This report analyses the performance of Hong Kong's office, residential and retail property markets

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Hong Kong Monthly

November 2021

OFFICE

Market indicators in CBD improve amid a more evident recentralization trend

Hong Kong Island

With the return in demand from office tenants in Central, the recentralization trend became more evident in October, leading to a decreasing vacancy rate and a continuous uptick in rental levels in Central. Overall rental rates in Central saw a quarterly increase of 4.2%, reaching HK$113.6 per sq ft.

But leasing demand in the non-CBD area was relatively weak, and landlords were more flexible in lease negotiations. Co-working operators grabbed the opportunity to expand at reduced rents. For instance, Swiss-based co-working space IWG rented two floors in Tower 535 in Causeway Bay, providing more than 300 workstations to respond to the latest hybrid workplace trend.

Amid improved business sentiment, Henderson Land won the tender for Central Harbourfront Site 3 for HK$50.8 billion. The record-high land premium demonstrates developers' strong confidence in Hong Kong's Grade-A office market. By 2027 and 2032, the landmark project will add prime stock of 270,000 sq ft and 390,000 sq ft, respectively, of office space to the market, shaping a new office landscape in the CBD area.

Kowloon

Leasing activities in Kowloon have slowed down as festival season is approaching, leading to a monthly drop of 20% in new letting transactions. Leasing activity was dominated by the sourcing and manufacturing sectors, at an average rent of HK$22 per sq ft or less.

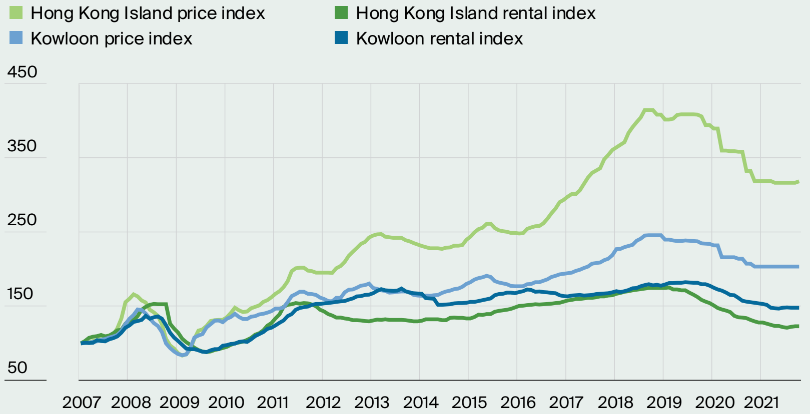
As bottoming-out signals continued, along with stabilizing rents, tenants generally took a wait-and-see approach towards their long-term real estate plans. They preferred to opt for lease renewals rather than relocation. Examples include lease renewals of Japanese logistics company Nippon Express, with 17,714 sq ft in Chinachem Golden Plaza, and multinational music corporation Universal Music, with 17,606 sq ft in Millennium City 6.

More landlords are paying attention to environmental, social and governance (ESG) issues, and are demonstrating ESG commitments when reviewing their tenant mix. A large floor area in Skyline Tower was rented to a therapy service provider for special need individuals, showing the landlord's growing social consciousness to choose tenants responsibly when filing vacancies.

As we move towards the end of the year, we expect the activity level and rents to remain stable in Kowloon. We maintain our previous forecast of a 4% drop in average rent in the Kowloon office market for full-year 2021.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (October 2021)

District	Net effective rent HK$ psf / mth	Change MoM %	Change YoY %	Price (Gross) HK$ psf	Change MoM %	Change YoY %
Premium Central	134.2	1.2	-4.3	-	-	-
Traditional Central	103.0	0.0	-4.6	-	-	-
Overall Central	113.6	0.5	-4.5	33,563	3.1	-2.9
Admiralty	73.6	0.4	-9.8	29,249	0.9	-4.5
Sheung Wan	61.7	0.0	-2.0	27,647	0.0	-5.1
Wan Chai	53.3	-1.4	-12.9	24,748	0.0	-3.6
Causeway Bay	60.4	0.0	-5.6	21,699	0.0	-2.3
North Point	42.9	0.0	-4.7	-	-	-
Quarry Bay	54.5	0.0	-5.2	-	-	-
Tsim Sha Tsui	56.9	0.0	-3.8	15,209	0.0	-2.9
Cheung Sha Wan	28.4	0.4	-4.2	-	-	-
Hung Hom	39.8	0.0	-5.5	-	-	-
Kowloon East	30.0	0.0	-5.9	11,817	0.0	0.0
Mong Kok / Yau Ma Tei	50.1	0.0	-7.6	-	-	-

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

RESIDENTIAL

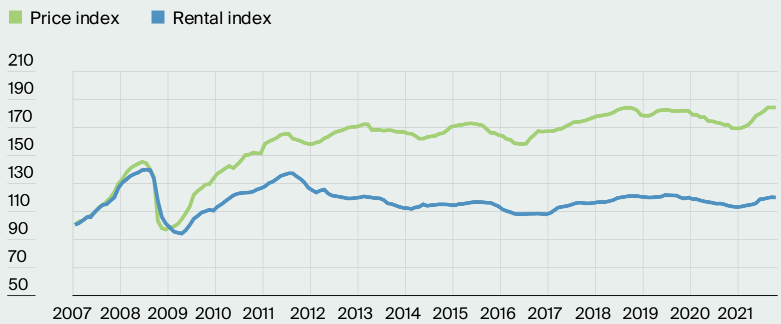
Primary market driving sentiment despite low transaction volume

The residential property market in Hong Kong cooled down and showed mixed performance in various segments in October. According to the Land Registry, the total number of residential transactions saw a significant drop of 20.6% MoM and 6.2% YoY to 4,643, dampened by the sharp correction in the local stock market in the third quarter, and uncertainty about the Chinese Mainland economy.

Despite the drop in transactions, purchasing momentum in the primary market persisted. New first-hand projects in the New Territories, such as #LYOS in Hung Shui Kiu, by CK Asset, and The Arles in Fo Tan, by Centralcon Properties, recorded massive oversubscription and brisk sales, reflecting firm end-user demand. Among the third batch of sales at The Arles, an entire high floor with eight units was sold for HK$100 million to a single group buyer.

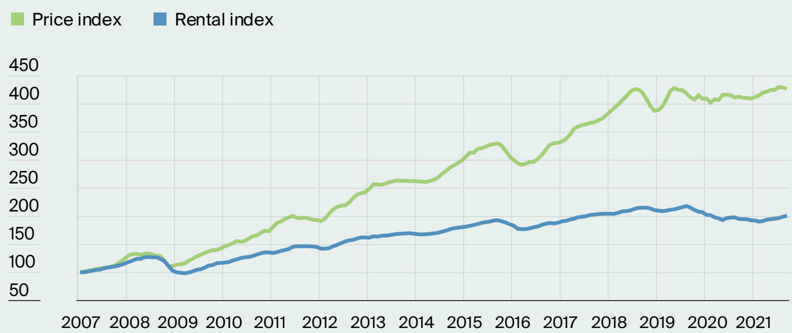
Top-of-the-line residential assets continued to draw strong interest from high net-worth individuals. Two units in Wheelock's Mount Nicholson at The Peak were sold for a total of HK$1.2 billion to the same buyer. A 4,544 sq-ft unit was sold for a record-breaking HK$640 million or HK$140,845 per sq ft. The flat is touted to be Asia's most expensive residence in terms of unit price.

Fig 2. Luxury residential rents and prices
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices
2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

The land sale market received an enthusiastic response from developers. Lai Sun Development acquired an upscale residential site at No. 79 Broadcast Drive in Kowloon Tong for HK$1.61 billion, or an accommodation value of approximately HK$22,464 in a government tender, higher than the estimated price, demonstrating the developer's optimism about the outlook for the luxury residential market in Hong Kong.

Leasing activity was still dominated by local moves. The rental level was supported by the improving local economy and employment market. According to statistics from the Rating and Valuation Department, the private domestic rental index has risen for seven consecutive months.

Going forward, we expect transaction activity, especially in the first-hand market, to maintain its positive momentum as demand remains firm. We expect overall housing prices to increase 2–3% in Q4 2021 and overall transaction volume in 2021 to reach a nine-year new high.

Selected residential sales transactions (October 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Mid-Levels East	Central Peak Phase 2	House	3,695	352.5	95,399
The Peak	Ondina Heights	House	2,634	242	91,875
Mid-Levels	21 Borrett Road	High floor / unit 7	2,316	185.2	79,980
Island South	3 Repulse Bay Road	High floor / unit A	3,510	264	75,214
Island South	Residence Bel-Air Phase 4	Tower 8 / high floor / unit A	3,739	191	51,083

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

Selected residential lease transactions (October 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Tsim Sha Tsui	The Cullinan	Aster Sky / mid floor / unit A	1,530	110,000	72
Kowloon Tong	18 Oxford Road	Low floor / duplex unit	2,270	155,000	68
The Peak	Guildford Garden	Low floor /unit B	1,896	112,800	59
Tsim Sha Tsui	The Harbourside	Tower 2 / mid floor / unit A	2,110	120,000	57
Island South	50 Stanley Village Road	House	2,717	140,000	52

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

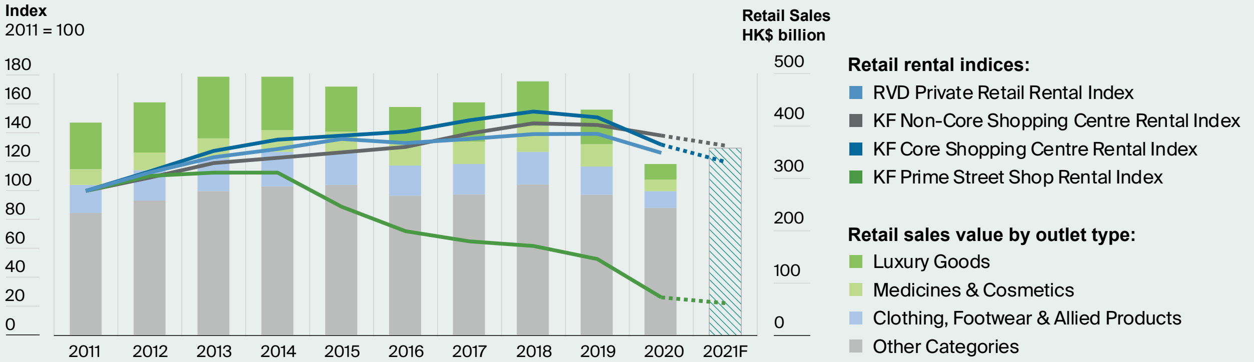
RETAIL

F&B take-away business model trend on the rise

Hong Kong's retail market continued to recover gradually, although it still recorded a massive drop compared to the normal period in 2018. According to the latest official figures, total retail sales value registered 7.3% YoY growth to HK$28 billion in September. For the first nine months of 2021, the value of retail sales totalled HK$258 billion, increasing by 8.0% YoY, but plunged by nearly 30% compared with the same period in 2018.

The F&B sector saw a significant recovery compared to last year, owing to the relaxation of social distancing restrictions and the stable local epidemic situation. The value of total receipts of

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department the restaurant sector in Q3 2021 soared by 43.8% YoY to HK$24.5 billion. In Q1–Q3 2021, restaurant receipts totalled HK$67.6 billion, increasing by 12.9% YoY.

Since the pandemic, there has been an upsurge of F&B operators adopting the take-away business model, which involves cooperating with food delivery service providers, as well as running an online ordering platform on their own. Recently, more enquiries for small shops as take-away eateries have been received from a wide variety of F&B operators, including Chinese restaurants, noodle shops, and grab-and-go stores. From the restauranteurs' perspective, this is a more cost-effective option, as they can rent smaller shops with lower CAPEX, while continuing to satisfy customer needs. This trend also reflects a gradual change in consumer habits of tending to use food delivery services or buy take-away orders after almost two years' of the pandemic.

As the city has largely resumed normal economic activity, and people have returned to their normal way of life, we expect the F&B sector to outperform in the retail market given the common dine-out habits of Hong Kong people. This will underpin demand for retail shops in the long term. In the coming year, the retail market will see a silver lining from the potential re-opening of the border, as the return of tourism activity will support overall consumption.

Retail sales by outlet type (September 2021)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.2	11.4	0.3	-4.0	16.2
Clothing, footwear and allied products	2.5	9.0	-11.5	-18.5	6.5
Department stores	2.6	9.4	-6.9	-0.9	-11.6
Fuel	1.0	3.7	2.0	-1.2	15.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.4	12.2	14.1	24.7	0.5
Consumer durable goods	5.4	19.3	8.6	11.1	29.2
Supermarkets	4.5	15.9	-6.0	3.0	-4.9
Others	5.3	19.1	-11.3	-11.5	10.7
All retail outlets	28.0	100.0	-2.1	-0.3	7.3

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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