

Hong Kong Property Market Monitor

Research Report

March 2017



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Grade A Office

- Buoyed by cost-saving relocation requirements, net take-up amounted to 60,200 sq ft in February. Market activity was largely focused on decentralised locations. In one of the more interesting moves, a private equity firm relocated its offices from Central to about 16,000 sq ft (gross) at 41 Heung Yip Road in Wong Chuk Hang.
- In Central, leasing demand remained relatively subdued. A handful of tenants sought cost-effective options in the submarket's fringe areas, including Sheung Wan, where rents trade at up to a 50% discount to buildings in core Central.
- Rents across Hong Kong Island remained relatively stable against a tight vacancy environment. Led by growth in the Grade A2 market, Central rents continued to trend higher, albeit at a slower pace, up 0.2% m-o-m in February.
- In contrast, rents in Kowloon East retreated by 1.0% m-o-m in February as vacancy in the submarket remained above 10%. The lack of leasing momentum in newly completed and upcoming Grade A office buildings continued to put pressure on rents.
- A business development site (NKIL 6505) in Cheung Sha Wan was awarded to New World Development for HKD 7.79 billion (A.V. HKD 7,808 per sq ft). The total consideration surpassed the amount paid by Lifestyle International for a commercial development site in the Kai Tak Development Area (HKD 7.39 billion) just three months earlier, setting a new record high in the city. According to local press, the developer intends to build on the site two Grade A office towers atop of a retail podium (maximum buildable GFA of 998,200 sq ft).
- The 2017/18 Land Sale Programme—announced in February—included only three commercial/business development sites. The sites have the potential to yield 1.9 million sq ft of commercial and office space, about a third of the 5.9 million sq ft from the eight commercial/business sites included in the 2016/17 Land Sale Programme.

Grade A Office Vacancy Rates (end-February)

Overall	Central	Wanchai/ Causeway Bay	Hong Kong East	Tsimshatsui	Kowloon East
4.4%	1.5%	2.6%	2.5%	1.9%	10.0%

Key Economic Indicators

Real GDP Growth (4Q16, y-o-y)	3.1%
Unemployment (Nov 16-Jan 17)	3.3%
Consumer Price Index (Jan 17, y-o-y)	1.3%
Retail Sales Value (Jan 17, y-o-y)	-0.9%
Visitor Arrivals (Jan 17, y-o-y)	4.8%
Aggregate Trade (Jan 17, y-o-y)	-2.0%
Hang Seng Index (end-Feb 17)	23,741 pts
HSBC Best Lending Rate (end-Feb 17)	5.0%

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

Property Transactions (Feb)

Total S&P (Volume)	5,615
Total S&P (Value)	HKD 43.4 b
Residential S&P (Volume)	4,079
Residential S&P (Value)	HKD 36.5 b

Source: The Land Registry

Residential

- February released data showed home sales gathering momentum in January, up 24.1% m-o-m to 4,079.
- Mass residential capital values rose 1.0% m-o-m in February, surpassing their last peak set in September 2015 to reach a new record high level.
- Projects in the primary market were well-received, with over 60% of the 924 units at K. City in Kai Tak and over 90% of the 67 units at Crescendo in Yuen Long sold.
- A residential development site in Ap Lei Chau (APIL 136) was awarded to a joint-venture between PRC developers Logan Property and KWG Property for HKD 16.9 billion, setting a new record in the government land sales market.
- A consortium formed by Road King Infrastructure and Ping An Real Estate Capital has won the MTRC development tender for Wong Chuk Hang Station (Phase 1) site, providing about 800 flats.

Retail

- The inbound tourism market grew 4.8% y-o-y in January, along with a 7.7% y-o-y uptick in mainland Chinese visitor arrivals. Visitors utilising the Individual Visit Scheme surged 8.4% y-o-y in January, mainly owing to the earlier Chinese New Year holidays this year.
- The drop in retail sales narrowed from -2.9% y-o-y in December to -0.9% y-o-y in January.
- According to market sources, French sportswear chain Decathlon has leased a basement shop (18,545 sq ft) at Grand Tower in Mongkok for a monthly rent of around HKD 1 million.
- A local investor has acquired a portion of the G/F, 1/F and 2/F (22,000 sq ft) of Po Wing Building in Causeway Bay for HKD 473 million. The property is currently leased to Sincere Department Store at a monthly rent of about HKD 1.5 million, translating to an initial yield of about 3.8%.

Industrial

- Affected by weak demand from China around the Chinese New Year holidays, the value of imports and exports declined by -2.7% y-o-y and -1.2% y-o-y, respectively, in January.
- Still, air-freight cargo and container throughput continued to increase, up 3.0% y-o-y and 3.6% y-o-y, respectively, in January.
- The leasing market remained quiet as most 3PLs adopted a wait-and-see attitude against mixed trade data with activity largely centered on renewals.
- Sumitomo renewed its lease on 31,000 sq ft at ATL Logistics Centre in Kwai Chung for HKD 15 per sq ft per month.
- According to market sources, Success Centre in Kwai Chung (240,000 sq ft), a foreclosed property, has been sold to a joint venture between Hanison and Pagson Development for HKD 800 million (HKD 3,300 per sq ft) via equity transfer.

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