

# Hong Kong Property Market Monitor

## Research Report

February 2017



### Grade A Office

- Despite a slowdown in leasing activity around the Chinese New Year holidays, net take-up in the overall market still amounted to 54,300 sq ft in January on the back of consolidation and/or relocation requirements. In one of the more notable transactions, Alibaba leased about 92,000 sq ft (gross) at Times Square in Causeway Bay to house their newly acquired media arm South China Morning Post.
- In Central, the occupier market returned to growth with net take-up amounting to 45,100 sq ft as PRC financial services firms expanded and set up new offices. China Huarong, for example, expanded into Three Garden Road (about 9,000 sq ft, lettable) whilst Guangzhou-based asset manager SFUND leased a whole floor (9,400 sq ft, lettable) at Bank of China Tower for its newly established operations in the city.
- Tenant decentralisation gathered pace amid a widening rental gap between core and non-core office areas. A US financial services firm is relocating from Central to Taikoo Place whilst Freshfields Bruckaus Deringer reportedly has leased two floors at One Island East; which, if transacted, would mark the first UK 'Magic Circle' law firm to move out of Central.
- The opening of the new South Island MTR line continues to stoke tenant interest in Wong Chuk Hang. Valentino leased 1.5 floors at 41 Heung Yip Road whilst Mayer Brown JSM is moving its back office to a whole floor at the same building from Central.
- Limited availability and sustained PRC demand saw rents in Central climb 1.3% m-o-m, closing in on their pre-GFC record highs set in 2008. Meanwhile, rents in other major office submarkets, with the exception of Kowloon East, also trended higher against a tight vacancy environment.
- In his 2017 Policy Address, the Chief Executive announced a number of initiatives to increase the commercial floor area in Kowloon East by 50.6 million sq ft, including increasing the development intensity in the Kai Tak Development Area over two phases.

### Grade A Office Vacancy Rates (end-January)

Overall	Central	Wanchai/ Causeway Bay	Hong Kong East	Tsimshatsui	Kowloon East
4.5%	1.5%	2.6%	2.1%	2.0%	10.4%

### Residential

- The higher stamp duty levy continued to affect investment volumes with home sales dropping a further -7.4% m-o-m to 3,286 in December according to January released data.
- Against a subdued secondary sales market, mass residential capital values edged up 0.6% m-o-m in January.
- The primary sales market showed signs of a pick-up with New World Development and Vanke selling over 70% of their 983 units at The Pavilia Bay in Tsuen Wan.
- A building at 33 Kennedy Road in Wanchai was sold for HKD 156 million (HKD 30,439 per sq ft, SA) to The Development Studio, reportedly for redevelopment purpose.
- A residential development site (NKIL 6564) was awarded to a company associated to HNA Group for HKD 5.5 billion; representing the PRC buyer's third acquisition in Kai Tak.

### Retail

- The inbound tourism market continued to show signs of improvement, with total visitor arrivals up 5.4% y-o-y in December, reversing a -2.1% y-o-y decline in November. Visitors under the Individual Visit Scheme grew 5.6% y-o-y, recording positive growth for the first time in a month since February 2015, as mainland Chinese arrivals grew 6.1% y-o-y over the same period.
- The decline in total retail sales narrowed from -5.4% y-o-y in November to -2.9% y-o-y in December.
- Levi's leased a 4,047-sq ft shop at Silvercord in Tsimshatsui for a reported HKD 300,000 per month, paying 40% less than the previous tenant Outdoor Shop.
- Prosperity REIT sold the three-storey retail podium at Harbourfront Landmark (77,021 sq ft) in Hung Hom for HKD 885.7 million or HKD 11,500 per sq ft, translating to an initial yield of about 2.8%.

### Key Economic Indicators

Real GDP Growth (3Q16, y-o-y)	1.9%
Unemployment (Oct-Dec 16)	3.3%
Consumer Price Index (Dec 16, y-o-y)	1.2%
Retail Sales Value (Dec 16, y-o-y)	-2.9%
Visitor Arrivals (Dec 16, y-o-y)	5.4%
Aggregate Trade (Dec 16, y-o-y)	9.4%
Hang Seng Index (end-Jan 17)	23,361 pts
HSBC Best Lending Rate (end-Jan 17)	5.0%

Source: Census and Statistics Dept., Hong Kong Tourism Board, HSI Company Limited

### Property Transactions (Jan)

Total S&P (Volume)	5,220
Total S&P (Value)	HKD 39.5 b
Residential S&P (Volume)	3,286
Residential S&P (Value)	HKD 27.4 b

Source: The Land Registry

### Industrial

- Strong demand from major Asian countries, including China, offset subdued trade with the US and major EU countries, supporting exports and imports to grow 10.1% y-o-y and 8.7% y-o-y, respectively, in December.
- Air-freight cargo grew 11.3% y-o-y in December, while container throughput rose 14.2% y-o-y over the same period.
- Despite recent improvements in trading statistics, the leasing market in January was generally quiet amid the Chinese New Year holidays.
- In the government's 2017 Policy Address, a number of initiatives were highlighted promoting the development of logistics in the city, such as tax concessions to firms developing aircraft business in Hong Kong. The government also intends to further streamline procedures for issuing waivers to encourage the conversion of industrial buildings to data centre usage.

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