

RESEARCH



APRIL 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Decentralisation and relocation
continue

Residential
Hong Kong prime rates remain
unchanged despite US interest rate
hikes

Retail
More Mainland brands
expected to expand their
presence in Hong Kong

HIGHLIGHTS

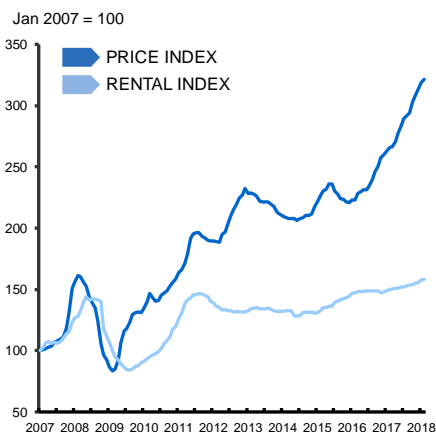
- ◆ The office decentralisation on Hong Kong Island continues. On the Kowloon side, there is increasing demand for relocation to Kowloon East.
- ◆ Residential sales dropped 27% year on year (Y-o-Y) in March. Meanwhile, the luxury residential leasing market has entered the peak season.
- ◆ Mainland retailers are expected to become a significant factor in retail tenancies, underpinning retail rents in the long term.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2015	2016	2017
GDP growth	Q4 2017	+3.4%#	+2.4%	+1.4%	3.8%#
Inflation rate	Feb 2018	+3.1%	+3.0%	2.4%	1.5%
Unemployment	Dec 2017- Feb 2018	2.9%^	3.3%	3.4%	NA
Prime lending rate	Current	5.00–5.25%	5.00%*	5.00%*	5.00%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank Research
Preliminary ^ Provisional * HSBC

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank Research

Prime Office

Hong Kong Island

The average rent for Central's Grade-A office space increased 1.2% month on month (M-o-M) to around HK\$157 per sq ft per month in March. Strong demand continued to put pressure on vacancy in Central, with a very low rate of 1.1% recorded in March, a fall of 0.4 percentage points M-o-M.

With limited vacant office space available, some companies are willing to pay higher rent and take more time to look for an office in Central. Landlords are also conducting more background checks of potential tenants regarding their business nature and scale.

Other companies are decentralising. For example, Goldman Sachs is reportedly to move its back office functions from The Centre to Causeway Bay when its lease expires in December. With overall rents in Central expected to rise 6-9% in 2018, we believe this decentralisation trend will continue.

Kowloon

During the traditional offpeak season, the Grade-A office leasing market in Kowloon remained quiet in March. Leasing demand in Kowloon East was driven by the information technology, sourcing and engineering sectors. Most leasing transactions involved relocations to reduce costs.

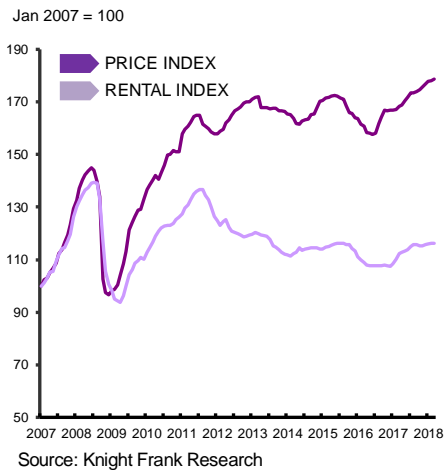
Kowloon East has gradually become a preferred location for tenants whose business partners are in Kowloon or the New Territories and for those who are looking to reduce staff commuting costs. Improved infrastructure as well as project redevelopments are adding vibrancy to the area.

The relocation trend to Kowloon East is expected to continue as rents in the area are still comparatively low. Since new supply level in Kowloon East this year will be lower than in 2016 and 2017, rents are expected to pick up slowly in the second half of 2018.

Residential

Retail

FIGURE 2
Luxury residential prices and rents



Residential sales in March dropped 27% Y-o-Y. Over 15,000 transactions were recorded in the first quarter of 2018. Some developers achieved their 2017-2018 sales targets and were planning to launch new projects in the next financial year.

According to the latest official figures, housing prices continued to trend upwards, gaining 1.6% M-o-M in March, setting a new record, as prices have risen for 23 consecutive months since April 2016.

The luxury residential leasing market entered the peak season in March. With the decentralisation trend in Grade-A office space and the opening of new international schools, some expatriate tenants have shifted their focus from the traditional luxury areas to emerging districts. Leasing transactions are expected to further increase in April, as corporations start executing their plans in the new financial year.

Hong Kong has not followed the US interest rate hikes and is not expected to, so with plenty of hot money remaining in the market, banks in Hong Kong continue to offer attractive mortgage rates to increase their market share. With sustained demand and a shortage of homes, we expect mass residential prices to rise 5-10% and luxury residential prices to rise 8-10% in 2018.

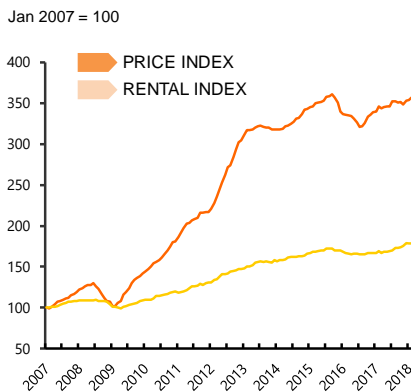
Hong Kong's retail sales value reached HK\$45.2 billion in February, an increase of 29.8% Y-o-Y due to a low base in February 2017. Compared to the previous month, however, retail sales value increased only 0.6%. The sales value of luxury goods dipped 1.1% M-o-M to HK\$8.0 billion.

Mainland visitor arrivals increased 40.2% Y-o-Y to 4.4 million in February, because of the late Chinese New Year. As in previous years, domestic consumption still constituted about two-thirds of Hong Kong's retail sales, while purchases by Mainland visitors stabilised, as they continued to pursue quality of life and the physical shopping experience, which could not be replicated online.

With closer economic integration established between Hong Kong and Mainland cities, more leading Mainland brands, especially fashion and lifestyle retailers, are expected to expand their business to Hong Kong. Seeing Hong Kong as a platform to boost their popularity in the international market, these retailers will become a significant new element in retail tenancies and underpin retail rents in the long term.

In the short term, however, prime street retail rents in core districts will continue to fall mildly until the middle of this year, once the existing vacant shops in prime locations are occupied.

FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research
Note: Provisional figures from Sept 2017 to Feb 2018

SNAPSHOT

A Grade-A office in Convention Plaza was sold for nearly HK\$57,000 per sq ft in March.

Major Grade-A office leasing transactions were recorded in Central district last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions (Mar 2018)

District	Building	Zone	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Sheung Wan	Shun Tak Centre	High	1,533 (N)	\$59	\$38,487
Admiralty	Lippo Centre	Mid	1,935 (G)	\$76	\$39,276
Wan Chai	Convention Plaza	Mid	2,582 (N)	\$146	\$56,545

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

TABLE 3

Selected office leasing transactions (Mar 2018)

District	Building	Zone	Lettable floor area (sq ft)
Central	One Exchange Square	High	14,445
Central	Agricultural Bank of China Tower	High	5,759
Admiralty	Lippo Centre Tower I	Low	14,491
Wan Chai	Everbright Centre	High	10,534
Sheung Wan	FWD Financial Centre	Mid	8,016

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

SNAPSHOT

Central and Sheung Wan Grade-A office rentals outperformed other Hong Kong Island districts in March.

Central outperformed, with the largest Grade-A office price growth of all commercial districts last month.

TABLE 4
Month-on-month movement in Grade-A office rents (Mar 2018)






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

TABLE 5
Prime office market indicators (Mar 2018)

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	\$192.3	0.7%	1.9%	4.7%	n/a	n/a	n/a	n/a	
Traditional Central	\$139.0	1.6%	4.2%	6.8%	n/a	n/a	n/a	n/a	
Overall Central	\$157.1	1.2%	3.2%	5.9%	\$41,844	3.6%	5.2%	25.9%	
Admiralty	\$114.9	0.4%	2.5%	10.8%	\$33,317	0.0%	1.5%	20.8%	
Sheung Wan	\$84.1	1.7%	4.5%	13.2%	\$32,461	2.0%	6.1%	39.4%	
Wan Chai	\$79.7	0.6%	3.7%	6.6%	\$29,028	0.3%	1.4%	12.1%	
Causeway Bay	\$83.4	-1.2%	4.7%	7.1%	\$25,139	0.4%	1.6%	11.5%	
North Point	\$54.1	0.0%	2.0%	6.8%	n/a	n/a	n/a	n/a	
Quarry Bay	\$54.4	0.1%	3.6%	5.3%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$66.8	1.8%	5.0%	7.1%	\$17,324	1.7%	8.0%	23.4%	
Cheung Sha Wan	\$32.1	0.7%	3.9%	5.4%	n/a	n/a	n/a	n/a	
Hung Hom	\$42.9	-1.4%	0.0%	5.0%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.2	-0.4%	-0.2%	1.2%	\$13,125	0.2%	0.6%	6.3%	
Mong Kok / Yau Ma Tei	\$58.7	-0.6%	-0.6%	9.6%	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 houses changed hands last month.

There were major luxury residential leasing transactions in Mid-Levels and Island South in March.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Mar 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	House	9,217	\$1,399	\$151,785
Island South	Scape	House	3,053	\$250	\$81,887
Pokfulam	Pokfulam Peak	House	3,757	\$233	\$62,018
Mid-Levels Central	Grenville House	Block E / mid floor	3,349	\$160	\$47,775
Kowloon Tong	Begonia Road	House	3,981	\$168	\$42,200

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Mar 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	The Morgan	High floor	1,361	\$113,000	\$83.0
Island South	The Lily	Tower 1 / high floor	3,599	\$232,000	\$64.5
Mid-Levels West	Azura	Mid floor	1,589	\$98,000	\$61.7
Island South	De Ricou, The Repulse Bay	Mid floor	2,522	\$152,000	\$60.3
Island South	Hong Kong Parkview	Tower 9 / low floor	2,157	\$120,000	\$55.6

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Rents in most major luxury residential districts grew slightly in March.

Residential prices remained stable or grew slightly in major luxury districts last month.

TABLE 8

Month-on-month changes in luxury residential rents (Mar 2018)






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

TABLE 9

Luxury residential market indicators (Mar 2018)

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	\$63.2	-0.4%	0.3%	2.3%	\$42,888	0.0%	0.9%	7.0%
Island South	\$56.1	1.1%	3.3%	13.4%	\$33,467	0.4%	1.0%	8.1%
Mid-Levels	\$57.3	0.2%	1.6%	10.2%	\$29,457	0.3%	2.6%	7.7%
Jardine's Lookout / Happy Valley	\$49.4	-1.0%	-1.7%	2.7%	\$29,162	0.9%	5.4%	12.1%
Pokfulam	\$41.0	0.2%	1.0%	11.1%	\$25,087	0.0%	0.5%	8.9%

Source: Knight Frank Research

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

SNAPSHOT

A shop in Mong Kok was sold for HK\$42 million last month.

A shop in Tsim Sha Tsui was leased for around HK\$70 per sq ft in March.

RETAIL

TABLE 10

Selected retail sales transactions (Mar 2018)

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mong Kok	Lisa House	Ground floor / Unit A	665 (N)	\$41.8	\$62,857
Hung Hom	Hung Hum Mansion	Ground floor / Unit B	735 (N)	\$38.8	\$52,789
Wan Chai	David House	First floor	N/A	\$52.0	N/A

Source: Economic Property Research Centre

TABLE 11

Selected retail leasing transactions (Mar 2018)

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tsim Sha Tsui	Universal Commercial Building	Basement	4,220	\$300,000	\$71.1
Tsim Sha Tsui	Cheong Hing Building	Ground floor	N/A	\$1,900,000	N/A
Mong Kok	Nelson Street 15B	Ground floor / unit 62	N/A	\$700,000	N/A

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

SNAPSHOT

The drop in prime street shop rents is expected to narrow to 5-10% this year.

Total retail sales value increased by 29.8% Y-o-Y to HK\$45.2 billion in March.

TABLE 12

Month-on-month movement in prime street shop rents (Mar 2018)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Feb 2018)

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	\$8.0	17.7%	-1.1%	30.9%	33.7%
Clothing, footwear and allied products	\$6.6	14.5%	10.6%	33.9%	42.3%
Department stores	\$4.5	9.9%	6.2%	-16.3%	30.7%
Fuel	\$0.7	1.6%	-10.2%	-9.5%	6.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.6	10.1%	9.3%	30.2%	30.4%
Consumer durable goods	\$6.7	14.9%	-2.6%	-1.2%	28.1%
Supermarkets	\$4.5	10.0%	2.7%	7.9%	20.7%
Others	\$9.6	21.3%	-7.5%	36.4%	26.3%
All retail outlets	\$45.2	100.0%	0.6%	16.7%	29.8%

Source: Census and Statistics Department / Knight Frank Research



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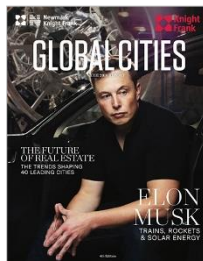
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