

# Hong Kong Monthly

August 2022

## OFFICE

*Stagnant leasing activity and softer rents amid slow absorption*

### Hong Kong Island

Affected by the weaker-than-expected economic performance, business sentiment in the second quarter dampened. Most tenants delayed their real estate decision-making, resulting in a significant drop in leasing activity. Given the slow absorption of office space on Hong Kong Island, the overall vacancy rate in July surged to 9.2%, reaching a new height not seen since the SARS outbreak in 2003. Most of the vacant space is mainly in non-core areas, such as Wong Chuk Hang, Wan Chai, and Island East. Rents in the overall Hong Kong Island office market fell by 1.6% on a quarterly basis to HK\$74 per sq ft per month, with Wan Chai and Quarry Bay recording the highest quarterly drop of 3.4% and 2.9%, respectively.

New supply is putting imminent pressure on the leasing market. Flagship projects slated for completion by 2023 include The Henderson, Cheung Kong Center II and the 46-56 Queen's Road East Redevelopment, collectively adding 1.2 million sq ft of GFA to the market. These new office buildings are already competing with existing Grade A office space. For instance, this month, the global investment firm The Carlyle Group confirmed the relocation of its Asia Pacific headquarters from Two Pacific Place to The Henderson, where they will lease a c.20,000-sq-ft office.

The Hong Kong Island office market's high vacancy will continue to be further impacted by abundant new supply and

negative absorption. Before the border restrictions are fully relaxed, we expect landlords of existing Grade A buildings to be more flexible and willing to further reduce rents in reaction to growing competition. We forecast that Hong Kong Island office rents will fall 3-5% from their current level in July to year-end.

### Kowloon

The Kowloon office leasing market was aligned with the Hong Kong Island market in July, with a slowdown in tenant movement. New leasing demand focused on smaller transactions of 4,500 sq ft or below, at an average rent of HK\$26.9 per sq ft. Sizeable transactions of over 30,000 sq ft remained rare.

This was a continuation of the trend in the past quarter, but again like the Hong Kong Island market, an occasional

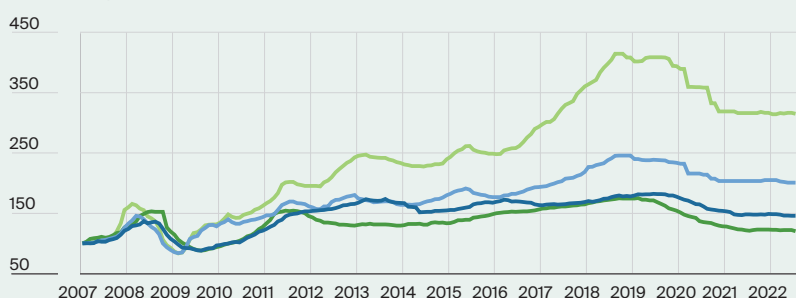
large relocation transaction drew most of the market attention. In July, U.S. toy company Hasbro confirmed its relocation from Harbour City to 78,000 sq ft of space in Hang Seng Tower in Kowloon Bay. This relocation suggests that there are still tenants looking for specific types of opportunities in the prevailing tenant's market – in this case, a long fixed-lease term, and free fit-out premises at a competitive rent.

Looking ahead, the Kowloon market will continue to behave similar to the Hong Kong Island market. Tenants will continue to pursue unique market opportunities to drive new leasing demand. The size optimisation trend, driven by the adoption of agile working and WFH will add support for this trend. A gradual rebound in leasing activity in Kowloon is expected by the end 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 (July 2022)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	133.8	-0.9	4.6	-	-	-
Traditional Central	102.5	-1.6	3.2	-	-	-
Overall Central	113.1	-1.3	3.7	33,000	-1.7	1.3
Admiralty	72.9	-1.4	0.8	28,993	-0.9	0.0
Sheung Wan	59.1	-2.1	-2.3	27,017	0.0	-2.3
Wan Chai	51.8	-2.5	-6.3	24,842	0.0	0.4
Causeway Bay	60.9	0.5	-0.4	21,639	1.6	-0.3
North Point	40.0	-0.5	-7.0	-	-	-
Quarry Bay	49.3	-2.8	-9.6	-	-	-
Tsim Sha Tsui	56.4	-0.1	-0.8	14,809	0.0	-2.6
Cheung Sha Wan	28.3	0.0	1.0	-	-	-
Hung Hom	39.2	0.1	-2.1	-	-	-
Kowloon East	29.1	-0.1	-3.5	11,917	0.0	0.8
Mong Kok / Yau Ma Tei	50.8	-0.2	0.5	-	-	-

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

# RESIDENTIAL

## Secondary market cooling off as buyers turn cautious

Residential sales activity slowed down, and home prices posted a significant drop in July, as they were weighed down by rising interest rates and downbeat market sentiment. According to the Land Registry, a total of 3,671 residential sales were recorded in July, down 23.9% MoM. Hong Kong's overall stamp duty revenue from home sales reached a 19-month low of 212 cases in July, according to Inland Revenue Department data. Of these, the number of cases involving Buyer's Stamp Duty (BSD) plunged 47% MoM, reflecting a notable drop in demand from non-local buyers of Hong Kong property.

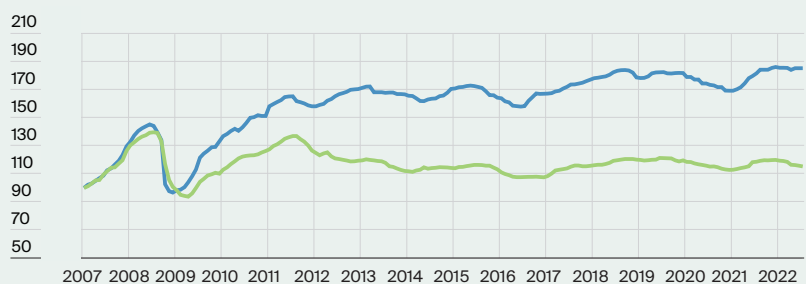
Supported by the low starting prices of new projects offered by developers, purchase momentum in the primary market persisted. The first batch of Henderson Land's One Innovalé – Archway, in Fanling, received about 7,800 tickets in total and was oversubscribed by 23 times. All 317 units were sold on the first day of sale. However, purchase confidence was weak among secondary homebuyers, and some property owners were desperate to cash in by selling their units, exerting further pressure on home prices.

The leasing market was stable, with little movement, and continued to be supported primarily by existing demand. Notable

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

2007 = 100

Price index Rental index

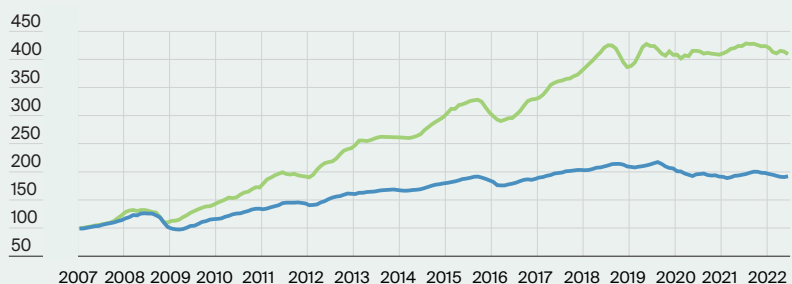


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

transactions included a 5,342-sq-ft-house at 84 Peak Road at The Peak, which was rented for HK\$480,000 per month or HK\$90 per sq ft.

As at the end of July, a total of 41 residential projects with 20,222 units had been

pending presale approval. Even though the figure dropped to a seven-month low, primary projects are expected to continue to draw market attention in the coming months. Developers may speed up new project launches before any further increases in local interest rates.

Looking ahead, home prices are likely to come under more pressure, as the headwinds of rising interest rates take a firmer hold. While primary residential prices should remain firm, secondary mass residential prices are forecast to experience a gradual downward adjustment of 3% to 5% in full-year 2022.

### Selected residential sales transactions (July 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Ho Man Tin	128 Waterloo	High floor / unit A	3,445	241.2	70,000
Island South	Residence Bel-Air	House	5,232	363	69,381
Mid-Levels West	University Heights	Tower 1 / low floor / unit A	1,508	71.8	47,613
Tai Tam	Villa Rosa	House	3,314	119	35,908
Tai Tam	The Redhill Peninsula	Cedar Drive / House	2,765	98	35,443

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

### Selected residential lease transactions (July 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
The Peak	84 Peak Road	House	5,342	480,000	90
Island South	Residence Bel-Air	Phase 4 / Tower 1 / mid floor / unit B	3,098	173,000	56
Mid-Levels East	Highcliff	High floor / unit B	2,624	140,000	53
Happy Valley	Broadview Villa	High floor / unit A	2,583	120,000	46
Tai Tam	The Redhill Peninsula	Cedar Drive / House	3,136	140,000	45

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

## RETAIL

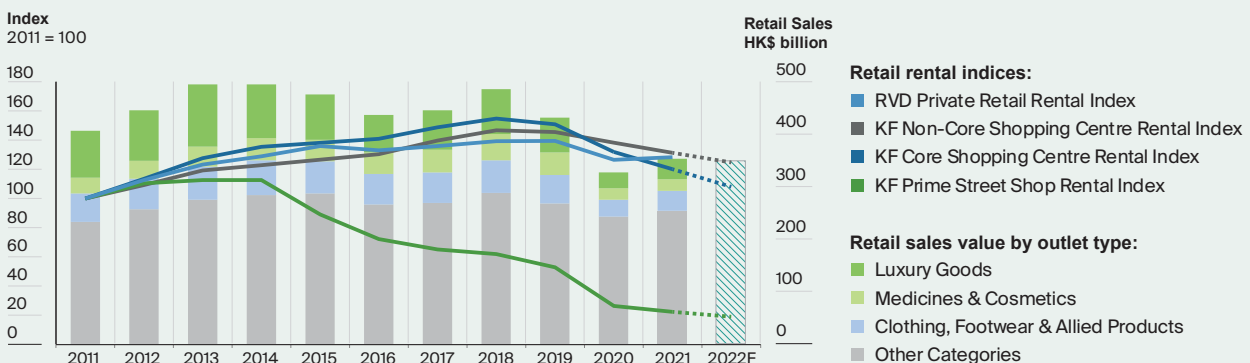
### Mid-range brands expand in prime locations amid the pandemic

Hong Kong's retail market remained vulnerable amid the absence of inbound tourism. Total retail sales value fell 1.2% YoY to HK\$27.7 billion in June, which was more subdued than market expectations, as some consumers preferred to wait for the second round of the voucher scheme

distribution. In the first half of 2022, total retail sales value fell by 2.6% YoY, registering over a 30% decline compared to the same period in 2018 (pre-pandemic), reflecting a continuing significant performance gap between the current and the pre-pandemic retail market.

According to market sources, Shop 1 (c. 1,500-sq-ft) on the ground floor was leased to CHARLES & KEITH for a monthly rent of HK\$400,000. Formerly this shop, along with space on the first floor (c. 4,000-sq-ft) was leased to MaxMara, a high-end Italian fashion brand, that paid HK\$1,500,000

Fig 4. Retail rents and sales



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

per month. The weakening sentiment in Hong Kong's retail market has prompted landlords to subdivide sizeable premises and offer deeper cuts in shop rents. Similarly, the Peak Lookout restaurant, a popular dining spot for tourists, saw its rent cut in half as tourists disappeared. According to the Government Property Agency, the space was granted to Modern China International for HK\$112,000

in July 2022 or 20% of gross income, whichever is greater, which is 51.3% lower than the previous lease, indicating that the outlook for tourism in Hong Kong remains highly uncertain.

We expect downward pressure on retail rents to remain for a while, as the poor economic outlook, more aggressive interest rate hike cycle and volatile

stock market are expected to dampen local consumption sentiment and exert considerable pressure on the retail market down the road. However, the number of leasing transactions should increase in the coming months as the shorter of "3+4" quarantine arrangement could be a positive news to lift inbound tourism.

## Retail sales by outlet type (June 2022)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.4	12.2	1.1	76.9	2.3
Clothing, footwear and allied products	3.0	10.7	-13.4	61.3	-4.6
Department stores	2.6	9.4	-20.0	27.7	-2.3
Fuel	1.1	4.0	6.4	43.9	7.5
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.8	10.2	-3.9	10.9	3.4
Consumer durable goods	4.3	15.6	3.9	-8.8	-11.0
Supermarkets	4.3	15.6	-0.5	-1.8	-0.3
Others	6.2	22.3	-6.0	11.4	2.7
All retail outlets	27.7	100.0	-4.7	16.4	-1.2

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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