

Hong Kong Monthly

April 2023

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

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Office

► Notable new lettings observed in the market

HONG KONG ISLAND

The Hong Kong Island market continued its downward rental trajectory, with overall net effective rents falling to HK\$68.7 per sq ft, for a decrease of 0.4% MoM and 1.7% YTD. Differentiation in submarket rental performance was observed in the first quarter. The Central/Admiralty area experienced rental declines of 2.3% YTD, while those of decentralized submarkets were relatively resilient, with rents in Wanchai/Causeway Bay falling 0.5% YTD and those in North Point/Quarry Bay falling 1.1% YTD.

Occupiers took advantage of the falling rents to expand, with several notable transactions. Chinese securities firm Huatai Financial Holdings will occupy another entire floor of approximately 27,000 sq ft at The Center. The company currently occupies four floors in the building.

Demand from co-working operators also remained strong, with several expansion cases in the major submarkets in March. For instance, one operator leased two floors totalling 18,900 sq ft in the China Building and another operator leased approximately 20,000 sq ft at K11 Atelier King's Road. Robust leasing demand from co-working operators is expected to continue in the short term.

KOWLOON

Leasing activity continued its stabilizing trend in March. Average transacted rents were broadly stable at HK\$25.2 per sq ft, with an average take-up size of 4,500 sq ft. Leasing movements remained active in Kowloon East, with engineering and electronic companies the major demand drivers.

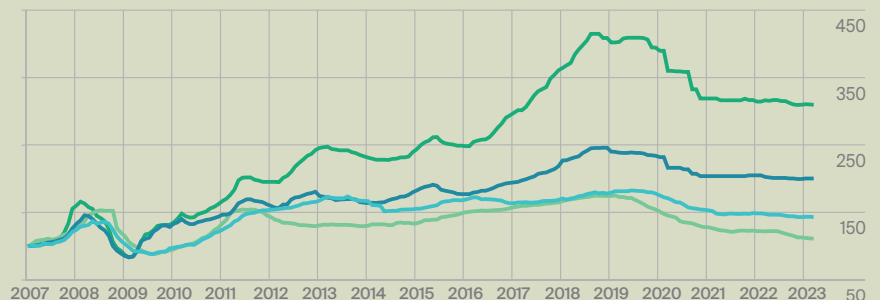
Renewal cases dominated the leasing market in March, with most leases renewed for one to two years. Occupiers are refining their long-term post-COVID real estate strategies and holding a cautious approach towards the expenses for relocation, hence they tend to renew their leases for a short period of time.

A few large-scale new letting transactions were observed during the month. Japanese bank MUFJ will take up two floors at AIRSIDE with a total of area of 86,800 sq ft in an office consolidation. A government office will occupy a floor totalling 20,600 sq ft in Millennium City 1. Space optimization will continue to be one of the key factors that drive leasing demand in the Kowloon market. Overall, we expect positive rental growth in 2023 amid further improving market sentiment.

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 (March 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	123.0	-0.3	-8.6	-	-	-
Traditional Central	93.8	-0.6	-9.3	-	-	-
Overall Central	103.7	-0.5	-9.0	32,481	-0.3	-2.6
Admiralty	65.4	-0.5	-11.3	28,479	0.0	-2.6
Sheung Wan	54.7	-0.7	-9.0	26,859	0.0	-1.1
Wan Chai	50.2	0.0	-6.4	24,148	0.0	-2.0
Causeway Bay	57.9	0.0	-4.8	21,099	0.0	-0.9
North Point	37.4	-0.4	-9.7	-	-	-
Quarry Bay	45.1	-0.2	-11.5	-	-	-
Tsim Sha Tsui	56.2	0.3	-1.5	14,809	0.0	-1.3
Cheung Sha Wan	29.3	3.4	3.1	-	-	-
Hung Hom	38.3	1.2	-3.4	-	-	-
Kowloon East	29.1	-1.5	-2.2	11,817	0.0	-0.8
Mong Kok / Yau Ma Tei	49.8	0.0	-2.2	-	-	-

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

Residential

► Rebound in primary sales signals a fast recovery pace

Residential market sentiment was strong in March, and sales activity bounced back given the improved local economy. According to the Land Registry, a total of 6,690 transactions were recorded in March, surging 56.2% MoM. The latest official data shows that overall residential home prices in February increased 2.2% MoM. The figure rose for two consecutive months, reaching a four-month high.

The primary market heated up again, with a 172.8% MoM increase to 1,787 transactions, supported mainly by brisk sales of newly launched projects. For instance, KOKO MARE in Lam Tin, by Wheelock Properties, received over 2,400 tickets for its second batch of sales, representing an oversubscription of about 23 times, showing buyers' confidence in the residential market.

The luxury segment has proven resilient, as the interest rate hikes do not put much pressure on luxury market buyers. However, some of the potential buyers were still price-conservative, leading to a slow recovery in transaction volume. Major transactions included a unit in Central Peak in Mid-Levels East, which was sold for HK\$177 million, or HK\$85,096

Fig 2. Luxury residential rents and prices

2007 = 100

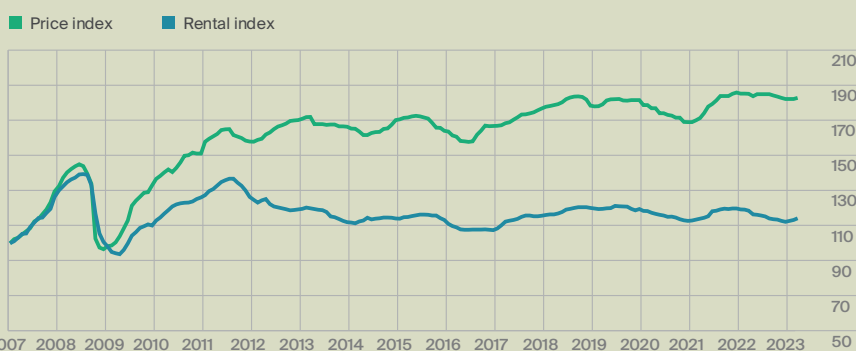
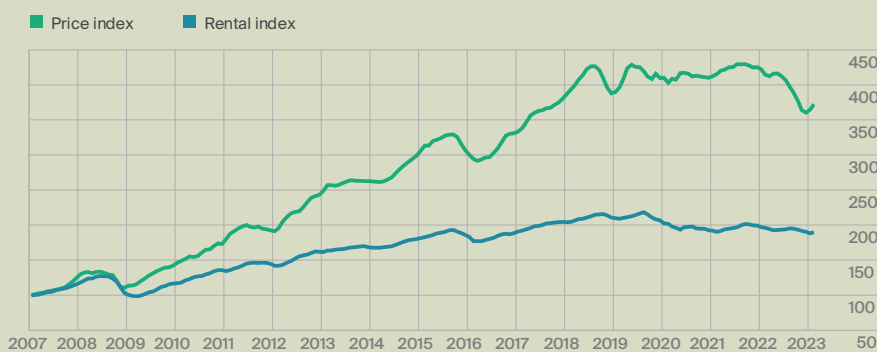


Fig 3. Mass residential rents and prices

2007 = 100



per sq ft; and a 2,316-sq-ft unit at 21 Borrett Road in Mid-Levels Central, which was sold for HK\$152.8 million, or HK\$65,976 per sq ft.

According to the Inland Revenue Department, Hong Kong's overall stamp duty revenue from home sales rose 44% MoM to HK\$800 million in March, the highest in 10 months. Driven by the border reopening and increasing purchase demand from non-local buyers, cases involving Buyer's

Stamp Duty (BSD) surged 50.8% MoM to 92, the highest number of cases since January 2022.

The overall home rental index in February ended a five-month decreasing trend. Enquiries and home-viewing activity continued during the month, but leasing activity has been relatively quiet since the recent peak. Notable transactions included a unit at 21 Borrett Road in Mid-Levels Central, which was rented for HK\$190,000 per

month, or HK\$91 per sq ft.

With interest rate hikes expected to peak in Hong Kong, this will benefit primary market sales. Coupled with the border reopening with the Chinese mainland and an economic recovery, this will boost investor confidence and local home demand in the near term. However, the high volume of unsold new units will continue to put pressure on sales prices, in both the primary and secondary markets.

Selected residential sales transactions (February 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels East	Central Peak	Alpex III / Manor B	2,080	177	85,096
Mid-Levels Central	21 Borrett Road	Phase 1 / Block 6&7 / unit 7	2,316	152.8	65,976
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit A	2,266	119.9	52,911
North Point	Fleur Pavilia	Tower 3 / unit A	2,502	125.1	50,000
Kai Tak	K Summit	House	3,183	130.1	40,867

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

Selected residential lease transactions (March 2023)

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 / Block 1&2 / unit 2	2,096	190,000	91
Mid-Levels Central	Aigburth	High floor / unit A	2,119	138,000	65
Tai Tam	Redhill Peninsula	Cedar Drive / house	2,623	138,000	53
Island South	29-31 South Bay Road	Low floor	2,846	145,000	51
Kowloon Tong	Beacon Hill Road	House	3,847	190,000	49

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

Retail

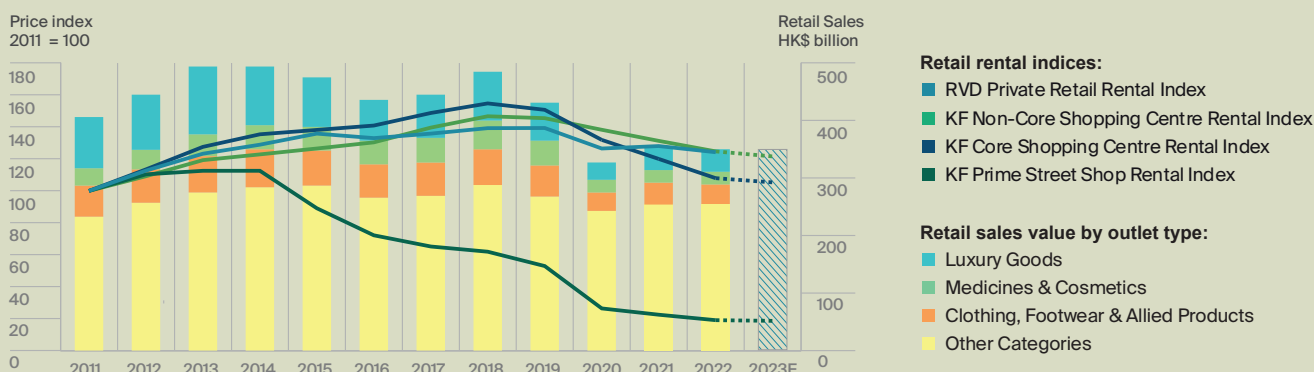
► Drugstores return in prime locations amid the rebound in visitor arrivals

There are early signs from the latest Hong Kong retail sales figures that the local retail market might have ended its four-year downtrend. According to

the Census and Statistics Department, retail sales value increased 31.3% YoY to HK\$33.1 billion in February, the strongest growth in more than

a decade. However, this remarkable growth rate was due mainly to the low base effect.

Fig 4. Retail rents and sales



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

Visitor arrivals have been rising significantly since the full reopening of the borders. The number of visitor arrivals between January and February 2023 increased YoY, from just under 10,000 to 1,960,658. About 71% of visitors were from the Chinese Mainland. However, retail rents have yet to benefit. Although drugstores have returned to the major streets in Tsim Sha Tsui, Causeway Bay, Mong Kok and Sheung Shui after three years, they are being rented at an average 30% lower than pre-pandemic levels according to market sources. For instance, a ground floor shop in 14-16 Canton Road (1,000 sq ft) was leased

to a drugstore for a monthly rent of HK\$500,000. Formerly, this shop was leased to Puyi Optical, a high-end optical brand, which paid HK\$2.3 million per month. Amid the rebound in visitor arrivals, at least two leasing transactions of drugstores in Canton Road were recorded this year.

EuroEyes International, a provider of orthoptic services, leased a 7,188 sq ft unit. The unit comprises the ground floor (2,000 sq ft) and 3rd floor shop at 2 Russell Street (5,188 sq ft). According to market sources, the monthly rent is about HK\$800,000. Previously, the shop was leased to Prada, a luxury brand, as a flagship store, at a monthly

rent as high as HK\$9,000,000, representing a 90% rental reduction for the new lease.

Looking ahead, the government rolled out a new round of consumption vouchers on 16 April, but we believe its effect on stimulating the economy will be limited. We don't expect retail sales in April to increase as much as they did in March, as many residents travelled abroad during the Easter holiday. Overall, we maintain our cautiously optimistic market outlook and expect retail rents to remain flat during 2023 until the majority of vacant space is occupied.

Retail sales by outlet type (February 2023)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.0	15.1	13.1	72.0	128.6
Clothing, footwear and allied products	4.0	12.2	-5.9	46.0	104.2
Department stores	2.4	7.3	-20.7	-16.1	19.8
Fuel	0.9	2.6	-6.6	-7.1	32.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.4	10.2	-12.5	21.8	1.7
Consumer durable goods	5.6	16.8	-8.3	-23.6	31.5
Supermarkets	3.8	11.5	-20.7	-10.1	-19.9
Others	8.0	24.2	-8.2	41.0	32.5
All retail outlets	33.1	100.0	-8.5	12.3	31.3

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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