

RESEARCH



JANUARY 2017  
**HONG KONG  
MONTHLY**

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY  
MARKET



**Office**  
Abundant supply expected  
in 2017, mainly in Kowloon

**Residential**  
Government reaffirms  
determination to raise supply

**Retail**  
New normal approaching with  
market bottoming in March

# MARKET HIGHLIGHTS

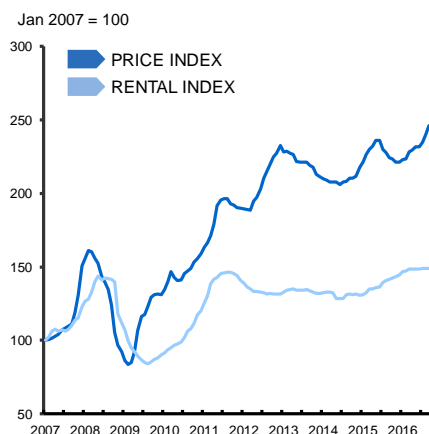
- ◆ Grade-A office leasing was slow in December, both on Hong Kong Island because of limited availability and in Kowloon owing to seasonal factors towards the year end.
- ◆ The rise in the stamp duty rate in November dragged down home sales volume in December, but prices remained stable. Prices could be under pressure, with The Policy Address 2017 reaffirming the government's intention to increase housing supply.
- ◆ Improved retail sales and visitor figures towards the year end reconfirmed our forecast that the local retail market should reach the bottom in the first half of 2017.

TABLE 1  
**Economic indicators**

| Economic indicator | Period       | Latest reading | 2013  | 2014  | 2015  |
|--------------------|--------------|----------------|-------|-------|-------|
| GDP growth         | Q3 2016      | +1.9%#         | +2.9% | +2.3% | +2.4% |
| Inflation rate     | Nov 2016     | +1.2%          | +4.3% | +4.4% | +3.0% |
| Unemployment       | Oct-Dec 2016 | 3.3%#          | 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**



Source: Knight Frank Research

## Prime Office

### Hong Kong Island

Grade-A office rents on Hong Kong Island continued to go up in December. With the lack of space in Central, some companies were forced to opt for offices outside the CBD, resulting in demand spilling over to nearby areas, such as Sheung Wan and Causeway Bay.

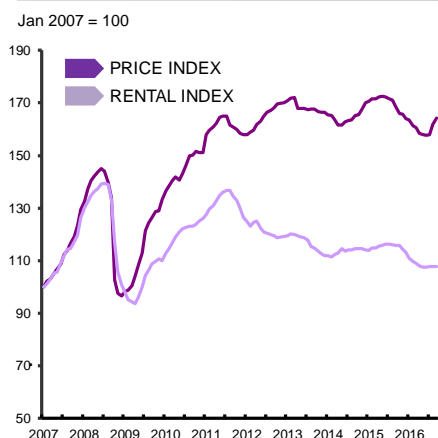
Looking ahead, we expect the uptrend for office rents on Hong Kong Island to continue in 2017 and Central will outperform the market because of extremely tight availability. Over the year, we expect Central office rents to increase 3-5%, while rents in other Hong Kong Island areas could increase 0-2%.

### Kowloon

There were not many major transactions in December, as many companies delayed their leasing decisions until after the new year. Landlords continued to increase incentives to attract tenants. With abundant supply in the pipeline, some companies have started to look into relocation or consolidation even though their leases are still far from expiry.

In 2017, we expect the Kowloon leasing market to be very active, with abundant supply providing plenty of options for tenants. Kowloon office rents will face further downward pressure, falling by 3-5% in 2017.

FIGURE 2  
Luxury residential prices and rents



Source: Knight Frank Research

## Residential

The market started to feel the impact of the stamp duty rate rise in early November. Combined with the low season effect in the holiday season, residential sales plunged 47.3% month on month in December, with sales in all price ranges dropping. Thanks to the robust primary market, residential sales in full-year 2016 dropped only 2.3% year on year.

Primary sales were quiet in December, with a limited number of new launches, because of the stamp duty rise. Secondary sales were also sluggish, as primary developers offered preferential terms to offset the effect of the heavy tax, making secondary units even less attractive. However, the super-luxury sector remained resilient, with a number of major transactions recorded.

The Policy Address announced in January reaffirmed the government's determination to increase housing supply. The average annual supply is expected to reach 94,000 units in the coming 3-4 years, hitting a historic high. Abundant supply, combined with economic and policy uncertainty, may drag down mass residential prices by about 5% this year.

## Retail

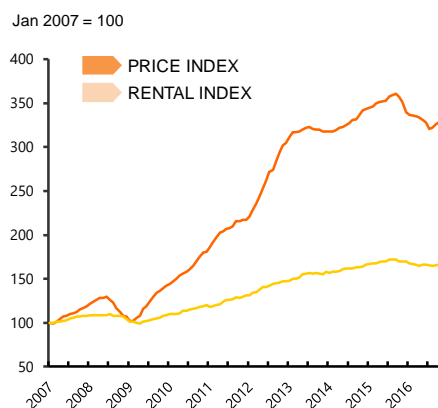
The market saw strong signs of recovery in inbound tourism in December. According to the Immigration Department, visitor arrivals rose 13.8% year on year during the Christmas holiday, compared with a 5.4% decline in the first 11 months of 2016.

The retail property capital market was also buoyant last month. Fourteen major retail property sales transactions worth over HK\$100 million were reported, involving five local malls sold by The Link REIT and nine street shops. The majority of buyers were local investors seeking high-yield properties, as the US central bank triggered a rate rise and signalled further hikes in 2017.

Knight Frank data show that the prices of prime street shops saw a quarter-on-quarter rebound after six quarters of declines, up a moderate 0.6% in the final quarter of 2016.

Active retail property sales indicate increased investor confidence in the long-term outlook. With the retail market bottoming in March, we expect demand for retail space from new brands to increase in the second half of the year.

FIGURE 3  
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from Jun to Nov 2016

## SNAPSHOT

A number of major office sales transactions were registered on Hong Kong Island last month.

AIA leased about 18,600 sq ft of space in The Gateway Tower 1 in Tsim Sha Tsui in December.

# PRIME OFFICE

TABLE 2

### Selected office sales transactions

| District              | Building                  | Zone | Gross floor area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|-----------------------|---------------------------|------|--------------------------|----------------------|------------------------|
| <b>Admiralty</b>      | Far East Financial Centre | Mid  | 1,308                    | \$50                 | \$38,226               |
| <b>Wan Chai</b>       | Shui On Centre            | Low  | 12,915                   | \$306.9              | \$23,763               |
| <b>Wong Chuk Hang</b> | W50                       | High | 1,852                    | \$26.3               | \$14,201               |
| <b>San Po Kong</b>    | Maxgrand Plaza            | Low  | 2,627                    | \$24.2               | \$9,200                |

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) |
|----------------------|-----------------------------|------|--------------------|
| <b>Central</b>       | One Exchange Square         | Low  | 6,000 (N)          |
| <b>Wan Chai</b>      | China Resources Building    | Low  | 5,711 (L)          |
| <b>Tsim Sha Tsui</b> | The Gateway Tower 1         | Mid  | 18,600 (G)         |
| <b>Mong Kok</b>      | Grand Century Place Tower 2 | Mid  | 20,808 (G)         |

Source: Knight Frank Research  
Note: All transactions are subject to confirmation.  
G: Gross; L: Lettable; N: Net

## SNAPSHOT

Grade-A office rents increased or remained stable in most major business districts last month.

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

TABLE 4

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






| Central / Admiralty   | Wan Chai / Causeway Bay   | North Point / Quarry Bay   | Tsim Sha Tsui   | Kowloon East  |
|---|---|--|---|---|
|  |  |  |  |  |

TABLE 5

### Prime office market indicators (Dec 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 |  |
| <b>Premium Central</b>       | \$180.8            | 0.5%         | 1.6%         | 6.2%         | n/a      | n/a           | n/a          | n/a          |  |
| <b>Traditional Central</b>   | \$126.1            | 2.0%         | 3.7%         | 7.4%         | n/a      | n/a           | n/a          | n/a          |  |
| <b>Overall Central</b>       | \$144.6            | 1.4%         | 2.8%         | 6.9%         | \$31,095 | 1.0%          | 6.3%         | 14.8%        |  |
| <b>Admiralty</b>             | \$101.1            | 1.1%         | 1.1%         | 7.1%         | \$26,748 | 1.4%          | 7.1%         | 19.8%        |  |
| <b>Sheung Wan</b>            | \$73.6             | 0.0%         | 0.0%         | -0.2%        | \$23,038 | 0.6%          | 7.8%         | 15.7%        |  |
| <b>Wan Chai</b>              | \$73.0             | 0.9%         | 1.5%         | 1.4%         | \$25,341 | 1.9%          | 5.9%         | 20.3%        |  |
| <b>Causeway Bay</b>          | \$76.7             | 1.0%         | 1.9%         | 5.7%         | \$22,539 | 0.0%          | 1.3%         | 12.4%        |  |
| <b>North Point</b>           | \$49.4             | 0.0%         | 0.0%         | -0.4%        | n/a      | n/a           | n/a          | n/a          |  |
| <b>Quarry Bay</b>            | \$51.7             | 0.0%         | 0.1%         | 0.1%         | n/a      | n/a           | n/a          | n/a          |  |
| <b>Tsim Sha Tsui</b>         | \$61.2             | -1.6%        | -4.7%        | -3.9%        | \$13,723 | 0.3%          | 2.4%         | 8.4%         |  |
| <b>Cheung Sha Wan</b>        | \$30.8             | -1.3%        | 4.9%         | 7.6%         | n/a      | n/a           | n/a          | n/a          |  |
| <b>Hung Hom</b>              | \$35.0             | 0.3%         | 12.0%        | 13.0%        | n/a      | n/a           | n/a          | n/a          |  |
| <b>Kowloon East</b>          | \$34.3             | 0.3%         | 1.9%         | 0.4%         | \$12,161 | 0.3%          | 2.0%         | 10.9%        |  |
| <b>Mong Kok / Yau Ma Tei</b> | \$53.6             | -0.1%        | 2.1%         | 1.6%         | 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 residential sales transactions were recorded in Mid-Levels last month.

A number of large units were leased in Island South in December.

# RESIDENTIAL

TABLE 7

### Selected residential leasing transactions

| District           | Building                   | Tower / floor / unit         | Saleable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|--------------------|----------------------------|------------------------------|-----------------------|---------------------|-------------------------------|
| Mid-Levels West    | Arezzo                     | Low floor / unit B           | 970                   | \$57,000            | \$58.8                        |
| Wan Chai           | Convention Plaza Apartment | High floor / unit 11         | 744                   | \$35,000            | \$47.0                        |
| Island South       | South Bay Towers           | High floor / unit C          | 2,143                 | \$95,000            | \$44.3                        |
| Island South       | Regalia Bay                | Type B house                 | 2,787                 | \$120,000           | \$43.1                        |
| Mid-Levels Central | Garden Terrace             | Tower 2 / low floor / unit A | 2,580                 | \$90,000            | \$34.9                        |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

### Selected residential sales transactions

| District           | Building        | Tower / floor / unit          | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|--------------------|-----------------|-------------------------------|-----------------------|----------------------|------------------------|
| Peak               | Bayview         | House 2                       | 3,350 (G)             | \$263                | \$78,507               |
| Kowloon Tong       | Village Gardens | Block 4 / 5th floor / unit B  | 1,587                 | \$35                 | \$22,054               |
| Mid-Levels Central | Glory Mansion   | 7th floor / unit 106          | 1,880                 | \$36.5               | \$19,415               |
| Mid-Levels West    | Park View Court | Tower A / 16th floor / unit 1 | 2,837 (G)             | \$38                 | \$13,394               |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross floor area

## SNAPSHOT

In December, rents remained stable in all major luxury residential districts.

Overall luxury home prices remained stable last month.

TABLE 8

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






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

TABLE 9

### Luxury residential market indicators (Dec 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 |
| <b>The Peak</b>                         | \$60.5         | -0.2%        | 0.2%         | -5.3%        | \$40,091 | 0.0%         | 0.0%         | 0.0%         |
| <b>Island South</b>                     | \$49.3         | -0.1%        | -0.8%        | -3.3%        | \$30,970 | 0.0%         | 4.7%         | 8.8%         |
| <b>Mid-Levels</b>                       | \$52.0         | 0.3%         | 0.2%         | -7.7%        | \$27,196 | 0.2%         | 2.7%         | 4.6%         |
| <b>Jardine's Lookout / Happy Valley</b> | \$48.0         | -0.5%        | -0.6%        | -4.3%        | \$25,772 | 0.6%         | 2.3%         | -1.6%        |
| <b>Pokfulam</b>                         | \$36.7         | 0.1%         | -0.3%        | -3.9%        | \$22,995 | 0.1%         | 1.0%         | -4.6%        |

Source: Knight Frank Research

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

## SNAPSHOT

A number of big-ticket retail property sales transactions were recorded in December.

A number of street shops were leased in prime shopping 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) |
|---------------------|--------------------|---------------------------------------|-----------------------------|----------------------|------------------------|
| <b>Causeway Bay</b> | Sun On Mansion     | Ground floor / units 20, 20A-B and 22 | 1,643                       | \$215                | \$130,858              |
| <b>Tsing Yi</b>     | Cheung Hong Estate | En bloc*                              | 133,200 (G)                 | \$1,150              | \$8,634                |
| <b>Yuen Long</b>    | 8 Tin Sau Road     | 1st floor / units 1003 and 1005-1009  | 3,769                       | \$151.6              | \$40,223               |
| <b>Mong Kok</b>     | 71 Argyle Street   | Ground floor                          | N/A                         | \$215                | N/A                    |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

\*with 709 car-parking spaces

TABLE 11

### Selected retail leasing transactions

| District             | Building                      | Floor / unit             | Saleable floor area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|----------------------|-------------------------------|--------------------------|-----------------------------|---------------------|-------------------------------|
| <b>Wan Chai</b>      | Fortune Building              | Ground floor / unit 3    | 804                         | \$218,800           | \$272.1                       |
| <b>Tsim Sha Tusi</b> | Kuntsford Commercial Building | Ground floor / unit 2    | 1,746                       | \$370,000           | \$211.9                       |
| <b>Central</b>       | Wellington Place              | Ground floor / units 1-2 | N/A                         | \$980,000           | N/A                           |
| <b>Central</b>       | Hing Yip Commercial Centre    | Ground floor / unit F    | N/A                         | \$238,000           | N/A                           |

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



## SNAPSHOT

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

Total retail sales value decreased 5.5% year on year to HK\$36.0 billion in .

TABLE 12

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





| Central   | Causeway Bay  | Tsim Sha Tsui   | Mong Kok  |
|---|---|---|---|
|  |  |  |  |

TABLE 13

### Retail sales by outlet type (Nov 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           | \$5.7                | 15.8%            | -7.3%        | -1.6%        | -14.4%       |
| Clothing, footwear and allied products                      | \$4.7                | 13.1%            | 9.9%         | 12.4%        | 3.7%         |
| Department stores   | \$5.1                | 14.1%            | 34.0%        | 43.8%        | 1.7%         |
| Fuel  | \$0.8                | 2.1%             | 0.3%         | -0.3%        | 2.4%         |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | \$3.4                | 9.4%             | -1.9%        | -2.2%        | 0.9%         |
| Consumer durable goods                                      | \$5.9                | 16.5%            | -9.7%        | 23.6%        | -18.0%       |
| Supermarkets  | \$4.1                | 11.5%            | -7.5%        | -7.5%        | -1.1%        |
| Others  | \$6.3                | 17.6%            | -5.2%        | -9.0%        | -1.2%        |
| <b>All retail outlets</b>                                   | <b>\$36.0</b>        | <b>100.0%</b>    | <b>-0.3%</b> | <b>6.1%</b>  | <b>-5.5%</b> |

Source: Census and Statistics Department / Knight Frank Research



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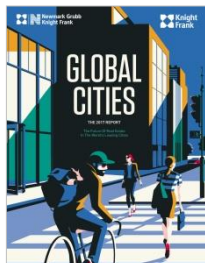
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