MARKET IN MINUTES
Savills Research

July 2023 – Hong Kong Research

OFFICE LEASING

Sluggish stock market derails leasing momentum

> "The slow IPO market further dampens business prospects of financial institutions, with slow take-up evident across all districts."

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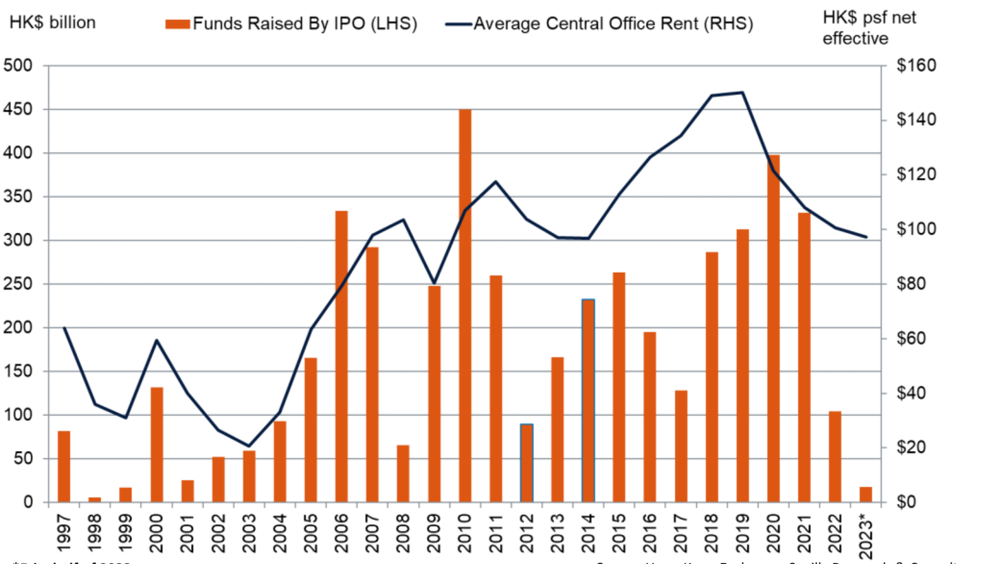
GRAPH 1: IPO Fund Raised vs Central Grade A Office Rent, 1997 – 2023*



*Frist half of 2023

Source Hong Kong Exchange, Savills Research & Consultancy

The office market saw more turbulence with the slow IPO market, with only HK$17.8 billion being raised in the first half of 2023, a 20-year low for the first six months of a year. The impact on the Central office market was obvious as fewer IPOs meant less business prospects for investment banks and brokerage firms, in particular those from Mainland with offices in Central, and this was evident by the high correlation between IPO fund raised and Central office rents (0.62) over the past 15 years. The good news was as second quarter fundraising rose 55% over the first quarter of 2023, it might bode well for a comeback in the second half of the year, with a few heavyweights rumoured to be listed in Hong Kong, including SF Express, Lalatech (operator of Lalamove and Huolala), Hema Xiansheng, to name a few.

One bright spot in the finance sector was insurance, with continuous interests from Mainlanders to purchase various insurance policies in Hong Kong, boosting their business prospects, with insurance giants all registering satisfactory results in Q1/2023. As such, we noticed a number of relocations and expansions of insurance companies in Tsim Sha Tsui and Kowloon East over the first half of the year to capture the rebounding insurance and wealth management businesses. Another sector with expanding office demand was hedge funds, as many of them made a fortune in this fluctuating stock market and thus expanded their offices in prime Central.

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TABLE 1: Selected Leasing Transactions in Insurance and Fund Industries, Q2/2023

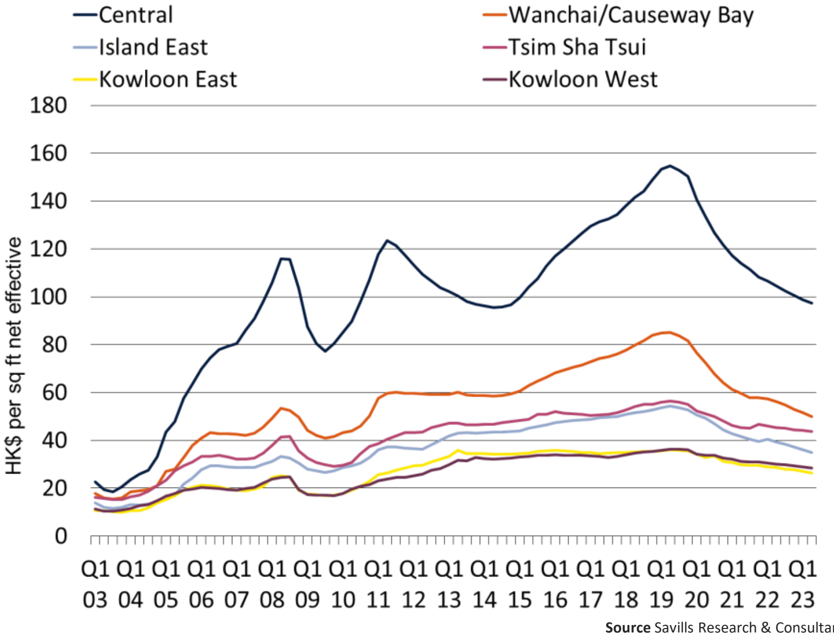
Tenant	Development	District	Area (sq ft)	Type of Lease
Prudential	Part 9/F, China Hong Kong City Tower 3	Tsim Sha Tsui	-8,500	New Letting
Blue Cross	20-21/F, Hopewell Centre	Wanchai	~30,400	New Letting
Manulife	Part 19/F, Gateway Tower 5	Tsim Sha Tsui	~12,600	New Letting
Man GLG	Part 10/F, Two IFC	Central	~4,600	New Letting
BGC Capital Markets	Part 13/F & Part 30/F, AIA Central	Central	~19,300	Relocation from Two IFC

Source Savills Research & Consultancy

Elsewhere in the market, most companies were not in expansion modes with business prospects still far from certain. Even with availabilities in non-core area remaining high and rents affordable, cost-saving relocations were hard to come by as fit-out and reinstatement CAPEX could easily reach HK$1,000 to HK$1,500 per sq ft, which upon amortization would still make a HK$15 to HK$20 per sq ft rental savings unjustifiable on a 6-year lease term, not to mention these CAPEX had to be paid upfront. That might be one of the many reasons why brand new office buildings with modern specifications but bareshell conditions were difficult to lease out even at attractive rental levels. Fully-fitted office premises, on the other hand, were attracting considerable interests for the time being.

While it is well-documented there are more than 9 million sq ft net of vacant office space in the market, the distribution of such vacancy is not even, as offices with higher specifications, better views / locations and with more focused on green features (and thus with green building accreditations) are more highly sought after, as more companies, in particular multinationals, are looking for premium quality and collaborative office premises with ESG accreditations, and rental savings is only one of their concerns. Looking ahead, with another 7.5 million sq ft net of new supply in the pipeline, most of them built to the highest standards with ample green features and accreditations, we would expect tenants' flight to quality, with these new built eventually outcast their older counterparts. Older existing buildings with limited features would therefore need to fight for corporate tenants with more attractive rental packages / CAPEX subsidies, or to gradually shift their positioning to cater more service trades, such as beauty, medical and educational , in order to survive the coming wave of new supply.

GRAPH 2: Grade A Office Rents by District, Q1/2003 – Q2/2023



Source Savills Research & Consultancy

TABLE 2: Vacancy Rate by district

District	Q2 2023	Q1 2023
Central	9.6%	9.6%
Wanchai/ CWB	10.0%	10.5%
Island East	12.8%	12.2%
Tsim Sha Tsui	8.2%	8.6%
Mong Kok	8.4%	8.4%
Kowloon East	22.2%	21.8%
Kowloon West	7.9%	8.0%
Island South	19.1%	19.0%
Overall	13.5%	13.4%

Savills Forecast in 2H/2023	
Office Rent	-3% to -5%