

RESEARCH



SEPTEMBER 2018  
**HONG KONG  
MONTHLY**

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY  
MARKET



**Office**  
Both sides of harbour saw  
robust leasing activity

**Residential**  
Sluggish growth expected  
in price and rent

**Retail**  
Recovery continues amidst  
uncertainty

# PRIME OFFICE

## Hong Kong Island

In August, the Grade-A office market on Hong Kong Island recorded a high level of activity with buyers and tenants competing for the limited space available.

The Center in Central, for example, had 4 units on the 22nd floor sold for up to around HK\$44,000 per sq ft, a significant premium over the previous average purchase price of over HK\$30,000 per sq ft seen at the end of last year.

Cheung Kong Center recorded a remarkable leasing deal last month. American Bitcoin exchange platform Bitmex rented over 20,000 sq ft of space at a rent of HK\$225 per sq ft per month. This rent is notably higher than the previous record at HK\$210, set by Two International Finance Centre in 2011. However, it is worth mentioning that in this case, the tenant's business nature was factored in the landlord's decision.

Co-working space operators continued to expand. KR Space, for example, committed to around 50,000 sq ft of space in Times Square in Causeway Bay as its second location in Hong Kong after One Hennessy in Wan Chai. The Executive Centre also secured over 20,000 sq ft of space spanning 4 floors in Prosperity Tower in Central.

Space in new buildings was further absorbed. In Quarry Bay, while One Taikoo Place is now 100% occupied, One Island East has only about 10,000 sq ft of space unleased. On the southside, South Island Place in Wong Chuk Hang had about 40% of space already taken and around 40%

under offer. With shrinking availability and sustained demand, office rents on Hong Kong Island will inevitably rise further.

## Kowloon

Kowloon's Grade-A office leasing market saw significant improvement in August, with the number of leasing transactions more than doubled month-on-month. Kowloon East saw most of the transactions.

Three large deals concluded were with government-related agencies and NGOs. The Lands Department set up over 100,000 sq ft of office in CDW Building in Tsuen Wan; the Construction Industry Council leased 35,000 sq ft of space at Enterprise Square in Kowloon Bay. Meanwhile, the Urban Renewal Authority renewed its lease of 26,000 sq ft at Cheung Sha Wan Plaza in Cheung Sha Wan.

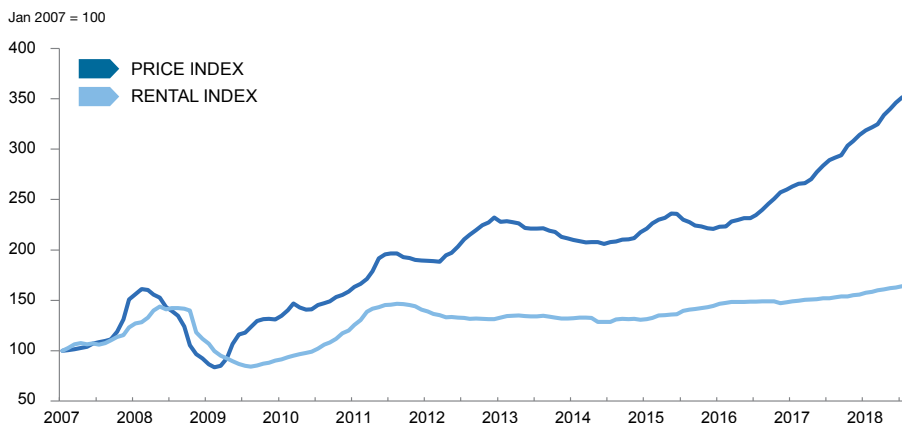
The relocation movement continued mainly towards Tsim Sha Tsui. For example, employment agent Kelly Services will relocate from the soon-to-be-rebuilt Hutchison House in Central to a 17,300-sq-ft whole floor at The Gateway. Network marketing company Forever Living is relocating from its current office in Railway Plaza to a bigger premise covering 10,000 sq ft of space in Concordia Plaza.

The escalating Sino-US trade war is beginning to affect trade-related companies. However, overall demand on the peninsula is expected to remain strong. With a number of major deals sized 50,000 sq ft or above now under negotiation, we expect more major transactions to be concluded in the coming months before the end of the year.



Overall leasing demand in Kowloon is expected to remain strong, although trade-related industries could be affected by the trade war.

FIGURE 1  
Grade-A office price and rents



Source: Knight Frank Research

TABLE 1  
Selected office sales transaction (Aug 2018)

District	Building	Zone	Gross floor areas (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Far East Finance Centre	Low	650	34.3	52,800
Central	The Center	Low	1,973	85.0	43,579
Kwun Tong	One Harbour Square	Low	18,314	250.0	13,651

Source: RCA

Note: All transactions are subject to confirmation.

TABLE 2  
Selected office leasing transactions (Aug 2018)

District	Building	Zone	Floor area (sq ft)
Central	Prosperity Tower	High	21,932 (G)
Central	Cheung Kong Center	Mid	21,334 (L)
Kowloon Bay	Enterprise Square 5 Tower 2	High	34,800 (G)
Kowloon Bay	Centre Parc	Low	28,420 (G)
Cheung Sha Wan	Cheung Sha Wan Plaza Tower 2	-	26,175 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

TABLE 3  
Prime office market indicators (Aug 2018)

District	Net effective rent		Change		Price (Gross) HK\$ psf	Change		Y-o-Y %
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %		M-o-M %	Q-o-Q %	
Premium Central	199.1	0.2	2.1	7.5	n/a	n/a	n/a	n/a
Traditional Central	143.8	1.3	2.9	8.6	n/a	n/a	n/a	n/a
Overall Central	162.5	0.9	2.6	8.1	46,844	3.3	9.9	28.5
Admiralty	116.4	0.0	0.0	6.8	38,607	3.8	9.5	26.4
Sheung Wan	85.5	0.3	1.0	13.2	36,705	1.8	9.6	36.4
Wan Chai	80.9	0.0	0.2	7.5	29,938	0.5	3.1	9.1
Causeway Bay	83.8	0.3	0.3	9.4	25,930	0.7	3.1	8.8
North Point	54.1	0.0	0.0	4.6	N/A	N/A	N/A	N/A
Quarry Bay	53.2	0.0	0.0	1.6	N/A	N/A	N/A	N/A
Tsim Sha Tsui	71.3	1.1	3.6	13.2	18,864	2.0	7.8	25.1
Cheung Sha Wan	32.4	-0.3	-0.7	6.5	N/A	N/A	N/A	N/A
Hung Hom	45.0	-0.2	1.3	7.2	N/A	N/A	N/A	N/A
Kowloon East	34.9	0.8	1.7	2.9	13,536	1.2	3.0	6.8
Mong Kok / Yau Ma Tei	59.0	0.0	0.0	5.7	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

# RESIDENTIAL



Luxury residential rental growth will slow down in the coming months as the market enters the low season.

Residential sales lost a notable 21% month-on-month in August to 4,882 units, as the market is clouded by uncertainties from the new government measures, the escalating Sino-US trade war, stock market volatility and the fear for further mortgage-rate rise.

On the supply side, developers are accelerating the release of new flats, with four projects launched in August, a phenomenon not seen for some months. They were generally well received, though some deals were withdrawn with some buyers deciding to forfeit deposit. The secondary market also saw some buyers backing out of deals.

Home prices, however, grew further for the 28th consecutive month, according to latest official data. They are now 29% over the previous peak in September 2015, but the growth rate was the slowest in the

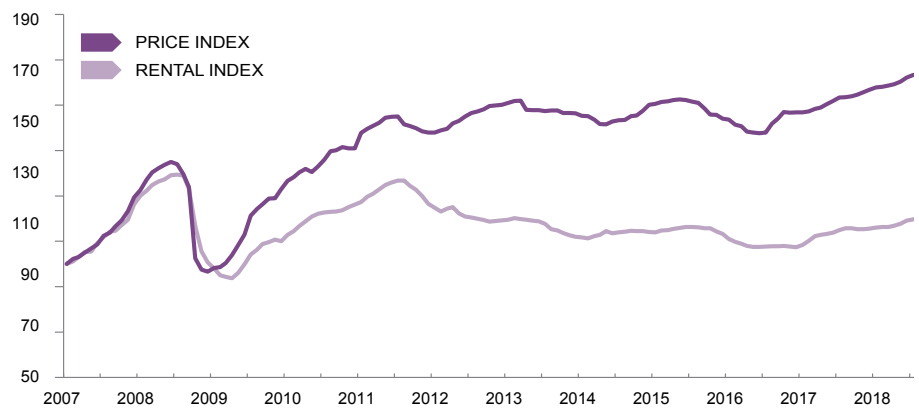
past 10 months. We expect them to grow at a slower rate in the second half of the year, gaining 10-13% over the whole year.

The leasing market started to slow down towards the end of the summer peak season. However, rentals remained firm due to limited availability as many homes had already been taken up in the previous months. With scarce supply, tenants tended to renew their lease contracts instead of relocating.

Looking ahead, limited residential leasing supply in traditional luxury areas, reduced rental budget for expatriates and the location of new international schools in the New Territories will encourage tenants to move to other areas, such as Sai Kung, Olympic Station, Tai Po and Shatin. Rental growth will slow down in the coming months as the market enters the low season.

FIGURE 2  
Luxury residential prices and rents

Jan 2007 = 100



Source: Knight Frank Research

TABLE 4  
Selected residential sales transactions (Aug 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	39 Conduit Road	High floor / unit B	2,355	175	74,310
Tsim Sha Tsui	Masterpiece	High floor / unit B	2,969	160.88	54,187
Island South	Marina South	Tower 1 / high floor / unit A	2,612	152.5	58,384
Mid-Levels Central	Estoril Court	Tower 2 / high floor / unit D	2,888	118	40,859
Kowloon Tong	Grampian	Low floor / unit A	2,077	106	51,035

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

TABLE 5  
Selected residential leasing transactions (Aug 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
The Peak	21 Coombe Road	House	4,012	390,000	97.2
Island South	The Lily	Tower 1 / high floor / unit B	2,759	250,000	90.6
Island South	127 Repulse Bay Road	Low floor / unit A	2,334	150,000	64.3
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit A	2,153	145,000	67.4
Mid-Levels Central	Queen's Garden	Block A / mid floor / unit A	2,090	117,000	56.0

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

TABLE 6  
Luxury residential market indicators (Aug 2018)

District	Rent		Change			Price		Change	
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %	HK\$ psf	M-o-M %	Q-o-Q %	Y-o-Y %	
The Peak	64.5	0.5	1.3	-0.6	43,516	0.0	1.1	3.7	
Island South	57.0	0.1	0.9	5.3	33,695	0.0	0.1	1.9	
Mid- Levels	59.6	0.2	1.8	6.0	30,959	0.6	4.0	8.8	
Jardine's Lookout / Happy Valley	52.1	1.2	4.3	4.4	30,889	1.3	4.0	14.1	
Pokfulam	42.0	0.1	2.0	4.5	26,081	1.8	8.2	4.5	

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

# RETAIL



The depreciation of renminbi amid the intensifying trade tension poses a downside risk.

In the first seven months of this year, Mainland visitor arrivals was up 12.5% Y-o-Y to 28.1 million, faster than the overall 9.4% growth. Retailers are doing their best to capture this burgeoning group of customers, who have a strong preference for personal care products. Cosmetic retailer BB Beauty rented a 1,200-sq-ft street shop at 45 Carnarvon Road in Tsim Sha Tsui for HK\$420,000 per month.

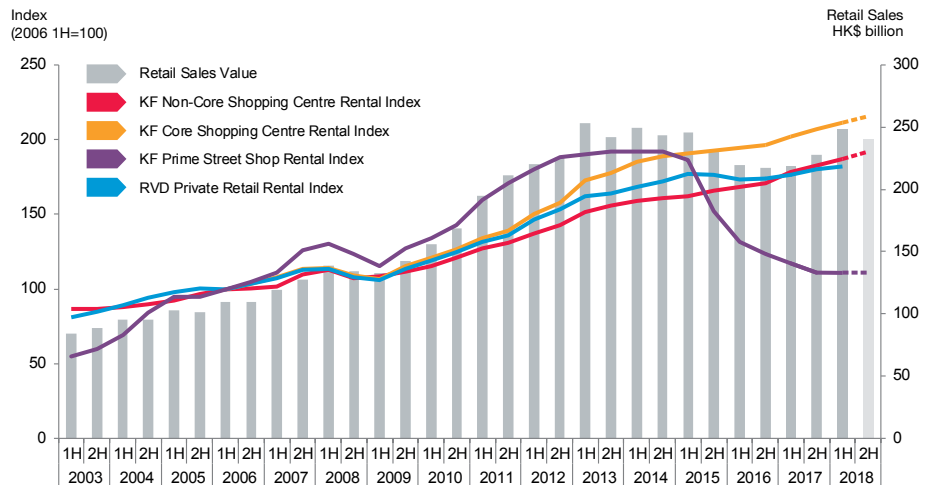
More tourists have also helped restaurant receipts to increase 8.3% in the first half of the year. Many restaurants are expanding. Mainland F&B group Haidilao Hot Pot rented the whole 19th floor of Lee Theatre in Causeway Bay, with an area of around 9,400 sq ft. This is the group's second restaurant in Hong Kong after its first opening in Yau Ma Tei last year.

While the overall prime street market in Hong Kong is recovering thanks

to improved sales, the sub-market in Central lagged behind. Demand for street shops in Central is weak because of two reasons. Firstly, international luxury brands that used to cluster in the area now prefer prime shopping centres. Secondly, non-luxury brands may not be able to afford the high rent there given that most of the street shop floors are large. In the latest example, a duplex street shop at 50 Queen's Road Central, with an area of 6,500 sq ft, has been leased for HK\$2 million per month, or HK\$308 per sq ft, 40% lower than the previous rent.

While tourists from Mainland is still the driving force for the growth of Hong Kong's retail market, the depreciation of renminbi amid the intensifying trade tension poses a downside risk, which makes spending in the city more expensive for Mainland visitors.

FIGURE 3  
Retail sales and rents



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

TABLE 7

**Selected retail sales transactions (Aug 2018)**

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Tsim Sha Tsui</b>	East Ocean Centre	Ground floor / unit 7-9	N/A	200	N/A
<b>Mong Kok</b>	Hua Chiao Commercial Centre	Ground floor / unit A-B	N/A	200	N/A
<b>Tai Hang</b>	12 Wun Sha Street	Ground floor	N/A	78	N/A
<b>Tai Kok Tsui</b>	Tai Ying Building Cosmopolitan Estates	Ground floor / unit 7	1,795 (N)	77	42,674

Source: Economic Property Research Centre  
 Note: All transactions are subject to confirmation.  
 N: Net; G: Gross

TABLE 8

**Selected retail leasing transactions (Aug 2018)**

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
<b>Cheung Sha Wan</b>	273 Shun Ning Road	First floor	N/A	381,100	N/A
<b>Sai Wan</b>	554-560 Queen's Road West	Ground floor	N/A	360,000	N/A
<b>Mong Kok</b>	Bank Centre Mall	First floor / unit 1-3	N/A	330,000	N/A
<b>Mong Kok</b>	4-6 Argyle Street	Ground floor / unit 6	634	250,000	394

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

TABLE 9

**Retail sales by outlet type (Jul 2018)**

Outlet	Value (HK\$ billion)	Share of total %	M-o-M %	Q-o-Q %	Y-o-Y %
<b>Jewellery, watches and clocks and clocks, and valuable gifts</b>	7.3	18.7	4.5	9.7	16.8
<b>Clothing, footwear and allied products</b>	5.1	13.2	9.0	-4.6	3.6
<b>Department stores</b>	4.0	10.2	3.7	1.0	8.6
<b>Fuel</b>	0.9	2.3	-0.8	9.1	15.2
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	3.2	8.1	-2.7	-8.2	2.9
<b>Consumer durable goods</b>	5.3	13.8	0.8	-6.9	5.7
<b>Supermarkets</b>	4.5	11.5	2.0	8.3	0.7
<b>Others</b>	8.6	22.3	2.2	-8.8	9.5
<b>All retail outlets</b>	38.9	100.0	2.9	-1.7	7.8

Source: Census and Statistics Department / Knight Frank Research



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