

OFFICE

Social unrest continued to dampen leasing demand

Hong Kong Island

Sentiments remained weak in August amidst the on-going social unrest as tenants were very conservative with their outlook and business plans. With market conditions remaining uncertain, many firms are taking a long and hard look at their medium- to long-term plans on real estate costs, in addition to the short-term solutions of space optimisation and restacking. Meanwhile, there were also more lease dispositions seen in the market just as some landlords became increasingly flexible in lease negotiations with attractive rental incentives.

Companies in the airline, shipping, logistics and retail industries hit by the on-going trade war are likely to explore cost-saving options to lower real estate costs. The majority of the financial sector remains resilient but is also taking steps to weather through the current conditions. It is unlikely to see any drastic changes happening as decentralisation and space optimisation continues within the firms.

Kowloon

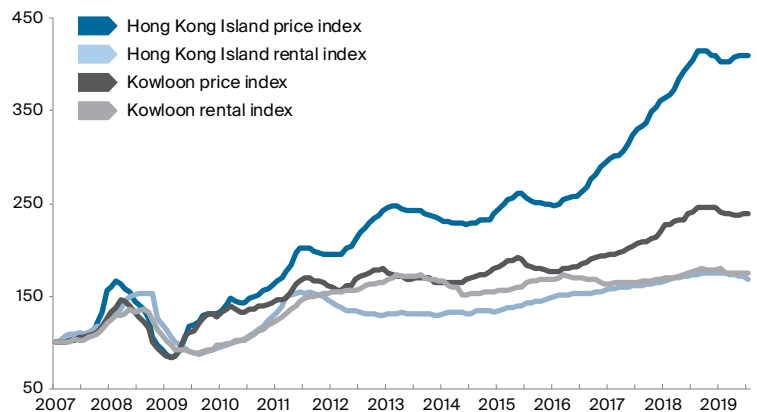
Leasing demand for Grade-A offices in Kowloon fell in August. Most of the deals recorded in Kowloon East were less than 3,000 sq ft, with demand mainly from the sourcing and electronics sectors.

Although the number of deals closed in August was on par with that in July, the negotiations of these deal had started three to six months earlier, reflecting the attitude of tenants before the social unrest began. With market sentiment changed since then, tenants have generally adopted a wait-and-see attitude, causing a drop in the number of tenants requesting inspections. For example, some banks that were recently licensed for virtual banking have put their expansion plans on hold.

Given the impact of external and local uncertainties, leasing market momentum in Kowloon is expected to swing downwards for the rest of the year.

FIGURE 1
Grade-A office prices and rents

2007 = 100



Source: Knight Frank Research

TABLE 1
Grade-A office market indicators (Aug 2019)

| District | Net effective rent | | | Price (Gross) | | |
|-----------------------|--------------------|-------|-------|---------------|-------|-------|
| | HK\$ psf / mth | MoM % | YoY % | HK\$ psf | MoM % | YoY % |
| Premium Central | 189.7 | 0.0 | -4.7 | - | - | - |
| Traditional Central | 134.7 | -3.3 | -6.3 | - | - | - |
| Overall Central | 153.3 | -1.9 | -5.7 | 43,907 | 0.0 | -6.3 |
| Admiralty | 105.5 | -4.3 | -9.4 | 39,184 | 0.0 | 1.5 |
| Sheung Wan | 83.2 | -0.6 | -2.7 | 34,341 | 0.0 | -6.4 |
| Wan Chai | 76.9 | -1.1 | -3.6 | 30,476 | 0.0 | 1.8 |
| Causeway Bay | 78.4 | -1.5 | -6.4 | 26,479 | 0.0 | 2.1 |
| North Point | 51.8 | 0.0 | -4.3 | - | - | - |
| Quarry Bay | 55.6 | 0.0 | 4.5 | - | - | - |
| Tsim Sha Tsui | 72.0 | -0.2 | 1.1 | 18,262 | 0.0 | -3.2 |
| Cheung Sha Wan | 33.3 | 0.0 | 2.9 | - | - | - |
| Hung Hom | 44.7 | 0.5 | -0.7 | - | - | - |
| Kowloon East | 31.8 | -0.4 | -3.4 | 13,205 | -0.3 | -2.4 |
| Mong Kok / Yau Ma Tei | 60.2 | 0.6 | 2.1 | - | - | - |

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

RESIDENTIAL

Sales hovered at low levels amid market headwinds

Housing market activity continued to slow down in August amid the ongoing social unrest and Sino-US trade tension. Monthly residential sales volume reached the lowest in 2019, dropping 17.6% MoM to 4,084 units, according to Land Registry figures.

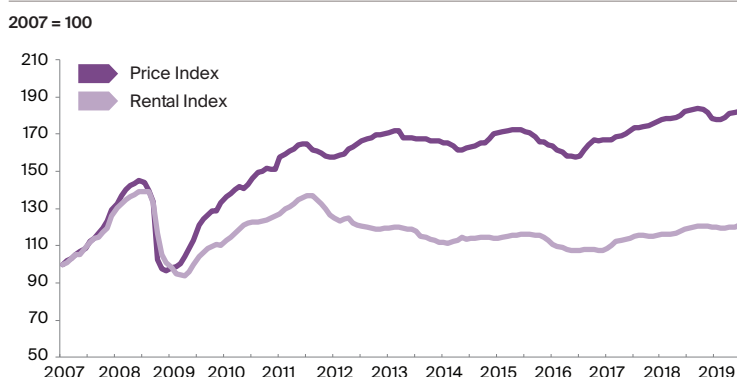
The prolonged protests have soured investors' appetite for homes in the secondary market, so secondary market sales fell 15% YoY. However, in the primary market, newly launched projects continued to draw interest. For instance, the Aurora in Tsuen Wan received 8,400 subscriptions for 354 units and the Marini in Tseung Kwan O received 7,000 subscriptions for 500 units.

The luxury residential market was relatively resilient amid the escalating unrest. A house on Mount Nicholson with a saleable area of 6,326 sq ft was sold for HK\$538.9 million or HK\$85,188 per sq ft, and a house on 45 Tai Tam Road was sold for HK\$ 99,335 per sq ft, a record in the district.

On the leasing front, despite no explicit reduction in rents, some landlords have become more flexible in lease negotiation, for example, by offering a rent-free period, to attract new tenants. Existing tenants also tended to sign renewals to avoid moving costs. Recently, a higher proportion of demand has been from local tenants.

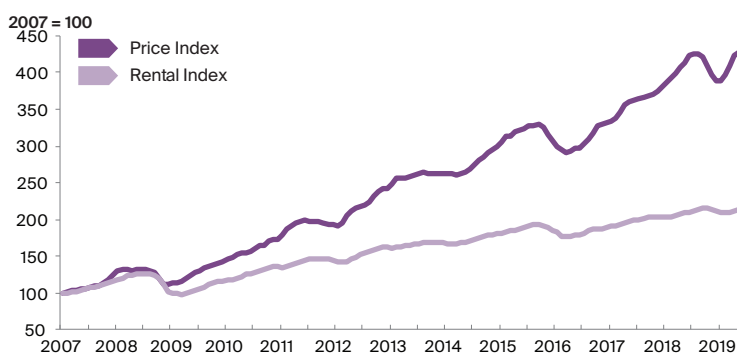
Several new projects will be launched in the coming month, reflecting continued confidence by developers in primary sales. However, we expect the home price correction to continue in the coming months, particularly in the secondary market, amid the combination of global uncertainty and local social tensions.

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 (Aug 2019)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|--------------------|-------------------------|------------------------------|-----------------------|----------------------|------------------------|
| Island South | 45 Tai Tam Road | House | 4,812 | 478 | 99,335 |
| The Peak | Kelletteria | House | 2,419 | 230 | 95,081 |
| The Peak | Mount Nicholson | House | 6,326 | 538.9 | 85,188 |
| Mid-Levels Central | Kennedy Park at Central | High Floor / unit A | 2,715 | 165 | 60,773 |
| North Point | Victoria Harbour | Block 2 / low floor / unit B | 1,467 | 80.4 | 54,775 |

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

TABLE 3
Selected residential lease transactions (Aug 2019)

| District | Building | Tower / floor / unit | Lettable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|--------------------|------------------|------------------------------|-----------------------|---------------------|-------------------------------|
| Island South | The Lily | High floor / unit B | 2,683 | 232,000 | 86 |
| Mid-Levels Central | Branksome Grande | High floor / unit A | 2,354 | 168,000 | 71 |
| Happy Valley | Leighton Hill | Tower 6 / low floor / unit B | 1,724 | 120,000 | 70 |
| Mid-Levels Central | Century Tower | Tower 2 / low floor / unit A | 2,786 | 140,000 | 50 |
| Happy Valley | 47A Stubbs Road | Low floor / unit A | 2,034 | 100,000 | 49 |

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

RETAIL

Luxury retail sales take the hardest hit

The impact of social unrest continued to be felt across Hong Kong retail market. The Sino-US trade war, coupled with the weak renminbi, has also resulted in deteriorating market prospects and weaker consumption confidence.

Retail sales fell 11.4% YoY to HK\$34.4 billion in July, the first full month that was affected by the protests. Luxury goods recorded the largest decrease in sales of all sectors, tumbling 24.4% YoY. This was followed by medicines and cosmetics (-16.1%), apparel (-13.0%), and department store sales (-10.4%).

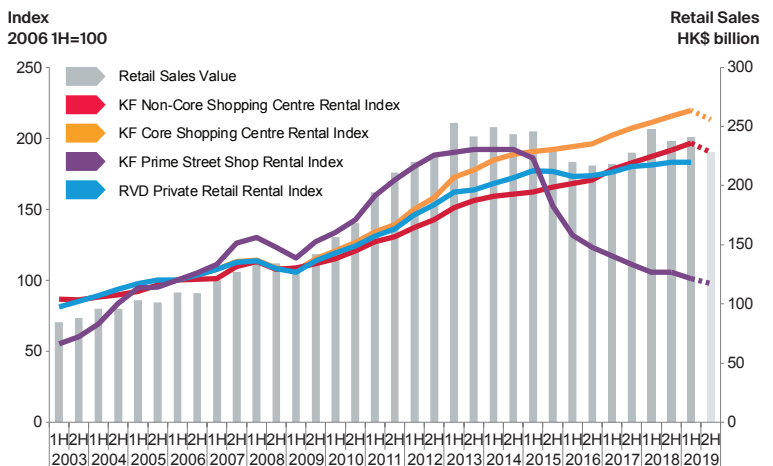
Monthly visitor arrivals declined in July for the first time this year, down 4.8% YoY to 5.2 million. Arrivals from the Chinese Mainland, the city's top visitor market, accounted for more than 90% of the decline. Hong Kong's Financial Secretary, Paul Chan, revealed that total arrivals in August dropped almost 40% YoY.

As there appears to be no end in sight to the social unrest, and there are no positive factors supporting the retail market, especially the luxury goods segment, the fall in luxury retail sales is likely to continue in the coming months.

As we recall, 2013 was the year when luxury sales reached its peak. Last year has already seen it dropped 27% from that peak. Judging from official statistics however, this year's luxury sales figure is expected to fare even worse. At estimated HK\$70 billion, it means that it would fall 40% from the peak of 2013. It is comparable to the recent trough of 2016.

Given the slump in consumer sentiment, retail business performance will remain weak in the short term. We expect retail rents in prime streets to fall at least 15% for 2019.

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 (Jul 2019)

| Outlet | Value (HK\$ billion) | Share of total % | Change MoM % | Change QoQ % | Change YoY % |
|---|----------------------|------------------|--------------|--------------|--------------|
| Jewellery, watches and clocks, and valuable gifts | 5.5 | 16.0 | -4.5 | -5.8 | -24.4 |
| Clothing, footwear and allied products | 4.4 | 12.9 | 1.0 | -14.6 | -12.6 |
| Department stores | 3.6 | 10.3 | -1.3 | -6.4 | -10.4 |
| Fuel | 0.9 | 2.6 | -2.7 | 5.6 | -0.1 |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | 3.1 | 8.9 | -4.0 | -11.5 | -2.3 |
| Consumer durable goods | 4.6 | 13.5 | -0.7 | -9.4 | -13.2 |
| Supermarkets | 4.5 | 13.1 | 1.3 | 8.2 | 1.0 |
| Others | 7.8 | 22.7 | -5.0 | -15.8 | -9.9 |
| All retail outlets | 34.4 | 100.0 | -2.3 | -8.7 | -11.4 |

Source: Census and Statistics Department / Knight Frank Research

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RESEARCH & CONSULTANCY



David Ji
Director, Head of Research & Consultancy, Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Knight Frank Petty Limited
EAA (Company) Lic No C-010431
Knight Frank Hong Kong Limited
EAA (Company) Lic No C-013197

COMMERCIAL AGENCY

Ross Criddle (S-356708)
Executive Director
Head of Global Corporate Services & Hong Kong Office Services
+852 2846 9527
ross.criddle@hk.knightfrank.com

Patrick Mak (E-187858)
Executive Director & General Manager
Head of Kowloon Office Services
+852 2846 0628
patrick.mak@hk.knightfrank.com

RESIDENTIAL AGENCY

Maggie Lee (E-076435)
Senior Director
Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

RETAIL SERVICES

Helen Mak (E-087455)
Senior Director
Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

VALUATION & ADVISORY

Thomas Lam (S-372521)
Executive Director
Head of Valuation & Advisory
+852 2846 4819
thomas.lam@hk.knightfrank.com