

# Hong Kong Monthly

June 2023

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

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## Office

### ► Notable upgrade and expansion cases observed in the office market

#### HONG KONG ISLAND

Pressured by the soaring vacancy rate, overall rents on Hong Kong Island dropped further in May, to HK\$67.8 per sq ft per month, for a monthly decline of 0.6%. In the first five months of 2023, overall rents on Hong Kong Island recorded a 2.5% decline. Central district recorded the highest drop of 4.1%.

Despite the rental downtrend, market momentum is improving, and more inspection activity was recorded. The flight-to-quality trend persists, as companies continue to seek prime locations to expand and upgrade their offices at attractive rental levels. A foreign beverage company will upgrade and double its office space by moving from Times Square to Hysan Place in Causeway Bay. Also, a fund house will expand and occupy one more floor in Central Tower.

By 2025, approximately 1.83 million sq ft of new office space will enter the Hong Kong office market, primarily in Central and Wan Chai. Apart from financial incentives, some office landlords may provide non-financial incentives, such as flexible leasing packages and fit-outs, to retain and attract tenants, given the high vacancy rate and abundant upcoming supply on Hong Kong Island. We expect office demand to remain subdued in 2023, with overall rents on Hong Kong Island falling by 3% to 5% for the whole year.

#### KOWLOON

In May, leasing momentum was soft. As in April, most leasing transactions were dominated by size under 3,000 sq ft and rents of HK\$22 per sq ft or below. Leasing remained active in Kowloon East, with sourcing and electronic companies the major demand drivers.

Leasing activity was supported mainly by renewals. Instead of relocating, occupiers tended to renew their leases at more attractive rents offered by landlords. Renewal demand, to a certain extent, limited new letting and relocation transactions. There were few relocation transactions in the market, mostly focusing on quality Grade A offices. One example is China Southern Power Grid, which will

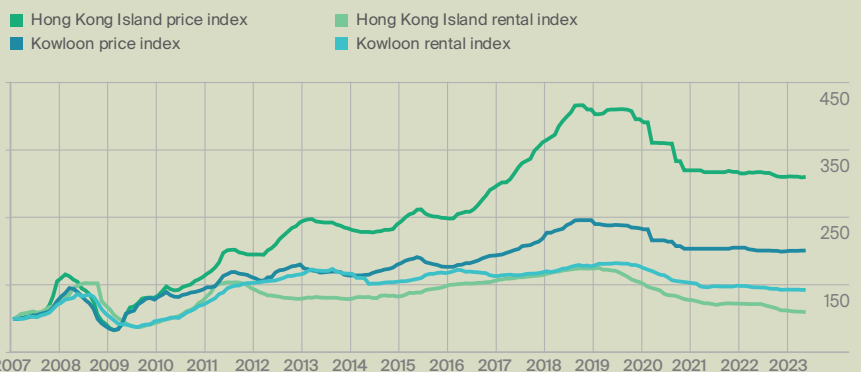
upgrade its office to K11 Atelier in Tsim Sha Tsui with an 11,000-sq-ft lease.

We also note the growing importance of ESG in occupiers' considerations. Office buildings with better ESG elements and sustainability criteria are more appealing in the market.

Looking ahead, while some companies are looking for consolidation and expansion, we expect to see more transactions in Q3 with better market sentiment. With Grade A offices experiencing a gradual rebound in demand, we expect overall office rents in the Kowloon market to increase by 4% to 6% for the rest of 2023.

**Fig 1. Grade-A office rents and prices**

2007 = 100



Source: Knight Frank Research

## Grade-A office market indicators (May 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	120.2	-0.6	-10.9	-	-	-
Traditional Central	92.6	-0.8	-11.1	-	-	-
Overall Central	102.0	-0.7	-11.1	32,381	0.0	-3.5
Admiralty	65.6	0.0	-11.2	28,479	0.4	-2.7
Sheung Wan	54.9	0.0	-9.0	26,859	0.0	-0.6
Wan Chai	50.6	0.4	-4.9	24,048	0.0	-3.2
Causeway Bay	56.1	-4.1	-7.4	20,999	0.0	-1.4
North Point	36.8	-1.0	-8.4	-	-	-
Quarry Bay	45.5	0.4	-10.3	-	-	-
Tsim Sha Tsui	56.1	-0.1	-0.5	14,809	0.0	0.0
Cheung Sha Wan	29.5	0.4	4.3	-	-	-
Hung Hom	38.2	-0.4	-2.9	-	-	-
Kowloon East	29.0	0.2	-1.7	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 market suffered a setback amid high interest rates

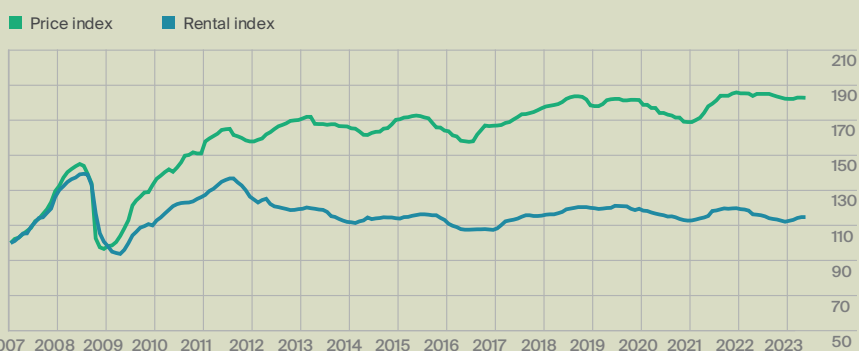
Market sentiment continued to weaken amid high interest rates and the bearish performance of the Hong Kong stock market, with the Hang Seng Index slumping to a two-month low. Residential transactions in May dropped by 12.7% MoM to 4,003, according to data from the Land Registry. Sales in primary and secondary markets fell by 35.5% and 1.0% MoM, respectively. There has been no new stimulus to shore up the residential market since the border reopening.

There were several big-ticket residential sales transactions during the month despite the wait-and-see approach in the market. For instance, a 5,848-sq-ft house on Repulse Bay Road was sold for HK\$450 million (HK\$76,949 per sq ft). Another 3,738-sq-ft high-floor A&B unit at Regence Royale in Mid-Levels Central was sold for HK\$203 million (HK\$54,307 per sq ft).

On the leasing front, we saw more leasing activity in Mid-levels. The major driver was several residential buildings in the area held by developers for long-term rental purpose being withdrawn from the leasing market.

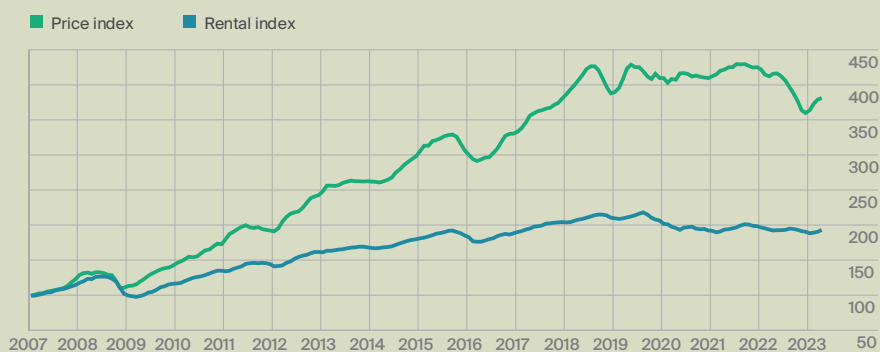
**Fig 2. Luxury residential rents and prices**

2007 = 100



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

2007 = 100



This led to a sudden shortage of flats, as tenants who were renting these flats tended to relocate within Mid-levels, pushing demand and market activity. There were some notable transactions in Southern District. Examples include a 2,948-sq-ft house at Shouson Peak on Shouson Hill, which was leased for HK\$280,000 per month (HK\$95 per sq ft). Also, a 3,407-sq-ft high-floor unit at

8 Deep Water Bay Drive in Deep Water Bay was leased for HK\$260,000 per month (HK\$76 per sq ft).

Going forward, mass residential prices are expected to remain under pressure, given the headwinds of high interest rates, the increasing number of new flats and the shrinking labour force. Developers are expected to continue to focus on “destocking”,

so primary sales are expected to dominate the market, supported by the active launch of new projects by developers, with lucrative incentives, such as a great variety of mortgage plans and rebates. For full-year 2023, we expect mass residential property prices in Hong Kong to fall by 0% to 5%, and luxury residential property prices to remain stable.

### Selected residential sales transactions (May 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	Repulse Bay Road	House	5,848	450	76,949
Mid-Levels Central	Regence Royale	High floor / units A&B	3,738	203	54,307
Ap Lei Chau	The Corniche	Tower 3 / high floor / unit B	3,635	184.6	50,800
Mid-Levels Central	Estoril Court	Block 3 / high floor	2,888	140	48,476
Kai Tak	K Summit	House	3,189	136.8	42,897

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

### Selected residential lease transactions (May 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Shouson Hill	Shouson Peak	House	2,948	280,000	95
Mid-Levels Central	21 Borrett Road	Phase 1 / mid floor	2,096	180,000	86
Island South	8 Deep Water Bay Drive	Tower 1 / high floor	3,407	260,000	76
Island South	51-55 Deep Water Bay Road	House	3,498	240,000	69
Island South	Double Bay	House	3,270	188,000	57

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

# Retail

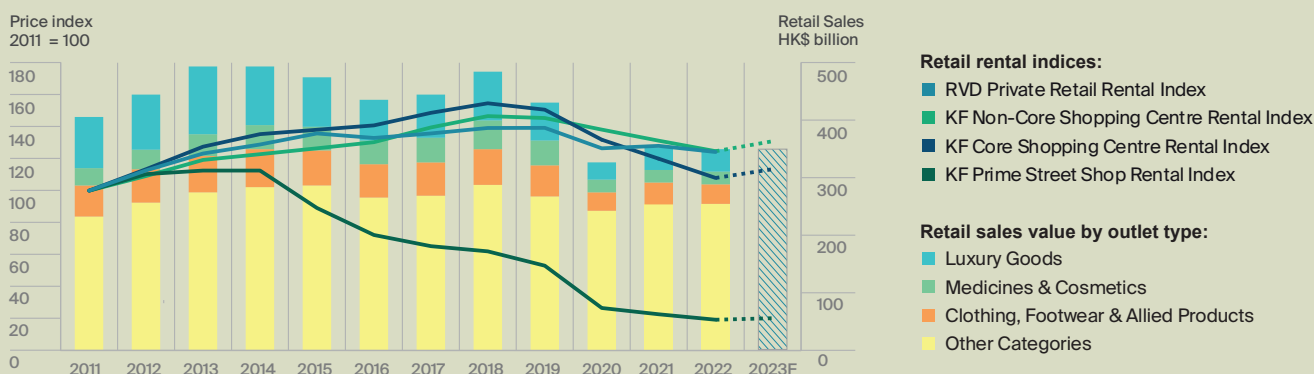
## ► Retail performance continued to benefit from the recovery of private consumption and inbound tourism

Hong Kong's retail sales performance continued to benefit from improved consumption sentiment and a sharp rebound in visitor arrivals. Total retail sales value

in April soared by 15% YoY to HK\$34.7 billion. In the first four months of 2023, the value of total retail sales registered an increase of 21.7% YoY, but was 17.2% lower than the pre-pandemic level in 2019.

Visitor arrivals have been rising significantly since the reopening of the borders. The number of visitor arrivals in April increased to over 2.89

Fig 4. Retail rents and sales



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

million from just 4,692 a year earlier. About 80% of the visitors were from the Chinese mainland.

Fuelled by improving market sentiment, the retail leasing market regained momentum in June, particularly in prime retail streets. Some significant leasing cases were recorded in core shopping districts during the month. For instance, a 19,000-sq-ft retail unit, including the ground floor, 1st floor and façade, in Capitol Centre in Causeway Bay was leased to Chanel, a French luxury fashion house, for approximately HK\$3 million per month (HK\$158 per sq ft). Also, a Chinese securities firm, Futu Holdings Limited, expanded its footprint in Hong Kong, leasing

a 4,437-sq-ft retail unit, including the ground floor and 1st floor, at 96 Nathan Road in Tsim Sha Tsui, for approximately HK\$700,000 per month (HK\$158 per sq ft), making it the first Futu Holdings branch in Hong Kong.

Retail landlords are active in seeking tenants who embrace experiential retail concepts, as customers nowadays are looking for new and unique experiences. Notably, a 75,000-sq-ft retail unit, comprising the ground floor, 1st floor and 2nd floor, in Silvercord, in Tsim Sha Tsui, was rented by a restaurant and entertainment group for approximately HK\$5,000,000 per month (HK\$67 per sq ft). It will reportedly be a themed restaurant with popular Japanese anime, such as

“Kimetsu No Yaiba” and “One Piece”.

In terms of new supply, The Wai, a new MTR Corporation shopping mall in Tai Wai, is scheduled to open in July, adding an additional of 650,000 sq ft of retail space to the market. With 150 shops and 300 bicycle parking spaces, it aims to provide a holistic shopping experience and community space for both residents living nearby and consumers in general. We expect retailers that position themselves on experiential retail concepts to stand out.

Looking ahead, we expect to see modest growth of 5% in rents across the board this year due to the decreasing number of vacant shops in prime locations.

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

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.3	15.2	3.8	19.0	75.2
Clothing, footwear and allied products	4.3	12.5	-2.0	1.2	36.7
Department stores	3.1	8.8	10.2	0.4	14.0
Fuel	0.8	2.4	-7.8	-11.1	-10.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.1	8.9	6.3	-19.8	3.9
Consumer durable goods	5.5	15.8	6.9	-10.0	-9.0
Supermarkets	4.1	11.7	-1.0	-15.3	-7.9
Others	8.6	24.8	4.6	-1.7	23.0
All retail outlets	34.7	100.0	3.6	-4.0	15.0

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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