

# Hong Kong Monthly

January 2023

## OFFICE

More leasing enquiries after border reopening

### Hong Kong Island

Overall rents on Hong Kong Island stayed flat at HK\$69.5 per sq ft in December. In 2022, Hong Kong Island rents dropped by 8.2% YoY. While major submarkets Central (-6.9% YoY) and Wan Chai/ Causeway Bay (-4.9% YoY) performed better, North Point/ Quarry Bay recorded the largest YoY decline of 13.1% among all submarkets.

Since the border reopening with the Chinese mainland, we have observed increasing demand for small and medium sized office space, which could be beneficial for co-working operators. Most of the enquiries have come from Chinese mainland companies. Apart from financial incentives, non-financial incentives are increasingly crucial for landlords to attract or retain tenants by meeting their requirements (i.e. ESG, fit-out, etc.)

Occupier demand from multinational firms, especially in the banking and finance sector, remains weak. New workplace strategies are resulting in the scaling back of office space. A number of firms have sublet or surrendered their surplus space as a result of post-COVID work practices.

### Kowloon

Overall rent trend in Kowloon was similar to that on Hong Kong Island, but transaction volume dropped by 40% MoM in December, which followed a similar pattern in the same festive period in previous years. Average monthly rents edged up to HK\$24-25 per sq ft.

Only a handful of new letting transactions were observed over the month but mostly in the area near the Express Rail Link Station, suggesting some positive signals for the year ahead. A utility company has taken up a floor with approximately

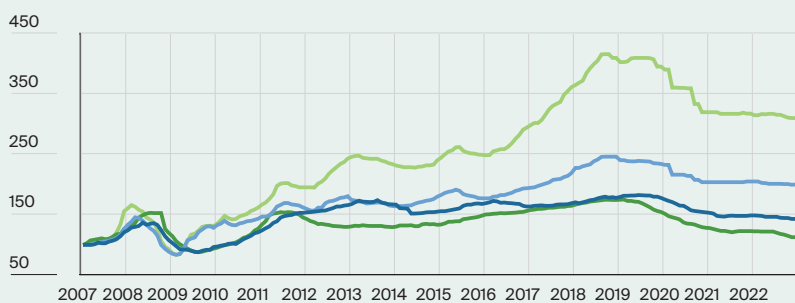
19,000 sq ft at The Gateway Tower 1. A banking and finance firm has also leased a high-floor unit with 18,000 sq ft at ICC. There are also increased leasing enquiries in Kowloon for office buildings in TST and Hunghom.

Looking forward, we expect Kowloon market to remain stable in Q1. While some companies will continue relocations for cost optimizations or operation enhancement, Q2 will see more solid positive effect from border reopening on the occupiers' demand and hence the market trend impacts.

Fig 1. Grade-A office rents and prices

2007 = 100

■ Hong Kong Island price index     ■ Hong Kong Island rental index  
■ Kowloon price index             ■ Kowloon rental index



Source: Knight Frank Research

## Grade-A office market indicators (December 2022)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	125.5	0.0	-6.4	-	-	-
Traditional Central	96.6	0.0	-7.2	-	-	-
Overall Central	106.4	0.0	-6.9	32,481	0.0	-2.6
Admiralty	66.2	0.0	-10.0	28,479	0.1	-2.6
Sheung Wan	55.2	0.0	-10.5	26,859	0.0	-1.8
Wan Chai	50.4	0.0	-5.9	24,048	0.0	-2.0
Causeway Bay	58.4	-0.2	-3.7	20,999	0.0	-2.3
North Point	37.5	-1.5	-12.1	-	-	-
Quarry Bay	45.7	-0.1	-13.4	-	-	-
Tsim Sha Tsui	55.7	0.3	-2.9	14,749	0.2	-3.0
Cheung Sha Wan	28.4	0.5	-1.2	-	-	-
Hung Hom	38.3	-0.7	-5.0	-	-	-
Kowloon East	29.5	0.0	-1.7	11,791	0.0	-1.9
Mong Kok / Yau Ma Tei	50.1	-1.0	-0.3	-	-	-

Source: Knight Frank Research  
Note: Rents and prices are subject to revision.

# RESIDENTIAL

## Sluggish economy dampens local sentiment

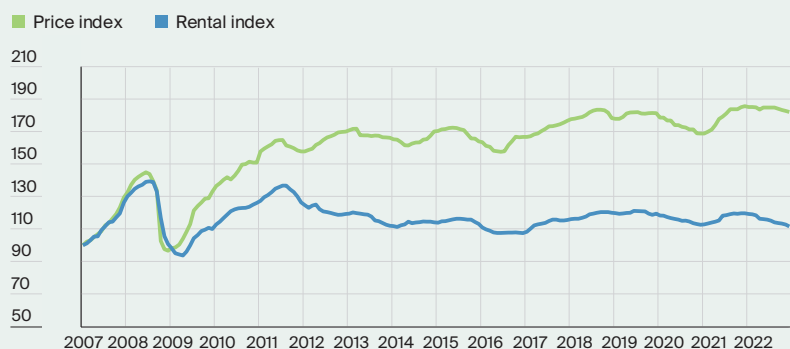
In December, the Hong Kong Monetary Authority (HKMA) increased its base rate by 50 basis points to 4.75%, close to the rate last seen in January 2008. Rising interest rates and the weak domestic economic outlook have prompted more people to delay buying decisions. According to the Land Registry, a total of 2,507 transactions were recorded in December, edging down 8.2% MoM. Of these, 90% were secondary sales, as developers have significantly slowed down the pace of sales of new properties.

Statistics from the Rating and Valuation Department show that overall residential home prices dropped 3.3% MoM in November, reaching a five-year low. An accumulated drop of 13.8% was recorded in the first 11 months of 2022.

Affected by the poor buying sentiment, Hong Kong's overall stamp duty revenue from home sales decreased 38% MoM in December, according to the Inland Revenue Department. Cases involving Buyer's Stamp Duty (BSD) plunged 40% MoM, reflecting low demand from non-local individuals and companies. In 2022, Hong Kong's overall stamp duty revenue from home sales recorded 2,972 cases, dropping 41.9% YoY. Revenue was about HK\$5.94 billion, plummeting by 54.1% YoY.

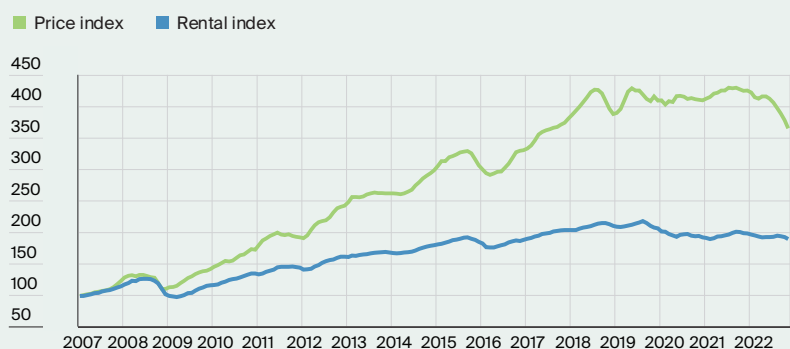
**Fig 2. Luxury residential rents and prices**

2007 = 100



**Fig 3. Mass residential rents and prices**

2007 = 100



A handful of notable transactions were recorded, which helped explain the positive prospects for the luxury residential market. A unit at Mount Nicholson at The Peak, was sold for HK\$500 million or HK\$121,714 per sq ft. Since the border reopened with Chinese mainland in early January, Chinese mainland buyers have started to return to the city. Examples that captured the market's attention include a 5,210-sq-

ft-house at Villa La Plage in Tuen Mun, which was sold for HK\$166.7 million or HK\$32,559 per sq ft.

On the leasing front, there was an increasing number of enquiries from overseas tenants recorded during the month. Leasing activity has been gradually picking up, supported by more expatriates returning to the city, following the relaxation of border restrictions.

Homeowners were more flexible in their negotiations and offered incentives such as rent-free periods to attract tenants.

Looking ahead, taking the likely slowing of interest rate hikes and the border relaxation with Chinese mainland into account, market activity is expected to pick up gradually after Chinese New Year, and overall transaction volume is projected see an uptick in 2023.

### Selected residential sales transactions (December 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
<b>The Peak</b>	Mount Nicholson	Tower C / high floor	4,108	500	121,714
<b>Island South</b>	56 Repulse Bay Road	House	3,246	372.6	114,787
<b>Mid-Levels East</b>	White Jade	Low floor / unit B	1,450	82.5	56,897
<b>Happy Valley</b>	The Leighton Hill	Tower 5 / mid floor / unit B	1,724	95	55,104
<b>Clear Water Bay</b>	22 Pik Sha Road	House	3,654	108	29,557

Source: Knight Frank Research  
Note: All transactions are subject to confirmation.

### Selected residential lease transactions (December 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
<b>Mid-Levels Central</b>	Dynasty Court	Tower 2 / low floor / unit B	1,794	126,000	70
<b>Mid-Levels Central</b>	Queen's Garden	Tower C / mid floor	2,259	138,000	61
<b>South Bay</b>	Belgravia	Mid floor / unit A	1,875	110,000	59
<b>Happy Valley</b>	High Cliff	High floor / unit B	2,624	143,500	55
<b>Shouson Hill</b>	Evergreen Garden	Unit D	2,843	135,000	47

Source: Knight Frank Research  
Note: All transactions are subject to confirmation.

## RETAIL

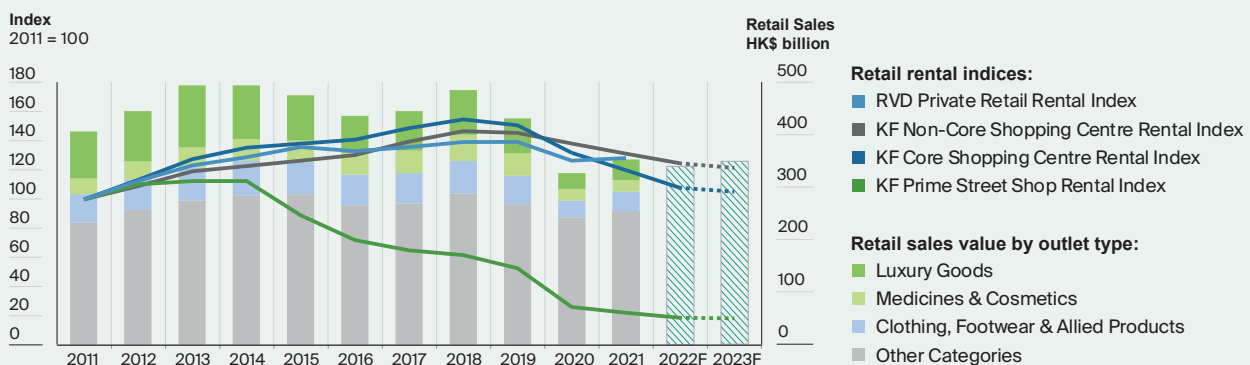
### Disappointing retail sales, but a positive overall trend

The market saw signs of a gradual recovery in inbound tourism. Thanks to the further relaxation of pandemic-related measures and the announcement of the reopening of the border with China, the number of visitor arrivals between January and November 2022

increased 441.8% YoY from 81,950 to 443,986. However, Hong Kong's retail market has yet to benefit. Total retail sales in November 2022 dropped by 4.2% YoY to \$29.5 billion. For the first 11 months of 2022, the total value of retail sales decreased 1.1% YoY.

Fuelled by the recovering market, the retail leasing market gradually regained momentum in January. According to market sources, Unit H (c. 411 sq ft) on the ground floor 7-11 on 177-179 Wanchai Road, which had been vacant for more than six months, a restaurant tenant finally moved

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department

into the unit for a reported monthly rent of HK\$40,800 or HK\$99 per sq. ft, which marked an increase of 27% from the previous bakery tenant's rent of HK\$32,000. This reflects that the F&B industry is a key pillar of the retail leasing market in core districts.

The capital market for retail properties was also buoyant in January. For example, Sunlight REIT acquired West 9 Zone Kids

(c. 58,836 sq ft) of Florient Rise in Tai Kok Tsui for HK\$748 million, including eight advertising spaces and 17 commercial car-park spaces. The transaction price of HK\$748 million, HK\$12,713 per sq ft, was about 12% lower than the estimated appraised value. Despite the discounts, these large retail property acquisitions indicate increased investor confidence in the long-term market outlook.

Looking ahead, with the further relaxed social-distancing rules and the removal of restrictions on arrivals, we believe retail sales are set to pick up in 2023. We are cautiously optimistic about the impact of the border reopening, and we expect to see a stable recovery trend in the retail market following the return of mainland Chinese tourists. Overall, we expect retail rents to remain under pressure and drop 0-5% during 2023, owing to external uncertainties.

## Retail sales by outlet type (November 2022)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.9	9.9	-27.3	-11.6	-8.3
Clothing, footwear and allied products	2.8	9.4	-0.9	6.1	-15.2
Department stores	2.9	9.8	2.3	15.5	-19.3
Fuel	0.9	3.2	-10.4	-13.4	-2.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.8	9.4	-8.8	-9.1	0.3
Consumer durable goods	7.3	24.6	-2.8	36.3	6.9
Supermarkets	4.2	14.4	-6.7	-9.8	0.1
Others	5.7	19.4	-9.2	-4.8	-5.2
All retail outlets	29.5	100.0	-7.9	3.2	-4.2

Source: Knight Frank Research / Census and Statistics Department

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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