

Hong Kong Monthly

September 2023

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

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Office

► Cost-effectiveness and upgrades drive office leasing market demand

HONG KONG ISLAND

Given the soft market sentiment, the Hong Kong Island market continued its downward rental trajectory. Overall net effective rents on Hong Kong Island fell 0.2% MoM, or 3% year-to-date (YTD), to HK\$67.4 in August. Among major submarkets, Central/Admiralty experienced the largest rental decline of 4.4% YTD, while rates in the decentralised areas were relatively robust, with Wanchai/Causeway Bay and North Point/Quarry Bay dropping by 0.9% and 0.8% YTD, respectively.

The flight-to-quality trend persisted. On the one hand, some companies from the finance sector took advantage of the favourable environment for tenants and lower rent levels to consolidate and upgrade their office space in prime locations. On the other hand, the decentralisation and downsizing trend continued, as tenants prioritised cost and operational optimisation. Some firms that were paying high rents surrendered or sublet their office space to reduce costs.

The challenging outlook for the office leasing market on Hong Kong Island, coupled with the high vacancy rate, will continue to put pressure on Central Grade A office rents in the near term. Over 2023, we expect overall rents on Hong Kong Island to fall by 3% to 5%, though Central will likely have a

larger decline of 5% to 8% for the whole year due to upcoming new supply.

KOWLOON

Leasing activity in August was moderate, with most movement related to reducing costs. As in July, the majority of the leasing transactions were dominated by small to medium-sized units of under 3,000 sq ft and rents of HK\$22 per sq ft or below. Leasing activity from electronics and manufacturing companies was more active during the month.

Relocation cases dominated the leasing market in August. Most of the relocation deals were recorded

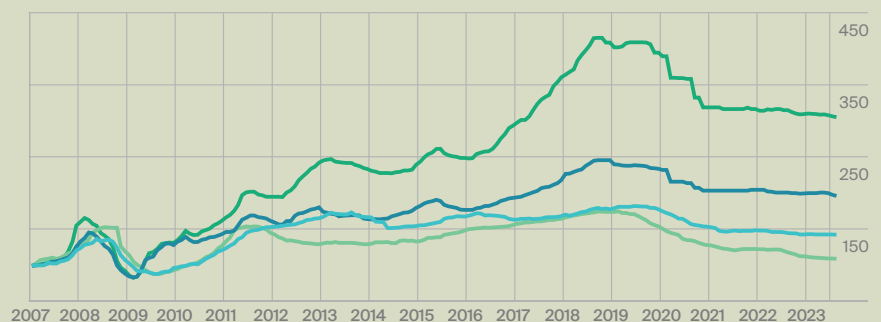
in Kowloon East. Size optimisation, consolidation and improved building quality remained the major reasons for relocation. A Japanese information technology and electronics company moved from Landmark East to Millennium City 1 for size optimisation. Another Japanese electronics company relocated to The Millennity in Kwun Tong from City Plaza to take advantage of improved building quality and location.

Going forward, while some companies will continue to relocate to reduce costs, this will drive leasing demand, supporting stable rent levels for the rest of 2023.

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 (August 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	-8.5	-	-	-
Traditional Central	91.2	-0.7	-10.7	-	-	-
Overall Central	100.8	-0.4	-9.8	31,881	-0.3	-3.4
Admiralty	65.8	0.3	-6.6	28,147	-0.3	-2.9
Sheung Wan	54.7	-0.3	-5.9	26,459	-0.4	-2.1
Wan Chai	51.0	0.0	-2.0	23,748	-0.4	-4.4
Causeway Bay	55.8	0.2	-7.6	20,839	-0.5	-3.7
North Point	36.8	0.0	-6.7	-	-	-
Quarry Bay	45.5	0.0	-5.3	-	-	-
Tsim Sha Tsui	56.1	0.0	0.5	14,409	-0.7	-2.7
Cheung Sha Wan	29.6	-0.3	4.4	-	-	-
Hung Hom	38.0	-0.8	-2.6	-	-	-
Kowloon East	29.0	-0.4	-0.6	11,738	-0.7	-1.5
Mong Kok / Yau Ma Tei	50.5	0.2	-0.5	-	-	-

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

Residential

Discounted new homes reflect prevailing market sentiment

The residential market eased for the third consecutive month in terms of both prices and sales volume. Overall residential prices fell by 1.1% MoM in July, following a revised 1.1% decline in June, according to the Rating and Valuation Department (RVD). There was a modest gain in the number of residential transactions in August, with 3,247 transactions in total, up 5.9% MoM, according to the Land Registry, with primary sales falling by 8.4% MoM and secondary sales rebounding by 11.1% MoM.

Home-buying sentiment remained weak, given rising Hibor-based mortgage rates and abundant supply.

Homebuyers were more conservative amid the prevailing economic conditions unless offered steep discounts. CK Asset recently launched its Coast Line II development in Yau Tong at an average price of HK\$14,997 per sq ft of saleable area, which was claimed to be the selling price seven years ago. The project received a total of 38,000 tickets, surpassing the previous record set by New World Development's The Pavilla Farm in Tai Wai in 2021, with 30,592 tickets. All 626 units rolled out on the first day were sold.

The rental leasing market remained buoyant, with overall residential rentals rising by 1.0% MoM in July,

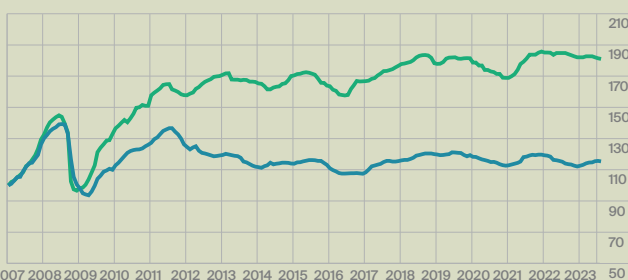
contributing to a 4.4% YTD gain. Class B units (with a saleable area of 40 sqm to 69.9 sqm) outperformed the market with a 1.4% MoM increase, according to the RVD. We note high demand from Chinese mainlanders entering the city through various schemes, typically for one- to two-bedroom apartments in proximity to MTR stations, with rents from HK\$15,000 to HK\$35,000 per month.

Some big-ticket sales were recorded in the luxury segment despite the sluggish market. During the month, a 4,440-sq-ft superior duplex apartment unit in Dukes Place in Jardine's Lookout was sold for HK\$320 million

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

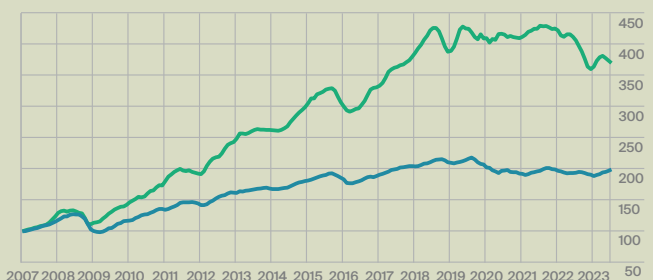


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

(or HK\$72,072 per sq ft). Another 3,857-sq-ft house in Strawberry Hill at The Peak was sold for HK\$251 million (or HK\$65,076 per sq ft). Notable leasing transactions were also recorded during the month, including a 2,939-sq-ft house in Mont Rouge in Beacon Hill, which was leased for HK\$260,000 per month (or HK\$88 per sq ft).

Meanwhile, developers remained cautious in acquiring land. A consortium led by Sino Land has

recently won a land tender for a Kai Tak residential site for HK\$5.3 billion, or HK\$5,392 per sq ft, representing a nine-year low for a government land premium at the site of the former international airport. Last month, the tender for a residential site in Tsuen Wan was scrapped after a single bid from local developer Grand Ming Group fell short of the government's undisclosed reserve price. The failed government land sales and the soft land

prices indicated cautious sentiment among developers amid heightened risks.

As developers are poised to launch discounted primary units in the coming months to unload sizable inventory, the primary market is expected to dominate market sentiment, exerting further pressure on property prices in the secondary market for the rest of the year.

Selected residential sales transactions (August 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Jardine's Lookout	Dukes Place	Superior duplex	4,440	320	72,072
The Peak	Strawberry Hill	House	3,857	251	65,076
Beacon Hill	Mont Verra	Tower 2 / high floor / unit B	4,364	240	55,000
Pok Fu Lam	Pokfulam Peak	House	4,611	195	42,290
Tai Po	Villa Lucca	House	5,281	145.6	27,571

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

Selected residential lease transactions (August 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Beacon Hill	Mont Rouge	House	2,939	260,000	88
Aberdeen	Marinella	Tower 6 / high floor / unit B	2,328	200,000	86
Pok Fu Lam	Residence Bel-Air	Phase 1 / Tower 2 / high floor / unit B	2,303	170,000	74
Mid-Levels West	The Summa	Tower 1 / high floor / unit B	2,296	150,000	65
Mid-Levels Central	Queen's Garden	Tower C / high floor	2,093	126,000	60

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

Retail

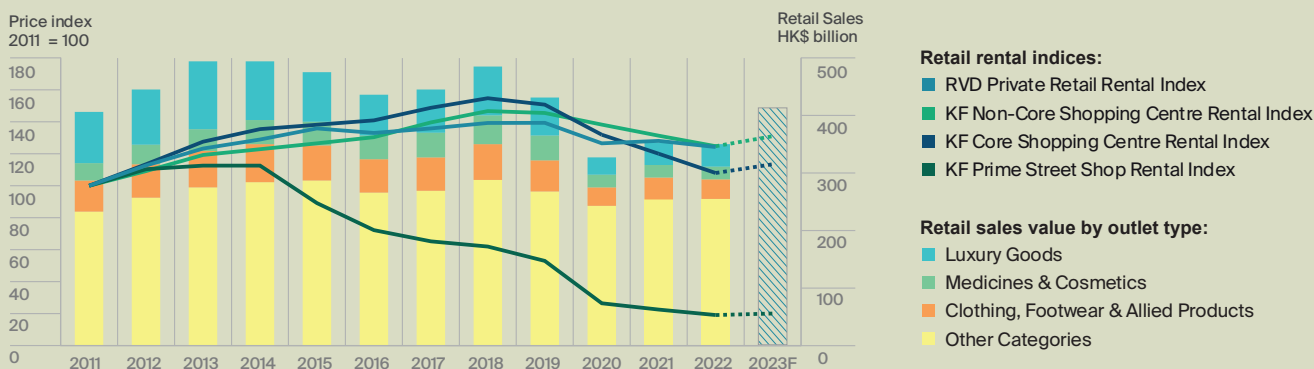
► Night-time economy expected to boost local retail sales

Buoyed by the revival in tourist arrivals and the improved labour market, Hong Kong's retail market

remained stable. Total retail sales value in July increased by 16.5% YoY to HK\$33 billion, marking the eighth consecutive

month of growth. However, as the market lacks momentum to significantly raise the retail sales value,

Fig 4. Retail rents and sales



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

the total retail sales value in July was still below market expectations of 18%.

The fact that more residents travelled to the Chinese mainland than inbound tourists is rubbing salt into the wounds of the retail market. According to the Immigration Department, there were 5,321,566 man-trips by Hong Kong residents to the Mainland in August, increasing by 6.4% MoM. According to a government announcement, the night-time economy initiative will include extending the operating hours of shopping malls and retail shops on weekends, and organising special events, like the Wine and Dine Festival and the New Year Countdown

Celebrations. Retailers and shopping mall operators in Hong Kong are pinning their hopes on the night-time economy to stimulate local spending sentiment and help revive the local retail market.

On the bright side, we saw improved activity in retail property sales transactions. For instance, a 7,363-sq-ft retail unit, including the ground floor and basement, in Cheong K Building, at 84-86 Des Voeux Road Central, was sold for HK\$370 million (or HK\$50,251 per sq ft). On the leasing front, a retail brand specialising in exquisite goldsmith art pieces from Beijing, Lao Pu, is going to open its first flagship store in Hong Kong. It recently leased

a 10,140-sq-ft retail unit in Silvercord, in Tsim Sha Tsui, for approximately HK\$1.5 million per month (or HK\$148 per sq ft).

Airside, a new shopping mall in Kai Tak, by Nan Fung, had its grand opening in September. The mall houses more than 40 restaurants and a 6,000-sq-ft urban farm, adding 700,000 sq ft of retail space to the market. Overall, we expect retail sales to remain stable in the short term amid the recovery in tourism and local consumption. The retail sector is still battling with unprecedented challenges, however, as it is still seeking a new identity amid keen competition from shopping malls in the Chinese mainland.

Retail sales by outlet type (July 2023)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.0	15.0	-10.9	-5.9	19.8
Clothing, footwear and allied products	4.5	13.6	14.2	3.2	35.6
Department stores	2.9	8.7	6.2	-6.1	25.6
Fuel	0.9	2.7	-2.1	7.2	-20.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.7	8.0	-12.4	-14.3	3.1
Consumer durable goods	4.7	14.2	-4.0	-13.3	6.7
Supermarkets	4.5	13.7	8.5	11.2	0.0
Others	7.9	24.1	0.2	-7.6	32.5
All retail outlets	33.0	100.0	-0.3	-4.8	16.5

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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