News Release

For Immediate Release

Market uncertainties delay decision-making and curtail transaction volume ahead of expected H2 recovery

HONG KONG, 13 April 2022 – Leading diversified professional services and investment management company Colliers (NASDAQ and TSX: CIGI) has released its Quarterly Reports for Q1 2022, which saw a number of unforeseen disruptions delay the commercial property market's recovery.

"Market uncertainties since the start of 2022, including the outbreak of Omicron, geo-political tensions and stock market volatilities, have disrupted the decision-making process of investors and occupiers, hence slowing office leasing and investment momentum in Q1. With cash-rich investors still keen on acquiring quality assets, and landlords becoming more flexible in negotiations to retain tenants or secure new leases, we are hopeful of a gradual improvement in market sentiment and momentum in H2," said **Rosanna Tang, Head of Research, Hong Kong & Greater Bay Area, Colliers**.

Capital Markets and Investment

Total investment volume in Q1 2022 dropped 46% QoQ to HK$11.2 billion (US$1.4 billion), with over half of the deals negotiated from last year, before momentum started to slow along with the more stringent social-distancing rules in place since late January. Yet, it still constitutes a 19% YoY increase due to the low base effect in 2021. The industrial and retail sectors saw the highest volume, while hotel assets saw increased interest after a quiet 2021 from investors looking for discounted pricing and value-add potential by converting into residential-for-let projects.

Looking ahead, Colliers expects the investment market to remain slow in Q2 but believes market momentum and activities will likely improve in H2 2022, as the government gradually relaxes social-distancing rules from 21 April onwards. Industrial assets will likely remain sought-after with solid demand for data centre and cold storage facilities, while hotel transactions will increase given the hotel sector's flexibility to convert into co-living or quarantine facilities. Transactions in the office sector delayed by Omicron are also expected to become more active in H2.

"Overall, investors are still eager to look for acquisition opportunities while pricing remains attractive for most sectors. However, whilst the timeline of the Mainland-Hong Kong border reopening remains uncertain, this could limit flow of cross-border capital from Mainland investors, who used to be one of the key drivers before the pandemic but only accounted for 2% of investment market volume in Q1. Against these backdrops, unless there are big-ticket deals to boost the volume in the upcoming months, we forecast the whole-year transaction volume will likely edge down by 5% to HK$70 billion in 2022," said **Thomas Chak, Executive Director, Capital Market & Investment Services, Colliers Hong Kong**, in an adjustment to the company's previous forecast of 15% YoY growth for the whole year**.**

Office

Office space demand weakened in Q1 2022, largely due to inspection activities being held up with tightened social-distancing measures from the 5th wave of COVID. The overall vacancy rate climbed slightly to 10.9% in the quarter, a new record high over the last decade, with overall rentals down 1.3% QoQ.

Supported by leases negotiated since the end of 2021 and closed in early Q1 2022, the overall net take-up recorded a rebound of 157,000 sq. ft. this quarter. Based on the transactions that Colliers tracks, only 32% of newly leased area is on Hong Kong Island. Vacancy in the CBD climbed by 0.5 ppt to 9.2% in Q1 2022 as some spaces were left vacant after expiries while Kowloon East remained a popular submarket for cost-saving tenants looking for downsizing or relocation. The vacancy of that district remained flat at 14.1% in the quarter.

Overall Grade A office rents, meanwhile, accelerated their correction with a 1.3% QoQ drop. The decline was more noticeable on Hong Kong Island, including Central/Admiralty (-1.2% QoQ) and Island East (-2.1% QoQ). In Kowloon, rents remained resilient with Tsim Sha Tsui and Kowloon East recording growth of 1.6% QoQ and 0.2% QoQ respectively.

Given the macro economic situation with the unresolved Russian-Ukrainian War, uncertainties over the Mainland-Hong Kong border reopening and Oxford Economics' downward revision for Hong Kong's 2022 GDP growth from 2.3% to 1%, the company believes business sentiment and hence office leasing momentum will remain subdued through H1 2022.

"Office leasing activities will be largely focusing on flight-to-quality relocation, space optimisation or consolidation moves over the year, as most office occupiers are looking for cost-saving options, and they are now presented with more leasing options in the market given 4.5 million sq. ft. is scheduled to complete in 2022. Colliers recommends landlords stay flexible during negotiations to secure new leases or retain existing tenants. Originally anticipating a slight recovery of around 1% YoY for the whole year, we now expect Hong Kong overall and the CBD Grade A office rents to further correct by 5% in 2022, after the 5th wave subsides," said **Fiona Ngan, Head of Office Services, Colliers Hong Kong**.

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