Hong Kong Monthly

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This report analyses the performance of Hong Kong's office, residential and retail property markets

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Office

Cost savings by downsizing or decentralization dominate the market

HONG KONG ISLAND

Overall net effective rents were HK$67.5 per sq ft in July, dropping 0.3% MoM and 2.8% year to date (YTD). Among the major submarkets, overall Central and Causeway Bay recorded a larger rental decline at 0.6% and 0.7% MoM and 4.8% and 4.7% YTD, respectively.

Over the past month, there has been a more obvious cost savings trend involving downsizing or relocating to decentralized areas. Meanwhile, the flight-to-quality trend persists. Some less cost-sensitive occupiers took the opportunity of the rental downturn for office quality upgrades with a similar budget. Most of the leasing transactions involved small to medium-sized office space of about 3,000 to 4,000 sq ft. For instance, an investment management firm upgraded its office from Man Yee Building to Two IFC.

Supported by more affordable rents, office space in Wan Chai, Causeway Bay and Quarry Bay has been gradually filling up, driving down vacancy rates to 10.2%, 8.9% and 15.1%, respectively, in July. Compared to decentralized areas, we expect a potential upward trend in Central's vacancy rate in the near term due to the continued cost-saving trends involving decentralization and downsizing.

KOWLOON

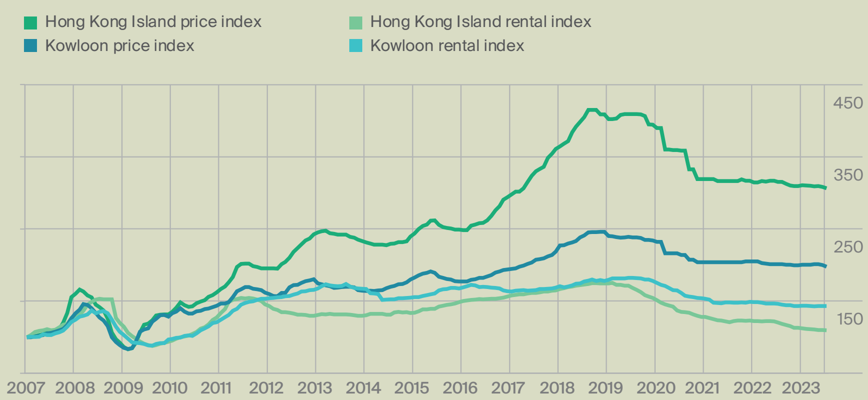
Market sentiment improved slightly in July as evidenced by an increase in transaction volume and size. Kowloon East and Tsim Sha Tsui were the primary focus among all sub-districts, as new buildings and competitive rents continued to attract attention from tenants. Companies in the manufacturing, shipping and logistics industries were the major demand drivers last month, with size optimisation and improved quality the reasons for moving. One large example was Avery Dennison's relocation to Manulife Place in Kwun Tong to improve its proximity to the MTR.

Amid improved market sentiment, the average monthly rents in Kowloon moved upward to HK$22.5 per sq ft in July, and the average size of leasing transactions rose to 4,600 sq ft.

The market in July followed what was predicted in the first half of the year, when we expected a bottom-out and rebound in the Kowloon market by year end. As the trend of pursuing better cost-performance continues, this will continue to drive demand in the Kowloon market to neutralise the supply surplus. We expect marginal rental growth with a less pessimistic market in 2H 2023.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (July 2023)

District	Net effective rent HK$ psf / mth	Change MoM %	Change YoY %	Price (Gross) HK$ psf	Change MoM %	Change YoY %
Premium Central	119.5	-0.4	-10.7	-	-	-
Traditional Central	91.9	-0.7	-10.4	-	-	-
Overall Central	101.2	-0.6	-10.5	31,981	-0.6	-3.1
Admiralty	65.6	0.0	-10.0	28,230	-0.5	-2.6
Sheung Wan	54.9	0.0	-7.1	26,559	-0.4	-1.7
Wan Chai	51.0	0.8	-1.5	23,848	-0.8	-4.0
Causeway Bay	55.6	-0.7	-8.8	20,939	-0.3	-3.2
North Point	36.8	0.0	-7.9	-	-	-
Quarry Bay	45.5	0.0	-7.7	-	-	-
Tsim Sha Tsui	56.1	0.0	-0.5	14,509	-1.4	-2.0
Cheung Sha Wan	29.6	0.0	4.7	-	-	-
Hung Hom	38.3	-0.1	-2.5	-	-	-
Kowloon East	29.1	-0.2	-1.1	11,817	-0.8	-0.8
Mong Kok / Yau Ma Tei	50.4	1.2	-0.7	-	-	-

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

Residential

Chinese mainland property crisis continues to affect investor confidence

The residential market appears to be reeling, with both volume and prices drifting down. Overall residential prices recorded a 0.5% MoM decline in June, down for the second consecutive month after a four-month rally in early 2023, further narrowing the YTD gain to 4.3%, according to the Rating and Valuation Department shows.

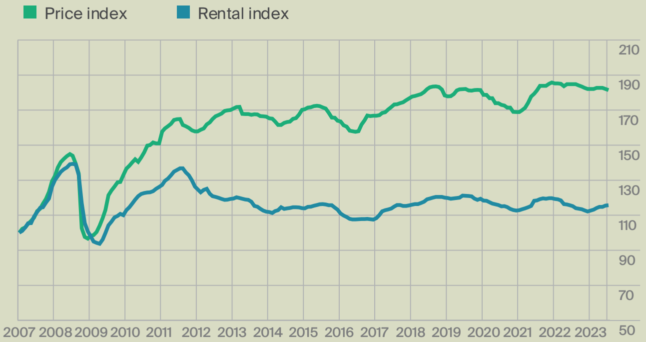
In addition to high mortgage rates and unsold inventories, the economy remained uncertain in both Hong Kong and the Chinese Mainland with the ongoing spread of contagion risk among Chinese developers. Recently, some of China's leading private real estate developers have shown signs of a liquidity crisis, with missed interest payments on bonds and suspended payments on offshore debt. The Hang Seng Index has slumped accordingly, weighing heavily on sentiment.

The number of residential transactions struck a four-month low of 3,065 in July, down 15.2% MoM, according to the Land Registry. Among them, primary sales fell by 20.5% MoM, while secondary sales also fell by 13.1% MoM, indicating overall transaction volume remained under pressure.

The luxury residential market was more resilient than the mass market, given the scarce supply and strong holding power of existing owners. According to our data, overall luxury residential prices recorded a monthly drop of 0.3% or 1.8% YTD in July. Major transactions during the month included a 3,736-sq-ft house in Severn 8 at the Peak, which was sold for HK$300 million (or HK$80,300 per sq ft). Another 7,083 sq-ft house in La Villa de La Salle in Kowloon Tong was transacted for HK$254.8 million (or HK$35,973 per sq ft).

Fig 2. Luxury residential rents and prices

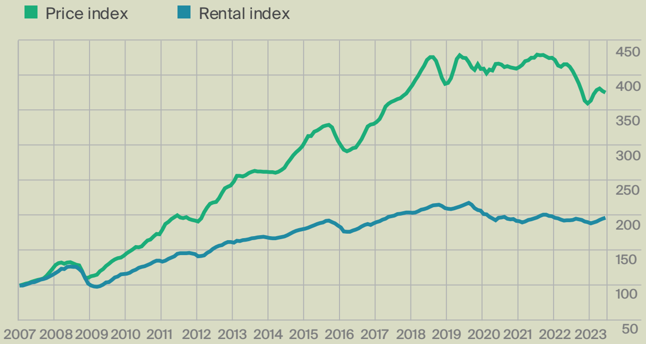
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

The leasing market outperformed the sales market, as we note an increasing number of expat families trickling back to Hong Kong. Leasing demand for high-quality units in the Peak and Southern District saw an uptick. Notable transactions were recorded during the month, including a 3,527-sq-ft house on Plantation Road at the Peak, which was leased for about HK$340,000 per month (or HK$96 per sq ft), and a 4,190-sq-ft house in Residence Bel-Air Phase 5 in Pokfulam, which was leased for HK$245,000 per month (or HK$58 per sq ft). In addition, the mass market, typically areas around universities, was invigorated by the influx of overseas students prior to the beginning of the new academic year.

Under the current market headwinds, sell-offs are set to endure amid weakening purchasing power. Meanwhile, the market is sluggish as prospective buyers are observing whether the Fed will pause the rate hikes in September.

Selected residential sales transactions (July 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
The Peak	Severn 8	House	3,736	300	80,300
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit A	2,691	118.2	43,917
Clear Water Bay	3 Fei Ngo Shan Road	House	3,507	153	43,627
Mid-Levels East	Chantilly	High floor / unit A	2,816	118	41,903
Kowloon Tong	La Villa de La Salle	House	7,083	254.8	35,973

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

Selected residential lease transactions (July 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
The Peak	Plantation Road	House	3,527	339,552	96
The Peak	Interocean Court	Low floor	2,665	230,000	86
Mid-Levels Central	Queen's Garden	Tower C / high floor	2,181	158,000	72
Mid-Levels Central	Aigburth	High floor / unit A	2,184	148,000	68
Pok Fu Lam	Residence Bel-Air	Phase 5 / house	4,190	245,000	58

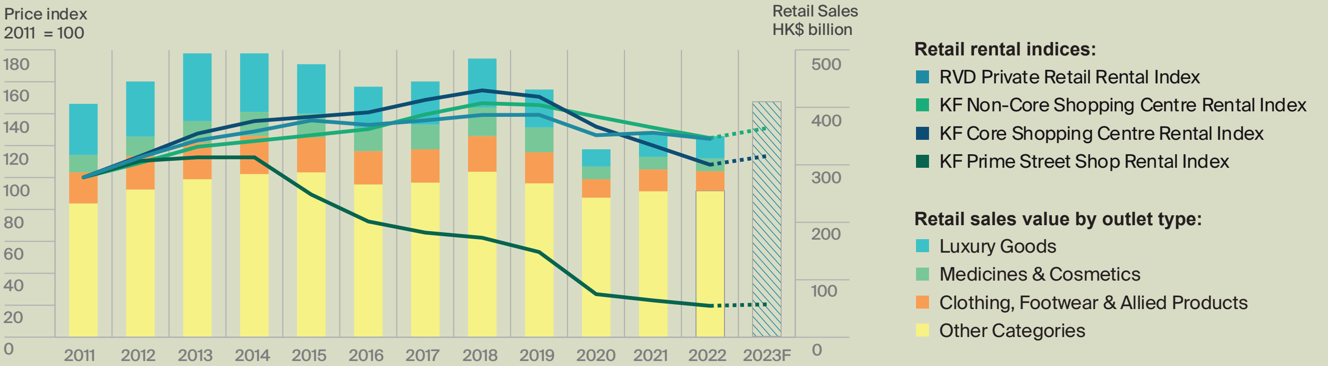
Source: Knight Frank Research
Note: All transactions are subject to confirmation.

Retail

Market momentum improved softly amid the rebound in tourism but it is still far below pre-pandemic levels

Hong Kong's retail industry has been recovering gradually since the city's borders were reopened at the beginning of the year. Total retail sales value in June recorded an uptick of 19.6% YoY to HK$33.1 billion. However, the increase in sales was due mainly to the low base effect in the same period last year. There are concerns that the upward trend may not be sustained owing to the ongoing increase in residents traveling outside Hong Kong.

Fig 4. Retail rents and sales



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

In 1H 2023, the value of total retail sales registered an increase of 20.7% YoY but was still 15% lower than the pre-pandemic level in 2019.

Visitor arrivals have been rising considerably since the reopening of the borders. The number of visitor arrivals in 1H 2023 increased to over 12.9 million from just 76,000 a year earlier. About 78% of the visitors were from the Chinese Mainland. But the arrivals figures have yet to return to the pre-pandemic level of 34.8 million in 1H 2019. Also, according to Hong Kong Tourism Board, the spending habits of Chinese mainland tourists have changed, with fewer coming to Hong Kong primarily for shopping. Young Chinese tourists are now more interested in arts and cultural activities.

In contrast, Hong Kong residents' outbound travel, especially to the Chinese Mainland, has risen drastically since the reopening of the borders. According to the Immigration Department, 5,001,493 Hong Kong residents travelled to the Mainland in July. We believe the trend of Hong Kong residents traveling to the Mainland for short vacations and consumption will persist and become increasingly popular. With more local residents traveling outside Hong Kong than inbound tourists, it has sent a worrying signal to the retail market in Hong Kong.

On the leasing front, there were finally some signs of improvement in retail rents, thanks to the rebound in tourism. Notably, an 818-sq-ft ground floor retail unit at 45 Haiphong Road, Tsim Sha Tsui, was leased to a pharmacy for HK$300,000 per month (HK$367 per sq ft), representing an increase of nearly 70% in rent compared to the previous lease. Overall, we expect to see silver linings ahead with moderate growth of 0–5% in retail rents this year due to a falling shop vacancy rate in prime locations.

Retail sales by outlet type (June 2023)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.6	16.8	9.3	9.6	64.4
Clothing, footwear and allied products	3.9	11.9	-14.9	-11.0	33.1
Department stores	2.7	8.2	-24.2	-2.6	4.2
Fuel	0.9	2.7	-0.2	0.8	-19.1
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	9.1	-1.9	3.6	6.6
Consumer durable goods	4.9	14.7	7.4	-4.9	13.3
Supermarkets	4.2	12.6	-3.7	1.6	-3.4
Others	8.0	24.0	-4.8	-3.1	28.3
All retail outlets	33.1	100.0	-4.0	-1.2	19.6

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'd love to hear from you.

Research

Martin Wong
Director
Head of Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com

Lucia Leung
Director
Research & Consultancy, Greater China
+852 2846 4843
lucia.leung@hk.knightfrank.com

Commercial Agency

Paul Hart (E-127564)
Managing Director, Greater China,
Head of Commercial
+852 2846 9537
paul.hart@hk.knightfrank.com

Wendy Lau (E-141423)
Executive Director
Head of Hong Kong Office Strategy & Solutions
+852 2846 4988
wendy.lau@hk.knightfrank.com

Steve Ng (E-188091)
Senior Director
Head of Kowloon Office Strategy & Solutions
+852 2846 0688
steve.ng@hk.knightfrank.com

Residential Agency

Maggie Lee (E-076435)
Senior Director, Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

Retail Services

Helen Mak (E-087455)
Senior Director, Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

Valuation & Advisory

Cyrus Fong (S-368139)
Senior Director
Head of Valuation & Advisory
+852 2846 7135
cyrus.fong@hk.knightfrank.com

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