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

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Hong Kong Monthly

June 2022

OFFICE

Clear signals of bottoming-out for prime locations, heading for a rebound in 2H 2022

Hong Kong Island

Office rents on Hong Kong Island recorded a slight drop of 0.6% in the first five months. Rental growth in Central and Admiralty outperformed the other areas, recording a moderate rise of 0.4% owing to strong demand for quality space in the CBD. In May, tenants continued to take the opportunity to seek premium Grade A buildings for workplace upgrades at stabilized rent. For instance, China CITIC Bank International relocated from Devon House and pre-leased six and half floors at Two Taikoo Place. And law firm White & Case rented three floors in York House after it moved out of Central Tower.

Some sizable companies have created strong leasing demand for co-working space for greater flexibility. Online travel agent Expedia moved from the Center and occupied 60 desks of co-working space in Lee Garden Three. Telecommunications company British Telecom also shifted to the hybrid work model, moving from Dorsett House to a serviced office in Hysan Place. Fuelled by the popularity of flexible and remote work arrangements, we expect more sizable firms to move into co-working space, making this a trend to watch in the next 12 months.

Despite bottoming-out signals in prime locations, rents in decentralized locations, such as North Point and Wong Chuk Hang, are still under pressure, with a high vacancy rate. North Point's vacancy rate rose to 12%, and Wong Chuk Hang's stood at 11.1% in May. Since Hong Kong's pandemic situation has stabilized, and economic sentiment is recovering, we expect overall Hong Kong Island office rents to rebound in 2H, with rental growth of 5–10% for Grade A offices in 2022.

Kowloon

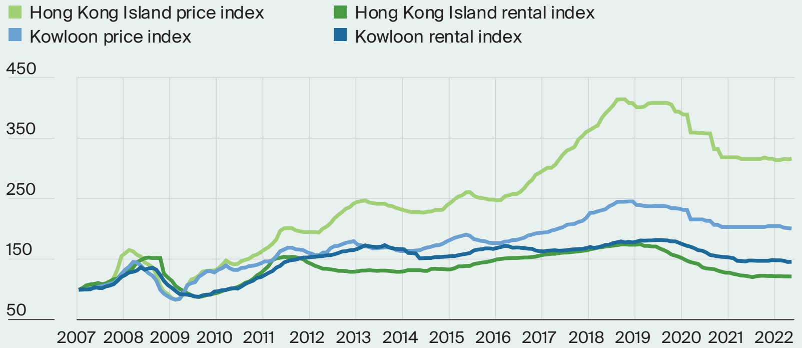
Like the Hong Kong Island market, the Kowloon market saw leasing activity regain momentum as the fifth wave of Covid-19 was brought under control, supported by an increasing number of medium-sized transactions of over 10,000 sq ft in May. Kowloon East continued to be the market focus, with demand coming mainly from musical chair movement in the electronics and manufacturing sectors, with an average rent of HK$22 per sq ft or less.

Several sizable firms, such as Casetify and Zim Shipping, reduced their office footprint and leased space in higher-quality buildings during the pandemic. As tenants continued to seek office upgrades at an affordable cost, demand for top-of-the-line office buildings remains strong. In contrast, ageing buildings are likely to face higher vacancy pressure. Therefore, landlords of these buildings often offer stronger incentives such as rent adjustment and fit-out options to stay competitive – creating opportunities for many tenants to compare relocation opportunities these days.

Approaching the second half of 2022, we expect more companies to recalibrate their real estate plans and resume office searches, usually accompanied by size optimisation. Therefore, we expect rents to remain stable in the coming three to six months, and overall rents in Kowloon to increase slightly by 0-1% in 2022, with the attention of the market continuing to be among newer, quality office buildings.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (May 2022)

District	Net effective rent	Change		Price (Gross)	Change	
	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	135.0	0.3	2.8	-	-	-
Traditional Central	104.2	0.0	2.5	-	-	-
Overall Central	114.7	0.1	2.6	33,563	0.6	3.1
Admiralty	73.9	0.3	2.2	29,262	0.0	0.9
Sheung Wan	60.3	0.0	-0.2	27,017	0.4	-2.3
Wan Chai	53.3	-0.6	-6.3	24,842	0.8	0.4
Causeway Bay	60.5	-0.5	-0.7	21,299	0.0	-1.8
North Point	40.2	0.0	-2.1	-	-	-
Quarry Bay	50.7	-0.1	-8.2	-	-	-
Tsim Sha Tsui	56.4	0.0	1.1	14,809	-1.3	-2.6
Cheung Sha Wan	28.3	0.0	1.9	-	-	-
Hung Hom	39.4	0.2	-1.2	-	-	-
Kowloon East	29.2	0.1	-3.3	11,917	0.8	0.8
Mong Kok / Yau Ma Tei	50.9	0.0	-0.7	-	-	-

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

RESIDENTIAL

Rebound of primary sales signal a fast recovery pace

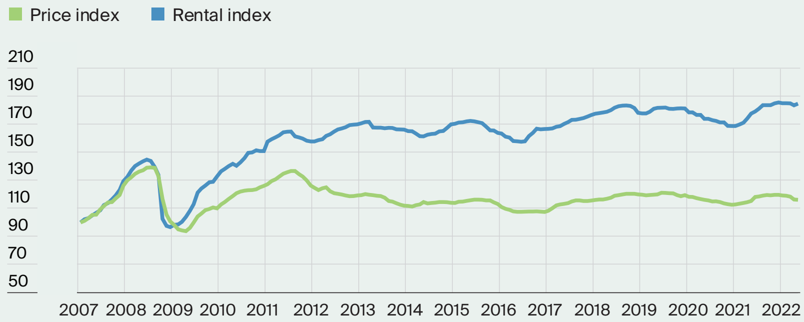
Residential market sentiment was strong during the month, and sales activity bounced back as the fifth wave of pandemic receded. According to the Land Registry, 6,202 residential transactions were recorded in May, up 59.1% MoM and the highest since July 2021, with consideration rising 65.1% to HK$58 billion.

The primary market continued to heat up, with a 478.3% MoM increase to 1,492 transactions, supported mainly by brisk sales of newly launched projects in spite of US interest rate hikes. The first phase of Silicon Hill, in Pak Shek Kok, by Sun Hung Kai Properties received over 3,200 tickets for its first batch of sales, representing an oversubscription of about 17 times. All 170 homes in the price list were sold, showing buyers' confidence in the residential market.

The luxury segment, in contrast, was relatively quiet. More homebuyers were holding back their buying decisions amid the economic uncertainty, volatile stock market and concerns about interest rate hikes. That said, a handful of transactions worth over HK$200 million were still recorded. One example that captured the market's attention was a HK$334 million deal at Dukes Place, in Jardine's Lookout.

Fig 2. Luxury residential rents and prices

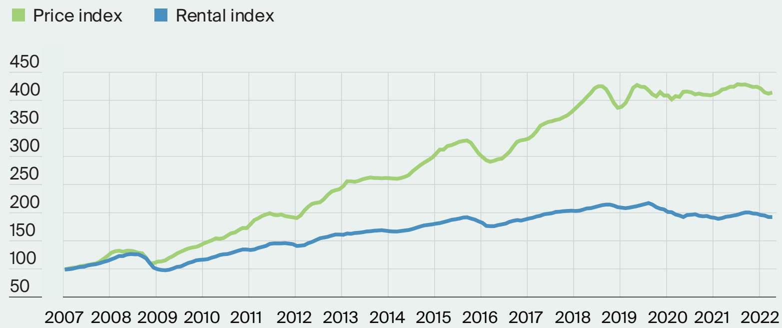
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

A 4,178-sq-ft-triplex unit was sold for about HK$80,000 per sq ft.

On the leasing front, local demand remained the core driver amid the continued border closure. One notable transaction was a 3,838-sq-ft unit in Tavistock, in Mid-Levels Central, which was leased for HK$250,000 per month. There was more supply of rental homes in the market. As the summer holiday is approaching, near-term leasing demand from students in areas in close proximity to universities is expected to rise.

Going forward, thanks to resilient local demand, together with attractive prices offered by developers, purchase sentiment in the residential market is expected to be buoyant, in particular in the primary market. The extension of the East Rail Line has improved connectivity between the New Territories and Hong Kong Island, providing support for properties along the East Rail Line. With improving market sentiment, driven by primary sales, we expect mass residential prices to increase by 3% to 5%, and luxury residential prices to increase by 0% to 3% this year.

Selected residential sales transactions (May 2022)

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	203.9	88,035
Jardine's Lookout	Dukes Place	Triplex	4,178	334.2	80,000
The Peak	La Hacienda	Block A / low floor	2,806	105	37,420
Tai Po	Hong Lok Yuen	House	9,280	291	31,358
Kowloon Tong	Hampshire Road	House	4,308	134.4	31,202

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

Selected residential lease transactions (May 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Quarry Bay	Mount Parker Residence	Mid floor / unit E	1,733	120,000	69
Mid-Levels Central	Tavistock	Low floor / unit 2	3,838	250,000	65
Mid-Levels East	Highcliff	Low floor unit	2,703	135,000	50
Tai Tam	The Redhill Peninsula	House	2,583	125,000	48
Pak Shek Kok	Ontolo	Tower 3 / high floor unit	2,766	120,000	43

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

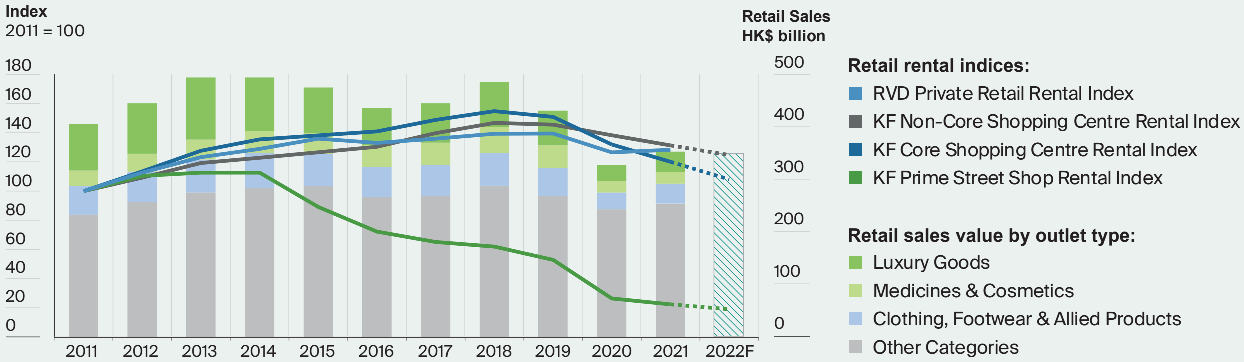
RETAIL

Retail shop landlords brace for F&B options amid slow sales recovery

Consumption sentiment in Hong Kong continued to improve amid the stabilising pandemic situation and the launch of the government's consumption voucher scheme. According to the latest official statistics, total retail sales value in April increased by 11.7% YoY to HK$30.2 billion. The volume of total retail sales in April also increased by 8.1% YoY. By sales category, bolstered by the consumption vouchers, electrical goods and other consumer durables recorded the largest growth in April, rising by 40.9% YoY.

However, the retail sector, especially retailers that rely on inbound tourists, are still facing enormous difficulties due to visitor restrictions. Aji Ichiban, a chain of snack stores with long history in the city closed all 20 of its retail outlets. The owner

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department decided to let out the vacated shops at a deep discount in return for stable short-term income.

As tourists have disappeared for some time, retail landlords have taken active steps to transform and survive. Recently, the landlords of Park Lane Shopper's Boulevard in Tsim Sha Tsui submitted a planning application to turn 50 shops along the boulevard to an F&B street. Although the new tenants can only afford much lower unit rents, the change of use could provide greater flexibility to landlords and provide a short-term solution to improve foot traffic and cash flow.

In view of the severely restricted tourism and the growth of online shopping platforms during the pandemic, we expect retailers to remain conservative and avoid shop expansion for the time being. However, since F&B consumption is a necessity, and retail rents have been significantly adjusted, we believe there will be continuing trend of shop expansion among various F&B tenants. With plans for the second phase of the consumption vouchers to be disbursed in August, we hope that consumer confidence will gradually be restored to stimulate the retail market again.

Retail sales by outlet type (April 2022)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.0	9.9	57.0	-16.9	13.9
Clothing, footwear and allied products	3.2	10.5	73.4	-14.2	1.6
Department stores	2.7	8.9	32.1	-8.5	10.8
Fuel	0.9	3.0	17.8	-0.3	0.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	9.9	17.5	-23.4	4.0
Consumer durable goods	6.0	19.9	26.8	5.6	28.2
Supermarkets	4.4	14.6	0.3	-15.2	5.8
Others	7.0	23.1	25.5	-11.1	13.3
All retail outlets	30.2	100.0	26.8	-10.8	11.7

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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