

Hong Kong Monthly

October 2022

OFFICE

Large, prime office-leasing deals provide a silver lining in a depressed market

Hong Kong Island

With more small and medium-sized companies looking for office locations in the non-core areas at a low rental level, the vacancy rate in non-core areas recorded a slight drop in September. For example, the vacancy rate in North Point dropped from 12.5% in August to 11.6% in September and in Sheung Wan, it dropped from 8.2% in August to 7.7% in September.

In the recent down market, the trend of flight-to-quality has persisted, as sizable companies continue to seek prime locations at attractive rent levels. U.S. investment manager Invesco relocated its regional headquarters from Champion Tower to Jardine House with a 33,000 sq ft lease. Other upgrading cases included accounting firm Baker Tilly, relocating from The Foyer to K11 Atelier King's Road with a 20,000 sq ft lease, and LVMH Fashion Group, leasing two floors (28,000 sq ft) in Dorset House, relocating from 633 King's Road.

New buildings in Central, such as Cheung Kong Center II and The Henderson, which are now open for pre-leasing, have received massive interest from prospective tenants, given their prestigious location and unique building features. However, the abundant future supply in Central will exert pressure on landlords to reduce rents in the short term, so we expect the rental trend to

continue its downward adjustment in Q4 2022.

Kowloon

As overall business sentiment remained weak, leasing activity continued to slow down in September. Electronics and sourcing companies supported new leasing demand. Most of the deals were small transactions of under 3,000 sq ft, with a rent of HK\$22 per sq ft or below.

Given the elevated economic uncertainty, tenants tended to be more cautious in making leasing decisions. Instead of relocation options, they were inclined to renew their leases at the attractive rent

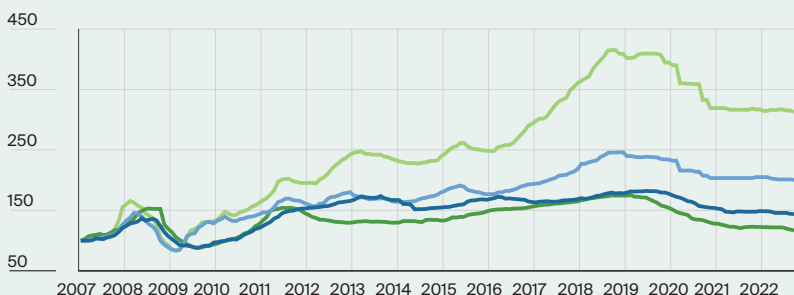
offered by landlords. Therefore, renewal cases dominated the market during the month.

After the announcement of the "0+3" quarantine measure, overall business confidence is improving. Although the border is yet to be completely open, it is a start, at least to get some regional business travel going once again. Businesses are keeping their hopes up on the further relaxation of social-distancing restrictions and the lifting of all quarantine requirements. Only then shall we see a more significant rebound of economic activity.

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 (September 2022)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	128.5	-1.6	-3.1	-	-	-
Traditional Central	101.1	-1.0	-1.9	-	-	-
Overall Central	110.4	-1.3	-2.4	32,781	-0.7	0.7
Admiralty	69.9	-0.7	-4.6	28,780	-0.7	-0.8
Sheung Wan	56.7	-2.5	-8.1	27,017	0.0	-2.3
Wan Chai	51.4	-1.2	-4.9	24,348	-2.0	-1.6
Causeway Bay	59.5	-1.3	-1.4	21,299	-1.6	-1.8
North Point	39.7	0.5	-7.5	-	-	-
Quarry Bay	47.3	-1.5	-13.3	-	-	-
Tsim Sha Tsui	55.6	-0.5	-2.3	14,809	0.0	-2.6
Cheung Sha Wan	28.3	-0.1	0.1	-	-	-
Hung Hom	38.8	-0.4	-2.3	-	-	-
Kowloon East	28.7	-0.4	-4.4	11,817	-0.8	0.0
Mong Kok / Yau Ma Tei	50.6	-0.5	1.0	-	-	-

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

RESIDENTIAL

Land sale concluded amidst slow sales activity

Owing to uncertain market conditions and concern about interest rate hikes, a “wait-and-see” attitude is prevalent among buyers and homeowners. Sales activity in both primary and secondary markets recorded a drop of 8.2% and 5.2% MoM, respectively, because of weak market sentiment. In total, 3,875 transactions were recorded in the residential market, edging down 6.3% MoM, according to data from the Land Registry.

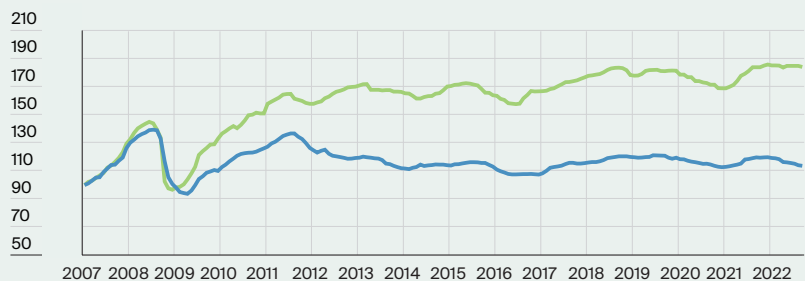
Hong Kong’s overall stamp duty revenue from home sales recorded 202 cases in September, reaching a new two-and-a-half year low, according to the Inland Revenue Department. The number of cases involving Buyer’s Stamp Duty (BSD) was the lowest since December 2020, reflecting low demand from non-local buyers of Hong Kong property.

Amid demand shrinkage, the luxury market was quiet, with low transaction volume, and the number of enquiries and home viewings slowed down at the same time. One of the few luxury transactions during the month was a deal for a 2,454-sq-ft house at Springfield Gardens in Shouson Hill for HK\$118 million. In the mass market, with homebuyer confidence ebbing, more homes were sold at a discount or under market price. Some property owners were desperate

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

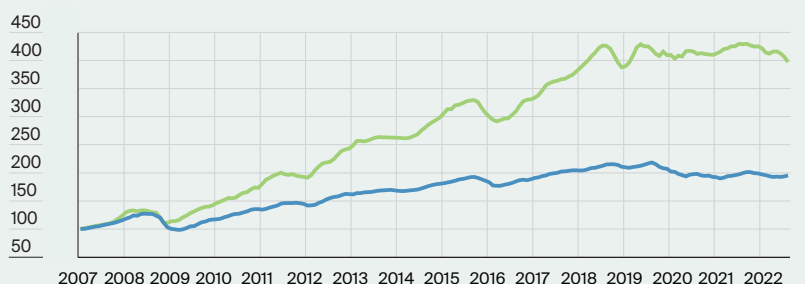


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

to cash in by selling their units, so prices remained under pressure.

The leasing market was stable, with some major deals recorded in Central Mid-Levels. Demand for small- to medium-sized units was solid, driven mainly by university students and local demand.

Despite growing uncertainty, two residential sites were sold recently. CK Asset Holdings acquired a site on Castle Peak Road, Tai Lam, in Tuen Mun for HK\$4.6 billion, showing developers' confidence in the long-term prospects for Hong Kong's property market.

Hong Kong Chef Executive John Lee Ka-chiu delivered his maiden policy address on 19th October and unveiled some initiatives to attract foreign enterprises and talent. We expect the various initiatives to increase the flow of overseas talent to Hong Kong, which will support demand in the residential leasing market in both the short and long term.

Selected residential sales transactions (September 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Happy Valley	The Leighton Hill	Tower 5 / high floor / unit A	1,724	102	59,165
Ho Man Tin	St. George's Mansions	Tower 1 / mid floor / unit A	2,140	113	52,804
Shouson Hill	Springfield Gardens	House	2,454	118	48,085
Happy Valley	Winfield Building	Tower A / high floor unit	2,006	78	38,883
Island South	Hong Kong Parkview	Tower 17 / high floor unit	2,626	84	31,988

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

Selected residential lease transactions (September 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels Central	8 Kennedy Terrace	Mid floor / unit A	2,890	270,000	93
Mid-Levels Central	21 Borrett Road	High floor unit	2,886	230,000	80
Mid-Levels West	Alassio	High floor / unit C	1,708	115,000	67
Ho Man Tin	Ultima	Phase 2 / Tower 2 / unit D	2,090	125,000	60
Tsim Sha Tsui	Grand Austin	Tower 2 / high floor / unit A	1,931	116,000	60

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

RETAIL

Healthcare pharmacies see opportunities in prime location

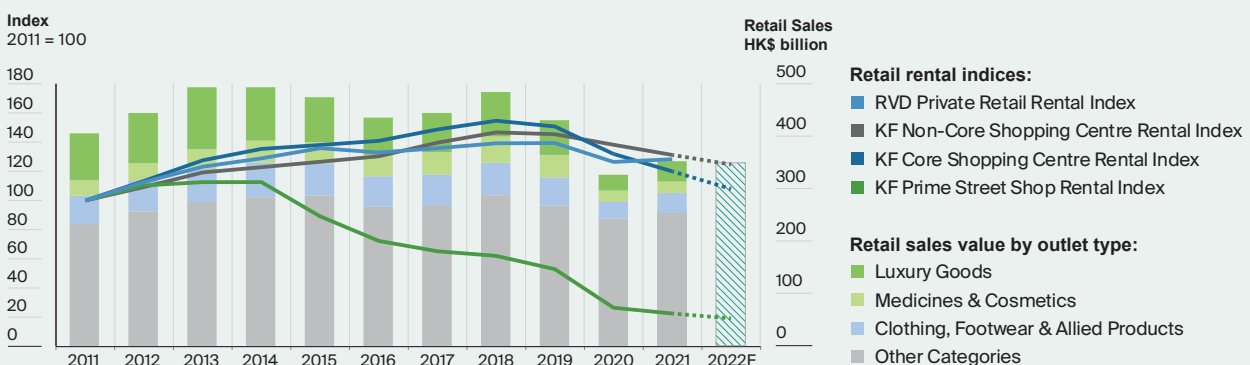
Hong Kong's retail market remained weak. Total retail sales value continued to underperform, falling 0.1% YoY to HK\$28.6 billion in August. For the first eight months of 2022, total retail value fell by 1.5% YoY. In general, consumers preferred to wait for the remaining second round of the voucher scheme distribution. This,

coupled with some Hong Kong people leaving for overseas holidays under the new "0+3" quarantine scheme, dampened domestic demand.

Healthcare consumption continued to outperform among trade categories during the pandemic. For the first eight

months of 2022, total value of medicine and cosmetics sales increased 2.7% YoY. According to market sources, a large shop of over 4,000 sq. ft on Queen's Road Central was leased to Lung Fung Pharmacy for HK\$600,000 per month, for an average rent of HK\$133 per sq. ft, a 57% reduction from the previous rent. Also,

Fig 4. Retail rents and sales



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

Matsumoto Kiyoshi, a Japanese cosmetics chain will open a new flagship store in Fashion Walk, in Causeway Bay. The shop is the chain's largest in Hong Kong with two floors and total floor area of over 8,500 sq.ft.

A significant leasing case was recorded in a prime retail street during the month. A 14,000-sq-ft three-floor shop in New

World Tower in Central was recently leased to Brunello Cucinelli, an Italian luxury boutique, for approximately HK\$800,000 per month (or HK\$57 per sq ft). The new rent was more than 70% lower than at the peak.

Moving forward, with the various pandemic regulations still in place, such as the use of the LeaveHomeSafe

app, social distancing rules, and the prohibition of large group gatherings, we urge the government to ease most, if not all restrictions, as they are seriously hindering social and economic activity. We believe a significant relaxation of the COVID-19 protocol will allow society to return to normal while still remaining vigilant, thereby improving local consumption sentiment and boosting retail sales.

Retail sales by outlet type (August 2022)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.3	11.6	-20.1	-1.3	4.3
Clothing, footwear and allied products	2.6	9.2	-21.0	-23.4	-8.4
Department stores	2.5	8.8	9.8	-22.7	-11.3
Fuel	1.1	3.8	-2.8	2.8	7.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.1	10.7	18.6	3.7	2.1
Consumer durable goods	5.3	18.6	21.6	27.8	7.0
Supermarkets	4.7	16.4	3.8	8.2	-1.0
Others	6.0	20.9	-0.3	-9.3	-0.5
All retail outlets	28.6	100.0	0.9	-1.8	-0.1

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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