

Hong Kong Monthly

September 2022

OFFICE

Co-working and public sectors the major demand drivers in the down market

Hong Kong Island

Under the pressured by record-high vacancy, overall rents on Hong Kong Island dropped further in August. The monthly decline was 1.5%, recording an average rent of HK\$72.9 per sq ft per month. In the first eight months of 2022, the average rent on Hong Kong Island overall dropped 3.6% compared to the same period last year. Island East and Sheung Wan recorded the largest declines of 8.7% and 5.7%, respectively.

Leasing momentum remained soft in August, with many tenants seeking to renew leases in favour of relocation. The limited Grade A office take-up was dominated by co-working operators and government agencies. Co-working operators are actively seeking quality space for operations. Singapore based co-working operator The Great Room expanded its footprint in the CBD, recently leasing an entire floor of 21,000 sq ft in Cheung Kong Center. Several office landlords plan to operate their own co-working space in Central and Wan Chai in the near future. In terms of government expansion, the Office of The Government Chief Information Officer leased 31,000 sq ft in Shui On Center in Wan Chai, and other government departments are looking for sizable offices in Quarry Bay.

Looking ahead, the continued weak business sentiment is expected to prevail,

and we expect landlords to offer more innovative and flexible leasing packages to retain and attract tenants. Although the border restrictions have been relaxed, the market will still require some times to absorb the abundant supply. Therefore, we expect the vacancy rate, especially in the non-core areas, to remain at a high level in the coming quarter, with rents under pressure.

Kowloon

Like Hong Kong Island, most tenants are sitting on the side-lines as leasing activity continued to slow down in August. Transactions in the Kowloon market were supported mainly by small-size deals of below 5,000 sq ft, with an average rent of HK\$22 per sq ft or less.

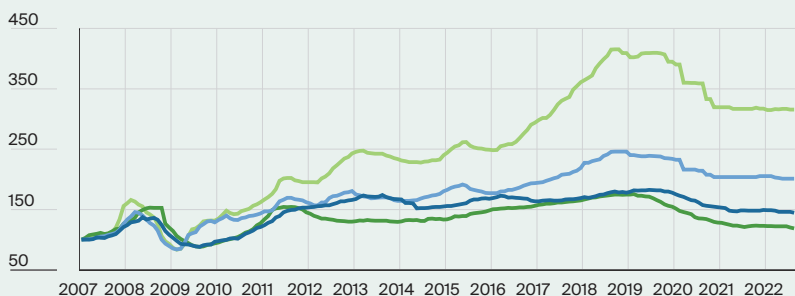
During the month, leasing momentum was hobbled by stagnant demand. In response, landlords aggressively launched marketing campaigns and adjusting rents in an attempt to entice tenants.

Given the worsening business sentiment and the lack of demand drivers from the Chinese mainland and multinational firms, the leasing market in Kowloon is expected to remain under pressure. We are conservative about short-term market performance, but remain optimistic towards end of the year. We expect the overall growth forecast for the Kowloon office market to be in the range of 0% to 2% in full-year 2022.

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 2022)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	130.6	-2.4	-1.6	-	-	-
Traditional Central	102.1	-0.4	2.8	-	-	-
Overall Central	111.8	-1.2	1.0	33,000	0.0	1.3
Admiralty	70.4	-3.3	-4.2	28,993	0.0	0.0
Sheung Wan	58.1	-1.6	-5.7	27,017	0.0	-2.3
Wan Chai	51.9	0.2	-6.3	24,842	0.0	0.4
Causeway Bay	60.1	-1.2	-1.4	21,639	0.0	-0.3
North Point	39.5	-1.3	-8.5	-	-	-
Quarry Bay	48.0	-2.5	-11.9	-	-	-
Tsim Sha Tsui	55.8	-1.1	-1.8	14,809	0.0	-2.6
Cheung Sha Wan	28.3	0.0	1.0	-	-	-
Hung Hom	39.0	-0.6	-2.0	-	-	-
Kowloon East	28.8	-0.9	-4.0	11,917	0.0	0.8
Mong Kok / Yau Ma Tei	50.8	0.0	1.4	-	-	-

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

RESIDENTIAL

Home prices remain under pressure amid sluggish sentiment

In August, affected by rising interest rates and an increasing number of new flats in the market, residential home prices remained under pressure. The overall home price index dropped 1.6% MoM in July, and it has fallen for two consecutive months, according to the Rating and Valuation Department. The price index was the lowest since February 2020.

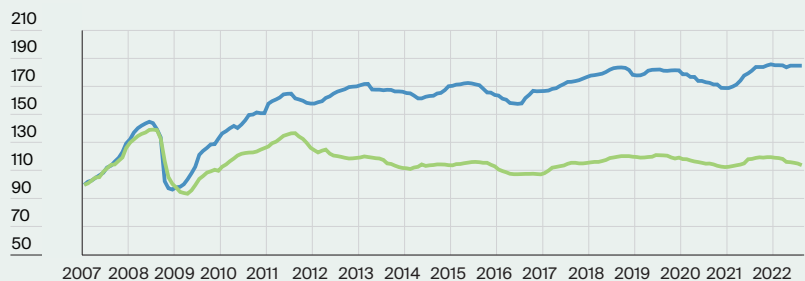
Many potential buyers and homeowners were waiting on the side-lines and primary sales supported overall market sentiment. In August, a total of 4,137 transactions were recorded in the residential market, as buyers snapped up new projects, with 1,564 cases recorded, surging 32.9% MoM. NOVO LAND Phase 1B in Tuen Mun, by Sun Hung Kai Properties, was oversubscribed by about 48 times in the third batch of sales of 170 units in the form of price list.

On the leasing front, the mass housing rental market picked up, especially for homes with a monthly rent of HK\$30,000 or below. At the same time, driven by an increasing number of Chinese mainland university students returning to the city, leasing activity in districts close to universities was robust.

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

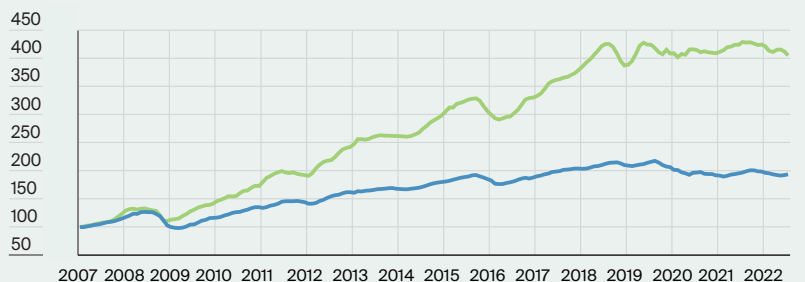


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

In the short term, purchase sentiment is expected to remain weak, and home prices are expected to remain under pressure amid concerns about more interest rate hikes, high levels of new completions and a weakening economy. Nonetheless, with first hand project launches, and various

finance schemes offered by developers, much of the purchasing power in the secondary market is expected to shift to the primary market. We expect the residential market to pick up gradually once the negative news has been absorbed in the market. With the relaxation of the

stress test requirement for mortgages by the Hong Kong Monetary Authority and the quarantine rules on inbound arrivals at Hong Kong, we expect home prices to be less fluctuated in the remaining of 2022.

Selected residential sales transactions (August 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Shouson Hill	15 Shouson Hill Road	House	4,726	435	92,044
Tsim Sha Tsui	The Cullinan	Diamond Sky / low floor / unit A	1,481	121.4	82,000
Island South	90 Repulse Bay Road	House	5,347	401	75,000
The Peak	The Oasis	Low floor / unit B	2,061	125	60,650
Island South	Bisney Crest	Low floor	2,645	124.5	47,070

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

Selected residential lease transactions (August 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	Circle Lodge	House	2,665	177,500	67
Mid-Levels West	University Heights	Tower 3 / low floor / unit A	1,584	96,000	61
The Peak	Chelsea Court	House 1 / high floor / unit B	2,381	140,000	59
Tsim Sha Tsui	The Harbourside	Tower 1 / high floor / unit F	1,807	100,000	55
Mid-Levels East	Highcliff	High floor / unit B	2,624	143,000	54

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

RETAIL

Improved retail performance but still far below pre-pandemic levels

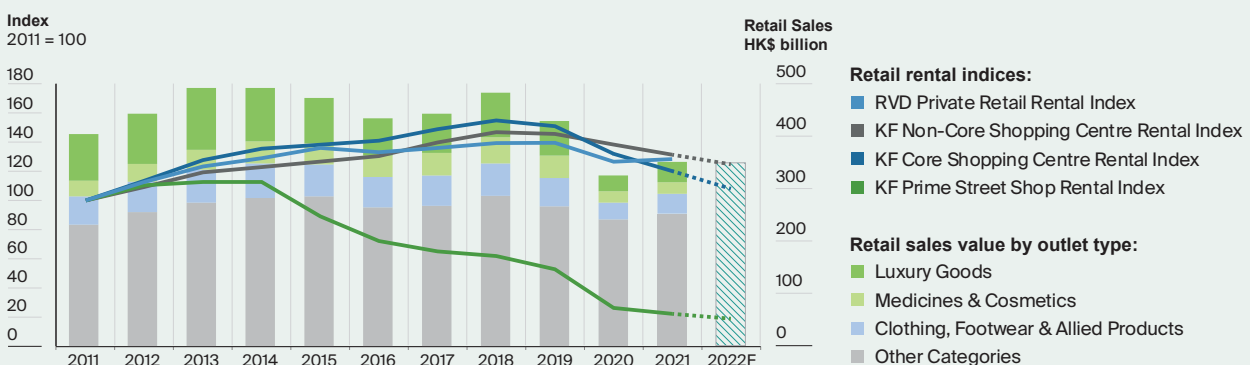
Fuelled by improved local consumption sentiment, Hong Kong's retail sales rebounded in July 2022 after two consecutive months of declines in May and June. According to the Census and Statistics Department, total retail sales in July were \$28.3 billion, increasing by 4.1% YoY. For the first seven months of

2022 taken together, the value of total retail sales registered a mild decrease of 1.7% compared with the same period in 2021, but were down 17.7% compared with pre-pandemic level in 2019.

Shop rentals have already fallen significantly in Causeway Bay, attracting

more retailers and F&B operators to seek a presence in the district. Recently, a single-side shop on Kai Chiu Road, which had been leased by Prince Jewellery & Watch for many years is now occupied by a popular bakery shop, Bakehouse. The monthly rent of HK\$400,000 represents a 70% reduction from the previous lease

Fig 4. Retail rents and sales



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

and 86% lower than the on peak level. With the absence of Chinese mainland tourists, landlords have adjusted their tactics to focus on local consumers by letting to popular brands and long-queue eateries to drive footfall.

Given the inconvenience and restrictions created by the social-distancing measures, it is likely that the business receipts of restaurants will continue to be affected. According to market sources, the F&B industry is expected to see a 10–20%

drop in business turnover in August and September, and business during the Mid-Autumn Festival was about one-third less than that in the same pre-pandemic period.

Despite the reopening of the border and the changed of quarantine rules to “0+3”, the overall retail market is expected to remain weak. In our view, the end of the hotel quarantine policy may not bring many visitors, especially short-haul visitors to Hong Kong in the short term.

Other Asian destinations that do not impose any quarantine rules for visitors, like Singapore and Thailand, will be more attractive than Hong Kong. Also, Hong Kong USD linked currency makes the city a less attractive destination for most tourists. Our high value currency may also result in more Hong Kong people leaving for overseas holidays thus damping domestic demand. Looking ahead, given the growing economic uncertainty, Hong Kong’s retail market will continue to face mounting challenges.

Retail sales by outlet type (July 2022)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.1	14.4	20.6	35.7	28.2
Clothing, footwear and allied products	3.4	11.8	13.2	5.6	3.5
Department stores	2.3	8.1	-11.9	-14.8	-9.7
Fuel	1.1	3.9	-0.6	20.6	8.9
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.6	9.1	-9.0	-13.6	2.2
Consumer durable goods	4.4	15.5	2.0	-27.1	-4.0
Supermarkets	4.5	16.0	4.8	2.5	1.7
Others	6.0	21.2	-3.2	-14.1	5.2
All retail outlets	28.3	100.0	2.2	-6.2	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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