

Hong Kong Monthly

July 2021

OFFICE

Strong market activity underpinned by sizeable transactions

Hong Kong Island

Leasing activity on Hong Kong Island increased significantly in June, leading to a drop in the vacancy rate, especially in the non-core business areas. The vacancy rate in Admiralty fell from 8.8% to 8.5%, and the rate in Causeway Bay declined from 6.8% to 6.5% during the month.

More financial institutions, especially MNCs, are considering implementing flexible workspace in their real estate plans, reflected by stronger leasing demand for co-working space. For instance, Citibank leased 100 desks in The Executive Center, and Citadel, a US-based hedge fund and securities company, rented 100 desks in Servcorp.

Benefiting from improved business sentiment, tenants with multiple offices captured the opportunity to consolidate their workplace. Some started to look for Grade-A office buildings with large floor plates at affordable rents. Bupa consolidated their business in Quarry Bay and Kowloon Bay by leasing 90,000 sq ft in Kwun Tong, for an office upgrade.

Given the more stable business environment, the market outlook remained positive, and we expect rents to pick up gradually in the coming months.

Kowloon

As with the office leasing market on Hong Kong Island, the market in Kowloon remained active in June. Transactions were dominated by leases of 5,000 sq ft or less in Kowloon East.

Amid more stable rental levels, more sizable transactions of 10,000 sq ft or above were recorded during the month. E-commerce giant Farfetch upgraded its office, relocating from Wong Chuk Hang to Kwun Tong International Trade Tower with a 35,750-sq-ft lease, which was the largest relocation case from Hong Kong

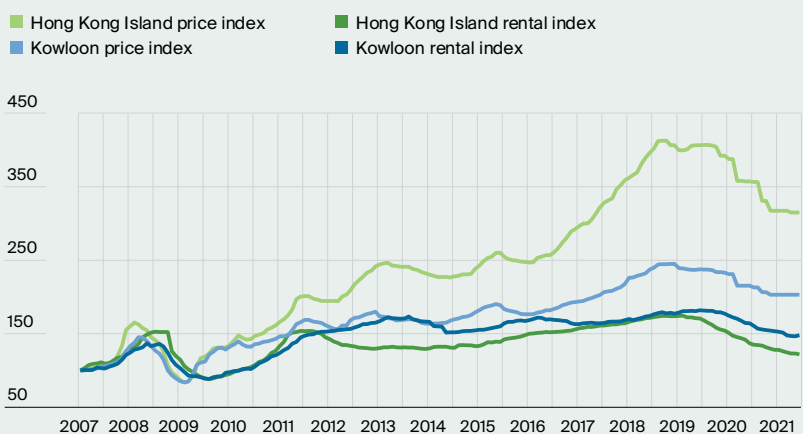
Island to Kowloon during the month.

Also, New Media Group leased 36,341 sq ft and Sainsbury's leased 19,271 sq ft at the Quayside, in Kwun Tong.

Rents in Kowloon have continued to show a moderate adjustment over the past few months, supporting our view of a bottoming-out trend in the first three quarters of 2021. We expect the relaxation of border restrictions to drive real estate decisions, especially from Chinese mainland companies, stimulating an uptrend in activity and a rental rebound in Q4.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (June 2021)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	129.2	-1.6	-12.1	-	-	-
Traditional Central	100.3	-1.4	-9.6	-	-	-
Overall Central	110.1	-1.4	-10.6	32,563	0.0	-15.6
Admiralty	72.3	0.0	-14.5	29,001	0.0	-14.2
Sheung Wan	60.4	0.0	-14.0	27,647	0.0	-10.2
Wan Chai	56.0	-1.4	-13.3	24,748	0.0	-8.2
Causeway Bay	61.3	0.5	-9.7	21,699	0.0	-8.4
North Point	43.0	4.7	-5.7	-	-	-
Quarry Bay	55.4	0.3	-4.7	-	-	-
Tsim Sha Tsui	56.6	1.5	-11.3	15,209	0.0	-7.0
Cheung Sha Wan	27.9	0.5	-8.6	-	-	-
Hung Hom	40.6	1.9	-6.3	-	-	-
Kowloon East	30.1	-0.3	-9.2	11,817	0.0	-3.6
Mong Kok / Yau Ma Tei	51.4	0.2	-8.3	-	-	-

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

RESIDENTIAL

Strong residential sales signal a fast recovery pace

Home buyer sentiment in the residential market remained positive in June. Both the primary and secondary markets were robust, with a particularly large uptick in primary sales compared to the previous month. According to the Land Registry, 7,591 transactions were recorded, for a total consideration of HK\$80.9 billion, up 5.3% MoM. Primary sales accounted for 1,954 cases, surging 24.3% MoM. The latest official statistics show that the average residential price edged up 0.7% MoM in May.

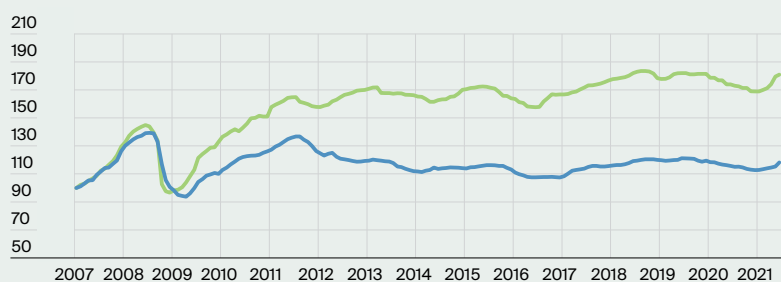
The luxury segment has proven resilient. There were plenty of major transactions of over HK\$100 million during the month. A 4,599 sq ft house at 23-39 Blue Pool Road, in Happy Valley, sold for HK\$339.8 million, or HK\$73,886 per sq ft. Amid the pandemic, some potential homebuyers were looking for properties in rural locations. Transactions included a 3,462 sq ft house at 133 Portofino, in Sai Kung, which was sold for HK\$98 million.

On the leasing front, local moves were active, particularly the high-value leasing market with an average monthly rent of HK\$100,000 or above. More property

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

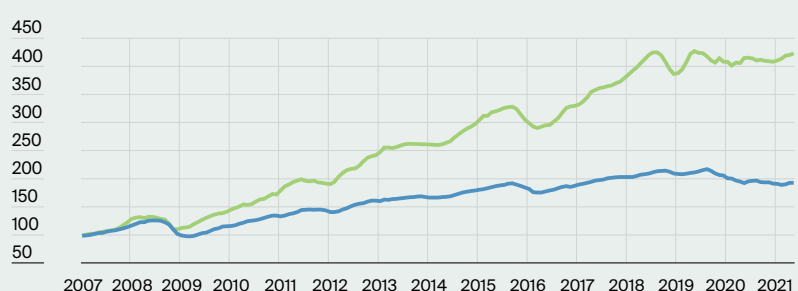


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

owners have been putting up properties for lease, while some tenants were looking to upgrade their accommodation for the same budget.

Thanks to the continued improvement in the local economy and the booming IPO market, we expect purchase sentiment in the residential market to remain upbeat.

Overall residential home prices are forecast to increase by 2–3% for the rest of 2021, reaching new heights.

Selected residential sales transactions (June 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels Central	21 Borrett Road	High floor / unit 1	2,945	238.5	81,000
Tsim Sha Tsui	The Cullinan	Tower 20 / mid floor / unit A	2,585	201	77,756
Happy Valley	23-39 Blue Pool Road	House	4,599	339.8	73,886
Ho Man Tin	St. George's Mansion	Tower 2 / high floor / unit A	3,695	260	70,365
Kowloon Tong	Mont Rouge	House	5,170	359.8	69,590

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

Selected residential lease transactions (June 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	L'Harmonie	House	2,392	167,000	70
Island South	Residence Bel-Air Phase 5	House	3,592	230,000	64
Mid-Levels Central	Magazine Gap Tower	High floor / unit A	1,900	115,000	61
Island South	The Lily	Tower 4 / high floor	2,777	133,000	48
Tai Tam	Redhill Peninsula	House	3,136	145,000	46

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

RETAIL

Retailers regain confidence with the further revival of domestic consumption

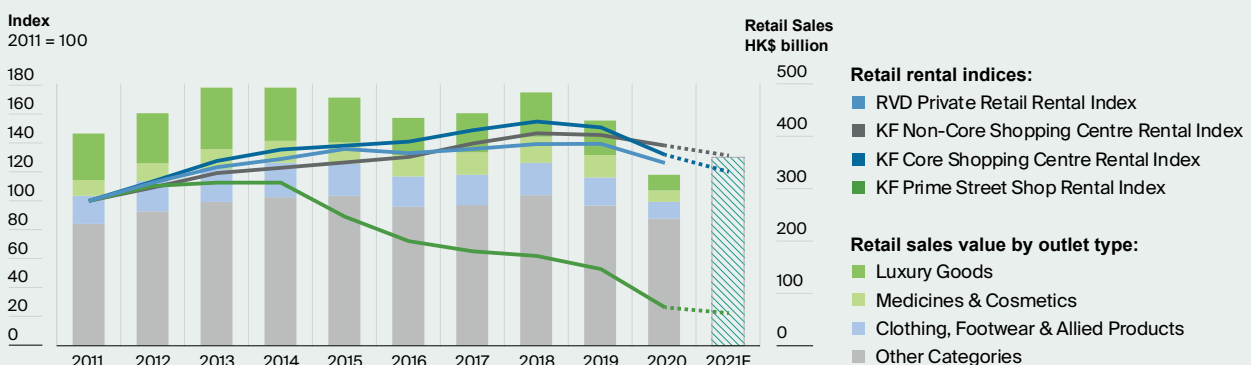
Hong Kong's retail market continued its gradual recovery, given the easing of restriction measures, the mass vaccine rollout, and less public concern about the COVID-19 situation. According to the latest official statistics, total retail sales value in May was HK\$29.6 billion, an

increase of 10.5% YoY. This was the fourth consecutive month with a YoY rebound in sales. The labour market also showed signs of stabilizing. The seasonally adjusted unemployment rate declined to 6.0% in the three-month period ending in May 2021 from a 17-year high of 7.2%

in the three-month period ending in February 2021.

As the daily number of Covid-19 cases hit near-zero levels, people were feeling more comfortable going out, and more restaurants opened. For example, the

Fig 4. Retail rents and sales



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

noodle chain TamJai SamGor Mixian debuted in Central with a new dining concept, taking over the previous flagship store of Tsui Wah Restaurant on Wellington Street. The two-storey restaurant features unique decorations and serves exclusive dishes.

Amid the predicted recovery of the Hong Kong economy and the eventual opening-up of borders, retail landlords of prime

streets and shopping malls have been more optimistic about the outlook of the retail property market. As vacant shops are gradually being absorbed, landlords have been firmer on rental negotiations. Some landlords have begun discussing rent increases with tenants before upcoming lease renewals.

Thanks to gradually recovering consumer sentiment, the imminent launch of the

Consumption Voucher Scheme, and more widespread vaccinations, we expect to see a continued upsurge in shop traffic and the revival of retail business. We expect total retail sales value to increase by 10% YoY this year to about HK\$360 billion.

Retail sales by outlet type (May 2021)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.1	10.5	17.9	-6.4	54.8
Clothing, footwear and allied products	3.5	11.8	11.3	8.5	12.1
Department stores	3.4	11.5	40.1	29.7	-6.2
Fuel	1.0	3.5	12.8	32.4	22.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.9	9.8	0.1	-22.2	0.5
Consumer durable goods	4.7	16.0	0.8	-10.6	7.5
Supermarkets	4.6	15.5	9.8	1.9	-3.5
Others	6.4	21.5	3.4	4.4	22.9
All retail outlets	29.6	100.0	9.5	0.2	10.5

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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