

Hong Kong Monthly

October 2023

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

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Office

► Law firm expansions in Central on the rise

HONG KONG ISLAND

In September, leasing momentum remained soft, with a low level of leasing activity. Overall net effective rents on Hong Kong Island continued to fall to HK\$67.1 per sq ft, dropping 0.4% MoM or 3.4% year to date (YTD). Among the major submarkets, Central and Causeway Bay recorded the largest YTD decline of 5.6% and 5.8%, respectively.

In the recent down market, flight-to-quality demand continued to grow, as occupiers seized the opportunity from falling rents for office upgrades or expansion in prime locations. Over the past month, there was some active movement from law firms, including relocations and office upgrades. A few Chinese law firms, in particular, have been actively seeking small- to medium-size office space in Central for expansion.

Vacancy rates were patchy in submarkets. Driven by affordable rents and more small transactions taking place, office space in Wan Chai has been gradually filling up, driving down the vacancy rate from 10.6% in June to 9.8% in September. As a result, some owners started to firm up their asking rents, indicating early signs of bottoming out in Wan Chai.

Office leasing demand is expected to remain subdued in the short term in the absence of any positive catalysts. Coupled with the existing

high vacancy rate in some districts and abundant upcoming supply, we expect the downward rental trend to continue for the remainder of 2023.

KOWLOON

Overall business sentiment remained weak in September, and leasing activity continued to slow down. The majority of leasing transactions were dominated by small offices of under 3,000 sq ft, with rents of HK\$22 per sq ft or below. Electronics and engineering companies remained the core demand drivers during the month.

However, there were still some transactions, with lessees taking an opportunistic approach to optimise

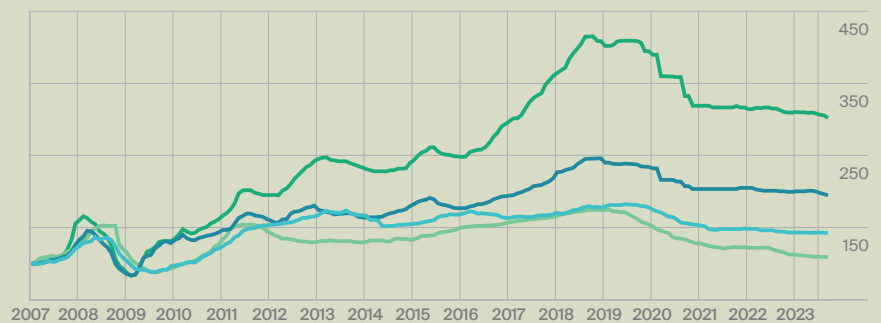
size or upgrade office building quality. For instance, Hong Kong-based internet, communications and telecommunications company HKBN relocated from KITEC to The Quayside with a bigger floor plate and fit out of approximately 100,000 sq ft; and asset management and construction consultancy firm Currie & Brown relocated from Island Place Tower in North Point to Manulife Place for an office-quality upgrade.

Looking ahead, given the present low rents, we expect office rents to remain stable for the rest of 2023 and the attention of the market to continue to be drawn to newer, quality office buildings.

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 (September 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	119.5	-0.1	-7.0	-	-	-
Traditional Central	90.6	-0.7	-10.4	-	-	-
Overall Central	100.4	-0.4	-9.1	31,538	-1.1	-3.8
Admiralty	65.8	0.0	-5.9	27,756	-1.4	-3.6
Sheung Wan	54.4	-0.6	-4.0	26,229	-0.9	-2.9
Wan Chai	50.9	-0.3	-1.1	23,495	-1.1	-3.5
Causeway Bay	55.0	-1.4	-7.6	20,639	-1.0	-3.1
North Point	36.8	0.0	-7.2	-	-	-
Quarry Bay	45.2	-0.5	-4.3	-	-	-
Tsim Sha Tsui	56.0	-0.1	0.9	14,309	-0.7	-3.4
Cheung Sha Wan	29.6	0.1	4.7	-	-	-
Hung Hom	37.5	-1.2	-3.4	-	-	-
Kowloon East	29.0	0.0	-0.3	11,638	-0.9	-1.5
Mong Kok / Yau Ma Tei	50.5	0.0	-0.1	-	-	-

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

Residential

► Subdued sales activity remained as stakeholders await market stimulus

The residential market remained downbeat under the prevailing economic conditions. Overall residential prices fell by another 1.4% MoM in August, down for the fourth consecutive month and further narrowing YTD growth to 1.3%, according to the Rating and Valuation Department (RVD). The total number of residential transactions shrank to 2,862 in September, down 11.9% MoM, according to the Land Registry. Primary sales transactions recorded a 27.5% MoM gain, stimulated by the launch of discounted first-hand sales units by developers. With purchasing power shifting to the primary market, secondary sales plunged by 24.2% MoM.

Conversely, overall residential rents nudged higher with a 1.4% MoM increase in August, up for seventh straight month, for 5.6% growth YTD. Class B units (saleable area of 40 sqm to 69.9 sqm) continued to outperform the market, with a 1.6% MoM increase according to the RVD. Demand was driven mainly by Mainland expatriates, whose focus is on one- to two-bedroom apartments in areas like Sai Ying Pun and Kennedy Town.

Fig 2. Luxury residential rents and prices

2007 = 100

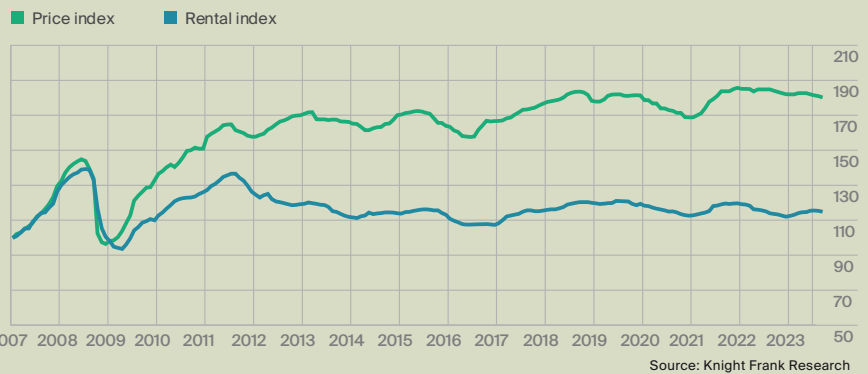
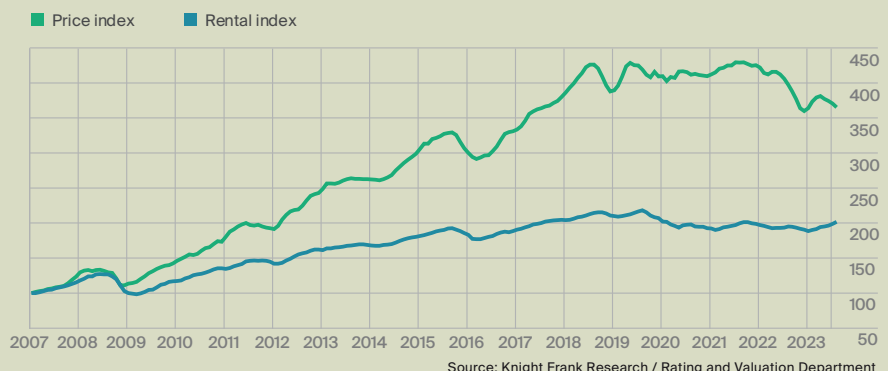


Fig 3. Mass residential rents and prices

2007 = 100



Sporadic big-ticket sales were recorded in the luxury segment amid market uncertainty. During the month, a 5,152-sq-ft low-floor unit in Opus Hong Kong in Mid-Levels East was sold for HK\$418 million (or HK\$81,134 per sq ft). Another 4,143-sq-ft high floor A

unit at 23 Po Shan Road, Mid-Levels West, was sold for HK\$270 million (or HK\$65,170 per sq ft).

Sales activity amongst market players, including homebuyers, landlords and developers, was muted throughout the month, as the public

awaits the easing of stamp duty on home purchases in the 2023 Policy Address. Yet, under the high interest rate environment, it takes time to react after unveiling the partially ease market-cooling measures.

Selected residential sales transactions (September 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels West	21 Borrett Road	No.1&2 / high floor	2,154	180.8	83,937
Happy Valley	Opus	Low floor	5,152	418	81,134
Mid-Levels West	23 Po Shan Road	High floor / unit A	4,143	270	65,170
Kowloon Station	The Austin	Phase 1 / Tower 2 / duplex unit	3,306	200	60,496
Mid-Levels Central	Dynasty Court	Duplex unit	4,662	246	52,767

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

Selected residential lease transactions (September 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Kowloon Station	The Cullinan	Tower 21 / Sun Sky / low floor / unit B	1,295	102,000	79
Mid-Levels West	Argenta	Low floor	2,182	118,000	54
Island South	Repulse Bay Tower	Block C / high floor / unit C	2,578	125,000	48
Mid-Levels Central	Kennedy Heights	Mid floor / unit A	2,929	125,000	43
Kau To Shan	Cavaridge	House	3,033	116,000	38

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

Retail

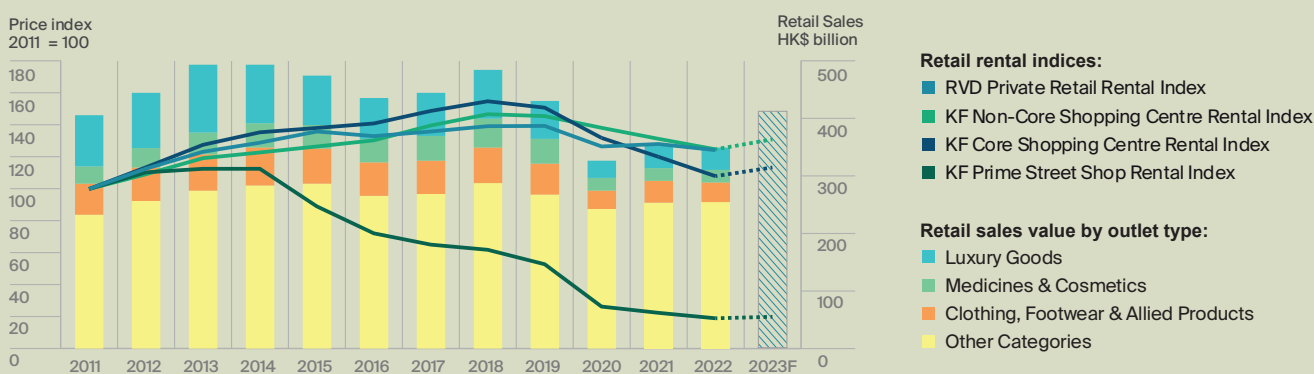
► Improved market sentiment, but still far from upbeat

Hong Kong's retail market witnessed steady performance, thanks to a further increase in visitor arrivals. Total retail sales value in August surged by 13.7% YoY to HK\$32.4 billion. In the first eight

months of 2023, the value of total retail sales increased by 19.3% YoY. However, it increased at the slowest pace in the past five months in the upward trend since last December.

Visitor arrivals saw a promising rebound since the reopening of the borders. The number of arrivals in August increased by 14% MoM to 4,077,746. And visitor arrivals from

Fig 4. Retail rents and sales



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

January to August increased to over 20.6 million from just 183,662 a year earlier. About 80% of the visitors were from the Chinese mainland. However, the trend of local residents travelling outside Hong Kong outnumbering inbound tourists continued to gain steam. According to the Immigration Department, there were 874,132 Chinese mainland arrivals in Hong Kong during Golden Week (29 Sept to 4 Oct), while 1,453,659 residents travelled outside Hong Kong. Although the retail sector recorded an increase in business activity during Golden Week, it was lower than expected.

Typhoon Koinu also took a toll on Hong Kong's retail market, as the night markets along Hong Kong's waterfront were cancelled on the 6 October weekend due to the typhoon, undercutting the government's attempts to revitalise the night economy. The bazaars on the promenades in Wan Chai and Kennedy Town were also paused due to the typhoon. The "Night Market by the Sea" on the Avenue of Stars on the Tsim Sha Tsui waterfront was also called off.

Some notable transactions were recorded during the month, giving hope for retail property investment. Notably, a 3,163 sq-ft ground-floor unit with a 4,200

sq-ft basement, was sold HK\$370 million in Cheong K Building, Central. On the leasing front, a 1,200-sq-ft ground floor unit at 38-40A Hankow Road was leased to Milan Station, a second-hand designer bag and fashion retailer, for HK\$160,000 (HK\$133 per sq ft) per month. The shop had been vacant for 2.5 years.

Looking ahead, given the gradual recovery in inbound tourism and the government's various initiatives to support the sector, we expect retail sales value to reach HK\$400 billion this year. It is hoped that consumer sentiment will improve significantly stepping into Q4, with the festive season approaching.

Retail sales by outlet type (August 2023)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.2	15.9	3.5	1.8	57.2
Clothing, footwear and allied products	3.6	11.0	-20.5	-22.8	37.1
Department stores	2.9	8.8	-0.5	-19.9	14.9
Fuel	0.9	2.8	3.2	0.8	-15.4
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	9.3	13.5	-2.1	-1.4
Consumer durable goods	4.6	14.3	-0.6	2.5	-12.7
Supermarkets	4.5	14.0	0.6	5.0	-3.0
Others	7.7	23.8	-2.7	-7.7	28.6
All retail outlets	32.4	100.0	-1.8	-5.9	13.7

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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