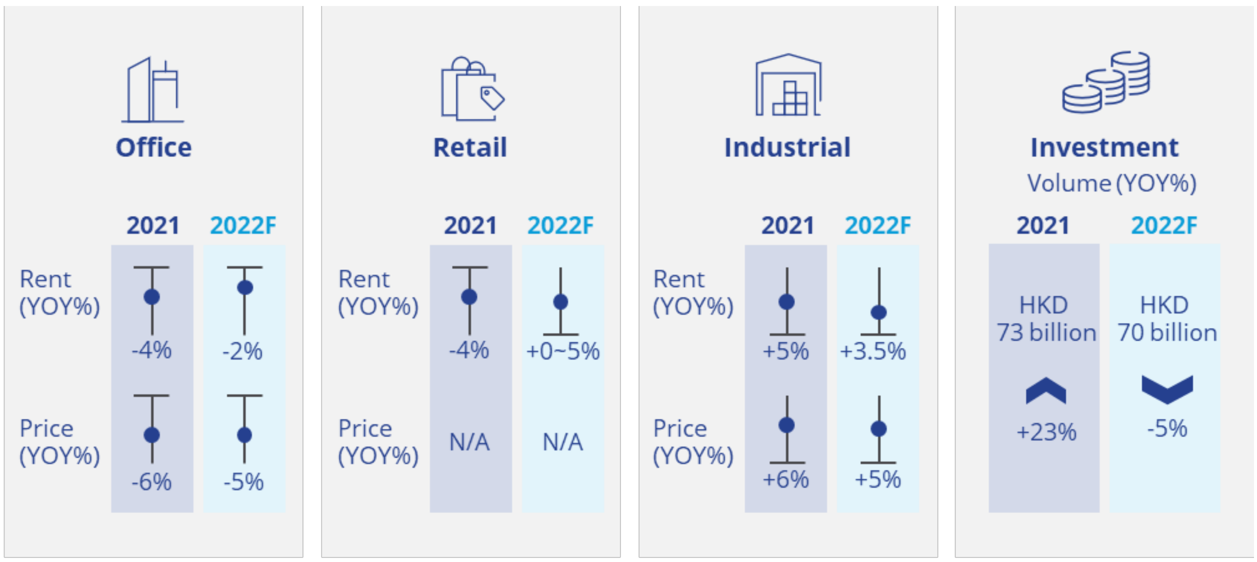
News Release

For Immediate Release

Cautious optimism prevails as pandemic weighs on office and investment sector but buoys demand for warehouse spaces

HONG KONG, 14 July 2022 – Leading diversified professional services and investment management company Colliers (NASDAQ and TSX: CIGI) has released its Mid-Year Market Outlook for Hong Kong. Despite slower-than-expected economic performance in H1 2022, the company forecasts a gradual recovery in business sentiment and market activities in H2 2022.

“While business activity improved during Q2 2022 as COVID-19 disruptions receded locally in Hong Kong, the earlier fifth wave has led to slower economic growth for the year. Against this backdrop, we expect flight-to-quality will remain the key theme for the office market for the remainder of the year. Without further lockdowns, we also expect investment sentiment to pick up in H2 2022, particularly as investors gain more clarity on the potential interest rate hike, with resilient industrial assets continuing to be the most sought-after by institutional investors. Meanwhile, the relaxation in social distancing rules combined with the second phase of consumption vouchers in August will continue to support recovery in the retail market,” said **CK Lau, Managing Director at Colliers Hong Kong.**



Source: Colliers.

Source: Colliers’ property market summary for Hong Kong in 2021 and forecast for 2022.

Capital Markets and Investment

Despite Q2 investment transactions picking up from the low base of Q1 as Hong Kong emerged from the fifth wave, and the investment volume for commercial properties increasing by 52% from Q1, the total investment volume for H1 2022 is down 15% YoY to HKD 28.9 billion. The market recovery remained slow amidst the US Federal Reserve interest rate hike, as some investors turned more cautious and adopted a wait-and-see approach, hence delaying decision-making processes.

Considering the strong pent-up demand for the housing sector, the firm believes residential development sites and co-living assets offer opportunities to local developers and funds while neighborhood retail will continue to gain traction in H2 2022 given its resilient performance. Institutional funds and real estate firms, which accounted for 87% of the investment volume in Q2, should remain as the key market driver for the rest of 2022.

Given that potential interest rate hikes may add to landlords' financial burden, Colliers anticipates more investment stocks being put on the market for sale, hence also stimulating more transactions to take place in H2 2022. Subject to no further lockdowns in the city, the firm remains cautiously optimistic and maintain our forecast to see transaction volumes of -5% YoY in 2022.

"Supported by the strong demand and rental performance, industrial assets, including data centres and cold storage facilities, will remain the most preferred asset type and continue to be sought-after by institutional investors. We expect the investment transaction volume of H2 will exceed that of H1," said **Thomas Chak, Executive Director, Capital Markets & Investment Services at Colliers Hong Kong.**

Office

Although the office market started to pick up momentum with an improvement in leasing enquiries and inspection activities as the city's social distancing rules relaxed, new office letting demand remains relatively weak and resulted in a net absorption figure of -176,300 sq ft in Q2. This marked the slowest quarter since 2021 and pushed the overall vacancy rate up 0.4 ppt to 11.2%

As business sentiment and the labour market take time to recover from the fifth wave, Colliers does not foresee a strong rebound in leasing momentum in H2 unless the border is relaxed to introduce new demand. It projects 3.9 million sq ft of new Grade A supply could potentially come online in the second half of the year, which may raise the year-end vacancy rate and exert pressure on the rental outlook.

"Given the higher availability of new office space, which means occupiers should have more bargaining power as well as increased options, we expect flight-to-quality will remain the key theme for the office market for the rest of the year. At the same time, we expect the overall Grade A office rent to decrease by 2% in 2022, while the rental gap between CBD and non-core districts will further narrow as rents in Kowloon slightly pick up," said **Fiona Ngan, Head of Office Services at Colliers Hong Kong.**

Industrial

Third-party logistics players (3PLs) remained the main support of the industrial rental market in Q2 2022, while the market also saw healthy demand from the electrical and frozen food/beverage sectors. Coupled with tight availability and no new warehouse supply recorded during the quarter, rent of overall warehouses recorded 1.1% QoQ growth. The outbreak of the fifth wave, however, delayed the expansion plans of some F&B operators and retailers and led to a relative slowdown in requirements from central kitchen operators or retailers in H1 2022 compared to H2 2021.

With online retail sales growing 29% YoY for the first five months, Colliers believes the e-commerce industry will be a key driver to support the demand for industrial space going forward. Overall, it expects leasing enquiries for purposes such as logistics hubs to pick up in H2 2022, supporting warehouse rent to see a full-year forecasted growth of 3.5% YoY.

"On the investment front, we expect to see more deals with landlords or institutional investors partnering with 3PLs, cold storage, self storage or data centre operators by arranging long leases so as to lock in long-term revenue. We expect industrial properties will continue to be the most popular asset type for institutional investors given their resilient performance compared to office and retail. Overall, we expect growth of 5% for warehouse prices in 2022," said **Bill Chan, Head of Industrial Services at Colliers Hong Kong.**

Retail

The retail market faced a rocky start in early 2022, with the outbreak of the fifth wave of the pandemic and subsequent social distancing rules in Q1. Core high street shop rents adjusted downward in Q2 by 0.4% QoQ, resulting in a -2.4% YTD rental drop in H1 2022. While most retailers remain cautious, banking and international apparel operators are also taking the opportunity to relocate to first-tier high streets.

Local consumption will remain the key purchasing power with more F&B brands expected to enter the market along with supermarkets, home living and leisure, which will all remain as key leasing demand drivers. Shopping mall landlords will continue to enhance customer loyalty programs and leverage high-profile brand ambassadors to drive retail sales and footfalls.

"Looking ahead, we are sanguine over the market sentiment for H2 2022. The upcoming consumption voucher distribution (Phase II) in August and the likelihood that the city's rules for incoming travelers to be further relaxed may support the retail ambience in H2 2022. Subject to no further serious pandemic outbreaks in the remainder of 2022, we expect the full year's retail rental recovery could be within 5% in 2022," said **Cynthia Ng, Head of Retail Services at Colliers Hong Kong**.

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Media Contact:

Alex Kaihau
Director, Marketing & Communications, Hong Kong
Alex.Kaihau@colliers.com
+852 2822 0692

Nora Wong
Senior Manager, Marketing & Communications
nora.wong@colliers.com
+852 6105 1336

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