

RESEARCH



AUGUST 2018

HONG KONG MONTHLY

REVIEW AND COMMENTARY ON
HONG KONG'S PROPERTY
MARKET



Office

Major leasing deals in the
summer low season

Residential

Buyers hesitation following
government's new measures

Retail

Luxury sales returned to
pre-downturn level

PRIME OFFICE

Hong Kong Island

The Grade-A office leasing market on Hong Kong Island was relatively active in July, traditionally an off-peak season, when a number of major transactions took place. Limited availability of office space in the CBD has driven tenants to compete for a few pocket spaces. Leasing decisions were also being hastened through the summer.

Meanwhile, the decentralisation theme continues among tenants who needed multiple floors but were deterred by Central's high rents (reaching \$198 per sq ft per month). For example, law firm Reed Smith Richards Butler has relocated from Central to One Taikoo Place in Quarry Bay, taking up some 40,000 sq ft of space spanning two floors. Financial services provider ICAP has planned to relocate from The Center to One Hennessy in Wan Chai taking up 20,000 sq ft of space. Meanwhile, Dutch co-working spaces operator SPACES took up over 100,000 sq ft in Lee Garden Three in Causeway Bay.

As a result, spaces in these major new buildings on Hong Kong Island were quickly absorbed. Lee Garden Three is 97% let while One Hennessy is 100% let. Meanwhile, One Taikoo Place has only one vacant floor available.

After the strong take-up in these new buildings the market is not expecting another supply surge this side of the

harbour this year. The overall vacancy rate of Hong Kong Island has now dropped to 1.6%.

The speedy taking up of the buildings like the One Hennessy indicates that decentralising tenants still prefer to remain as close to the CBDs as possible.

However, given the acute space scarcity, Tenants will have to be open-minded about their choices, such as new areas like Wong Chuk Hang. KPMG's interest in South Island Place is a good example.

Kowloon

In contrast to Hong Kong Island, Kowloon's Grade-A office market was quiet in July with the number of leasing transactions nearly halved month-on-month. Most leasing transactions involved small premises, with the average size of leased offices decreasing from over 7,000 sq ft in June to over 4,000 sq ft in July.

A notable transaction in Kowloon last month involved a seizable renewal by an insurance company in The Gateway in Tsim Sha Tsui, covering over 220,000 sq ft of GFA , significantly lowering the building's vacancy level after the recent relocation of FT Life to Kowloon Bay. Meanwhile, co-working operators continued to dominate the new letting market in recent months. A co-working operator committed to a 20,000-sq-ft space in Grand Century Place in Mong Kok, another popular district for occupiers in Kowloon Central.

In fact, most Grade-A office leasing transactions in Kowloon during recent months were renewal instead of new lettings. Some tenants, particularly large-space occupiers, were increasingly concerned about rising relocation costs. Other tenants were also aware of the narrowing rental gaps between districts as well as competition from emerging districts like Wong Chuk Hung.

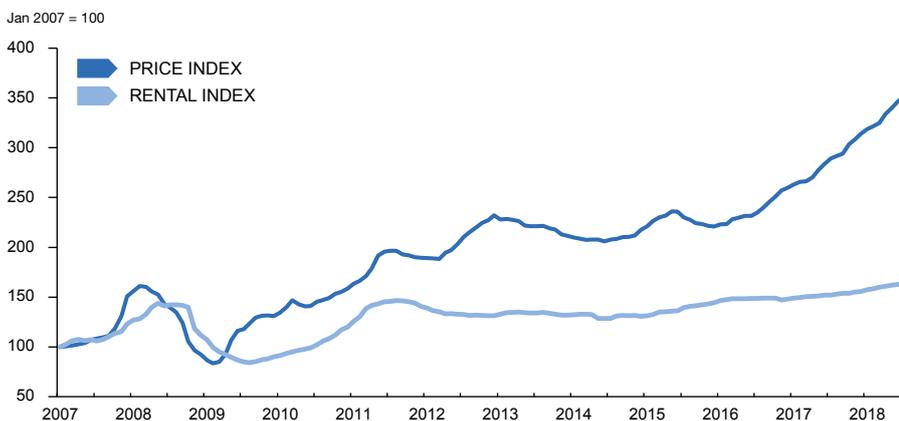
Meanwhile, as the Sino-US trade dispute rages on, businesses of trade related firms may be affected. As a result, they may postpone even halt their current expansion plans. Take-up from firms in the logistics, trading and sourcing sectors, who normally cluster in Kowloon, may slow down. However, this can be balanced out by the limited new supply in Kowloon this year.

Therefore, we do not see any downward pressure on rents in Kowloon and we maintain our forecast that the rents will moderately increase between 2-4% this year.



The speedy take-up of new buildings indicates that decentralising tenants still prefer to remain as close to the CBDs as possible

FIGURE 1
Grade-A office price and rents



Source: Knight Frank Research

TABLE 1
Selected office sales transaction (Jul 2018)

District	Building	Zone	Gross floor areas (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tsim Sha Tsui	Oriental Centre	Mid	7,560	123.9	16,389
Sheung Wan	Hang Lung House	Mid	2,500	36.8	14,720
Admiralty	Admiralty Centre Block 1	Low	N/A	43.8	N/A

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.

TABLE 2
Selected office leasing transactions (Jul 2018)

District	Building	Zone	Lettable floor area (sq ft)
Central	Cheung Kong Center	Mid	13,000
Quarry Bay	One Taikoo Place	High	40,460
Causeway Bay	Lee Garden One	High	32,959
Tsimshatsui	The Gateway Tower 3 Prudential Tower	--	225,733 (G)
Kwun Tong	Landmark East - AXA Tower	High	15,261 (G)

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

TABLE 3
Prime office market indicators (Jul 2018)

District	Net effective rent		Change		Price (Gross) HK\$ psf	Change		Y-o-Y %
	HK\$ psf/mth	M-o-M %	Q-o-Q %	Y-o-Y %		M-o-M %	Q-o-Q %	
Premium Central	198.7	1.0	3.3	7.8	N/A	N/A	N/A	N/A
Traditional Central	141.9	0.7	2.2	7.5	N/A	N/A	N/A	N/A
Overall Central	161.2	0.9	2.7	7.6	45,344	3.3	8.4	25.0
Admiralty	116.4	0.0	1.1	8.6	37,189	0.3	11.6	23.6
Sheung Wan	85.2	0.0	0.6	14.1	36,070	3.7	11.1	35.8
Wan Chai	80.9	0.3	0.8	7.5	29,791	0.6	2.6	8.5
Causeway Bay	83.6	0.0	0.7	9.1	25,739	0.6	2.4	8.0
North Point	54.1	0.0	0.0	4.6	N/A	N/A	N/A	N/A
Quarry Bay	53.2	0.0	0.0	1.6	N/A	N/A	N/A	N/A
Tsim Sha Tsui	70.5	2.3	4.2	13.3	18,490	1.5	6.7	22.9
Cheung Sha Wan	32.5	-0.7	0.7	6.7	N/A	N/A	N/A	N/A
Hung Hom	45.2	0.4	4.2	7.9	N/A	N/A	N/A	N/A
Kowloon East	34.7	0.3	1.3	2.3	13,376	0.8	1.9	6.3
Mong Kok / Yau Ma Tei	59.0	0.0	-0.8	9.2	N/A	N/A	N/A	N/A

Source: Knight Frank Research
Note: Rents and prices are subject to revision.

RESIDENTIAL



In light of the government intervention and external uncertainties, we expect home prices to grow at a slower rate in the second half of the year.

Residential sales lost 9% M-o-M in July to 6,093 units, as some landlords and potential buyers were waiting to see the impact after the government announced six new housing policies at the end of June. However, prices continued to grow. According to latest official data, home prices have grown for 27 consecutive months, rising 27% from the previous peak in September 2015.

In the primary market, some developers accelerated the launch of flats last month, pre-empting market uncertainties brought about by the implementation of the Vacancy Tax, the escalating Sino-US trade war and the interest rate hike. Some units, especially larger ones, were even launched at a price discount.

According to the Transportation and Housing Bureau, approximately 93,000

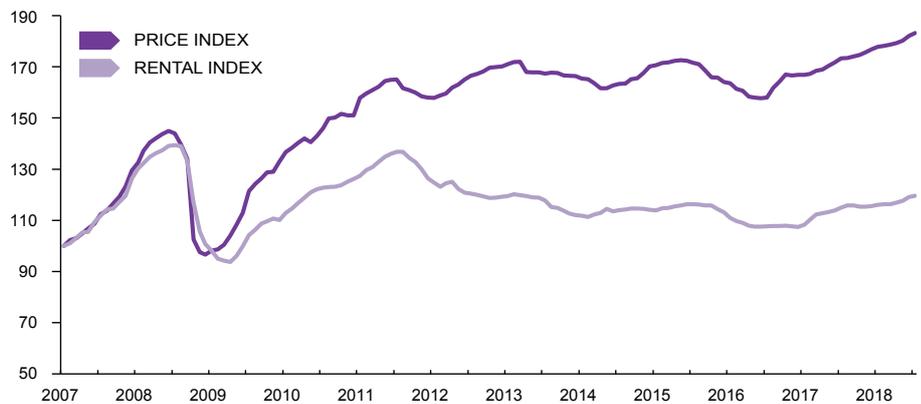
private residential units could be available during the coming 3-4 years.

Although prime rates have remained unchanged in the meantime, many banks have slightly lifted their mortgage rates in August. In light of the government intervention and external uncertainties, we expect home prices to grow at a slower rate in the second half of the year. Over the whole year though, residential prices are expected to increase between 10-13%.

In the leasing market, rental growth remained robust in July as families began to settle into new homes before the next school year starts. As close to 10,000 completed units become available before the end of the year, a district with a surge in leasing supply, such as Tsuen Wan, Tseung Kwan O and Hung Hom, could its rental level under pressure.

FIGURE 2
Luxury residential prices and rents

Jan 2007 = 100



Source: Knight Frank Research

TABLE 4
Selected residential sales transactions (Jul 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Twelve Peak	House	4,784	730	152,592
Happy Valley	Goldsmith Road	House	5,809	700	120,503
Island South	90 Repulse Bay Road	House	5,634	508.673	90,286
Island South	Shouson Peak	House	3,547	287.8	81,139
Pokfulam	Villa Bel-Air	House	3,792	175	46,150

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

TABLE 5
Selected residential leasing transactions (Jul 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	39 Conduit Road	Mid floor	2,355	200,000	84.9
Island South	The Lily	Tower 2 / high floor	3,700	198,000	53.5
Mid-Levels Central	Estoril Court	Tower 1 / low floor / unit A	2,888	135,000	46.8
Pokfulam	Bel-Air on the Peak	Tower 5 / low floor / unit A	1,798	130,000	72.3
Mid-Level Central	Regent on the Park	Low floor / unit A	2,072	98,000	47.3

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

TABLE 6
Luxury residential market indicators (Jul 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	64.2	0.1	2.1	-1.3	43,516	0.5	1.5	3.7
Island South	57.0	0.6	1.3	6.6	33,695	0.1	0.7	2.7
Mid-Levels	59.5	0.2	2.0	6.6	30,768	0.7	4.1	8.7
Jardine's Lookout / Happy Valley	51.5	0.2	3.6	3.9	30,482	1.3	3.8	13.2
Pokfulam	42.0	0.7	2.2	5.4	26,081	0.7	2.8	8.8

Source: Knight Frank Research
Note: Rents and prices are subject to revision.

RETAIL



Personal care products and cosmetics retailers were cashing in on Hong Kong's brand for quality

The star of the month belongs to the luxury market as the volume of luxury goods sales has returned to the level last seen three years ago, growing 27.8% Y-o-Y in July. This has propelled the overall sales volume to increase 12.1% Y-o-Y. At the half year point, luxury sales value reached HK\$43.4 billion. If this trend continues, this year's total would surpass that of 2015, the year before the last downturn started.

Personal care products and cosmetics retailers were cashing in on Hong Kong's brand for quality in light of the health scandals on the Mainland as they continued to expand in core areas. In the latest example, Mannings has rented a street shop in Causeway Bay Plaza 2 which is currently leased by McDonald's.

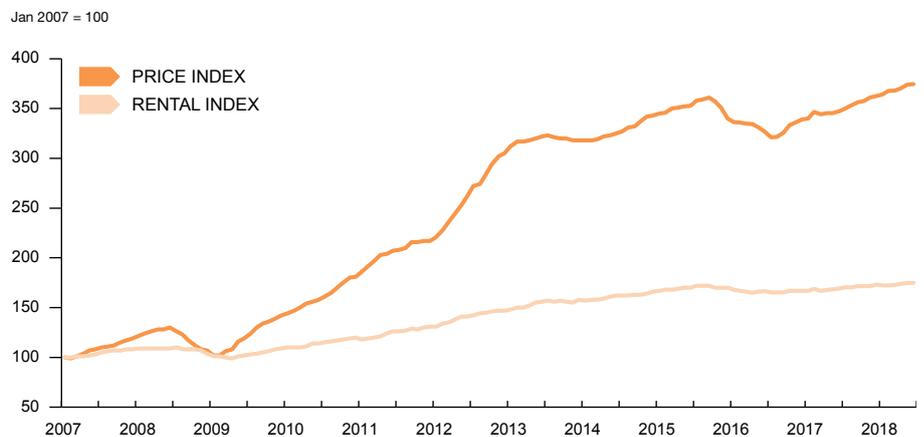
Meanwhile, food and beverage operators were also heeding the market call for cultural preservation and exploring the

appeal of traditional family business for brand building. For example, restaurant LH Group has successfully outbid a few competitors to acquire the ownership of Wing Wah Noodle Shop, a traditional noodle restaurant in Wan Chai that had planned to close in late August.

Despite the increased Mainland visitor arrivals, their spending power is likely to be affected by the depreciation of Renminbi if the Sino-US trade dispute is not resolved in the short run.

But the transport links opening this year will provide some support to the market even when external uncertainties deepens. Spending by local consumers is unlikely to be affected as the Hong Kong dollar is pegged with the US dollar. As a result, the prime street rents are expected to level off going forward which leads to a positive outlook for the rest of 2018.

FIGURE 3
Retail property prices and rents



Source: Rating and Valuation Department / Knight Frank Research
Note: Provisional figures from Dec 2017 to May 2018

TABLE 7
Selected retail sales transactions (Jul 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Kwun Tong	Wah On House	Ground floor / unit 45	515 (N)	71	137,864
To Kwa Wan	93 Pau Chung Street	Ground floor, basement, 1st floor	N/A	158	N/A
North Point	Stamps Gallery	Ground floor / unit 7	N/A	57	N/A
Sheung Wan	11 Queen's Road West	Mezzanine floor	N/A	43	N/A

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.
N: net; G: gross

TABLE 8
Selected retail leasing transactions (Jul 2018)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Central	BOCG Insurance Tower	Basement	N/A	1,125,000	N/A
Mong Kok	158A-158C Tung Choi Street	Ground floor / unit 51A	135	160,000	1,185
Tsim Sha Tsui	1 Prat Avenue	Ground floor / unit C	314	210,000	669
Yau Ma Tei	Tung Nam Commercial Centre	Ground floor / unit B	205	100,000	488

Source: Economic Property Research Centre
Note: All transactions are subject to confirmation.

TABLE 9
Retail sales by outlet type (Jun 2018)

Outlet	Value (HK\$ billion)	Share of total %	M-o-M %	Q-o-Q %	Y-o-Y %
Jewellery, watches and clocks and clocks, and valuable gifts	6.9	18.4	0.8	0.9	27.8
and valuable gifts	4.7	12.5	-8.6	-13.5	6.3
Department stores	3.8	10.1	-33.7	-4.8	15.0
Fuel	0.9	2.4	-3.5	13.3	13.9
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.2	8.6	-3.7	-1.7	8.9
Consumer durable goods	5.3	14.0	1.0	-16.2	4.5
Supermarkets	4.4	11.6	-1.7	2.6	1.1
Others	8.5	22.4	-2.7	-3.3	15.0
All retail outlets	37.8	100.0	-6.8	-5.1	12.0

Source: Census and Statistics Department / Knight Frank Research



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