

Hong Kong Monthly

July 2023

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

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Office

► Occupiers remain cautious amid soft market sentiment

HONG KONG ISLAND

Owing to seasonal factors, market sentiment remained weak during the month. Overall net effective rents fell by another 2.6% year-to-date (YTD) to HK\$67.7 per sq ft as at end-June. Among major submarkets, Central/Admiralty has experienced an average rental decline of 3.7% YTD while rents in decentralized submarkets were relatively resilient. Wanchai/Causeway Bay and North Point/Quarry Bay recorded a YTD drop of 1.2% and 0.8%, respectively.

Office space in Wan Chai, Causeway Bay and Quarry Bay has been gradually filling up. Leasing demand in Central, however, continued to be weak, with the vacancy rate climbing to 10.3% in June.

Market activity remained weak in June, with most of the leasing transactions involving relatively small office space of about 3,000 sq ft, particularly in Central. An investment firm moved from Gloucester Tower, The Landmark, to Cheung Kong Center II, occupying 5,000 sq ft. Increasing demand for small and medium-sized office space continued to favour co-working space, which in turn, supports the short-term expansion of co-working operators.

As the summer holiday continues, the market is expected to be quiet in the near term. Given the soft market sentiment, we expect office demand to remain sluggish, in particular in the core business districts. Overall office

rents on Hong Kong Island are expected to fall by 3-5% for the whole year.

KOWLOON

Amid the weak business environment, leasing activity is slow, with more tenants opting to sit on the sidelines. In June, the number of new transactions dropped by 48% MoM. Transactions in the Kowloon market were supported mainly by smaller deals of under 3,000 sq ft, at an average rent of HK\$24 per sq ft. Electronics and engineering companies remained the major demand drivers.

While cost concerns are still driving most relocations in Kowloon, new Grade A office buildings with large floorplates are more popular choices among the various new supply options.

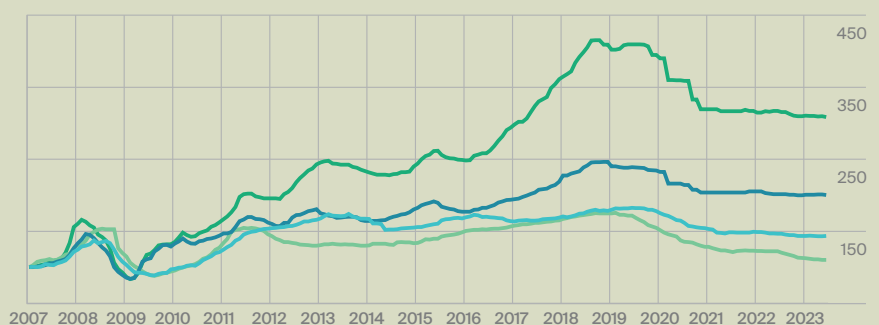
The increasing demand for quality, buildings that meet ESG criteria, and space efficiency has become a major part of occupiers' real estate considerations. For instance, Carter's, a children's goods company, will relocate from Millennium City 1 to Manulife Place with a bigger floorplate, where they can reconfigure the design and optimize the space, occupying 36,000 sq ft.

The prevailing trend is to seek higher cost-effectiveness to align with rising standards for both agile configuration and ESG concerns. These trends will keep moving tenants around, so we expect rents in 2023 to remain stable, with a conservative view of mild growth by the end of the year.

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 (June 2023)

| District | Net effective rent | | | Price (Gross) | | |
|-----------------------|--------------------|--------------|--------------|---------------|--------------|--------------|
| | HK\$ psf / mth | Change MoM % | Change YoY % | HK\$ psf | Change MoM % | Change YoY % |
| Premium Central | 120.0 | -0.2 | -11.1 | - | - | - |
| Traditional Central | 92.5 | -0.2 | -11.3 | - | - | - |
| Overall Central | 101.8 | -0.2 | -11.2 | 32,181 | -0.6 | -4.1 |
| Admiralty | 65.6 | 0.0 | -11.2 | 28,379 | -0.4 | -3.0 |
| Sheung Wan | 54.9 | 0.0 | -9.0 | 26,659 | -0.7 | -1.3 |
| Wan Chai | 50.6 | -0.1 | -4.7 | 24,048 | 0.0 | -3.2 |
| Causeway Bay | 56.1 | 0.0 | -7.4 | 20,999 | 0.0 | -1.4 |
| North Point | 36.8 | 0.0 | -8.4 | - | - | - |
| Quarry Bay | 45.5 | 0.0 | -10.3 | - | - | - |
| Tsim Sha Tsui | 56.1 | 0.0 | -0.7 | 14,709 | -0.7 | -0.7 |
| Cheung Sha Wan | 29.6 | 0.4 | 4.7 | - | - | - |
| Hung Hom | 38.3 | 0.2 | -2.3 | - | - | - |
| Kowloon East | 29.1 | 0.3 | -1.1 | 11,917 | 0.0 | 0.0 |
| Mong Kok / Yau Ma Tei | 49.8 | 0.0 | -2.2 | - | - | - |

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

Residential

► Residential prices drift down on low volume

The recovery in the residential market was halted amid multiple headwinds, including high interest rates, large unsold inventory of completed units, and the challenging external economic environment. Overall residential prices recorded a decline of 0.7% MoM in May, ending a four-month rise and narrowing the YTD gain to 4.9%, according to the Rating and Valuation Department.

According to the Land Registry, a total of 3,613 transactions were recorded in June, edging down 9.7% MoM. Primary sales increased slightly by 1.9% MoM, while secondary sales fell by 13.6% MoM, showing the continued dampening of investor sentiment as the effects of border reopening abate.

Major transactions during the month included a 3,798 sq-ft house in Bay Villas in Shouson Hill, which was sold for HK\$250 million (or HK\$65,824 per sq ft). Another 1,933 sq-ft mid-floor unit in Tower 3, Regence Royale, in Mid-Levels Central was sold for HK\$118 million or HK\$61,045 per sq ft.

On the leasing front, the luxury leasing market softened slightly, as residents fled the city as the first summer holiday since full border

Fig 2. Luxury residential rents and prices

2007 = 100

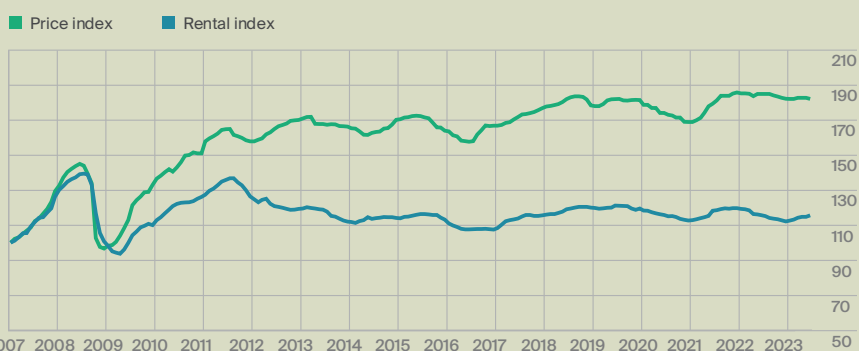
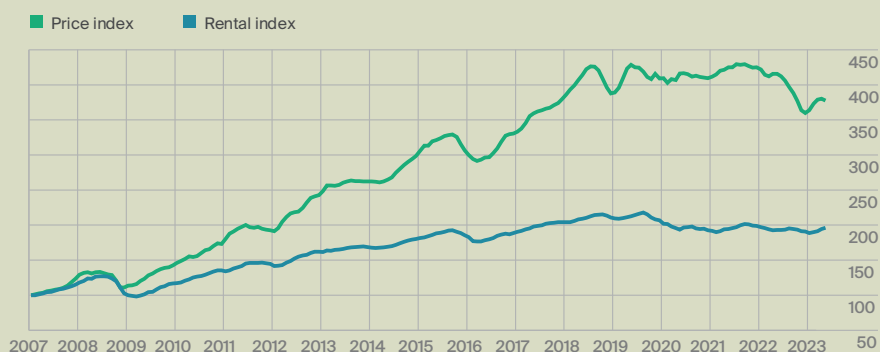


Fig 3. Mass residential rents and prices

2007 = 100



reopening began. But some notable transactions were still recorded in Southern District during the month. Examples include a 3,021 sq-ft house at Three Bays in Stanley, which was leased for HK\$230,000 per month (or HK\$76 per sq ft). Also, a 2,554-sq-ft house at 56 Repulse Bay Road was leased for HK\$195,000 per month

(or HK\$76 per sq ft).

The Hong Kong Monetary Authority recently announced that to lower down payments, the maximum LTV ratio would be raised to 70% for self-use residential properties valued at HK\$15 million or less, and 60% for properties worth from more than HK\$15 million to HK\$30 million. But the relaxation will

have only a limited effect on easing the financial burden on buyers and driving market volume, since the stress test requirement will increase accordingly under the current mechanism. As long as interest rates remain high, we expect residential prices to remain subdued in the short term.

Selected residential sales transactions (June 2023)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|--------------------|-----------------------|-------------------------------|-----------------------|----------------------|------------------------|
| The Peak | Twenty Peak Road By V | House | 4,740 | 860 | 181,435 |
| Shouson Hill | Bay Villas | House | 3,798 | 250 | 65,824 |
| Mid-Levels Central | Regence Royale | Tower 2 / mid floor / unit A | 1,933 | 118 | 61,045 |
| Kai Tak | Knightsbridge | Tower 3 / high floor / unit A | 1,942 | 112.2 | 57,750 |
| Kai Tak | Upper Riverbank | Block B / low floor | 2,351 | 107.5 | 45,738 |

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

Selected residential lease transactions (June 2023)

| District | Building | Tower / floor / unit | Lettable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|--------------|----------------------|----------------------|-----------------------|---------------------|-------------------------------|
| Island South | Three Bays | House | 3,021 | 230,000 | 76 |
| Island South | 56 Repulse Bay Road | House | 2,554 | 195,000 | 76 |
| Island South | Stanley Village Road | House | 2,873 | 150,000 | 52 |
| Tai Tam | Redhill Cedar Drive | House | 3,013 | 150,000 | 50 |
| Kowloon Tong | La Salle Road | House | 4,512 | 183,540 | 41 |

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

Retail

► Tenants accelerate expansion plans amid more tourists and low rents

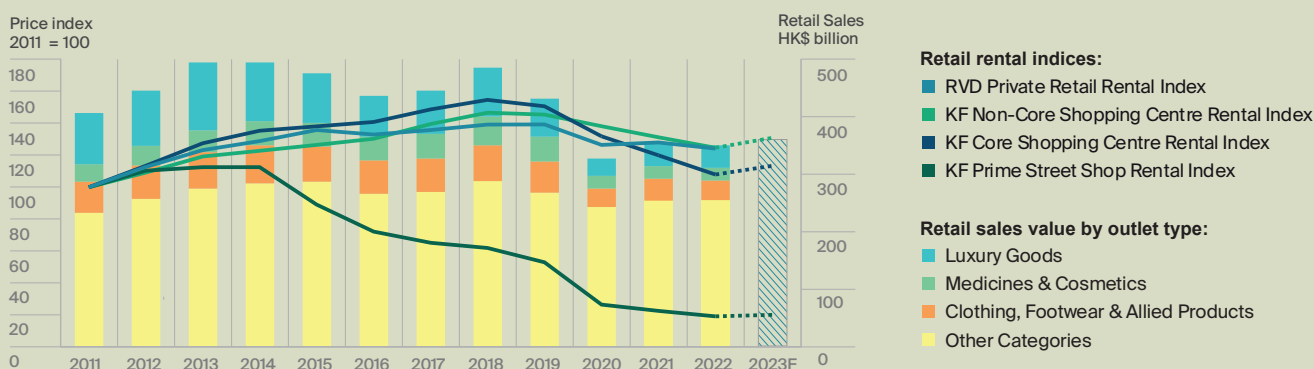
The retail market has started to see light at the end of the tunnel, thanks to the revival of inbound tourism, positive consumption sentiment and the low-base effect. According to the

latest official statistics, retail sales value in May increased by 18.4% YoY to HK\$34.5 billion, marking the sixth consecutive month of improvement.

Owing to the Labour Day “golden

week” effect, total retail sales increased by 12.9% in the three-month period ending in May 2023 compared with the preceding three-month period. Visitor arrivals have risen remarkably since the

Fig 4. Retail rents and sales



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

reopening of the borders, increasing to over 2.8 million from just 18,710 a year earlier.

Retail rents, however, have yet to benefit. Although currency exchange shops have been actively expanding in Russell Street, Percival Street and King Lung Street in Causeway Bay, rents have dropped by 80%, on average, in the past three years. According to market sources, an 800 sq-ft ground floor shop at 28 Russell Street was leased to the Hong Kong Exchange for a monthly rent of \$300,000. Formerly,

this shop was leased to Kiehl's, a cosmetics brand, for HK\$1.4 million per month at the peak.

The Macallan, a whisky brand, leased an 8,500 sq-ft unit for its first flagship store in Hong Kong. The unit comprises the 2nd and 3rd floors of 36 Queen's Road Central for a monthly rent of HK\$600,000. Previously, the whole podium, including the 1st and 2nd floors, was leased to Coach, a luxury brand, for HK\$5.6 million per month, representing a significant reduction for the new tenant.

Looking ahead, the government released the remaining HK\$2,000 worth of consumption vouchers on 16 July. But we expect its effect on stimulating the economy to be minimal. Overall, we expect retail sales in June, July and August to increase less than that in May, as many residents will be out of town during the summer holiday, and inbound visitors may not spend as much as before, so retailers remain cautious about 3rd quarter retail sales performance.

Retail sales by outlet type (May 2023)

| Outlet | Value (HK\$ billion) | Share of total % | Change MoM % | Change QoQ % | Change YoY % |
|--|-------------------------|---------------------|-----------------|-----------------|-----------------|
| Jewellery, watches and clocks, and valuable gifts | 5.1 | 14.7 | -3.4 | 1.6 | 51.8 |
| Clothing, footwear and allied products | 4.6 | 13.4 | 6.4 | 14.9 | 35.5 |
| Department stores | 3.6 | 10.4 | 16.5 | 47.4 | 9.9 |
| Fuel | 0.9 | 2.6 | 9.7 | 4.9 | -13.7 |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | 3.1 | 8.9 | -0.7 | -9.1 | 4.4 |
| Consumer durable goods | 4.5 | 13.1 | -15.9 | -18.8 | 8.8 |
| Supermarkets | 4.3 | 12.6 | 6.5 | 13.9 | -0.2 |
| Others | 8.3 | 24.2 | -3.0 | 3.9 | 26.6 |
| All retail outlets | 34.5 | 100.0 | -0.5 | 4.1 | 18.4 |

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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