

# Hong Kong Monthly

March 2022

## OFFICE

Continued demand for premium buildings in the Hong Kong CBD

### Hong Kong Island

Affected by the fifth wave of epidemic and stringent social-distancing rules, some tenants were forced to delay leasing activity during the month. However, demand for premium Grade-A buildings, especially in the Central, remained strong. Several Chinese mainland enterprises and large corporates in the finance and legal sectors are considering expanding their footprint in premium buildings, such as Chater House, Jardine House and Two IFC.

The unprecedented rent-deferment scheme proposed by the government to help struggling commercial tenants has caused concern from some office landlords. Some are worried about increasing competition among landlords in the coming lease term, as more landlords will tend to offer tenants more flexible lease arrangements, rental concessions, and more competitive rents to ensure a high occupancy rate.

Supported by resilient demand for premium buildings in core areas, we expect buoyant take-up and rental levels in the CBD in the near term and the activity level to rebound quickly once the social-distancing rules are relaxed.

### Kowloon

The Kowloon office leasing market weakened further in February, with a significant drop of new leases during

Chinese New Year. During the month, most of the leasing activity was in Kowloon East and Kowloon West, mainly in the electronics and sourcing sectors, at an average rent of HK\$22 per sq ft or less.

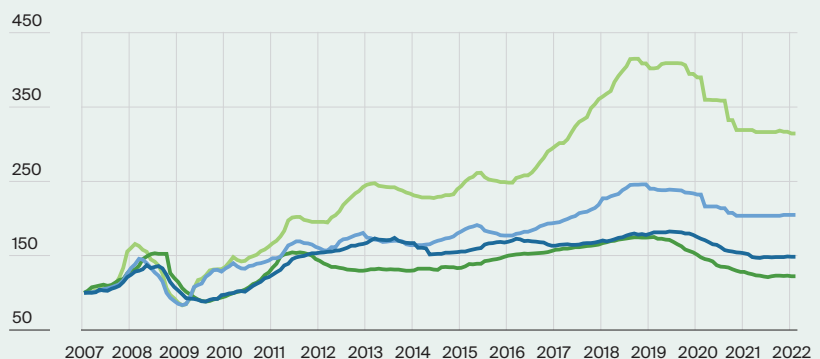
Under the tightened social-distancing rules, many on-site inspections were cancelled. Tenants generally preferred short-term renewals or restructuring instead of relocation. Two sizeable renewal cases were recorded in Gateway Tower 6 during the month: lease renewals by Chinese smart devices provider Huawei and semiconductor company Microchip of 76,293 sq ft and 15,225 sq ft, respectively.

Compared to the Hong Kong Island office market, a vast number of tenants in Kowloon are in cost-sensitive industries, such as sourcing and manufacturing. These industries have been heavily impacted by the economic ravages of the pandemic. With mounting economic uncertainty, companies from these industries are likely to slow down their leasing decisions in the near term. Hence, we expect Kowloon's leasing market to cool down and rents to undergo a mild downward adjustment in the coming months, with the exception of some occasional transactions that started in 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 (February 2022)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	134.2	0.0	-0.4	-	-	-
Traditional Central	104.0	0.0	0.4	-	-	-
Overall Central	114.2	0.0	0.1	33,063	0.0	0.0
Admiralty	73.1	0.0	-3.8	29,049	0.0	-1.5
Sheung Wan	60.2	0.0	-0.7	27,147	0.0	-1.8
Wan Chai	53.4	0.0	-8.5	24,348	0.0	-1.6
Causeway Bay	60.8	0.0	-3.1	21,299	0.0	-1.8
North Point	41.6	0.0	-4.8	-	-	-
Quarry Bay	52.3	0.0	-7.4	-	-	-
Tsim Sha Tsui	57.5	0.0	-1.3	15,209	0.0	0.0
Cheung Sha Wan	28.7	0.0	2.5	-	-	-
Hung Hom	39.3	-0.9	-6.7	-	-	-
Kowloon East	29.8	0.0	-3.9	12,017	0.0	1.7
Mong Kok / Yau Ma Tei	50.5	0.4	-1.5	-	-	-

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

# RESIDENTIAL

*Market activity freezes due to the sweeping fifth wave of the pandemic*

Hong Kong's residential market was quiet in February amid the escalating fifth wave of COVID and uncertain global economic conditions, leading to a significant drop in transaction levels. A total of 2,912 units were sold, for a total consideration of HK\$29.5 billion, plunged 31.9% and 32.1% MoM, respectively. Primary sales dropped 55.5% MoM, as developers suspended new launches.

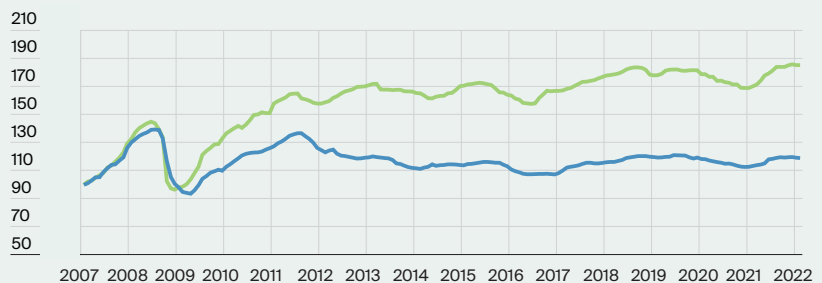
In the mass market, the current challenging local economy dented market sentiment, with secondary sales dropping 23.9% MoM in February, as both potential buyers and sellers adopted a cautious attitude. Tight social-distancing measures also made flat-viewing activity more difficult. Some homeowners were offering wider room for negotiation.

The luxury segment, in contrast, has proven resilient despite the economic uncertainty and sharp correction in the local stock market. During the month, a handful of notable transactions were recorded, which helped to explain the stable demand prospects for the luxury residential market, one of which was a 4,230 sq ft-unit at Mount Nicholson at The Peak for HK\$583.2 million.

**Fig 2. Luxury residential rents and prices**

2007 = 100

Price index Rental index

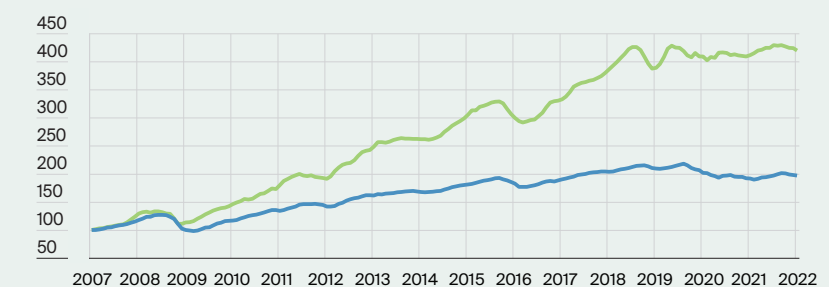


Source: Knight Frank Research

**Fig 3. Mass residential rents and prices**

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

The rental market was solely supported by local demand amid the border closure. Notable transactions included a 2,091-sq-ft unit at Harmony in Mid-Levels East, which was rented for HK\$96 per sq ft. In the near term, the overall rental market, particularly the luxury segment, will be affected, as the

current anti-pandemic measures have kept expatriates and Mainland Chinese buyers away from the city.

Going forward, the protracted COVID-19 epidemic is expected to weigh on the residential market, and overall home prices

will remain under pressure, at least in the near term. With the uncertain Hong Kong economic situation and the rising unemployment rate, buyers' purchasing sentiment in the residential market is expected to remain cautious.

### Selected residential sales transactions (February 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	Tower C / high floor	4,230	583.2	137,872
Mid-Levels Central	21 Borrett Road	High floor / unit 3	2,193	167.8	76,516
Ho Man Tin	St. George's Mansion	Tower 3 / high floor / unit A	3,325	218	65,564
Shek Kip Mei	Mont Rouge	House	2,846	181.8	63,873
Island South	Twin Brook	Mid floor / unit A	2,700	123	45,556

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

### Selected residential lease transactions (February 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels East	Harmony	Mid floor / unit B	2,091	200,000	96
Island South	56 Repulse Bay Road	Simplex	2,131	150,000	70
Island South	Twin Brook	Low floor / unit A	2,423	125,000	52
Island South	South Bay Villas	Tower C / low floor	2,070	100,000	48
Kowloon Tong	The Grandeur	Tower 1 / mid floor / unit A	2,193	104,000	47

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

## RETAIL

### Retail activity set to regain momentum once the pandemic stabilises

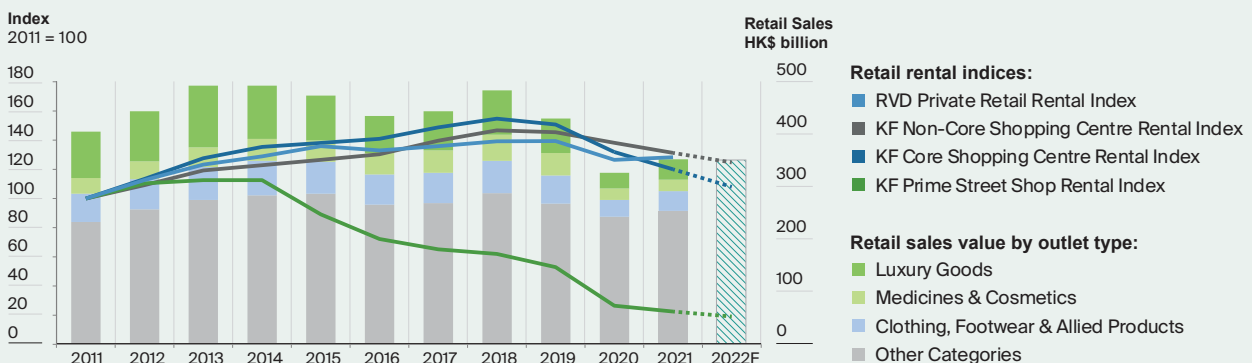
Total retail sales value in January recorded an uptick of 4.1% YoY to HK\$33.9 billion. However, the figure did not fully reflect the impact of the further tightening of anti-epidemic measures during the current pandemic outbreak,

as the increase in sales was mainly due to the low base in the same period last year.

In the latest Budget, the government announced the upcoming disbursement of HK\$10,000 in consumption vouchers

to over 6.3 million residents, similar to the initiative last year to stimulate consumer spending. Based on the previous experience, people will use the consumption vouchers mainly for daily necessities rather than on discretionary

Fig 4. Retail rents and sales



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

spending. Therefore, it may fail to effectively boost total retail sales and stimulate the city's economy.

The recent announcement of the proposed "rent enforcement moratorium" in the 2022/23 Budget on rental deferment for tenants in specific sectors has triggered considerable debate. The proposed scheme, which will prohibit landlords from terminating tenancies or taking legal action against tenants for failing to pay rent, could possibly put

pressure on both tenants and landlords. In fact, some retailers and landlords have been negotiating rental relief measures on their own amid the poor market environment. We believe that this would better suit the situation of each individual leasing deal and maintain the city's non-intervention market principle.

Looking ahead, we expect to see a glimmer of hope on the horizon as the pandemic outbreak is expected to peak in March and then to gradually cool

down in a few months, given the current pandemic development trend. Retailers and restaurant operators will gradually regain confidence when they have a better picture of the upcoming business environment, which will allow them to work on more concrete planning on their business strategies. Consumer sentiment is set to rebound, and the retail market is expected to regain momentum when the impact of the fifth wave recedes in the coming months.

## Retail sales by outlet type (January 2022)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.6	10.7	-5.6	2.5	7.1
Clothing, footwear and allied products	3.7	11.0	-4.0	26.8	6.6
Department stores	3.0	8.8	-9.5	-11.6	2.5
Fuel	0.9	2.7	-3.3	-7.1	16.8
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.9	11.5	23.3	31.2	6.5
Consumer durable goods	5.7	16.8	-17.7	-10.6	-10.3
Supermarkets	5.2	15.3	15.8	11.5	10.6
Others	7.8	23.1	15.5	33.1	8.1
All retail outlets	33.9	100.0	1.8	10.3	4.1

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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