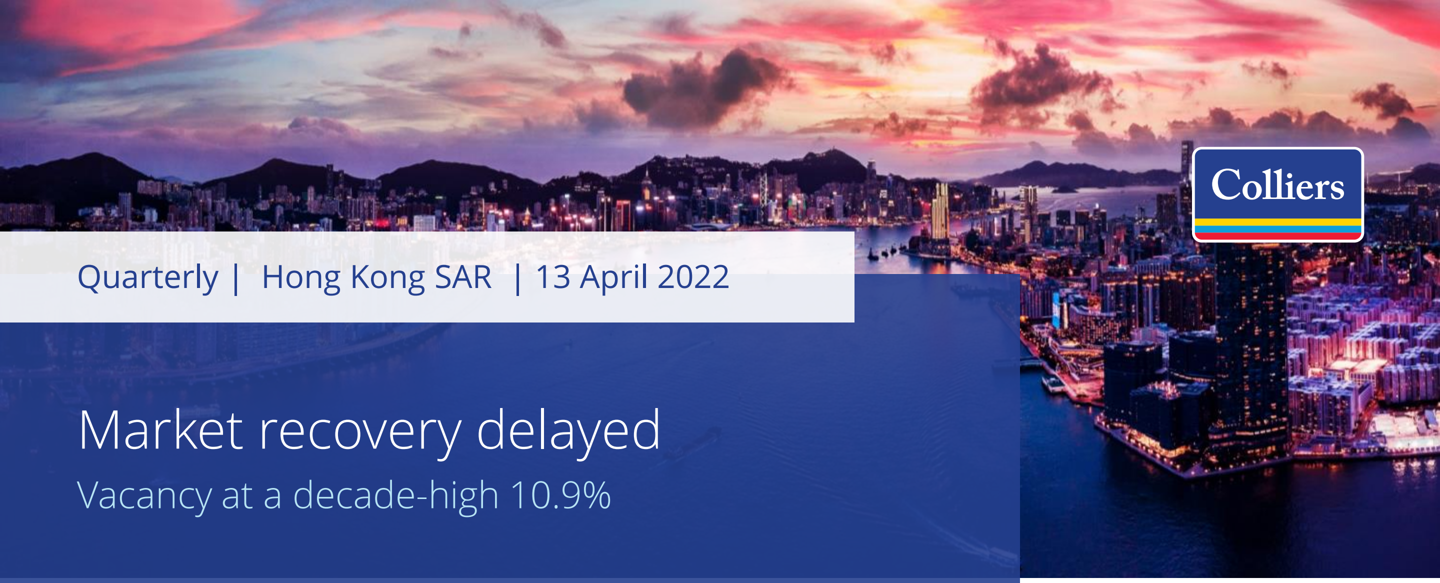


Quarterly | Hong Kong SAR | 13 April 2022

Market recovery delayed

Vacancy at a decade-high 10.9%

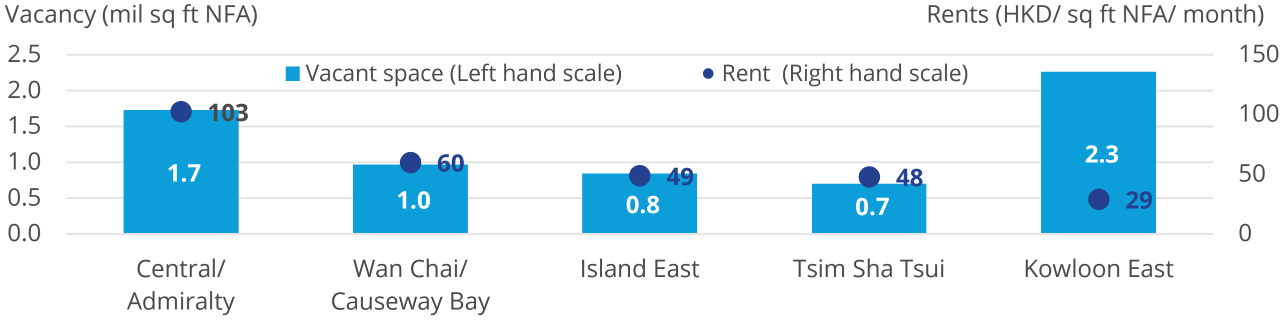
Insights & recommendations

Demand for office space contracted since Q1 2022 due to the outbreak of Omicron and the Russia-Ukrainian War. Tightened social-distancing measures drag on the decision-making process of tenants, and overall vacancy went up to 10.9% in Q1. Office leasing will be focusing on flight-to-quality relocation, space optimisation or consolidation moves, as most occupiers are looking for cost-saving options. Rents outperformed in more affordable areas like Tsim Sha Tsui (1.6% QOQ) and Kowloon East (0.2%). We recommend landlords to stay flexible during negotiations to secure occupancy.

Key submarkets	Q1 QOQ Rental change
Central/Admiralty	-1.2%
Wan Chai/ Causeway Bay	-0.8%
Island East	-2.1%
Tsim Sha Tsui	1.6%
Kowloon East	0.2%
Overall	**-1.3%**

	QOQ / Q1 2022	YOY / 2022F	Avg Annual Growth / 2021–2026F Avg
Demand	▲ 157,000 sq ft	▲ 0.7 mil sq ft	▲ 1.2 mil sq ft
Supply	▲ 342,000 sq ft	▲ 4.5 mil sq ft	▲ 2.9 mil sq ft
Rent*	-1.3 % ▼ HKD 58.9	-5.0 % ▼ HKD 56.6	2.0 % ▲ HKD 65.0
Vacancy^	0.3pps ▲ 10.9%	3.3pps ▲ 13.8%	1.5pps ▲ 18.0%

Hong Kong[1] Grade A office vacancy and rents



Source: Colliers. Note: 10.76 sq feet = 1 sq metre. USD1 = HKD7.8. * Rent per sq ft per month
^ Vacancy projection assumes existing office buildings will not be redeveloped or used for non-office purpose within the forecast periods.
[1]Note: This report covers the Hong Kong Special Administrative Region of the People's Republic of China.

Q1 2022

Key leasing transactions are focused in Kowloon

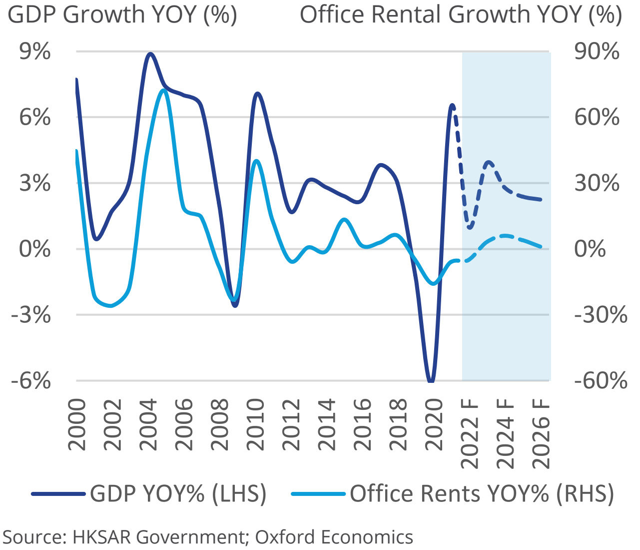
Property	District	Net area (sq ft)	Occupier Industry
NEO	Kowloon East	44,100	Consumer goods
One Kowloon	Kowloon East	27,900	Social and public
International Commerce Centre	West Kowloon	26,000	Banking and finance
The Harbourfront	Hung Hom	18,400	Consumer goods

Market Outlook

Increased market uncertainties are delaying the office sector recovery

- The macro economic situation has been derailed by the 5th wave of Covid, geo-political tensions, and the rising inflation risk. Whilst Hong Kong Financial Secretary Paul Chan estimated an economic downturn and rising unemployment in Q1, Oxford Economics has revised down Hong Kong's 2022 GDP growth from 2.3% to 1% due to the increased uncertainties. As such, we believe the business sentiment and hence office leasing momentum will remain subdued through H1 2022.
- Looking ahead, we believe new leasing demand will be slow in 2022, especially as policies on the Mainland-Hong Kong border reopening have not been released. We expect office leasing in 2022 will be largely focusing on flight-to-quality relocations or consolidation moves. Occupiers are now presented with more leasing options given 4.5 million sq feet (421,000 sq meter) is scheduled to complete in 2022. Colliers foresees landlords becoming more flexible in negotiations to secure new leases or retain existing tenants. We revised our rental forecast and expect Hong Kong overall and the CBD Grade A office rents to further correct by 5% in 2022.

Rental forecast vs. GDP forecast



Source: HKSAR Government; Oxford Economics

Rental forecast by district, 2022

Key submarkets	Annual rental change
Central/Admiralty	-5%
Wan Chai/ Causeway Bay	-4%
Island East	-8%
Tsim Sha Tsui	-2%
Kowloon East	-7%
Overall	**-5%**

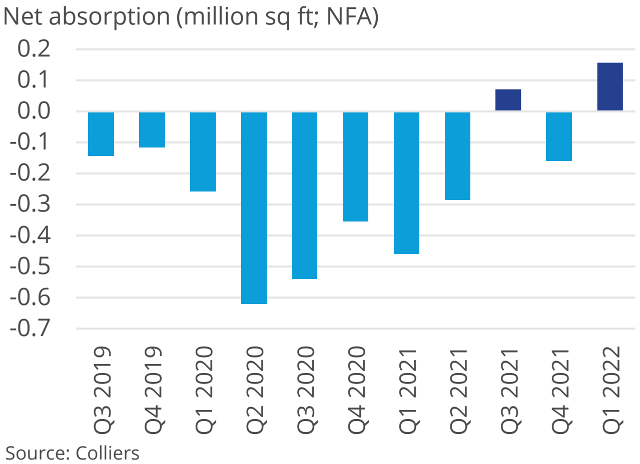
Source: Colliers

Q1 2022 Review

Rental correction picked up again amid sluggish leasing momentum

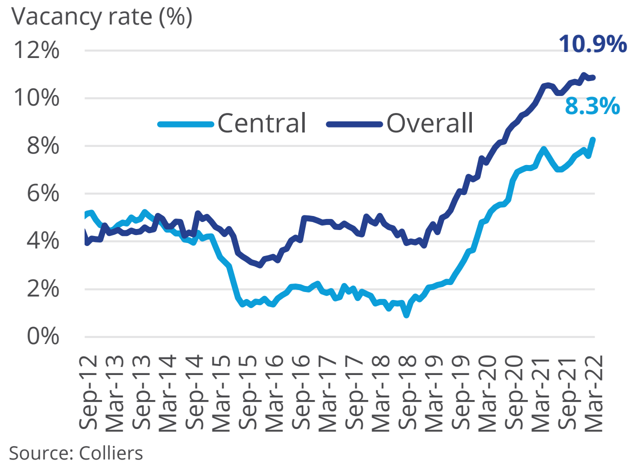
- Office demand weakened in Q1 2022, largely due to the wave of Omicron, and the subsequent stringent social-distancing rules that curbs site inspection activities. However, overall net take-up still recorded a rebound of 157,000 sq feet (14,500 sq meter), supported by leases negotiated since end-2021 and closed in early Q1, and the completion of 888 Lai Chi Kok Road wherein a few floors were pre-sold to end-users. On a monthly basis, net take-up turned negative again in March 2022, after recording three consecutive positive months since December 2021.
- Based on the leasing transactions that Colliers is tracking, only 32% of newly leased area is on Hong Kong Island. CBD vacancy climbed up 0.5ppts to 9.2% in Q1 as some spaces were left vacant after expiries. At the same time, Kowloon East remained a popular submarket for cost-saving tenants looking for downsizing or relocation, with some whole floor leases recorded over the quarter. Kowloon East vacancy remained flat at 14.1% in Q1 2022.
- In Q1 2022, the overall Grade A rental correction accelerated again with a 1.3% QOQ drop, compared to −0.4% QOQ in Q4 2021. The rental decline was most noticeable on Hong Kong Island, including Central / Admiralty (-1.2%QOQ) and Island East (-2.1% QOQ), as some landlords have softened their asking rents amid increased vacancies. Meanwhile, rents on the Kowloon side stayed resilient, with Tsim Sha Tsui and Kowloon East recording 1.6% QOQ and 0.2% QOQ, respectively.

Overall Hong Kong net absorption



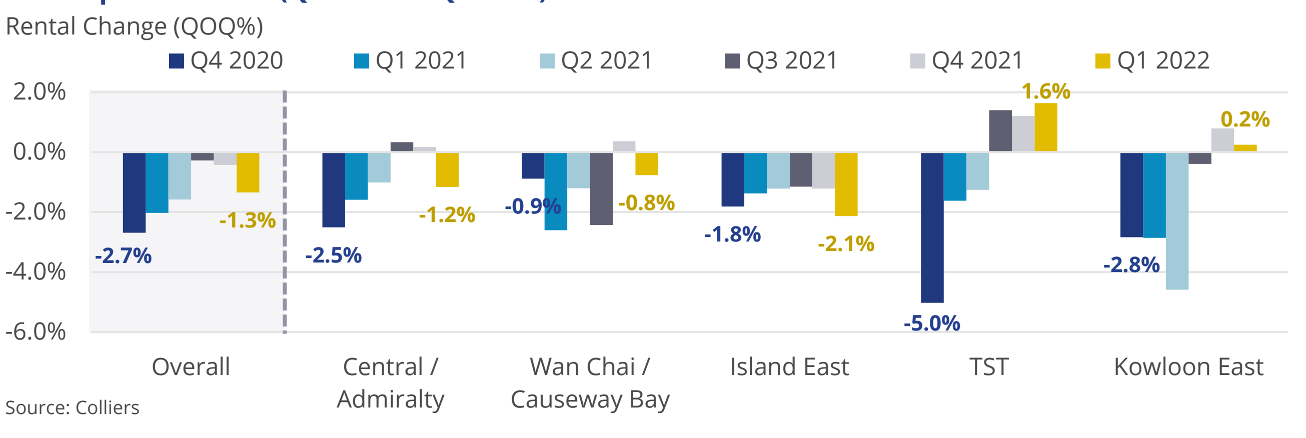
Source: Colliers

Hong Kong Grade A office vacancy trend



Source: Colliers

Rental performance (Q4 2021 to Q1 2022)



Source: Colliers

Colliers

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