

Hong Kong Monthly

July 2022

OFFICE

Leasing demand from MNCs fuels recentralisation trend

Hong Kong Island

Overall Grade A office rents on Hong Kong Island recorded a slight drop of 0.7% in 1H22. However, supported by growing leasing demand in core areas, overall monthly rents in Central and Admiralty registered a growth rate of 0.4% in both areas in 1H22, standing at HK\$114.7 and HK\$73.9, respectively, per sq ft in June. The office upgrade trend, driven particularly by MNCs, continued in Central. Recently, U.S. investment firm Millennium Capital Management expanded its office space, leasing an additional 8,700 sq ft in Two IFC, while a foreign PE fund upgraded its office to 7,500 sq ft. in Two IFC.

Apart from the strong rivalry among office buildings to retain tenants, competition between landlords and co-working service providers is also fierce. Unlike traditional leasing contracts, landlords are now more willing to offer flexible lease terms and provide fully fitted space for tenants. With the downward adjusted rent, more tenants are reconsidering the traditional office options. For example, Canadian corporation PSP Investment moved from a serviced office in Prosperity Tower to Two IFC, leasing 4,500 sq ft.

Compared with the pre-covid period, the current rents on Hong Kong Island, especially in sought-after buildings in Central, are more affordable, fueling the recentralisation trend. We expect demand for prime locations to continue to grow

and support overall leasing momentum, driving moderate rental growth in 2H22.

Kowloon

Recent tenant movement demonstrates that seeking building upgrades in tandem with space optimization is still the major trend in Kowloon amid the prevailing trend of more agile working practices. Ocean Network Express, a global container shipping company originally located in Two Harbour Square, with 60,000 sq ft of office space, moved to Gateway Tower with a downsized office of 23,000 sq ft for the location upgrade. The sourcing division of a U.S. fashion brand also opted for a premium office quality upgrade, relocating its 46,000 sq-ft office in a non-standard office building, Hong Kong Spinners Industrial Building, to Hang Seng Tower, taking 26,000 sq ft.

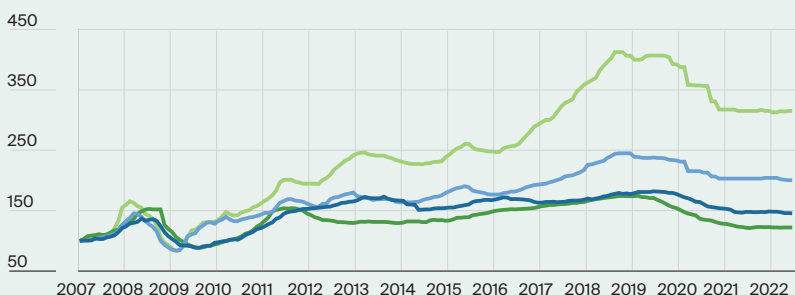
Apart from the flight-to-quality trend, leasing momentum in Kowloon was driven by intra-market musical chair activity and largely supported by renewal transactions. A handful of significant renewals were recorded during the month. A US-based construction company renewed its 60,000 sq-ft lease in Goldin Financial Global Centre; and a Chinese conglomerate confirmed its renewal of about 40,000 sq ft in Manhattan Place.

Looking ahead, we expect leasing demand to continue to shrink amid the market uncertainty. Before new demand is created by the long-awaited border reopening, we expect tenants to remain cautious and rents to stay stable in the coming three to six months.

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 (June 2022)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	135.0	0.0	4.5	-	-	-
Traditional Central	104.2	0.0	3.9	-	-	-
Overall Central	114.7	0.0	4.1	33,563	0.0	3.1
Admiralty	73.9	0.0	2.2	29,262	0.0	0.9
Sheung Wan	60.3	0.0	-0.2	27,017	0.0	-2.3
Wan Chai	53.1	-0.3	-5.2	24,842	0.0	0.4
Causeway Bay	60.5	0.0	-1.2	21,299	0.0	-1.8
North Point	40.2	0.0	-6.5	-	-	-
Quarry Bay	50.7	0.0	-8.5	-	-	-
Tsim Sha Tsui	56.5	0.1	-0.3	14,809	0.0	-2.6
Cheung Sha Wan	28.3	0.0	1.4	-	-	-
Hung Hom	39.2	-0.4	-3.5	-	-	-
Kowloon East	29.1	-0.4	-3.3	11,917	0.0	0.8
Mong Kok / Yau Ma Tei	50.9	0.0	-0.9	-	-	-

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

RESIDENTIAL

Demand for super luxury properties remained resilient despite weak sales

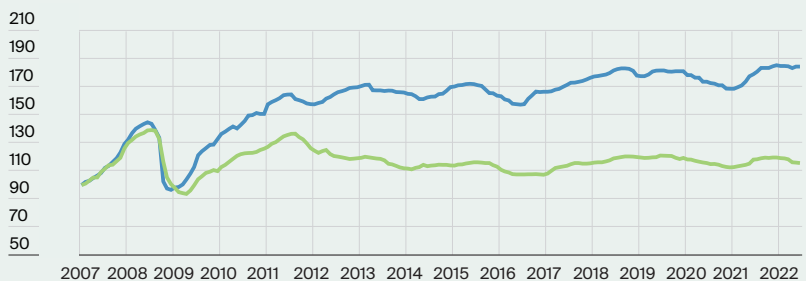
Sales activity in the residential market slowed down in June. A total of 4,826 cases were recorded, dropping 22.2% MoM. Primary sales supported overall market sentiment, with 1,382 cases recorded during the month. Affected by the pandemic, in 1H22, Hong Kong's overall stamp duty revenue from home sales fell to HK\$3.67 billion, dropping by 52% compared to that in 2H21, according to Inland Revenue Department data. June sales revenue figures dropped as well, tumbling by 33% to HK\$544.7 million, and cases fell by more than 10%.

Although sales volume was low in the luxury market, there were a handful of transactions that set record prices for the year. A 8,032-sq-ft-house at No.15 Shouson, Deep Water Bay, developed by Emperor International, CC Land, Mingfa Group and CSI Properties in Shouson Hill, was sold for HK\$870.2 million or HK\$108,347 per sq ft by tender, showing that Hong Kong's super prime properties remain sought-after by wealthy buyers despite the interest rate hike cycle and economic uncertainty. Another notable transaction was a 6,867 sq-ft penthouse at Dukes Place in Jardine's Lookout, which was sold for HK\$680 million, or HK\$99,000 per sq ft.

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

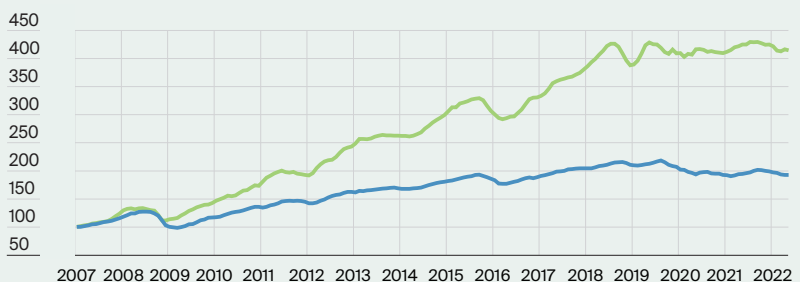


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

These recent luxury property transactions have helped bolster buyer confidence in the luxury market.

On the leasing front, the luxury segment was relatively quiet, but there were more enquiries and home viewing activities in

the mass market. Leasing activity was more active for small and medium-sized units.

Even though the interest rate hikes are within market expectations, some potential homebuyers choose to adopt a wait-and-see approach amid market uncertainty. Going

forward, if the border control and other restrictions are further relaxed, demand from expatriates and Mainland investors is expected to return to the market. As Hong Kong's economy gradually returns to normal, we expect the high-end residential market to follow.

Selected residential sales transactions (June 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Shouson Hill	15 Shouson	House	8,032	870.2	108,347
Mid-Levels	Central Peak	Phase 1 / Alpex III	2,771	288	103,934
Jardine's Lookout	Dukes Place	Penthouse	6,867	680	99,024
Mid-Levels Central	21 Borrett Road	High floor / unit 1	2,945	270.6	91,896
Island South	90 Repulse Bay Road	House	5,678	442.9	78,000

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

Selected residential lease transactions (June 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tai Tam	12-16 Tai Tam Road	House	3,350	300,000	90
Island South	Carmel Hill	House	3,914	240,000	61
Island South	Residence Bel-Air	Phase 4 / Tower 3 / high floor / unit B	3,098	180,000	58
Shouson Hill	1-9 Shouson Hill Road East	House	2,840	160,000	56
Island South	Repulse Bay Bellevue Garden	House	3,128	160,000	51

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

RETAIL

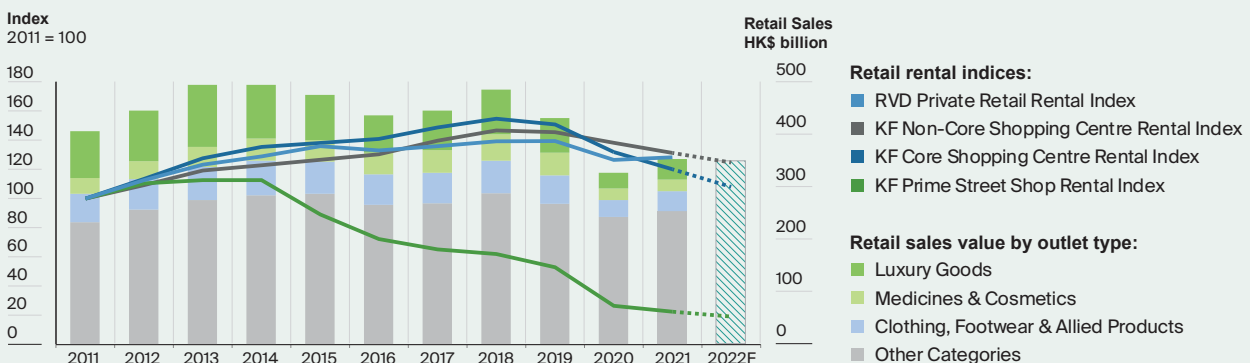
Subdued retail sales exert further pressure on overall shop rentals

The absence of tourism continued to have serious repercussions for Hong Kong's retail market. Total retail sales value in May dropped by 1.7% YoY to HK\$29.1 billion. For the first five months of 2022, total retail sales value decreased by 2.9% year on year.

Despite the government's launch of electronic consumption vouchers to boost retail sales, retailers that rely heavily on inbound tourists are still facing a huge challenge. For instance, Burberry decided to close its three-storey flagship on Canton Road, the prime shopping street in Tsim

Sha Tsui. The closure of the Tsim Sha Tsui store came after Burberry shut its renowned Russell Street flagship store last year, which reflected the unabated pressure faced by the luxury retailers in the throes of the pandemic. Valentino, Tiffany & Co and Coach all closed down

Fig 4. Retail rents and sales



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

their stores one after another on Canton Road as tourists evaporated.

While shop rentals in prime locations dropped drastically, some prime spaces in Russel Street, in Causeway Bay, have become more affordable to local retailers. According to market sources, Shop 26 on Russell Street was leased to Titan, a local

houseware retailer, for a reported monthly rent of HK\$200,000, which marked a significant drop of 87% from the peak rent of HK\$1.52 million per month.

In the near term, the outlook for Hong Kong's retail market remains highly difficult, so retail rents are expected to face further pressure. Uncertainty in the

economy, interest rate hikes and delays in the border reopening could weigh on consumption sentiment. On the bright side, however, the second phase of the HK\$5,000 consumption vouchers to be disbursed in August could provide a tailwind, underpinning much-needed retail sales and restaurant receipts for the time being.

Retail sales by outlet type (May 2022)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.3	11.5	10.8	52.1	7.1
Clothing, footwear and allied products	3.4	11.8	7.8	73.1	-1.7
Department stores	3.2	11.2	20.9	60.8	-4.4
Fuel	1.0	3.6	14.0	59.5	1.7
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	10.2	-1.1	-11.2	1.9
Consumer durable goods	4.2	14.3	-30.8	-2.0	-11.9
Supermarkets	4.3	14.9	-1.7	-8.7	-5.2
Others	6.6	22.6	-6.0	8.5	3.3
All retail outlets	29.1	100.0	-3.7	15.3	-1.7

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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