

Hong Kong Monthly

August 2021

OFFICE

Clear signals of bottoming-out with stabilized rents and regained momentum

Hong Kong Island

The office market on Hong Kong Island continued to stabilize in July. The average rent remained at HK\$74.4 per sq ft, dropping 1.9% on a quarterly basis. Rents in submarkets on the outskirts of the CBD remained flat.

Leasing activity was more notable in certain sectors that outperformed the general market. British auction house Christie's will relocate from Alexandra House to The Henderson in 2024, expanding its office space from 38,000 sq ft to 50,000 sq ft. The high ceiling and large floor plate will substantially increase the size of the galleries and salerooms from the existing 7,000 sq ft to 30,000 sq ft, allowing more flexibility for displaying sculptures and other art pieces, and greater flexibility for holding online auctions.

Given the robust IPO activity, some Chinese mainland law firms have been actively upgrading their offices, relocating to premium buildings whilst expanding their footprint. Some international legal firms have also started to review their real estate needs and office space configuration, as they have adopted a more agile work model amid the pandemic.

Given the gradual improvement in market conditions, we expect office rents to undergo milder declines in the coming quarters. We revised our forecast for office rents on Hong Kong Island in full-year 2021 to a moderate drop of 5-8%.

Kowloon

Stepping into Q3, the bottoming-out signals are more visible, as leasing activity regained momentum in the overall Kowloon office market. In July, most of the leasing activity was concentrated in Kowloon East, at an average rent of HK\$22 per sq ft or less, similar to that in June.

Leasing activity in core Kowloon districts, especially in Tsim Sha Tsui became active again during the month. For instance, Road King leased 1.5 floors with an area of 15,000 sq ft at 8 Observatory Road; and property agency Centaline finalized a 2.5 floor-lease of 50,000 sq ft in Wharf T&T Centre.

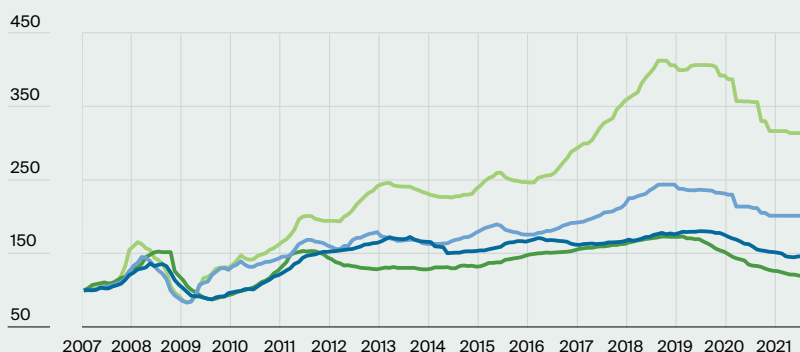
In addition to increasing demand for core locations, there have been more expansion cases amid more affordable rent levels. Restaurant chain operator Tam Jai International recently expanded its footprint in D2 Place One adding 23,887 sq ft, while German-based supermarket chain ALDI leased another floor of 17,000 sq ft at Millennium City 6.

In view of the current positive business sentiment, we expect the market to resile gently from the trough in Q4, which will lead to an increase of 1-3% in rental level in the Kowloon market in full-year 2021.

Fig 1. Grade-A office rents and prices

2007 = 100

■ Hong Kong Island price index ■ Hong Kong Island rental index
■ Kowloon price index ■ Kowloon rental index



Source: Knight Frank Research

Grade-A office market indicators (July 2021)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	127.9	-1.0	-11.8	-	-	-
Traditional Central	99.4	-1.0	-10.2	-	-	-
Overall Central	109.1	-1.0	-10.8	32,563	0.0	-14.8
Admiralty	72.3	0.0	-13.8	29,001	0.0	-14.2
Sheung Wan	60.4	0.0	-12.4	27,647	0.0	-9.8
Wan Chai	55.3	-1.3	-12.2	24,748	0.0	-8.2
Causeway Bay	61.1	-0.3	-6.7	21,699	0.0	-8.2
North Point	43.0	0.0	-5.7	-	-	-
Quarry Bay	54.5	-1.6	-5.2	-	-	-
Tsim Sha Tsui	56.9	0.4	-7.9	15,209	0.0	-6.1
Cheung Sha Wan	28.0	0.5	-7.7	-	-	-
Hung Hom	40.1	-1.3	-7.2	-	-	-
Kowloon East	30.2	0.0	-8.7	11,817	0.0	-2.6
Mong Kok / Yau Ma Tei	50.5	-1.6	-9.0	-	-	-

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

RESIDENTIAL

The primary market, especially the luxury segment, continued to thrive

The residential market performed steadily in July amid the stable pandemic situation and a gradually improving local economy. Home sales edged down slightly by 0.2% MoM to 7,579 in July, owing to a decrease in transactions in the secondary market. Total sales of residential units slipped by 2.8% MoM to HK\$78.6 billion. According to the Land Registry, overall residential prices remained flat in June, after reaching a two-year high.

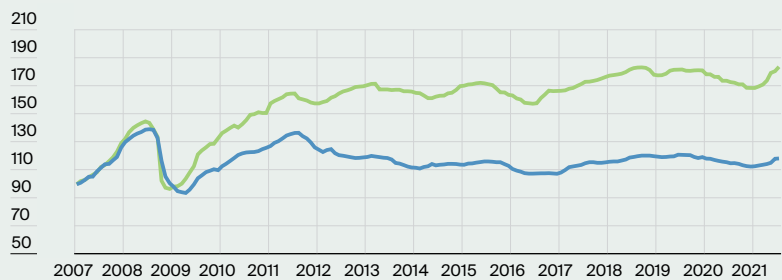
Purchase sentiment in the primary market was strong during the month, with a 5% MoM increase to 2,052 transactions. The luxury market continued to see upbeat momentum, with more big-ticket deals of over HK\$200 million recorded. Among the notable transactions were the sale of a 4,214-sq-ft unit at 8 Deep Water Bay Drive, in Deep Water Bay, for HK\$345 million; a 5,133-sq-ft house at Altissimo, in Ma On Shan, for HK\$233 million; and a 2,316-sq-ft unit at 21 Borrett Road, in Mid-Levels Central, for HK\$208 million.

On the leasing front, rent levels continued to surge, indicated by the overall rental index released by the Rating and Valuation Department, which recorded an increase for the fourth consecutive month. Leasing demand in the luxury

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

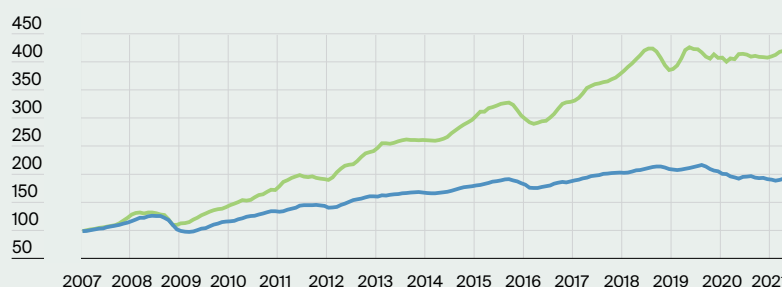


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

segment persisted. A 5,804-sq-ft unit in The Lily, in Repulse Bay, was rented for HK\$360,000 per month, or HK\$62 per sq ft. The mass housing rental market also picked up. Driven by an increasing number of Chinese mainland university students returning to the city, as face-to-face lectures will resume in the coming academic year, leasing activity, especially

in districts close to the universities, was robust.

Buoyed by the rebounding local economy and the stabilising pandemic situation, the market outlook remained optimistic. Together with the record-low HIBOR, this will further encourage more potential

homebuyers to get on the property ladder. Looking ahead, however, mounting concern about an economic slowdown in the Chinese mainland in the wake of the outbreak of the Delta variant, as well as a delay in reopening the border, may result in short-term uncertainty in the local residential market.

Selected residential sales transactions (July 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels Central	21 Borrett Road	High floor / unit 7	2,316	208.5	90,026
Island South	8 Deep Water Bay Drive	Tower 2 / low floor / unit C	4,214	345.5	82,000
Happy Valley	The Leighton Hill	Tower 7 / high floor / unit A	3,071	232	75,545
Island South	Shouson Peak	House	2,972	223	75,034
Island South	Grand Garden	Tower 1 / high floor / unit B	2,491	159	63,830

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

Selected residential lease transactions (July 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 2 / high floor	5,804	360,000	62
Island South	Royal Garden	Mid floor / units A&B	4,420	238,000	54
Island South	Grand Garden	Block 1 / high floor / unit A	2,482	130,000	52
Tai Tam	Redhill Peninsula	House	2,623	130,000	50
Mid-Levels Central	Clovelly Court	Block 1 / mid floor / unit B	2,348	108,000	46

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

RETAIL

Further revival of consumer sentiment as supported by the consumption voucher scheme

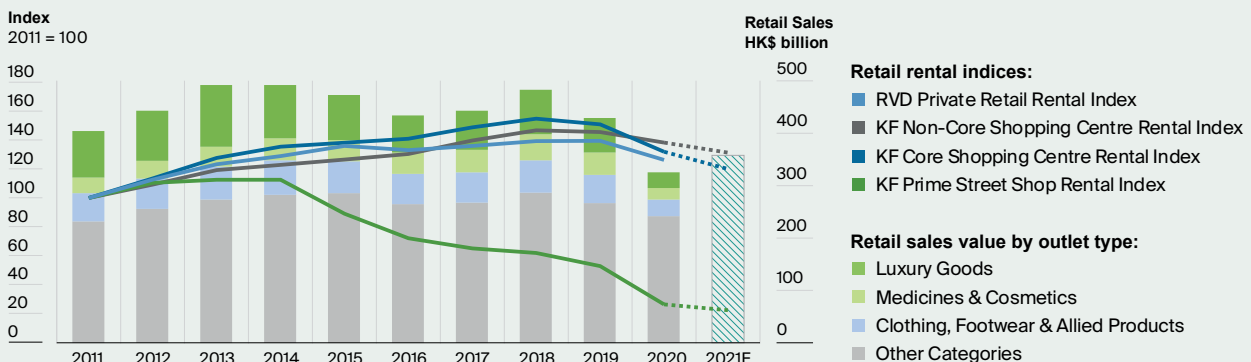
Hong Kong's retail market continued to see moderate growth amid the economic recovery. The latest official figures show the value of total retail sales totalled HK\$28.1 billion in June, with a slower growth rate of 5.8% YoY compared to the

previous months (+12.1% in April and +10.4% in May). In 1H 2021, retail sales value rose 8.4% YoY to HK\$174 billion.

The F&B sector also witnessed a gradual recovery. The value of total restaurant

receipts increased by 9.9% YoY in Q2 2021 to HK\$23.3 billion. However, this was still 18.7% lower than the value in the same period in 2019. In 1H 2021, restaurant receipts totalled HK\$43.0 billion, edging up 0.5% YoY. Given the stabilized COVID

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department

situation, a growing number of small/mid-size, casual-dining restaurants and cafés targeting the mid-priced market opened amid the relaxation of social-distancing restrictions. The relatively lower CAPEX is an advantage for these businesses to enter or expand in the market, as the risk is lower in times of turbulence.”

The government’s consumption voucher scheme started in early August, with the first instalment of HK\$2,000 for each

eligible resident. Coupled with promotion programmes launched by retailers and landlords, this has stimulated local consumer sentiment, with foot traffic visibly increasing in major shopping streets and malls. Retail sectors that will benefit more should be the consumption of daily necessities, home appliances, furniture, and electronic products. It is expected that those retail sales will have a more prominent performance in the second half of this year.

In the near term, we expect quality shops would still weather the uncertain market. While retailers have regained confidence with the further revival of domestic consumption, retail premises with corner and extensive shop frontage, high-headroom or with technical provisions for operating restaurants will see a 5-10% increase in rents compared to last year.

Retail sales by outlet type (June 2021)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.3	11.8	6.4	10.8	31.8
Clothing, footwear and allied products	3.1	11.1	-10.8	-1.0	15.3
Department stores	2.7	9.5	-21.4	8.9	-20.3
Fuel	1.0	3.7	0.7	12.8	5.1
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.7	9.7	-5.5	3.6	-1.6
Consumer durable goods	4.8	17.3	2.8	-8.0	15.7
Supermarkets	4.3	15.4	-5.4	1.1	-7.0
Others	6.0	21.5	-5.1	1.5	12.5
All retail outlets	28.1	100.0	-5.1	1.6	5.8

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.

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