Hong Kong Monthly

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

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Office

Co-working sector benefits from demand for small and medium-sized space

HONG KONG ISLAND

The Hong Kong office market saw stronger activity in February as market sentiment improves in tandem with the revival of economic activity. Overall net effective rents fell to HK$68.6 per sq ft, -0.7% MoM. Major submarkets Central and Admiralty recorded larger rental declines of 1.1% and 0.8% MoM, respectively.

Despite the rental downtrend, the leasing market turned positive as the flight-to-quality trend continued. Companies from multiple sectors took advantage of the tenant-favoured environment to consolidate and upgrade their office space. Canadian pension fund CPPIB leased two floors in The Henderson in a consolidation from York House. Also, a beverage company will relocate from Exchange Tower in Kowloon Bay to The Henderson, and luxury brand Hermès will relocate its office with an upgrade and consolidation from Chinachem Leighton Plaza to Lee Garden One.

Increasing demand for small and medium-sized space continue to favour the co-working sector, which has fuelled the expansion momentum of co-working operators. A few operators took up sizeable areas in various locations. For example, The Atlas Coworking has taken up one floor in CITIC Tower, Admiralty. Meanwhile, leasing demand from Chinese mainland companies strengthened, but the number of transactions has yet to significantly increase.

KOWLOON

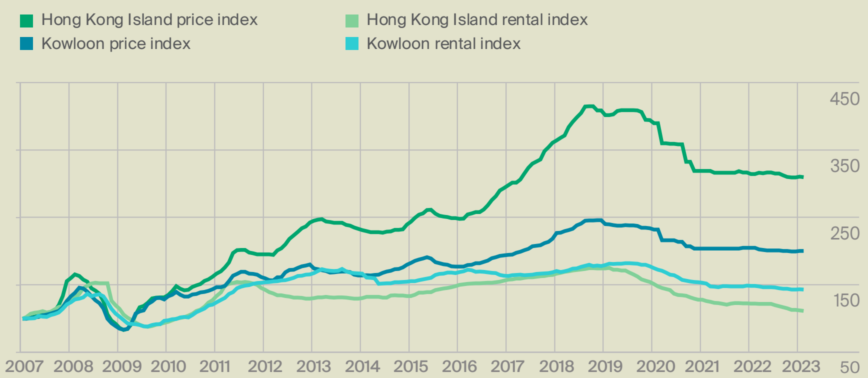
Leasing sentiment has gradually improved after the border re-opening. The volume of new letting transactions in February doubled MoM, and the average monthly rent edged up slightly to HK$25.4 per sq ft. This suggests a clearer bottoming-out signal since Q4 2022. Kowloon East remains the focus of the market, with shipping, logistics and electronics companies the key demand drivers in January and February, followed by IT companies and co-working operators.

IT-related companies are generally benefitting from the post-Covid IT-dependent lifestyle trend. Many are expanding quickly, with leasing sizes between 10,000 and 30,000 sq ft. One example is an audio-studio provider, which leased an 18,600 sq-ft space in Harbourside HQ. Another IT-related company is finalising a 30,000 sq.ft. tenancy in a Grade A office in Kwun Tong.

Demand from co-working operators also picked up, similar to the situation on Hong Kong island. Certain co-working spaces in Kowloon reached high levels of occupancy of above 90%. Another key take-up source is companies requiring swing space for temporary use before moving into new or renovated offices or for short-term expansion. Overall, we expect office rents to move slightly upwards in the near term as demand from various sectors continues to provide momentum.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (February 2023)

District	Net effective rent	Change		Price (Gross)	Change	
	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	123.3	-1.2	-8.1	-	-	-
Traditional Central	94.5	-1.0	-9.2	-	-	-
Overall Central	104.2	-1.1	-8.7	32,581	0.0	-1.5
Admiralty	65.7	-0.8	-10.2		-0.3	-2.0
Sheung Wan	55.1	-0.3	-8.6	26,859	0.0	-1.1
Wan Chai	50.2	0.0	-6.0	24,148	0.0	-0.8
Causeway Bay	57.9	0.3	-4.8	21,099	0.0	-0.9
North Point	37.5	0.0	-9.9	-	-	-
Quarry Bay	45.2	-0.8	-13.6	-	-	-
Tsim Sha Tsui	56.0	0.2	-2.6	14,809	0.0	-2.6
Cheung Sha Wan	28.3	-0.2	-1.2	-	-	-
Hung Hom	37.9	-1.3	-3.5	-	-	-
Kowloon East	29.4	-0.5	-1.5	11,817	0.0	-1.7
Mong Kok / Yau Ma Tei	49.8	-0.9	-1.4	-	-	-

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

Residential

Residential market heading for recovery amid positive sentiment

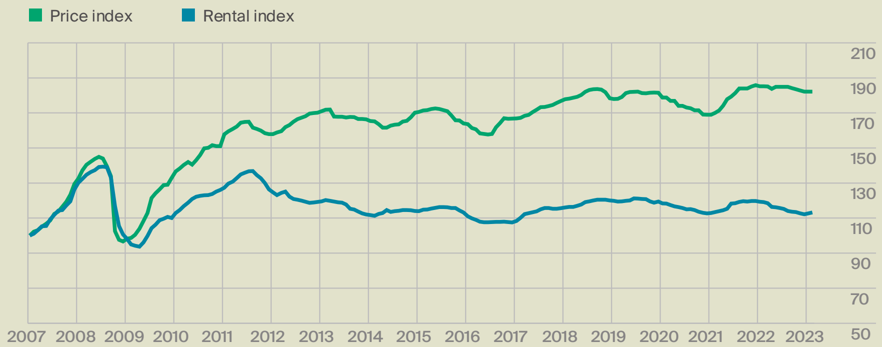
With the full reopening of the border with the Chinese mainland in early February, local economic activity and market sentiment saw a positive turnaround. According to the Land Registry, a total of 4,282 residential transactions were recorded in February, climbing 40.3% MoM. Primary sales supported overall market sentiment, surging 80.4% MoM to 655 transactions. The overall home price index also picked up, with a 0.6% MoM increase in January, according to the official figures.

With local economic activity returning to normal, more developers rushed to launch new projects. For instance, Wheelock Properties' Koko Rosso in Lam Tin and Sun Hung Kai Property's Novo Land Phase 2B in Tuen Mun received an overwhelmingly positive response. All 352 units in Novo Land Phase 2B were sold on the first day of the launch.

The luxury market saw signs of Chinese mainland buyers returning after the border reopening. According to the Inland Revenue Department, Hong Kong's overall stamp duty revenue from home sales rose 66.5%

Fig 2. Luxury residential rents and prices

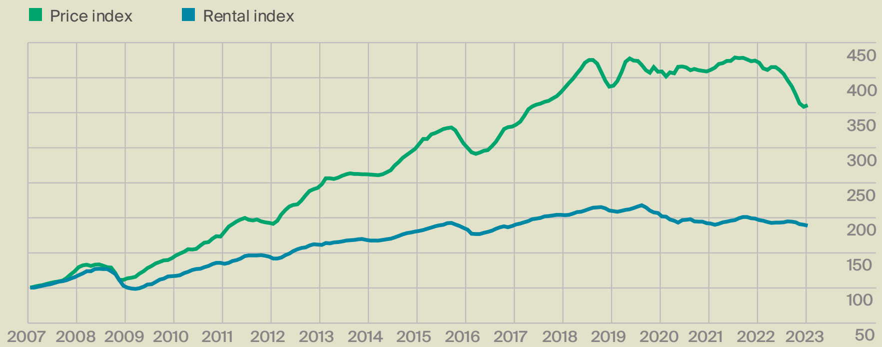
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

MoM in February. Cases involving Buyer's Stamp Duty (BSD) surged 79.4% MoM, reaching an eight-month high, reflecting increasing purchase demand from non-local buyers.

A handful of notable transactions worth HK$100 million or more were recorded, showing continued buyer appetite for prime assets. A 3,627-sq-ft unit at The Corniche in Ap Lei Chau was sold for HK$183.3 million.

On the leasing front, enquiries and home-viewing activity saw an uptick, given the return of Chinese and overseas expats. Homes with a monthly rent of HK$60,000 or below were relatively active. One notable luxury transaction during the month was a house at Overbays in Repulse Bay, which was leased for HK$370,000 per month or HK$88 per sq ft.

Looking ahead, the residential market is expected to hop on the recovery track on the back of the border reopening, slowing interest rate hikes and the revival of the local economy. Overall residential transaction volume is expected to gradually pick up with a sharp rebound in buyers' confidence, but a full recovery is expected to take time.

Selected residential sales transactions (February 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
The Peak	Mount Nicholson	Phase 3 / Tower D / mid floor	4,517	390	86,340
Kai Tak	Pano Harbour	Tower 1 / Unit A	2,088	120.5	57,737
Ap Lei Chau	The Corniche	Tower 3 / Unit B	3,627	183.2	50,531
Mid-Levels Central	Estoril Court	Block 2 / high floor / unit C	2,888	120	41,551
Tuen Mun	Villa La Plage	House	5,210	174.5	33,494

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

Selected residential lease transactions (February 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Island South	Overbays	House	4,204	370,000	88
Mid-Levels Central	Queen's Garden	Tower B / high floor	2,292	155,000	68
Island South	39 Deep Water Bay Road	House	3,750	215,000	57
Mid-Levels East	Highcliff	Unit A	2,739	150,000	55
Mid-Levels Central	Estoril Court	Block 2 / high floor	2,888	131,000	45

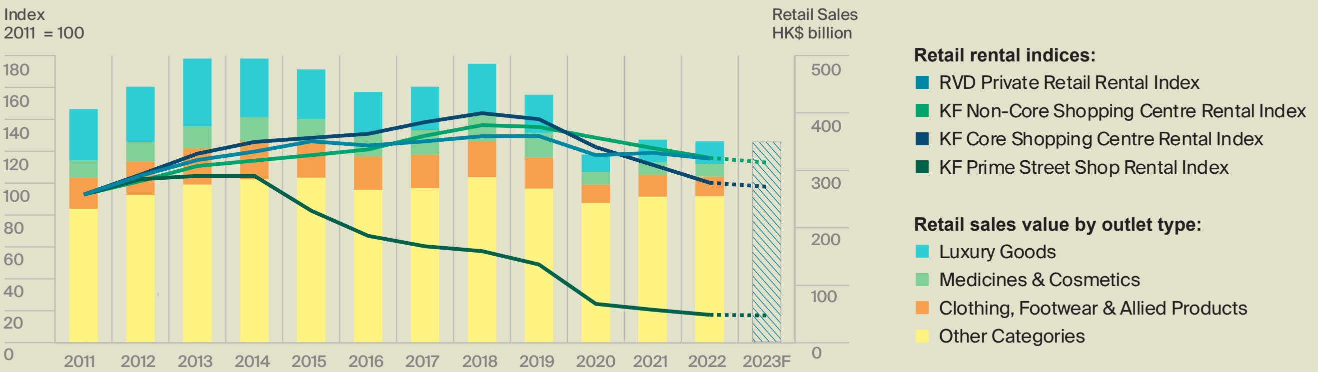
Source: Knight Frank Research
Note: All transactions are subject to confirmation.

Retail

Overall retail sentiment is promising in the post-pandemic era

Hong Kong's retail sales value registered healthy growth for two consecutive months. According to the latest official statistics, retail sales value in January increased by 7.0% YoY to HK$36.2 billion. Overall market sentiment turned positive, buoyed by the return of tourists. As travel resumed, the number of visitor arrivals in February rose threefold to 1.462 million from 498,689 in January, and was equivalent to about 30% of

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department that before the pandemic. About 76% of visitors were from the Chinese mainland.

Backed by the encouraging rise in visitor arrivals and retail sales figures, tenants were more confident and willing to commit to large shops in core areas, evidenced by an increasing number of leasing transactions in prime shopping streets. Notably, a four-storey shop in Canton House, at 54-56 Queen's Road Central (8,535 sq ft.), which had been vacant for more than three years, was reportedly leased to Swatch Group's Omega subsidiary for its new flagship store. Tsui Wah Restaurant will return to Wellington Street, Central after the closure of its flagship restaurant in Central in 2020. According to market sources, it will occupy a 5,089 sq-ft ground-floor shop in Silver Fortune Plaza, at 1 Wellington Street Central.

There is anecdotal evidence of a continuous rise in the number of Chinese mainland visitors coming to Hong Kong for casual shopping and dining at mid-range restaurants, but a drop in the number of visitors coming mainly for big-ticket luxury items. We believe Hong Kong's top position as a luxury shopping destination for Chinese tourists has changed after the pandemic, so we expect retailers to adjust their sales strategies to focus more on affordable luxury goods to cater for growing demand from both locals and tourists. Moreover, there have been reports of more Chinese mainland tourists visiting Hong Kong in group tours since the border reopened, which would have relatively less contributions to the retail sales compared to the IVS visitors.

Looking ahead, the near-term outlook for retail sales remains sanguine, as consumer sentiment has been buttressed by favourable employment numbers, vibrant inbound tourism and the removal of mask rules. Nonetheless, since retailers need time to adapt to the post-Covid era, we expect prime street rents to remain flat in the short term.

Retail sales by outlet type (January 2023)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.4	12.3	22.3	11.1	23.1
Clothing, footwear and allied products	4.3	11.7	8.7	52.4	14.7
Department stores	3.1	8.4	-2.3	8.5	3.9
Fuel	0.9	2.5	1.7	-12.0	0.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.9	10.7	16.2	27.2	-1.0
Consumer durable goods	6.1	16.8	-14.9	-18.5	6.7
Supermarkets	4.8	13.3	7.7	6.3	-7.2
Others	8.7	24.2	22.1	39.0	11.4
All retail outlets	36.2	100.0	7.4	13.2	7.0

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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