

# Hong Kong Monthly

January 2022

## OFFICE

*Demand for buildings with premium specifications on the rise*

### Hong Kong Island

Office leasing momentum gathered pace as more tenants looked for better locations amid stabilized rent and an improving economy. Therefore, some landlords started to firm up rents or reduce incentives. Rents in some of Central's traditional Grade-A office buildings, such as 100 Queen's Road Central and Exchange Square, picked up at a monthly growth rate of about 5%, supporting overall rental growth in Central.

Some industries with better performance were looking for expansion options, especially in new buildings with premium specifications. Auction houses were among the active companies looking to upgrade. Examples include Christie's upcoming relocation of its Asia-Pacific headquarters from Alexandra House to The Henderson, and Phillips, which announced that it would relocate from St. George's Building to the West Kowloon Cultural District Authority (WKCDA) Tower in Autumn 2022.

The growing fifth wave of the COVID-19 outbreak has once again disrupted employers' return-to-office plans. Some co-working operators have been riding on the growing need for remote work and have continued to increase their footprint. Recently, WeWork opened a new location with more than 200 desks on the 4/F of 9 Queen's Road Central.

Looking forward, the vacancy rate on Hong Kong Island, especially in the CBD, is expected to further improve amid strong leasing demand. We expect to see an uptick in rents in the coming months.

### Kowloon

Affected by the festive season and the unstable epidemic situation, leasing activity in December slowed down. Most of the new letting cases were from small and medium enterprises for spaces 3,000 sq ft or below at an average rent of HK\$22 per sq ft or less.

Some tenants from the shipping and logistics sectors have been significantly impacted by the pandemic, as supply chains were disrupted. With the borders still closed, they grasped the opportunity to adjust their workplace configuration and review their long-term real estate strategy. For example, Zim Shipping relocated from two-entire-floor office in Pioneer Place to a whole-floor space in Manulife Place. Meanwhile, they rightsized the common areas and reviewed the seating

configuration, so as to optimize the office space.

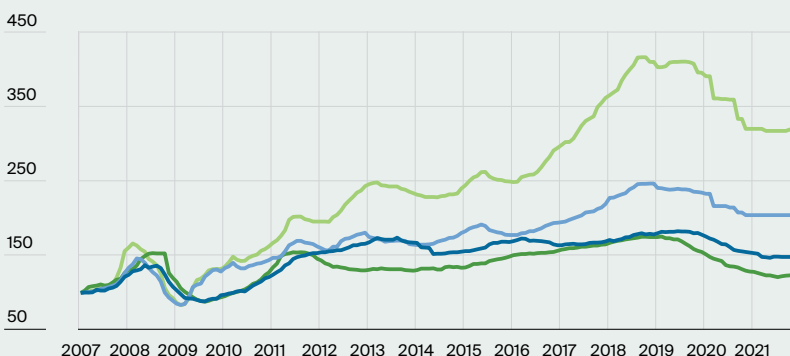
Given the location advantage and affordable rent, some tenants from Hong Kong Island considered relocating to Kowloon Central, especially Tsim Sha Tsui, supporting overall rents in Kowloon. Webull, a financial company, relocated from Sheung Wan to Gateway Tower 6, taking a 6,400-sq-ft space, while IT company Flexport relocated from Central and leased a whole floor of about 25,000 sq ft in Gateway Tower 5.

In the coming months, given the gradual economic recovery, we expect the Kowloon office leasing market to remain stable. However, business sentiment is expected to be temporarily affected by the fifth wave of the pandemic in Hong Kong.

**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 (December 2021)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	134.1	0.1	-3.0	-	-	-
Traditional Central	104.0	1.0	-0.8	-	-	-
Overall Central	114.2	0.6	-1.7	33,363	0.0	0.9
Admiralty	73.6	0.0	-4.9	29,249	0.0	-0.9
Sheung Wan	61.7	0.0	2.1	27,347	0.0	-1.1
Wan Chai	53.5	0.6	-9.4	24,548	0.0	-0.8
Causeway Bay	60.6	-1.4	-5.8	21,499	0.0	-0.9
North Point	42.6	0.0	-2.5	-	-	-
Quarry Bay	52.8	-1.5	-7.8	-	-	-
Tsim Sha Tsui	57.4	0.9	-2.1	15,209	0.0	0.0
Cheung Sha Wan	28.8	1.3	0.9	-	-	-
Hung Hom	40.3	0.8	-3.3	-	-	-
Kowloon East	30.0	0.2	-5.3	12,017	0.0	1.7
Mong Kok / Yau Ma Tei	50.3	0.5	-5.2	-	-	-

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

# RESIDENTIAL

*Despite the fifth pandemic wave, demand for new homes remained strong*

Sales activity in the residential market slowed down in December, with 5,145 sales recorded, edging down 4.9% MoM, with primary sales accounting for 1,514 cases. Given the growing importance of new development areas, fostered by the “Northern Metropolis” concept, new projects in the New Territories were sought after by homebuyers. The YOHO Hub, a Sun Hung Kai Properties project in Yuen Long, was oversubscribed by 11 times in the first batch, and about 80% of the launched units were sold on the first day of sale. Chinachem acquired a residential site in Tai Po for HK\$1.37 billion, or HK\$6,050 per sq ft, in line with market expectations.

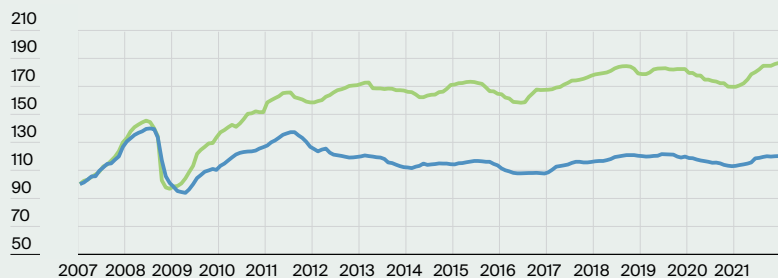
Demand in the prime segment remained resilient. There were some major transactions of over HK\$100 million during the month. Examples that captured the market’s attention included two units at 8 Peak Road on The Peak, which was sold for HK\$450 million, or HK\$105,535 per sq ft; and a 4,784-sq-ft-house at 45 Tai Tam Road, in Southern District, which was sold for HK\$453.8 million.

The second-hand market, in contrast, was quiet. Both homeowners and buyers adopted a wait-and-see-attitude at the end of the year. More homeowners put their

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

2007 = 100

Price index Rental index

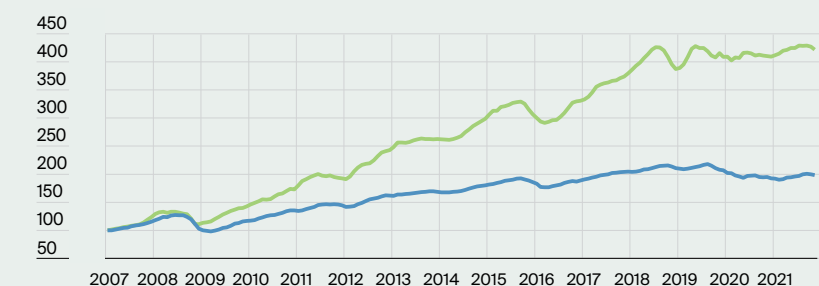


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

sales plans on hold, while others offered wider room for price negotiation, leading to more enquiries and unit viewing from potential buyers.

Looking forward, thanks to resilient local demand, the persistently low interest rate

environment, and attractive discounts offered by developers, the primary residential market is expected to remain robust. Supported by the Northern Metropolis plan, new projects in the New Territories are expected to draw strong interest from homebuyers. However,

the fifth wave of COVID-19 infections, involving the Omicron variant, may pose uncertainties and challenges to purchase sentiment in the residential market in the near term.

### Selected residential sales transactions (December 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	8 Peak Road	Tower A1 / mid floor / units A & B	4,264	450	105,535
Mid-Levels	Central Peak	Phase 2 / house	3,723	386.8	103,895
Tai Tam	45 Tai Tam Road	House	4,784	453.8	94,858
Island South	36 Island Road	Tower B unit	2,795	195	69,767
Kowloon Tong	13 Stafford Road	House	3,804	190	49,947

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

### Selected residential lease transactions (December 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tsim Sha Tsui	The Masterpiece	Duplex unit C	1,977	140,000	71
Mid-Levels East	Victoria Heights	High floor / unit A	2,344	128,000	55
Mid-Levels West	55 Conduit Road	Mid floor / unit B	2,452	120,000	49
Mid-Levels	Century Tower	Tower 2 / low floor	2,786	125,000	45
Mid-Levels	1 Garden Terrace	High floor / unit A	2,798	120,000	43

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

# RETAIL

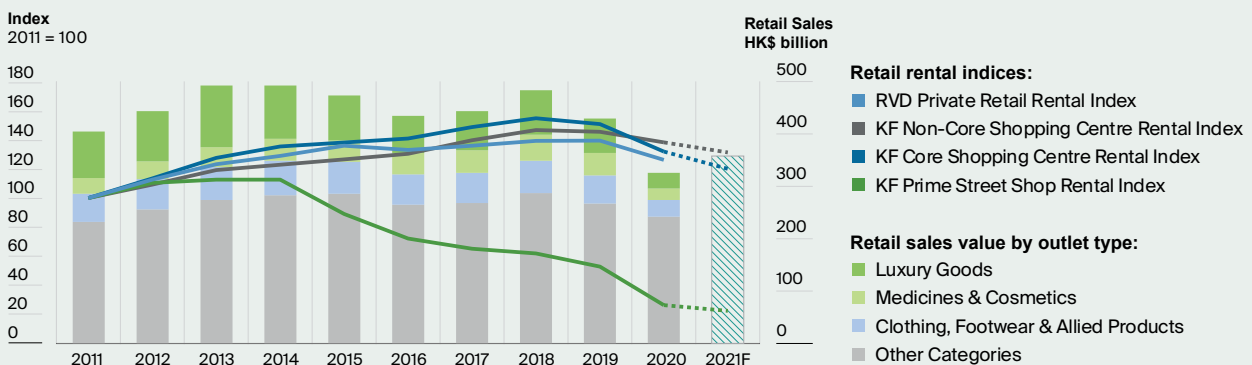
## Strong potential for retail properties in North District

Hong Kong's retail market was on the path to recovery before the outbreak of the fifth wave of the pandemic. According to the latest official statistics, in November, retail sales value increased by 7.1% YoY to

HK\$30.7 billion, recovering for the 10th straight month. However, the improving retail sales momentum may be dragged down again by the new coronavirus wave with the retightening anti-pandemic measures.

Given the lingering market uncertainty due to Omicron, most retailers were hesitant about shop expansion. However, more isolated retail leasing transactions were closed in the new towns of Yuen Long and North districts. Unlike the rents

Fig 4. Retail rents and sales



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

in the core areas, which dropped back to the post-SAR period level, a local boutique supermarket expanded and paid about 10% higher rent than the previous lease to occupy a 1,545-sq-ft ground-floor unit on Castle Peak Road in Yuen Long. Another small retail space of 658 sq ft on Lung Sum Avenue in Sheung Shui was leased to a food chain retailer at a rent 33% higher than the previous lease.

Under the government's development plan announced in the 2021 Policy Address, the Northern Metropolis is planned to accommodate 2.5 million residents. Given the proposed population growth and the Northern Metropolis strategic location close to Shenzhen, the potential for retail property looks strong.

Looking ahead, Hong Kong's stringent restrictions in the face of the fifth wave of the COVID-19 outbreak are expected to weigh on the local economy, including the retail sector. Given the uncertainties, coupled with the stagnant inbound tourism, most retailers are expected to be cautious and conservative about expanding. We expect overall retail rents to remain soft throughout 2022.

## Retail sales by outlet type (November 2021)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.2	10.3	-10.0	0.2	14.4
Clothing, footwear and allied products	3.2	10.6	10.7	13.6	16.6
Department stores	3.6	11.6	5.0	25.8	9.3
Fuel	1.0	3.1	-3.7	-5.3	11.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.8	9.0	-6.9	-7.2	-3.9
Consumer durable goods	6.8	22.0	6.3	35.9	1.1
Supermarkets	4.2	13.8	-9.3	-10.9	-3.2
Others	6.0	19.6	2.2	0.2	18.4
<b>All retail outlets</b>	<b>30.7</b>	<b>100.0</b>	<b>0.0</b>	<b>7.5</b>	<b>7.1</b>

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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