

RESEARCH



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HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY MARKET



Office

Mega en-bloc office sales
transaction recorded in Kowloon

Residential

Prices to remain stable despite
raised Double Stamp Duty rate

Retail

Fashion brands downsizing
in prime streets

MARKET HIGHLIGHTS

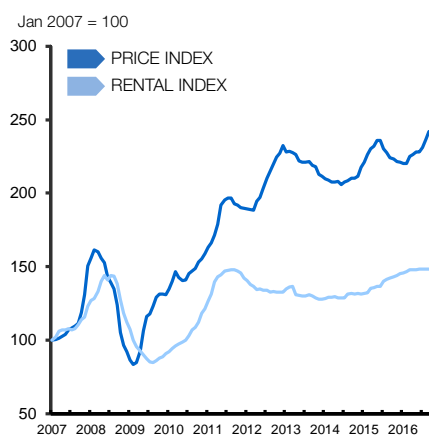
- ◆ Grade-A office leasing was slow in October, both on Hong Kong Island due to limited availability and in Kowloon due to seasonal factors towards the year end. The sales market, however, remained active with another en-bloc deal recorded.
- ◆ The rise in the Double Stamp Duty rate is expected to drag down the number of residential sales transactions, but prices should remain steady due to strong end-user demand and a robust primary market.
- ◆ Further signs of stabilisation were witnessed in the local retail market, indicated by improved retail sales figures. If this trend continues, we expect the market to reach the bottom in the first half of 2017.

TABLE 1
Economic indicators

Economic indicator	Period	Latest reading	2013	2014	2015
GDP growth	Q2 2016	+1.7%#	+2.9%	+2.3%	+2.4%
Inflation rate	Sep 2016	+2.7%	+4.3%	+4.4%	+3.0%
Unemployment	Jul-Sep 2016	3.4%#	3.3%	3.2%	3.3%
Prime lending rate	Current	5–5.25%	5%*	5%*	5%*

Source: EIU CountryData / Census & Statistics Department / Knight Frank Research
Provisional * HSBC prime lending rate

FIGURE 1
Grade-A office prices and rents



Source: Knight Frank Research

Prime Office

The Grade-A office leasing market remained quiet on Hong Kong Island, as leasing activities were limited by the lack of availability. Despite the low take-up, the Central vacancy rate remained at the very low level of 1.6%.

There were not many large-scale leasing transactions in Kowloon last month, with companies slowing down their relocation or consolidation plans towards the year end. Given abundant office supply, landlords continued to increase their rental discounts and started offering more non-financial incentives to attract tenants.

In the sales market, another mega en-bloc transaction was recorded in October. Swire Properties announced

the sale of its Kowloon Bay project, now under construction, for HK\$6.528 billion or HK\$11,761 per sq ft, beating the previous record high set by One HarbourGate, which sold for HK\$5.85 billion, becoming the largest office transaction ever in Kowloon.

Looking ahead, we expect office rents in core business areas to remain high in the next few months, with vacancy rates staying low in most major business districts. Tight availability on Hong Kong Island is expected to linger until 2018, when major projects such as One Taikoo Place in Island East are completed.

Residential

In October, Hong Kong's residential market remained active, with sales volume reaching 6,601 units, doubling the level of a year ago, according to the Land Registry. Home prices rose for the sixth consecutive month, representing cumulative growth of 8.9% from April to October, according to Rating and Valuation Department.

The primary sector continued to dominate, with several new developments oversubscribed in October. Alto Residences in Tseung Kwan O, for instance, sold over 98% of its 363 units in the first batch of sales, while 2gether in Tuen Mun sold over 74% of its 222 units on the first day of launch.

The super-luxury sector remained strong, with a high-floor unit in Mount Nicholson on the Peak selling for HK\$749 million, or HK\$85,000 per sq ft, making it the most expensive flat in the project.

Mainland developers remained active in Hong Kong's land sales market. One acquired a residential site in Kai Tak last month for an accommodation value of as high as HK\$13,500 per sq ft, nearly doubling the market evaluation.

To reign in rises in home prices, the government raised the Double Stamp Duty rate to 15% in early November. The policy is expected to push investors into non-domestic sectors and homebuyers to the primary market, with developers offering various sweeteners to compensate for the tax payment. This, combined with seasonal effects, is expected to slow down residential sales in November and December. Home prices, however, look to remain stable until the end of the year.

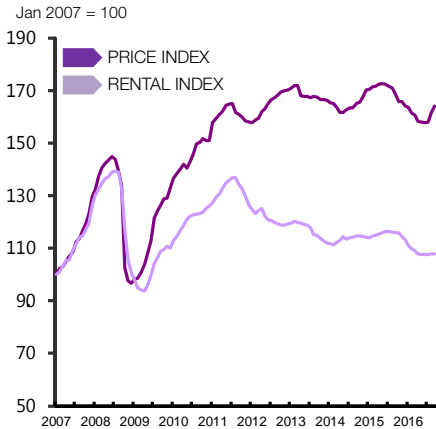
Retail

Retail sales value in Hong Kong fell only 4.1% in September, the smallest drop since October last year. The sales value of "clothing, footwear and allied products" actually increased by 1.5% year on year (YoY), the largest growth since March 2015. The sales value of "jewellery, watches and clocks, and valuable gifts" decreased 12.3% YoY, improving from a 26.5% slump in August.

Retailers continued with their downsizing plan, however, with fashion brands continuing to downsize or close their prime street stores. For instance, US fast-fashion retailer Forever 21 has joined other fashion labels, such as Coach and GAP, in closing its prime street, multi-storey flagship store in Capitol Centre, Causeway Bay, next August when its lease expires. The store will reportedly be taken up by Victoria Secret, an American lingerie retailer, at a monthly rental of HK\$7 million, about a 50% discount from the current rent.

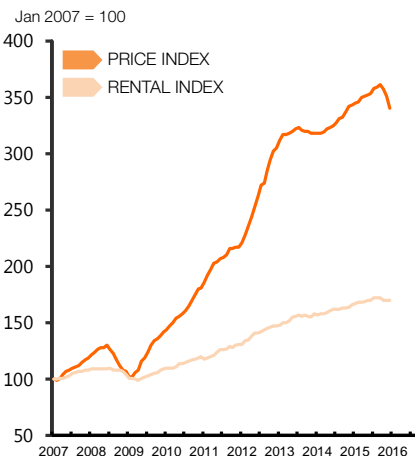
Looking ahead, fashion and hard luxury brands are expected to continue downsizing in prime streets amid fewer visitor arrivals. Restaurant operators and retailers of consumables are set to continue absorbing the space, taking advantage of falling prime street shop rents. However, if the recent signs of stabilisation in inbound tourism and retail sales prove sustainable, prime street shop rents should reach the bottom in the first half of 2017.

FIGURE 2
Luxury residential prices and rents



Source: Knight Frank Research

FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research

Note: Provisional figures from May to Oct 2016

SNAPSHOT

A number of major office sales transactions were registered in Wan Chai last month.

A lingerie company leased 20,000 sq ft of office space in Goldin Financial Global Centre in Kowloon Bay in October.

PRIME OFFICE

TABLE 2

Selected office sales transactions

District	Building	Zone	Gross floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Sheung Wan	Shun Tak Centre	Mid	2,559	\$73	\$28,527
Wan Chai	Bank of East Asia Harbour View Centre	Mid	7,857	\$147.8	\$18,814
Wan Chai	Tesbury Centre	Mid	4,109	\$71.5	\$17,401
Tsim Sha Tsui	New Mandarin Plaza Tower A	Mid	3,396	\$33	\$9,717

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 3

Selected office leasing transactions

District	Building	Zone	Floor area (sq ft)
Kowloon Bay	Goldin Financial Global Centre	Mid	20,000 (G)
Wan Chai	Three Pacific Place	Mid	10,891 (L)
Tsim Sha Tsui	Miramar Tower	High	10,424 (G)
Central	Cheung Kong Center	Low	10,220 (L)

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

G: Gross; L: Lettable

SNAPSHOT

Grade-A office rents increased or remained stable in most major districts last month.

Grade-A office prices increased in all major business districts in October.

TABLE 4

Month-on-month movement in Grade-A office rents (Oct 2016)






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

TABLE 5

Prime office market indicators (Oct 2016)

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	\$175.6	0.4%	1.2%	7.1%	n/a	n/a	n/a	n/a
Traditional Central	\$124.1	1.1%	1.6%	8.8%	n/a	n/a	n/a	n/a
Overall Central	\$141.9	0.8%	1.5%	8.1%	\$29,902	2.2%	6.2%	10.4%
Admiralty	\$100.0	0.0%	0.6%	8.0%	\$25,475	2.0%	9.1%	13.0%
Sheung Wan	\$75.5	0.0%	0.1%	0.5%	\$22,035	3.1%	6.8%	9.1%
Wan Chai	\$69.3	0.7%	0.4%	1.8%	\$22,322	2.1%	8.7%	12.9%
Causeway Bay	\$77.0	0.1%	0.0%	2.6%	\$22,479	1.0%	1.0%	10.8%
North Point	\$49.4	0.0%	0.0%	0.1%	n/a	n/a	n/a	n/a
Quarry Bay	\$56.0	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
Tsim Sha Tsui	\$62.7	-1.0%	-1.9%	-0.3%	\$13,526	0.9%	2.6%	5.2%
Cheung Sha Wan	\$29.1	1.7%	1.7%	0.3%	n/a	n/a	n/a	n/a
Hung Hom	\$32.3	3.6%	3.6%	1.3%	n/a	n/a	n/a	n/a
Kowloon East	\$33.8	0.3%	-1.1%	-1.5%	\$12,019	0.8%	5.3%	7.8%
Mong Kok / Yau Ma Tei	\$52.7	0.5%	1.1%	1.4%	n/a	n/a	n/a	n/a

Source: Knight Frank Research

Note: Rents and prices are subject to revision.

SNAPSHOT

A number of major luxury residential sales transactions were recorded in Mid-Levels West last month.

A number of large units were leased in traditional luxury residential districts in October.

RESIDENTIAL

TABLE 6

Selected residential sales transactions

District	Building	Floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	Shouson Peak	17th floor / unit G	2,931	\$228.42	\$77,932
The Peak	Mount Nicholson Phrase 2, Tower A	8th floor	4,566	\$350.4	\$76,739
Mid-Levels West	Cluny Park	10th floor / unit B	2,201	\$96.3	\$43,736
Mid-Levels West	Alassio	48th floor	2,851	\$117.8	\$41,319

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 7

Selected residential leasing transactions

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
The Peak	King's Court	House	3,165	205,000	\$64.8
Happy Valley	The Altitude	High floor / unit B	1,450	75,000	\$51.7
Island South	Repulse Bay Garden	High floor	1,513	70,000	\$46.3
Island South	Redhill Peninsula	Tower 2 / high floor / unit B	1,401	55,000	\$39.3
Mid-Levels	Garden Terrace	Tower 2 / high floor / unit B	2,580	90,000	\$34.9

Source: Knight Frank Research

Note: All transactions are subject to confirmation.

SNAPSHOT

In September, rents remained stable in all major luxury residential districts.

Island South led the market in luxury home price growth last month.

TABLE 8

Month-on-month changes in luxury residential rents (Oct 2016)






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

TABLE 9

Luxury residential market indicators (Oct 2016)

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	\$60.4	0.0%	-0.1%	-8.4%	\$40,091	0.0%	2.7%	-1.6%
Island South	\$49.6	-0.3%	0.3%	-4.2%	\$30,941	4.6%	10.2%	8.7%
Mid-Levels	\$51.8	0.0%	0.0%	-0.1%	\$27,060	2.2%	7.2%	2.2%
Jardine's Lookout / Happy Valley	\$48.3	0.0%	0.0%	-0.1%	\$25,369	0.7%	2.3%	-3.7%
Pokfulam	\$36.8	0.0%	0.0%	-0.1%	\$22,967	0.9%	5.7%	-5.8%

Source: Knight Frank Research

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

SNAPSHOT

The retail property sales market was active in October.

A number of street shops were leased in prime streets last month.

RETAIL

TABLE 10

Selected retail sales transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Yuen Long	Yuccie Square shopping arcade	Ground floor / units 10-19	N/A	\$500	N/A
Causeway Bay	87 Percival Street	Ground floor	N/A	\$250	N/A
Wan Chai	Zenith shopping arcade	Units B1-B3 and B5	N/A	\$321.16	N/A
Wan Chai	Zenith shopping arcade	Units A1-A3 and A5-A6	N/A	\$186.62	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

TABLE 11

Selected retail leasing transactions

District	Building	Floor / unit	Saleable floor area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Causeway Bay	Po Hon Building	Ground floor / unit B	705	\$288,000	408.5
Central	Yip Fung Building	Ground floor / unit 14	1,583	\$320,000	\$202.1
Mong Kok	Yau Shing Commercial Centre	Ground floor / units C-D	N/A	\$900,000	N/A
Mong Kok	Grancastle Commercial Centre	Ground floor	N/A	\$760,000	N/A

Source: Economic Property Research Centre

Note: All transactions are subject to confirmation.

G: Gross

SNAPSHOT

Prime street shop rents fell in all major retail districts in October.

Total retail sales value decreased 4.1% year on year to HK\$33.8 billion in September.

TABLE 12

Month-on-month movement in prime street shop rents (Oct 2016)





Central	Causeway Bay	Tsim Sha Tsui	Mong Kok
			

TABLE 13

Retail sales by outlet type (Sep 2016)

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	\$5.2	15.5%	-9.1%	-4.2%	-12.3%
Clothing, footwear and allied products	\$3.9	11.7%	-6.0%	-12.6%	1.5%
Department stores	\$3.5	10.2%	-2.0%	4.4%	-2.4%
Fuel	\$0.8	2.3%	1.8%	-2.3%	0.4%
Food, alcoholic drinks and tobacco (excluding supermarkets)	\$4.0	11.7%	14.7%	36.6%	-3.1%
Consumer durable goods	\$5.9	17.6%	23.7%	17.2%	-9.3%
Supermarkets	\$4.4	12.9%	-2.3%	1.1%	-0.4%
Others	\$6.1	18.0%	-12.6%	-16.9%	1.2%
All retail outlets	\$33.8	100.0%	-0.5%	0.2%	-4.1%

Source: Census and Statistics Department / Knight Frank Research



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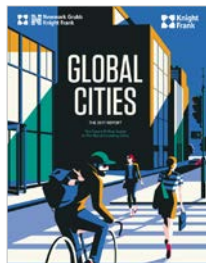
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