

RESEARCH



JULY 2018

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY  
MARKET



#### Office

Pre-leases of Central prime offices receive warm response

#### Residential

The six new measures unlikely to cool price growth

#### Retail

Leasing demand remains strong in F&B sector

# PRIME OFFICE

## Hong Kong Island

Grade-A office leasing demand in Central remained strong in June. With the vacancy rate hovering at low level of around 0.9%, rents in Central continued their uptrend, rising 0.7% month on month (M-o-M).

Most of the offices currently available in Central are scattered pocket units. To build up tenancy profile, landlords are selective regarding tenant's background and ask for security deposit of an amount equivalent to rental income of 9-12 months. Some pre-leases for next year have received multiple offers, indicating that tenants are willing to commit to future lease way before the expiry of existing lease.

Located right next to Central, Sheung Wan sees even lower office vacancy at 0.8%, while Admiralty's vacancy is comparatively higher at around 2.6%. Admiralty's high rents of around HK\$116 per sq ft per month deter MNCs who look for cost-saving, while Admiralty's offices cannot attract Mainland companies who favour Central's prime offices.

Heading east further to Wan Chai, AIA rented seven floors, totalling 100,000 sq ft in Hopewell Centre for temporary accommodation of its Stubbs Road office during renovation. Coupled with the pre-leases in One Hennessy, there are hardly any whole-floor spaces available in Wan Chai.

With pre-leases driving down the vacancies of Central and its proximity in the foreseeable future, rents in the area will continue to increase.

## Kowloon

Due to limited space available and persistent demand, Grade-A office rents in Tsim Sha Tsui increased 6% in the first half of 2018. Potential tenants are seeking space in the vicinity just when Hung Hom has large units available. Campfire, a Hong Kong-based co-working space provider, leased around 77,000 sq ft in Harbourfront Landmark in Hung Hom.

At Kowloon Station, another leading co-working space operator is in negotiation with ICC for a 35,000-sq-ft whole floor. Considering their requirements for large units, demand from co-working space operators is speeding up absorption and ramping up rents in the Kowloon Station area. With the West Kowloon Express Rail Link (XRL) terminal scheduled to commence service in the third quarter of this year, this area is increasingly under the spotlight. ICC remains the only supply of prime office in the area before the planned office space at the XRL topside becomes available.

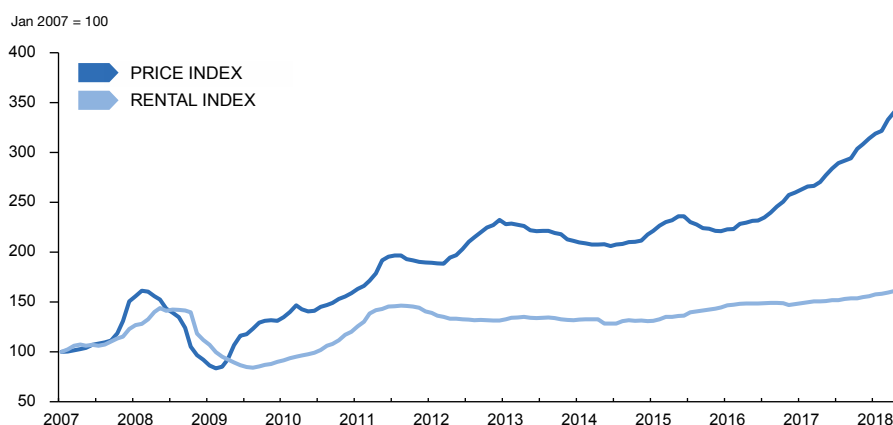
In Kowloon East, the relatively affordable rents and large floor plates available are attracting new as well as existing tenants. Starbucks rented 35,000 sq ft in Millennium City 5 in Kwun Tong, moving its office from Wan Chai. Vigers Group decided to stay in Kowloon East by renting 21,000 sq ft in Millennium City 1 Standard Chartered Tower.

The office leasing market will become quiet between now and September during the summer holidays. There will be more relocations from Hong Kong Island to Kowloon as tenants intent to reduce costs and look for large floor area.



Pre-leases for Central Grade-A offices next year received multiple offers.

FIGURE 1  
Grade-A office price and rents



Source: Knight Frank Research

TABLE 1  
Selected office sales transaction (Jun 2018)

District	Building	Zone	Gross floor areas (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wanchai	Emperor Group Centre	Low	1,431	25.6	17,890
Kwun Tong	38 Wai Yip Street	High	1,770	28.6	16,170
Tsim Sha Tsui	New East Ocean Centre	Low	1,178	15.1	12,801

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

TABLE 2  
Selected office leasing transactions (Jun 2018)

District	Building	Zone	Lettable floor area (sq ft)
Central	ICBC Tower	Mid	5,016
Quarry Bay	Oxford House	High	20,734
Wanchai	Hopewell Centre	Mid	100,000
Tsim Sha Tsui	Tsimshatsui Centre	Low	48,137
Kwun Tong	Millennium City 5	Mid	35,062

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

TABLE 3  
Prime office market indicators (Jun 2018)

District	Net effective rent		Change		Price (Gross)		Change	
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %	HK\$ psf	M-o-M %	Q-o-Q %	Y-o-Y %
Premium Central	196.7	0.9	2.3	6.7	N/A	N/A	N/A	N/A
Traditional Central	140.9	0.8	2.5	6.7	N/A	N/A	N/A	N/A
Overall Central	159.8	0.8	2.4	6.7	43,907	2.5	8.7	25.0
Admiralty	116.4	0.0	1.3	8.6	37,061	1.3	11.2	23.2
Sheung Wan	85.2	0.6	1.3	14.5	34,776	2.2	9.3	36.6
Wan Chai	80.7	-0.1	1.3	7.1	29,602	1.4	2.3	10.1
Causeway Bay	83.6	0.0	0.7	9.1	25,589	1.2	2.2	9.0
North Point	54.1	0.0	0.0	4.1	N/A	N/A	N/A	N/A
Quarry Bay	53.3	0.0	0.0	1.7	N/A	N/A	N/A	N/A
Tsim Sha Tsui	68.9	0.1	3.2	11.0	18,220	3.1	6.9	24.7
Cheung Sha Wan	32.7	0.3	2.0	6.6	N/A	N/A	N/A	N/A
Hung Hom	45.0	1.2	4.7	7.9	N/A	N/A	N/A	N/A
Kowloon East	34.5	0.5	1.1	2.1	13,274	0.8	1.3	6.0
Mong Kok / Yau Ma Tei	59.0	0.0	0.4	11.1	N/A	N/A	N/A	N/A

Source: Knight Frank Research  
Note: Rents and prices are subject to revision.

# RESIDENTIAL



Home sales rebounded 21.6% month on month in June and prices continued to rise.

Residential sales rebounded 21.6% M-o-M in June to 6,173 units, thanks to improved primary sales, especially in Solaria in Tai Po, Mount Regency in Tuen Mun and The Mount Pavilia in Sai Kung. Secondary sales, meanwhile, remained stable, recording over 4,500 transactions a month for three consecutive months.

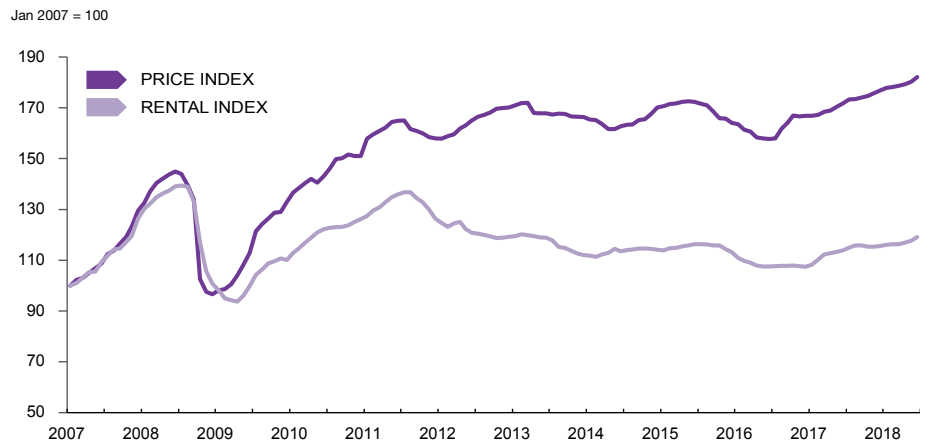
According to official data, residential prices have grown for 26 consecutive months, the longest period of price rises in Hong Kong history, rising 25% from the previous peak in September 2015.

The leasing market saw robust activity in May and June. Families aim at settling into new homes before the next school year starts. Meanwhile, expatriate demand, mainly from those working in the finance and insurance sectors, remained stable. Luxury residential rents grew 4.7% in June compared with a year ago.

To tackle the housing supply shortage, the Chief Executive has announced six new measures, including the introduction of a vacancy tax for primary flats and the change of nine private residential lots to affordable housing uses. With the possibility of developers' marking up prices in order to shift the vacancy tax burden to buyers, prices of primary flats may be further pushed up. The conversion of private lots to affordable housing uses could also reduce private home supply in the coming 3-4 years, reinforcing the uptrend of private home prices.

With the new housing measures in place, we expect residential prices to increase steadily during the second half of the year. Secondary home sales volume may be somewhat sluggish in the short term, with more potential buyers shifting to the primary market.

FIGURE 2  
Luxury residential prices and rents



Source: Knight Frank Research

TABLE 4  
Selected residential sales transactions (Jun 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Happy Valley	23-39 Blue Pool Road	House	4,571	305.8	66,900
The Peak	8 Severn Road	House	3,363	220	65,418
Kowloon Tong	Eden Gate	House	3,198	200	62,539
Hung Hom	Stars by the Harbour	House	2,196	106.1	48,315
Ho Man Tin	King's Park Hill	House	3,313	123	37,126

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

TABLE 5  
Selected residential leasing transactions (Jun 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 4 / high floor	2,545	173,000	68.0
Pokfulam	Bel-Air on the Peak	Mid floor / unit B	1,886	120,000	63.6
Island South	Manhattan Tower	High floor / unit B	1,999	120,000	60.0
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit A	2,100	117,000	55.7
Mid-Levels Central	Tregunter	Tower 3 / upper floor / unit D	3,014	150,000	49.8

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

TABLE 6  
Luxury residential market indicators (Jun 2018)

District	Rent		Change		Price		Change	
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %	HK\$ psf	M-o-M %	Q-o-Q %	Y-o-Y %
The Peak	64.2	0.6	1.4	-1.2	43,279	0.6	0.9	3.8
Island South	56.7	0.3	1.0	7.2	33,671	0.0	0.6	4.0
Mid-Levels	59.4	1.4	3.5	8.1	30,569	2.7	3.8	8.9
Jardine's Lookout / Happy Valley	51.4	2.8	4.1	4.1	30,084	1.3	3.2	12.6
Pokfulam	41.8	1.1	2.0	7.2	25,906	1.1	3.3	9.1

Source: Knight Frank Research  
Note: Rents and prices are subject to revision.



# RETAIL



Retail leasing demand from the F&B sector remained strong, as experience-based retail cannot be replaced by online shopping.

The overall retail performance in the city was stable in June. Growth of retail sales remained double-digit for four consecutive months. On the back of growing retail sales, retailers are optimistic about their future sales and are more certain of their expansion plans.

Vacancy of prime streets shops decreased at a faster pace, but there has been no visible pick up in rents. New brick-and-mortar store occupiers are paying rents which are significantly lower than the peak level occurred a few years ago.

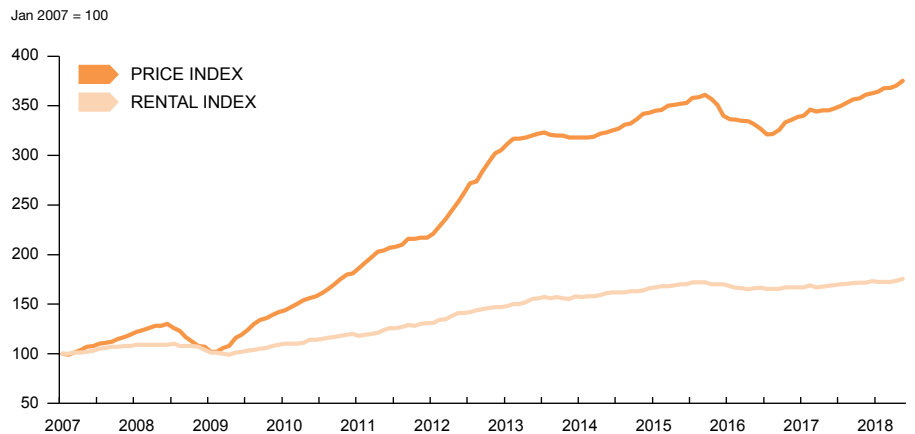
Despite the prevalence of online shopping, there has been sustained leasing demand from the F&B sector, as experience-based retail such as restaurants cannot be replaced by online shopping. In some recent examples, Chua Lam opened a Vietnamese restaurant of around 3,000 sq ft in Wellington Street, in Central. Starbucks

opened a 5,500-sq-ft flagship store in Lee Garden Three, in Causeway Bay.

Mainland F&B group Haidilao Hot Pot and Peking duck restaurant Xi He Ya Yuan expanded their footprint in Hong Kong last year, opened shops in Yau Ma Tei and Tsim Sha Tsui, respectively. Haidilao Hot Pot reports its general spatial requirement of 600 sqm to 1,500 sqm, while the scale of its Hong Kong store is on the high side at approximately 1,200 sqm. Their recent initial public offering (IPO) filing in the Hong Kong Stock Exchange has shown that they are expecting market acceptance in Hong Kong.

It remains to be seen whether there will be an influx of Mainland F&B groups to the Hong Kong market, as the retail market landscape in Hong Kong is widely different to that of the Mainland in terms of culture, consumption habit and preference.

FIGURE 3  
Retail property prices and rents



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

TABLE 7

**Selected retail sales transactions (Jun 2018)**

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Sheung Wan</b>	212-214 Des Voeux Road Central	Ground floor / unit A	N/A	350	N/A
<b>Tsim Sha Tsui</b>	53-63 Peking Road	2nd floor	N/A	100	N/A
<b>Wanchai</b>	6-18 Tin Lok Lane	Ground floor / unit F	160 (N)	57	356,250
<b>Chai Wan</b>	341 Chai Wan Road	Ground floor / unit 37	322 (G)	33	102,484

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

TABLE 8

**Selected retail leasing transactions (Jun 2018)**

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
<b>Causeway Bay</b>	Causeway Bay Plaza Phase 1	Ground floor / units 15-18	N/A	946,667	N/A
<b>Mong Kok</b>	43 Fa Yuen Street	Ground floor / unit 43B	N/A	410,000	N/A
<b>Mong Kok</b>	2 Sai Yeung Choi Street South	Ground floor / unit 3	754	310,000	411.1
<b>Mong Kok</b>	33-37 Nelson Street	Ground floor / unit F	754	130,000	172.4

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

TABLE 9

**Retail sales by outlet type (May 2018)**

Outlet	Value (HK\$ billion)	Share of total %	M-o-M %	Q-o-Q %	Y-o-Y %
<b>Jewellery, watches and clocks, and valuable gifts</b>	6.9	17.0	4.1	-14.3	23.8
<b>Clothing, footwear and allied products</b>	5.2	12.8	-3.6	-21.1	7.4
<b>Department stores</b>	5.8	14.3	46.9	28.0	16.7
<b>Fuel</b>	0.9	2.3	13.9	30.1	17.5
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	3.4	8.3	-2.0	-26.1	5.9
<b>Consumer durable goods</b>	5.2	12.9	-8.8	-22.2	8.8
<b>Supermarkets</b>	4.5	11.0	8.0	-1.5	2.7
<b>Others</b>	8.7	21.5	-8.3	-9.4	16.9
<b>All retail outlets</b>	40.5	100.0	2.6	-10.4	12.9

Source: Census and Statistics Department / Knight Frank Research



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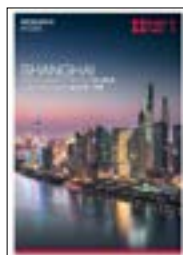
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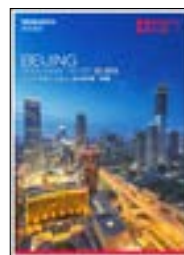
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