Ground and lower ground floors	11,850	\$282.0	\$23,797
Tsim Sha Tsui	11A Hau Fook Street	Ground floor	N/A	\$51.5	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Kwun Tong	Kwun Tong Plaza	Ground floor / units 6-7	262	\$140,800	\$537.4
Wan Chai	Kiu Fu Commercial Building	Ground floor / unit B	1,308	\$200,000	\$152.9
Tsim Sha Tsui	19-21 Cameron Road	Ground floor / unit A	950 (G)	\$118,000	\$124.2
Mong Kok	Yau Shing Mansion	Ground floor / unit C	N/A	\$400,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

SNAPSHOT

Prime street shop rents fell in all major retail districts in July.

Total retail sales value decreased 8.9% year on year to HK\$33.7 billion in June.

TABLE 12

Month-on-month movement in prime street shop rents (Jul 2016)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jun 2016)

Outlet	Value (HK\$ billion)	Share of total %	M-o-M change	Q-o-Q change	Y-o-Y change
Jewellery, watches and clocks, and valuable gifts	\$5.5	16.3%	-0.6%	6.6%	-20.4%
Clothing, footwear and allied products	\$4.5	13.4%	-7.1%	-6.3%	-0.7%
Department stores	\$3.3	9.8%	-30.9%	-3.4%	-10.5%
Fuel	\$0.8	2.3%	0.1%	14.6%	-4.7%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.9	8.6%	-5.9%	-5.9%	2.9%
Consumer durable goods	\$5.1	15.0%	-1.4%	-17.7%	-26.2%
Supermarkets	\$4.3	12.8%	-1.8%	5.8%	1.9%
Others	\$7.3	21.7%	1.3%	0.5%	2.8%
All retail outlets	\$33.7	100.0%	-5.8%	-2.8%	-8.9%

Source: Census and Statistics Department / Knight Frank Research



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