

RESEARCH



JUNE 2018

# HONG KONG MONTHLY

REVIEW AND COMMENTARY ON  
HONG KONG'S PROPERTY  
MARKET



#### Office

Mainland co-working space  
providers drive demand

#### Residential

Oversubscriptions in primary  
projects

#### Retail

Vacant shops in prime streets  
being absorbed

# HIGHLIGHTS

- ♦ The overall vacancy rate of Central Grade-A office dropped to below 1% for the first time since 2001. Tsim Sha Tsui, Kowloon East and Cheung Sha Wan saw their vacancy dropped to its lowest level so far this year.
- ♦ Home sales decreased 17% month on month (M-o-M) in May, but prices continued to reach new heights. There were oversubscriptions in several primary residential projects.
- ♦ Vacant shops in prime streets were being absorbed, as retailers became more optimistic about future sales.

## Prime Office

### Hong Kong Island

Grade-A office leasing demand in Central remained strong in May. The vacancy rate dropped further to 0.8%, the first time since 2001 falling below 1%. Central rent continued its uptrend, rising 0.7% M-o-M.

There is presently no large office space available in Central which suggests a near-landlord's market there. Meanwhile, vacancy in nearby Sheung Wan is also very tight at 0.7%. Admiralty at 3.1% may provide some space but its rents are not much lower than Central's. Firms seeking large floor space there have to look further afield.

Lack of space in Central coincides with the time when Mainland co-working space providers vie for dominance in the large-floor-plate segment of the market. The most notable example, is when Kr Space rented seven floors of One Hennessy Road in Wan Chai, with a total lettable floor area of 84,000 sq ft, for HK\$79 per sq ft per month.

Unlike other co-working space providers, Kr Space is targeting Mainland financial and technology firms coming to Hong Kong. This suggests relatively higher rental affordability for the location. Given the size of the floor space these service providers require, they not only put pressure on rents in the vicinity of Central, but also fundamentally transform the demand dynamics of the Hong Kong Grade-A office market.

### Kowloon

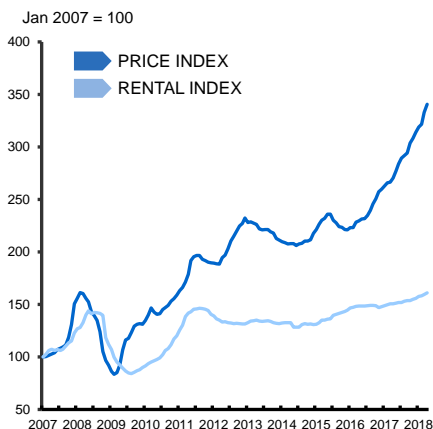
In May, Tsim Sha Tsui, Kowloon East and Cheung Sha Wan saw their vacancy dropped to its lowest level so far this year. While other districts are stable Hung Hom saw an increase in vacancy as a few large units had recently become vacant.

Leasing transactions in May for Grade-A office in Kowloon East mainly comprised of renewals. In comparison, there were only a handful of new leasing cases. For instance, HSBC consolidated some of its back offices to Mapletree Bay Point. Rider Levett Bucknall, a quantity surveying company currently operating in Shau Kei Wan on Hong Kong Island, rented 63,700 sq ft in Goldin Financial Global Centre in Kowloon Bay.

New supply is mostly located in Kowloon East. These new office buildings with sizable floor plates are favoured by large companies.

With vacancies generally trending downwards, overall rents for Kowloon have rebounded in the second quarter, led by Kowloon East and Tsim Sha Shui. As the recovery continues, we expect the overall rent for Kowloon as a whole to increase 2-4% over the year.

FIGURE 1  
Grade-A office prices and rents



Source: Knight Frank Research



FIGURE 2

## Luxury residential prices and rents

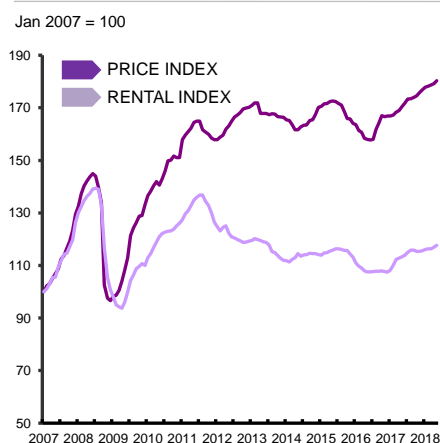
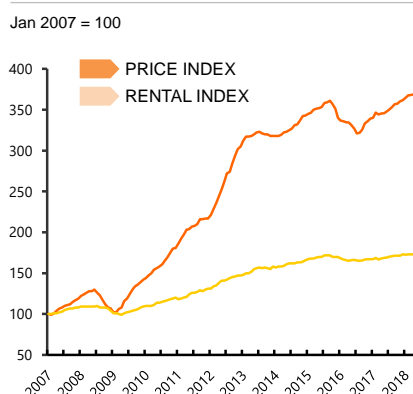


FIGURE 3

## Retail property prices and rents



Source: Rating and Valuation Department  
/ Knight Frank Research

Note: Provisional figures from Nov 2017 to Apr 2018

## Residential

Although residential sales dropped 17% M-o-M to 5,522 units in May, there was no sign of falling demand. In fact, there were new projects massively oversubscribed, such as Mount Regency in Tuen Mun (41.3 times subscribed), Solaria in Tai Po (32.6 times) and Fleur Pavilia in North Point (doubled). Meanwhile, the number of transactions in the secondary market remained stable, with over 4,700 transactions recorded in the month. As more units are launched, the primary transaction volume is expected to rebound in the coming months.

Led by prices of small units, the overall price level has reached new heights. The latest official data suggests price growth for 25 consecutive months, rising 22.8% from the previous peak in September 2015.

Attracted by high development and redevelopment potential, investors snapped up trophy residential sites in Hong Kong. For example, all 12 units at 39 Shouson Hill Road in Island South were sold for HK\$6 billion, the highest price ever for a private housing site in Hong Kong. The government tendered a residential land plot in Kai Tak, setting a record price for residential land at HK\$25.16 billion, representing an accommodation value of HK\$17,776 per sq ft.

The Hong Kong Monetary Authority raised the base rate by 25 basis points after the US interest-rate hike in mid-June. It is expected that Hong Kong's prime lending rate to follow suit soon for the first time since 2007. However, given the strong demand, we do not expect there to be any impact on residential prices. Transactions will be deferred in the short term but should resume once the market has absorbed the rate increase.

## Retail

Supported by growing retail sales, retail prospects have been improving since the second half of 2017. Given this generally optimistic sentiment, there could be market opportunities for retailers to consider expanding their physical footprint. This consequently will help vacant shops in prime streets being absorbed gradually.

In contrast, retail space in prime shopping malls are close to full occupancy.

Mainland visitors have a strong preference for buying reputable and quality healthcare products and medicines in Hong Kong. In view of the rebound in tourist arrivals from the Mainland, retailers of personal care products have expanded their presence in prime streets. For example, Mannings rented a 2,518-sq-ft shop on Canton Road in Tsim Sha Tsui, which had been vacant since September 2016, for HK\$1.25 million per month, or HK\$496 per sq ft.

Our analysis indicates that the accelerated absorption of prime street retail space is driven by retailers' anticipation of increased spending from visitors, especially the same-day visitors.

Among core shopping districts, Central has the fastest absorption rate of vacant street shops, as the CBD is preferred by most retailers, especially international brands. Since street shop rents in the area have fallen in recent years, retailers who could barely afford the rents in the periphery of Central five years ago can now afford centrally located prime street space.

The absorption of prime street retail space in various districts is expected to accelerate in the second half of 2018, led by Central. Prime street rents should start to rebound once demand has revived and most the vacant shops have been taken up. We expect the downward adjustment in prime street rents to narrow to 5-10% for full-year 2018.

# PRIME OFFICE

TABLE 2

## Selected office sales transactions (May 2018)

District	Building	Zone	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Kwun Tong</b>	TG Place	High	3,813 (G)	\$67	\$17,591
<b>Admiralty</b>	Lippo Centre	Mid	1,978 (G)	\$41	\$20,728
<b>Tsim Sha Tsui</b>	Wing On Plaza	Low	1,336 (G)	\$37	\$27,695

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

N: net; G: gross

TABLE 3

## Selected office leasing transactions (May 2018)

District	Building	Zone	Lettable floor area (sq ft)
<b>Central</b>	100 Queen's Road Central	Low	8,215
<b>Central</b>	Entertainment Building	High	4,943
<b>Wan Chai</b>	One Hennessy Road	Mid	84,000
<b>Wan Chai</b>	Hopewell Centre	High	15,634
<b>Causeway Bay</b>	Windsor House, Chubb Tower	High	19,897

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 4

## Month-on-month movement in Grade-A office rents (May 2018)






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

TABLE 5

## Prime office market indicators (May 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	\$196.2	2.0%	2.7%	6.6%	n/a	n/a	n/a	n/a
Traditional Central	\$141.3	0.7%	3.2%	8.3%	n/a	n/a	n/a	n/a
Overall Central	\$159.9	1.2%	3.0%	7.6%	\$42,826	0.5%	6.7%	24.2%
Admiralty	\$116.4	1.1%	1.6%	10.2%	\$36,569	3.7%	11.4%	25.3%
Sheung Wan	\$84.7	0.0%	2.4%	13.9%	\$34,013	1.5%	8.2%	39.7%
Wan Chai	\$81.2	1.1%	2.5%	7.6%	\$29,201	0.6%	1.3%	9.8%
Causeway Bay	\$85.4	2.1%	3.3%	10.7%	\$25,289	0.6%	1.4%	8.8%
North Point	\$54.1	0.0%	0.0%	4.1%	n/a	n/a	n/a	n/a
Quarry Bay	\$54.6	0.0%	0.2%	5.4%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$68.8	1.8%	4.8%	11.2%	\$17,681	1.0%	3.9%	22.4%
Cheung Sha Wan	\$32.6	1.1%	2.4%	6.9%	n/a	n/a	n/a	n/a
Hung Hom	\$44.5	2.6%	2.1%	6.7%	n/a	n/a	n/a	n/a
Kowloon East	\$34.4	0.5%	0.2%	1.3%	\$13,170	0.2%	0.6%	5.8%
Mong Kok / Yau Ma Tei	\$59.0	-0.8%	-0.2%	10.1%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

# RESIDENTIAL

TABLE 7

## Selected residential sales transactions (May 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>Mid-Levels West</b>	The Morgan	High floor / unit A	3,962	\$344	\$86,825
<b>Ho Man Tin</b>	Kadooria	Low floor	3,019	\$216.2	\$71,613
<b>Kowloon Tong</b>	Eden Gate	Tower 1 / mid floor / unit A	3,058	\$185.725	\$60,734
<b>The Peak</b>	Strawberry Hill	House	2,880	\$170	\$59,028
<b>North Point</b>	Pavilia Hill	Tower 4 / high floor / unit A	3,837	\$221.8	\$57,806

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

## Selected residential leasing transactions (May 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
<b>Pokfulam</b>	Bel-Air No.8	Tower 8A / upper floor	1,741	\$100,000	\$57.4
<b>Mid-Levels West</b>	Cluny Park	Mid floor	2,286	\$130,000	\$56.8
<b>Mid-Levels Central</b>	Grenville House	Block F / high floor	3,400	\$190,000	\$55.9
<b>Island South</b>	Grand Garden	Block 1 / low floor	2,482	\$115,000	\$46.3
<b>The Peak</b>	Villa Verde	Mid floor	2,593	\$118,000	\$45.5

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 8

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






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

TABLE 9

## Luxury residential market indicators (May 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
<b>The Peak</b>	\$63.7	1.3%	0.4%	-1.4%	\$43,032	0.3%	0.3%	4.3%
<b>Island South</b>	\$56.5	0.4%	1.9%	7.9%	\$33,671	0.6%	1.1%	4.0%
<b>Mid-Levels</b>	\$58.6	0.4%	2.3%	7.3%	\$29,755	0.7%	1.4%	7.1%
<b>Jardine's Lookout / Happy Valley</b>	\$50.0	0.6%	0.3%	1.2%	\$29,707	1.2%	2.8%	12.3%
<b>Pokfulam</b>	\$41.3	0.7%	1.2%	4.0%	\$25,615	1.0%	2.1%	9.0%

Source: Knight Frank Research

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

# RETAIL

TABLE 10

## Selected retail sales transactions (May 2018)

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Wan Chai	Wing On Mansion	Ground floor / unit 9	635 (N)	\$60.0	\$94,488
Central	40 Staunton Street	Ground floor	600	\$43.0	\$71,667
Wan Chai	13 Wood Road	Ground floor	1,675 (N)	\$108.6	\$64,806
Hung Hom	15B Station Lane	Ground floor / unit 1	208	\$12.1	\$58,029

Source: Economic Property Research Centre

TABLE 11

## Selected retail leasing transactions (May 2018)

District	Building	Floor / unit	Gross floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mong Kok	34-36 Sai Yeung Choi Street South	Ground floor	1,300	\$899,990	\$692.3
Tsim Sha Tsui	86-98 Canton Road	Ground floor / units 4-5	2,518 (N)	\$1,250,000	\$496.4
Causeway Bay	Excelsior Plaza - Chee On Building	Ground floor / units 23-24	915	\$429,959	\$469.9
Causeway Bay	539 Lockhart Road	Ground floor	1,000	\$400,000	\$400 .0

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.



TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

## Retail sales by outlet type (Apr 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	\$6.6	16.7%	-3.8%	-18.2%	24.7%
Clothing, footwear and allied products	\$5.4	13.6%	-1.1%	-9.2%	6.7%
Department stores	\$3.9	9.9%	-2.3%	-6.8%	12.6%
Fuel	\$0.8	2.1%	3.0%	2.5%	10.0%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$3.4	8.7%	4.1%	-17.6%	3.9%
Consumer durable goods	\$5.7	14.5%	-9.3%	-16.9%	15.3%
Supermarkets	\$4.1	10.4%	-3.4%	-6.5%	1.1%
Others	\$9.5	24.0%	8.4%	-8.8%	15.0%
All retail outlets	\$39.5	100.0%	-0.6%	-12.0%	12.3%

Source: Census and Statistics Department / Knight Frank Research



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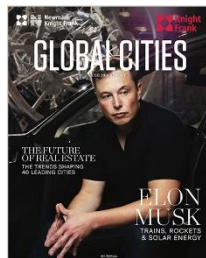
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