

Hong Kong Monthly

September 2021

OFFICE

Vacancies in Central fall to a nine-month low amid landlord flexibility

Hong Kong Island

Sentiment in the leasing market rebounded in August, leading to an uptick in rental levels, especially in the CBD. Headline rents in premium buildings such as Two IFC and AIA Central recorded increases of 6–8% during the month. With demand re-emerging in August, the Central grade-A office market recorded the lowest vacancy rate since November 2020.

Landlords have become more adaptable and flexible to the changing needs of tenants. In a positive move to engage with and attract occupiers, some landlords are offering ready-to-move-in space to attract tenants. These new levels of fit-out provide tenants with almost-move-in-ready office space to varying degrees, helping to significantly reduce move-in costs for tenants and speed up the move-in process.

Driven by the growing demand for hybrid workspace, more landlords have joined the bandwagon of operating their own co-working space. For instance, during the month, Shanghai-based Shimao Property Holdings opened “The Center Space”, a 23,600-sq-ft co-working space on the 76th floor of The Center.

As the needs of tenants have changed rapidly, we expect more landlords to embrace new approaches in their leasing strategies. Looking ahead, offering hassle-free, move-in-ready space and co-working space by landlords are some key market trends that we expect to gain steam.

Kowloon

Kowloon's office market showed clear signs of bottoming out during the month, with a significant rebound in leasing activity. New leases were on the rise, with most of the deals concentrated in Kowloon East and Tsim Sha Tsui closing at an average rent of HK\$22 per sq ft or less.

Tenants are filling the vacant space in premium buildings, which have been greatly bolstered by the strong leasing momentum. For instance, the vacancy rate of Millennium City 6 dropped from a peak of 17.1% to 12.4%, while the highest vacancy rate of 24.5% in Gateway Towers declined to about 20% in two

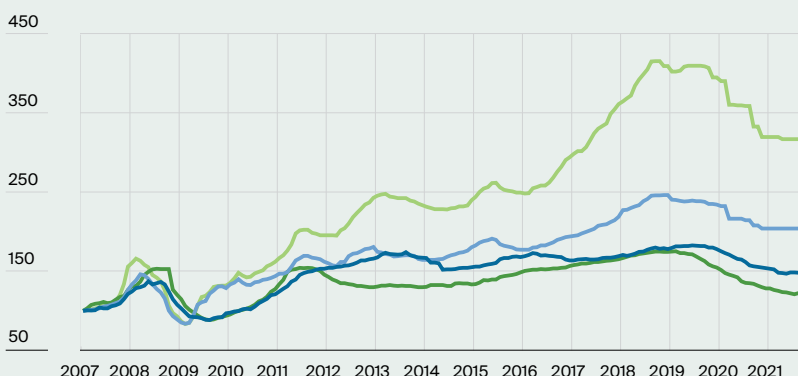
months. There were more enquiries and inspections, especially for quality projects and new office developments, such as International Trade Tower in Kwun Tong and AIRSIDE in Kai Tak.

The rebound in activity resulted in a stark reversal in landlord attitudes. Some landlords started to firm up asking rents, especially for vacant space in easily accessible locations. Meanwhile, we note increased business confidence among tenants, reflected by their eagerness to review their real estate plans. We expect this to lead to a more stable trend and even a slight uptick in rents in some buildings in Q4 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 (August 2021)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	132.7	3.7	-8.5	-	-	-
Traditional Central	99.4	0.0	-10.2	-	-	-
Overall Central	110.7	1.5	-9.5	32,563	0.0	-14.8
Admiralty	73.5	1.7	-12.2	29,001	0.0	-14.2
Sheung Wan	61.7	2.0	-7.2	27,647	0.0	-9.8
Wan Chai	55.4	0.2	-11.5	24,748	0.0	-8.2
Causeway Bay	61.0	-0.2	-6.5	21,699	0.0	-8.2
North Point	43.1	0.3	-5.4	-	-	-
Quarry Bay	54.5	0.0	-5.2	-	-	-
Tsim Sha Tsui	56.8	-0.1	-4.4	15,209	0.0	-6.1
Cheung Sha Wan	28.0	0.0	-6.7	-	-	-
Hung Hom	39.8	-0.8	-6.1	-	-	-
Kowloon East	30.0	-0.4	-8.1	11,817	0.0	-2.6
Mong Kok / Yau Ma Tei	50.1	-0.9	-9.2	-	-	-

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

RESIDENTIAL

Homebuyers' sentiment remained positive, yet slower luxury sales

The residential market saw strong demand amid the stable pandemic situation and gradually improving local economy. Despite the slower pace of sales by developers, first-hand property projects, such as La Marina atop Wong Chuk Hang Station and Wetland Seasons Bay I in Tin Shui Wai, recorded booming sales with a massive oversubscription by local buyers. The second-hand market continued to register high-volume transactions of around 5,000 for the sixth consecutive month, with 5,546 residential transactions recorded in August.

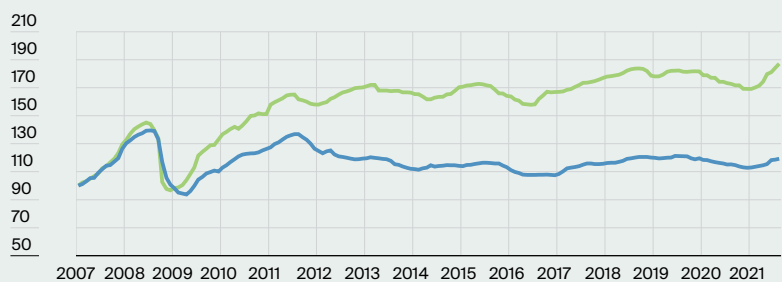
Along with the high transaction volume, home prices have been on a bull run for seven consecutive months. The housing price index edged up further by 0.46% MoM in July, just short of the record high by 0.15% in May 2019, according to the Rating and Valuation Department.

The second-hand luxury market, however, turned quiet in August, since homebuyers turned cautious about chasing high prices, and owners' bargaining space narrowed. On the leasing front, transactions with an average monthly rent of HK\$80,000

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

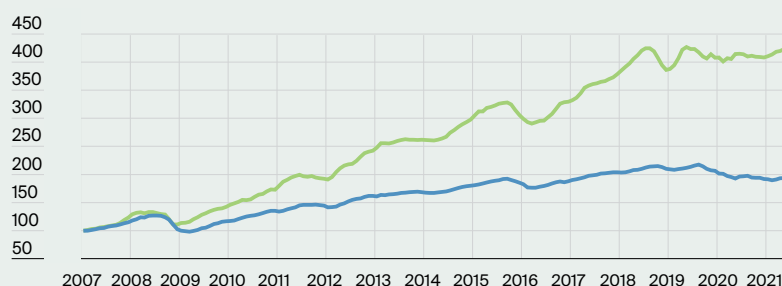


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

or above were active, as some luxury property owners provided incentives to attract tenants.

Against the backdrop of surging home prices, coupled with strong local demand

and low interest rates, another wave of record home prices may soon emerge. We expect buying interest to persist until the end of year, but buyers will become more cautious and take a wait-and-see attitude as prices are approaching new

highs, leading to stable or modest growth in activity in the fourth quarter. Total transaction volume for the whole year is expected to be between 63,000 and 65,000.

Selected residential sales transactions (August 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	21 Borrett Road	High floor / unit 7	2,316	190.4	82,202
Jardine's Lookout	Duke Place	Mid floor / duplex unit B	2,849	185	64,935
Shek Kip Mei	Mont Rouge	House	2,846	163	57,273
Mid-Levels Central	8 Kennedy Terrace	High floor / unit A	3,540	195	55,085
Island South	Residence Bel-Air Phase 5	House	3,792	148	39,030

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

Selected residential lease transactions (August 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	Stanley Breeze	House	3,187	185,000	58
Island South	The Lily	Tower 2 / high floor	2,543	140,000	55
Mid-Levels Central	Kennedy Heights	High floor / unit B	2,929	145,000	50
Island South	51 Deep Water Bay	House	3,498	170,000	49
Mid-Levels Central	Eva Court	Low floor	4,017	168,000	42

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

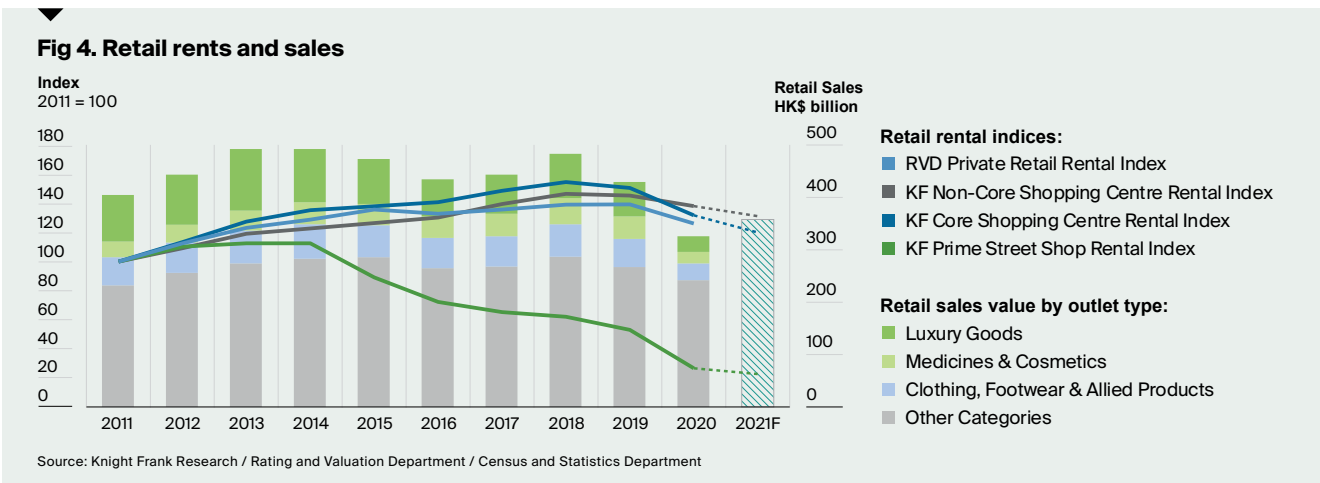
RETAIL

Consumption vouchers expected to underpin retail sales

Hong Kong's retail market continued to recover gradually. According to the latest official figures, total retail sales value registered slight growth of 2.9% YoY to HK\$27.2 billion in July. However, compared to June sales, the value

dropped by 3.2%. This may reflect the fact that consumers held off spending in July to wait for the disbursement of the government's electronic consumption vouchers in August.

Both consumption sentiment and foot traffic were stimulated by the consumption vouchers when the government began to disburse them in August. The first tranche of vouchers,



worth HK\$2,000, were disbursed to about 5.5 million residents, adding about HK\$11 billion to consumer spending. Although part of this amount may not benefit the retail market, as it is spent on transportation and daily necessities, the programme could still have a stimulus effect by motivating people to spend more than the amount of consumption vouchers.

In the retail leasing market, small to medium-sized shops with a monthly asking rent of about HK\$150,000 or below

saw emerging signs of demand, especially those suitable for restaurants. Landlords, especially those in prime streets, have been striving hard to lease larger vacant shops to suitable tenants. Viable options for landlords have been limited, as large-sized shops are no longer in demand by international and luxury brands with high rental affordability. Instead, landlords have resorted to partner with retailers who have innovative ideas, such as those that incorporate art elements, or online retailers. For example, Digital Art Fair,

which focuses on immersive art, new media art and NFT Crypto Art, will take up the former Topshop flagship store on Queen's Road Central in late September to conduct its first exhibition in Asia.

Given the combination of upside factors, including the increasing vaccination rate, the electronic consumption voucher scheme, and the launch of the "Come2HK" and "Return2HK" quarantine-free schemes, the retail market is expected to remain stable in the fourth quarter.

Retail sales by outlet type (July 2021)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.2	11.7	-3.3	21.4	27.1
Clothing, footwear and allied products	3.2	11.9	4.1	3.1	30.7
Department stores	2.5	9.3	-4.7	4.5	-9.6
Fuel	1.0	3.8	-1.1	12.4	12.7
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.5	9.2	-8.0	-12.7	-5.7
Consumer durable goods	4.6	16.8	-6.0	-2.6	5.5
Supermarkets	4.5	16.3	2.8	6.8	-19.4
Others	5.7	20.9	-5.4	-7.4	9.0
All retail outlets	27.2	100.0	-3.0	0.8	2.9

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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