

## OFFICE

A surge in available stock could slow growth momentum in Central

### Hong Kong Island

In April, the Grade-A office leasing market in Central was quiet, mainly as a consequence of limited available stock. The overall Central rent remained flat at HK\$161 per sq ft. In a low vacancy environment, landlords are standing firm on asking rents and more selective of tenants.

Many Mainland companies are no longer in expansion mode or have pulled back from the Hong Kong market in the past few months. With no new drivers in the market, the leasing momentum in Central remains weak. At the same time, a substantial amount of new stock will be available in the next 12 months due to some larger tenants moving out of Central. Therefore, we expect the vacancy rate to increase from the present low level of 1.7%.

Decentralisation to Quarry Bay has slowed due to the low availability of large space of over 20,000 sq ft in Island East. Relocations to Wanchai from Central district remains strong as law firms, in particular, prefer the proximity to the District Court in Wanchai, in addition to the lower rent. A recent example is Bird & Bird, a UK legal firm, which leased 26,000 sq ft in Central Plaza.

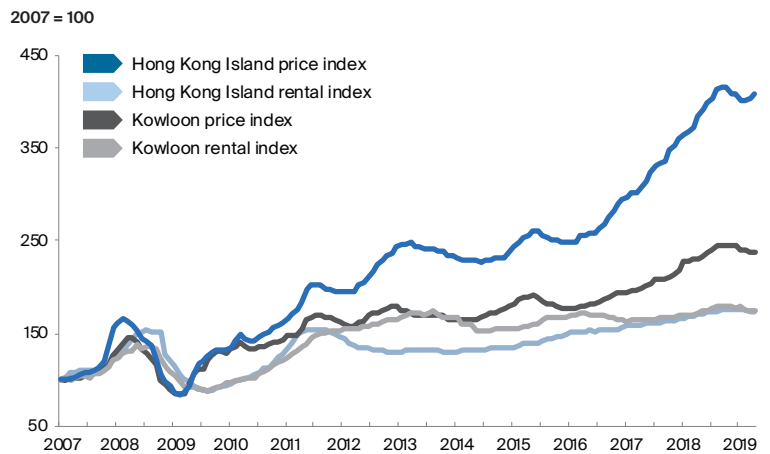
### Kowloon

The number of leasing transactions in the Kowloon Grade-A market fell over 40% month on month in April, owing mainly to the Easter holidays. About 40% of the transactions on the Kowloon side were recorded in Kowloon East. Demand was mainly from the construction and insurance industries.

One significant transaction recorded during the month was Gammon Construction's letting of a 50,000-sq-ft office space at The Quayside in Kwun Tong for a monthly rent of HK\$32.5 per sq ft. The company will relocate its current office in Devon House, Taikoo Place in Quarry Bay to Kowloon East.

Looking ahead, we expect rents in Kowloon East to increase only mildly from 0% to 2% in 2019, as over 2.6 million sq ft of new supply will be added to the market. Tsim Sha Tsui is expected to experience stable growth, which should underpin an overall rental increase of 1% to 3% in Kowloon.

FIGURE 1  
Grade-A office prices and rents



Source: Knight Frank Research

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

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	193.2	0.0	0.5	-	-	-
Traditional Central	144.6	0.0	4.2	-	-	-
Overall Central	161.1	0.0	2.6	43,750	1.5	2.6
Admiralty	115.8	0.0	0.6	39,184	1.5	11.1
Sheung Wan	86.0	0.0	1.5	34,052	0.5	1.7
Wan Chai	78.2	0.0	-1.0	30,476	1.5	5.0
Causeway Bay	83.6	0.0	0.7	26,409	1.5	5.1
North Point	52.2	0.0	-3.5	-	-	-
Quarry Bay	54.1	0.0	1.8	-	-	-
Tsim Sha Tsui	71.6	-0.1	4.8	18,070	-0.4	3.2
Cheung Sha Wan	33.3	1.3	3.3	-	-	-
Hung Hom	44.3	0.0	2.1	-	-	-
Kowloon East	32.1	0.1	-0.7	13,429	0.0	2.2
Mong Kok / Yau Ma Tei	60.2	1.9	1.2	-	-	-

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

# RESIDENTIAL

## Home sales rose but the trade war could bite

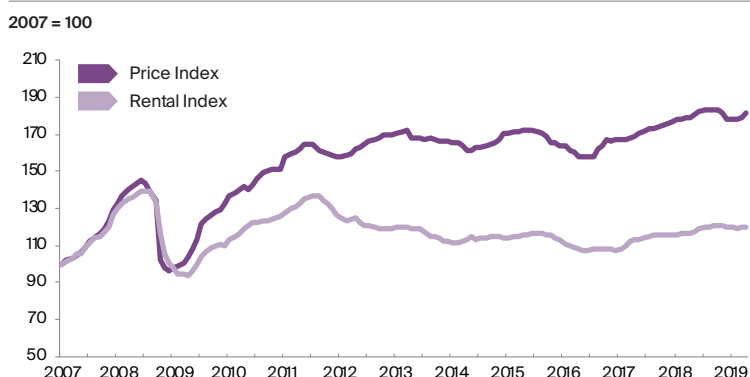
Hong Kong's residential sales surged 49.5% MoM in volume to 7,822 units in April, according to the Land Registry. This was the highest level of monthly transactions since September 2016, added to signs that the property market was warming up, with prices expected to grow further. The latest official data shows that overall residential property prices increased by 5% in Q1 2019 over the previous quarter. Negative equity cases dropped considerably from 262 in Q4 2018 to 44 in Q1 2019, according to Hong Kong Monetary Authority.

The market saw healthy demand for primary residential properties. For instance, there was an oversubscription of close to 30 times at the Montara project in Lohas Park, which received 15,000 subscriptions for 500 units; and the Timber House project in Ho Man Tin was oversubscribed 8 times. Meanwhile, interest in luxury homes in the secondary market remained high. Residence Bel-Air in Pokfulam recorded 11 transactions in March and another 11 in April, compared to a total of 7 in January and February.

With corporations resetting their budgets entering the new financial year in April, luxury residential and serviced apartments saw higher leasing demand. Outside the traditional luxury areas, high-end properties in Tsim Sha Tsui and Kowloon Station gained popularity thanks to the high-speed rail.

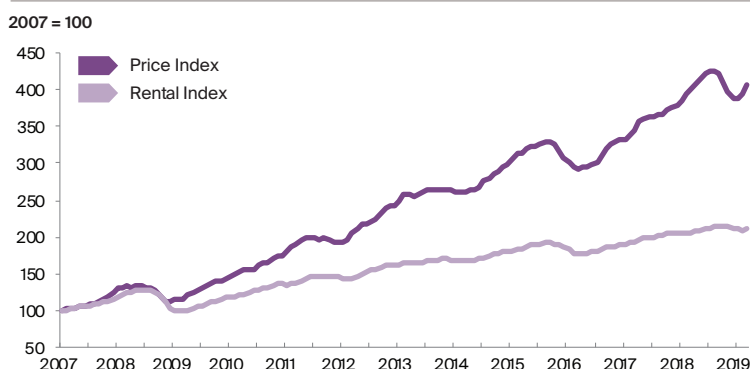
The China-US trade dispute has put a dent in Hong Kong's economic prospects. But we expect any adverse impact on the Hong Kong residential market to be temporary, as demand remains strong from both investors and end-users.

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 (Apr 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	8 Deep Water Bay Drive	Tower 1 / low floor	7,568	605.4	80,000
Mid-Level Central	The Mayfair	High floor / unit A	2,155	160.9	74,654
Mid-Level Central	Requence Royale	Tower 2 / high floor / units A+B	3,738	190.0	50,829
Kowloon Tong	62 Begonia Road	House	3,991	158.1	39,614
Tai Tam	Redhill Peninsula	House	3,020	101.5	33,609

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

TABLE 3  
Selected residential lease transactions (Apr 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Level East	Highcliff	High floor / unit A	2,739	200,000	73
Mid-Level West	Cluny Park	Low floor / unit B	2,115	138,000	65
Mid-Level Central	Estoril Court	Block 2 / high floor / unit D	2,888	165,000	57
Mid-Level Central	Garden Terrace	Tower 2 / low floor / unit B	2,580	120,000	47
Island South	Hong Kong Parkview	Tower 18 / mid floor / unit 97	2,171	102,000	47

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

# RETAIL

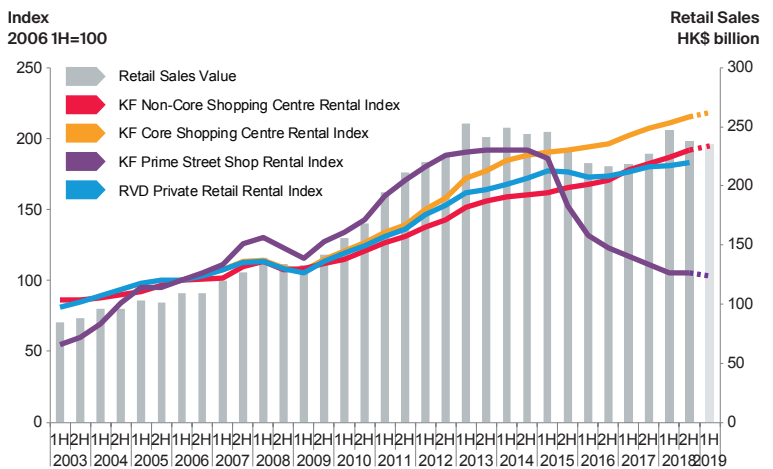
## Retail sales remain challenging amid negative factors

Hong Kong's retail sales continued to trend downward in March as a result of weak market sentiment. Total retail sales recorded a mild drop of 0.2% YoY in value and 0.8% YoY in volume in March. In the first quarter of 2019, total retail sales dropped 1.2%.

Restaurants outperformed other retail segments during the month. According to the Census and Statistics Department, total receipts from restaurant in the first quarter of 2019 increased by 3% YoY to \$31.5 billion. Non-Chinese and fast food restaurants outperformed other food and beverage segments, with a receipt value increase of 4.8% and 5.8%, respectively. The stable growth of these two segments is likely to be driven by visitors, especially by the same-day visitors. Food and beverage retailers have also dominated leasing enquiries for shops at both high street level and in malls.

The positive same-day and overnight visitor figures in March (+26.8% YoY and +14.4% YoY, respectively) provided solid support for retail sales, but we suspect the benefits of the improved cross-boundary transportation links may not be strong enough to offset visitors' weakening purchasing power in the near term amid market uncertainties. Shop rentals in core retail areas such as Central and Causeway Bay are still facing downward pressure, as the shop vacancy in prime shopping streets remains high and absorption is taking place slowly.

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 (Mar 2019)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	6.7	16.9	-7.5	-18.7	-2.6
Clothing, footwear and allied products	5.4	13.5	-8.4	-13.7	-1.3
Department stores	4.2	10.6	-0.4	-20.3	5.0
Fuel	0.8	2.1	20.2	6.7	6.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.4	8.6	-12.9	-12.1	3.5
Consumer durable goods	5.7	14.4	4.6	-11.1	-9.8
Supermarkets	4.4	11.1	3.6	-0.8	3.3
Others	9.1	22.8	1.6	-5.4	3.5
All retail outlets	39.7	100.0	-2.2	-11.5	-0.2

Source: Census and Statistics Department / Knight Frank Research

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