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Hong Kong Market Update

Q1 2022



Fifth wave delays, NOT derailments, recovery

Near term challenges. Constructive long-term prospects

Near term, recovery is pushed further out but the roadmap to re-opening should strengthen confidence and sentiment.

Corporate investment to gradually pick up as stabilization returns and international travel resumes.

Fiscal relief of HKD 170 bil. Retail to benefit in 2H from the consumption coupon scheme.

The Northern and Harbour Metropolis initiatives will lift long term growth prospects.

Suppressed asset pricing and re-purposing/value-add prospects present investment opportunities. Rising borrowing rate diminishes appeal of core investments.

Wildcards – geopolitical conflicts, macroeconomic and pandemic situation, travel resumption, inflation/rates, China slowdown



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Office vacancy improves while rents start to recover

	End-2021 Vacancy	1Q22 Vacancy	2021 Rental Change (Y-o-Y)	1Q22 Rental Change (Q-o-Q)
Central	8.0%	7.3%	↓ 1.6%	↑ 0.7%
Wan Chai / Causeway Bay	9.6%	9.2%	↓ 9.9%	↓ 0.4%
Hong Kong East	7.5%	7.9%	↓ 7.4%	↓ 2.2%
Tsim Sha Tsui	10.3%	10.3%	↓ 7.2%	↑ 0.2%
Kowloon East	13.3%	12.5%	↓ 7.5%	↓ 0.4%
Overall	**9.6%**	**9.4%**	**↓ 5.1%**	**0.0%**

Source: JLL

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2022 - Stability gradually returning



Demand

Expanding

- Funds
- Private Banks
- Flexible Office
- Cryptocurrency

Stable

- Legal
- Pharma
- Investment Banks
- Business Services

Contracting

- Retail Banks
- Insurance
- Media & Marketing
- Consumer Products
- Logistics

Positive take-up:

196k sq. ft.
in Q4

Flight to quality continues resulting in a "two tier" market

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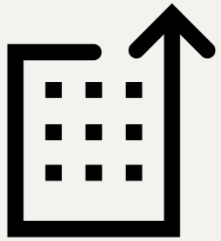
Key themes for the Grade A office market in 2022



Net absorption to **improve** due to pre-commitment of new supply and sustained occupier demand for quality options



The office market to enter the last phase of the current down cycle and on the cusp of a full **recovery**



Vacancy rates to **edge higher** owing to considerable supply for the remainder of the year



Rental values are forecast to **rise 0-5%** in 2022

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Worsening pandemic situation delayed the retail rental recovery

	2021 Rental Change (Y-o-Y)	4Q21 Rental Change (Q-o-Q)	1Q22 Rental Change (Q-o-Q)	1Q22 vs Historical Peak	1Q22 vs 2Q03 (SARS Level)
High Street Shops*	↓ 6.9%	↑ 0.4%	↓ 6.8%	↓ 74.5% (3Q14)	↓ 0.4%
Prime Shopping Centres*	↓ 2.1%	↑ 0.2%	↓ 3.1%	↓ 39.3% (2Q19)	↑ 67.6%

Note: *on effective rent basis

Source: JLL

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2022 – Gradual return of activities

Expanding

- F&B
- Grocery
- Dark Store/Kitchen
- Entertainment
- Mask (Short-term lease)
- Pop Art

Stable

- Banking
- Household and Home Furnishings
- AV and Electrical Appliances
- Watches

Contracting

- Luxury Fashion and Accessories
- Goldsmiths & Jewellery
- Dispensary, Drugs and Health Products
- Beauty and Cosmetics



Key themes for the retail market in 2022



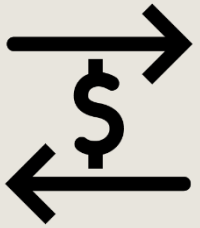
Retail market becomes **policy driven** amidst updated government policies and unstable pandemic situation



High Street Shops rents shall **rise 0-5%** and Prime Shopping Centres rents shall **rise 0-5%** in 2022



Retail landscape restructure continues, and plenty of short leases under this unstable retail market

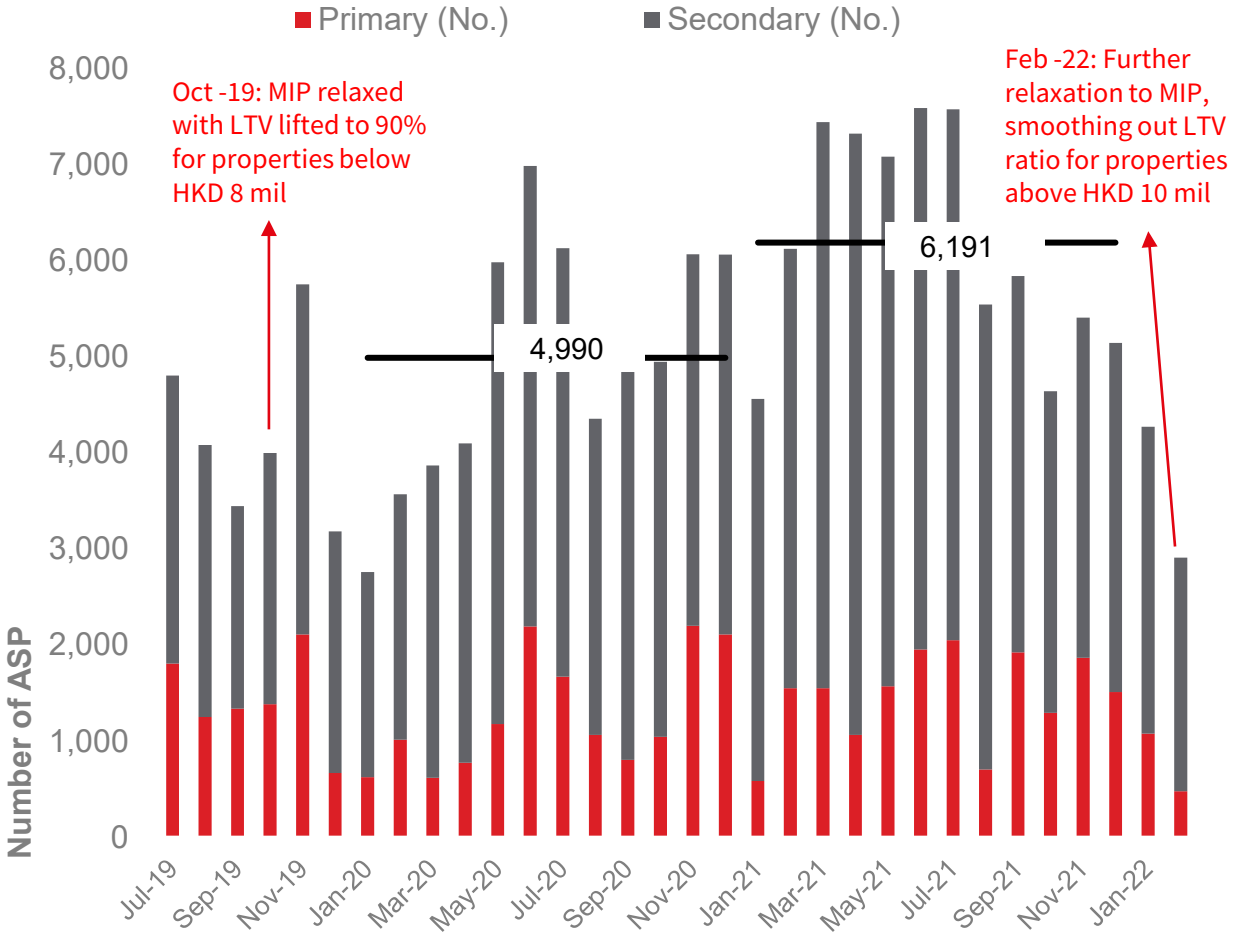


Bargain hunt opportunities remained available as rentals corrected further

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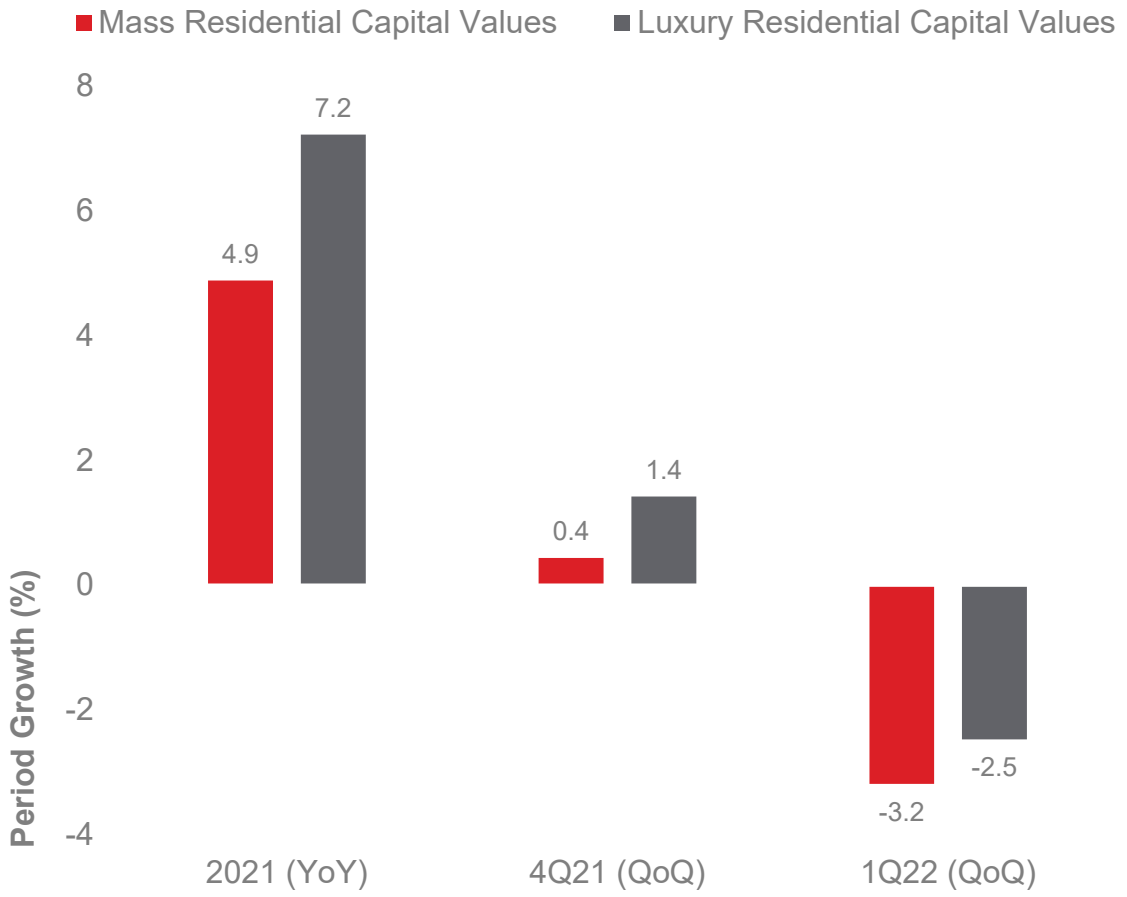
Residential capital values recovery reversed course in 1Q22

Residential property transaction volume



MIP – Mortgage Insurance Program

Residential property capital value growth



Source: The Land Registry, JLL

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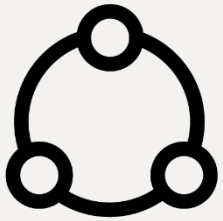
Key themes for the housing market in 2022



Transaction volume to bounce back in 2H22. Price competition among developers to keep price trajectory largely flat



Upgrade demand to emerge as mortgage LTV-ratio ladder smoothed out, more activities in the over-HKD 10 million segment



Larger- and faster-than-expected **rate hikes**, a potential dampener on buying sentiment

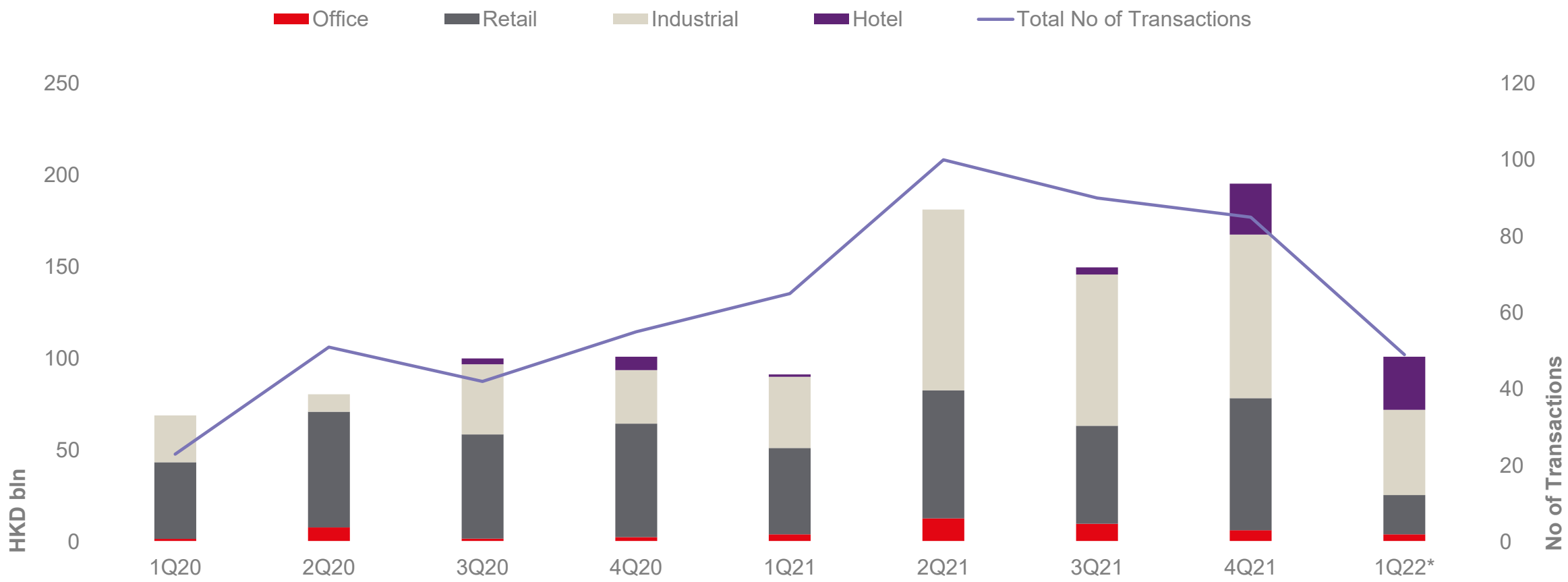


2022 forecast
Mass Capital Values:
~ down 5%
Luxury Capital Values:
down 0-5%

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Commercial investment market softened notably

Investment volumes by property sector (≥ HKD 50 mln transactions)



* Preliminary figures

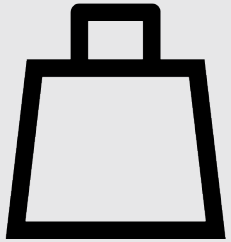
Source: EPRC, Market Sources, JLL

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Key themes for the investment market in 2022



“propco+opco” the **preferred structure** offering income resilience and upside prospects



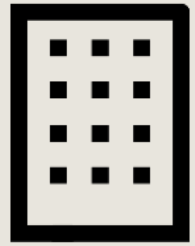
Thematics:

Automation / robotics for disruption proof



Hotspots:

- Hotel repurposing and urban regeneration, Elderly homes;
- Cold storage, modern warehouses



Conservative

Investment sentiment for retail and office assets

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