

Hong Kong Monthly

October 2021

OFFICE

Rents in the CBD rebound as demand for premium office space picks up

Hong Kong Island

As tenants continued to actively search for premium buildings in prime locations, rental changes on Hong Kong Island were varied over the past month. Rents in Central have risen for two consecutive months, with a quarterly increase of 2.6%. However, non-CBD areas Wan Chai and Causeway Bay recorded a decline of 3.5% and 1.5% QoQ, respectively.

As the current rent level in CBD is on par with that in the post-global financial crisis in 2010, the trend of "recentralisation" has been more obvious, amid a surge in demand for prime office buildings. One recent example was the new lease of a 24,156-sq-ft premium floor space in Two IFC in Central. After fierce competition by several sizable corporations, global financial group Amber Hill eventually took up the space and moved to Two IFC from One Hennessey in Wan Chai.

Given the improved business sentiment, some tenants, especially in the financial services sector, previously located in non-CBD areas, are looking to maintain a presence in Central. For instance, HashKey relocated from Wong Chuk Hang and leased an entire floor of 10,150 sq ft in Three Exchange Square, becoming the first cryptocurrency firm to move into the Exchange Square complex.

As Central's rental premium over the rest of the market has narrowed, more tenants are interested in upgrading their office environment and relocating to prime

locations in the CBD. We expect leasing momentum in Central to remain upbeat, beginning an upward rental trend in the district.

Kowloon

Leasing activity for Kowloon Grade-A offices maintained a stable trend in September, with most of the deals in Kowloon East at HK\$22 per sq ft or below. Demand was driven by the electronics and manufacturing sectors. Leasing sentiment was sustained by some sizable transactions of 10,000 sq ft or above.

Some tenants continued to pursue office space optimization amid stabilized rent. For example, sportswear company Nike moved from Exchange Tower to International Trade Tower in Kwun

Tong with an area of 54,000 sq ft, a 35% reduction in size, at HK\$29.5 per sq ft.

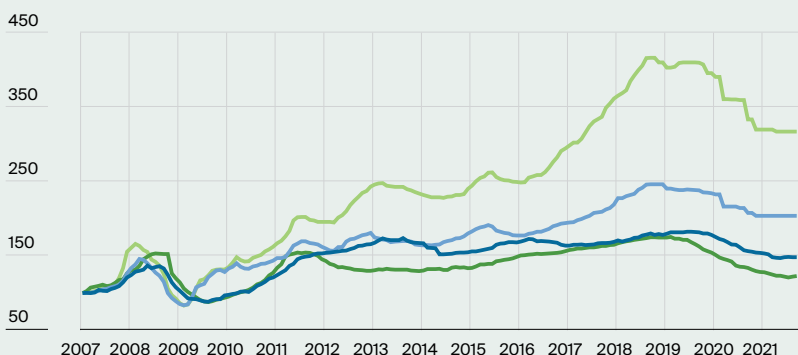
Meanwhile, some tenants seized the opportunity to relocate their offices from Hong Kong Island to the other Grade-A office buildings with larger floor plates in Kowloon at more affordable rents. For instance, Chinese mainland professional firm Zhonghui Anda CPA relocated its 6,243-sq-ft office in Citicorp Centre in North Point to Enterprise Square V, where it leased a 17,400-sq-ft space at HK\$21 per sq ft.

Stepping into the last quarter of 2021, the signal of bottoming-out is more visible in the leasing market. We expect both rents and leasing sentiment in the overall Kowloon market to remain fairly stable in the near term.

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 (September 2021)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	132.6	-0.1	-7.2	-	-	-
Traditional Central	103.0	3.7	-6.3	-	-	-
Overall Central	113.0	2.2	-6.6	32,563	0.0	-5.8
Admiralty	73.3	-0.3	-12.1	29,001	0.0	-5.3
Sheung Wan	61.7	0.0	-6.7	27,647	0.0	-5.1
Wan Chai	54.1	-2.4	-13.1	24,748	0.0	-3.6
Causeway Bay	60.4	-1.0	-7.0	21,699	0.0	-2.3
North Point	42.9	-0.5	-5.9	-	-	-
Quarry Bay	54.5	0.0	-5.2	-	-	-
Tsim Sha Tsui	56.8	0.0	-3.9	15,209	0.0	-2.9
Cheung Sha Wan	28.2	0.8	-5.9	-	-	-
Hung Hom	39.8	0.0	-6.3	-	-	-
Kowloon East	30.0	0.0	-6.9	11,817	0.0	0.0
Mong Kok / Yau Ma Tei	50.1	0.0	-9.2	-	-	-

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

RESIDENTIAL

Luxury market turns quiet amid high prices and market uncertainty

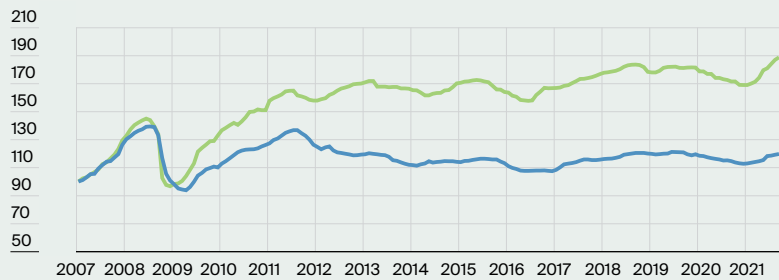
In September, the residential market continued to perform steadily. Demand from local buyers remained resilient. According to the Land Registry, 5,844 transactions were recorded in the residential market, up 5.4% MoM. Benefiting from brisk sales of new projects, the primary market outperformed. Transaction volume surged 172% MoM to 1,926 in September, for a total consideration of HK\$21.3 billion. Newly launched projects continued to draw interest, indicated by the massive oversubscription and selling-out of units in The Arles in Fo Tan, by Centralcon Properties, and the Mangrove in Hung Hom, by Kwai Hung Group.

However, transaction activity in the luxury market slowed down, with fewer enquiries and flat inspections during the month. Uncertainty in the local stock market and some negative economic factors in the Chinese Mainland curbed sentiment among potential buyers, leading to a wait-and-see attitude. Nonetheless, there were a few significant transactions recorded during the month, including a 4,214-sq-ft unit at 8 Deep Water Bay Drive in Island South, which was sold for HK\$450 million, or HK\$106,787 per sq ft; and a 2,316-sq-ft unit at 21 Borrett Road in Mid-Levels West,

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

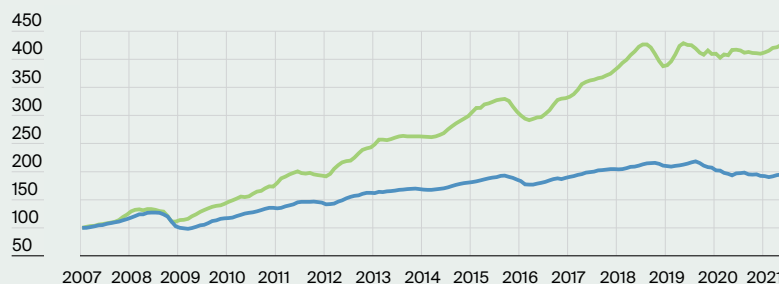


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

which was sold for HK\$185 million, or HK\$79,879 per sq ft.

On the leasing front, since the quarantine and travel restrictions remained in place, there were fewer arrivals of expats and their families, and leasing activity became less active. Notable transactions included a 4,853-sq-ft duplex unit at 115

Repulse Bay Road in Repulse Bay, which was leased for HK\$300,000 per month, or HK\$62 per sq ft.

As home prices are fluctuating around their historical high, and up to 10,000 new units could be launched in the next one to two quarters, some homebuyers

will hold out for better options. With the prospect of massive housing supply in the Northern Metropolis, revealed in the latest Policy Address, the pace of home purchases in some areas may slow down slightly, as buyers and sellers have divergent views on valuing the properties in the short term.

Selected residential sales transactions (September 2021)

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 2 / high floor / unit C	4,214	450	106,787
Tai Tam	45 Tai Tam Road	House	4,848	434.6	89,635
Mid-Levels West	21 Borrett Road	High floor / unit 7	2,316	180	77,720
Mid-Levels Central	Regence Royale	Tower 1 / high floor / unit A	1,933	103	53,285
Mid-Levels Central	Grenville House	Block C / low floor	3,335	160	47,976

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

Selected residential lease transactions (September 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	De Ricou, The Repulse Bay	High floor / unit 02	1,310	125,000	95
Island South	127 Repulse Bay Road	High floor / unit A	2,334	160,300	69
Ho Man Tin	Kadooria	High floor	1,820	120,000	66
Mid-Levels East	The Summit	Low floor / unit A	2,375	123,000	52
Island South	The Lily	Tower 1 / high floor / unit B	2,759	133,000	48

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

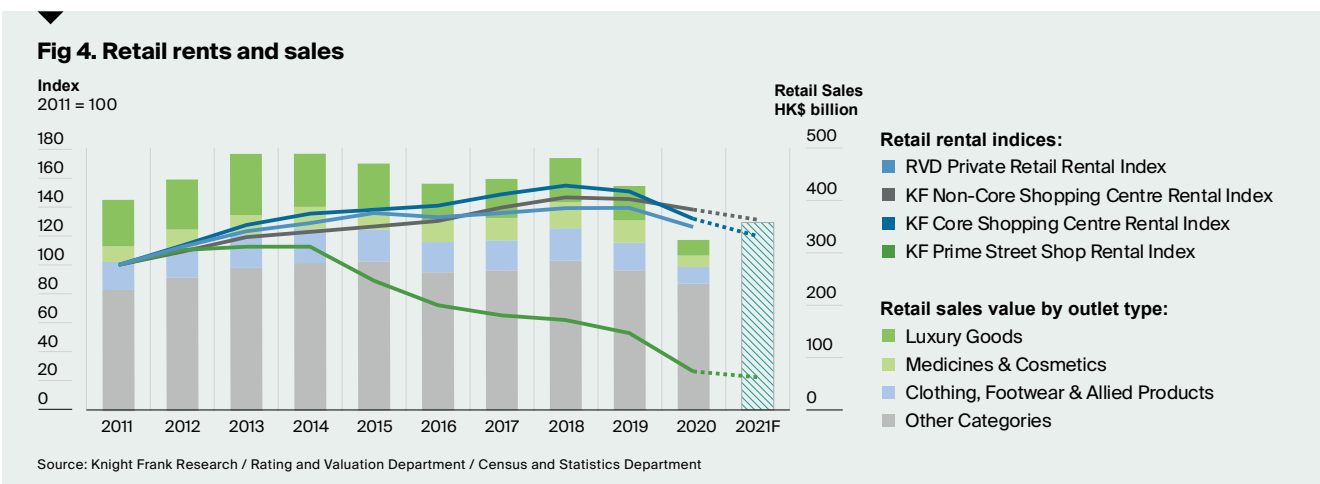
RETAIL

New retail scene with online brands taking up prime retail shops

Consumption sentiment in Hong Kong continued to improve amid the stabilising COVID-19 situation and the launch of the consumption voucher scheme. According to the latest official figures, the value of total retail sales in August

rose 11.9% YoY to HK\$28.6 billion. By sales category, footwear, allied products and other clothing accessories recorded the largest growth in August, rising by 62.3% YoY. This was followed by optical shops, which increased by 60.4% YoY. The

recovering retail market was also partly supported by the improved labour market. The seasonally adjusted unemployment rate slipped to 4.7% in the June-August quarter, the lowest since the January-March period in 2020.



Online retail sales continued to soar. The value of online retail sales in August increased by 16.5% YoY, accounting for 7.4% of total retail sales value. For the first eight months of 2021, the value of online retail sales value increased by 45.2% YoY. The rapid development of e-commerce has led to a new retail landscape in Hong Kong. Some online brands that have developed to a certain scale want to set up physical stores as an additional sales channel to expand their customer base

and provide experience-based services to their existing customers. The current market has offered them an expansion opportunity to set up a physical presence at a relatively low rental cost, especially in prime shopping malls and retail streets. For example, online beauty brands “Little Stardust” and “Woke Up Like This” opened stores in Times Square, while the “I Never Use Foundation Breakfast Club” opened an outlet in Landmark.

Nevertheless, the outlook for Hong Kong’s retail market is expected to remain highly challenging in the short term. Uncertainty in the local stock market could weigh on consumption sentiment, but some positive fundamental factors, including an improving labour market and economic performance, will be tailwinds. The extent of the stimulus effect of the consumption vouchers is still uncertain, but they are expected to underpin retail sales and restaurant receipts at least in the short term.

Retail sales by outlet type (August 2021)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.2	11.1	-0.4	1.9	28.1
Clothing, footwear and allied products	2.8	10.0	-12.1	-18.2	40.1
Department stores	2.8	9.9	11.7	-16.7	7.6
Fuel	1.0	3.5	-1.2	-2.4	20.9
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	10.5	19.0	3.5	1.2
Consumer durable goods	5.0	17.4	9.1	5.4	7.0
Supermarkets	4.7	16.6	6.7	3.7	-7.9
Others	6.0	21.1	5.7	-5.2	25.2
All retail outlets	28.6	100.0	5.1	-3.3	11.9

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.

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

Alnwick Chan (E-176135)
Managing Director,
Head of Professional Services
+852 2846 9551
alnwick.chan@hk.knightfrank.com

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