

RESEARCH



DECEMBER 2017
**HONG KONG
MONTHLY**

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Grade-A office leasing activity
more than doubled in Kowloon

Residential
Home prices to rise another 5-8%
next year

Retail
Rents to drop 5% in 2018 with
retailers remaining prudent

MARKET HIGHLIGHTS

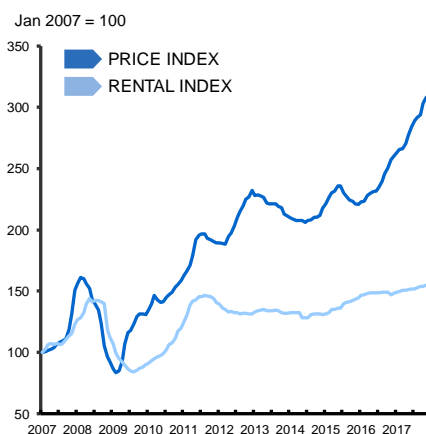
- ◆ The Grade-A office leasing sub-markets saw divergent performance last month, with less activity on Hong Kong Island but more in Kowloon.
- ◆ Home sales recorded over 5,000 transactions for three months in a row. We predict that mass and luxury residential prices will increase 5% and 8% respectively next year.
- ◆ Retail sales value sustained positive growth for the eighth consecutive month, but retail rents are set to drop another 5% next year, with retailers remaining prudent.

TABLE 1
Economic indicators

| Economic indicator | Period | Latest reading | 2014 | 2015 | 2016 |
|--------------------|--------------|----------------|--------|--------|--------|
| GDP growth | Q3 2017 | +3.6%# | +2.3% | +2.4% | +1.4% |
| Inflation rate | Oct 2017 | +1.5% | +4.4% | +3.0% | 2.4% |
| Unemployment | Aug-Oct 2017 | 3.0%# | 3.2% | 3.3% | 3.4% |
| Prime lending rate | Current | 5.00–5.25% | 5.00%* | 5.00%* | 5.00%* |

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

Hong Kong Island

Leasing activity for Grade-A office space on Hong Kong Island was slow in November, with fewer Chinese firms entering or expanding in Hong Kong. There was more activity from traditional financial firms and co-working space operators, however.

A notable transaction was recorded in Central. Huarong Financial leased two floors in Bank of China Tower, totalling 28,400 sq ft. In Quarry Bay, WeWork leased over 56,000 sq ft in Cityplaza Three.

Over the first 11 months of 2017, Grade-A office rents in Central rose 5%. Given the tight availability, we expect a 2-3% increase in rents there in the next six months, which will accelerate the decentralisation trend involving companies which cannot afford the high rents in core areas.

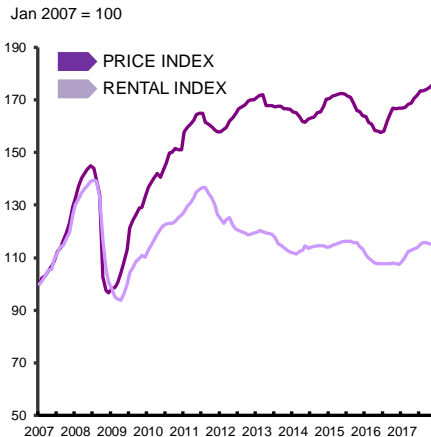
Kowloon

Kowloon's Grade-A office leasing transaction volume more than doubled in November from the previous month, reaching a level comparable to the peak season in March to May this year.

The transactions concluded involved mainly small to medium-size offices in Kwun Tong and Kowloon Bay, with tenants mainly information technology, electronic, sourcing and manufacturing companies.

During the first 11 months, Kowloon's Grade-A office rentals were only slightly down, despite the huge amount of new supply. We expect Kowloon's leasing activity to slow down from December to Lunar New Year and rentals to drop slightly in 2018.

FIGURE 2
Luxury residential prices and rents



Source: Knight Frank Research

Residential

Residential sales reached 5,694 in November, marking the third consecutive month with over 5,000 transactions. Residential prices have risen for the past 19 months and are up 11.6% for mass units and 7.3% for luxury, according to official figures.

A notable residential site sale by tender was concluded last month, involving a plot off Hing Wah Street West in Cheung Sha Wan. The price tag of HK\$17.288 billion was a record for a residential site in Hong Kong.

The transaction further boosted market sentiment and many secondary landlords immediately turned firmer on asking prices, not only in areas near the site, but elsewhere in Hong Kong. With developers and landlords remaining confident about the market, we remain optimistic about its outlook amid sustained housing demand.

Residential sales are expected to reach about 60,000 in 2017 and the volume could reach 60,000-63,000 in 2018. We expect mass residential prices to increase 5% next year. With Mainland capital continuing to pour into Hong Kong's luxury market, where supply will remain limited, luxury home prices are set to increase 8% in 2018.

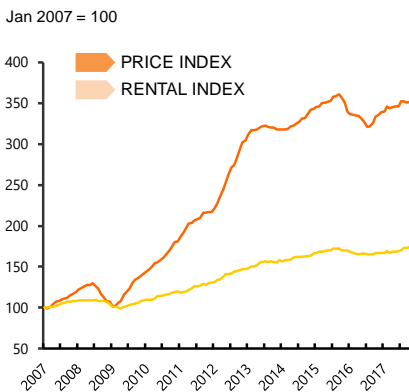
Retail

Retail sales value increased by 3.9% year on year in October, up for the eighth consecutive month. There was notable growth in retail sales value for most major categories, led by "medicines and cosmetics", which grew 9.9% year on year (YoY), followed by "food, alcoholic drinks and tobacco" and "jewellery, watches and clocks, and valuable gifts", which grew 8.5% and 8.4% YoY, respectively. Some retailers are offering more discounts to clear inventories towards the end of the year.

Despite seeing continual improvement in retail sales, most retailers do not have incentives for major expansion in the short term, due to their prudent approach to making a significant upfront capital investment. The downward rigidity of labour rates and the upsurge in other operating costs have narrowed the profit margin of some retailers, limiting their ability to pay higher rents.

With the recovery in tourism and local consumption, retail sales will remain stable in the short term. There will be more downward adjustments for retail rents, however. We expect prime retail rents to drop 10% over 2017. Looking ahead, we expect prime retail rents to drop another 5% in 2018.

FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from May to Oct 2017

SNAPSHOT

Major Grade-A office sales transactions last month were concentrated on Hong Kong Island.

There were a number of major leasing transactions involving floor plates of over 10,000 sq ft last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions (Nov 2017)

| District | Building | Zone | Gross floor area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|-----------------------|----------------------|------|--------------------------|----------------------|------------------------|
| Admiralty | Lippo Centre Tower 1 | Mid | 2,235 (N) | \$113.4 | \$50,749 |
| Wong Chuk Hang | W50 | High | 1,457 (G) | \$36.0 | \$24,695 |
| Sai Ying Pun | 6 Wilmer Street | High | 517 (G) | \$11.4 | \$22,089 |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

N: Net; G: Gross

TABLE 3

Selected office leasing transactions (Nov 2017)

| District | Building | Zone | Floor area (sq ft) |
|-------------------|---------------------------------|------|--------------------|
| Central | Bank of China Tower | Mid | 28,414 (L) |
| Quarry Bay | Cityplaza Three | High | 56,977 (L) |
| Kwai Chung | Kowloon Commerce Centre Tower A | Mid | 22,773 (G) |
| Tsuen Wan | CDW Building | High | 20,100 (G) |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

L: Lettable; G: Gross; N: Net

SNAPSHOT

Grade-A office rents rose in most major business districts last month.

Sheung Wan outperformed with the largest Grade-A office price growth in November.

TABLE 4

Month-on-month movement in Grade-A office rents (Nov 2017)






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

TABLE 5

Prime office market indicators (Nov 2017)

| 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 | \$187.5 | 0.1% | 1.2% | 4.2% | n/a | n/a | n/a | n/a | |
| Traditional Central | \$133.7 | 0.7% | 0.8% | 8.2% | n/a | n/a | n/a | n/a | |
| Overall Central | \$151.9 | 0.5% | 1.0% | 6.5% | \$37,563 | 2.7% | 3.0% | 22.1% | |
| Admiralty | \$110.8 | 1.7% | 1.7% | 10.8% | \$32,838 | 0.0% | 7.5% | 24.5% | |
| Sheung Wan | \$79.6 | 0.9% | 5.4% | 8.2% | \$29,298 | 5.4% | 8.9% | 28.0% | |
| Wan Chai | \$75.5 | 1.2% | 0.6% | 4.4% | \$28,412 | 0.4% | 3.5% | 14.2% | |
| Causeway Bay | \$78.8 | 2.1% | 1.9% | 3.8% | \$24,609 | 0.4% | 3.3% | 9.2% | |
| North Point | \$53.0 | 2.6% | 2.6% | 7.3% | n/a | n/a | n/a | n/a | |
| Quarry Bay | \$52.7 | 0.0% | 0.2% | 1.9% | n/a | n/a | n/a | n/a | |
| Tsim Sha Tsui | \$63.0 | 0.0% | 0.1% | 1.4% | \$15,547 | 1.3% | 3.1% | 13.6% | |
| Cheung Sha Wan | \$30.3 | 0.7% | -0.4% | -2.8% | n/a | n/a | n/a | n/a | |
| Hung Hom | \$42.6 | -0.1% | 1.4% | 11.9% | n/a | n/a | n/a | n/a | |
| Kowloon East | \$34.2 | 0.3% | 0.2% | -0.1% | \$12,967 | 0.5% | 2.3% | 7.0% | |
| Mong Kok / Yau Ma Tei | \$59.1 | 2.5% | 5.9% | 10.2% | n/a | n/a | n/a | n/a | |

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A house on the Peak was sold for over HK\$132,000 per sq ft in November.

Island South was active in luxury residential leasing transactions last month.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Nov 2017)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|---------------------------|-------------------------|----------------------|-----------------------|----------------------|------------------------|
| The Peak | Mount Nicholson | House | 4,579 | \$604.7 | \$132,060 |
| Mid-Levels West | 39 Conduit Road | High floor / unit A | 3,917 | \$400 | \$102,119 |
| Island South | 2 Cape Drive | House | 4,198 | \$261.887 | \$62,384 |
| Island South | 50 Stanley Village Road | House | 2,719 | \$145.5 | \$53,512 |
| Mid-Levels Central | Grenville House | High floor / unit J | 3,366 | \$160 | \$47,534 |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Nov 2017)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|------------------------|----------------------|------------------------------|-----------------------|---------------------|-------------------------------|
| Happy Valley | Leighton Hill | Tower 7 / mid floor / unit B | 1,461 | \$107,000 | \$73.2 |
| Kowloon Station | The Masterpiece | Mid floor / unit C | 1,466 | \$100,000 | \$68.2 |
| Island South | The Lily | Tower 4 / mid floor | 2,535 | \$158,000 | \$62.3 |
| Island South | Redhill Peninsula | Cedar Drive / House | 3,339 | \$175,000 | \$52.4 |
| Island South | 12 Shouson Hill Road | House | 3,560 | \$150,000 | \$42.1 |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Luxury residential rentals remained stable towards the end of the year.

Pokfulam outperformed with the largest growth in luxury home prices last month.

TABLE 8
Month-on-month changes in luxury residential rents (Nov 2017)






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

TABLE 9
Luxury residential market indicators (Nov 2017)

| 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 | \$63.1 | 0.1% | -2.7% | 4.1% | \$42,510 | 0.2% | 1.3% | 6.0% |
| Island South | \$54.3 | 0.0% | 0.2% | 10.1% | \$33,123 | 0.0% | 0.1% | 7.0% |
| Mid-Levels | \$56.2 | -0.4% | 0.0% | 8.5% | \$28,708 | 0.3% | 0.9% | 5.8% |
| Jardine's Lookout / Happy Valley | \$50.3 | 0.0% | 0.7% | 4.3% | \$27,658 | 0.7% | 2.2% | 7.9% |
| Pokfulam | \$40.7 | 0.5% | 1.0% | 11.2% | \$24,969 | 3.5% | 3.6% | 8.7% |

Source: Knight Frank Research

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

SNAPSHOT

Major retail property sales transactions were recorded in non-core districts last month.

A ground-floor retail space in Mong Kok was leased for around HK\$270 per sq ft in November.

RETAIL

TABLE 10

Selected retail sales transactions (Nov 2017)

| District | Building | Floor / unit | Net floor area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|--------------------|--------------------|------------------------|------------------------|----------------------|------------------------|
| Wan Chai | Po Wah Building | Ground floor / unit A | 410 | \$110.0 | \$268,293 |
| Kwun Tong | Cambridge Building | Ground floor / unit 16 | 190 | \$23.0 | \$121,053 |
| North Point | Victor Court | Ground floor / unit 4 | 387 | \$37.0 | \$95,556 |
| Kwun Tong | COS Centre | Ground floor / unit C | 403 | \$16.4 | \$40,645 |

Source: Knight Frank Research

TABLE 11

Selected retail leasing transactions (Nov 2017)

| District | Building | Floor / unit | Net floor area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|-------------------|--------------------|-----------------------|------------------------|---------------------|-------------------------------|
| Mong Kok | Hung Tat Building | Ground floor / unit 1 | 483 | \$130,000 | \$269 |
| Central | Sun Fung House | Ground floor / unit 1 | 380 | \$88,000 | \$232 |
| Sheung Wan | Tung Ming Building | Basement | 2,374 | \$520,000 | \$219 |

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Drops in prime street shop rents are expected to narrow to only 5% next year.

Total retail sales value increased 3.9% year on year to HK\$37.5 billion in October.

TABLE 12

Month-on-month movement in prime street shop rents (Nov 2017)





| Central | Causeway Bay | Tsim Sha Tsui | Mong Kok |
|---|---|---|---|
|  |  |  |  |

TABLE 13

Retail sales by outlet type (Oct 2017)

| 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 | \$6.6 | 17.7% | 10.4% | 7.0% | 8.4% |
| Clothing, footwear and allied products | \$4.6 | 12.2% | 13.7% | -7.6% | 6.3% |
| Department stores | \$4.0 | 10.7% | 6.3% | 9.7% | 6.2% |
| Fuel | \$0.8 | 2.2% | -1.6% | 6.2% | 8.3% |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | \$3.7 | 10.0% | -13.5% | 22.3% | 8.5% |
| Consumer durable goods | \$6.0 | 16.1% | 7.3% | 19.5% | -8.0% |
| Supermarkets | \$4.5 | 12.0% | 0.4% | 1.3% | 0.7% |
| Others | \$7.2 | 19.2% | 8.7% | -8.7% | 7.9% |
| All retail outlets | \$37.5 | 100.0% | 5.1% | 4.2% | 3.9% |

Source: Census and Statistics Department / Knight Frank Research



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RESEARCH & CONSULTANCY

David Ji

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

Maggie Lee

Senior Director
Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

RETAIL SERVICES

Helen Mak

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

VALUATION & CONSULTANCY

Thomas Lam

Senior Director
Head of Valuation & Consultancy
+852 2846 4819
thomas.lam@hk.knightfrank.com

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