

OFFICE

Attracting demand key to rental growth

Hong Kong Island

Amidst weak sentiment across the financial sector, leasing activities of prime Grade-A office space in Central, especially from Mainland firms, have almost come to a halt. Premium Grade-A office space, which were used to be sought after by first-tier financial institutions, now takes longer to lease. On one hand, landlords have remained firm on their asking rents in order to secure quality tenants, on the other hand, the prospective tenants are more cost-conscious. As a result, rents of Premium Grade-A office in Central stayed flat at HK\$198 per sq ft during the month.

Trends of decentralization still prevail, examples include the relocation of some multinational law firms from Central to Wan Chai or Quarry Bay. Despite the new leases of some co-working space operators, such as WeWork in Lee Garden One and Hysan Place, the pace of expansion for the co-working sector has been slowed down and became less active than last year.

Market uncertainty is expected to continue, resulting weakened demand for Central offices. Coupled with the continuation of the decentralisation trend, we expect rents in Central to drop 4–7% in 2019.

Kowloon

After the Christmas and New Year holidays, the leasing market in Kowloon was active again in January. Around 130 transactions were recorded, a leap from 70 in the previous month. Demand came mainly from the insurance companies who are expanding in Kowloon.

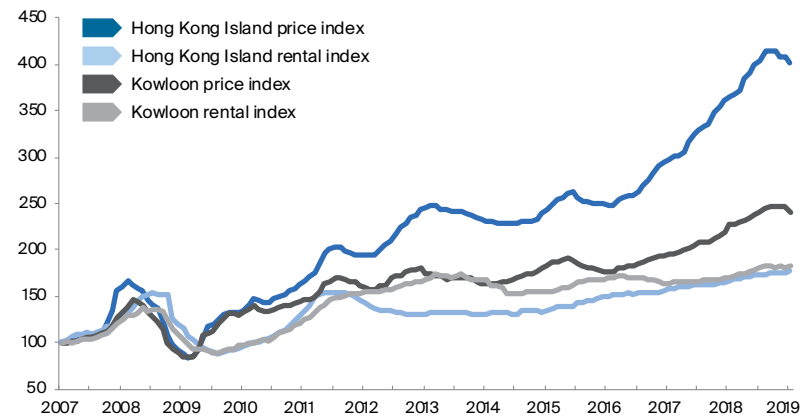
One significant transaction during the month was Sun Life Financial's lease of 130,000 sq ft of office space in Cheung Kei Center in Hung Hom to relocate its current office in Tsim Sha Tsui. The move will reduce the group's rental costs by around 27% and will allow it to consolidate its offices to create synergy.

Looking ahead, leasing demand in Kowloon, largely from insurance companies, is expected to fare better than that of Hong Kong island. Office rents are expected to see a mild increase of 1–3% this year.

FIGURE 1

Grade-A office prices and rents

2007 = 100



Source: Knight Frank Research

TABLE 1

Grade-A office market indicators (Jan 2019)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	197.9	0.0	3.9	-	-	-
Traditional Central	146.4	0.1	9.5	-	-	-
Overall Central	163.9	0.1	7.2	42,563	-4.5	6.0
Admiralty	116.4	0.0	2.0	38,607	0.0	17.6
Sheung Wan	85.3	0.0	4.1	33,696	-4.7	7.2
Wan Chai	79.8	0.0	1.7	30,031	0.0	4.2
Causeway Bay	84.1	0.0	4.4	26,024	0.0	4.4
North Point	54.0	0.0	1.8	-	-	-
Quarry Bay	53.2	0.0	1.1	-	-	-
Tsim Sha Tsui	71.6	0.2	10.8	18,324	-3.3	7.7
Cheung Sha Wan	32.9	-0.2	6.0	-	-	-
Hung Hom	43.7	-0.4	1.4	-	-	-
Kowloon East	35.3	2.3	2.7	13,421	-0.8	2.6
Mong Kok / Yau Ma Tei	59.6	0.6	0.8	-	-	-

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL

Robust new home sales defy market headwinds

After dropping for five months in a row, Hong Kong home prices increased only 1.6% in 2018, the slowest growth since 2008, according to the Rating and Valuation Department. With home prices down almost 8% in the fourth quarter last year, negative equity re-emerged for the first time since the end of December 2016, registering 262 cases, totalling HK\$1.189 billion, according to the Hong Kong Monetary Authority.

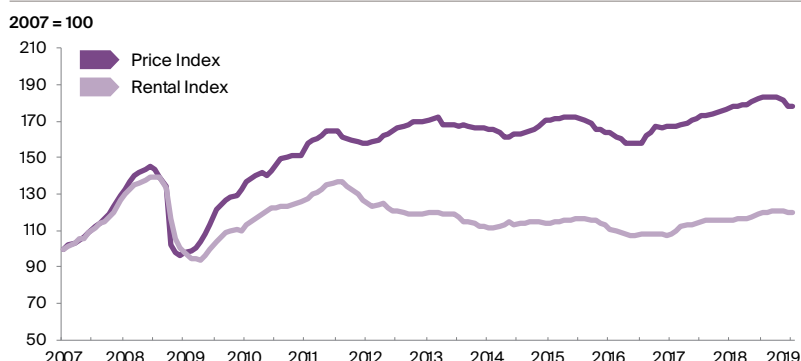
Monthly transaction volume increased 120.5% from the previous month to 4,543 homes in January, according to the Land Registry. There was robust demand in the primary market, with monthly sales expanding more than fivefold, from less than 400 to around 2,200.

Entering the traditional off-peak season, the leasing market slowed before the Chinese New Year. With market sentiment remaining weak, tenants have higher bargaining power on lease renewals, while landlords are more willing to negotiate. Despite an overall market slowdown, the luxury segment still saw some leasing activities as tenants continued to be on the lookout for better deals.

With the China-US trade conflict remaining unresolved, we expect market players to act prudently and home prices to continue to correct in the coming months. The recent stock market correction also hints that the wealth effect it brings may continue to weaken house price movements in the short run.

FIGURE 2

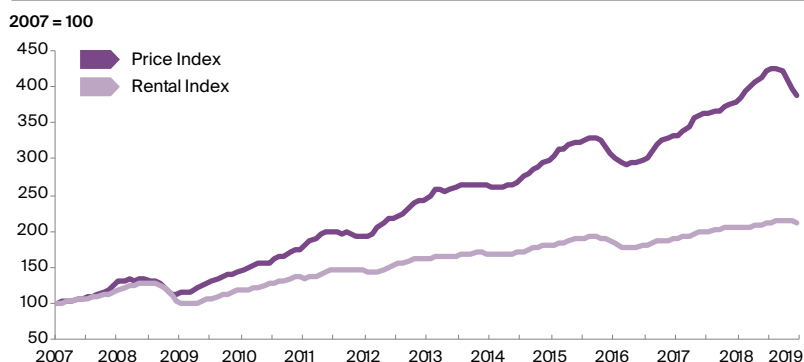
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3

Mass residential prices and rents



Source: Knight Frank Research

TABLE 2

Selected residential sales transactions (Jan 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	90 Repulse Bay Road	House	5,584	490.0	87,751
Ho Man Tin	Ultima	Phase 1 / Tower 8 / unit D	2,326	116.3	50,000
Tsui Sha Tsim	The Masterpiece	High floor / unit E	2,259	102.7	45,463
Island South	Redhill Peninsula	Palm Drive / House	2,588	80.0	30,912
Island South	Belgravia Heights	Low floor / unit A	2,877	75.0	26,069

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 3

Selected residential lease transactions (Jan 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	39 Conduit Road	Mid floor	2,355	160,000	68
Happy Valley	Winfield Building	Block A / High floor	1,953	130,000	67
Ho Man Tin	Ultima	Phase 1 / Tower 6 / High floor / unit A	1,911	120,000	63
Mid-Levels East	Rose Court	Block B / High floor / unit B	2,049	110,000	54
Mid-Levels Central	Grenville House	Block B / High floor / unit B	3,073	120,000	39

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

RETAIL

Large visitor numbers buoy market prospects

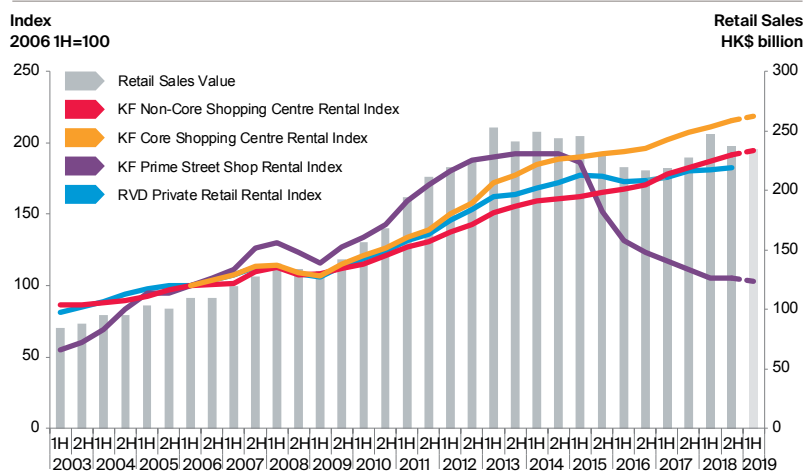
Hong Kong retail sales in 2018 registered healthy growth of 8.8% YoY to HK\$485.2 billion, the biggest increase since 2013. Overall market sentiment was positive in January, thanks to the festive effects of Chinese New Year. The new mega infrastructure also resulted in record-high Chinese Mainland visitor arrivals during the holiday. According to data released by the Immigration Department of the HKSAR, on 6 February, around 53,000 arrivals and over 43,000 departures were recorded at West Kowloon Station, reaching a record high since the station's opening last September. On the same day, the Hong Kong-Zhuhai-Macao Bridge saw its busiest day, with around 140,000 arrivals and departures over the bridge. The main beneficiaries of the increase in foot traffic and sales were shopping malls in districts such as Tung Chung, Tsing Yi and Tsuen Wan.

Retailers and F&B operators have been actively implementing new strategies to cater for the changing tourist behaviour and shift in preferences to fast-moving consumer goods. More community malls are attracting mainlanders, and Hong Kong-style restaurants and local shops that sell locally designed and cultural products are also becoming popular with mainland visitors.

Looking ahead, the near-term outlook for retail sales remains sanguine, as consumer sentiment has been buttressed by favourable employment numbers, stable income and vibrant inbound tourism. Nonetheless, given the external uncertainties, we expect to see retail rents in prime streets remain subdued in the short term.

FIGURE 4

Retail sales and rents



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

TABLE 4

Retail sales by outlet type (Dec 2018)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	8.3	18.4	40.0	34.9	-4.9
Clothing, footwear and allied products	6.2	13.9	30.4	59.1	0.7
Department stores	5.3	11.8	-4.5	38.2	4.9
Fuel	0.8	1.8	-3.2	-11.3	1.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.9	8.7	9.1	-12.6	1.0
Consumer durable goods	6.4	14.3	-3.1	12.8	-9.3
Supermarkets	4.4	9.9	6.0	-4.2	2.5
Others	9.6	21.3	22.6	36.3	8.1
All retail outlets	44.9	100.0	14.4	22.8	0.1

Source: Census and Statistics Department / Knight Frank Research

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