This report analyses the performance of Hong Kong's office, residential and retail property markets

knightfrank.com.hk/research

Hong Kong Monthly

April 2021

OFFICE

Companies with better performance grab expansion opportunity in downbeat market

Hong Kong Island

Grade-A office rents on Hong Kong Island continued their slight downward trend. Central recorded a moderate decline in March, with a quarterly drop of 2.7% to HK$113 per sq ft. Against this backdrop, some sizable tenants continued to take advantage of falling rents to seek better deals, leading to a rebound in leasing activity during the month.

Some companies with better performance are actively looking for expansion options with lower rental costs, though with longer-term lease commitments. Several finance and investment firms, such as APG Investments Asia and Diginex, relocated from Central to Three Pacific Place in Wanchai to expand their office space to capture the opportunities in the downbeat market.

With the high activity level in Central, some landlords, especially those with vacancies already backfilled, firmed up their rents. Therefore, we expect the rental level in Central to stabilise in the coming months. In Island East, the relatively low vacancy rate should help stabilize rents. However, pressured by the low activity level and more office supply, rents in Causeway Bay and Wanchai may see a further downward adjustment. Looking ahead, we expect the relaxation of restrictions for the "Return2hk" Travel Scheme to drive a revival in the office leasing market, given better business sentiment among Mainland companies.

Kowloon

More tenants confirmed their real estate plans before the end of the fiscal year, resulting in a significant surge in the number of renewals and new letting transactions in March. Leasing market sentiment was supported by more sizable leases of 10,000 sq ft or above. Examples include logistics company Maersk's lease of 33,318 sq ft in Manulife Financial Centre and engineering firm Fugro's lease of 26,499 sq ft in 1 Kwai On Road.

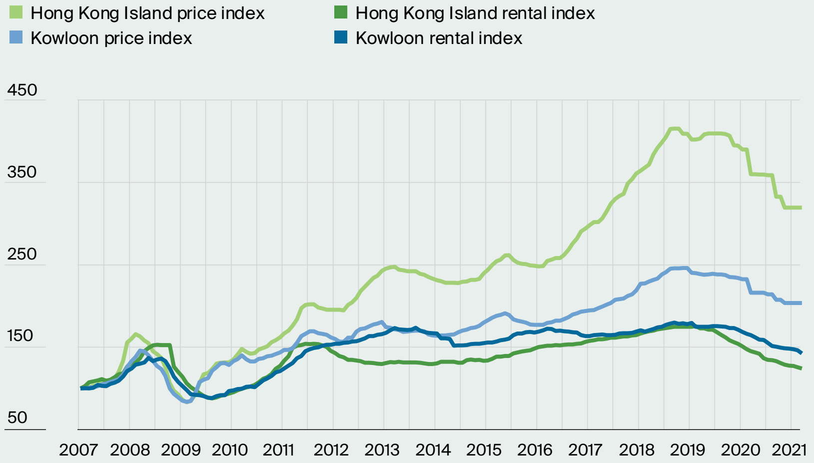
In view of the stabilised COVID-19 situation, the physical occupancy of offices gradually ramped up from about 50% to 75% over the past few months.

Leasing demand has been reactivated amid improved business sentiment. We saw an increase in the number of inspections and lease negotiations. Tenants with higher rental affordability, such as accounting firms and companies offering adult education, are considering larger office space for their business operations.

In line with our previous prediction, we expect a market recovery towards mid-2021, given the effective vaccination program and border relaxation. We maintain our view that Kowloon office rents should rebound in Q4 2021.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (March 2021)

District	Net effective rent	Change		Price (Gross)	Change	
	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	133.3	-1.1	-12.8	-	-	-
Traditional Central	102.7	-0.9	-14.2	-	-	-
Overall Central	113.0	-1.0	-13.6	33,063	0.0	-14.3
Admiralty	72.3	-4.9	-19.8	29,501	0.0	-13.1
Sheung Wan	60.7	0.0	-20.4	27,647	0.0	-10.2
Wan Chai	57.6	-1.2	-16.5	24,748	0.0	-8.2
Causeway Bay	62.4	0.0	-16.5	21,699	0.0	-8.4
North Point	43.4	-0.7	-8.1	-	-	-
Quarry Bay	49.2	0.0	-6.1	-	-	-
Tsim Sha Tsui	56.1	-3.8	-16.0	15,209	0.0	-7.0
Cheung Sha Wan	28.0	0.0	-10.4	-	-	-
Hung Hom	41.3	-1.8	-7.2	-	-	-
Kowloon East	27.1	-1.5	-10.5	11,817	0.0	-3.6
Mong Kok / Yau Ma Tei	51.3	0.0	-10.3	-	-	-

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

RESIDENTIAL

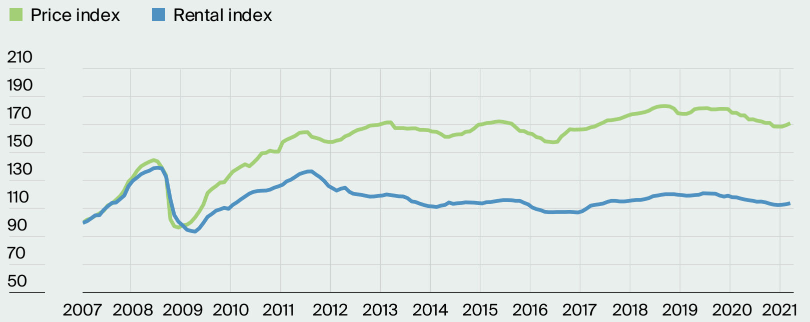
Resilient local demand continues to support the residential market

In March, market sentiment was strong, propelled largely by pent-up demand from local end-users and stabilization of the COVID-19 situation in the second half of the month. According to the Land Registry, monthly transactions in the residential market surged, with 7,444 transactions recorded in March, up 21.5% MoM. The secondary market outperformed, making up about 80% of overall transaction volume. The transaction volume increased 28.8% MoM in March to 5,891, which was the highest monthly transaction volume since November 2012.

Although the local economy was still under immense pressure, with a high unemployment rate, the residential market continued to perform steadily. Demand from homebuyers remained resilient, especially in the luxury market. A handful of notable transactions were recorded during the month, including a Wheelock Properties house at 77E Peak Road, with a saleable area of 7,527 sq ft, which was sold for HK$677 million or HK$89,943 per sq ft. In the past few months, several houses at 77 and 79 Peak Road were sold at a unit price ranging from HK$80,000 to HK$92,000 per sq ft, indicating demand for ultra-prime properties persists. In the second-hand market, more homeowners

Fig 2. Luxury residential rents and prices

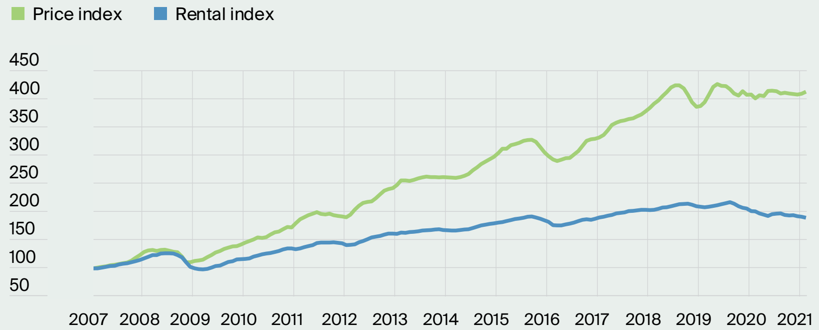
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department put their sales plans on hold as they expect the overall market to rebound.

The revival in leasing activity continued, with most of the transactions local moves. A few significant transactions in the ultra-prime segment were recorded, surprising the market amid the downturn. Among these were the lease of a 7,704-sq-ft Wharf Holdings house at 11 Plantation Road on the Peak for HK$880,000 per month; and a 3,819-sq-ft-house at 70 Deep Water Bay Road for HK$440,000 per month.

Looking ahead, as there are signs of COVID-19 cases tapering off amidst the massive rollout of the vaccination programme, we expect market sentiment to remain upbeat. When borders reopen, transaction volume, especially for luxury properties, should enjoy a quick uptick with the return of mainland buyers. Developers are well prepared to launch new luxury developments to tap demand.

Selected residential sales transactions (March 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Mid-Levels West	21 Borrett Road	Block 6 & 7 / high floor / unit 6	2,995	377.4	126,000
The Peak	77 Peak Road	House	7,527	677.4	90,000
Island South	8 Deep Water Bay Drive	Tower 1 / mid floor / unit B	3,548	251.2	70,809
The Peak	Carolina Gardens	Block B / low floor	2,448	122.5	50,033
Mid-Levels Central	Fairlane Tower	High Floor / unit B	2,159	100	46,318

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

Selected residential lease transactions (March 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Admiralty	Pacific Place Apartments	High floor	1,920	118,000	61
Island South	Manhattan Tower	Mid floor / unit A	1,999	110,000	55
Mid-Levels Central	Queen's Garden	Block A / high floor	2,255	120,000	53
Island South	The Lily	Tower 2 / mid floor	2,519	118,000	47
Discovery Bay	Headland Drive	House	2,585	120,000	46

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

RETAIL

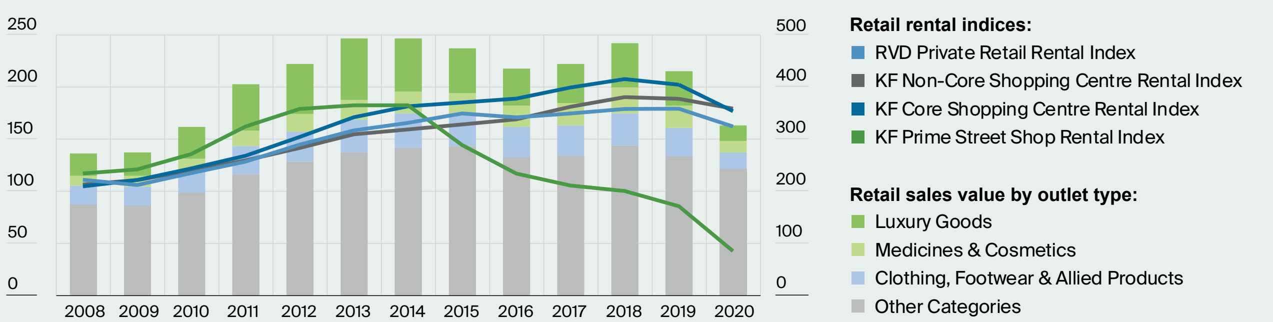
Sharp rental decline ignites transformation of prime shopping streets

The latest Hong Kong's retail sales figures indicate that the local retail market has ended the two-year downtrend. According to the Census and Statistics Department, retail sales value surged 30% YoY to HK$29.5 billion in February, but the impressive growth rate was due to the low base effect. Luxury sales also skyrocketed by 114% YoY to HK$3.3 billion. However, the sales value was less than half the average sales level of around HK$7 billion per month in 2018.

Dampened by the pandemic outbreak, retail rents plunged across the city over

Fig 4. Retail rents and sales

2006 = 100



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department the past year. The degree of rental decline varied by district. According to statistics released by the Rating and Valuation Department, the rental values of some of the prime shopping streets in Causeway Bay and Mong Kok dropped by 40% to 50% YoY. But the drop in rental values in some non-core districts, such as Sheung Shui and Yuen Long, was less significant, at about -15% YoY.

Prime shopping streets, which were packed with luxury shops and iconic flagship stores pre-COVID, are transforming, with more mid-priced brands, F&B operators and even fast food chains moving in. For example, U.S. burger chain Five Guys will open a branch on Russell Street in Causeway Bay. The new rent is reported to be almost 60% lower than that paid by the previous tenant, Sa Sa. Stores previously occupied by large flagship stores on prime shopping streets have been divided into smaller shops, as landlords adopt new strategies to adapt to the down cycle. For example, the owner of Plaza 2000 split its 20,000 sq-ft shop on Russel Street, previously occupied by Prada, into four smaller units to make it easier to lease vacant space.

Hong Kong's retail market faces challenging prospects, with structural changes in the consumer market landscape and the wider application of e-commerce. But this has also opened up new opportunities for retailers and F&B operators to expand their sales by adopting online-offline strategies.

Retail sales by outlet type (February 2021)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.3	11.2	-1.7	19.5	114.1
Clothing, footwear and allied products	3.2	10.9	-7.7	15.7	89.4
Department stores	2.6	8.9	-10.5	-19.6	47.0
Fuel	0.8	2.6	-1.1	-8.8	11.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.7	12.6	1.2	28.7	8.1
Consumer durable goods	5.3	17.9	-16.4	-20.7	37.0
Supermarkets	4.5	15.2	-4.4	2.9	-6.0
Others	6.1	20.7	-15.9	19.9	24.4
All retail outlets	29.5	100.0	-9.2	3.0	30.0

Source: Knight Frank Research / Census and Statistics Department

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Knight Frank Research

Martin Wong
Director
Head of Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com

Lucia Leung
Associate Director,
Research & Consultancy,
Greater China
+852 2846 4843
lucia.leung@hk.knightfrank.com

Commercial Agency

Paul Hart (E-127564)
Managing Director, Greater China,
Head of Commercial
+852 2846 9537
paul.hart@hk.knightfrank.com

Wendy Lau (E-141423)
Executive Director
Head of Hong Kong Office Services
+852 2846 4988
wendy.lau@hk.knightfrank.com

Patrick Mak (E-187858)
Head of Kowloon Office Services &
Head of Tenant Representation, Greater China
+852 2846 0628
patrick.mak@hk.knightfrank.com

Residential Agency

Maggie Lee (E-076435)
Senior Director, Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

Retail Services

Helen Mak (E-087455)
Senior Director, Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

Valuation & Advisory

Thomas Lam (S-372521)
Executive Director, Head of Valuation & Advisory
+852 2846 4819
thomas.lam@hk.knightfrank.com

Knight Frank Research Reports are available at knightfrank.com.hk/research

Knight Frank