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

Knight Frank

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Hong Kong Monthly

December 2021

OFFICE

Vacancies in the CBD dropped for the sixth consecutive month

Hong Kong Island

Buoyed by increasing demand for premium buildings in the CBD amid attractive rental levels, the vacancy rate in Central dropped for the sixth consecutive month to 7.4% in November. The vacancy rates in the CBD fringe areas, such as Causeway Bay and Sheung Wan, also recorded slight downward adjustments, dropping to 7.1% and 7.6%, respectively.

Contrary to the common perception that the pandemic-induced work-from-home arrangements would reduce demand for office space, our global (Y)our Space Report revealed that about 70% of Hong Kong-headquartered enterprises plan to increase their office space in the next three years. The findings show that office space remains widely recognized as an important element for Hong Kong enterprises even during the pandemic.

Stepping into 2022, buttressed by the "recentralization" trend, we expect Grade A office rents on Hong Kong Island to go up by 5% to 10% in 2022, especially in the CBD. However, because of more upcoming supply in Quarry Bay and Wong Chuk Hang, we expect rents in these districts to fall 3 to 5% and 5 to 10%, respectively, in the coming year.

Kowloon

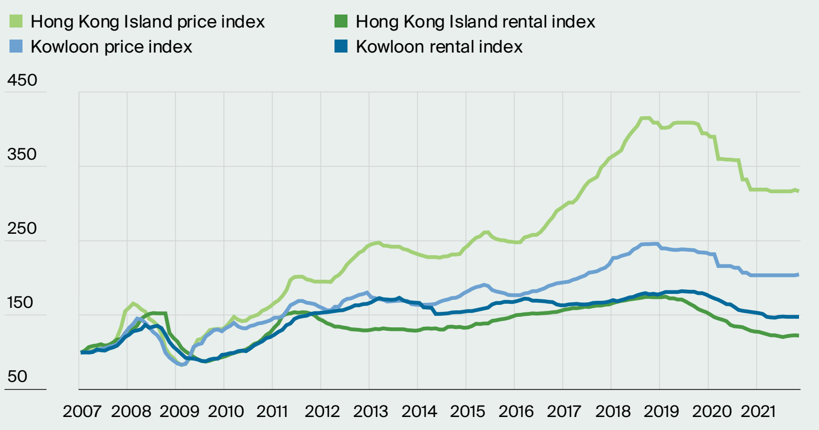
As tenants are still taking a wait-and-see approach to their real estate plans at the end of the year, leasing demand was weak during the month. Most of the leasing activity was dominated by renewal cases for small and medium enterprises, mainly in the shipping and logistics sectors, at an average rent of HK$22 per sq ft or less.

Because of the weak momentum, there were fewer new lettings of over 10,000 sq ft recorded in November. A few rent review cases and small-scale expansion cases supported the leasing market. Examples include a rent review by the professional firm Cheng & Cheng CPA in Enterprise Square V; and an office expansion by logistics company Cargo Partner from 18,000 sq ft to 26,000 sq ft in Harbourside HQ.

As market activity level tends to slow down during the festive seasons, we expect the leasing market to remain quiet until after the Chinese New Year. Looking ahead, despite hopes for a faster recovery after the reopening of border, the abundant new supply of office space in Kowloon has limited our forecast to a minor uptick of 0% to 2% in overall Kowloon office rents in 2022, which is on a par with the annual inflation rate.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (November 2021)

District	Net effective rent	Change		Price (Gross)	Change	
	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	134.0	-0.2	-3.7	-	-	-
Traditional Central	103.0	0.0	-3.3	-	-	-
Overall Central	113.5	-0.1	-3.4	33,363	-0.6	0.9
Admiralty	73.6	0.0	-7.7	29,249	0.0	-0.9
Sheung Wan	61.7	0.0	2.1	27,347	-1.1	-1.1
Wan Chai	53.2	-0.3	-10.5	24,548	-0.8	-0.8
Causeway Bay	61.5	1.9	-4.4	21,499	-0.9	-0.9
North Point	42.6	-0.7	-3.6	-	-	-
Quarry Bay	53.5	-1.8	-6.6	-	-	-
Tsim Sha Tsui	56.9	0.0	-3.3	15,209	0.0	0.0
Cheung Sha Wan	28.4	0.0	-1.2	-	-	-
Hung Hom	40.0	0.5	-4.6	-	-	-
Kowloon East	30.0	-0.2	-5.9	12,017	1.7	1.7
Mong Kok / Yau Ma Tei	50.1	0.0	-5.6	-	-	-

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

RESIDENTIAL

Transaction volume picks up driven by firm local demand

Market sentiment was positive amid a vibrant market in November, with both primary and secondary sales recording an uptick in transaction volume. According to the Land Registry, 5,409 residential units were sold in November, up 16.5% MoM. Total sales value edged up 3.2% to HK$51.3 billion.

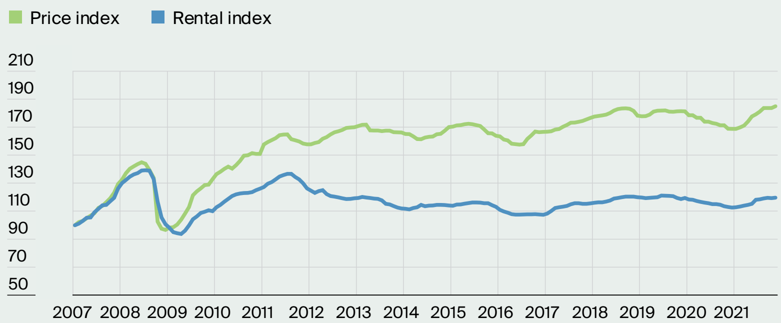
Primary sales continued to be robust, rising 45.6% MoM to 1,854 units. Hang Lung Properties' new residential project in Kowloon East, The Aperture, was oversubscribed by 14 times in its first batch of flats, and over 75% of the available units were sold.

There were some notable transactions in the luxury market during the month. For instance, a transaction in Central Peak II reached a record high for Mid-Levels East, with a 3,723-sq-ft-house selling for HK$386.8 million or HK$103,895 per sq ft, indicating continued demand for high-quality prime properties.

As at the end of November, 30 residential projects with 16,011 units were waiting for approval for presales, the highest number since August 2018. More new flats are expected to hit the market in the coming quarters.

Fig 2. Luxury residential rents and prices

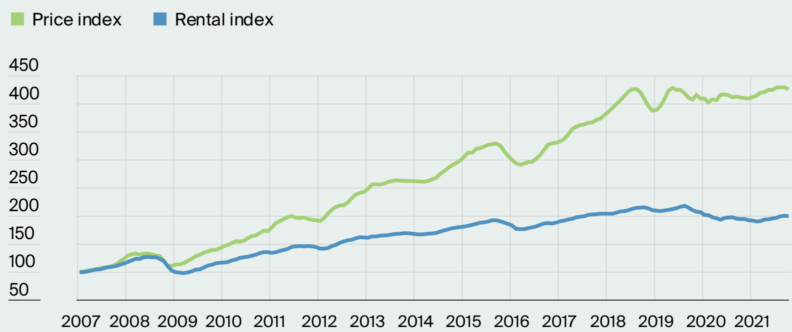
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

With fewer residential plots being tendered through government auction, some developers have increased their land bank by applying for planning authorization to convert plots approved for non-domestic use to domestic use. Among the notable cases, Star Properties paid a premium of HK$818 million to convert an industrial site to residential development, which is expected to provide about 300 units.

Going forward, given the gradual economic recovery and the low interest rate environment, we maintain our optimistic outlook for the residential market. We expect mass housing prices to go up by 0% to 3% in 2022, and luxury prices to increase 3% to 5%, given the expected Hong Kong–Mainland border reopening. With more new projects launches and various finance schemes offered by developers, more purchasing power in the secondary market is expected to shift to the primary market, so we expect the transaction volume ratio of first-hand to second-hand homes to be about 30:70 in 2022, and total residential transaction volume to be about 60,000 to 65,000 units next year.

Selected residential sales transactions (November 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
The Peak	Mount Nicholson	Tower D / high floor unit	4,544	639.8	140,800
Island South	33 Island Road	House	4,597	505	109,854
Mid-Levels	21 Borrett Road	High floor / unit 3	2,133	200	93,765
Island South	50 Island Road	House	3,463	260	75,079
Mid-Levels West	39 Conduit Road	High floor / unit A	4,548	308	67,722

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

Selected residential lease transactions (November 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Island South	Repulse Bay Mansion	Tower A / unit A	4,853	300,000	62
Mid-Levels	Queen's Garden	Tower C / high floor / unit 5	2,181	121,680	56
Island South	Hong Kong Parkview	Tower 17 / mid floor / unit 91	2,645	112,000	42
Island South	Regalia Bay	Phase 1 / house	3,379	140,000	41
Chung Hom Kok	Casa Del Sol	House	3,047	123,000	40

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

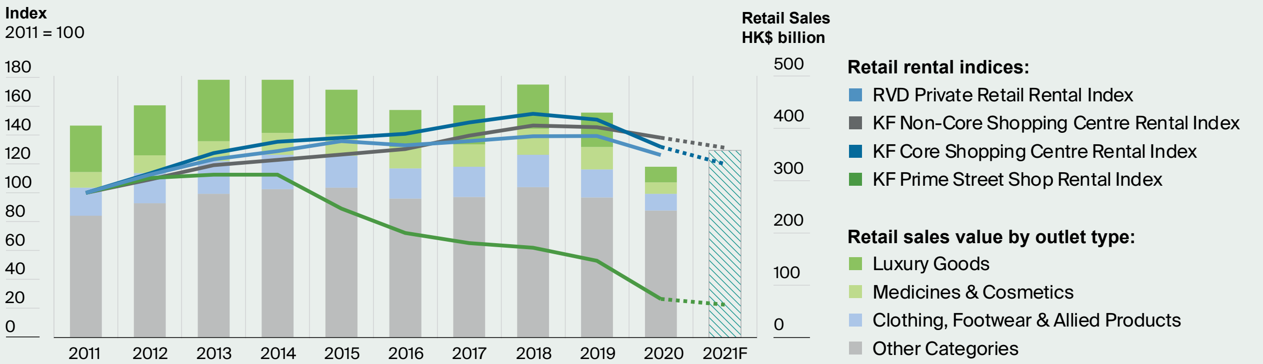
RETAIL

Recovering market expected to support stabilised retail rents in 2022

Hong Kong's retail market has been further underpinned by the local economic recovery. Hong Kong's retail sales climbed for the ninth straight month in October, increasing by 12.0% YoY to HK$30.7 billion, according to the latest official statistics. For the first 10 months of 2021, total retail value reached HK$289 billion, up 8.5% compared to the same period last year.

The sales value of luxury goods totalled HK$31.8 billion for January to October 2021, rising by 29.2% from the same period last year, indicating that the luxury segment has rebounded from the trough in 2020, when the total sales value totalled only HK$30.5 billion for the

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department whole year. Despite the gradual recovery in business, an increasing number of luxury brands have reduced the number of stores in Hong Kong, while aggressively developing a bigger presence in the Greater Bay Area (GBA). Taking into account the limited customer base in Hong Kong and the considerable market size of about 80 million people in the rest of the GBA, they have adjusted their real estate and operation strategies. Some luxury retailers have set up more retail outlets in mainland GBA cities, especially Guangzhou and Shenzhen, and even some second-tier cities to capture the bigger market.

Meanwhile, the local e-commerce market has continued to grow. Online retail sales soared 41.7% in the first 10 months of the year compared with the same period in 2020. The pandemic has accelerated the rapid development of e-commerce, leading to the increasing adoption of omni-channel retailing. In addition to their physical stores, many retailers are making use of online platforms to boost sales.

As we approach the Christmas and New Year holidays, we expect local consumption sentiment to continue to rise owing to the traditional peak season for the retail market. With the social distancing rules being more relaxed than last year, retail sales and restaurant receipt figures are set to pick up. Following the gradual recovery of the retail market, we expect a stable trend in overall retail rents. Retail sales performance in the first quarter in 2022 will hinge on the local epidemic situation, as well as the timing of the reopening of the border.

Retail sales by outlet type (October 2021)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.5	11.5	11.2	10.9	23.1
Clothing, footwear and allied products	2.9	9.6	16.2	-9.4	10.9
Department stores	3.4	11.0	28.6	33.9	5.5
Fuel	1.0	3.2	-3.4	-2.7	7.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	9.7	-12.8	18.3	-1.7
Consumer durable goods	6.3	20.6	16.4	39.1	29.5
Supermarkets	4.7	15.2	4.5	4.7	1.3
Others	5.9	19.2	10.5	3.3	12.3
All retail outlets	30.7	100.0	9.6	12.9	12.0

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.

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