

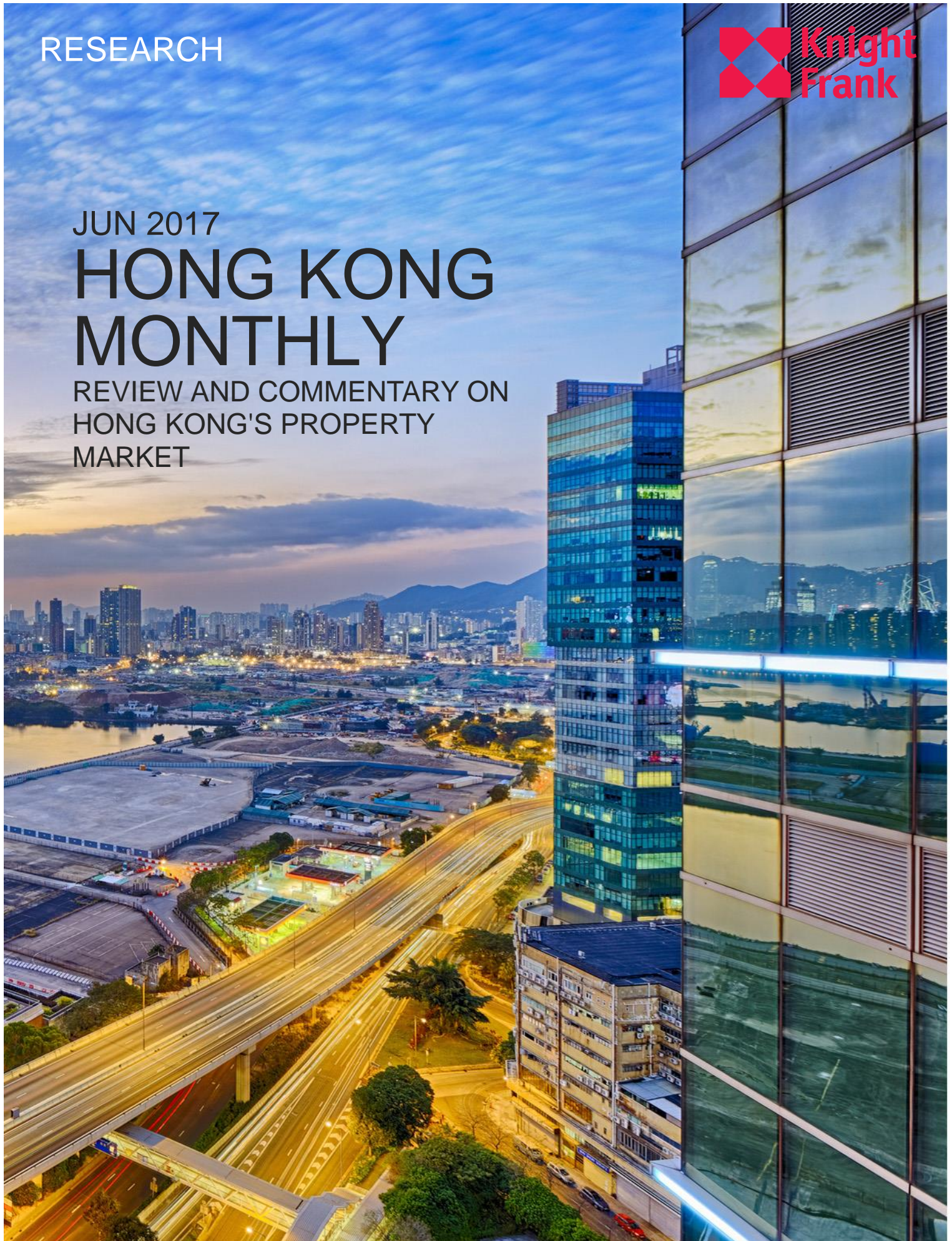
RESEARCH



JUN 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Major commercial land sales to
set new price benchmarks

Residential

Home prices to rise 5-10% over
2017 despite cooling measures

Retail

Retail market reached bottom
and to stabilise for some time

MARKET HIGHLIGHTS

- ♦ Two major commercial sites were sold in May, which should push up the capital values of Grade-A offices. Leasing should be active, with decisions to be made before the summer holiday.
- ♦ Home sales dropped in May, owing to the ongoing implementation and further tightening of cooling measures. However, residential prices are expected to continue to rise.
- ♦ The retail market has reached bottom and is expected to stabilise in the coming months. Drops in prime street shop rents should narrow and rents should then remain largely steady for some time.

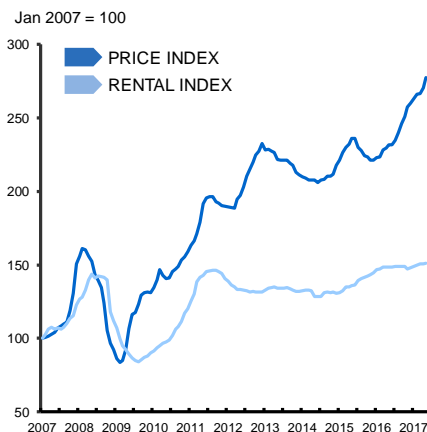
TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q1 2017	+4.3%#	+2.3%	+2.4%	+1.4%
Inflation rate	Apr 2017	+2.0%	+4.4%	+3.0%	2.4%
Unemployment	Feb-Apr 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

Leasing

Mainland Chinese firms remained the key driver in Central, while cost-conscious foreign firms continued to move out from the district, given new supply on other parts of the island, such as Lee Garden Three in Causeway Bay and One Taikoo Place in Quarry Bay, providing ample relocation opportunities.

Most leasing transactions in Kowloon involved pocket space of below 3,000 sq ft last month. We also saw a higher proportion of renewals, as landlords offered more incentives to retain tenants.

Looking forward, strong demand and tight availability are set to continue supporting rents in the CBD. The Kowloon leasing market is expected to

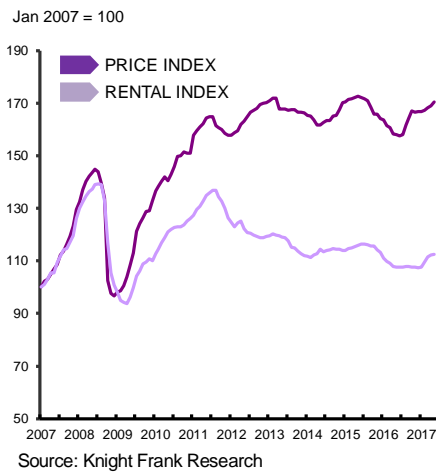
become more active in June, as companies speed up decision making, hoping to settle leasing issues before the summer holiday.

Sales

The spotlight in the market last month was on two major commercial land acquisitions: the Murray Road site by Henderson Land for HK\$23.28 billion and a Kai Tak site by Nan Fung Development for HK\$24.6 billion. The latter replaced the former within two weeks to become the most expensive plot ever sold in Hong Kong.

The results will further lift office values in their neighborhoods, although in the short term, both potential buyers and sellers will adopt a wait-and-see stance in search of an equilibrium. Kowloon rentals are expected to remain soft while landlords look for buyers to take up space.

FIGURE 2
Luxury residential prices and rents



Residential

Residential sales dropped about 20% month on month in May 2017, attributable to the ongoing implementation and further tightening of property market cooling measures, including a 15% stamp duty levy in April on first-time homebuyers purchasing multiple flats in one go and a new round of measures on property mortgages in May.

However, Hong Kong's home prices continued their upward trend. Official data show that home prices continued to climb in the 13 months ending April 2017, rising over 20%.

Amid the price rises, the affordability ratio increased to 65% recently, compared with 62% a year ago. The actual contractual life of new residential mortgages increased to 27 years, compared with 25 years a year ago. To attract buyers, developers continue to offer various sweeteners, while some buyers have been pushed to seek financing from non-banking institutions.

The five key factors that impact the local residential market are interest rates, housing supply, government policy, the global economy as well as China and Hong Kong's economic and political stability. Over the year, home prices are expected to increase 5-10%, while home sales are expected to reach around 60,000-65,000.

Retail

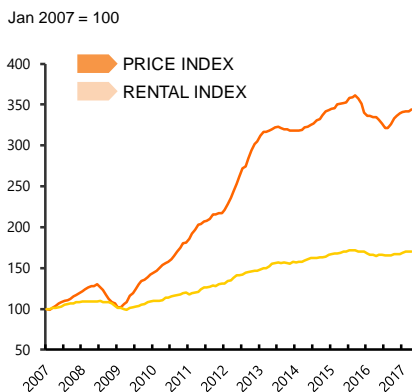
Hong Kong's retail sales continued to stabilise, rising 0.1% year on year in April, with all categories except "Consumer durable goods" and "Supermarkets" recording upward movement. Retail sales of "Jewellery, watches and clocks and valuable gifts" increased for the second month in a row.

Visitor arrivals have been rising since December 2016, gaining another 1.9% year on year in April. Over the first four months of 2017, they were up 3.2% from a year ago. During Golden Week in May, visitor arrivals increased 3.7% year on year.

A new trend has gradually emerged among Chinese visitors. The big spenders of luxury items a few years ago have been replaced by visitors on short trips to Hong Kong, as a lifestyle weekend retreat, focusing on casual shopping and dining at a relatively low cost. This trend is expected to continue, especially after the completion of the Express Rail Link and Hong Kong-Zhuhai-Macau Bridge, which will make travelling to Hong Kong and nearby cities even more convenient.

We believe that Hong Kong's retail market has reached bottom and is expected to stabilise in the coming months. Drops in prime street shop rentals should narrow and rents should then remain largely steady for a period of time. When the market bottoms out and rebounds will hinge on how retailers adapt to the new normal and are able to strategically boost sales.

FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research
Note: Provisional figures from Nov 2016 to Apr 2017

SNAPSHOT

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

Puma leased around 44,000 sq ft of space in Centre Parc in Kowloon Bay in May.

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	High	11,191	\$475.3	\$42,472
Wan Chai	Wu Chung House	Mid	1,300	\$23.8	\$18,308
Tsim Sha Tsui	Silvercord Block 1	High	2,452	\$38.5	\$15,701
Tsim Sha Tsui	Wing On Plaza	Low	1,689	\$21.6	\$12,800

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)
Causeway Bay	Lee Garden Three	Mid	17,000 (L)
North Point	AIA Tower	Mid	12,491 (L)
Kowloon Bay	Centre Parc	High	43,947 (G)
Kwun Tong	Lu Plaza	Mid	23,318 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

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

Grade-A office prices increased in all major business areas in May.

TABLE 4

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



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

TABLE 5

Prime office market indicators (May 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	\$184.1	0.3%	0.7%	4.6%	n/a	n/a	n/a	n/a
Traditional Central	\$130.5	0.2%	1.6%	9.1%	n/a	n/a	n/a	n/a
Overall Central	\$148.6	0.3%	1.2%	7.2%	\$34,476	3.0%	3.7%	24.7%
Admiralty	\$105.6	1.9%	3.0%	6.5%	\$29,190	3.3%	5.8%	27.3%
Sheung Wan	\$74.4	0.1%	0.2%	-1.6%	\$24,346	3.4%	4.5%	19.1%
Wan Chai	\$75.2	0.7%	1.3%	5.1%	\$26,604	1.5%	2.7%	19.8%
Causeway Bay	\$77.7	0.0%	-0.2%	4.5%	\$23,239	1.8%	3.1%	5.7%
North Point	\$51.9	2.6%	3.6%	4.6%	n/a	n/a	n/a	n/a
Quarry Bay	\$51.8	0.0%	-0.1%	-0.2%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$61.9	-0.9%	-0.6%	-5.0%	\$14,447	1.5%	4.7%	10.7%
Cheung Sha Wan	\$30.5	0.0%	0.3%	6.7%	n/a	n/a	n/a	n/a
Hung Hom	\$41.7	0.4%	1.9%	11.4%	n/a	n/a	n/a	n/a
Kowloon East	\$33.9	0.0%	0.5%	-0.1%	\$12,387	0.3%	1.7%	11.5%
Mong Kok / Yau Ma Tei	\$53.6	0.0%	0.0%	2.5%	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 flat in Mid-Levels Central was sold for nearly HK\$58,000 per sq ft in May.

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 East	Highcliff	High floor	2,739	\$168,000	\$61.3
Happy Valley	Broadwood Twelve	Tower 2 / high floor	1,281	\$78,000	\$60.9
Mid-Levels Central	Dynasty Court	Tower 3 / high floor	1,520	\$88,000	\$57.9
Island South	Hong Kong Parkview	Tower 9 / high floor	2,049	\$95,000	\$46.4
Mid-Levels Central	Estoril Court	Block 3 / low floor	2,888	\$105,000	\$36.4

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)
Mid-Levels Central	The Mayfair	High floor	2,242	\$129	\$57,538
Island South	The Somerset	Low floor	1,939	\$85	\$43,837
Mid-Levels Central	Grenville House	Mid floor	3,366	\$136	\$40,404
Wan Chai	StarCrest	High floor	1,504	\$50	\$33,244
Island South	12-14 Shouson Hill Road West	House	1,722	\$50	\$29,036

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

In May, rents grew in most major luxury residential areas.

Luxury home prices continued to increase last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (May 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	0.0%	1.9%	7.3%	\$41,278	0.9%	3.0%	5.7%
Island South	\$52.4	1.4%	4.4%	5.4%	\$32,364	1.1%	4.5%	15.2%
Mid-Levels Jardine's	\$54.6	0.9%	3.3%	5.8%	\$27,789	0.5%	1.6%	10.8%
Lookout / Happy Valley	\$49.4	-1.0%	1.3%	2.1%	\$26,450	0.6%	1.7%	5.3%
Pokfulam	\$38.7	0.8%	3.4%	5.6%	\$23,499	1.3%	2.0%	8.6%

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 May.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Yuen Long	Hop Yick Commercial Centre	Ground floor / unit 67	161	\$10.5	\$65,217
Western	Kam Ho Court	Ground floor / unit 2B	181	\$10.9	\$60,221
North Point	Wah Lai Mansion	Ground floor / unit 8	270	\$14.28	\$52,889
Central	World Wide House	1 st floor / unit 2	328	\$14.25	\$43,445
Wan Chai	Shun Pont Commercial Building	Ground floor / unit C	541	\$18	\$33,272

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)
Causeway Bay	Fortune Centre	Ground floor / units 1-2	488	\$300,000	\$614.8
Tsim Sha Tsui	Tsim Sha Tsui Mansion	Ground floor / unit 1	525	\$199,800	\$380.6
Wan Chai	Chun Fai Building	Ground floor / unit	360	\$120,000	\$333.3

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Total retail sales value grew another 0.1% year on year to HK\$35.2 billion in Apr 2017.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Apr 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	\$5.3	15.1%	-4.2%	-27.2%	0.5%
Clothing, footwear and allied products	\$5.0	14.3%	3.5%	-13.9%	1.9%
Department stores	\$3.5	9.9%	1.6%	-21.3%	3.4%
Fuel	\$0.7	2.1%	-0.9%	-3.9%	2.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.3	9.4%	4.0%	-25.0%	3.0%
Consumer durable goods	\$5.0	14.1%	-17.9%	-13.2%	-12.8%
Supermarkets	\$4.1	11.6%	-2.6%	-20.0%	-0.5%
Others	\$8.3	23.4%	7.7%	-13.3%	5.7%
All retail outlets	\$35.2	100.0%	-1.4%	-18.4%	0.1%

Source: Census and Statistics Department / Knight Frank Research



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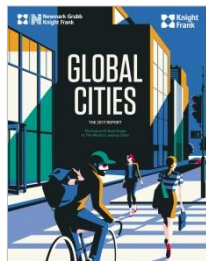
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