

Rating and Valuation Department
Hong Kong Property Review 2019
Preliminary Findings

Definition of Terms

To facilitate interpretation of the findings, the terms used are explained as follows:

- **Completions** refer to premises issued with an Occupation Permit.
- **Take-up** represents the net increase in the number of units or floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected).
- **Vacancy** indicates the number of units or floor area not physically occupied at the time of conducting the survey at the end of the year. Some vacant domestic units are not yet issued with Certificate of Compliance or Consent to Assign after obtaining the Occupation Permit. Units under decoration are classified as vacant.
- The **take-up** and **vacancy** figures bear **no** relationship with the number of units sold by developers (i.e. primary market transactions) or still retained by them (the unsold stock).
- Completions, take-up and vacancy figures **exclude** village houses.

PRIVATE DOMESTIC

Private domestic completions in 2018 increased by 18% to 20 970 units, which was a record high since 2005. 56% of the completions were in the New Territories, 28% in Kowloon and 16% on Hong Kong Island. At district level, the top three suppliers, namely Kowloon City, Sai Kung and Tsuen Wan, altogether accounted for 66% of the overall completions.

Take-up, at 11 620 units, was 31% lower than that of the last year. Vacancy at 2018 year-end rose to 4.3% of the total stock, equivalent to 51 430 units. Among these vacant units, about 11 240 units were not yet issued with Certificate of Compliance or Consent to Assign after obtaining the Occupation Permit.

The forecast completions in 2019 and 2020 are 20 420 and 20 180 units respectively. In 2019, 66% of the completions will come from the New Territories. District-wise, Sai Kung and Tai Po will provide 20% and 16% of the new supply respectively. In 2020, the New Territories remains to be the major supplier providing 62% of the total supply. District-wise, Tai Po will contribute 21% and Tuen Mun will provide another 15%.

The residential property market was buoyant in the first half of the year, fuelled by encouraging sales responses to new projects and positive sentiment. As a result, the domestic price rocketed 11.9% in the first seven months. However, the market underwent a consolidation in the latter half of the year attributable to various uncertainties, including US-China trade tensions, continued US interest rate hikes, increase in local Best Lending Rates in September and volatility in the global stock markets. Domestic price in August put an end to the 28-month upward trend and culminating in a 9.0% drop in price at the end of the year. Leasing market also lost momentum towards the end of the year. Comparing with the third quarter, prices and rents slid 6.2% and less than 1.0% respectively in the fourth quarter. Nevertheless, overall flat prices in the fourth quarter gained 5.9% over the same quarter in 2017 whereas overall rents during the same period increased by 4.6%.

PRIVATE OFFICE

Office completions in 2018 were 179 000 m², 10% lower than 2017. Grade A completions were 178 000 m², of which 39% came from Kwun Tong and 38% from the Eastern district. Grade B completions of 1 000 m² wholly came from the North district.

The overall take-up boosted to 266 000 m² in the year. Grade A and Grade B offices had positive take-up of 234 000 m² and 35 000 m² respectively. The year-end vacancy fell to 8.6%, amounting to 1 032 000 m². The vacancy rate of Grade A offices dropped to 8.7%, Grade B offices to 9.0% while that of Grade C offices rose slightly to 7.2%. For sub-districts, Grade A offices in North Point/Quarry Bay recorded double-digit vacancy rate.

Forecast completion in 2019 will surge to 285 000 m², but then will plummet to 66 000 m² in 2020. In 2019, new Grade A completions will account for 257 000 m², mainly from Kwun Tong amounting to 50% of the anticipated supply. Grade A completions in 2020 will be 48 000 m², with Tsuen Wan and Sai Kung together contributing 82%. Grade B completions in 2019 will grow to 23 000 m², but it will slide to 18 000 m² in 2020. Grade C office completions will be 5 000 m² in 2019 and minimal in 2020.

Office prices and rents surged upwards in 2018 but softened at the end of the year, as the sector's outlook was clouded by uncertainty over rising interest rates and the Sino-United States trade war, which dampened the demand for prime office space. Overall office prices soared 13.3% while the growth in Grade A, B and C office prices were 23.9%, 8.3% and 4.8% respectively between the fourth quarters of 2017 and 2018. During the corresponding period, overall office rentals gained 4.1%, with Grade A, B and C offices each recording an increase of 4.8%, 3.8% and 3.0% respectively.

PRIVATE COMMERCIAL

Completions in 2018 increased by 19% to 125 000 m², with the New Territories accounting for 48% of the completions. Take-up slackened to 46 000 m² in the year and vacancy rate climbed slightly at 9.4%, amounting to 1 077 000 m².

Completions are expected to reduce to 99 000 m² in 2019, with Yau Tsim Mong and Islands contributing the most, each accounting for 26% of the anticipated supply. In 2020, the completions will be 135 000 m² of which Sai Kung, Tsuen Wan and Wan Chai will become the major suppliers, providing 56% of the total supply.

Both private retail prices and rents rose in 2018, recording a growth of 4.3% and 1.8% respectively between the fourth quarters of 2017 and 2018. Trading volume slightly slid towards the end of the year.

PRIVATE FLATTED FACTORIES

Completions in 2018 went up to 41 000 m², mainly came from Kwun Tong and Sham Shui Po. Negative take-up was recorded, reaching 8 000 m². Vacancy at the year-end edged up to 6.3% at 1 029 000 m².

Completions in 2019 will edge up to 47 000 m² and further rise to 65 000 m² in 2020.

The industrial property market saw a positive sentiment in 2018. Prices escalated by 10.4% while rents gained 5.1% comparing the fourth quarters in 2017 and 2018. Sale activities remained active, despite a lower transaction volume than that in 2017.

PRIVATE INDUSTRIAL/OFFICE

There were no industrial/office completions in 2018. Take-up turned negative to 11 000 m² and the vacancy rate increased to 9.3% at 51 000 m².

It is anticipated to have no new supply in 2019 and 2020.

PRIVATE DOMESTIC

ALL UNITS COMPLETIONS, TAKE-UP AND VACANCY

	No. of units						
	2014	2015	2016	2017	2018	2019	2020
Completions	15 720	11 300 #	14 600	17 790	20 970	[20 420]	[20 180]
Take-up*	16 520	10 530	11 880	16 950	11 620		
Vacancy	43 260	42 040	43 660	42 940	51 430		
%☆	3.8	3.7	3.8	3.7	4.3		

“Private domestic” excludes flats built under the Home Ownership, Private Sector Participation, Buy or Rent Option, Tenants Purchase, Urban Improvement, Flat-For-Sale and Sandwich Class Housing Schemes, etc.

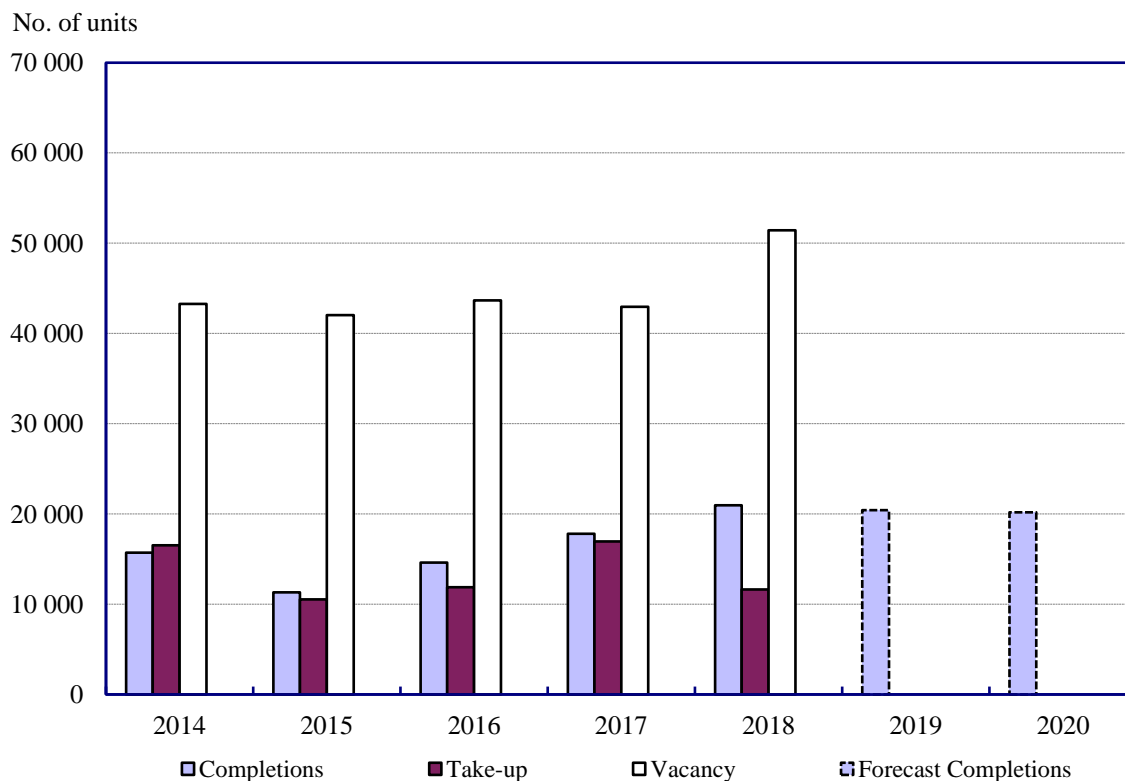
Figures exclude village houses.

Completions of 2015 include 16 flats completed and designated as subsidised sale flats in the year but sold to the public in the open market at prevailing market prices in 2017. There is no amendment to other related take-up and vacancy figures.

* Take-up represents the net increase in the number of units occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year’s demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected).

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



PRIVATE DOMESTIC

SMALL / MEDIUM UNITS (Saleable Area less than 100 m²) COMPLETIONS, TAKE-UP AND VACANCY

No. of units

	2014	2015	2016	2017	2018	2019	2020
Completions	14 810	9 380 #	12 520	16 350	18 860	[18 700]	[18 790]
Take-up*	14 210	8 970	11 040	14 860	11 080		
Vacancy	36 370	34 830	35 240	35 310	42 340		
%☆	3.5	3.3	3.3	3.3	3.9		

Figures exclude village houses.

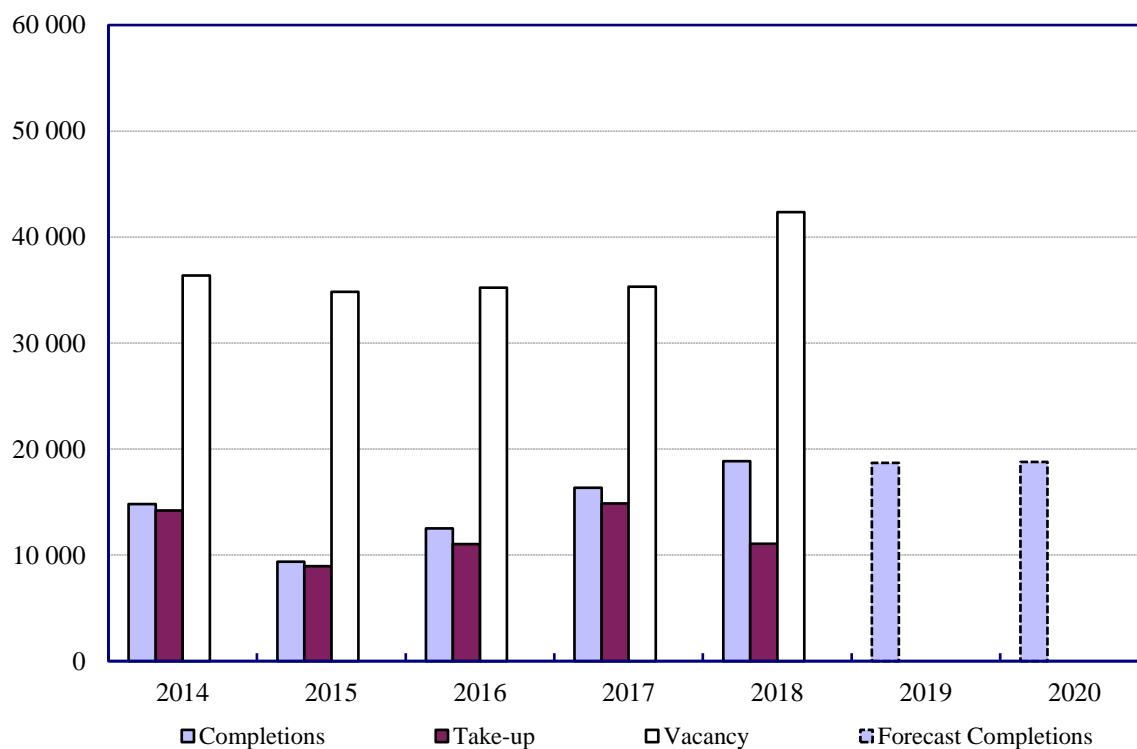
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☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

No. of units



PRIVATE DOMESTIC

LARGE UNITS (Saleable Area 100 m² or above) COMPLETIONS, TAKE-UP AND VACANCY

No. of units

	2014	2015	2016	2017	2018	2019	2020
Completions	910	1 920	2 080	1 440	2 110	[1 720]	[1 390]
Take-up*	2 310	1 560	840	2 090	540		
Vacancy	6 890	7 210	8 420	7 630	9 090		
%☆	7.9	8.1	9.2	8.2	9.6		

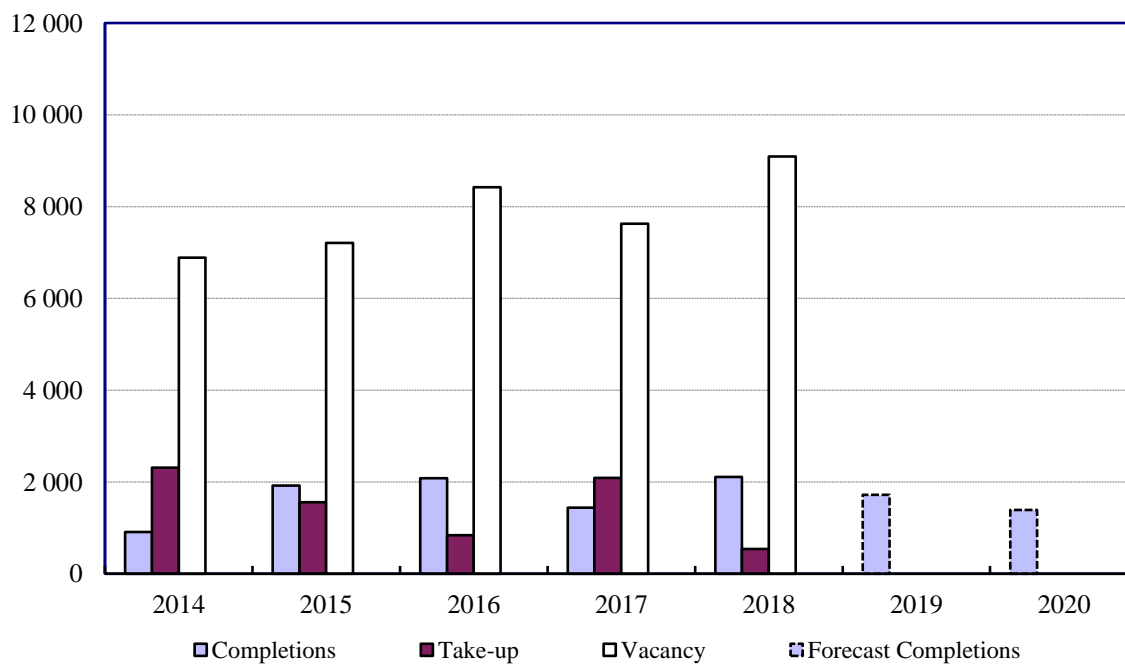
Figures exclude village houses.

* Take-up represents the net increase in the number of units occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected).

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[] Forecast figures

No. of units



PRIVATE OFFICE

ALL GRADES COMPLETIONS, TAKE-UP AND VACANCY

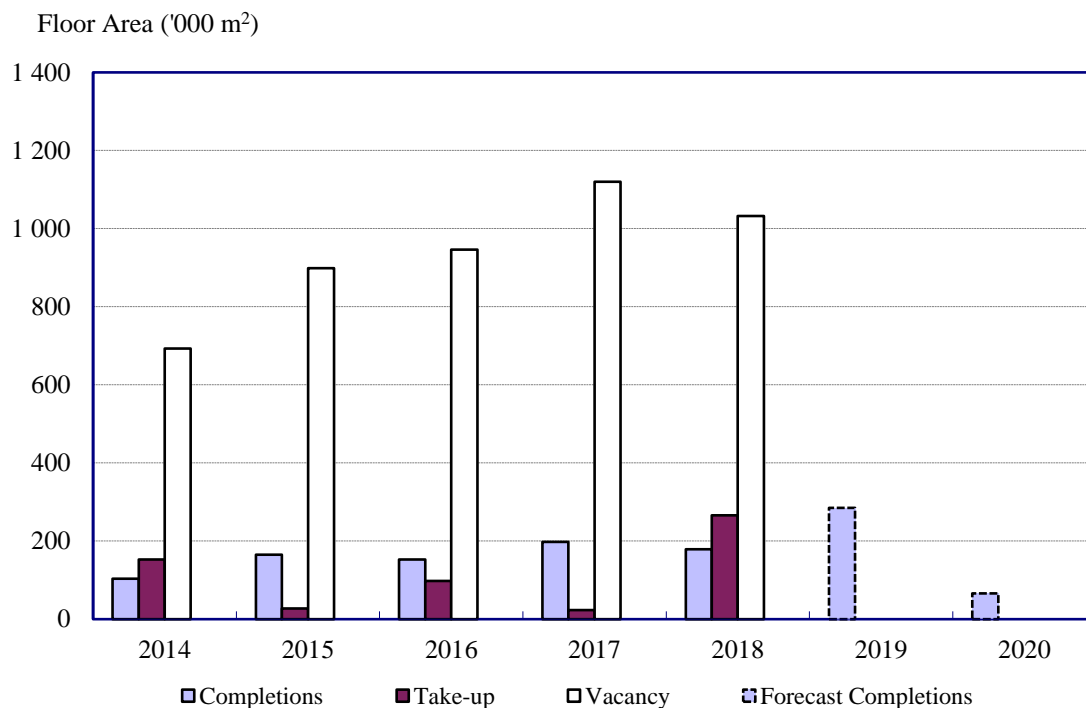
	2014	2015	2016	2017	2018	2019	2020
Completions ('000 m ²)	104	165	153	198	179	[285]	[66]
Take-up* ('000 m ²)	153	27	98	23	266		
Vacancy ('000 m ²)	693	899	946	1 120	1 032		
%☆	6.3	8.0	8.2	9.5	8.6		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected).

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

N.B. Office grades are determined in accordance with criteria which principally reflect the qualities of construction, finishes, facilities and management. Location is not a criterion.



PRIVATE OFFICE

GRADE A COMPLETIONS, TAKE-UP AND VACANCY

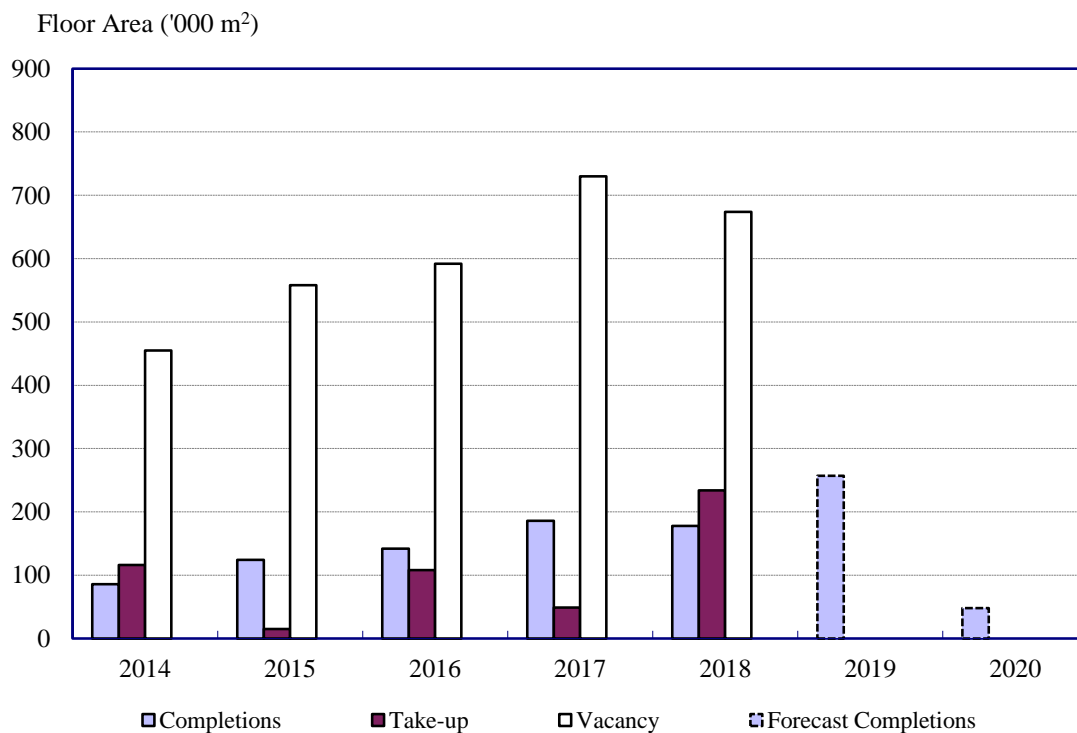
	2014	2015	2016	2017	2018	2019	2020
Completions (’000 m ²)	86	124	142	186	178	[257]	[48]
Take-up* (’000 m ²)	116	15	108	49	234		
Vacancy (’000 m ²)	455	558	592	730	674		
%☆	6.4	7.8	8.0	9.6	8.7		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year’s demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected).

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

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PRIVATE OFFICE

GRADE B COMPLETIONS, TAKE-UP AND VACANCY

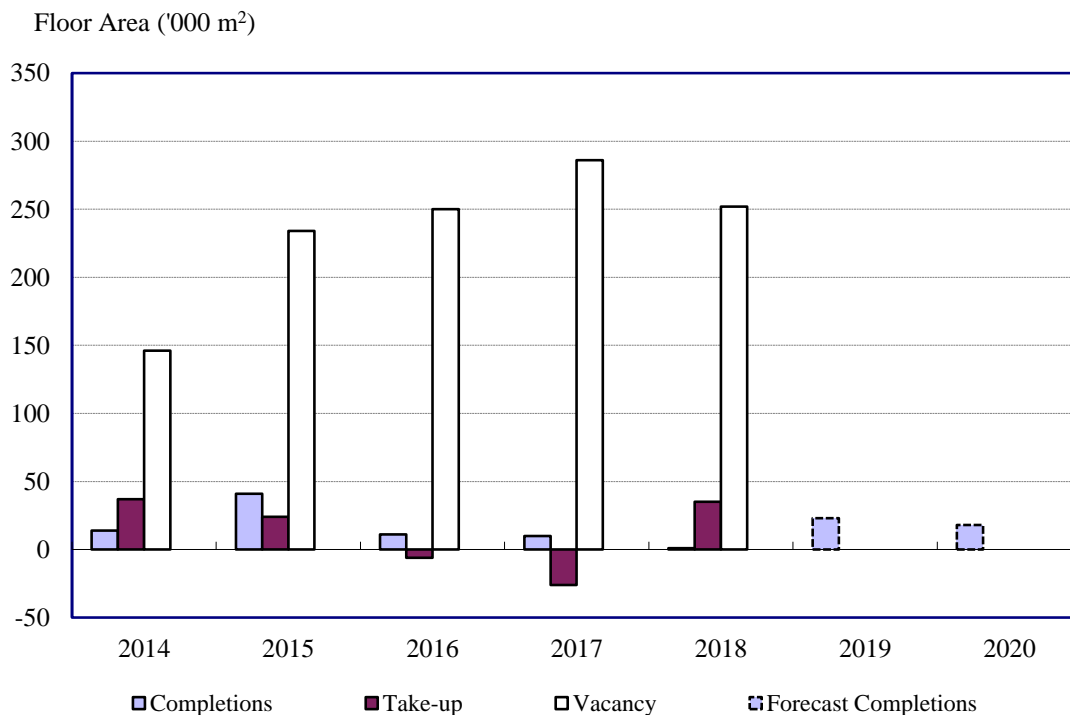
	2014	2015	2016	2017	2018	2019	2020
Completions ('000 m ²)	14	41	11	10	1	[23]	[18]
Take-up* ('000 m ²)	37	24	- 6	- 26	35		
Vacancy ('000 m ²)	146	234	250	286	252		
%☆	5.8	8.9	9.4	10.4	9.0		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

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PRIVATE OFFICE

GRADE C COMPLETIONS, TAKE-UP AND VACANCY

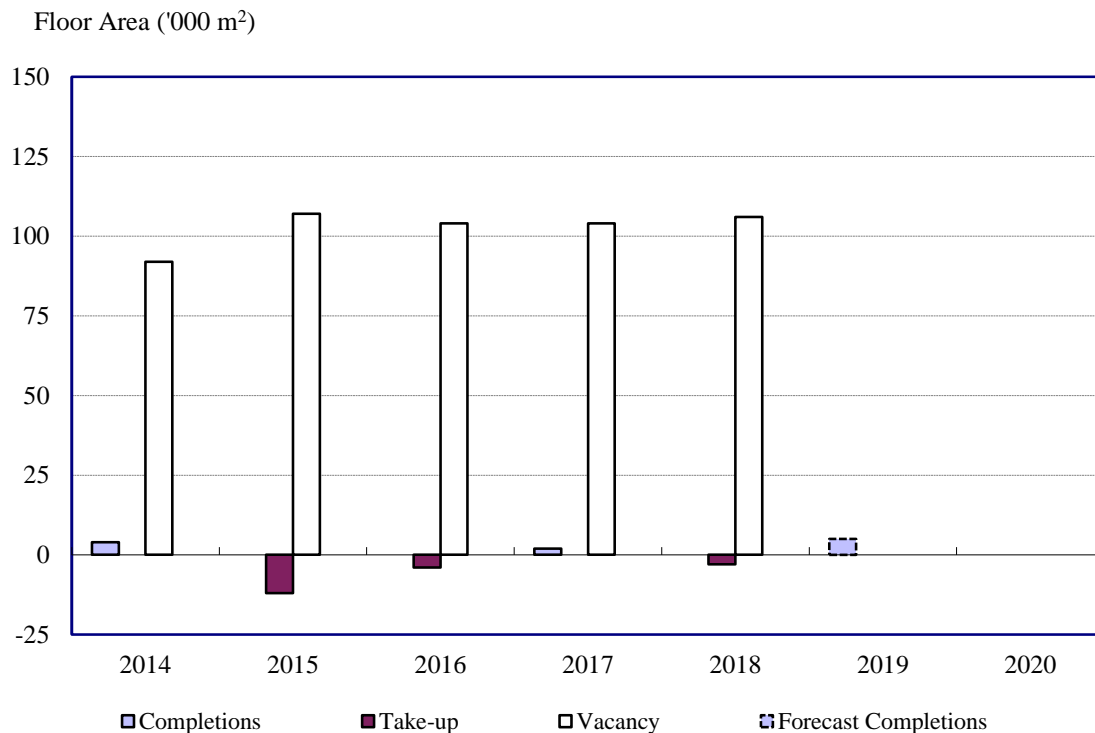
	2014	2015	2016	2017	2018	2019	2020
Completions ('000 m ²)	4	0	0	2	0	[5]	[0]
Take-up* ('000 m ²)	0	- 12	- 4	0	- 3		
Vacancy ('000 m ²)	92	107	104	104	106		
%☆	6.2	7.2	7.0	7.0	7.2		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures

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PRIVATE COMMERCIAL

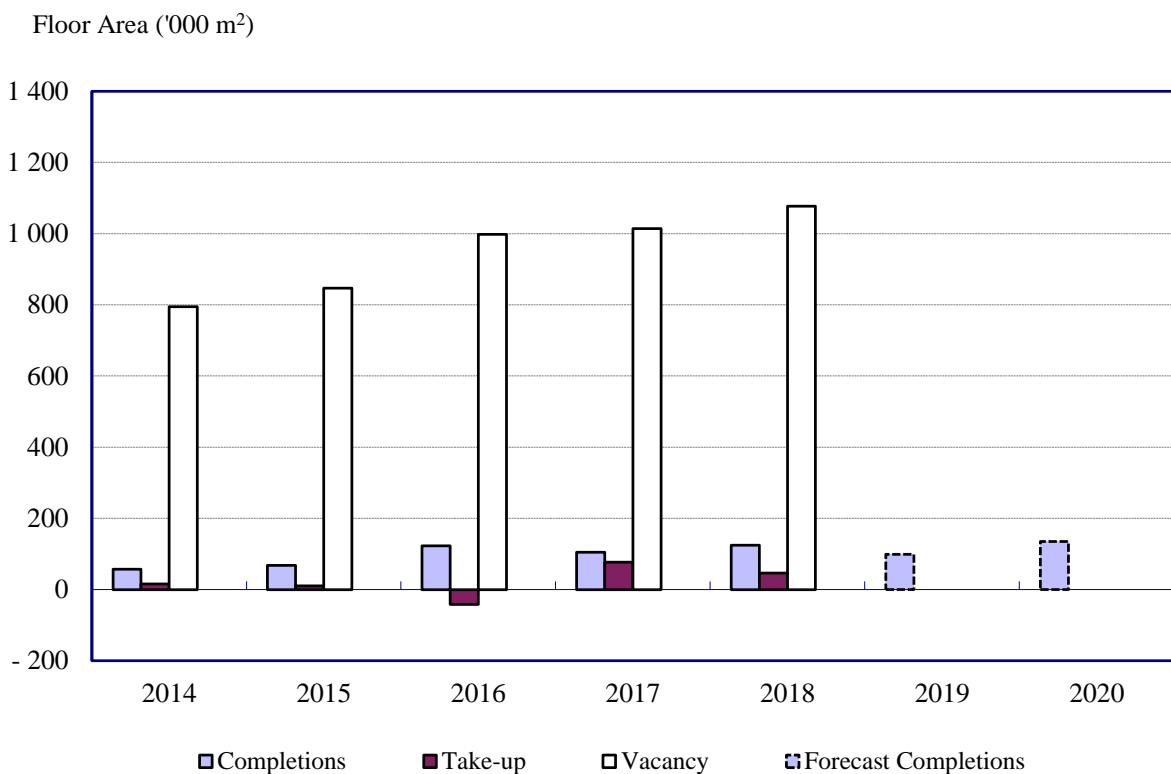
COMPLETIONS, TAKE-UP AND VACANCY

	2014	2015	2016	2017	2018	2019	2020
Completions ('000 m ²)	57	68	123	105	125	[99]	[135]
Take-up* ('000 m ²)	16	10	- 42	77	46		
Vacancy ('000 m ²)	795	847	998	1 014	1 077		
%☆	7.3	7.7	9.0	9.0	9.4		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



PRIVATE FLATTED FACTORIES

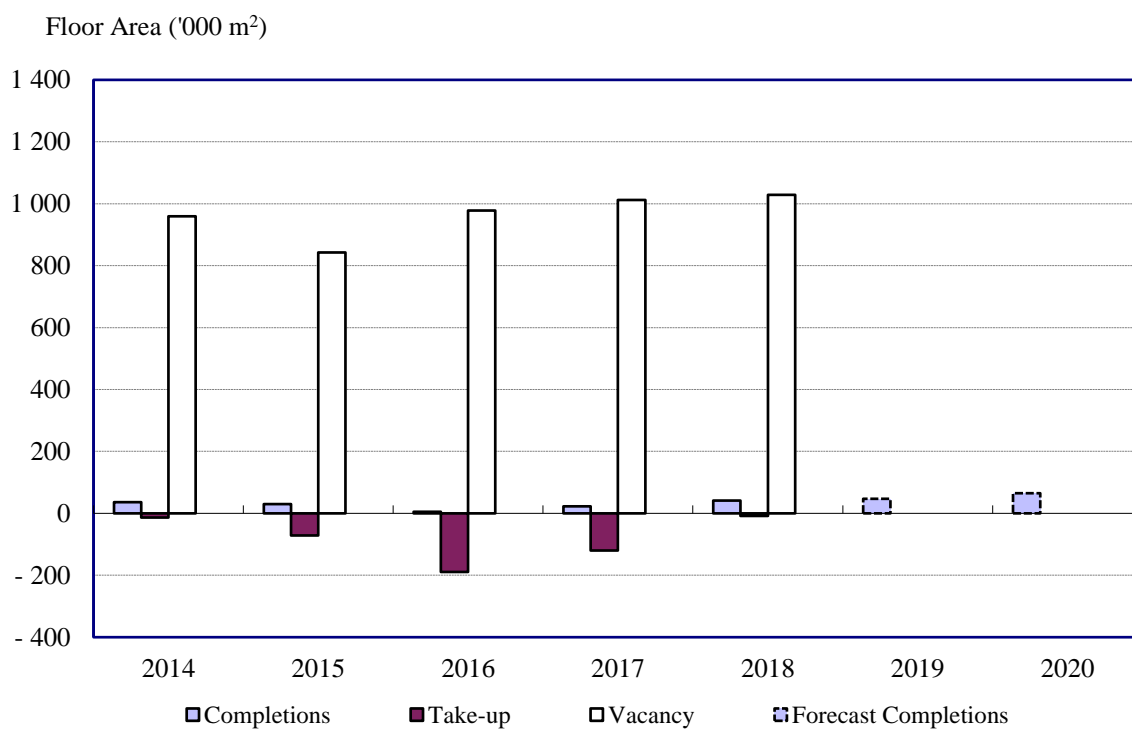
COMPLETIONS, TAKE-UP AND VACANCY

	2014	2015	2016	2017	2018	2019	2020
Completions ('000 m ²)	36	30	5	23	41	[47]	[65]
Take-up* ('000 m ²)	- 13	- 71	- 189	- 120	- 8		
Vacancy ('000 m ²)	959	843	978	1 012	1 029		
%☆	5.6	5.0	5.8	6.1	6.3		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



PRIVATE INDUSTRIAL/OFFICE

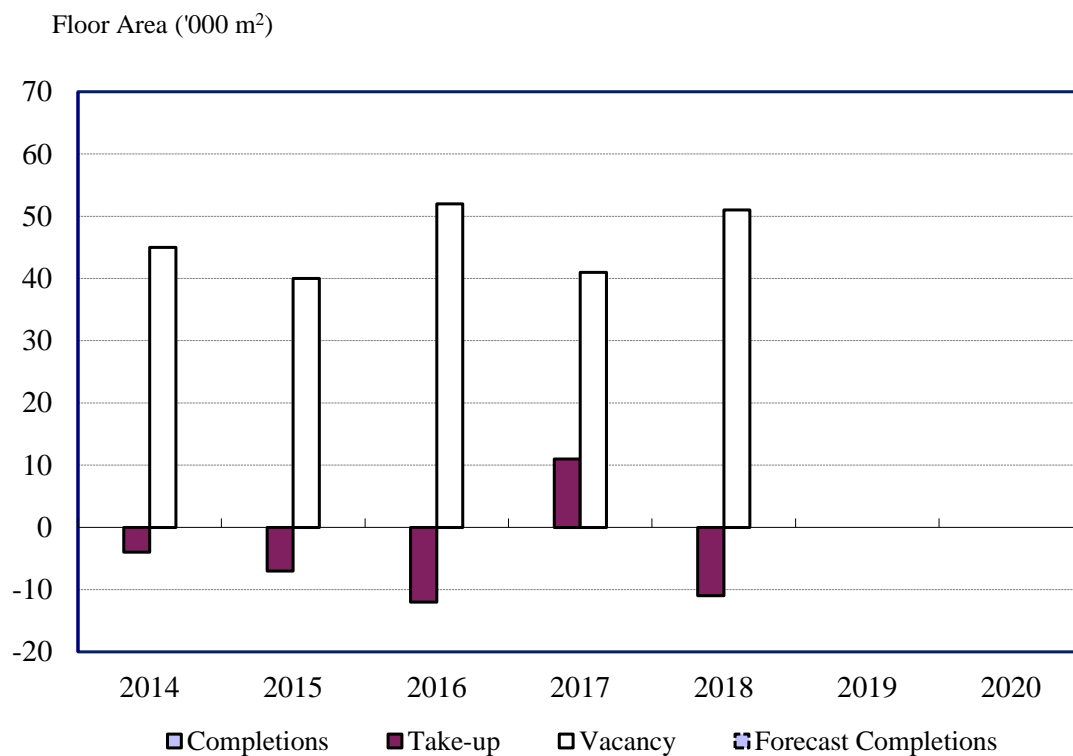
COMPLETIONS, TAKE-UP AND VACANCY

	2014	2015	2016	2017	2018	2019	2020
Completions ('000 m ²)	0	0	0	0	0	[0]	[0]
Take-up* ('000 m ²)	- 4	- 7	- 12	11	- 11		
Vacancy ('000 m ²)	45	40	52	41	51		
%☆	7.5	6.8	8.9	7.4	9.3		

* Take-up represents the net increase in the floor area occupied in the year under review. The figures are computed by adding the completions in that year to the vacancy figures at the beginning of the year, and then subtracting the year's demolition and the year-end vacancy figures (with figures for wholesale conversion, if any, already reflected). A negative figure indicates a net decrease in occupied floor space.

☆ Vacancy at the end of the year as a percentage of stock.

[] Forecast figures



Appendix A

MONTHLY PRICE INDICES FOR DOMESTIC PREMISES

(1999 = 100)

Year	Month	Small / Medium	Large	Overall
1997	Oct (Peak)	172.3	183.4	172.9
2017	Jan	311.0	281.4	309.7
	Feb	315.4	284.1	314.0
	Mar	322.8	286.5	321.2
	Apr	331.9	290.1	330.0
	May	335.5	294.8	333.6
	Jun	338.1	297.2	336.1
	Jul	339.5	297.8	337.5
	Aug	341.8	300.0	339.7
	Sep	342.9	301.1	340.8
	Oct	346.4	302.3	344.2
	Nov	349.2	307.4	347.2
	Dec	354.7	312.6	352.7
2018	Jan	360.5	316.7	358.4
	Feb	366.9	317.7	364.5
	Mar	372.6	318.5	370.0
	Apr	379.8	321.3	377.0
	May	386.2	326.7	383.4
	Jun	394.1	331.8	391.1
	Jul	397.8	332.9	394.8
	Aug	397.7	331.7	394.6
	Sep	392.7	324.4	389.4
	Oct	381.9	316.5	378.7
	Nov*	370.4	311.4	367.5
	Dec*	361.7	309.1	359.2

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

- (i) Small / Medium units are those with saleable area less than 100 m². Large units are those with saleable area 100 m² or above.
- (ii) The indices are based on an analysis of prices paid for completed properties sold in the secondary market. Date of sale is the date on which an Agreement for Sale and Purchase is signed. Provisional agreement is generally reached 2-3 weeks earlier.

PRICE INDICES**(1999 = 100)**

Private Domestic Properties	2017	2018			
	4Q	1Q	2Q	3Q	4Q*
Small / Medium Units (Saleable Area less than 100 m ²)	350.1	366.7	386.7	396.1	371.3
Large Units (Saleable Area 100 m ² or above)	307.4	317.6	326.6	329.7	312.3
Overall	348.0	364.3	383.8	392.9	368.5

Non-Domestic Properties	2017	2018			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	478.3	493.7	525.3	550.4	(592.7)
Grade B	540.3	554.7	578.4	604.0	585.1
Grade C	534.5	539.5	553.9	574.3	560.1
Overall	511.1	522.8	546.9	572.2	578.9
Retail Premises :	573.6	584.0	589.0	595.5	598.3
Flatted Factories :	818.6	850.6	887.6	911.7	903.6

* Provisional - liable to change as further data becomes available for analysis.

() Indicates fewer than 20 transactions.

Technical Notes :

The indices are based on an analysis of prices paid for completed properties sold in the secondary market. Premises of all ages and in all locations are included. Where appropriate, the date of agreement is taken as the date of sale.

RENTAL INDICES**(1999 = 100)**

Private Domestic Properties	2017	2018			
	4Q	1Q	2Q	3Q	4Q*
Small / Medium Units (Saleable Area less than 100 m ²)	191.1	191.9	196.0	200.5	199.8
Large Units (Saleable Area 100 m ² or above)	151.4	152.1	154.5	158.3	157.6
Overall	187.1	187.9	191.9	196.3	195.7

Non-Domestic Properties	2017	2018			
	4Q	1Q	2Q	3Q*	4Q*
Offices : Grade A	253.1	253.7	261.1	263.8	265.2
Grade B	240.4	243.4	245.5	246.9	249.6
Grade C	225.8	225.6	224.8	230.0	232.5
Overall	245.7	246.8	251.4	253.9	255.8
Retail Premises :	185.0	185.4	186.6	187.8	188.3
Flatted Factories :	195.9	197.1	202.1	204.6	205.8

* Provisional - liable to change as further data becomes available for analysis.

Technical Notes :

The indices are based on an analysis of rentals paid for completed properties. Premises of all ages and in all locations are included. Where appropriate, the commencement date of a tenancy agreement is adopted as the effective date. However, rents are normally agreed earlier (2-4 weeks earlier for fresh lettings and 1-3 months for lease renewals). Rent-free periods are taken into account if known.

PRICE AND RENTAL MOVEMENTS IN 2018

(based on Appendices B & C)

Private Property Category (Territory-wide)		% Change* <u>4Q 2018*</u> <u>4Q 2017</u>	
		Price	Rental
Domestic Premises :	Small / Medium Units (Saleable Area less than 100 m ²)	6.1	4.6
	Large Units (Saleable Area 100 m ² or above)	1.6	4.1
	Overall	5.9	4.6
Offices :	Grade A	23.9	4.8
	Grade B	8.3	3.8
	Grade C	4.8	3.0
	Overall	13.3	4.1
Retail Premises :		4.3	1.8
Flatted Factories :		10.4	5.1

* Provisional - liable to change as further data becomes available for analysis.