

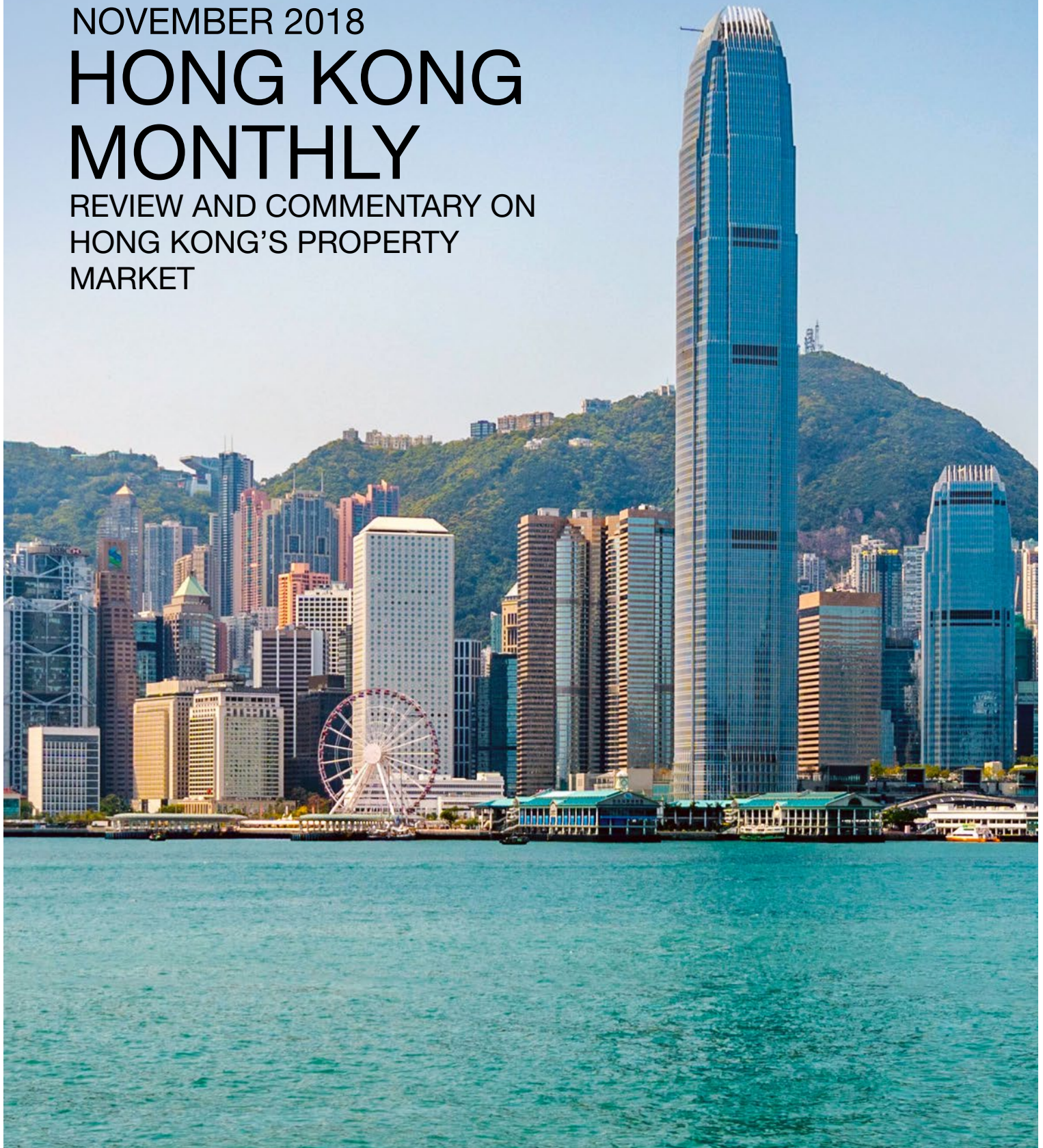
RESEARCH



NOVEMBER 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office
Central rental growth hit by trade war

Residential
Bearish outlook amidst
poor sentiment

Retail
Prime street rents continue
to adjust

PRIME OFFICE



Hong Kong office rental growth is losing momentum due to trade war.

Hong Kong Island

As the Sino-US trade war drags on, companies in Hong Kong are preparing for an economic slowdown and its potential impact on their businesses. Consequently, after rising for almost four years, the Grade-A office rental on Hong Kong Island is finally losing momentum. It was either flat or dipped slightly in various districts last month, even though vacancy rates remained at a historic low. One of the key reasons is that there were very few Mainland firms looking for new office space, in contrast to past years.

The area that is first affected is Central, long been the most popular location for Mainland companies. On top of that, as a number of large tenants will move out of Central to decentralised areas in the next two years, a rise in vacancy rate is inevitable.

Therefore, our rental forecast for Hong Kong Island in 2019 is a downward correction of 1% to 4%.

Kowloon

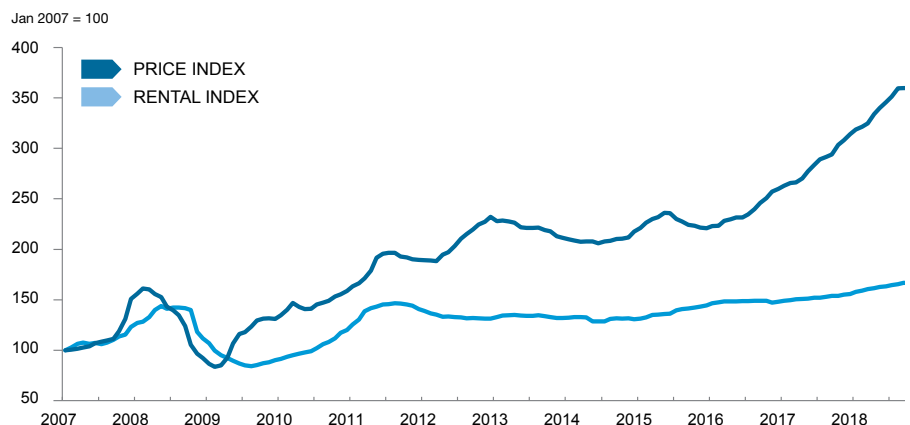
The trade war has resulted in weakened leasing demand in October, with only around 70 sizeable leasing transactions recorded, a sharp fall from over 100 transactions in the previous month. The average area of these deals, however, increased to around 8,000 sq ft from 3,900 sq ft in September, thanks to a number of relocation cases from the Hong Kong Island that took large space.

Kowloon East, the business hub for the trading and shipping sectors, is particularly affected by the falling transaction as some tenants had relocated to cheaper and smaller space. But overall the interest of relocation still remains in the East.

Tsim Sha Tsui is so far unaffected with leasing demand underpinned by the semi-retail sectors, such as medical centres, beauty salons and education centres. This is part of the impact of the Express Rail Link which recently opened.

With demand for office space likely to shrink, we expect growth of Kowloon office rents to slow to between 1% and 3% next year.

FIGURE 1
Grade-A office price and rents



Source: Knight Frank Research

TABLE 1

Selected office sales transaction (Oct 2018)

District	Building	Zone	Gross floor areas (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Admiralty	Bank of America Tower	Mid	1,208 (G)	88.4	73,185
Admiralty	Lippo Centre - Tower 1	High	7,421	388.0	52,284
Kowloon Bay	38 Wai Yip Street Tower A	Mid	2,557	55.6	21,731

Source: RCA

Note: All transactions are subject to confirmation.

TABLE 2

Selected office leasing transactions (Oct 2018)

District	Building	Zone	Lettable floor area (sq ft)	Rent (HK\$ per sq ft per month)	Tenant
Admiralty	Lippo Centre - Tower 1	High	7,000	75.0	N/A
Quarry Bay	One Taikoo Place	-	20,230 (L)	68.0	Eversheds LL
Admiralty	Fairmont House	High	8,824	64.0	Tian Yuan Financial Limited
Kowloon Bay	Kingston International Centre	Mid	28,462	29.5	Celestial Asia Securities
Kwai Chung	Kowloon Commerce Centre Tower A	High	53,340	28.5	Yusen Logistics

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

TABLE 3

Prime office market indicators (Oct2018)

District	Net effective rent		Change		Price (Gross) HK\$ psf	Change		
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %		M-o-M %	Q-o-Q %	Y-o-Y %
Premium Central	199.2	0.0	0.2	6.3	N/A	N/A	N/A	N/A
Traditional Central	146.2	0.0	3.0	10.3	N/A	N/A	N/A	N/A
Overall Central	164.2	0.0	1.9	8.6	46,844	0.0	6.7	28.1
Admiralty	116.4	-0.2	0.0	6.8	38,607	0.0	4.2	17.6
Sheung Wan	85.5	0.0	0.3	8.4	36,705	0.0	5.5	32.1
Wan Chai	80.4	-0.5	-0.5	6.3	30,031	0.0	1.4	6.1
Causeway Bay	84.1	0.0	0.6	9.4	26,024	0.0	1.1	6.2
North Point	54.5	0.0	0.8	5.4	N/A	N/A	N/A	N/A
Quarry Bay	53.2	0.0	0.0	1.4	N/A	N/A	N/A	N/A
Tsim Sha Tsui	71.3	-1.3	1.2	13.3	18,864	0.0	2.0	22.9
Cheung Sha Wan	32.6	0.0	0.3	8.3	N/A	N/A	N/A	N/A
Hung Hom	42.8	-0.5	-5.2	0.4	N/A	N/A	N/A	N/A
Kowloon East	34.9	-0.3	0.8	2.5	13,603	0.0	1.7	5.5
Mong Kok / Yau Ma Tei	58.8	-0.4	-0.4	1.9	N/A	N/A	N/A	N/A

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL



The housing market is at a turning point. We forecast prices to correct around 10% next year.

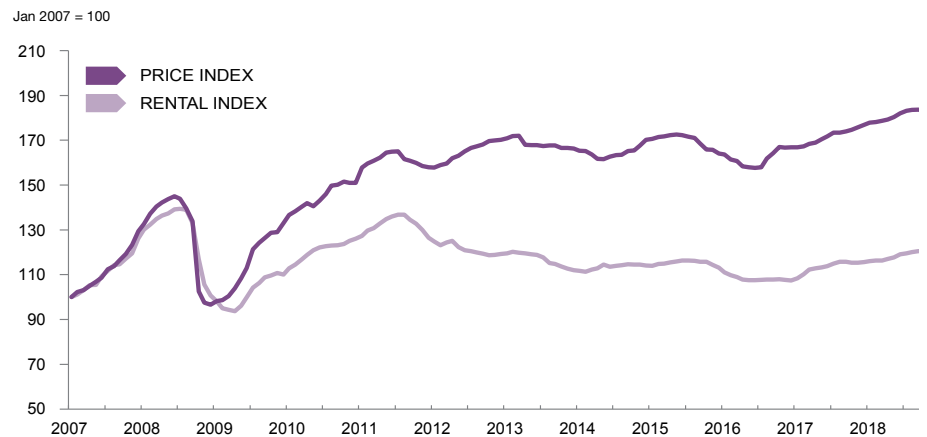
Stock market woes have impacted residential sentiment for both buyers and developers. The latest official prices fell for the second consecutive month, down 1.4% month on month (M-o-M) in September. However, buyers are hesitating as they expect a steeper price correction. Consequently, first-hand transactions dropped to 1,252, or 50% drop year on year (Y-o-Y), a clear market turning point.

Pessimism also spread to the super luxury sector as we saw a few sizeable cancellations. For example, cancellation

of a HK\$271-million house purchase at Pokfulam Peak will lose the buyer a deposit of HK\$54.2 million. However, this market is traditionally more resilient than the mass market.

Even with the corrections, prices are unlikely to see a significant plunge like in 1997 as both the economy and interest rates are still manageable. Therefore, for 2019, we forecast the mass and luxury market prices will drop up to 10% whilst that of super luxury market will largely stay flat, dropping 0-5%.

FIGURE 2
Luxury residential prices and rents



Source: Knight Frank Research

TABLE 4

Selected residential sales transactions (Oct 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Twelve Peak	House	3,731	450.0	120,611
The Peak	Mount Nicholson	Mid floor / unit D	4,596	520.0	113,140
Kowloon Station	Arch	Sky Tower / high floor / unit A	2,014	199.7	99,136
Ho Man Tin	Ultima	House	3,406	333.8	98,000
Island South	8 Deep Water Bay Drive	Tower 2 / mid floor / unit C	4,214	311.8	74,000

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 5

Selected residential leasing transactions (Oct 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Kowloon Station	The Cullinan	Diamond Sky / low floor / unit A	1,443	160,000	111
Mid-Levels Central	Grenville House	High floor / unit E	3,349	270,000	81
Island South	Grosvenor Place	High Floor	1,975	150,000	76
Island South	The Lily	Tower 1 / low floor / unit B	2,577	145,000	56
Island South	Grand Garden	Tower 1 / high floor / unit B	2,491	130,000	52

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

TABLE 6

Luxury residential market indicators (Oct 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	65.4	1.3	1.9	2.0	43,306	-0.5	-0.5	2.0
Island South	57.8	1.2	1.9	6.4	33,695	0.0	0.0	1.7
Mid- Levels	59.7	0.2	0.5	5.7	30,955	-0.1	0.6	8.1
Jardine's Lookout / Happy Valley	51.5	-1.3	0.1	2.5	30,931	0.0	1.5	12.7
Pokfulam	42.2	0.0	0.9	3.9	26,065	-0.1	-0.1	8.0

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RETAIL



The current weak momentum in Hong Kong's retail market will persist, owing to worsening fundamentals in the Mainland.

Bearish financial market has led to weak consumer sentiment and spending. The value of total retail sales increased 2.4% Y-o-Y in September, the slowest growth in 15 months.

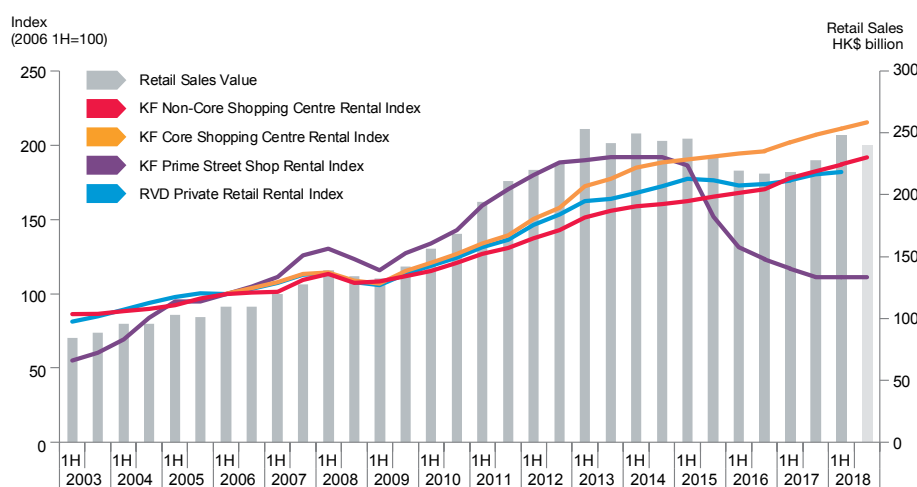
The opening of major infrastructure projects helped to increase foot traffic from the Greater Bay Area and boosted sales in nearby shopping centres. The spending from these new customers may offer some relief to the impacts of RMB devaluation and trade war.

In the long run, retailers will be increasingly exploring opportunities brought by the new connections,

especially in widened markets in the Greater Bay Area.

Nevertheless, the current weak momentum in Hong Kong's retail market will persist next year, due to worsening fundamentals on the Mainland. We forecast that the prime street retail rents will continue to drop by 5% in 2019 amid wealth effect, trade war and other external factors. With retail sales growth narrowing towards the end of 2018, retailers are once again being cautious. Rents in shopping centres will continue to grow steadily but at a slower pace.

FIGURE 3
Retail sales and rents



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

TABLE 7

Selected retail sales transactions (Oct 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Sai Ying Pun	460 Queen's Road West	Ground floor	N/A	503.8	N/A
Tsim Sha Tsui	40-46 Carnarvon Road	Ground floor, lower ground floor	N/A	111.3	N/A
Causeway Bay	33 Tung Lo Wan Road	Ground floor, first floor	N/A	86.5	N/A
Tai Kok Tsui	38 Larch Street	First and second floor	N/A	571	N/A

Source: Economic Property Research Centre

TABLE 8

Selected retail leasing transactions (Oct 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tsim Sha Tsui	Chungking Mansion	Ground floor / unit 4	1,040 (N)	700,000	673
Fortress Hill	Fortress Tower	Ground floor / unit 2	1,157	446,200	386
Admiralty	Admiralty Shopping Centre	Ground floor / unit 1-41	15,603	1,665,000	107
Tsim Sha Tsui	Peninsula Office Tower	Ground floor / unit EL3	N/A	585,272	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

N: Net

TABLE 9

Retail sales by outlet type (Sept 2018)

Outlet	Value (HK\$ billion)	Share of total %	M-o-M %	Q-o-Q %	Y-o-Y %
Jewellery, watches and clocks, and valuable gifts	6.1	16.8	-17.8	-11.4	2.2
Clothing, footwear and allied products	3.9	10.7	-11.4	-16.9	-2.8
Department stores	3.9	10.5	-6.9	0.6	2.0
Fuel	0.9	2.4	2.5	-0.9	6.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	4.5	12.2	26.7	37.9	3.2
Consumer durable goods	5.7	15.5	12.6	6.6	0.4
Supermarkets	4.6	12.7	1.2	5.8	3.6
Others	7.0	19.2	-13.2	-17.0	5.9
All retail outlets	36.6	100.0	-4.0	-3.1	2.4

Source: Census and Statistics Department / Knight Frank Research



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