

# Hong Kong Monthly

February 2023

## OFFICE

More leasing enquiries as the border reopening boosts market sentiment

### Hong Kong Island

Market sentiment generally improved with the positive impact of the border reopening and better economic outlook. However, demand recovery is expected to be slow, and leasing activity has yet to significantly pick up. Overall net effective rents on Hong Kong Island fell to HK\$69.1 per sq ft in January, down by 0.6% MoM. Among the major sub-markets, Central and Causeway Bay recorded a larger rental decline, dropping 0.9% and 1.0% MoM, respectively.

The decentralization trend continued, as MNCs prioritized cost and operational optimization. Certain Japanese financial institutions relocated part of their back-office operations to decentralized areas, while retaining their front-office operations in Central. But there has also been flight-to-quality demand, as occupiers look for office upgrades at affordable rents in prime locations.

There have been more enquiries from Chinese mainland companies for small and medium-sized spaces below 3,000 sq ft. There is still a lack of demand for large-scale units. While it will take some time for the market to recover, we expect the office vacancy rate to gradually fall with the reopening of the border.

### Kowloon

Office demand gradually picked up in January with the improving sentiment. Leasing activity in Kowloon East remained active, while that in Tsim Sha Tsui improved. Average monthly rents edged slightly down to HK\$23.8 per sq ft. Most of the transactions were an average size of under 3,000 sq ft. Electronics and sourcing companies continued to be key demand drivers.

As on Hong Kong Island, there was an increasing level of enquiries from Chinese mainland companies after the border reopening. Most of the enquiries were for

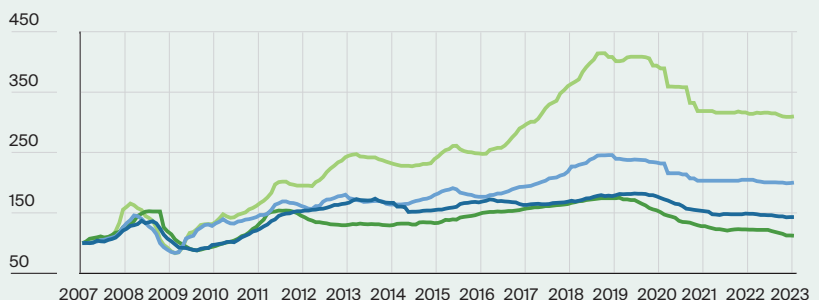
office space in Tsim Sha Tsui, but they have yet to materialize into transactions.

The Kowloon market notched up several large transactions in newly built office buildings. For instance, an international accounting firm leased two floors, totalling 38,800 sq ft, in The Millennity and will relocate from Skyway House in Tai Kok Tsui. Renewal cases were also active and supported transactions in indicative buildings, especially The Gateway towers. Looking ahead, we expect more transactions to take place in the coming months with improving market demand.

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 (January 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	124.8	-0.6	-7.0	-	-	-
Traditional Central	95.4	-1.2	-8.2	-	-	-
Overall Central	105.4	-0.9	-7.7	32,581	0.3	-1.5
Admiralty	66.2	0.0	-9.4	28,579	0.4	-1.6
Sheung Wan	55.2	0.0	-8.3	26,859	0.0	-1.1
Wan Chai	50.2	-0.4	-6.1	24,148	0.4	-0.8
Causeway Bay	57.8	-1.0	-5.0	21,099	0.5	-0.9
North Point	37.5	0.0	-9.9	-	-	-
Quarry Bay	45.6	-0.2	-12.9	-	-	-
Tsim Sha Tsui	55.9	0.3	-2.8	14,809	0.4	-2.6
Cheung Sha Wan	28.4	0.0	-1.0	-	-	-
Hung Hom	38.4	0.4	-3.0	-	-	-
Kowloon East	29.5	0.0	-1.0	11,817	0.2	-1.7
Mong Kok / Yau Ma Tei	50.2	0.2	-0.2	-	-	-

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

# RESIDENTIAL

## Rebounding sales momentum driven by the border reopening

With the border fully reopened with the Chinese mainland and slowing interest rate hikes, buying sentiment turned positive. According to the Land Registry, a total of 3,051 transactions were recorded in January, up 21.7% MoM. Both primary and secondary transactions recorded an uptick over the month, increasing by 47% and 18.9% MoM, respectively.

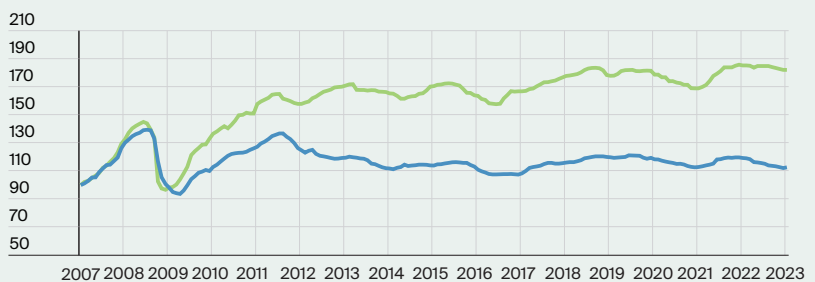
The luxury segment was resilient, with a 0.3% MoM drop in the price index of Class D and E units in December 2022, while the price index for small to medium-sized units dropped 2.1% MoM. Significant transactions included a 8,934 sq ft house in Villa La Plage, Tuen Mun, which was sold for HK\$380 million; and a triplex unit at Dukes Place, Jardine's Lookout, which was sold for HK\$287.1 million or HK\$70,000 per sq ft.

On the leasing front, more enquiries and home-viewing activity were recorded over the month, driven by an increasing number of foreign and Chinese mainland expatriates returning to the city. Although homeowners generally stood firm with their asking prices and fewer discounts were offered to tenants, units in the range

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

2007 = 100

Price index Rental index

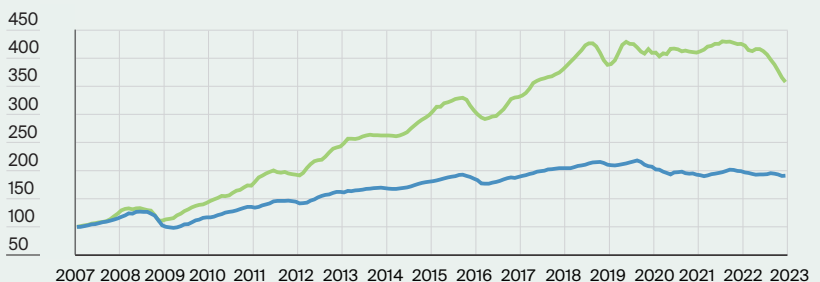


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

of HK\$100,000 to HK\$200,000 per month were rented out quickly. Examples include a 2,560 sq ft house at 12 Shouson Hill Road, Shouson Hill, which was rented for HK\$158,000 per month.

In the coming three to four years, a record 105,000 new private flats are expected

to hit the market, a surge of 10,000 units QoQ, according to Housing Bureau. Looking ahead, with improved market sentiment and buyer confidence, sales activity in both the mass and luxury markets is expected to pick up. Developers are expected to launch new projects and adopt a more aggressive approach by

rolling out various incentives to attract potential buyers. Nevertheless, given the abundant private housing supply and unsold units hitting the market and as all current 'spicy measures' being maintained, we expect housing prices to start improving only in the second half of 2023.

### Selected residential sales transactions (January 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	56 Repulse Bay Road	House	2,566	190	74,045
Jardine's Lookout	Dukes Place	Triplex unit	4,102	287.1	70,000
Mid-Levels West	39 Conduit Road	High floor / unit A	2,476	140	56,543
Ap Lei Chau	The Corniche	Tower 3 / mid floor unit	3,316	164.1	49,508
Tuen Mun	Villa La Plage	House	8,934	380	42,534

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

### Selected residential lease transactions (January 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Shouson Hill	12 Shouson Hill Road	House	2,560	158,000	62
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit B	2,256	127,000	56
Happy Valley	Chantilly	Mid floor / unit B	2,697	138,000	51
Tai Tam	Redhill Peninsula	Site B / house	2,836	120,000	42
Pok Fu Lam	Baguio Villa	Block 45 / mid floor unit	2,488	105,000	42

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

## RETAIL

### Japanese brands actively expand in prime locations

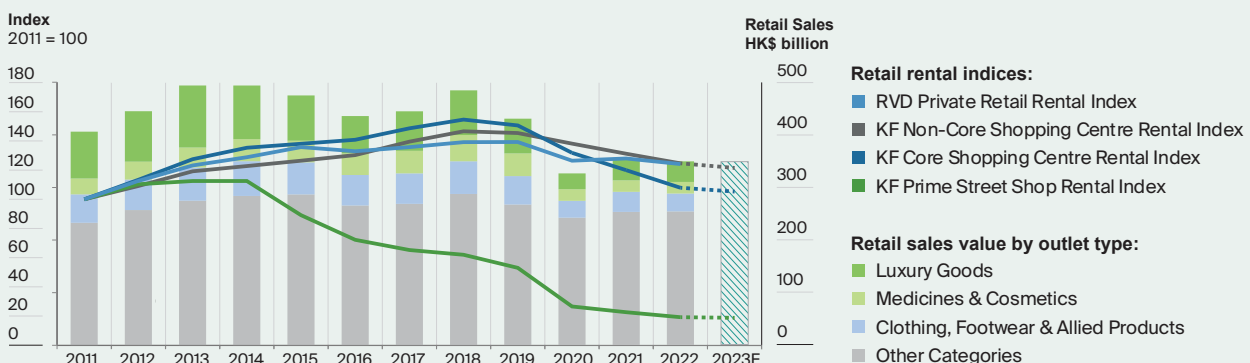
In the traditional retail peak season in December and January, although the social gathering restrictions were greatly relaxed, the retail market did not see a significant improvement. The main reasons were that local consumption remained weak amid the economic uncertainty, and the relaxation of

quarantine measures for outbound travel resulted in an increase in outbound travel by residents.

According to the Retail Management Association, in January, most retailers saw sales register a only a low double-digit increase in some segments,

such as department stores, cosmetics, eyewear, jewellery, watches and clothing. Furthermore, some retailers that target local residents, such as furniture, household products and supermarkets, were affected by the outbound travel and recorded declines.

Fig 4. Retail rents and sales



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

On the bright side, some Japanese brands, especially pharmacies and supermarkets, have been actively expanding their operations. Notably, Matsumoto Kiyoshi, a Japanese high-end pharmacy brand, opened its sixth branch (6,000 sq ft) in Grand Plaza, Mong Kong. Also, according to market sources, DON DON DONKI, a Japanese supermarket chain, expressed interest in opening its 10th branch in Hollywood Plaza, Diamond Hill. Active

expansion of these Japanese brands and the commitment of large shops indicates that the outlook for the retail market and tourism in Hong Kong remains positive, also meaning lower vacancies for large shops.

Looking ahead, we expect retailers to remain prudent in extending their presence in the market, as they are holding a wait-and-see attitude towards

the market situation. The market's revival will hinge on the return of tourists and how quickly the market returns to normal. We remain cautiously optimistic and expect the retail market to show more significant improvement only in the second half of the year. We expect sales of approximately HK\$360 billion in provisionally in 2023, we will revise this figure in quarterly basis as the market varies.

## Retail sales by outlet type (December 2022)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.7	11.0	27.5	9.6	-3.0
Clothing, footwear and allied products	3.9	11.5	40.6	65.5	0.3
Department stores	3.1	9.3	8.4	43.8	-5.7
Fuel	0.9	2.7	-0.9	-14.2	-2.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.3	9.9	19.9	7.6	4.9
Consumer durable goods	7.1	21.0	-3.0	11.5	2.3
Supermarkets	4.5	13.3	5.7	2.0	-0.3
Others	7.1	21.2	25.4	34.5	5.6
All retail outlets	33.7	100.0	14.2	19.7	1.1

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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