

# Hong Kong Monthly

November 2022

## OFFICE

*Despite isolated transactions in prime locations, recovery remains to be seen*

### Hong Kong Island

Given the weak market sentiment, overall rents on Hong Kong Island fell further to HK\$71.0 per sq ft in October, for a 1.4% monthly decline and a 6.2% year-to-date decline. Overall rents in Central dropped 1.8% MoM, while some decentralized markets, such as North Point (-2.2% MoM) and Sheung Wan (-2.3% MoM) were even weaker.

Flight-to-quality remained an occupier priority and drove leasing demand. Occupiers continued looking for office quality upgrades at lower rents, especially in prime locations. The Canada Pension Plan Investment Board leased two floors in The Henderson, totalling 26,000 sq ft, and will relocate from York House.

Overall, we expect demand to remain subdued in the short term, given the lack of positive catalysts for recovery. In addition, the record-high existing vacancies and abundant upcoming supply in Central will continue to encourage office landlords to lower rental expectations and offer flexibility to retain and attract tenants. We expect the downward rental trend to continue for the rest of 2022.

### Kowloon

Leasing activity in October moderated amid weakening market sentiment. As in September, most leasing transactions were under 3,000 sq ft with rents of HK\$22 per sq ft or below. Electronics and sourcing companies remained a major demand driver over the month.

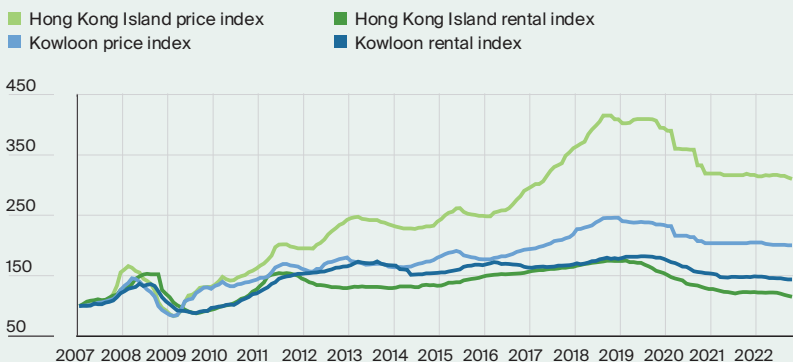
Renewal cases supported the leasing market in October with a narrowing of rental declines. Office renewals have been gaining pace, as occupiers prefer to renew leases with landlords at more attractive

rents or favourable terms, instead of relocating to new premises, which results in additional expenses.

In light of the unlikely further easing of border restriction policies before the end of the year, the recovery of Kowloon office market is expected to be delayed because of the lack of demand from both Chinese mainland and MNC tenants. Notwithstanding a rental decline towards the end of 2022, we expect positive rental growth in 2023, factoring in the return of Chinese mainland and MNC tenants.

**Fig 1. Grade-A office rents and prices**

2007 = 100



Source: Knight Frank Research

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

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	126.1	-1.8	-6.0	-	-	-
Traditional Central	99.2	-1.8	-3.7	-	-	-
Overall Central	108.4	-1.8	-4.6	32,581	-0.6	-2.9
Admiralty	68.8	-1.6	-6.5	28,555	-0.8	-2.4
Sheung Wan	55.3	-2.3	-10.3	26,859	-0.6	-2.9
Wan Chai	51.1	-0.7	-4.2	24,148	-0.8	-2.4
Causeway Bay	59.5	0.0	-1.4	21,099	-0.9	-2.8
North Point	38.8	-2.2	-9.6	-	-	-
Quarry Bay	47.3	0.0	-13.3	-	-	-
Tsim Sha Tsui	55.6	0.1	-2.2	14,809	0.0	-2.6
Cheung Sha Wan	28.3	0.0	-0.4	-	-	-
Hung Hom	38.6	-0.7	-3.0	-	-	-
Kowloon East	28.7	0.0	-4.4	11,817	0.0	0.0
Mong Kok / Yau Ma Tei	50.6	0.0	1.0	-	-	-

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

# RESIDENTIAL

## Buyers cautious amid interest rate hikes and a weakening economy

Residential market sentiment was sluggish amid the continued rising interest rates, worsening local economy, and fluctuating stock market. Potential buyers were hesitant to enter the property market, leading to poor performance in both transaction volume and prices. The latest data from the Land Registry showed that a total of 3,148 residential sales were recorded in October, a drop of 18.8% MoM. Primary sales plunged drastically by 53.2% MoM to 672 homes.

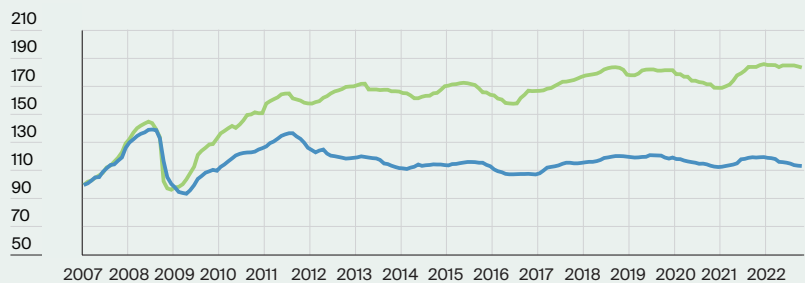
Overall residential home prices decreased 2.1% MoM in September, according to the Rating and Valuation Department, reaching the lowest level since January 2019. An accumulated drop of 8.1% since January 2022 was recorded. More units were sold below market value in the mass market, given the uncertain market conditions. Developers also reduced the asking prices of new projects to attract buyers.

On a positive note, the luxury market was relatively stable. One notable transaction recorded during the month was a 7,171-sq-ft house at Mont Rouge in Beacon Hill, which was sold for HK\$508 million or HK\$70,841 per sq ft. The transaction price was the highest of the year for a first-hand villa in Kowloon.

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

2007 = 100

Price index Rental index

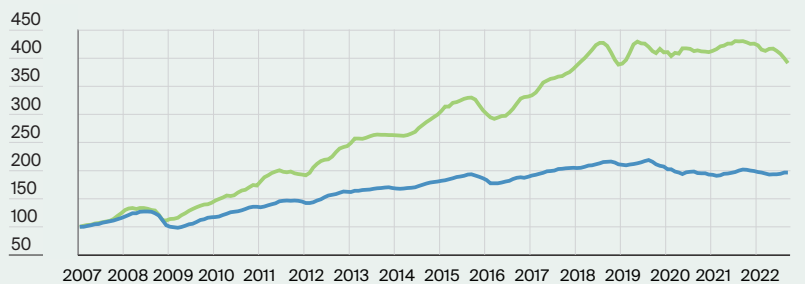


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

On the leasing front, local moves remained the core driver. The overall home rental index in September rose for the fifth straight month. Significant leasing transactions included a 2,587-sq-ft unit at Ultima in Ho Man Tin, which was leased for HK\$188,000 per month. Some tenants took the opportunity in the downward market

to upgrade their apartments for the same amount, while some homeowners were willing to offer discounts to tenants.

Potential further interest rate hikes, coupled with weak economic growth, are expected to put pressure on overall home prices in the near term, dampening

market sentiment, in particular in the mass market. We forecast a 10% drop in home prices for the mass residential market and flat performance for luxury home prices for full-year 2022.

### Selected residential sales transactions (October 2022)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Beacon Hill	Mont Rouge	Villa	7,171	508	70,841
Mid-Levels East	Central Peak	Everex II / unit A	1,668	117	70,144
Island South	50 Stanley Village Road	House	4,076	274	67,223
Island South	Bellevue Place	House	2,533	150	59,218
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit A	2,141	110.7	51,705

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

### Selected residential lease transactions (October 2022)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels Central	21 Borrett Road	Phase 1 / low floor / unit 7	2,176	160,000	74
Ho Man Tin	Ultima	Phase 1 / Tower 8 / high floor / unit C	2,587	188,000	73
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit B	1,794	120,000	67
Mid-Levels East	Highcliff	Low floor / unit B	2,613	130,000	50
Island South	9-10 Headland Road	House	3,087	138,000	45

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

## RETAIL

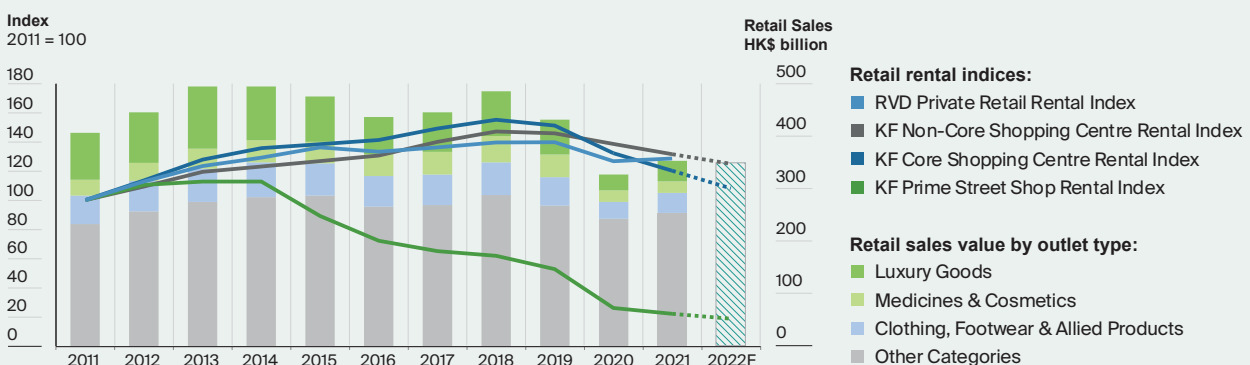
### Continued sharp fall in prime street shop rents amid poor sentiment

Hong Kong's retail market remained downbeat and vulnerable. Total retail sales in September 2022 inched up by 0.2% YoY to \$28.1 billion, according to the Census and Statistics Department. For the first nine months of 2022, the total value of retail sales registered a mild decrease of 1.3% compared with the same period in 2021.

As sentiment remained weak, retail rents in core districts like Tsim Sha Tsui and Causeway Bay continued to tumble. Numerous expired leases were not renewed, and street shops changed hands at ample losses. In Tsim Sha Tsui, Matsumoto Kiyoshi, a Japanese pharmacy chain, will open its fifth branch with 6,000

sq ft on Kimberly Road and Carnavon Road. The new rent is reported to be 70% lower than the previous lease with SaSa. Recently, shops 4-5 on 86-98 Canton Road, which had been leased by Mannings and previously Chow Tai Fook, is now asking for a monthly rent of HK\$800,000, representing a 35% reduction from the

Fig 4. Retail rents and sales



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

previous lease and an 82% reduction from the peak level.

Likewise, Nanyang Commercial Bank recently leased a 2,500 sq ft shop in Hanley House, on Canton Road, for HK\$720,000 per month, 78% lower than the market peak of HK\$3.3 million in 2014 paid by cosmetics chain Bonjour. According to a market source, the lease has a fixed term of six years, with the right to renew for another three years. Such long-term leases were previously rare for

prime street shops. This reflects that on one hand, landlords are desperate and more flexible in the present downbeat market, and on the other hand, that tenants believe rents have bottomed out.

We expect the recovery in the retail market to pre-pandemic levels to take considerable time. In the absence of Mainland Chinese visitors and foreign tourists, retailers have to rely on local consumption for the time being. It is difficult to see any upside at this point,

with poor macroeconomic conditions compounded by the still-stringent border restrictions, which has undermined Hong Kong's traditional role as a retail hub in Asia. Looking ahead to 2023, we do not expect significant growth in the local consumption segment, but considering the gradual easing of border restrictions, we expect a rebound in retail sales with returning activity. The retail market will not regain momentum significantly until Hong Kong and the Chinese mainland fully reopen the border.

## Retail sales by outlet type (September 2022)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
<b>Jewellery, watches and clocks, and valuable gifts</b>	3.4	12.2	4.4	1.6	8.4
<b>Clothing, footwear and allied products</b>	2.3	8.3	-10.1	-20.8	-7.2
<b>Department stores</b>	2.2	7.7	-12.7	-16.3	-17.6
<b>Fuel</b>	1.1	3.8	0.1	-3.3	5.2
<b>Food, alcoholic drinks and tobacco (excluding supermarkets)</b>	3.1	11.0	1.2	9.2	-9.5
<b>Consumer durable goods</b>	6.2	22.2	17.4	45.3	14.6
<b>Supermarkets</b>	4.4	15.6	-6.5	1.6	-1.6
<b>Others</b>	5.3	19.0	-11.3	-14.3	-0.3
<b>All retail outlets</b>	28.1	100.0	-1.6	1.3	0.2

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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