

Hong Kong Monthly

June 2021

OFFICE

Developers to tap flexible workspace solutions to enhance portfolio value

Hong Kong Island

Rental levels in Hong Kong Island's Grade-A office market showed a stable trend in May. The overall average rent fell 2.6% on a quarterly basis to HK\$75.4 per sq ft. Rents in the CBD and Sheung Wan were relatively more resilient, registering a slight quarterly drop of 2.1% and 0.4%, respectively.

We note that more developers are considering operating co-working space in their own premium office buildings to capture the increasing demand for flexible workspace and offer solutions to their in-house tenants. For instance, Hongkong Land recently unveiled its two-floor Centricity Flex, with 25,000 sq ft of space, on the 17th and 18th floor of Edinburgh Tower. Given the lower capital costs and flexible leasing terms, the flexi workspace solutions are increasingly welcomed by corporate tenants that want to maintain a presence in the CBD area.

Apart from the co-working concept, there has been growing interest from corporations, especially in the banking sector, to apply environmental, social and governance (ESG) criteria in leasing requirements. ESG has become an increasingly important part of their office leasing strategy, as well as their fit-out decision-making process. As ESG performance is closely related to corporations' long-term financial and investment decisions, we expect more

occupiers and investors to take more consideration of ESG elements in their real estate decisions.

Kowloon

Leasing momentum for Kowloon Grade-A offices continued in May, with most of the deals recorded in Kowloon East. Transactions comprised mainly renewal cases, at an average rent of HK\$22 per sq ft or below. Major demand was driven by the electronic and professional services sectors.

Although not many sizable new lease cases from private corporations were recorded in May, various government departments

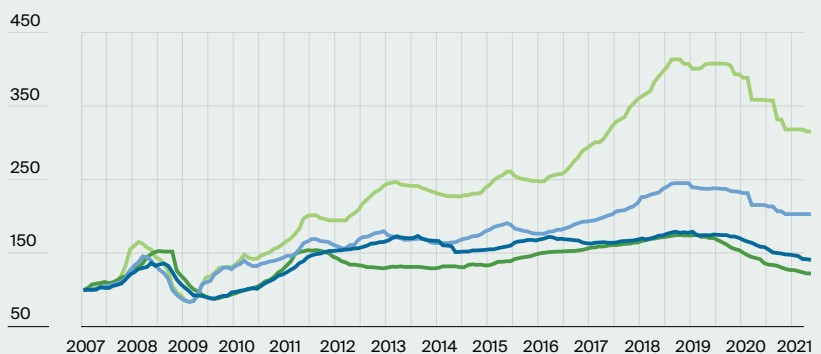
have been actively looking for expansion, given the affordable rents. For instance, the Transport Department leased the entire sixteenth floor of Skyline Tower in Kowloon Bay at approximately HK\$20 per sq ft, and it is negotiating another whole floor expansion at PeakCastle in Cheung Sha Wan.

The sale of the Kowloon Bay International Trade & Exhibition Centre (KITEC) boosted activity in Kowloon East, with more tenant enquiries and site inspections during the month. Rents in the overall Kowloon market remained stable, continuing the expected bottoming-out trend 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 (May 2021)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	131.3	0.0	-13.7	-	-	-
Traditional Central	101.7	0.0	-12.4	-	-	-
Overall Central	111.8	0.0	-12.9	32,563	0.0	-15.6
Admiralty	72.3	0.0	-18.2	29,001	0.0	-14.2
Sheung Wan	60.4	0.0	-19.6	27,647	0.0	-10.2
Wan Chai	56.8	-0.1	-15.4	24,748	0.0	-8.2
Causeway Bay	61.0	0.0	-13.9	21,699	0.0	-8.4
North Point	41.1	-2.0	-11.6	-	-	-
Quarry Bay	47.9	-0.3	-6.2	-	-	-
Tsim Sha Tsui	55.8	-0.2	-12.6	15,209	0.0	-7.0
Cheung Sha Wan	27.8	0.2	-10.2	-	-	-
Hung Hom	39.9	-1.5	-8.5	-	-	-
Kowloon East	26.9	-0.6	-9.3	11,817	0.0	-3.6
Mong Kok / Yau Ma Tei	51.3	0.0	-8.9	-	-	-

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

RESIDENTIAL

Resilient local demand supports primary residential sales

The residential market remained robust in May. According to the Land Registry, 7,084 transactions were recorded in May, a drop of 3.3% MoM. The primary market outperformed, recorded 1,572 transactions, a surge of 47.3% MoM. The latest official statistics show that the average residential price edged up 0.4% MoM in April, the highest level since July 2019.

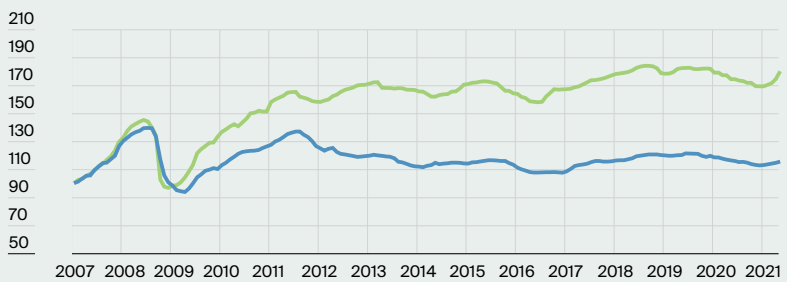
Newly launched projects recorded brisk transactions, reflecting strong demand from local buyers. The Pavilia Farm III, co-developed by New World Development and MTR Corporation, atop Tai Wai Station, was nearly 80 times oversubscribed, the highest subscription volume since 1997. The luxury market also followed the upbeat momentum with strong purchase sentiment. A few significant transactions in the ultra-prime segment were recorded, including a 3,603 sq ft house at Shouson Peak, which was sold for HK\$310 million or HK\$86,039 per sq ft; and a 2,945-sq-ft duplex unit on the 19/F of 21 Borrett Road, which was sold for HK\$250 million, or HK\$84,900 per sq ft.

On the leasing front, leasing demand is still coming mainly from local residents. Significant transactions include a unit at The Belcher's in Mid-Levels West,

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

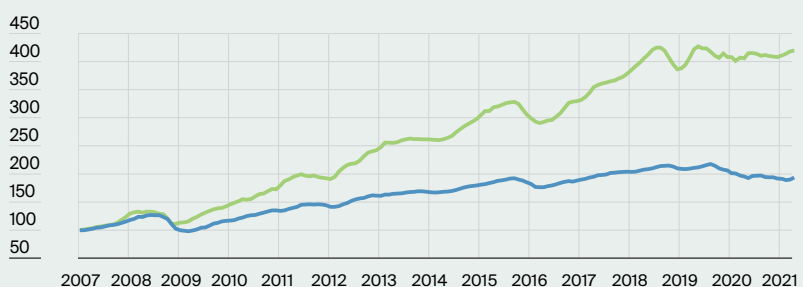


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

covering 2,692 sq ft, which was rented for HK\$154,000 per month. As Hong Kong's financial regulators announced that senior executives in the financial industry who meet certain criteria can seek an exemption from compulsory quarantine when they return or travel to Hong Kong,

near-term leasing demand from expatriates is expected to rise.

Amid the recent easing in the COVID-19 situation and the massive rollout of the vaccination programme, the economy is gradually improving, leading to improved

sentiment in the residential market. With the likely resumption of cross-border travel as the government will further ease quarantine rules, we maintain a positive outlook for Hong Kong's residential market. We expect overall residential prices to increase by 3% to 5% this year.

Selected residential sales transactions (May 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Shouson Hill	Shouson Peak	House	3,603	310.1	86,075
Mid-Levels Central	21 Borrett Road	High floor / unit 1	2,945	250	84,890
Tsim Sha Tsui	The Masterpiece	High floor / unit B	2,969	210	70,731
Island South	50 Stanley Village Road	House	2,751	165	59,978
Mid-Levels Central	8 Kennedy Road	High floor / unit A	2,896	122	42,127

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

Selected residential lease transactions (May 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	Manhattan Tower	Mid floor / unit A	1,999	132,000	66
Island South	The Lily	Tower 1 / mid floor	2,602	160,000	61
Mid-Levels West	The Summa	High floor	2,235	120,000	54
Island South	Residence Bel-Air Phase 2	Tower 1 / low floor / unit A	1,956	105,000	54
Mid-Levels Central	Queen's Garden	Tower C	2,255	120,000	53

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

RETAIL

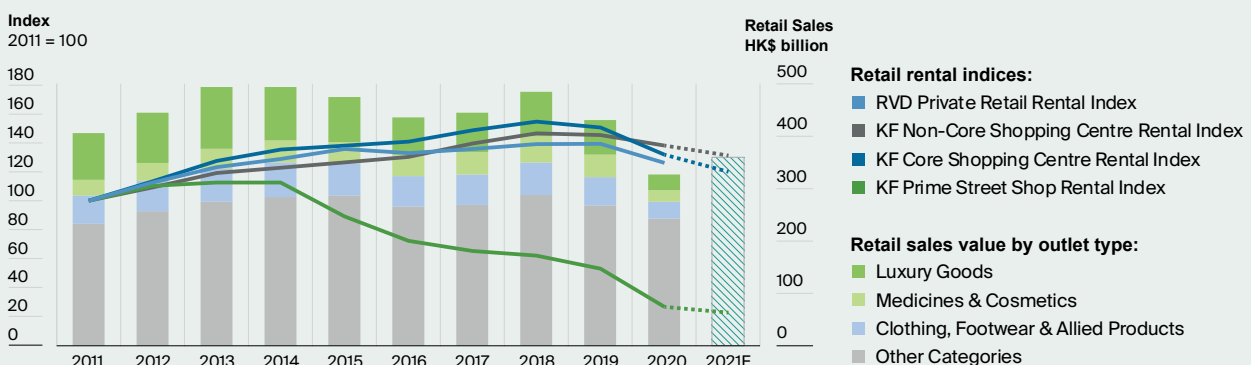
Consumption incentives to underpin retail sales in the short term

Hong Kong's retail market remains gloomy even though concern about the coronavirus pandemic has largely subsided. Total retail sales value was HK\$27.0 billion in April, up by 12.1% YoY because of the low base effect. But growth narrowed compared to the previous two

months. Consumer spending in April is traditionally higher than that in March after the tax-payment season. The lower retail sales in April this year indicates that local consumers were still cautious about the economic and labour market outlook.

Amid weak consumption sentiment and the absence of inbound tourism, the luxury retail sector remained challenging. Retail sales of luxury goods totalled HK\$2.6 billion in April, the lowest in eight months. Although retailers and landlords

Fig 4. Retail rents and sales



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

have offered various promotions and sales campaigns since mid-2020, these are only short-term solutions to stimulate spending.

Reshuffling of the tenant mix on prime retail streets persists, with an even more drastic transformation, as we saw banks occupying large duplex stores. For example, Hang Seng Bank rented two floors at 36 Queen's Road Central after the former tenant, Adidas, relinquished

its four-storey shop. The bank rented a total of 6,500 sq ft on the ground floor and first floor for HK\$1.2 million per month, or about HK\$185 per sq ft. The unit rent is almost 45% lower than that paid by Adidas.

We expect the recovery in the retail market to pre-pandemic levels to take considerable time. Given the current market fundamentals, it is difficult to expect significant growth in the local

consumption segment. On the upside, however, the government aims to start registration for the consumption voucher scheme in July. Also, some property developers have offered lucky draws in a collective effort with large companies and brands to incentivise local residents to receive COVID-19 vaccination. We expect these initiatives to drive positive sentiment and offer temporary support for retail sales in the coming months.

Retail sales by outlet type (April 2021)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.6	9.7	-12.0	-22.1	93.2
Clothing, footwear and allied products	3.1	11.5	-0.6	-10.8	60.2
Department stores	2.4	9.0	-1.2	-17.3	-22.2
Fuel	0.9	3.4	-0.7	16.0	26.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.9	10.7	9.2	-21.5	-3.7
Consumer durable goods	4.7	17.5	-10.4	-25.6	12.6
Supermarkets	4.2	15.4	-2.7	-11.4	-12.7
Others	6.2	22.8	3.7	-15.1	23.2
All retail outlets	27.0	100.0	-2.2	-17.0	12.1

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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