

RESEARCH



SEP 2016

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office
Shenzhen-Hong Kong Stock
Connect to boost office demand

Residential
Residential sales jumped almost
40% month on month

Retail
Short-term rebound in
street shop rents unlikely

MARKET HIGHLIGHTS

- ♦ Central's Grade-A office market remained quiet last month, given the lack of available space. The launch of Shenzhen-Hong Kong Stock Connect by year-end is set to boost demand further in the CBD.
- ♦ Although home sales have seen a notable improvement, growth in home prices could remain suppressed this year due to increasing supply and a potential US interest-rate hike.
- ♦ Visitor arrivals rebounded in July, but retail sales value continued on its downward trend. The retail market is expected to remain soft in the near future, resulting in further declines in retail rents.

TABLE 1

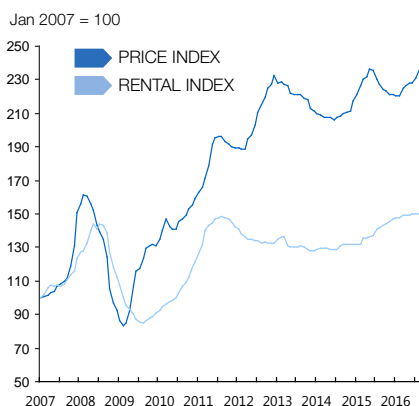
Economic indicators

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q2 2016	+1.7%#	+2.9%	+2.3%	+2.4%
Inflation rate	Jul 2016	+2.3%	+4.3%	+4.4%	+3.0%
Unemployment rate	May-Jul 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

The Grade-A office leasing market remained quiet on Hong Kong Island last month, limited by the lack of available space. Vacancy rates remained very low across main business districts. Central's vacancy rate, for example, stood at 1.6% in August and has remained under 2% for 14 consecutive months.

Office leasing in Kowloon, in contrast, remained active, although expansion from insurance companies slowed down after the previous boom. With abundant upcoming supply, landlords are offering more rental discounts and incentives to attract and retain tenants.

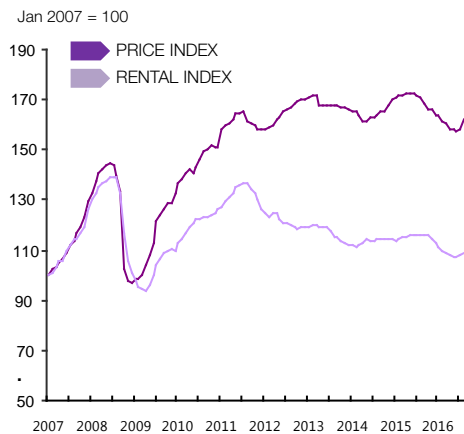
In August, China approved the launch of Shenzhen-Hong Kong Stock Connect, which will likely come into operation in December. This is expected to increase office

demand in Central from Mainland financial institutions, which will provide further rental support given the tight availability.

The situation will be different in decentralised areas. Kowloon East, for example, will see an office supply boom of around 2 million sq ft in 2017. As a result, we expect office rentals in the area to continue facing downward pressure in the coming year.

FIGURE 2

Luxury residential prices and rents



Source: Knight Frank Research

Residential

In August, residential sales edged up a notable 37% month on month, reaching 5,821 units, according to the Land Registry. The rise was attributable to robust activity in the primary sales market. Home prices continued to increase, but they were still down 8% from their peak in September 2015.

A number of primary projects offering small flats had strong sales in August. For instance, Ori, in Tuen Mun, sold over 80% of its 370 units in the first batch of sales, while the met BLOSSOM, in Ma On Shan, managed to sell all its 260 units on the first day of its launch. Developers are expected to offer more small flats to meet market demand in the coming months.

Land prices showed further improvements in the past month, with major developers returning to the market amid satisfactory home sales performance. In one notable sale, a domestic site in Castle Peak Bay, Tuen Mun, was acquired for an accommodation value of HK\$4,085 per sq ft, up 22% from two months ago when the adjacent site was sold.

According to the Lands Department, the number of homes pending pre-sale consent reached 14,757 recently, the highest level in 10 months. We expect growth in home prices to remain suppressed despite the recent pickup in sales momentum, given the increase in supply and a potential US interest-rate hike.

company for a monthly rent of HK\$260,000, down 13% compared with that of 2012. A local restaurant chain also expanded its footprint to Mong Kok, taking up a ground floor shop at 240 Sai Yeung Choi South Street for HK\$105,000 per month.

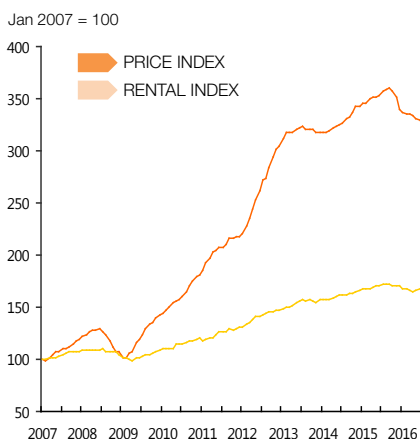
Meanwhile, a number of banks and financial services companies renewed their leases in prime streets at discounted rents. Citic Bank, for example, renewed the lease of its ground floor shop at 12 Humphreys Avenue, Tsim Sha Tsui, for a monthly rent of HK\$240,000, 14% lower than in 2012.

Looking ahead, there is unlikely to be a notable rebound in retail sales and street shop rents in the coming months, despite the rally in inbound tourism. The change in consumption patterns of Mainland tourists from luxury to affordable products will continue to suppress growth in retail sales value.

The recent hot home sales may also pose a risk for domestic demand for consumables in the coming years with mortgage burdens set to reduce disposable income. In the meantime, we expect increasing sales of furniture and consumer durables as the city welcomes more housing completions.

FIGURE 3

Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from Feb to Jul 2016

Retail

The number of visitor arrivals to Hong Kong grew a surprising 2.6% in July year on year, after declining for 13 consecutive months. However, retail sales value continued to slide, though in a narrower range than in the preceding two months.

On the leasing front, some prime streets in core-retail districts saw the re-emergence of restaurants. For instance, a ground floor unit at 30-40 Cameron Road, Tsim Sha Tsui, was leased to a catering

SNAPSHOT

A high floor in Far East Financial Centre was sold for HK\$358 million or HK\$33,900 per sq ft in August.

A shipping company leased around 30,000 sq ft of office space in One Island South, Wong Chuk Hang, 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)
Admiralty	Far East Financial Centre	High	10,552	\$357.7	\$33,900
Sheung Wan	Hollywood Centre	Mid	706	\$20.2	\$28,612
Admiralty	Lippo Centre Tower 1	Mid	1,850	\$37.4	\$20,216
Tsim Sha Tsui	Silvercord Tower 1	Low	1,424	\$21.8	\$15,537

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)
Wong Chuk Hang	One Island South	High	30,583 (G)
Causeway Bay	Lee Garden One	High	16,416 (L)
Kowloon Bay	Billion Centre – Tower A	Low	12,590 (G)
Cheung Sha Wan	Billion Plaza II	Mid	11,642 (G)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

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

Grade-A office prices increased in all major commercial districts in August.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Aug 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	\$173.3	0.7%	0.6%	8.1%		n/a	n/a	n/a	n/a
Traditional Central	\$122.3	0.3%	1.6%	8.2%		n/a	n/a	n/a	n/a
Overall Central	\$140.0	0.5%	1.2%	8.2%		\$28,639	1.7%	3.6%	5.3%
Admiralty	\$101.8	0.6%	1.7%	12.0%		\$24,155	3.4%	5.3%	5.6%
Sheung Wan	\$79.1	-0.8%	-0.4%	6.7%		\$20,815	0.9%	1.8%	-1.8%
Wan Chai	\$72.3	0.1%	0.1%	4.7%		\$21,264	3.5%	5.0%	6.6%
Causeway Bay	\$78.7	0.3%	0.8%	6.8%		\$22,258	0.0%	1.2%	9.3%
North Point	\$53.0	-0.5%	-2.0%	1.1%		n/a	n/a	n/a	n/a
Quarry Bay	\$57.0	0.0%	-0.1%	-0.5%		n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$64.0	0.2%	-0.3%	3.7%		\$13,299	0.9%	1.9%	2.6%
Cheung Sha Wan	\$28.6	0.0%	0.0%	-3.4%		n/a	n/a	n/a	n/a
Hung Hom	\$31.2	0.0%	0.0%	-5.1%		n/a	n/a	n/a	n/a
Kowloon East	\$33.6	-1.5%	-1.0%	-1.8%		\$11,568	1.4%	2.5%	1.7%
Mong Kok / Yau Ma Tei	\$52.0	-0.3%	-0.5%	0.5%		n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A number of luxury homes were sold in Mid-Levels West last month.

Mid-Levels also saw a number of major luxury residential leases signed in August.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	39 Conduit Road	17th floor / unit B	2,123	\$81.8	\$38,542
Mid-Levels West	80 Robinson Road	48th floor / unit A	2,338	\$88.8	\$38,015
Hung Hom	Stars by the Harbour	28th floor / units A-B	2,454	\$93.4	\$38,090
Kowloon Tong	62 Begonia Road	House	3,253	\$110	\$33,815

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)
Mid-Levels	Highcliff	High floor / unit A	2,725	142,000	52.1
Pokfulam	The Belcher's	Tower 5 / high floor / unit C	1,062	51,000	48.0
Aberdeen	Larvotto	Tower 6 / high floor / unit B	1,172	50,000	42.7
Mid-Levels	Garden Terrace	Tower 1 / high floor / unit A	2,454	100,000	40.7

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents improved in all major luxury residential districts last month.

Residential prices also increased in all major luxury areas in August.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Aug 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	\$61.7	2.0%	2.5%	-8.2%		\$40,091	2.7%	2.7%	-3.1%
Island South	\$49.7	0.5%	-0.1%	-4.0%		\$28,474	1.4%	1.4%	-5.8%
Mid-Levels	\$51.8	0.2%	0.4%	-9.9%		\$25,955	2.8%	3.5%	-5.7%
Jardine's Lookout / Happy Valley	\$48.5	0.4%	0.2%	-4.2%		\$24,903	0.5%	-0.9%	-5.2%
Pokfulam	\$36.8	0.1%	0.6%	-5.4%		\$22,708	4.5%	5.0%	-10.0%

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 Mong Kok in August.

Banks and financial firms were active in renewing leases for retail space last month.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mong Kok	Chung Shun Building	Ground floor / unit 62	641 (G)	\$131.1	\$204,524
Yuen Long	Orion Court	Ground floor / units 1-3	3,382	\$216.68	\$64,069
Central	Ko Shing House	Ground floor	523	\$27.0	\$51,625
Mong Kok	Lai Ming Building	Ground floor / unit D	575	\$21.0	\$36,522

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tsim Sha Tsui	Mass Resources Development Building	Ground floor / unit 5	891	\$240,000	269.36
Tsim Sha Tsui	Park Lane Shopper's Boulevard	Ground floor / unit 64	758	\$110,000	\$145.12
Yau Ma Tei	Yun Kai Building	Ground floor / units C-D	1,060	\$210,000	\$198.11
Causeway Bay	Hong Kong Chinese Bank Causeway Bay Centre	Ground and first floors	N/A	\$1,300,000	N/A

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 decreased 7.8% year on year to HK\$34.6 billion in July.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jul 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	15.8%	0.2%	3.5%	-26.3%
Clothing, footwear and allied products	\$4.9	14.2%	9.0%	-0.6%	1.4%
Department stores	\$3.5	10.0%	5.0%	-3.1%	-6.9%
Fuel	\$0.8	2.2%	-4.0%	5.7%	-1.9%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$2.9	8.5%	1.0%	-8.5%	1.3%
Consumer durable goods	\$5.1	14.7%	0.4%	-10.8%	-19.3%
Supermarkets	\$4.4	12.8%	2.8%	8.2%	1.9%
Others	\$7.6	21.8%	3.3%	-3.3%	4.8%
All retail outlets	\$34.6	100.0%	2.9%	-1.4%	-7.8%

Source: Census and Statistics Department / Knight Frank Research

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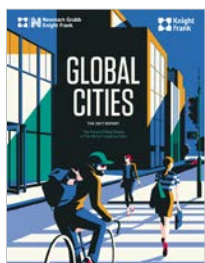
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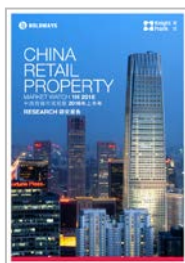
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