RESEARCH

Knight Frank

DECEMBER 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON HONG KONG'S PROPERTY MARKET

Office
Grade-A office leasing activity more than doubled in Kowloon

Residential
Home prices to rise another 5-8% next year

Retail
Rents to drop 5% in 2018 with retailers remaining prudent

MARKET HIGHLIGHTS

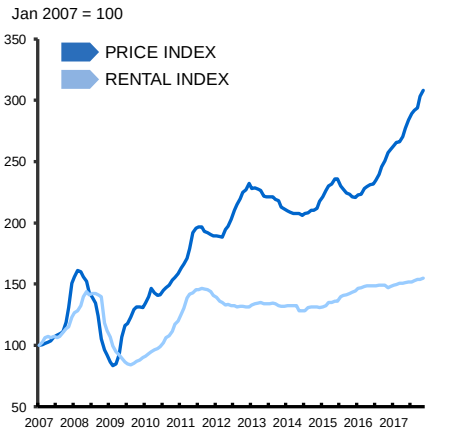
- The Grade-A office leasing sub-markets saw divergent performance last month, with less activity on Hong Kong Island but more in Kowloon.
- Home sales recorded over 5,000 transactions for three months in a row. We predict that mass and luxury residential prices will increase 5% and 8% respectively next year.
- Retail sales value sustained positive growth for the eighth consecutive month, but retail rents are set to drop another 5% next year, with retailers remaining prudent.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q3 2017	+3.6%#	+2.3%	+2.4%	+1.4%
Inflation rate	Oct 2017	+1.5%	+4.4%	+3.0%	2.4%
Unemployment	Aug-Oct 2017	3.0%#	3.2%	3.3%	3.4%
Prime lending rate	Current	5.00–5.25%	5.00%*	5.00%*	5.00%*

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

Leasing activity for Grade-A office space on Hong Kong Island was slow in November, with fewer Chinese firms entering or expanding in Hong Kong. There was more activity from traditional financial firms and co-working space operators, however.

A notable transaction was recorded in Central. Huarong Financial leased two floors in Bank of China Tower, totalling 28,400 sq ft. In Quarry Bay, WeWork leased over 56,000 sq ft in Cityplaza Three.

Over the first 11 months of 2017, Grade-A office rents in Central rose 5%. Given the tight availability, we expect a 2-3% increase in rents there in the next six months, which will accelerate the decentralisation trend involving companies which cannot afford the high rents in core areas.

Kowloon

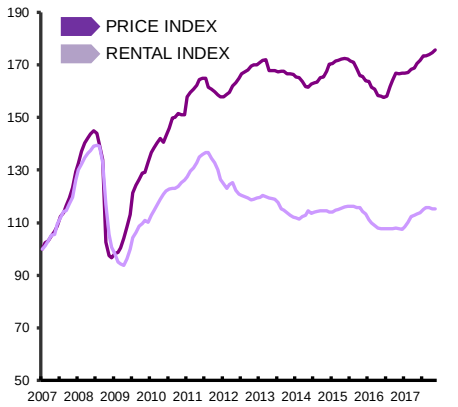
Kowloon's Grade-A office leasing transaction volume more than doubled in November from the previous month, reaching a level comparable to the peak season in March to May this year.

The transactions concluded involved mainly small to medium-size offices in Kwun Tong and Kowloon Bay, with tenants mainly information technology, electronic, sourcing and manufacturing companies.

During the first 11 months, Kowloon's Grade-A office rentals were only slightly down, despite the huge amount of new supply. We expect Kowloon's leasing activity to slow down from December to Lunar New Year and rentals to drop slightly in 2018.

FIGURE 2
Luxury residential prices and rents

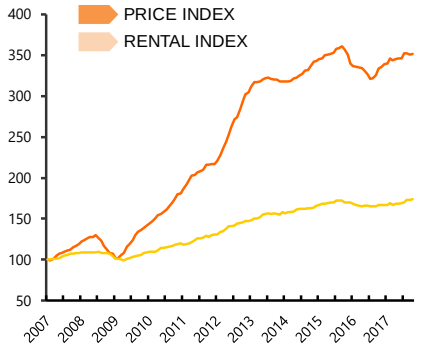
Jan 2007 = 100



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 May to Oct 2017

Residential

Residential sales reached 5,694 in November, marking the third consecutive month with over 5,000 transactions. Residential prices have risen for the past 19 months and are up 11.6% for mass units and 7.3% for luxury, according to official figures.

A notable residential site sale by tender was concluded last month, involving a plot off Hing Wah Street West in Cheung Sha Wan. The price tag of HK$17.288 billion was a record for a residential site in Hong Kong.

The transaction further boosted market sentiment and many secondary landlords immediately turned firmer on asking prices, not only in areas near the site, but elsewhere in Hong Kong. With developers and landlords remaining confident about the market, we remain optimistic about its outlook amid sustained housing demand.

Residential sales are expected to reach about 60,000 in 2017 and the volume could reach 60,000-63,000 in 2018. We expect mass residential prices to increase 5% next year. With Mainland capital continuing to pour into Hong Kong's luxury market, where supply will remain limited, luxury home prices are set to increase 8% in 2018.

Retail

Retail sales value increased by 3.9% year on year in October, up for the eighth consecutive month. There was notable growth in retail sales value for most major categories, led by “medicines and cosmetics”, which grew 9.9% year on year (YoY), followed by “food, alcoholic drinks and tobacco” and “jewellery, watches and clocks, and valuable gifts”, which grew 8.5% and 8.4% YoY, respectively. Some retailers are offering more discounts to clear inventories towards the end of the year.

Despite seeing continual improvement in retail sales, most retailers do not have incentives for major expansion in the short term, due to their prudent approach to making a significant upfront capital investment. The downward rigidity of labour rates and the upsurge in other operating costs have narrowed the profit margin of some retailers, limiting their ability to pay higher rents.

With the recovery in tourism and local consumption, retail sales will remain stable in the short term. There will be more downward adjustments for retail rents, however. We expect prime retail rents to drop 10% over 2017. Looking ahead, we expect prime retail rents to drop another 5% in 2018.

SNAPSHOT

Major Grade-A office sales transactions last month were concentrated on Hong Kong Island.

There were a number of major leasing transactions involving floor plates of over 10,000 sq ft last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions (Nov 2017)

District	Building	Zone	Gross floor area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Admiralty	Lippo Centre Tower 1	Mid	2,235 (N)	$113.4	$50,749
Wong Chuk Hang	W50	High	1,457 (G)	$36.0	$24,695
Sai Ying Pun	6 Wilmer Street	High	517 (G)	$11.4	$22,089

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

TABLE 3

Selected office leasing transactions (Nov 2017)

District	Building	Zone	Floor area (sq ft)
Central	Bank of China Tower	Mid	28,414 (L)
Quarry Bay	Cityplaza Three	High	56,977 (L)
Kwai Chung	Kowloon Commerce Centre Tower A	Mid	22,773 (G)
Tsuen Wan	CDW Building	High	20,100 (G)

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

SNAPSHOT

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

Sheung Wan outperformed with the largest Grade-A office price growth in November.

TABLE 4

Month-on-month movement in Grade-A office rents (Nov 2017)

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

TABLE 5

Prime office market indicators (Nov 2017)

	Net effective rent	Change			Price (Gross)	Change		
District	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	$187.5	0.1%	1.2%	4.2%	n/a	n/a	n/a	n/a
Traditional Central	$133.7	0.7%	0.8%	8.2%	n/a	n/a	n/a	n/a
Overall Central	$151.9	0.5%	1.0%	6.5%	$37,563	2.7%	3.0%	22.1%
Admiralty	$110.8	1.7%	1.7%	10.8%	$32,838	0.0%	7.5%	24.5%
Sheung Wan	$79.6	0.9%	5.4%	8.2%	$29,298	5.4%	8.9%	28.0%
Wan Chai	$75.5	1.2%	0.6%	4.4%	$28,412	0.4%	3.5%	14.2%
Causeway Bay	$78.8	2.1%	1.9%	3.8%	$24,609	0.4%	3.3%	9.2%
North Point	$53.0	2.6%	2.6%	7.3%	n/a	n/a	n/a	n/a
Quarry Bay	$52.7	0.0%	0.2%	1.9%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	$63.0	0.0%	0.1%	1.4%	$15,547	1.3%	3.1%	13.6%
Cheung Sha Wan	$30.3	0.7%	-0.4%	-2.8%	n/a	n/a	n/a	n/a
Hung Hom	$42.6	-0.1%	1.4%	11.9%	n/a	n/a	n/a	n/a
Kowloon East	$34.2	0.3%	0.2%	-0.1%	$12,967	0.5%	2.3%	7.0%
Mong Kok / Yau Ma Tei	$59.1	2.5%	5.9%	10.2%	n/a	n/a	n/a	n/a

Source: Knight Frank Research
Note: Rents and prices are subject to revision.

SNAPSHOT

A house on the Peak was sold for over HK$132,000 per sq ft in November.

Island South was active in luxury residential leasing transactions last month.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Nov 2017)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
The Peak	Mount Nicholson	House	4,579	$604.7	$132,060
Mid-Levels West	39 Conduit Road	High floor / unit A	3,917	$400	$102,119
Island South	2 Cape Drive	House	4,198	$261.887	$62,384
Island South	50 Stanley Village Road	House	2,719	$145.5	$53,512
Mid-Levels Central	Grenville House	High floor / unit J	3,366	$160	$47,534

Source: Knight Frank Research
Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Nov 2017)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Happy Valley	Leighton Hill	Tower 7 / mid floor / unit B	1,461	$107,000	$73.2
Kowloon Station	The Masterpiece	Mid floor / unit C	1,466	$100,000	$68.2
Island South	The Lily	Tower 4 / mid floor	2,535	$158,000	$62.3
Island South	Redhill Peninsula	Cedar Drive / House	3,339	$175,000	$52.4
Island South	12 Shouson Hill Road	House	3,560	$150,000	$42.1

Source: Knight Frank Research
Note: All transactions are subject to confirmation.

SNAPSHOT

Luxury residential rentals remained stable towards the end of the year.

Pokfulam outperformed with the largest growth in luxury home prices last month.

TABLE 8

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

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

TABLE 9

Luxury residential market indicators (Nov 2017)

	Rent	Change			Price	Change		
District	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	$63.1	0.1%	-2.7%	4.1%	$42,510	0.2%	1.3%	6.0%
Island South	$54.3	0.0%	0.2%	10.1%	$33,123	0.0%	0.1%	7.0%
Mid-Levels	$56.2	-0.4%	0.0%	8.5%	$28,708	0.3%	0.9%	5.8%
Jardine's Lookout / Happy Valley	$50.3	0.0%	0.7%	4.3%	$27,658	0.7%	2.2%	7.9%
Pokfulam	$40.7	0.5%	1.0%	11.2%	$24,969	3.5%	3.6%	8.7%

Source: Knight Frank Research

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

SNAPSHOT

Major retail property sales transactions were recorded in non-core districts last month.

A ground-floor retail space in Mong Kok was leased for around HK$270 per sq ft in November.

RETAIL

TABLE 10

Selected retail sales transactions (Nov 2017)

District	Building	Floor / unit	Net floor area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Wan Chai	Po Wah Building	Ground floor / unit A	410	$110.0	$268,293
Kwun Tong	Cambridge Building	Ground floor / unit 16	190	$23.0	$121,053
North Point	Victor Court	Ground floor / unit 4	387	$37.0	$95,556
Kwun Tong	COS Centre	Ground floor / unit C	403	$16.4	$40,645

Source: Knight Frank Research

TABLE 11

Selected retail leasing transactions (Nov 2017)

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Mong Kok	Hung Tat Building	Ground floor / unit 1	483	$130,000	$269
Central	Sun Fung House	Ground floor / unit 1	380	$88,000	$232
Sheung Wan	Tung Ming Building	Basement	2,374	$520,000	$219

Source: Knight Frank Research
Note: All transactions are subject to confirmation.

SNAPSHOT

Drops in prime street shop rents are expected to narrow to only 5% next year.

Total retail sales value increased 3.9% year on year to HK$37.5 billion in October.

TABLE 12

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

Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
↘	↘	↘	↘

TABLE 13

Retail sales by outlet type (Oct 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	$6.6	17.7%	10.4%	7.0%	8.4%
Clothing, footwear and allied products	$4.6	12.2%	13.7%	-7.6%	6.3%
Department stores	$4.0	10.7%	6.3%	9.7%	6.2%
Fuel	$0.8	2.2%	-1.6%	6.2%	8.3%
Food, alcoholic drinks and tobacco (excluding supermarkets)	$3.7	10.0%	-13.5%	22.3%	8.5%
Consumer durable goods	$6.0	16.1%	7.3%	19.5%	-8.0%
Supermarkets	$4.5	12.0%	0.4%	1.3%	0.7%
Others	$7.2	19.2%	8.7%	-8.7%	7.9%
All retail outlets	$37.5	100.0%	5.1%	4.2%	3.9%

Source: Census and Statistics Department / Knight Frank Research

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