

RESEARCH



MAY 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Kowloon recorded over 100
leasing deals in April

Residential

Supply to reach a record high of
96,000 units in the next 3-4 years

Retail

Huge long-term potential as
the city evolves

MARKET HIGHLIGHTS

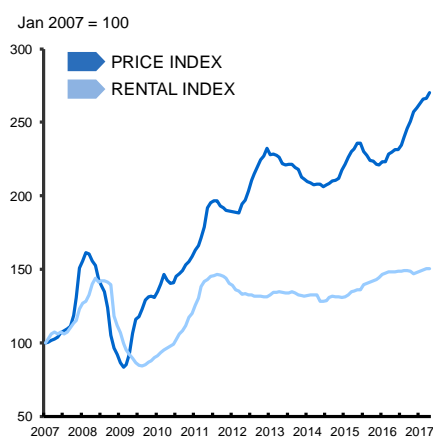
- ◆ The Kowloon Grade-A office market stood out last month, with over 100 leasing transactions recorded, involving mainly relocation to Kowloon East.
- ◆ Home sales gained further in April. Although home supply will reach a record 96,000 units in the next 3-4 years, home prices are still set to rise 5-10% this year amid strong demand.
- ◆ The retail market is set to achieve a new normal in the short term and further develop with huge potential in the long run as the city evolves.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q4 2016	+3.1%#	+2.3%	+2.4%	+1.9%#
Inflation rate	Mar 2017	0.5%	+4.4%	+3.0%	2.4%
Unemployment	Jan-Mar 2017	3.2%#	3.2%	3.3%	3.4%
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

On Hong Kong Island, there were not many leasing transactions due to a lack of space availability, especially in core areas. Office demand in Central's premium buildings remained strong. Space (to be) released by relocating firms, mainly in the financial and legal sectors, was quickly taken up, even though it will be available for occupation only at the end of this year or early next year.

As tight availability persists, we expect Central's Grade-A office rents to continue to rise in 2017, which will further accelerate the relocation of multinational and professional services firms. Mainland Chinese firms are expected to continue to take up this space, increasing their occupancy share of the Central office market.

Kowloon

The Kowloon leasing market was very active in April, with more than 100 deals recorded in the month. Most transactions involved relocation to Kowloon East, reconfirming that cost-saving motives remained a key demand driver.

In the past few months, tenants displayed stronger interest in revitalised buildings due to their attractive rents. However, this interest did not translate into deal conclusions, as tenants also took fit-out costs and building quality into consideration.

Looking forward, the Kowloon office market is expected to remain active, given both robust demand for and abundant supply of large space. We expect upcoming transactions to concentrate on buildings in Kowloon East, with relatively affordable rental levels below HK\$25 per sq ft.

FIGURE 2
Luxury residential prices and rents

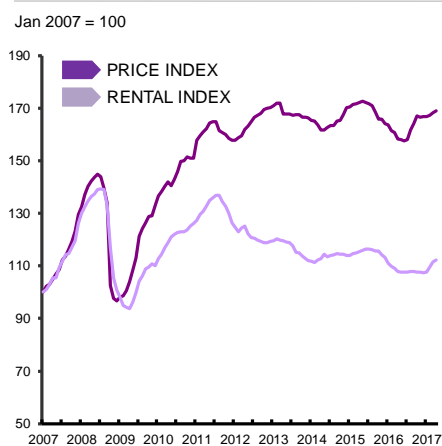
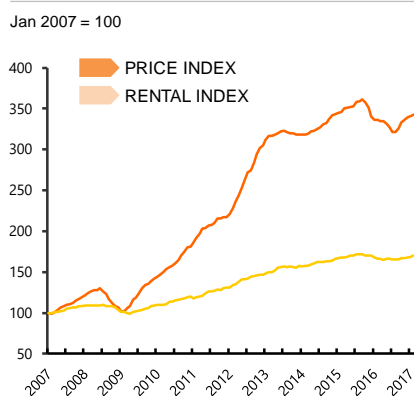


FIGURE 3
Retail property prices and rents



Residential

Residential sales rose another 20% month on month in April 2017, reaching 7,060, the highest level since October last year. An abundance of new flats were launched during the month, with developers offering various sweeteners, resulting in a high proportion of primary sales – 38% of the total.

Official data show that home prices continued to climb in the 12 months ending March 2017, gaining an accumulated 18%, surpassing the previous peak in 2015.

The government restated its firm stance on cooling the residential sales market last month, by reminding the public that evading the extra stamp duty by getting others to pose as first-time buyers for them is a criminal offence. However, we do not think this will drag down residential sales or prices significantly, as these deals make up only a very small percentage of transactions.

According to the Transportation and Housing Bureau, primary housing supply is expected to reach 96,000 flats in the coming 3-4 years, the highest since this data became available in 2004. While on the one hand, abundant supply and interest-rate rises will help suppress price growth; on the other hand, high land prices and strong housing demand will lend support to home prices, which are expected to rise another 5-10% in 2017.

Retail

Hong Kong's retail sales rebounded 3.1% year on year in March 2017, with all categories except "consumer durable goods" recording upward movement. Retail sales of the "jewellery, watches and clocks and valuable gifts" category gained a significant 8.4%, in line with some jewellery retailers' recent reports of positive growth in same-store revenue. Visitor arrivals gained 8.8% in March, thanks to a 10.4% rebound in Mainland visitor numbers.

Although these encouraging figures have not yet put an end to the dark period for Hong Kong's retail sector, they have reconfirmed that the market is continuing to improve. It moved one step closer to a new normal, with a number of community retailers, such as dessert restaurants, laundries, optical shops and snack stores, taking up retail space in various residential areas in recent months.

We believe that Hong Kong's retail market will achieve a new normal in the short term and that it has huge potential to develop, along with Hong Kong's future evolution. The emergence of large residential and commercial clusters, such as those in East and West Kowloon, on Lantau Island, and along the Shatin-to-Central Link, will create massive retail demand in the vicinity, while the new shopping facilities will draw visitors from both other parts of Hong Kong and outside the city.

SNAPSHOT

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

Triumph leased two floors, totalling 62,000 sq ft, in Centre Parc in Kowloon Bay in April.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Lippo Centre Block 1	Low	1,912	\$53.4	\$27,917
Sheung Wan	Shun Tak Centre	Mid	2,555	\$70.3	\$27,500
Cheung Sha Wan	China Shipbuilding Tower	High	14,233	\$258	\$18,124
San Po Kong	Maxgrand Plaza	High	2,910	\$32.5	\$11,180

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)
Central	One IFC	Low	6,135 (L)
Wong Chuk Hang	41 Heung Yip Road	Mid	23,488 (G)
Tsim Sha Tsui	The Gateway Tower 1	High	10,401 (G)
Kowloon Bay	Centre Parc	Low	61,864 (G)

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

SNAPSHOT

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

Grade-A office prices increased in most major business areas in April.

TABLE 4
Month-on-month movement in Grade-A office rents (Apr 2017)






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

TABLE 5
Prime office market indicators (Apr 2017)

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	\$183.6	0.0%	0.5%	4.6%	n/a	n/a	n/a	n/a	
Traditional Central	\$130.1	0.0%	0.9%	9.8%	n/a	n/a	n/a	n/a	
Overall Central	\$148.3	0.0%	1.3%	7.6%	\$33,464	0.7%	2.4%	21.5%	
Admiralty	\$103.7	0.0%	2.4%	5.5%	\$28,264	2.5%	5.0%	23.9%	
Sheung Wan	\$74.3	0.0%	0.7%	-1.7%	\$23,546	1.1%	1.2%	15.2%	
Wan Chai	\$74.7	0.3%	0.8%	4.3%	\$26,204	1.2%	1.7%	19.7%	
Causeway Bay	\$77.7	-0.2%	0.5%	5.1%	\$22,839	1.3%	1.3%	6.2%	
North Point	\$50.6	0.0%	1.0%	1.8%	n/a	n/a	n/a	n/a	
Quarry Bay	\$51.8	-0.1%	-0.1%	-0.2%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$62.4	0.0%	1.8%	-5.1%	\$14,228	1.3%	3.1%	10.1%	
Cheung Sha Wan	\$30.5	0.3%	-1.0%	4.8%	n/a	n/a	n/a	n/a	
Hung Hom	\$41.1	0.5%	1.5%	9.2%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.9	0.4%	-0.4%	-1.7%	\$12,386	0.3%	1.7%	11.5%	
Mong Kok / Yau Ma Tei	\$53.6	0.0%	0.0%	0.1%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

Mid-Levels performed well with a number of major leasing transactions last month.

A luxury house in Island South was sold for nearly HK\$80,000 per sq ft in April.

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 Central	Queen's Garden	High floor / unit 2	2,181	\$168,000	\$77
Happy Valley	The Leighton Hill	Tower 2 / high floor / unit A	1,257	\$75,000	\$60
Mid-Levels West	Azura	High floor / unit A	1,292	\$98,000	\$76
Mid-Levels East	The Legend	High floor / unit 02	1,752	\$90,000	\$51
Island South	Hong Kong Parkview	Tower 8 / low floor	1,886	\$80,000	\$42

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential sales transactions

District	Building	Towe / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	Shouson Peak	House	3,561	\$283.5	\$79,612
Mid-Levels West	39 Conduit Road	High floor / flat A	2476	\$128.22	\$51,786
Mid-Levels East	High Cliff	High floor / unit A	2,739	\$133.8	\$48,850
Mid-Levels Central	Dynasty Court	Tower 1 / mid floor	1,806	\$60.38	\$33,433
Mid-Levels Central	Visalia Garden	High floor / flat A	1,848	\$52	\$28,139

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

In April, rents grew in all major luxury residential areas.

Luxury home prices continued to increase last month.

TABLE 8

Month-on-month changes in luxury residential rents (Apr 2017)






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

TABLE 9

Luxury residential market indicators (Apr 2017)

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	\$64.6	0.6%	4.5%	6.7%	\$40,899	0.4%	2.0%	4.8%
Island South	\$51.7	0.7%	4.4%	3.8%	\$30,970	0.0%	0.0%	10.3%
Mid-Levels Jardine's	\$54.1	0.4%	3.9%	4.8%	\$27,664	0.4%	1.6%	9.9%
Lookout / Happy Valley	\$49.9	0.0%	3.7%	2.9%	\$26,297	0.3%	1.8%	4.2%
Pokfulam	\$38.4	0.8%	4.0%	4.2%	\$23,195	0.7%	0.9%	6.5%

Source: Knight Frank Research

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

SNAPSHOT

A number of major retail property sales transactions were recorded in non-core shopping areas last month.

Not many major retail property leasing transactions were recorded in April.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tai Kok Tsui	Tai Wing Building	Ground floor / unit 5E	55	\$16.888	\$307,055
Yuen Long	Hong Lok Square	2 nd floor / unit 8	144	\$41.8	\$290,278
Sheung Wan	Champion Building	Ground floor / unit A	1,429	\$187	\$130,861
Shek Mun	Kings Wing Plaza 1	Ground floor / unit G17	1,024	\$60.283	\$58,870
Yau Ma Tei	Allied Plaza	Mezzanine / unit 47	288	\$15.6	\$54,167

Source: Economic Property Research Centre

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tuen Mun	Kai Hei Land Building	Ground floor / unit 22	276	\$220,000	\$797.1
Tsim Sha Tsui	10-10A Hau Fook Street	Ground floor / unit 10	1,050	\$155,000	\$147.6
Cheung Sha Wan	Lai Sun Commercial Centre	Basement / unit 1	949	\$96,100	\$101.3

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Total retail sales value rebounded 3.1% year on year to HK\$35.7 billion in March 2017.

TABLE 12

Month-on-month movement in prime street shop rents (Apr 2017)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Mar 2017)

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	\$5.6	15.6%	-7.1%	-32.1%	8.4%
Clothing, footwear and allied products	\$4.9	13.7%	6.3%	-15.9%	1.7%
Department stores	\$3.4	9.6%	-0.1%	-29.7%	0.1%
Fuel	\$0.7	2.1%	11.0%	-3.1%	9.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.2	8.9%	-9.1%	-16.6%	2.9%
Consumer durable goods	\$6.1	17.0%	15.3%	-4.0%	-1.4%
Supermarkets	\$4.2	11.7%	11.6%	-6.1%	2.6%
Others	\$7.7	21.5%	0.7%	-5.9%	5.4%
All retail outlets	\$35.7	100.0%	2.6%	-15.7%	3.1%

Source: Census and Statistics Department / Knight Frank Research



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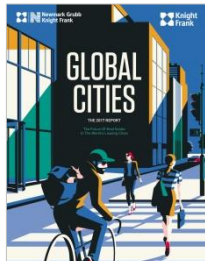
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