

Hong Kong Monthly

May 2023

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

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Office

► Demand gradually picking up with improving sentiment

HONG KONG ISLAND

Market sentiment improved, with more enquiries and activity as the local economy gradually returned to normal. However, a rebound in rents remains to be seen. In April, the overall net effective rents on Hong Kong Island fell to HK\$68.2 per sq ft, for a 0.3% MoM and 1.9% year-to-date decline. Overall rents in Central dropped 1% MoM, but some decentralized markets were relatively resilient. Rents in Sheung Wan and North Point/Quarry Bay edged up 0.3% and 0.2% MoM, respectively.

Similar to previous months, there was a continuing decentralization trend during the month, and the flight-to-quality trend persisted, as tenants continued to look for premium Grade A buildings at attractive rental levels. For example, a beverage company will relocate from Exchange Tower in Kowloon Bay to Two Pacific Place with a 16,000 sq ft lease.

There was also rising demand for co-working space, as more occupiers remained cautious and actively explored flexible leasing options. Robust demand for co-working space is expected to continue in the short term.

KOWLOON

In April, market activity continued to improve, with a total of 150 new letting transactions recorded, driven mainly by small and medium-sized deals of 3,000 sq ft or below at an average rent of about HK\$25 per sq ft. Most of the leasing activity was in Kowloon East, with electronics and engineering companies the major demand drivers.

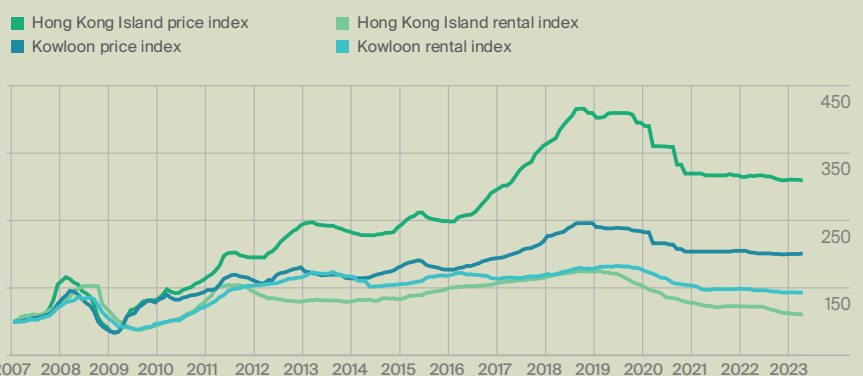
Renewal cases supported the leasing market in April, with the average rent ranging from HK\$20 to HK\$25 per

sq ft. One notable example was Target Sourcing, which renewed its 41,408-sq-ft space at One Harbourfront APEX in Hung Hom for HK\$42.5 per sq ft.

Looking ahead, we expect activity and rents to remain stable in Kowloon. As there are some sizeable negotiations taking place in new office buildings, mainly with the banking and finance, professional service, and sourcing sectors, we are optimistic about the market outlook in the coming months.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (April 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	120.9	-1.7	-10.1	-	-	-
Traditional Central	93.4	-0.5	-10.4	-	-	-
Overall Central	102.7	-1.0	-10.3	32,381	-0.3	-2.9
Admiralty	65.6	0.3	-11.0	28,379	-0.4	-3.0
Sheung Wan	54.9	0.3	-9.0	26,859	0.0	-0.2
Wan Chai	50.4	0.6	-5.9	24,048	-0.4	-2.4
Causeway Bay	58.5	0.9	-3.9	20,999	-0.5	-1.4
North Point	37.2	-0.4	-7.5	-	-	-
Quarry Bay	45.3	0.3	-10.7	-	-	-
Tsim Sha Tsui	56.2	0.0	-0.4	14,809	0.0	-1.3
Cheung Sha Wan	29.4	0.4	4.0	-	-	-
Hung Hom	38.4	0.1	-2.2	-	-	-
Kowloon East	29.0	-0.5	-1.8	11,917	0.8	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

Interest rate hikes weigh on residential market sentiment

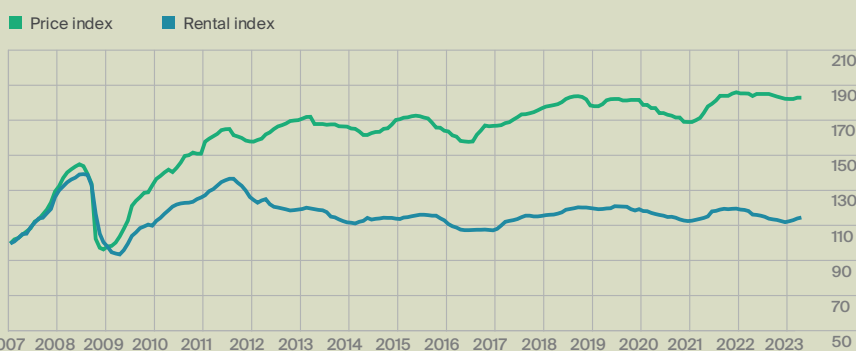
High interest rates have begun to weigh on market sentiment and challenge affordability, evidenced by a significant reduction in transactions in April after the upbeat market in March. Residential transactions in April dropped by 31.5% MoM to 4,583, according to data from the Land Registry. Sales in primary and secondary markets fell by 13.3% and 38.1% MoM, respectively. The slowdown in home sales was also due to the large amount of outbound travel by Hong Kong residents over the long Easter and Ching Ming holiday.

However, luxury market continued its resilient performance. There were more enquiries by Chinese mainland buyers, which translated into more big-ticket transactions. During the month, a 7,042-sq-ft house at Mount Nicholson at The Peak, was sold for HK\$577 million or 81,400 per sq ft; and a 4,016-sq-ft house at Central Peak in Mid-Levels East, was sold for HK\$409.6 million or HK\$102,000 per sq ft.

Things were relatively quiet on the luxury leasing front. There are more listings in the market, particularly units with monthly rents between

Fig 2. Luxury residential rents and prices

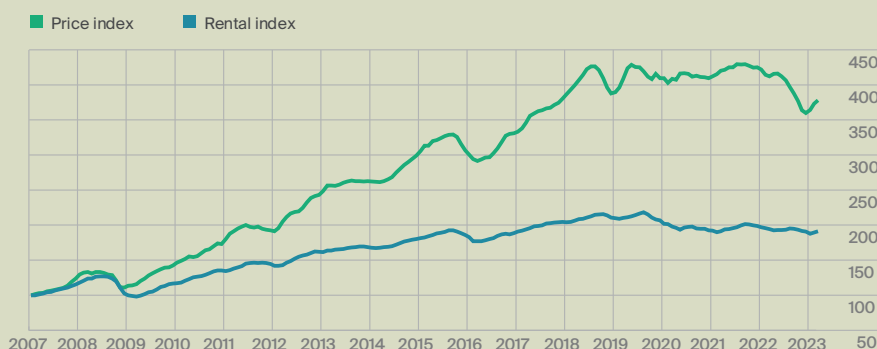
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

HK\$100,000 and HK\$200,000, which is expected to exert some downward pressure on rents and lead to longer flat listing periods. Notable transactions during the month include a 2,090-sq-ft unit at Ultima in Ho Man Tin, which was leased for HK\$170,000 per month or HK\$81 per sq ft.

In the near term, we expect primary projects to continue to draw attention, as developers will continue their aggressive sales approach to attract potential buyers. Factors such as the high interest rate environment and the increasing number of new flats will add pressure to home prices, and housing demand is likely to be hobbled by the

rising financing costs for some time. However, supported by the inflow of overseas professionals and talent under the government's advocacy, we expect both the residential sales and leasing markets to show more obvious improvement in the second half of 2023.

Selected residential sales transactions (April 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels East	Central Peak	Phase 2 / house	4,016	409.6	102,000
Shouson Hill	15 Shouson Hill Road	House	12,073	1,154	95,585
Tsim Sha Tsui	The Cullinan	Diamond Sky / unit A	1,535	141.9	92,482
The Peak	Mount Nicholson	House	7,042	577.4	82,000
Mid-Levels Central	21 Borrett Road	Phase 1	2,193	153.8	70,132

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

Selected residential lease transactions (April 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Ho Man Tin	Ultima	Phase 2 / Tower 5 / high floor / unit D	2,090	170,000	81
Mid-Levels Central	May Tower I	Mid floor unit	2,218	123,000	55
Tai Tam	Redhill Peninsula	Palm Drive	2,623	138,000	53
Mid-Levels Central	3 MacDonnell Road	Low floor / unit A	2,277	110,000	48
Mid-Levels Central	Estoril Court	Tower 3 / mid floor	2,888	115,000	40

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

Retail

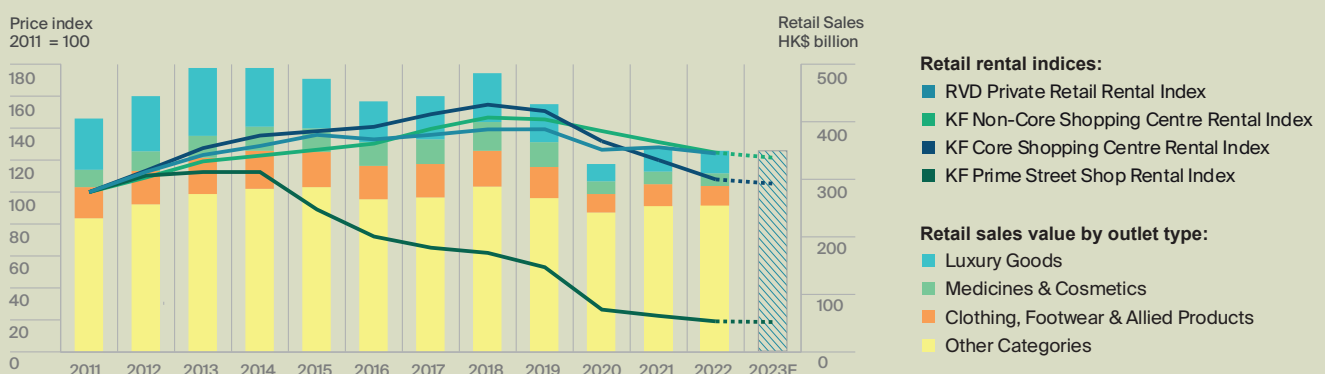
► Market sentiment improves alongside a sharp rebound in visitor arrivals

Thanks to improving consumer and visitor spending, and the low base effect, Hong Kong's retail sales value grew a record 40.9% YoY to HK\$33.6 billion in March. Sales value rose sharply in March for

jewellery, watches, clocks & valuable gifts (+165.0% vs +128.6% in February), clothing, footwear & allied products (+141.2% vs +104.1%), and department stores (+37.2% vs +19.8%).

Visitor arrivals have been rising significantly since the reopening of the borders. The number of visitor arrivals in March increased to over 2.45 million from just 1,800 a year earlier.

Fig 4. Retail rents and sales



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

About 80% of the visitors were from the Chinese mainland. According to the Immigration Department, during the Labour Day “golden week” holiday from 29 April to 3 May, Hong Kong recorded 719,571 inbound visitors, about 87% of them from the mainland.

As tourists returned, tourist-driven retailers, especially pharmacies, have been more aggressive in securing space in prime locations. A few jewellery and watch retailers have seen steady demand, but most luxury fashion retailers have continued to take a cautious approach towards expansion. For instance, jewellery chain operator Lukfook Jewellery leased a 3,500

sq ft ground floor in Canton Road at Silvercord in Tsim Sha Tsui after setting up a shop in Russell Street in Causeway Bay in April 2023.

Compared to pre-pandemic times, mainland tourists have become more sophisticated in terms of their travel patterns, spending behaviour and preferences. They have become more interested in in-depth “cultural tours”, in addition to shopping and dining. According to the West Kowloon Cultural District Authority, during the golden week holiday, the Hong Kong Palace Museum recorded nearly 7,300 visitors a day, a record high since its opening in July 2022, and the M+

Museum received a record-breaking attendance of nearly 19,000 a day. The increased foot traffic helped boost the business of ancillary shops and F&B outlets, as well as nearby shopping malls.

Looking ahead, we remain confident in a gradual recovery in tourism and local consumption. Leasing activity is expected to continue to pick up, backed mainly by tourist-driven retailers. We expect the shop vacancy rate in prime streets to drop gradually in the second quarter of 2023, as strong demand from tourist-related sector offsets the closure of short-term rental stores.

Retail sales by outlet type (March 2023)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.1	15.1	1.3	39.4	165.1
Clothing, footwear and allied products	4.4	13.2	9.8	13.3	141.3
Department stores	2.8	8.3	15.3	-10.7	37.2
Fuel	0.9	2.7	2.7	-1.2	14.8
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.9	8.7	-13.9	-12.6	14.0
Consumer durable goods	5.1	15.2	-8.2	-28.4	7.8
Supermarkets	4.1	12.2	8.0	-8.2	-6.5
Others	8.2	24.6	2.7	15.0	48.1
All retail outlets	33.6	100.0	1.3	-0.4	40.9

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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