

RESEARCH



JUL 2016

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Emerging business areas
continue to gain market attention

Residential

Seven sites, providing 4,800
flats, could be tendered in 3Q

Retail

Prime street shop rents to
bottom out in early 2017

MARKET HIGHLIGHTS

- ♦ Activity in the Grade-A office leasing market remained focused on Kowloon East. Wong Chuk Hang, another emerging business area, is also expected to see increasing activity with the opening of the new metro line by the end of 2016.
- ♦ Residential prices stabilised in June with more activity mainly in the primary sector, as developers launched new projects with deep discounts and other enticements.
- ♦ With prime street shop rents having returned to attractive levels comparable with those in 2011 and a slower decline in Mainland visitor arrival numbers, we expect the local retail market to bottom out early next year.

TABLE 1

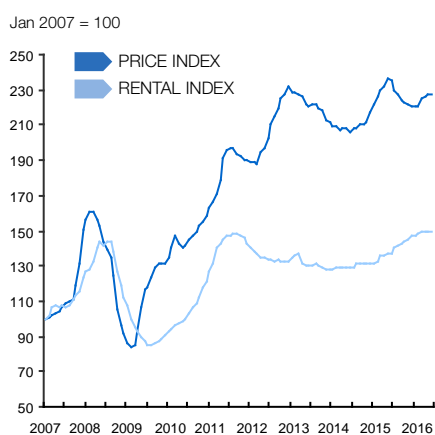
Economic indicators

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q1 2016	+0.8%#	+2.9%	+2.3%	+2.4%
Inflation rate	May 2016	+2.6%	+4.3%	+4.4%	+3.0%
Unemployment	Mar-May 2016	3.4%#	3.3%	3.2%	3.3%
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

Grade-A office leasing on Hong Kong Island remained subdued in June. On the supply side, tight availability limited choices in the market, while on the demand side, Mainland companies slowed their expansion pace in Hong Kong after the previous leasing boom.

The Kowloon East office market remained very active, with the key driver being relocation demand from tenants across the harbour. One reported example involved Kingfisher, which moved from Cornwall House in Quarry Bay to KOHO in Kwun Tong.

Over the past few months, a number of co-working space operators have been aggressively expanding in Hong Kong, becoming one of the major sources of demand for office space. For example, WeWork reportedly took

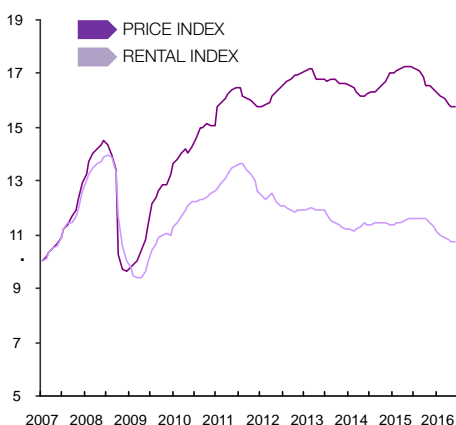
up large office space of about 60,000 sq ft in Asia Orient Tower in Wan Chai last month. Meanwhile, a US co-working space operator reportedly took up four floors, spanning 29,000 sq ft, in Soundwill Plaza in Causeway Bay.

Looking ahead, we expect rents in core business areas to rise 5% during the year, while those in non-core areas could drop 5%. Wong Chuk Hang in Island South, another emerging commercial district, is expected to benefit from the scheduled launch of the new metro line by the end of the year, with increasing office leasing activity and rental levels.

FIGURE 2

Luxury residential prices and rents

Jan 2007 = 100

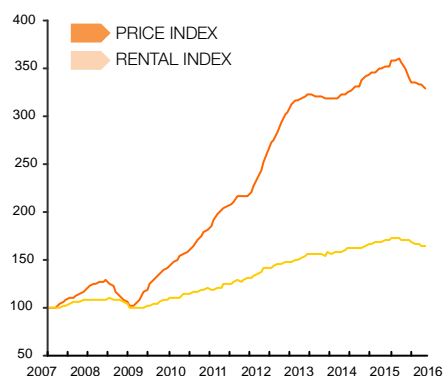


Source: Knight Frank Research

FIGURE 3

Retail property prices and rents

Jan 2007 = 100

Source: Rating and Valuation Department
/ Knight Frank Research

Note: Provisional figures from Dec 2015 to May 2016

Residential

According to the Land Registry, residential sales in June edged up 0.7% month on month, reaching 4,620 units. The gain was attributed mainly to robust activity in the primary market. Home prices, meanwhile, stabilised with more homebuyers returning to the market looking for bargains.

Several new residential developments were oversubscribed in June. One example was Park Yoho Venezia in Yuen Long, which managed to sell over 90% of its available units within hours on the first day of the launch. This trend is expected to continue, with developers offering deep discounts and aggressive mortgage schemes to boost sales.

Interest in the ultra-luxury residential market showed no signs of abating. The top-floor unit in Severn Villa on the Peak sold for HK\$232 million or HK\$170,463 per sq ft, making it the most expensive apartment in Hong Kong. High-net-worth individuals are expected to continue acquiring premium residential properties in Hong Kong given their scarcity and high status.

The government announced that seven residential sites, capable of providing 4,800 flats, will be available for sale by application in the third quarter. As at the end of May, the number of homes pending pre-sale consent had risen 11% month on month to 14,526 units, the highest level in eight months, according to the Lands Department. Given the increase in supply and uncertainty brought about by Brexit, we maintain our forecast of a 5-10% drop in luxury home prices and up to a 10% decline in mass residential prices over the year.

Retail

The first half of the year proved to be very challenging for Hong Kong's retail market. The downward path, however, is likely to come to an end early next year with the market moving closer to fully absorbing the changes in consumer structure and consumption patterns.

In recent years, the decrease in tourist arrivals and changes in their spending habits negatively impacted local retailers, particularly at the luxury end. In the first five months of 2016, the sales value of the "jewellery, watches, clocks & valuable gift" retail category decreased 21% year on year, back to the 2011 level. Last year, four major jewellery retailers together reportedly reduced their presence in the city by 5%, leaving only about 200 outlets, returning to the 2013 level. As a result, prime street shop rents in core retail districts have fallen for sixth consecutive quarters, down 25% from their peak.

Retailers are expected to continue their business consolidation in the second half of the year. However, the decline in Mainland visitor arrivals decelerated in the second quarter of 2016 compared with the first quarter. The impact of the one visit a week restriction on Shenzhen permanent residents imposed over a year ago has been almost fully reflected in the recent tourist and retail sales data.

As prime street shop rents have returned to 2011 levels, they have become attractive for mid-end brands to consider entering the prime shopping areas. Therefore, we expect the retail market to gradually stabilise. Prime street shop rents could fall by another 5-10% in the remainder of this year and then bottom out early next year.

SNAPSHOT

There was an en-bloc office sales transaction in June.

WeWork leased 58,300 sq ft of office space in Asia Orient Tower last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Hung Hom	Chinachem (Hunghom) Commercial Centre	En bloc	47,820	\$350	\$7,319
Admiralty	Admiralty Centre Tower 2	Mid	10,627	\$265	\$24,936
Tsim Sha Tsui	Concordia Plaza	Mid	5,375	\$68.8	\$12,800
Tsim Sha Tsui	South Seas Centre Tower 1	Mid	4,337	\$45.5	\$10,500

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Gross floor area (sq ft)
Kowloon Bay	Enterprise Square Five – Tower Two	High	68,000
Kowloon Bay	Goldin Financial Global Centre	Low	62,514
Wan Chai	Asia Orient Tower	Low	58,300
Kwun Tong	KOHO	Low	24,545

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Grade-A office rents increased in the CBD, Tsim Sha Tsui and Kowloon East last month.

Grade-A office prices remained stable in all major business districts in June.

TABLE 4

Month-on-month movement in Grade-A office rents (Jun 2016)






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

TABLE 5

Prime office market indicators (Jun 2016)

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	\$172.2	0.0%	0.5%	11.2%	n/a	n/a	n/a	n/a
Traditional Central	\$121.2	0.7%	2.0%	11.3%	n/a	n/a	n/a	n/a
Overall Central	\$138.9	0.4%	1.3%	11.3%	\$27,639	0.0%	1.7%	-2.7%
Admiralty	\$101.0	0.9%	2.0%	16.4%	\$22,933	0.0%	1.1%	-2.6%
Sheung Wan	\$79.2	-0.3%	1.3%	12.9%	\$20,445	0.0%	0.0%	-6.9%
Wan Chai	\$72.0	-0.3%	0.3%	6.9%	\$20,258	0.0%	1.6%	-2.4%
Causeway Bay	\$77.7	-0.4%	0.9%	8.5%	\$21,989	0.0%	5.1%	4.0%
North Point	\$53.3	-1.5%	-2.0%	7.8%	n/a	n/a	n/a	n/a
Quarry Bay	\$56.7	-0.5%	-0.5%	2.0%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$64.3	0.2%	-1.2%	10.4%	\$13,048	0.0%	0.9%	-2.6%
Cheung Sha Wan	\$28.9	1.0%	-1.7%	-0.7%	n/a	n/a	n/a	n/a
Hung Hom	\$31.2	0.0%	-2.9%	-11.4%	n/a	n/a	n/a	n/a
Kowloon East	\$34.1	0.4%	-1.3%	1.0%	\$11,291	0.0%	2.5%	-5.2%
Mong Kok / Yau Ma Tei	\$51.6	-1.2%	-4.4%	-0.2%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

Hong Kong's luxury residential sales market continued to register record-breaking deals.

A number of luxury residential units were leased in Island South last month.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Severn Villa	3rd floor / unit A	1,361	\$232	\$170,463
Mid-Levels Central	Alassio	52nd-53th floors / units A	2,575	\$150.6	\$58,504
North Point Hill	Pavilia Hill	Tower 1 / 31st floor / unit A	1,519	\$74.11	\$48,795
Mid-Levels Central	Mayfair	16th floor / unit B	2,298	\$93.98	\$40,896

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Pokfulam	Villa Bel-Air	Phase 5 / House	4,190	\$280,000	\$66.8
Mid-Levels Central	Valverde	Mid floor / unit B	1,026	\$62,000	\$60.4
Island South	Redhill Peninsula	Tower 1 / low floor / unit B	1,567	\$80,000	\$51.0
Island South	Regalia Bay	Type B house	2,781	\$135,000	\$48.5
The Peak	Carolina Gardens	Low floor / unit C	2,447	\$115,000	\$47.0

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Luxury residential rents recorded minor adjustments in June.

Home prices fell slightly or remained stable in major luxury areas last month.

TABLE 8

Month-on-month changes in luxury residential rents (Jun 2016)






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

TABLE 9

Luxury residential market indicators (Jun 2016)

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	\$60.5	0.4%	-1.8%	-10.6%	\$39,039	0.0%	-2.6%	-5.7%	
Island South	\$49.5	-0.4%	-1.4%	-4.9%	\$28,084	0.0%	0.0%	-10.4%	
Mid-Levels	\$51.7	0.2%	-1.5%	-9.9%	\$25,012	-0.3%	-1.5%	-8.8%	
Jardine's Lookout / Happy Valley	\$48.5	0.3%	0.2%	-4.2%	\$24,963	-0.7%	-2.1%	-4.4%	
Pokfulam	\$36.8	0.5%	-0.2%	-5.4%	\$21,527	-0.5%	-3.3%	-14.6%	

Source: Knight Frank Research

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

SNAPSHOT

A number of retail properties changed hands in non-core shopping districts last month.

Shop leasing was relatively active in Causeway Bay in June.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wan Chai	Top View Mansion	Ground floor / unit H	620	\$75	\$120,968
Sham Shui Po	Golden Building Arcade	Ground floor / unit 23	395	\$38.8	\$98,228
Sham Shui Po	Kweilin Mansion	Ground floor / unit A	525	\$40.5	\$77,143
Ap Lei Chau	Silver Mansion	Ground floor / units 1, 2 and 6 & 1st floor / units 1-2	4,669	\$63.8	\$13,665

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Causeway Bay	Percival House	Ground floor / unit D	156	\$118,000	\$756.4
Causeway Bay	Dragon Rise	Ground floor / unit B	568	\$130,000	\$228.9
Mong Kok	660 Nathan Road	Ground floor	1,450 (G)	\$270,000	\$186.2
Causeway Bay	V Causeway Bay	Ground floor / unit 4	N/A	\$210,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

SNAPSHOT

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

Total retail sales value decreased 8.4% year on year to HK\$35.7 billion in May.

TABLE 12

Month-on-month movement in prime street shop rents (Jun 2016)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (May 2016)

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	\$5.5	15.4%	3.7%	-5.9%	-18.7%
Clothing, footwear and allied products	\$4.9	13.6%	-1.9%	-5.2%	-5.8%
Department stores	\$4.8	13.4%	42.1%	29.6%	-5.9%
Fuel	\$0.8	2.2%	9.1%	22.5%	-2.1%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.1	8.6%	-3.8%	-18.3%	3.0%
Consumer durable goods	\$5.1	14.3%	-10.2%	-15.0%	-22.2%
Supermarkets	\$4.4	12.3%	7.1%	0.6%	1.5%
Others	\$7.2	20.2%	-7.6%	-3.7%	-1.3%
All retail outlets	\$35.7	100.0%	1.7%	-3.3%	-8.4%

Source: Census and Statistics Department / Knight Frank Research



GLOBAL BRIEFING

For the latest news, views and analysis on the world of prime property, visit KnightFrankblog.com/global-briefing

RESEARCH & CONSULTANCY

David Ji

Director
Head of Research & Consultancy
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Pamela Tsui

Senior Manager
Research & Consultancy
Greater China
+852 2846 4843
pamela.tsui@hk.knightfrank.com

CONTACTS

Alan Child

Chairman
+852 2846 9522
alan.child@hk.knightfrank.com

Piers Brunner

Chief Executive Officer
Greater China
+852 2846 4848
piers.brunner@hk.knightfrank.com

Paul Hart

Executive Director
Greater China
+852 2846 9537
paul.hart@hk.knightfrank.com

Alnwick Chan

Executive Director
+852 2846 9551
alnwick.chan@hk.knightfrank.com

CHINA VALUATION

Clement Leung

Executive Director
+852 2846 9593
clement.leung@hk.knightfrank.com

COMMERCIAL AGENCY

Ross Criddle

Senior Director
+852 2846 9527
ross.criddle@hk.knightfrank.com

RESIDENTIAL AGENCY

Renu Budhrani

Executive Director
+852 2846 9550
renu.budhrani@hk.knightfrank.com

RETAIL SERVICES

Helen Mak

Senior Director
Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide, including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



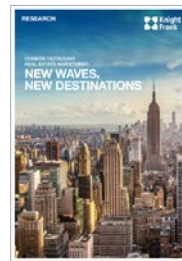
Prime Global Cities Index Q1 2016



Prime Global Rental Index Q1 2016



The Wealth Report



Chinese Outbound report

Knight Frank Research Reports are available at KnightFrank.com/Research

© Knight Frank 萊坊 2016

Knight Frank Petty Limited
Knight Frank Hong Kong Limited

Disclaimer

This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials.

Copyright

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

