

# Hong Kong Monthly

November 2023

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

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## Office

### ► Legal sector remains resilient on the leasing front

#### HONG KONG ISLAND

Leasing momentum slowed further amid poor market sentiment during the month. Rents continued to fall in the light of shrinking leasing demand and a high vacancy rate. Overall rents on Hong Kong Island dropped by 0.3% MoM or 3.6% year to date (YTD) to HK\$67 per sq ft in October. Among major submarkets, Central experienced the largest fall of 0.5% MoM or 6.1% YTD, while rents were relatively stable in other decentralized markets.

Rents in Central were under great pressure given the high vacancy rate, which reached an unprecedented high of 10.4% in October. Leasing activity in Wan Chai and Causeway Bay, in contrast, continued to pick up, driving down the vacancy rate from 9.8% and 9.7% in September to 9.3% and 9.5%, respectively, in October.

Despite Central's lacklustre performance, leasing activity by the legal sector continued to gain steam. Legal firms and chambers that are mostly local or Mainland-based continued to increase their footprint in Central, driving leasing activity. These law firms were actively looking for office space for expansion or consolidation as more employees are required to return to the office after the pandemic.

The high interest-rate environment and global uncertainties continued to weigh on demand for office space.

For the foreseeable future, office leasing demand is expected to remain sluggish, leading to a low level of leasing activity and softer rents in most business districts.

#### KOWLOON

The leasing market in October was stagnant, as both tenants and landlords were still sitting on the sidelines amid mounting uncertainty about the business environment. As in September, the majority of the leasing transactions were 4,000 sq ft or less, with an average rent of HK\$24 per sq ft. Electronics and insurance companies remained the core demand drivers.

Renewals continue to dominate leasing activity, while new lettings and

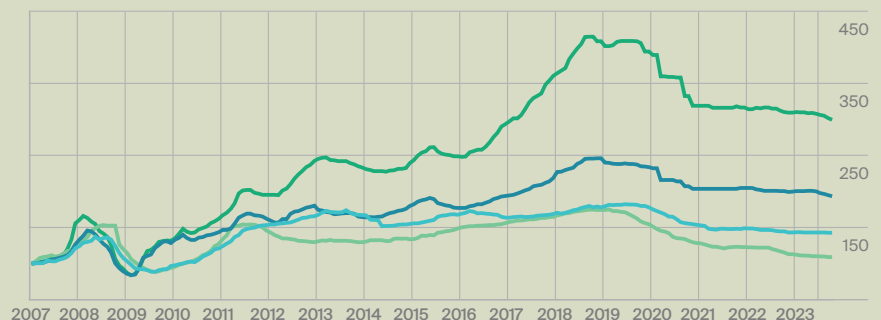
relocation transactions were limited. Tenants were generally inclined to renew their leases, as landlords are more willing to provide flexible leasing packages to retain and attract tenants. In some cases, the lease tenure can be flexibly adjusted to one to two years instead of the normal term of three years.

In the near term, businesses are still expected to opt for cost savings and size optimization in their real estate strategies, and the flight-to-quality trend should persist in the Kowloon market. In the absence of strong demand drivers in the market, we expect leasing sentiment to remain weak, with more tenants tending to adopt a wait-and-see approach in their decision-making.

**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 (October 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	119.5	0.0	-5.3	-	-	-
Traditional Central	89.8	-0.8	-9.5	-	-	-
Overall Central	99.9	-0.5	-7.8	31,381	-0.5	-3.7
Admiralty	65.6	-0.3	-4.7	27,456	-1.1	-3.8
Sheung Wan	54.4	0.0	-1.7	26,129	-0.4	-2.7
Wan Chai	50.9	0.2	-0.3	23,395	-0.4	-3.1
Causeway Bay	54.9	-0.2	-7.8	20,539	-0.5	-2.7
North Point	36.8	0.0	-5.1	-	-	-
Quarry Bay	45.2	0.0	-4.3	-	-	-
Tsim Sha Tsui	55.8	-0.3	0.4	14,209	-0.7	-4.1
Cheung Sha Wan	29.6	-0.1	4.6	-	-	-
Hung Hom	37.5	-0.1	-2.8	-	-	-
Kowloon East	29.0	0.3	0.0	11,538	-0.9	-2.4
Mong Kok / Yau Ma Tei	50.5	0.0	-0.1	-	-	-

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

# Residential

## ► Effects of Government stimulus take time to materialise

Residential prices, beset with headwinds, slackened for the fifth consecutive month. Overall residential prices fell by another 1.7% MoM in September. The year-to-date (YTD) increment reversed to a 0.8% decline, the lowest since April 2017, leading to a 7.8% YoY plunge, according to the Rating and Valuation Department (RVD).

The market anticipated a relaxation of property “cooling measures” in the Policy Address, delivered by the Chief Executive in late October. The total number of residential transactions shrank further to 25.8% MoM, according to the Land Registry. Primary sale transactions plummeted by a significant

63.1% MoM, and secondary sales fell by 25.8% MoM. Still, a few big-ticket transactions were recorded in the sales market. A 4,527-sq-ft duplex in Tower 2, Phase 4 of Residence Bel-Air, in Pokfulam, was sold for HK\$216.8 million (or HK\$47,890 per sq ft). Another 3,054-sq-ft high floor unit in Tower 6 of Ultima, in Ho Man Tin, was sold for HK\$185.6 million (or HK\$60,773 per sq ft).

The leasing market, in contrast, remained robust, with upward momentum driven by mainland expatriates, coupled with new stimulus in attracting talent. Flats with monthly rents from HK\$20,000

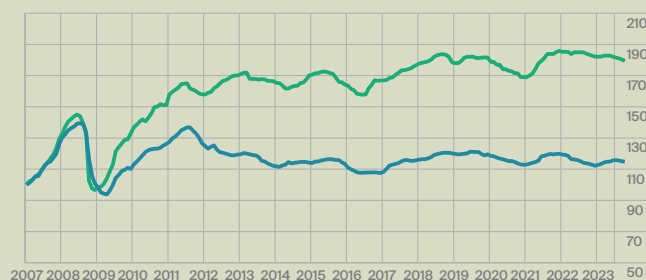
to HK\$45,000 were most popular among mainland expats. Overall residential rents climbed by another 0.6% MoM in September according to the RVD, given the influx of entrants, up for the eighth straight month, registering 6.2% YTD growth.

The luxury leasing sector is also befitting from new arrivals. Notable leasing transactions included a 7,605-sq-ft house in Cooper Road in Jardine’s Lookout, which was leased for HK\$780,000 per month (or HK\$103 per sq ft) and a 2,997 house at King’s Park Hill, Ho Man Tin, which was leased for HK\$235,000 per month (or HK\$78 per sq ft).

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

2007 = 100

■ Price index ■ Rental index

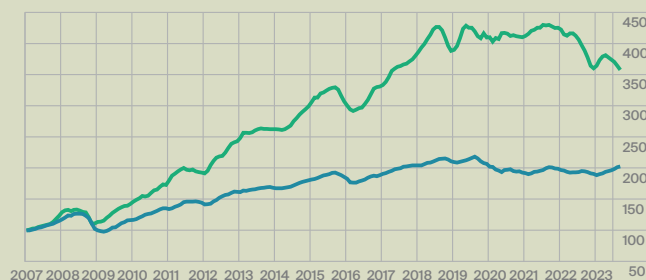


Source: Knight Frank Research

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

2007 = 100

■ Price index ■ Rental index



Source: Knight Frank Research / Rating and Valuation Department

Under the bleak economic conditions and uncertain timeline of future interest rate hikes or cuts, we believe that the relaxation of the cooling measures will be unlikely to reverse the downward trend in home prices. The property market will take time to adjust to the easing of the stamp duty and the implementation of the

'pay later, exempt first' scheme for non-local talent.

Nonetheless, as Hong Kong welcomed 70,000 new people under its recruitment schemes in the first 10 months of 2023, doubling the Government's target, the new arrangements could attract non-local talent who wish to become Hongkongers

to purchase flats in Hong Kong in the medium to long term. Moreover, as the overseas student intake ceiling at Hong Kong's eight Government-funded universities was raised from 20% to 40%, we expect sustained rental demand to result in resilient growth in the leasing market.

#### Selected residential sales transactions (October 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Kai Tak	Pano Harbour	Tower 8 / high floor / unit A	2,729	167.4	61,354
Ho Man Tin	Ultima Phase 1	Tower 6 / high floor / unit A	3,054	185.6	60,773
Pok Fu Lam	Residence Bel-Air Phase 4	Tower 2 / duplex unit A	4,527	216.8	47,890
Mid-Levels Central	Magazine Court	High floor	2,855	102	35,727
Kowloon	The Aura	House	5,183	178	34,343

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

#### Selected residential lease transactions (October 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Jardine's Lookout	Cooper Road	House	7,605	780,000	103
Mid-Levels West	Cluny Park	High floor / unit A	2,288	180,000	79
Ho Man Tin	King's Park Hill	House	2,997	235,000	78
Mid-Levels Central	Queen's Garden	Tower A / high floor / unit 2	2,181	166,000	76
Island South	The Repulse Bay, Harston	Mid floor / unit B	2,357	144,000	61

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

## Retail

### ► Soft momentum to persist, with the asset value of retail shops dropping significantly

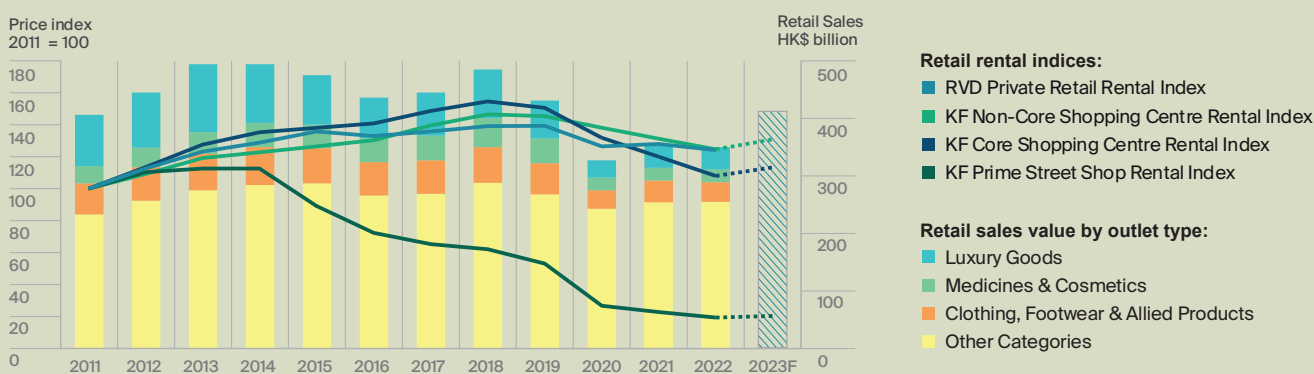
Hong Kong's retail market sentiment remained downbeat during the month. Despite an increase in total retail sales value of 13.0% YoY to HK\$31.8 billion in September, the growth of

total retail sales was still below market expectations of 13.8%. We believe this is because of factors like extreme weather, fewer-than-expected visitor arrivals, and the intensified trend of Hong Kong

residents traveling to the Chinese mainland.

Likewise, despite the steady performance of food and beverage sector in Q3, new challenges and

Fig 4. Retail rents and sales



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

underlying threats remain ahead. The total value of restaurant receipts in Q3 2023 increased by 12.5% YoY to \$27.1 billion. Chinese restaurants and miscellaneous eating and drinking places outperformed other food and beverage segments with a receipt value increase of 18.3% and 18%, respectively. However, outbound travel of Hong Kong residents, especially to the Chinese mainland, has risen drastically since the reopening of the borders. In fact, this is sending concerning signals to both the catering and retail industries.

According to the Immigration Department, there were 5,353,027 man-trips by Hong Kong residents to

the mainland in October, increasing by 11% MoM. Furthermore, according to Hong Kong Federation of Restaurants & Related Trades Limited, based on Hong Kong's residents' ongoing outbound travel pattern, the annual total value of restaurant receipts for 2023 is expected to be only HK\$100 billion, about 20% less than the pre-pandemic value of HK\$127 billion.

Following the outbreak of the pandemic, retail business witnessed a notable decrease in sales turnover, leading to a decline in rental values. Consequently, the asset value of retail shops experienced a significant drop, with many of them undergoing corrections of 70 to 80% compared to

their peak levels. To illustrate, a recent transaction took place involving an 832-sq-ft retail ground floor unit in Chee On Building, at 24-26 East Point Road, Causeway Bay, which was sold for HK\$97 million (equivalent to HK\$116,587 per sq ft). The shop's value had reached HK\$300 million at its peak, indicating a substantial 70% discount in asset value.

Despite the government's various support initiatives, such as "Night Vibes Hong Kong", we expect the retail market to be soft for the rest of 2023. Meanwhile, we maintain our forecast of a 5% increase in prime street shop rents for full-year 2023 due to a falling shop vacancy rate in prime locations, leading to a rise in market yields.

### Retail sales by outlet type (September 2023)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.3	13.6	-16.7	-22.5	27.3
Clothing, footwear and allied products	3.2	10.1	-10.7	-18.7	36.4
Department stores	2.4	7.7	-14.7	-9.9	12.2
Fuel	0.9	2.7	-4.4	-3.4	-19.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.6	11.3	19.7	18.9	16.5
Consumer durable goods	5.8	18.4	26.1	20.1	-7.8
Supermarkets	4.3	13.6	-4.8	3.9	-1.3
Others	7.2	22.6	-7.3	-9.6	34.9
All retail outlets	31.8	100.0	-2.1	-4.0	13.0

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.**

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