

# Hong Kong Monthly

May 2022

## OFFICE

*MNC-driven office upgrades in Central on the rise*

### Hong Kong Island

Leasing momentum on Hong Kong Island continued to gather pace amid the easing of the fifth wave of COVID outbreak. There was a continued uptick in activity, and rents in several areas rebounded to the level in late 2021. Central and Wan Chai saw a slight increase of 0.9% and 0.8% over the past six months, reaching HK\$114.5 and HK\$53.6 per sq ft, respectively.

Central outperformed other areas in activity level and maintained a low vacancy rate for premium office space. Some multinational corporations (MNCs), especially those in the financial industry, have been actively seeking space in sought-after Grade A buildings in Central for upgrade and expansion amid stabilized rents. For instance, U.S. financial services company Jefferies Group relocated its office from Cheung Kong Center to Two IFC with 27,600 sq ft, while Jane Street, a U.S. proprietary trading firm, expanded its footprint in Chater House during the month.

Going forward, we expect the 'flight-for-quality' trend to grow as companies, in particular those involved in the financial markets, see the benefits of being part of the CBD ecosystem. Office tenants are taking advantage of attractive rents to lock in leases in premium buildings before the full recovery of the market and the next office rental up-cycle becomes imminent. Therefore, we expect to see continued improvement in leasing

momentum, especially in the CBD area, in the second half of the year.

### Kowloon

The Kowloon Grade A office market demonstrated much stronger momentum in April. More on-site inspections were recorded as the fifth wave of the pandemic subsided. With improved business sentiment, there were more sizable new letting cases of over 10,000 sq ft in the market. Government departments took up one floor in Landmark East – AIA Kowloon Tower and another three floors in Spectrum Tower. The total new lease area amounted to 50,800 sq ft. Apart from the public sector, fintech and Chinese mainland enterprises were the major sectors that fuelled the momentum in April. Cryptocurrency firm Bybit leased 23,400 sq ft in Gateway Tower 5, while

Chinese start-up company Taikang Insurance leased 21,150 sq ft in the same building.

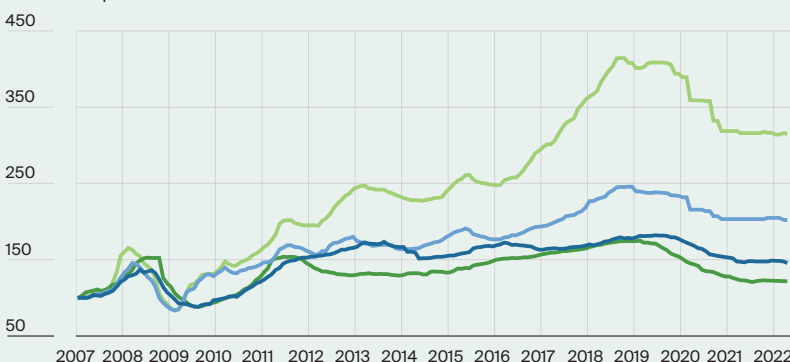
Although some sizable transactions were recorded during the month, most of the activity in the Kowloon market was still dominated by small and medium-sized deals of 3,000 sq ft or below, at an average rent of about HK\$22 per sq ft.

With the fifth wave of the pandemic under control, we expect tenants to continue to take a wait-and-see approach and rents to remain stable in the coming three to six months. Only if the borders are reopened and more favourable indicators are displayed will business confidence be further strengthened, and the leasing market rebound in the last quarter of the year.

**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 (April 2022)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	134.6	0.0	2.5	-	-	-
Traditional Central	104.2	0.8	2.4	-	-	-
Overall Central	114.5	0.5	2.5	33,363	0.0	2.5
Admiralty	73.7	0.0	1.9	29,249	0.0	0.9
Sheung Wan	60.3	0.4	-0.2	26,917	-0.8	-2.6
Wan Chai	53.6	0.0	-5.8	24,642	0.0	-0.4
Causeway Bay	60.8	0.0	-0.2	21,299	0.0	-1.8
North Point	40.2	-2.8	-4.0	-	-	-
Quarry Bay	50.7	-0.5	-8.6	-	-	-
Tsim Sha Tsui	56.4	-1.1	0.9	15,009	0.0	-1.3
Cheung Sha Wan	28.3	-0.4	2.1	-	-	-
Hung Hom	39.3	-1.0	-3.0	-	-	-
Kowloon East	29.2	-1.9	-3.9	11,817	-0.8	0.0
Mong Kok / Yau Ma Tei	50.9	0.0	-0.7	-	-	-

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

# RESIDENTIAL

## Market sentiment prevails despite rising interest rates

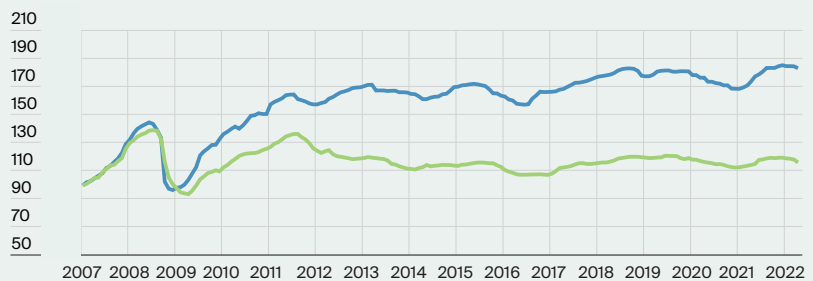
With the fifth wave of the pandemic under control and supported by pent-up local demand, the residential market regained momentum. Both the primary and secondary market recorded an uptick in volume and consideration. According to the Land Registry, 3,897 residential transactions were recorded, up 35.8% MoM, while the total consideration increased 30.6% MoM to HK\$35.2 billion in April.

The first-hand market reflected strong local demand amid the relaxation of social-distancing measures and improved pandemic situation. Developers resumed the launch of new projects with attractive discounts and incentives, such as flexible payment options, to boost sales. Newly launched projects drew keen interest from homebuyers, as indicated by the massive oversubscription of new projects, such as Grand Mayfair I atop Kam Sheung Road Station, developed by Sino Land, K. Wah International and China Overseas Land and Investment, and Monaco Marine, in Kai Tak, by Wheelock Properties. More than 13,000 registrations of interest were received for Grand Mayfair I, representing over 33 times oversubscription of units available for sale. All 388 units were sold in the first batch for sale. The oversubscription and booming sales reflect the resilience of the local property market despite all the economic uncertainty from COVID.

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

2007 = 100

Price index Rental index

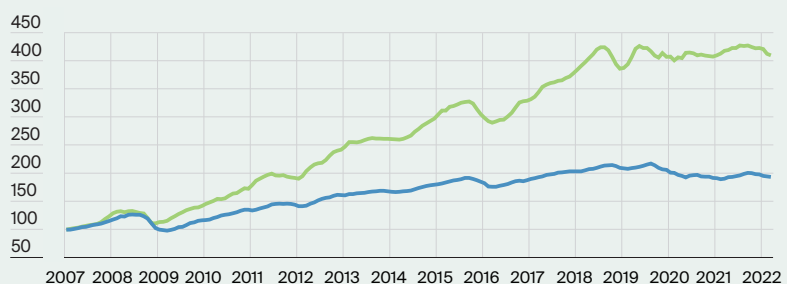


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

The luxury sales market has demonstrated resilience. Notable transactions during the month included the sale of a 3,222-sq-ft-unit at Haking Mansions on The Peak for HK\$216.8 million, or HK\$67,287 per sq ft. On the leasing front, demand was still driven by local movement. Home viewing activity persisted, but more tenants adopted a wait-and-see approach or tended

to renew their existing home because of cost concerns.

Despite Hong Kong's direction into an interest rate hike cycle, in the near term, the overall residential market will continue to be supported by pent-up local demand and the banks' support of low mortgage rates. With the pandemic easing, potential

home buyers are optimistic about the market outlook, and transaction volume is expected to pick up, in particular in the primary market. Going forward, developers are expected to be more aggressive in launching new units, as they want to chase sales progress after the launch delays amid the fifth COVID wave.

### Selected residential sales transactions (April 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Haking Mansions	High floor	3,222	216.8	67,287
Mid-Levels Central	The Harbourview	High floor / unit B	1,971	130	65,956
Mid-Levels West	The Morgan	High floor / unit C	2,342	138	58,924
Kowloon Tong	16 Hampshire Road	House	5,256	201.8	38,394
Clear Water Bay	Villa Cove	House	3,987	125.5	31,477

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

### Selected residential lease transactions (April 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Aberdeen	Marinella	Tower 6 / mid floor / unit A	1,807	120,000	66
The Peak	Oasis	Block A2 / high floor / unit B	1,992	115,000	58
Tsim Sha Tsui	Harbour Pinnacle	High floor / unit B	1,968	108,000	55
The Peak	La Hacienda	Block A / low floor	2,734	115,000	42
Tai Tam	Redhill Peninsula	Cedar Drive	3,136	130,000	41

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

## RETAIL

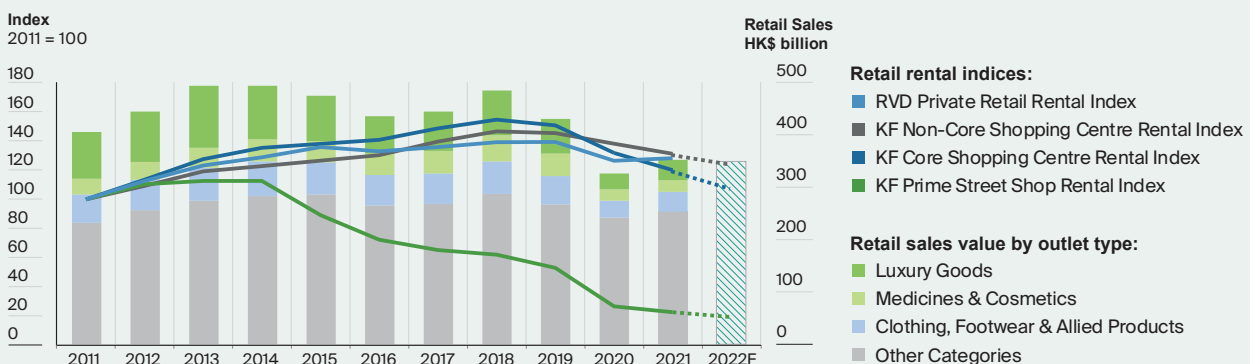
### Retail headwinds linger, slow recovery putting pressure on shop rentals

Hong Kong's retail market remained in the doldrums amid the fifth wave of COVID-19. Total retail sales value in March plunged by 13.8% YoY to HK\$23.8 billion, following a 17.6% slump in the previous month. With the disbursement

of the first batch of electronic consumption vouchers in early April, most retailers, especially those selling electronics and premium groceries, recorded a surge in sales during the Easter holidays. But restaurants did not

benefit much from higher traffic, as the two-person-per-table restriction was still in place. Overall, retailers reflected that sales performance was the strongest in the first week of April, but sales gradually weakened in the following weeks.

Fig 4. Retail rents and sales



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

The F&B sector has faced huge pressure under the stringent social-distancing measures. The value of total receipts in the restaurant sector was only HK\$3.93 billion in March, a record low for the month, according to the latest data from the Census and Statistics Department. There was an upsurge in the surrender of shop units by food operators, as many restaurants had been struggling to stay afloat, and some failed to survive. For instance, London restaurant Duck & Waffle closed its Hong Kong location at IFC Mall.

It is worth mentioning that Russell Street, in Causeway Bay, has seen some remarkable changes, as it has switched from a luxury retail street into a food street. For one thing, in Q4 2022, the world's first Transformers-themed restaurant, owned by catering group A La Carte (HK), will take the shop previously occupied by Burberry. It will be the latest international restaurant chain on Russell Street, following Ruby Tuesday and Five Guys. Owing to the absence of tourists, businesses are now locally driven. Embracing more F&B tenants in

prime streets is a quick-win solution for landlords to improve cash flow at the moment, while the new tenants are not paying high unit rents.

Since retail headwinds continue to linger, owing to the volatile stock market, delays in border reopening, and concern about the emergence of a sixth wave of infections, we expect the retail market to take considerable time to recover. Shop rentals will remain suppressed with a growing number of surrender cases.

## Retail sales by outlet type (March 2022)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	1.9	7.9	-13.8	-50.7	-36.8
Clothing, footwear and allied products	1.8	7.7	-7.2	-52.7	-41.5
Department stores	2.0	8.6	0.8	-38.6	-16.9
Fuel	0.8	3.3	18.0	-18.4	-15.7
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.6	10.7	-23.1	-19.4	-3.3
Consumer durable goods	4.8	20.0	12.2	-31.2	-9.8
Supermarkets	4.4	18.5	-7.5	-2.0	2.6
Others	5.6	23.4	-7.9	-17.5	-6.2
All retail outlets	23.8	100.0	-5.6	-28.5	-13.8

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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