

RESEARCH



OCT 2016

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Rents remain polarised in core and decentralised areas

Residential

Prices to remain stable with notable rebound in sales

Retail

Market to bottom out early next year

MARKET HIGHLIGHTS

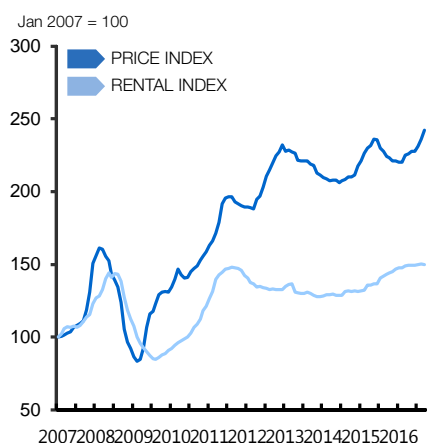
- ◆ Grade-A office leasing last month slowed on Hong Kong Island due to a lack of available space and in Kowloon due to the subdued local economy. However, the sales market was robust with another en-bloc deal recorded.
- ◆ Home sales rebounded further in September. Despite an abundance of supply and a potential interest-rate hike, prices should remain stable for the rest of 2016, given strong demand and rising home sales figures.
- ◆ Mainland tourist number increased only 0.9% year on year during the National Day holiday, but overseas visitor arrivals surged 17.1%. With local consumption remaining resilient, we expect the retail market to bottom out early next year.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q2 2016	+1.7%#	+2.9%	+2.3%	+2.4%
Inflation rate	Aug 2016	+4.3%	+4.3%	+4.4%	+3.0%
Unemployment	Jun-Aug 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



Source: Knight Frank Research

Prime Office

The Grade-A office leasing market remained subdued on Hong Kong Island, as leasing activity was limited by the lack of availability. As a result, rents continued to increase in most Hong Kong Island districts amid the low vacancy rates. Expansion demand was weak.

On Kowloon side, leasing activity also slowed in September, with fewer transactions than in August. The key demand driver remained tenants relocating from Hong Kong Island for expansion or consolidation, attracted by the availability of large space at a lower cost. Given the abundant supply, landlords offered deep rental discounts or other incentives to attract and retain tenants. This means options will become more attractive to tenants and we expect leasing transaction numbers to rebound in the last quarter of the year.

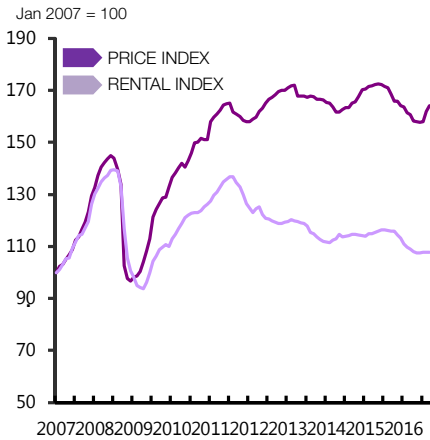
The office sales market remained hot with another en-bloc transaction recorded. Henderson Land agreed to sell its Golden Centre office building in Sheung Wan for HK\$4.4 billion, which represents a unit price of approximately HK\$28,000 per sq ft. The optimistic sentiment also spread to the strata-title market. For example, three mid floors in Convention Plaza Office Tower in Wan Chai were sold for a total consideration of HK\$1.39 billion.

Looking ahead, we expect the rental polarisation to continue. Given the tight availability, Grade-A office rents in core areas are expected to further increase in the coming months. However, decentralised areas, particularly Kowloon East, are likely to face rental pressure with more supply coming online.

Residential

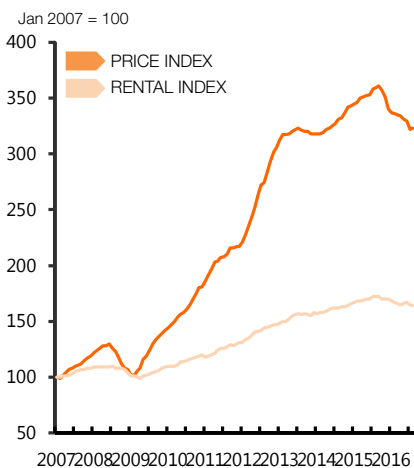
Retail

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 Mar to Aug 2016

According to the Land Registry, in September, Hong Kong’s residential transaction volume increased 34.4% month on month to 7,826, a four-year high. The gain was attributable mainly to robust activity in the primary market, as more end-users and investors joined the buying spree.

A number of new residential developments were over-subscribed in September. For instance, over 95% of the 545 units available in One Kai Tak, in Kowloon City, were sold within a week of launch, while The Papillion, in Tseng Kwan O, sold all its 857 units within a month.

In the land sale market, major developers continued to adopt aggressive bidding strategies to fend off increasing competition. In one notable sale, a residential site in Kau To Shan, Shatin, was sold at an accommodation value of HK\$8,001 per sq ft, 33% more than the high end of market expectations. The streaks of aggressive bids are expected to continue as land sales tenders have become more competitive because of the higher participation rate of Mainland developers.

In order to reach the housing supply target, five government sites and two MTR projects, capable of providing 4,600 flats in total, will be put up for tender in the coming three months. Despite abundant housing supply and a potential interest-rate hike, strong residential demand and developers’ competitive sales packages have resulted in a significant rebound in transaction volume. Home prices, therefore, are set to remain stable over 2016.

The city welcomed 3.6% more tourists in the first three days of the National Day holiday compared to the same period last year. Mainland visitor numbers grew only 0.9%, in contrast to a 17.1% surge in overseas visitor numbers during the period, according to the Immigration Department.

Despite the moderate increase in visitor arrivals, fewer Mainland shoppers queued up outside luxury shops in prime streets, amid China’s continuing anti-graft campaign, which has shifted tourist interest to mid-range brands. Guangdong visitors continued to come to the city for day-trips, but bought inexpensive imported consumables. Affluent Chinese tourists are increasingly searching for more immersive local travel experiences, such as trying famous restaurants or exploring local culture.

To capitalise on the trend, mid-range brands have continued to increase their presence as rents have fallen. Recent active expansions involved beauty and cosmetics chains. For instance, SASA, Colourmix and Bonjour reportedly took up prime street shops vacated by hard luxury retailers in Mong Kong and Tsim Sha Tsui last month.

Looking forward, we expect the change in visitor consumption patterns to continue to drag down tourist-related sales. The short-term outlook for prime street shop rents remains negative. However, local consumption, which accounts for more than 60% of total retail sales value in the city, is expected to remain resilient this year, given the strong labour market. Hong Kong’s retail market could bottom out early next year, along with adjustments by retailers to adapt to the changing landscape.

SNAPSHOT

Convention Plaza recorded a number of major sales transactions last month.

There were not many large-scale office leasing transactions in September.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wan Chai	Convention Plaza Office Tower	Mid	29,256	\$925	\$31,618
Wan Chai	Convention Plaza Office Tower	Mid	14,628	\$462.5	\$31,618
Admiralty	Lippo Centre Tower 1	Low	14,891	\$342	\$22,967
Kwun Tong	MG Tower	High	9,093	\$102	\$11,217

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)
North Point	633 King's Road	Low	20,090 (L)
Central	Two IFC	Low	15,635 (L)
Admiralty	One Pacific Place	Mid	15,012 (L)
Tsim Sha Tsui	Gateway Tower 2	Low	14,313 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

Grade-A office rents continued to increase in Central last month.

Grade-A office prices increased in most major business districts in September.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Sep 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	\$173.5	0.2%	0.8%	7.1%	n/a	n/a	n/a	n/a	
Traditional Central	\$122.9	0.4%	1.3%	8.3%	n/a	n/a	n/a	n/a	
Overall Central	\$140.4	0.3%	1.1%	7.8%	\$29,252	2.1%	5.8%	8.0%	
Admiralty	\$102.9	1.1%	1.9%	12.0%	\$24,973	3.4%	8.9%	10.6%	
Sheung Wan	\$78.0	-1.4%	-1.5%	2.9%	\$21,369	2.7%	4.5%	4.8%	
Wan Chai	\$72.4	0.3%	0.6%	2.6%	\$21,872	2.9%	8.0%	10.6%	
Causeway Bay	\$77.2	-1.8%	-0.7%	3.2%	\$22,258	0.0%	1.2%	9.7%	
North Point	\$53.0	0.0%	-0.5%	-1.3%	n/a	n/a	n/a	n/a	
Quarry Bay	\$57.0	0.0%	0.4%	-0.9%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$63.3	-1.0%	-1.5%	2.1%	\$13,406	0.8%	2.7%	4.3%	
Cheung Sha Wan	\$28.6	0.0%	-1.0%	-3.4%	n/a	n/a	n/a	n/a	
Hung Hom	\$31.2	0.0%	0.0%	-5.1%	n/a	n/a	n/a	n/a	
Kowloon East	\$33.7	0.1%	-1.3%	-1.3%	\$11,918	3.0%	5.6%	5.4%	
Mong Kok / Yau Ma Tei	\$52.5	0.9%	1.6%	2.4%	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 residential sales transactions were recorded in Mid-Levels West last month.

A number of large units were leased in traditional luxury residential districts in September.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Kowloon Tong	1 & 3 Ede Road	15th floor	2,293	\$153.2	\$66,812
Wan Chai	Gloucester	40th floor / unit A	1,512	\$65	\$42,989
Mid-Levels West	Alassio	50th floor / unit A	1,010	\$40.5	\$40,073
Mid-Levels West	Alassio	49th floor / unit A	1,010	\$39.9	\$39,475

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	La Hacienda	High floor / unit A	2,865	\$120,000	\$41.9
Island South	Grand Garden	Tower 1 / mid floor / unit A	2,482	\$104,000	\$41.9
Island South	Hong Kong Parkview	Tower 13 / high floor	2,307	\$90,000	\$39.0
Mid-Level East	Woodland Heights	Low floor / unit B	3,186	\$120,000	\$37.7
Mid-Levels Central	Tregunter	Tower 2 / low floor / unit B	2,330	\$76,000	\$32.6

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Island South led the market in luxury home price growth last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Sep 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	\$60.4	0.0%	0.0%	-8.3%	\$40,091	0.0%	2.7%	-3.1%	
Island South	\$49.7	0.0%	0.4%	-4.0%	\$29,576	3.9%	5.3%	0.5%	
Mid-Levels	\$51.9	0.0%	0.0%	-0.1%	\$26,487	2.0%	5.9%	-1.6%	
Jardine's Lookout / Happy Valley	\$48.3	0.0%	0.0%	-0.1%	\$25,188	1.1%	0.9%	-4.5%	
Pokfulam	\$36.8	0.0%	0.0%	-0.1%	\$22,770	0.3%	5.8%	-6.6%	

Source: Knight Frank Research

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

SNAPSHOT

The retail property sales market was active in September.

A number of street shops were leased in Mong Kok 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)
Central	Tak Woo House	Ground floor / unit 3	534	\$60.0	\$112,360
Sheung Wan	Kam Ho Mansion	Ground floor / unit B	892	\$49.8	\$55,830
Tsim Sha Tsui	Minden House	Ground floor / unit A	603	\$31.88	\$52,869
Wong Tai Sin	The Vista	Ground floor / units 1-16B	N/A	\$141.64	N/A

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)
Mong Kok	Carpio Mansion	Ground floor / unit C	227	\$85,000	\$374.4
Mong Kok	Hung Wai Building	Ground floor / units 4-5	1,403	\$300,000	\$213.8
Central	Cosmos Building	Ground floor / unit 1	834 (G)	\$125,000	\$149.9
Mong Kok	23 Soy Street	Ground floor units	N/A	\$1,700,000	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 September.

Total retail sales value decreased 10.5% year on year to HK\$33.9 billion in August.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Aug 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	\$5.8	17.0%	5.0%	4.6%	-26.6%
Clothing, footwear and allied products	\$4.2	12.5%	-14.1%	-13.0%	-3.7%
Department stores	\$3.5	10.4%	1.5%	-26.4%	-10.8%
Fuel	\$0.8	2.2%	0.0%	-3.1%	-6.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.5	10.2%	18.0%	12.2%	8.8%
Consumer durable goods	\$4.8	14.1%	-6.0%	-6.5%	-23.9%
Supermarkets	\$4.5	13.2%	0.7%	1.7%	-0.9%
Others	\$7.0	20.5%	-7.9%	-3.6%	0.2%
All retail outlets	\$33.9	100.0%	-2.1%	-5.1%	-10.5%

Source: Census and Statistics Department / Knight Frank Research



GLOBAL BRIEFING

For the latest news, views and analysis on the world of prime property, visit KnightFrankblog.com/global-briefing

RESEARCH & CONSULTANCY

David Ji

Director
Head of Research & Consultancy
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Pamela Tsui

Senior Manager
Research & Consultancy
Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

CONTACTS

Alan Child

Chairman
+852 2846 9522
alan.child@hk.knightfrank.com

Piers Brunner

Chief Executive Officer
Greater China
+852 2846 4848
piers.brunner@hk.knightfrank.com

Paul Hart

Executive Director
Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

CHINA VALUATION

Clement Leung

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

COMMERCIAL AGENCY

Ross Criddle

Senior Director
+852 2846 9527
ross.criddle@hk.knightfrank.com

RESIDENTIAL AGENCY

Renu Budhrani

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

RETAIL SERVICES

Helen Mak

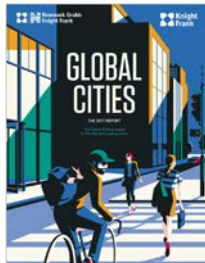
Senior Director
Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Prime Global Cities Index Q2 2016



Global Cities 2016



The Wealth Report



Chinese Outbound report

Knight Frank Research Reports are available at KnightFrank.com/Research

© Knight Frank 萊坊 2016

Knight Frank Petty Limited
Knight Frank Hong Kong Limited

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

