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

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OFFICE

Delayed real estate plans resume, fuelling the leasing market

Hong Kong Island

Leasing momentum returned in March amid the stabilising pandemic situation, with the high activity level supported mainly by small transactions of below 6,000 sq ft. The top-performing sectors, such as finance and legal, continued to expand their footprint in Central. For instance, investment company Invesco rented 31,000 sq ft in Jardine House and legal firm Kobre & Kim leased another 9,000 sq ft in Champion Tower.

Although several Grade-A office buildings in Central still recorded a double-digit vacancy rate at the end of March, the vacancy rate in overall Central sustained a stable rate of 7.2%, which has outperformed the non-CBD areas, of which Admiralty and Wan Chai had a vacancy rate of 8.4% and 11.2%, respectively.

Some landlords' strategies in offering flexible lease terms or providing fit-out options have proven to be attractive to potential tenants, as demand in these buildings, such as Standard Chartered Bank Building and AIA Central, picked up quickly. With the higher demand, these landlords started to firm up their rents. Going forward, given the increasingly stable pandemic situation, we expect to see sustained momentum in the CBD area in the coming months.

Kowloon

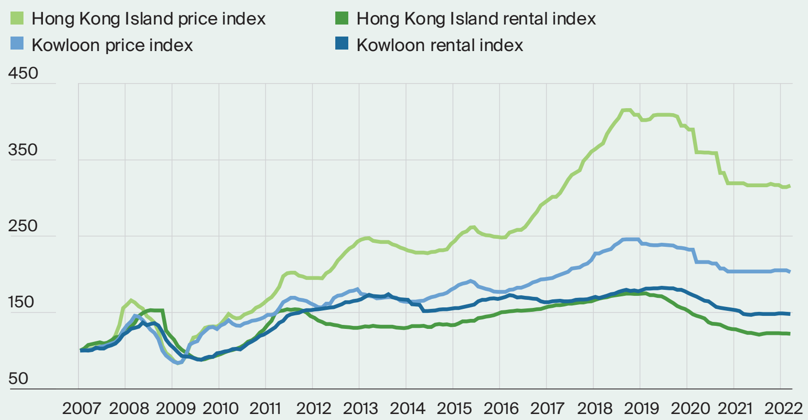
With the gradual return to the office, more tenants resumed their delayed real estate decisions, leading to a rebound in activity levels in March. Most of the transactions were in the manufacturing and sourcing sectors, mainly in the Kowloon East and Yau Tsim Mong districts at an average rent of about HK$22 per sq ft.

Strong activity in the leasing market was supported mainly by sizable new letting transactions, as tenants took the opportunity to consolidate their various offices and relocate to new buildings at affordable cost. For instance, statutory body Mandatory Provident Fund Schemes Authority (MPFA) consolidated its operations in Kowloon Commerce Centre and Millennium City 1 and pre-leased 95,000 sq ft in 98 How Ming Street project at a face rent of HK$23.5 per sq ft. Hong Kong-based phone case company Casetify also carried out a consolidation exercise, moving its offices from Fun Tower and Linkchart Centre to NEO at a face rent of HK$22.5 per sq ft for a 63,000 sq ft space.

As more businesses are allowed to reopen amid the relaxed social-distancing measures, we expect overall business sentiment to improve and the leasing volume to gradually return to the level before the fifth wave of the pandemic. We expect rents in Kowloon to maintain the bottoming-out trend in the coming quarters, and tick up slightly in the last quarter of the year, therefore the market will experience an overall increase of 1-3% by the end of 2022.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (March 2022)

District	Net effective rent	Change		Price (Gross)	Change	
	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	134.6	0.2	1.0	-	-	-
Traditional Central	103.4	-0.5	0.8	-	-	-
Overall Central	114.0	-0.2	0.8	33,363	0.9	0.9
Admiralty	73.7	0.8	1.9	29,249	0.7	-0.9
Sheung Wan	60.1	-0.2	-1.0	27,147	0.0	-1.8
Wan Chai	53.6	0.4	-7.0	24,642	1.2	-0.4
Causeway Bay	60.8	0.0	-3.1	21,299	0.0	-1.8
North Point	41.4	-0.6	-4.7	-	-	-
Quarry Bay	51.0	-2.7	-9.8	-	-	-
Tsim Sha Tsui	57.0	-0.8	1.7	15,009	-1.3	-1.3
Cheung Sha Wan	28.4	-0.9	1.6	-	-	-
Hung Hom	39.7	1.0	-4.0	-	-	-
Kowloon East	29.8	-0.2	-2.4	11,917	-0.8	0.8
Mong Kok / Yau Ma Tei	50.9	0.8	-0.7	-	-	-

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

RESIDENTIAL

Secondary market sentiment improves as the fifth wave of the pandemic eases

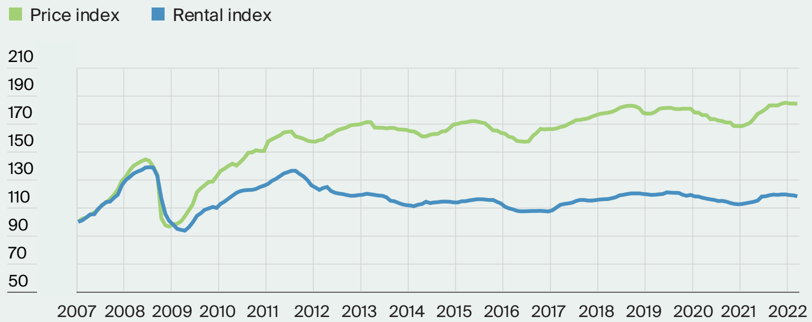
The overall residential market remained quiet in March, but purchasing momentum in the secondary market gradually picked up, given the easing of the local pandemic outbreak, narrowing the monthly decline towards the end of March. According to the Land Registry, 2,869 residential transactions were recorded in March, edging down 1.5% MoM. Of these, secondary sales dominated, with 94.4% of the overall transaction volume and 2,708 cases recorded, for an increase of 11.4% MoM.

In the sales market, both potential buyers and homeowners were cautious about their sale decisions. In the buyer's market, more homeowners were willing to provide wider room for price negotiation to potential buyers. There were a number of transactions of properties from HK$20 million to HK$30 million. Among the notable transactions was a 4,176-sq-ft-house at 2 Grampian Road in Kowloon Tong, which was sold for HK$125 million, or HK$29,978 per sq ft.

Local movement remained the core driver of the leasing market. Viewing activity started to be active again, as more rental homes became available in the market.

Fig 2. Luxury residential rents and prices

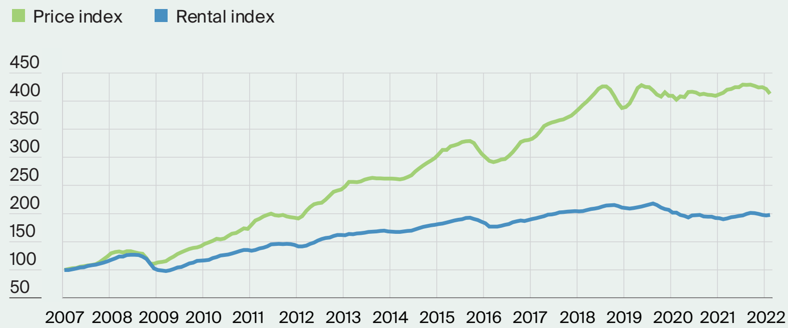
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

Large, high-priced units were leased out quickly. For instance, a 10,344-sq-ft-house at 11 Plantation Road on The Peak was rented for HK$1 million per month, or HK$97 per sq ft. Amid the market uncertainty, more tenants preferred flexible lease terms and tended to renew their existing leases to reduce costs.

The Hong Kong residential market has entered a rate hike cycle. Following the Fed's move, the Hong Kong Monetary Authority (HKMA) raised the base lending rate by 25 basis points to 0.75%. However, we do not expect local Hong Kong commercial banks to follow the pace and frequency of future Fed rate hikes. Therefore, we believe the current interest rate rise will not erode the overall purchasing power in the market and will not put immediate and significant pressure on Hong Kong's property prices in the near term. We also expect to see a positive effect of mortgage relaxation and the residential market to regain momentum as the local pandemic outbreak is controlled in the coming weeks.

Selected residential sales transactions (March 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Island South	3 Repulse Bay Road	High floor / unit B	1,671	86.4	51,694
Island South	Pearl Villa	Low floor / unit A	2,300	90	39,130
Kau To	Le Cap	House	3,218	112.4	34,931
Tai Tam	Redhill Peninsula	Cedar Drive, House	2,836	93	32,793
Kowloon Tong	2 Grampian Road	House	4,176	125.2	29,978

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

Selected residential lease transactions (March 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
The Peak	11 Plantation Road	House	10,344	1,000,000	97
Mid-Levels West	39 Conduit Road	Mid floor / unit B	2,355	180,000	76
Mid-Levels West	University Heights	Tower 3 / mid floor / unit B	1,584	106,000	67
Aberdeen	Marinella	Tower 1 / mid floor / unit A	1,949	120,000	62
Kau To	Le Cap	House	3,087	145,000	47

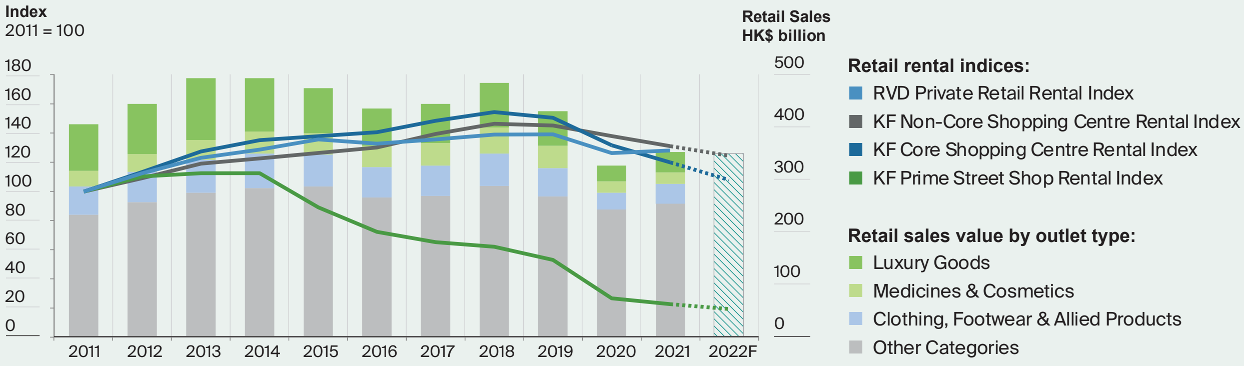
Source: Knight Frank Research
Note: All transactions are subject to confirmation.

RETAIL

Momentum expected to pick up as the fifth wave of COVID recedes

Hong Kong's retail market witnessed weak performance in the face of the fifth wave of COVID-19 infections. The latest retail sales figures indicated a significant 14.6% YoY drop in February to HK$25.2 billion, ending 12 consecutive months of growth, as the rapidly worsening new COVID wave and further tightening of anti-pandemic measures led to a severe drop in footfall and dampened consumer sentiment. Online sales remained robust, however, totalling HK$2.7 billion in February, representing 10.8% of total retail sales value for the month. This was 50% higher than in the same period last year, implying that consumers are increasingly opting for online purchases.

Fig 4. Retail rents and sales



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

Under the current social-distancing rules, some retailers and F&B operators suspended their operations to limit losses. For instance, American seafood restaurant Red Lobster closed its only restaurant in the city for good after three years of operation in Causeway Bay. Since the number of positive COVID cases has dramatically declined, businesses that temporarily closed during the fifth wave are once again getting ready to open their doors to the community. Notably, Gyu-Kaku the popular Japanese grilled meats chain, announced that all its restaurants would resume operations after temporarily shutting down all its restaurants in Hong Kong in late February.

The implementation of a new round of the consumption voucher scheme and the easing of social-distancing restrictions could prompt local consumption and boost foot traffic and sales, offering some support to the retail sector. Some retailers and F&B operators feel slightly optimistic about the business outlook, but in general, their rental affordability continued to fall, as the fifth wave of COVID has taken a heavy toll on them. Depending on the future pandemic situation, we expect a stronger rebound in the second half of the year.

Looking ahead, while the local pandemic situation has gradually improved, given the ongoing economic uncertainty and strict travel restrictions, the retail market will continue to face challenges. Furthermore, with the current Omicron outbreak in the Chinese Mainland and the reopening of the border between Hong Kong and the Mainland being put on hold, the retail market is expected to fully revive only when the border is reopened.

Retail sales by outlet type (February 2022)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.2	8.7	-39.0	-30.5	-33.6
Clothing, footwear and allied products	2.0	7.8	-47.1	-39.9	-39.0
Department stores	2.1	8.4	-27.9	-40.6	-19.2
Fuel	0.7	2.6	-28.3	-31.0	-15.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.3	13.0	-16.0	18.7	-11.5
Consumer durable goods	4.3	16.9	-25.3	-37.3	-19.5
Supermarkets	4.8	18.9	-8.5	12.4	5.8
Others	6.0	23.7	-23.9	-0.8	-2.2
All retail outlets	25.2	100.0	-25.5	-18.0	-14.6

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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