

RESEARCH



MARCH 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Prime site in West Kowloon
under spotlight

Residential
Secondary residential sales saw
improvement

Retail
Leasing market will see growth
in the mid to long term

HIGHLIGHTS

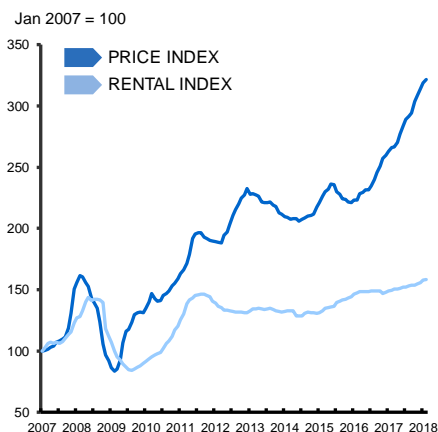
- ◆ Grade-A office rents of Central continued to trend upwards. Kowloon East rent will also see mild increase this year.
- ◆ Residential sales jumped 34% year-on-year (Y-o-Y) in February. The secondary market has shown improvement.
- ◆ Despite improvement in the retail sales, the retail rental market was quiet in February. We expect the long term prospect is good.

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	Jan 2018	+1.7%	+3.0%	2.4%	1.5%
Unemployment	Nov 2017- Jan 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

Central's Grade-A office rents grew slowly in February, increasing 0.8% month-on-month (M-o-M) to around HK\$155 per sq ft per month. Central has been a landlord's market thanks to low vacancy. Demand comes from financial MNCs, Mainland firms as well as new business entities such as co-working space providers.

As an example, The Executive Centre, like most co-working space providers which favour prime locations and large floor plates, expanded its footprint by leasing the 43rd and 44th floors of Champion Tower, with a total lettable area of 34,297 sq ft.

Supported by positive business sentiment, Grade-A office vacancy on Hong Kong Island is expected to remain at a low level, while rents are set to grow further this year.

Kowloon

The overall Grade-A office leasing market was quiet in February due to the Chinese New Year holidays. But as activities recover we expect the market will improve this year with Grade-A rents of Kowloon East rising about 2%.

A land plot on top of the West Kowloon Express Rail Link terminal is slated for sale in the latest Budget. With a total developable GFA of around 3.16 million sq ft, this plot can offer office space comparable to the ICC nearby. Given its size the sale could fetch over HK\$100 billion according to initial market estimates.

This large potential supply, together with the ICC, is likely to attract tenants from Central by offering an alternative decentralisation location to other locations on the Hong Kong Island. The clustering effect brought about by this potential supply will also benefit the entire Tsim Sha Tsui office market.

FIGURE 2
Luxury residential prices and rents

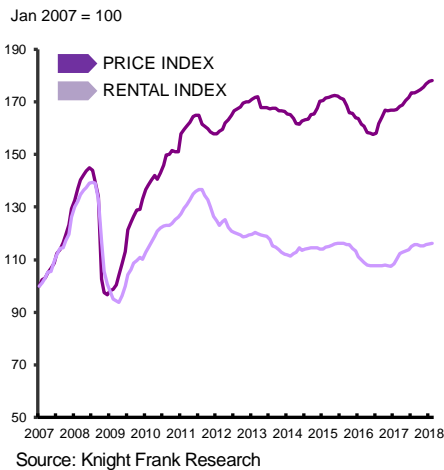
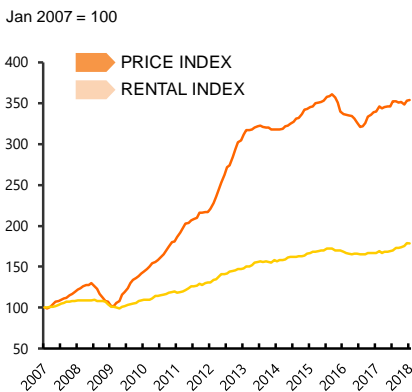


FIGURE 3
Retail property prices and rents



Residential

Despite the traditional low season in February, 5,482 residential units were sold, rising 4% M-o-M and 34% Y-o-Y. Transaction of luxury homes worth HK\$10 million or above jumped 26% M-o-M and 55% Y-o-Y.

According to official figures, housing prices continued to trend upward, gaining 1.3% M-o-M in January, but slower than December. Luxury home prices, in particular, have risen for 20 months in a row, gaining 15% in total, according to Knight Frank figures.

February saw a limited number of new units being launched. Secondary sales, in contrast, saw some improvement so far this year, up 68% Y-o-Y, driven by improved market sentiment. This is reflected in the ratio of primary to secondary sales which has been around 2:8 so far in 2018, compared to around 3:7 in the 3-year period of 2015-17.

The 2018-19 Budget held no surprises. There are 27 residential sites in the land sale programme for the coming financial year. However, these units will take time to be completed, offering no immediate relief to the supply shortage. Meanwhile, the market does not expect a huge impact on mortgages from the US interest rate hikes this year. As a result, we expect residential prices to go up mildly in 2018.

Retail

Hong Kong's retail sales totalled HK\$44.9 billion in January, rising 4.1% Y-o-Y, slower than the previous two months. However, sales of luxury goods recorded double-digit growth of 10.4% Y-o-Y, reaching HK\$8.1 billion.

Mainland visitor arrivals reached 4.1 million in January, down 5.5% Y-o-Y because of the late Chinese New Year this year. Seasonal effect aside, we expect that the improved business environment will bring more Mainland visitors to visit Hong Kong in 2018.

The prime street shop leasing market was quiet in February, with rents in core retail districts continued to fall albeit more slowly.

That said, any rental improvement will be underpinned by improving retail sales in the medium to long run. In turn, retail sales will benefit from better infrastructure and connectivity within the Greater Bay Area, which boasts a population of around 66 million.

Hong Kong's retail industry will continue to rely on tourist spending as structural reforms take time. Fortunately, it will benefit from the strong purchasing power in the region.

SNAPSHOT

A Grade-A office in Convention Plaza was sold for nearly HK\$36,000 per sq ft in February.

A number of major Grade-A office leasing transactions were recorded in the CBD last month.

PRIME OFFICE

TABLE 2

Selected office sales transactions (Feb 2018)

District	Building	Zone	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Central	Glenealy Tower	Low	800 (N)	\$19	\$23,750
Wan Chai	Convention Plaza Office Tower	Mid	2,086 (G)	\$75	\$35,954
Tsim Sha Tsui	Multifield Plaza	Mid	1,288 (G)	\$13.52	\$10,500

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

N: net; G: gross

TABLE 3

Selected office leasing transactions (Feb 2018)

District	Building	Zone	Lettable floor area (sq ft)
Central	Champion Tower	High	34,297
Admiralty	Bank of America Tower	Low	5,347
Admiralty	Citic Tower	Mid	18,080
Wan Chai	Sun Hung Kai Centre	Mid	2,267
Causeway Bay	World Trade Centre	Mid	12,770

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

Grade-A office rents rose in all major commercial districts on Hong Kong Island in February.

Admiralty outperformed, with the largest Grade-A office price growth among major business districts last month.

TABLE 4

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






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

TABLE 5

Prime office market indicators (Feb 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	\$191.0	0.3%	1.9%	4.5%	n/a	n/a	n/a	n/a	
Traditional Central	\$136.8	1.2%	2.3%	6.6%	n/a	n/a	n/a	n/a	
Overall Central	\$155.2	0.8%	2.1%	5.7%	\$40,394	0.6%	7.5%	21.5%	
Admiralty	\$114.5	0.4%	3.3%	11.7%	\$33,317	1.5%	1.5%	20.8%	
Sheung Wan	\$82.7	0.9%	3.9%	11.4%	\$31,830	1.2%	8.6%	36.6%	
Wan Chai	\$78.2	0.2%	3.6%	5.3%	\$28,928	0.3%	1.8%	11.7%	
Causeway Bay	\$83.2	2.7%	5.6%	6.8%	\$25,039	0.4%	1.7%	11.1%	
North Point	\$54.1	2.0%	2.0%	7.9%	n/a	n/a	n/a	n/a	
Quarry Bay	\$54.5	2.3%	3.5%	5.2%	n/a	n/a	n/a	n/a	
Tsim Sha Tsui	\$65.6	1.5%	4.2%	5.5%	\$17,039	0.1%	9.6%	23.5%	
Cheung Sha Wan	\$31.9	2.8%	5.1%	4.7%	n/a	n/a	n/a	n/a	
Hung Hom	\$43.5	1.1%	2.2%	6.5%	n/a	n/a	n/a	n/a	
Kowloon East	\$34.3	-0.2%	0.4%	1.7%	\$13,099	0.1%	1.0%	6.6%	
Mong Kok / Yau Ma Tei	\$59.1	0.0%	0.0%	10.3%	n/a	n/a	n/a	n/a	

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A luxury apartment on the Peak was sold for nearly HK\$130,000 per sq ft in February.

Major luxury residential leasing transactions were recorded, mainly in Mid-Levels, last month.

RESIDENTIAL

TABLE 7

Selected residential sales transactions (Feb 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Peak	Mount Nicholson	Tower D / high floor	4,596	\$590.19	\$128,414
Happy Valley	Blue Pool Road	Flat B	4,602	\$303.8	\$66,015
Mid-Levels West	55 Conduit Road	high floor / unit B	4,616	\$286.15	\$61,991
Mid-Levels Central	Century Tower	Tower 2 / high floor	2,792	\$110	\$39,398
Peak	Eredine	Mid floor / unit C	2,836	\$110	\$38,787

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Selected residential leasing transactions (Feb 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	Altamira	High floor / unit B	2,303	\$210,000	\$91.2
Mid-Levels West	Azura	Mid floor / unit C	1,301	\$95,000	\$73.0
Mid-Levels Central	Tavistock II	Mid floor / unit A	1,520	\$93,000	\$61.2
Island South	Hong Kong Parkview	Tower 9 / low floor	2,049	\$86,000	\$42.0
Mid-Level West	The Belcher's	Tower 1 / high floor	1,447	\$80,000	\$55.3

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

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

Jardine's Lookout / Happy Valley recorded the most notable growth in luxury home prices last month.

TABLE 8

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






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

TABLE 9

Luxury residential market indicators (Feb 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	\$63.5	0.8%	-1.0%	4.9%	\$42,888	0.0%	1.1%	7.0%
Island South	\$55.5	0.7%	2.2%	12.5%	\$33,320	0.0%	0.6%	7.6%
Mid-Levels	\$57.2	0.6%	1.4%	10.1%	\$29,357	0.4%	2.6%	7.8%
Jardine's Lookout / Happy Valley	\$49.9	-1.0%	-0.6%	4.0%	\$28,906	1.2%	5.3%	11.9%
Pokfulam	\$40.9	-0.2%	0.8%	11.5%	\$25,087	0.0%	4.0%	9.1%

Source: Knight Frank Research

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

SNAPSHOT

A major shop in Central was sold for over HK\$160 million last month.

A shop in Causeway Bay was leased for around HK\$240 per sq ft in February.

RETAIL

TABLE 10

Selected retail sales transactions (Feb 2018)

District	Building	Floor / unit	Floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Central	V. Heun Building	1st floor	N/A	\$165.4	N/A
Sheung Wan	21 Tung Street	Ground floor	N/A	\$60.0	N/A
Sheung Wan	Central House	Ground floor / unit C	N/A	\$37.0	N/A

Source: Economic Property Research Centre

TABLE 11

Selected retail leasing transactions (Feb 2018)

District	Building	Floor / unit	Net floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Causeway Bay	Po Ming Building	Ground floor / units E-F	1,470	\$350,000	\$238.1
Wan Chai	Gold Jade Mansion	Ground floor / unit 7	16,584	\$360,000	\$21.7
Causeway Bay	Golden Dragon Building	Ground floor / unit C	N/A	\$288,000	N/A

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

SNAPSHOT

Drops in prime street shop rents are expected to narrow to 5-10% this year.

Total retail sales value increased by 4.1% Y-o-Y to HK\$44.9 billion in January 2018.

TABLE 12

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





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Jan 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	\$8.1	18.0%	-7.2%	21.4%	10.4%
Clothing, footwear and allied products	\$5.9	13.2%	-4.3%	29.5%	0.9%
Department stores	\$4.2	9.4%	-16.7%	5.1%	-4.6%
Fuel	\$0.8	1.8%	1.3%	-3.5%	2.5%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.2	9.3%	8.1%	10.7%	-5.4%
Consumer durable goods	\$6.9	15.4%	-2.7%	14.7%	20.5%
Supermarkets	\$4.4	9.9%	2.0%	-1.7%	-13.3%
Others	\$10.4	23.2%	17.5%	44.4%	9.3%
All retail outlets	\$44.9	100.0%	0.1%	19.6%	4.1%

Source: Census and Statistics Department / Knight Frank Research



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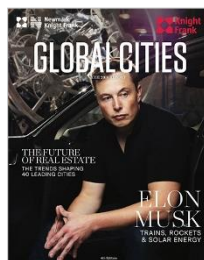
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