

Office Q2 2022

13.8%
Availability Rate*

YoY Chg
12-Mo. Forecast

-176.9K
Net Absorption, SF

HK\$55.1
Net Effective Rent, PSF

(Overall, Grade A, all SF are on NFA basis unless otherwise specified)
Source: Cushman & Wakefield Research

HONG KONG ECONOMIC INDICATORS Q2 2022

-4.0%
GDP Growth (Q1 2022)

1.2%
CPI Growth* (May 2022)

5.1%
Unemployment Rate** (Mar – May 2022)

Source: Hong Kong Census and Statistics Department, Moody's Analytics
* Composite CPI, non-seasonally adjusted
** 3-month moving average, seasonally adjusted

Net Absorption Returned to Negative Territory, Prompted By Downsizing and Relocations

The Hong Kong office market completed a good number of transactions in Q2, but overall net absorption for the quarter still fell back into negative territory at -176,900 sf NFA. The chief contributor was Hong Kong East, at -142,200 sf q-o-q, with some downsizing and internal relocation activities evident within the district. In terms of transactions, American law firm White & Case Solicitors leased a 3 whole-floors in in York House in Central, covering a total of 24,800 sf. Banking and finance sector firms also remained active. CNCB (Hong Kong) Investment Limited leased a total space of 20,000 sf in AIA Central, while United Overseas Bank leased a new 18,600 sf space in Lee Garden Two. We have also observed some expansion in the flexible space sector, responding to an emerging trend of tenants seeking greater flexibility in their lease terms. Local flex space operator - The Desk took 12,100 sf at One Pacific Centre as part of their portfolio expansion. We expect flex space operators to continue to help drive office leasing demand.

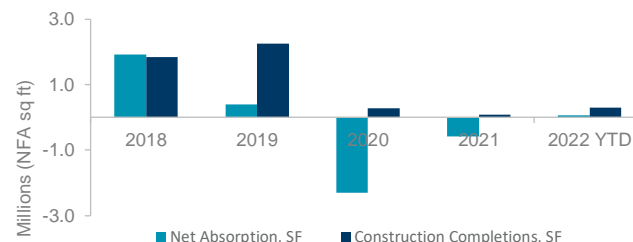
Rental Decline Slowed, Healthcare & Medical Aesthetic Sector to Spearhead New Demand

Overall Hong Kong office rents dropped 0.8% q-o-q in Q2, while all districts recorded minor declines, except for Greater Tsimshatsui (+0.3% q-o-q), and Kowloon East (+0.2% q-o-q). With Hong Kong Island rental levels continuing on a downward trajectory, CBD area rents are likely to be benchmarking at attractive bargaining levels for occupiers. Both Greater Central (-1.1% q-o-q) and Hong Kong East (-1.6% q-o-q) recorded minor rental declines. On the other hand, leasing activities in the healthcare and medical aesthetic sector continued to emerge, with occupiers seeking prime locations and quality assets with required technical specifications, such as floor height and electricity supply. Medical sector tenants typically prefer to house their services within the same building to allow for an all-in-one service package, and we have seen this movement prominently demonstrated via recent expansions in the Greater Tsimshatsui and Greater Central areas.

New Completions to Offer More Opportunities, Despite Supply Pressures Remaining

The second half of 2022 remains in the spotlight for new office supply, as circa 2.5mn sf NFA of Grade A office space is expected to enter the market. We have detected targeted preleasing activity picking up in sub-core Hong Kong Island, as some banking, finance and law firms are looking to upgrade to new office properties while gaining cost savings from their previously premium-priced locations in the CBD area. Meanwhile, new office projects will offer more options for occupiers to further expand or upgrade their workspace at lower costs. As such, we anticipate healthy net absorption and a moderated rental correction in the second half of the year.

SPACE DEMAND / DELIVERIES



Source: Cushman & Wakefield Research

OVERALL GRADE A AVAILABILITY & NET EFFECTIVE RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	AVAILABILITY (SF)	AVAILABILITY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF) (2022-2026)	GRADE A NET EFFECTIVE RENT		
							HKD\$/SF/MO	US\$/SF/MO	EUR\$/SF/MO
Greater Central	15,521,868	1,685,806	10.9%	-55,545	-37,412	1,108,500	96.7	US\$12.3	€ 11.8
Wanchai / Causeway Bay	9,279,742	1,333,029	14.4%	7,400	108,822	1,324,500	55.2	US\$7.0	€ 6.7
Greater Tsimshatsui	10,073,414	1,352,023	13.4%	-45,018	9,251	2,582,400	49.1	US\$6.3	€ 6.0
CORE AREA TOTALS	34,875,025	4,370,858	12.5%	-93,163	80,661	5,015,400	72.0	US\$9.2	€ 8.8
Hong Kong East	8,718,812	1,202,070	13.8%	-142,247	-226,399	744,800	45.7	US\$5.8	€ 5.6
Hong Kong South	2,389,135	347,429	14.5%	6,001	20,896	541,500	29.1	US\$3.7	€ 3.5
Kowloon East	14,822,595	2,436,263	16.4%	-39,106	14,419	2,615,200	29.1	US\$3.7	€ 3.6
Kowloon West	4,147,212	639,065	15.4%	91,600	178,583	809,600	34.3	US\$4.4	€ 4.2
NON-CORE AREA TOTALS	30,077,753	4,624,828	15.4%	-83,752	-12,500	4,711,100	34.8	US\$4.4	€ 4.2
HONG KONG OVERALL TOTAL	64,952,777	8,995,687	13.8%	-176,915	68,161	9,726,500	55.1	US\$7.0	€ 6.7

Exchange Rate: 1USD = 0.9578EUR = 7.8500HKD = 6.7411CNY = 29.7170TWD (as of June 15, 2022)

*All areas presented are on NFA bases

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF (NFA)	TYPE
York House	Greater Central	White & Case Solicitors	24,800	Within-district Relocation
AIA Central	Greater Central	CNCB Investment	20,000	Expansion / Within-district Relocation
Lee Garden Two	Wanchai / Causeway Bay	United Overseas Bank	18,600	Relocation
Devon House	Hong Kong East	DFI Retail Group	23,000	In-house Expansion
One Pacific Centre	Kowloon East	theDesk	12,100	Expansion

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	OWNER / DEVELOPER	SF	COMPLETION DATE
Landmark South	Hong Kong South	Sino Land (60%) / Empire Group (40%)	154,000	Q3 2022
Two Taikoo Place	Hong Kong East	Swire Properties	744,800	Q4 2022
AIRSIDE	Kowloon East	Nan Fung Group	918,700	Q4 2022
98 How Ming Street	Kowloon East	SHKP (50%) / Transport International (50%)	487,500	Q4 2022
Portas	Kowloon West	New World Development	541,200	Q2 2023
The Henderson	Greater Central	Henderson Land	330,000	Q2 2023
Cheung Kong Center II	Greater Central	CK Asset Holdings	378,300	Q4 2023

Source: Cushman & Wakefield Research

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