

OFFICE

Decentralisation underpins demand for Kowloon office space

Hong Kong Island

In September, leasing momentum of Grade-A office space remained slow, as social unrest and the China-US trade war dragged on. As most tenants in Central remain cautious, landlords have shown some new flexibility, for example, offering shorter lease periods and allowing a wider tenant mix by leasing space to non-office tenants.

As many cost-saving Central tenants were looking for decentralised locations, demand for offices in Wan Chai and Quarry Bay was high, in particular, for large floor plates.

This trend is set to continue in the coming months. But over the long run, this could mark the moment when Hong Kong Island's longstanding pivot towards Central fundamentally shifts towards peripheral areas.

Kowloon

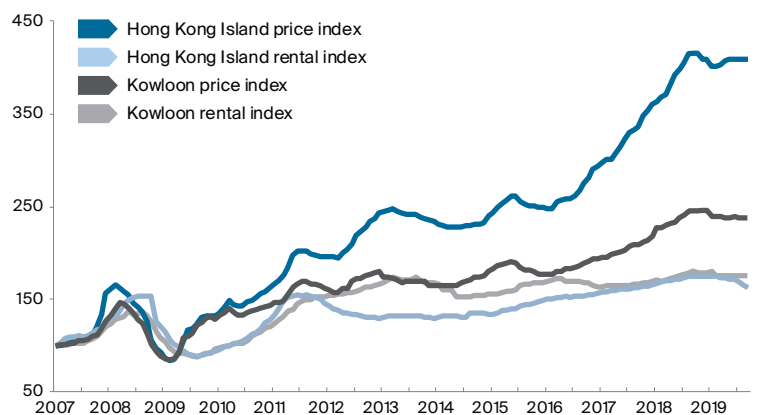
Grade-A office leasing transactions in September were recorded mainly in Kowloon East and Kowloon West. Most of the deals were for less than 5,000 sq ft, leased at below HK\$25 per sq ft per month. Demand was driven mainly by the electronics and sourcing sectors.

Many companies were seeking to reduce rental costs amid market instability. Some opted to downsize or consolidate their offices, or relocate from Hong Kong island to Kowloon. For example, Swiss luxury watch brand Audemars Piguet rented 15,000 sq ft of office space in AXA Tower, Landmark East, in Kwun Tong for HK\$33 per sq ft per month to consolidate its current offices in Wan Chai and Kwun Tong in one location.

We expect office demand in Kowloon to remain fairly stable for the rest of the year, along with continued decentralisation.

FIGURE 1
Grade-A office prices and rents

2007 = 100



Source: Knight Frank Research

TABLE 1
Grade-A office market indicators (Sept 2019)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	183.8	-3.2	-7.7	-	-	-
Traditional Central	133.5	-0.9	-8.7	-	-	-
Overall Central	150.5	-1.8	-8.3	43,750	-0.4	-6.6
Admiralty	100.5	-4.7	-13.7	39,184	0.0	1.5
Sheung Wan	83.0	-0.3	-2.9	34,244	-0.3	-6.7
Wan Chai	75.8	-1.4	-4.9	30,476	0.0	1.5
Causeway Bay	77.7	-0.9	-7.5	26,419	-0.2	1.5
North Point	49.7	-3.9	-8.7	-	-	-
Quarry Bay	55.6	0.0	4.5	-	-	-
Tsim Sha Tsui	71.8	-0.3	-0.6	18,246	-0.1	-3.3
Cheung Sha Wan	33.0	-1.2	1.1	-	-	-
Hung Hom	44.4	-0.7	3.3	-	-	-
Kowloon East	31.9	0.2	-3.4	13,138	-0.5	-3.4
Mong Kok / Yau Ma Tei	60.5	0.4	2.5	-	-	-

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL

Uncertainties continue to plague the residential market

Political uncertainty and an economic slowdown continued to dent residential market sentiment during the month. The latest Land Registry data shows that overall sales volume reached a new low in 2019, shrinking 15.6% MoM to 3,447 units in September.

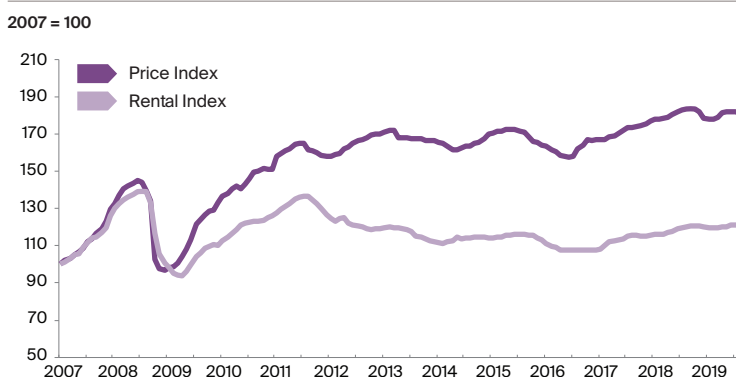
The Special Rates on vacant first-hand private residential units proposed by the government has gone through the first reading in October. Supply in the leasing market is expected to increase, putting downward pressure on the rental market in the short run. For the sales market, to avoid paying the tax, some developers implemented flexible and longer payment plans to attract potential buyers. For instance, some developers allowed buyers to pay 90% of the transaction price within four years after the date of the preliminary agreement for sale and purchase.

As the spread between primary and secondary prices narrowed, owners in the secondary market had to lower their asking prices to stimulate buying incentives. Some flat owners offered a price cut of 15–20%. Examples include a 1,353 sq ft unit in Residence Bel-Air in Pokfulam, which was sold for HK\$28,825 per sq ft and a 2,117 sq ft unit in Carolina Court at the Peak, which was sold for HK\$38,262 per sq ft.

Nevertheless, the situation improved after the mortgage cap for first-time buyers was raised in the Policy Address to 90% for homes valued at up to HK\$8 million. Some homeowners have promptly raised their asking prices.

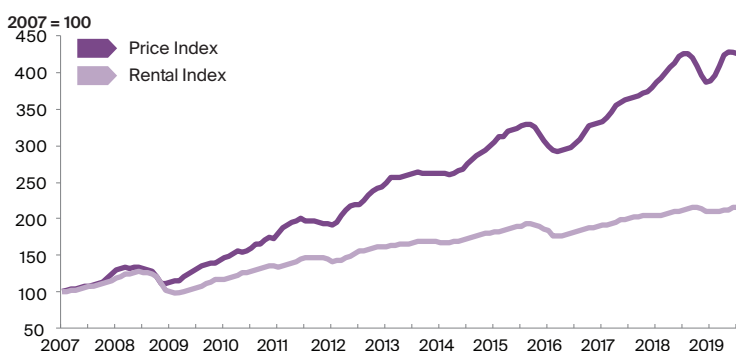
Looking ahead, we expect the various headwinds to continue to curb buyer confidence. Nonetheless, the new initiatives of easier mortgage rules should provide stimulus to drive property transaction prices and volume in the short term.

FIGURE 2
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3
Mass residential prices and rents



Source: Knight Frank Research

TABLE 2
Selected residential sales transactions (Sept 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	Hong Kong Parkview	Tower 15 / high floor	2,169	95	43,799
Mid-Levels Central	The Albany	High floor / unit A	1,948	83.4	42,803
Kowloon Tong	One Beacon Hill	Tower 18 / mid floor / unit B	2,268	95	41,887
Homantin	Cristallo	Mid floor / unit B	2,718	108.8	40,029
Mid-Levels Central	Clovelly Court	Block 1 / high floor / unit A	2,348	93.5	39,821

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

TABLE 3
Selected residential lease transactions (Sept 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Central	Four Seasons Place	Mid floor	1,867	250,000	134
Admiralty	Pacific Place	Mid floor	2,650	280,000	106
Island South	The Repulse Bay	De Ricou / mid floor	1,805	129,960	72
Island South	Hong Kong Parkview	Mid floor	2,010	136,000	68
Island South	The Lily	Tower 3 / low floor	2,529	165,000	65

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

RETAIL

Escalating social unrest exacerbates sales slump

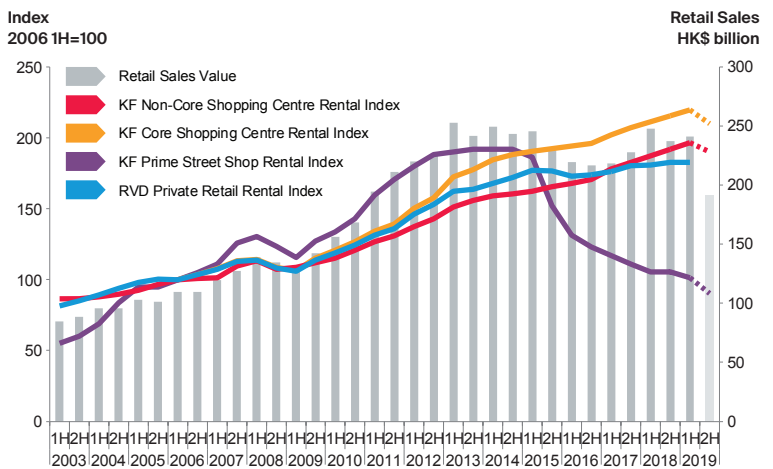
Hong Kong's retail sales fell for the seventh consecutive month in August. According to government figures, total retail sales value registered a tremendous drop of 23% YoY, the largest-ever YoY decline for a single month, even worse than the record in September 1998 during the Asian Financial Crisis. An increase in the intensity and extensiveness of the social unrest has further weakened the retail market. The jewellery, watches and luxury goods sector continued to be hit the hardest, with sales value plummeting a record 47.4% YoY. The unrest also resulted in an abrupt downturn in tourism, with a 42.3% YoY drop in Mainland visitor arrivals in August.

Many retailers in both street shops and shopping malls in the areas affected by the protests, especially in major shopping districts, such as Causeway Bay, Tsim Sha Shui and Mongkok, have been badly impacted. Given the serious plunge in foot traffic and sales, some global brands have started closing stores. Forever 21, for instance, closed down its Mong Kok store, which was its last store in Hong Kong, in September. There was also a raft of closures in the F&B sector. According to the Hong Kong Federation of Restaurants and Related Trades, over 200 restaurants closed down in the past four months.

Shopping mall landlords and high street shop owners have adopted various measures to help their tenants cope with the current tough times. Major shopping mall landlords like Swire, Hysan and Sun Hung Kai have offered rental reductions to tenants in the affected areas, and some street shop owners have temporarily reduced rents.

With no resolution in sight, we expect local consumption sentiment to remain weak and the number of inbound visitors to continue to drop. Total retail sales value in September is expected to decline further to below HK\$29 billion, and rental rates for high street shops are expected to drop by at least 15%. The retail environment in Hong Kong will be extremely challenging during the remainder of the year despite the upcoming festive season.

FIGURE 4
Retail sales and rents



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department

TABLE 4
Retail sales by outlet type (Aug 2019)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.9	13.4	-28.6	-41.2	-47.4
Clothing, footwear and allied products	3.0	10.2	-32.3	-39.2	-32.1
Department stores	2.9	9.9	-18.4	-50.0	-29.9
Fuel	0.9	3.0	-1.3	-1.3	0.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.5	12.0	14.4	1.6	-0.3
Consumer durable goods	4.3	14.6	-7.7	-9.7	-14.3
Supermarkets	4.7	15.9	3.4	5.6	1.9
Others	6.2	21.0	-20.7	-31.3	-23.6
All retail outlets	29.4	100.0	-14.7	-26.5	-23.0

Source: Census and Statistics Department / Knight Frank Research

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