

RESEARCH



OCTOBER 2017

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Central and Kowloon East
continued to outperform

Residential

Home prices expected to gain
10-13% through 2017 despite
recent slower growth

Retail

Market bottoming out but risks
remain

MARKET HIGHLIGHTS

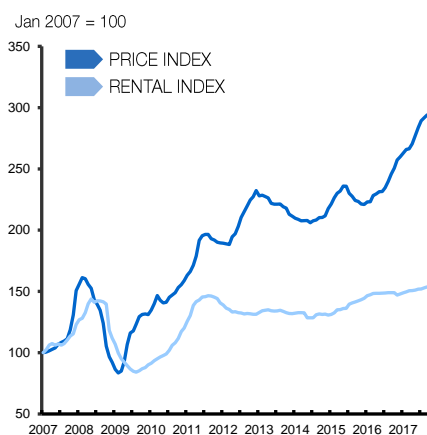
- ◆ Leading corporations consolidated their offices in premium buildings with large floor plates. Co-working office providers continue to expand in Central.
- ◆ Home sales spiked 40.2% month on month in September, with more primary units launched. The primary market remained heated with a high over-subscription rate for the latest projects.
- ◆ The retail market continued to recover with improved tourism numbers. Retail sales value and market confidence are expect to improve in the remainder of 2017.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2014	2015	2016
GDP growth	Q2 2017	+3.8%#	+2.3%	+2.4%	+1.4%
Inflation rate	Aug 2017	+1.9%	+4.4%	+3.0%	2.4%
Unemployment	Jul-Sep 2017	3.1%#	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

Strong demand and limited prime office supply has driven down Central office vacancy rates. Central Grade-A office rents rose 3.6% in the first three quarters of 2017.

Leading corporations continued to look for premium office space for consolidation. HKEX merged its offices in One and Two Exchange Square on 13 entire floors in total.

Co-working office providers intensified office demand on Hong Kong Island. Spaces leased the entire block of Sun House in Sheung Wan, totalling 53,900 sq ft., in addition to the 40,000 sq ft office space it now rents in Lee Garden Three.

We expect this trend to continue and maintain our view that Central office rents will increase by 5-7% over 2017.

Kowloon

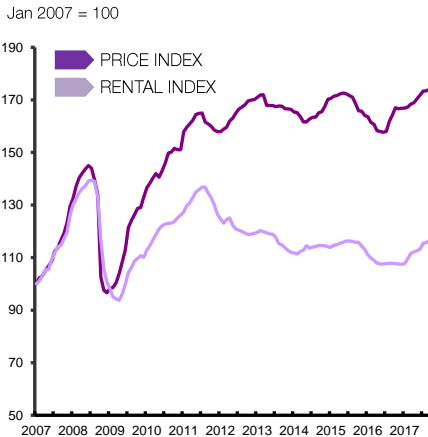
The volume of Kowloon office leasing transactions dropped 40% month on month in September, reflecting the impact of the summer break. This figure is likely to rebound in Q4, showing more activity in September.

Past transactions consisted mainly of small units under 3,000 sq ft. Only one sizeable transaction was recorded in September; PCCW committed to moving its Now TV operations to Goldin Financial Global Centre, taking up about 70,000 sq ft of space.

The coming months will see the conclusion of more transactions before the year end. But with fewer relocations by tenants of higher affordability from the Hong Kong side, we expect rents to continue to be stagnant or slightly softer in the remainder of the year. Kowloon East should see rents drop 7-10% over the course of 2017.

FIGURE 2

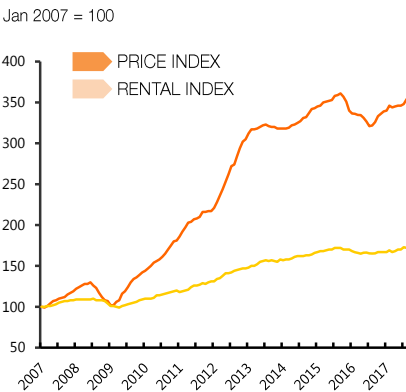
Luxury residential prices and rents



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 Jun 2017

Residential

Residential sales rose 40.2% month on month to 5,629 in September 2017, despite some potential first-time buyers awaiting details on housing measures in the Policy Address. The latest official statistics reveal that home prices continued to surge, up 0.4% month on month in August.

Primary sales continued to dominate market sentiment last month. The Wings at Sea project in Lohas Park, Tseung Kwan O, sold all 403 units in the first round within one day, with total subscriptions of over 11,000 and an oversubscription rate of 2,600%.

The Government is actively considering different options for increasing the land supply and formulating a sustainable long-term housing strategy. The Task Force on Land Supply pointed out that Hong Kong would need at least 1,200 hectares of additional land to meet housing demand by 2040. The execution, however, will take time to implement once viable options have been identified.

With the strong performance of the US labour market and a healthy economic outlook, there is a stronger possibility of another interest-rate hike this year. Considering that mortgage rates in Hong Kong remain at relatively low levels, a mild increase in interest rate is not expected to have a noticeable impact on housing loan repayments and purchasing power in the short term. We maintain our view that prices will grow 5-10% for luxury homes and 10-13% for mass residential units in full-year 2017.

Retail

Visitor arrivals grew by 1.9% year on year in the first eight months of 2017, led by mild growth of 1.9% in Mainland visitors and more impressive growth of 4.0% from other short-haul markets. The number of overnight visitors rose 4.5%, while that of same-day visitors dropped 0.4%, with overnight Mainland visitors up 5.2% and same-day visitors down 0.4%. Mainland economic growth continued to beat market expectations, which has supported spending on travel for Mainlanders and directly benefited Hong Kong tourism.

Retail sales value continued to rise, gaining 2.7% year on year in August, growing six months in a row. Most major categories saw positive growth, with the category “jewellery, watches and clocks, and valuable gifts” growing 7.3% year on year.

Street-level retail rents in core districts are still in the process of adjustment. Compared with a few months ago, it has become more widely accepted among landlords that rental levels will not match those of previous contracts.

Retail sales data in the first eight months of 2017 indicate that HK\$35 billion per month has become the watershed of confidence for the “new normal”. The resurgence in sales of high-end products confirms consumption stability and added confidence in the retail sector. We expect the market to continue on the road to recovery in the remainder of 2017.

SNAPSHOT

Not many major office sales transactions registered last month.

Co-working office provider Spaces leased the entire 77,000 sq ft, in Sun House in Sheung Wan 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)
Central	Lippo Centre	High	2,073	\$70.0	\$33,767
Central	Bangkok Bank Building	High	2,328	\$47.5	\$20,404
Sheung Wan	Universal Trade Centre	Mid	2,095	\$33.1	\$15,800
Mong Kok	Ginza Plaza	Mid	4,357	\$60.4	\$13,860

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	AIA Central	High	13,120 (L)
Central	Sun House	En Block	77,000 (G)
Causeway Bay	Windsor House	Mid	19,897 (G)
Wanchai	AXA Centre	High	15,500 (G)

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

SNAPSHOT

Grade-A office rents remained stable in North Point, Quarry Bay and Tsim Sha Tsui last month.

Grade-A office prices increased in Wanchai, Sheung Wan and Causeway Bay in September.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Sep 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	\$188.7	1.8%	2.4%	6.0%	n/a	n/a	n/a	n/a	
Traditional Central	\$132.7	0.0%	0.5%	9.1%	n/a	n/a	n/a	n/a	
Overall Central	\$151.6	0.8%	1.3%	7.8%	\$36,469	0.0%	3.8%	24.7%	
Admiralty	\$109.0	0.0%	1.7%	9.0%	\$30,552	0.0%	1.5%	22.3%	
Sheung Wan	\$77.8	2.9%	4.4%	5.7%	\$24,253	1.3%	7.1%	27.5%	
Wan Chai	\$75.4	0.5%	0.4%	4.7%	\$28,140	2.5%	4.7%	17.6%	
Causeway Bay	\$76.9	-0.6%	-0.6%	2.1%	\$24,309	2.0%	3.5%	9.2%	
North Point	\$51.7	0.0%	0.0%	3.8%	n/a	n/a	n/a	n/a	
Quarry Bay	\$52.6	0.0%	0.0%	1.7%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$63.0	0.0%	1.5%	-1.9%	\$15,129	0.3%	3.6%	12.8%	
Cheung Sha Wan	\$30.0	-1.4%	-2.2%	2.2%	n/a	n/a	n/a	n/a	
Hung Hom	\$42.1	0.3%	1.1%	20.6%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.1	-0.1%	0.6%	1.2%	\$12,736	0.7%	1.7%	6.9%	
Mong Kok / Yau Ma Tei	\$57.4	2.9%	8.2%	9.5%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A luxury apartment in the Peak was sold for over HK\$600 million last month.

Mid-Levels performed well, with a number of major sales and leasing transactions recorded in September.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Sep 2017)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	House	7,981	\$620.0	\$77,685
Mid-Levels East	Perkins Road	House	4,604	\$535.0	\$116,203
Mid-Levels West	39 Conduit Road	High floor / unit B	4,971	\$521.0	\$104,807
Mid-Levels Central	Bowen Road	Mid floor / unit C	4,680	\$380.0	\$81,196
Repulse Bay	Repulse Bay Road 56	House	2,546	\$165.0	\$64,808

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Sep 2017)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Repulse Bay	The Lily	Tower 1 / High floor / unit B	2,563	\$217,800	\$90.0
Mid-Level West	Alassio	High floor / unit A	1,007	\$75,000	\$74.5
Mid-Level Central	Clovelly Court	Block 1 / high floor / unit B	2,348	\$116,000	\$49.4
Mid-Level West	Seymour	Low floor / unit A	1,732	\$96,000	\$55.4
Pokfulam	Bel-Air on the Peak Phase 4	Tower 2 / Upper floor / unit C	1,400	\$82,000	\$58.6

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In September, 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 (Sep 2017)






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

TABLE 9
Luxury residential market indicators (Sep 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	\$64.1	-1.2%	-1.3%	6.1%	\$42,222	0.6%	1.3%	5.3%
Island South	\$54.3	0.2%	2.6%	9.2%	\$33,123	0.1%	2.3%	12.0%
Mid-Levels	\$57.4	2.1%	4.5%	10.6%	\$28,526	0.2%	1.6%	7.7%
Jardine's Lookout / Happy Valley	\$50.2	1.6%	3.9%	3.9%	\$27,187	0.4%	1.8%	7.9%
Pokfulam	\$40.6	0.6%	4.1%	10.3%	\$24,096	0.0%	1.4%	5.8%

Source: Knight Frank Research

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

SNAPSHOT

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

A street shop in Queen's Road Central was leased for over \$1,000 per sq ft in September.

RETAIL

TABLE 10

Selected retail sales transactions (Sep 2017)

District	Building	Floor / unit	Net floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Sheung Wan	Alliance Building	Ground floor / unit F	1,070	\$38.0	\$35,514
Wan Chai	Cheung Lok Mansion	Ground floor / unit A	1,108	\$69.9	\$63,090
Causeway Bay	Fortune Centre	Lower Ground floor / unit 14	160	\$18.7	\$116,562
Kwun Tong	Kwun Tong Plaza	M Floor / unit 21	202	\$30.0	\$148,515
Mong Kok	Sincere Plaza	Ground floor / unit 51	135	\$18.4	\$136,296

Source: Economic Property Research Centre

TABLE 11

Selected retail leasing transactions (Sep 2017)

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Central	Lansing House	Ground floor / unit 47	490	\$500,000	\$1,020.4
Causeway Bay	Po Wing Building	Ground floor / unit E	965	\$178,000	\$184.5
Tsim Sha Tsui	Tsim Sha Tsui Mansion	Ground floor / unit A	525	\$160,000	\$304.8
Tsim Sha Tsui	Long Wah Building	Ground floor / unit B	785	\$190,000	\$242.0
Kwun Tong	Yan On Mansion	Ground floor / unit E	870	\$145,000	\$166.7

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.

SNAPSHOT

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

Total retail sales value grew another 4.0% year on year to HK\$36.0 billion in July.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Aug 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	\$6.2	17.7%	-0.1%	11.2%	7.3%
Clothing, footwear and allied products	\$4.1	11.9%	-16.5%	-14.3%	-1.4%
Department stores	\$3.7	10.6%	1.2%	-25.3%	5.2%
Fuel	\$0.8	2.3%	1.0%	-0.5%	3.3%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.3	9.5%	8.0%	4.5%	-3.9%
Consumer durable goods	\$5.0	14.4%	-0.8%	4.1%	4.4%
Supermarkets	\$4.6	13.1%	2.9%	5.4%	2.3%
Others	\$7.1	20.5%	-9.7%	-4.2%	2.5%
All retail outlets	\$34.8	100.0%	-3.3%	-2.9%	2.7%

Source: Census and Statistics Department / Knight Frank Research



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