

RESEARCH



MAY 2016

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Expansion activity sluggish apart
from insurance companies

Residential

Sales grow further but prices
continue to slip

Retail

Inbound tourism improves
during Labour Day holiday

MARKET HIGHLIGHTS

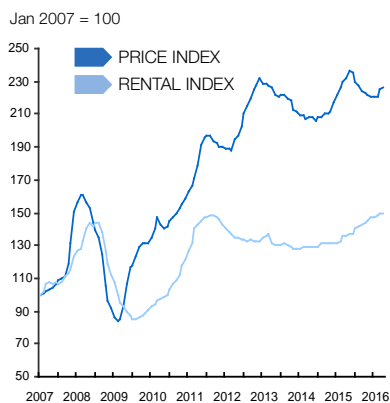
- ◆ Grade-A offices in decentralised business areas continued to attract relocating companies with their high availability and comparatively low cost. Expansion demand remained soft because of economic uncertainty, with only the insurance sector unaffected.
- ◆ Home sales surged in April, with better than expected primary sales and continued improvement in the secondary market. Prices, however, continued to fall and the trend is set to continue with abundant supply and a potential rise in the interest rate.
- ◆ Thanks to visitors from nearby Mainland cities, the retail market in major shopping areas near the border with the Mainland remained resilient, especially during the Labour Day holidays.

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	Mar 2016	+2.9%	+4.3%	+4.4%	+3.0%
Unemployment	Jan-Mar 2016	3.4%#	3.3%	3.2%	3.3%# (Q4)
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



Source: Knight Frank Research

Prime Office

In April, the quietness lingered in the Grade-A office leasing market on Hong Kong Island, thanks to the lack of available space there. With market conditions remaining in favour of landlords, some premises received multiple offers from potential tenants.

The Kowloon market, in contrast, remained very active with numerous transactions. However, the activity involved mainly relocation for cost-reduction purposes. For example, a number of sourcing and media companies opted to downsize and relocate to buildings with lower rents.

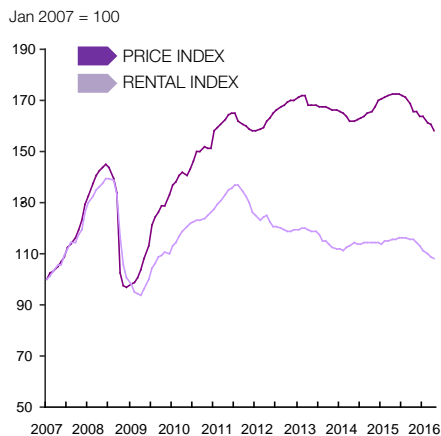
Given the economic uncertainty, many firms have adopted a cautious market outlook, resulting in weakening expansion demand

for office space. The only exception was insurance companies, which continued to increase their presence in both central and decentralised areas.

Looking ahead, we believe the polarisation in the Grade-A office market will continue. Office rents on Hong Kong Island are expected to increase by 5% this year, given the tight availability and extremely low vacancy. Meanwhile, office rents in decentralised areas will fall by 5%, given the abundant supply in the pipeline.

FIGURE 2

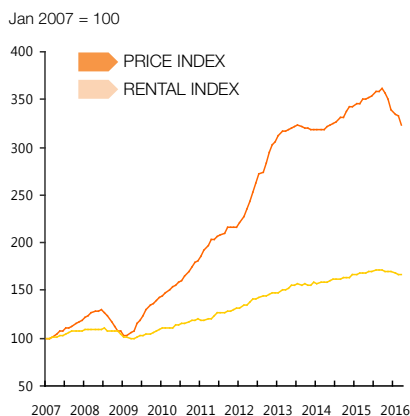
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

Retail property prices and rents



Source: Rating and Valuation Department
/ Knight Frank Research

Note: Provisional figures from Oct 2015 to Mar 2016

Residential

In April, residential sales volume continued to grow, surging 90% month on month to 4,494 units, according to the Land Registry. The rise was attributable to satisfactory sales of primary projects and further revival of the secondary market, with more flat owners willing to cut prices. As a result, prices fell further, with official figures showing that home prices decreased for six consecutive months, for a cumulative decline of 12%.

The luxury sector remained relatively resilient. Reported landmark deals during the month included House 5, Phase 1, Mount Nicholson on the Peak, which sold for HK\$740 million, making it the third most expensive house in Hong Kong, and a unit in Ultima in Ho Man Tin, which sold for about HK\$52,000 per sq ft, the highest apartment price to date in the district.

According to the Transport and Housing Bureau, residential completions could reach 92,000 units in the coming 3-4 years, a new high since records have been kept. Abundant supply and a potential US interest-rate rise in 2016 are expected to impose pressure on home prices. We expect luxury prices to drop 5-10% this year, while mass-market prices could drop up to 10%.

Retail

The three-day Labour Day holiday saw surprisingly strong inbound tourism, with the number of Mainland visitors growing about 7% compared to the same period last year, according to the Immigration Department.

A weakening Hong Kong dollar against its Asian peers, such as the Japanese yen and Korean won, along with deep discounts offered by retailers, helped attract visitors from neighbouring Mainland cities. Non-core retail districts in the New Territories successfully drew crowds of Chinese shoppers thanks to their proximity to the border with the Mainland and broad selection of mid-range

brands and necessities.

Rents in prime retail areas continued to edge downwards as more landlords softened their stands, making it possible for mid-range brands to enter prime retail streets. For instance, Folli Follie, an affordable jewellery retailer, reportedly leased a duplex street shop at Excelsior Plaza in Causeway Bay at a 30% discount to its previous lease.

Looking forward, we expect the retail market to become quiet again until the start of the summer holiday in July. However, for the whole of 2016, prime street shops will continue to face challenges with sluggish sales of luxury goods. Rents for prime street shops are set to decrease further, while those in decentralised shopping hubs near the border with the Mainland, such as Shatin, Tuen Mun and Yuen Long, will remain firm, given their convenient location for Mainland visitors looking for mid-range goods and necessities.

SNAPSHOT

There were only a few major office sales transactions in April.

A logistics company leased over 46,000 sq ft of office space in Manhattan Place 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)
Central	Nine Queen's Road Central	Low	13,707	\$396	\$28,890
Sheung Wan	Shun Tak Centre	Mid	2,559	\$45.4	\$17,733
Tsim Sha Tsui	Lippo Sun Plaza	High	N/A	\$44.3	N/A
Kwun Tong	Legend Tower	High	N/A	\$29.8	N/A

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)
Kowloon Bay	Manhattan Place	Mid	46,475 (L)
Wan Chai	Three Pacific Place	Low	14,946 (L)
North Point	AlA Tower	Mid	12,491 (L)
Admiralty	Far East Finance Centre	High	10,800 (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 districts in April.

Causeway Bay led the market with the strongest growth in Grade-A office prices last month.

TABLE 4

Month-on-month movement of Grade-A office rents (Apr 2016)






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

TABLE 5

Prime office market indicators (Apr 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	\$171.9	0.3%	0.7%	11.6%	n/a	n/a	n/a	n/a
Traditional Central	\$119.1	0.2%	1.5%	11.1%	n/a	n/a	n/a	n/a
Overall Central	\$137.4	0.2%	1.1%	11.3%	\$27,539	1.4%	2.3%	1.7%
Admiralty	\$99.4	0.3%	1.9%	14.0%	\$22,805	0.5%	2.7%	-1.8%
Sheung Wan	\$79.3	1.4%	-0.8%	13.1%	\$20,445	0.0%	3.0%	-5.0%
Wan Chai	\$72.1	0.4%	1.1%	7.4%	\$19,992	0.2%	2.5%	-1.1%
Causeway Bay	\$78.2	1.6%	1.8%	9.2%	\$21,509	2.8%	7.3%	2.2%
North Point	\$54.4	0.0%	1.1%	11.2%	n/a	n/a	n/a	n/a
Quarry Bay	\$57.0	0.0%	-0.1%	2.3%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$65.4	0.5%	2.9%	15.4%	\$12,928	0.0%	2.1%	-1.7%
Cheung Sha Wan	\$29.7	1.0%	2.1%	2.5%	n/a	n/a	n/a	n/a
Hung Hom	\$32.4	0.9%	5.7%	-11.2%	n/a	n/a	n/a	n/a
Kowloon East	\$34.6	0.0%	1.1%	2.3%	\$11,104	0.8%	1.2%	-8.9%
Mong Kok / Yau Ma Tei	\$53.5	-0.9%	1.4%	4.4%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A number of major luxury homes were sold in Mid-Levels West in April.

A number of luxury units were leased on the Peak and in Island South last month.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	39 Conduit Road	46th floor / unit A	5,732	\$594.762	\$103,762
Mid-Levels West	55 Conduit Road	12th and 15th floors / units A	4,710	\$360.338	\$76,505
Mid-Levels West	Cluny Park	12th floor / unit A	2,369	\$113	\$47,699
Kowloon Tong	12 Oxford Road	House	4,988	\$195	\$39,094

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)
The Peak	Strawberry Hill	House	2,903	\$200,000	\$68.9
Mid-Levels	Highcliff	High floor / unit B	2,642	\$155,000	\$58.7
The Peak	Vivian Court	Mid floor / unit B	1,749	\$85,000	\$48.6
Island South	Coral Villa	House	3,379	\$163,000	\$48.2
Island South	Celestial Garden	Mid floor / unit B	1,962	\$85,000	\$43.3

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents continued to fall in all major luxury residential districts in April.

Home prices fell slightly or remained stable in major luxury areas last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Apr 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	\$60.6	-1.6%	-4.4%	-10.0%	\$39,039	-2.6%	-2.6%	-5.6%	
Island South	\$49.8	-1.0%	-1.5%	-3.5%	\$28,084	0.0%	-1.3%	-12.0%	
Mid-Levels	\$51.6	-1.6%	-5.5%	-8.7%	\$25,232	-1.1%	-2.9%	-1.8%	
Jardine's Lookout / Happy Valley	\$48.5	-0.0%	-1.3%	-4.1%	\$25,503	-0.6%	-2.6%	-0.3%	
Pokfulam	\$36.8	-0.2%	-2.6%	-4.6%	\$21,788	-2.1%	-9.3%	-12.7%	

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 non-core retail districts last month.

Causeway Bay's retail leasing market was relatively active in April.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Kwai Chung	Shek Yam Estate	Retail and carpark block	N/A	\$880	N/A
Tuen Mun	Po Tin Estate	Retail and carpark block	N/A	\$437.8	N/A
Chai Wan	Hing Man Estate	Retail and carpark block	N/A	\$208.888	N/A
San Po Kong	3 Tai Yau Street	Ground floor / unit D	1,066	\$50.145	\$47,040

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Causeway Bay	Sun On Mansion	Ground floor / units 20 & 22	1,643	\$518,000	315.3
Causeway Bay	Excelsior Plaza	Ground to 1st floors / units 20	N/A	\$750,000	N/A
Central	15C Wellington Street	Ground floor	N/A	\$450,000	N/A
Causeway Bay	10 Pak Sha Road	Ground floor	N/A	\$250,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

Prime street shop rents decreased in all major retail districts in April.

Total retail sales value decreased 9.8% year on year to HK\$34.7 billion in March.

TABLE 12

Month-on-month movement of prime street shop rents (Apr 2016)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Mar 2016)

Outlet	Value	Share of total	Change		
	(HK\$ billion)	%	M-o-M change	Q-o-Q change	Y-o-Y change
Jewellery, watches, and clocks and valuable gifts	\$5.1	14.8%	-12.1%	-35.9%	-20.3%
Clothing, footwear and allied products	\$4.8	13.9%	-6.0%	-20.3%	-10.3%
Department stores	\$3.4	9.9%	-7.2%	-31.8%	-5.4%
Fuel	\$0.7	2.0%	7.0%	-7.9%	-2.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.1	8.9%	-18.1%	-14.6%	2.6%
Consumer durable goods	\$6.2	17.7%	2.2%	-22.2%	-22.6%
Supermarkets	\$4.1	11.8%	-6.5%	-7.9%	0.0%
Others	\$7.3	21.0%	-2.9%	-7.6%	0.4%
All retail outlets	\$34.7	100.0%	-6.2%	-20.6%	-9.8%

Source: Census and Statistics Department / Knight Frank Research



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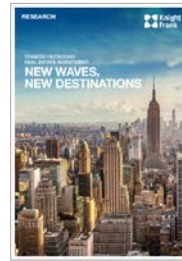
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