

Future Cities

A Tale of Two Cities: Hong Kong SAR vs. Singapore

REPORT

CBRE RESEARCH
APRIL 2023

CBRE



Introduction

Hong Kong SAR and Singapore are both firmly established as popular locations for multinational corporates to locate their Asia Pacific headquarters.

While the two cities have always enjoyed a competitive rivalry, recent sociopolitical unrest and strict anti-pandemic measures in Hong Kong, although now abated, have prompted some companies to relocate staff, functions and headquarters operations to Singapore, suggesting that momentum is with the 'Lion City'.

This report compares the two markets across seven key indicators: their influence in Asia Pacific; financial industry scale; technology industry scale; ESG and green building initiatives; talent availability and attraction; office rents; and office availability.

Agenda

01

Role as Asia Pacific
business hub

02

Industry presence and
scale

03

Talent availability
and attraction

04

Office rents and
availability

01

Role as Asia Pacific business hub

Quick stats

Hong Kong SAR		Singapore
US\$362 billion	GDP (Real, As of 2021)	US\$374 billion (Singapore overtook Hong Kong in 2021)
US\$43,919	Real GDP Per Capita (As of 2021)	US\$66,576
US\$122,300	Annual gross salary in finance sector (Investment Banking Associate)	US\$89,000
US\$91,700	Annual gross salary in technology sector (Full Stack Developer)	US\$89,200
7.4 million	Population (As of 2021)	5.5 million
2.1 million*	No. of people attaining - post-secondary education (As of 2021)	1.8 million**
1,050 sq. km.	Area (As of 2020)	728 sq. km.
7,125	Population density (People per sq. km. of land area, As of 2020)	7,919
8.25% - 16.5%	Typical effective corporate tax	4.25% - 17%
15%	Maximum individual income tax	24% (effective in 2024)
0%	Goods and services tax or VAT	8%

*Population aged 15 and above
**Residence aged 25 and above
Source: Oxford Economics, World Bank, CEIC, Inland Revenue Department, Inland Revenue Authority, Michael Page Salary Guide 2023

Singapore's economy is more diversified

- Singapore's real GDP overtook that of Hong Kong SAR in 2021 due to the impact of sociopolitical unrest and anti-pandemic policies in the latter.
- The top five industries in Hong Kong SAR accounted for 76% of the city's GDP in 2021, a slightly larger share than Singapore's 71%.
- Financial & insurance and trading are among the most important economic pillars in both cities. However, the former commands a relatively larger share of GDP in Hong Kong SAR.
- While manufacturing remains the largest contributor to Singapore's GDP, most manufacturing in Hong Kong SAR has already relocated to mainland China or other lower cost locations. The service sector comprises more than 90% of Hong Kong SAR's GDP.

Figure 1: Real GDP, seasonally adjusted

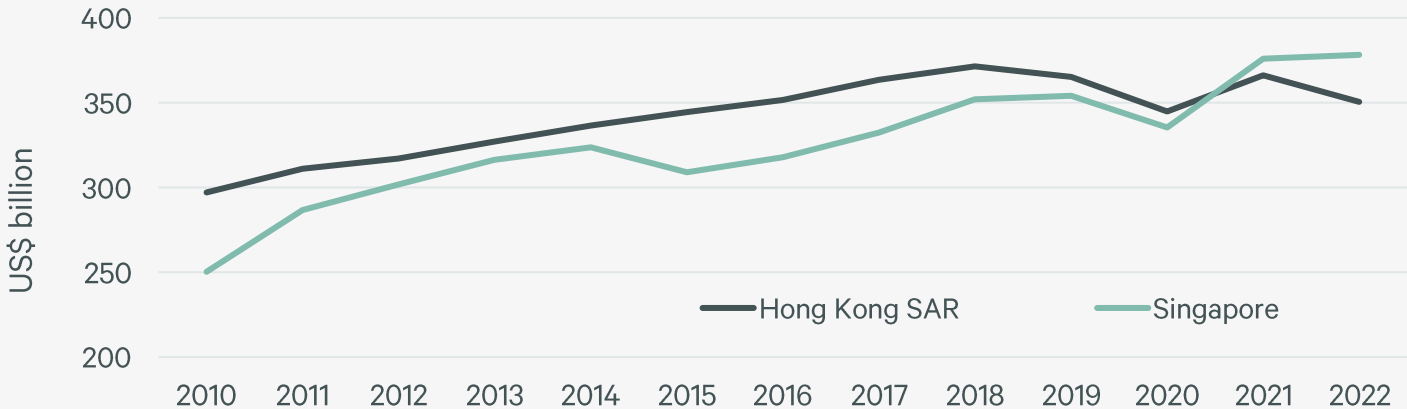
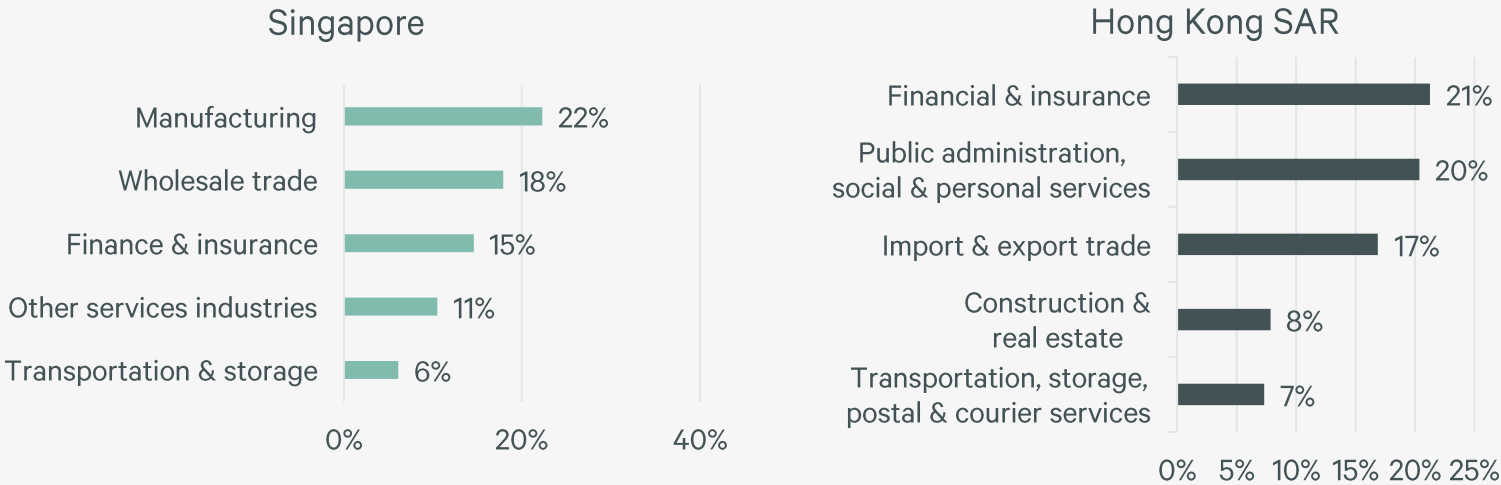


Figure 2: Top five industries' % contribution to GDP, 2021



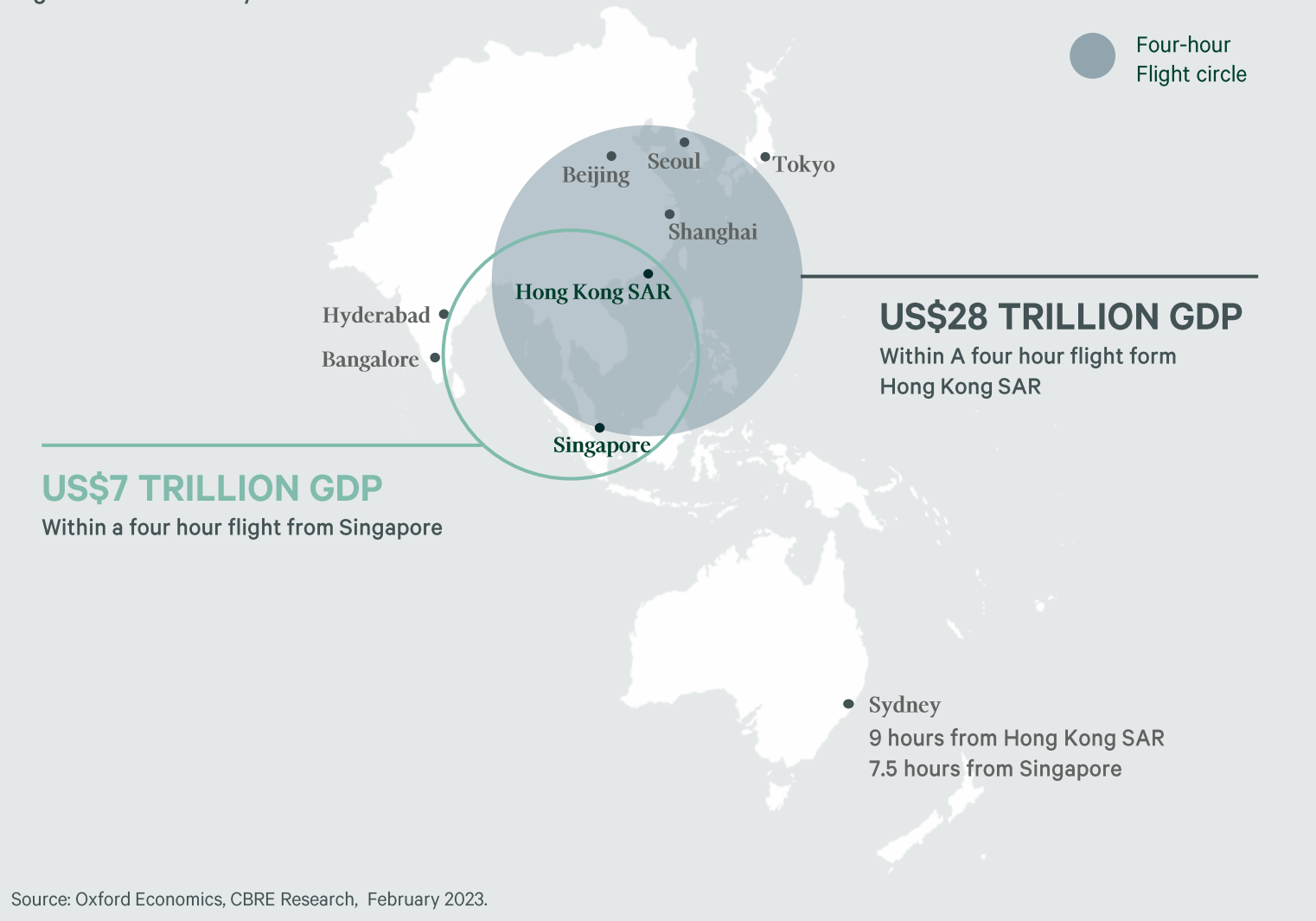
Source: Statistics Departments of respective economies, February 2023.

01 Business Hub

Connectivity to Asia Pacific

- Both cities are located at the heart of Asia Pacific and serve as regional aviation hubs.
- Most of North Asia, which accounted for US\$28 trillion of GDP in 2021, lies within a four hour flight from Hong Kong.
- Singapore provides better connectivity to the fast-growing economies of Southeast Asia and India.
- Singapore lifted quarantine requirements for international arrivals in August 2021, leading to a strong rebound in visitors.
- Hong Kong SAR did not remove quarantine requirements for international arrivals until September 2022, 14 months after Singapore.

Figure 3: Connectivity to the rest of Asia Pacific

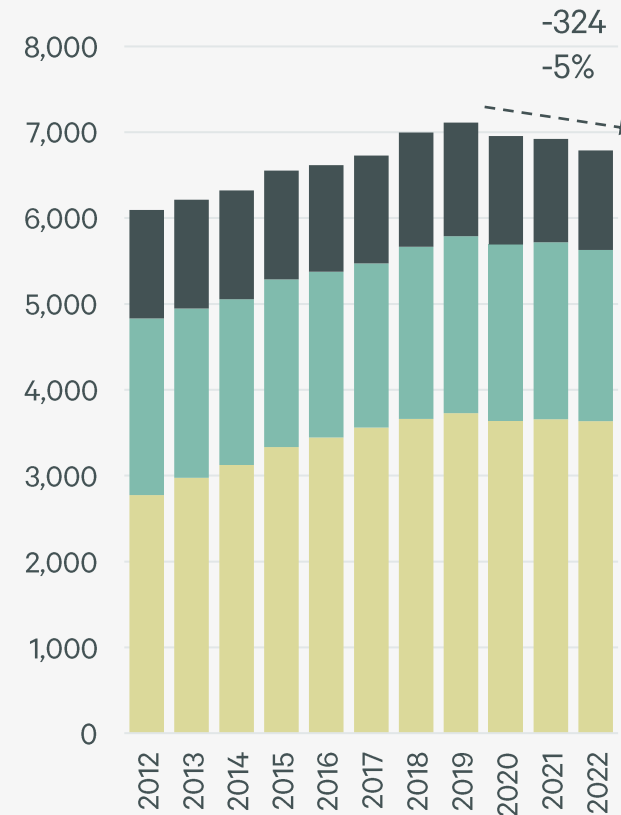


01
Business Hub

Are companies leaving Hong Kong?

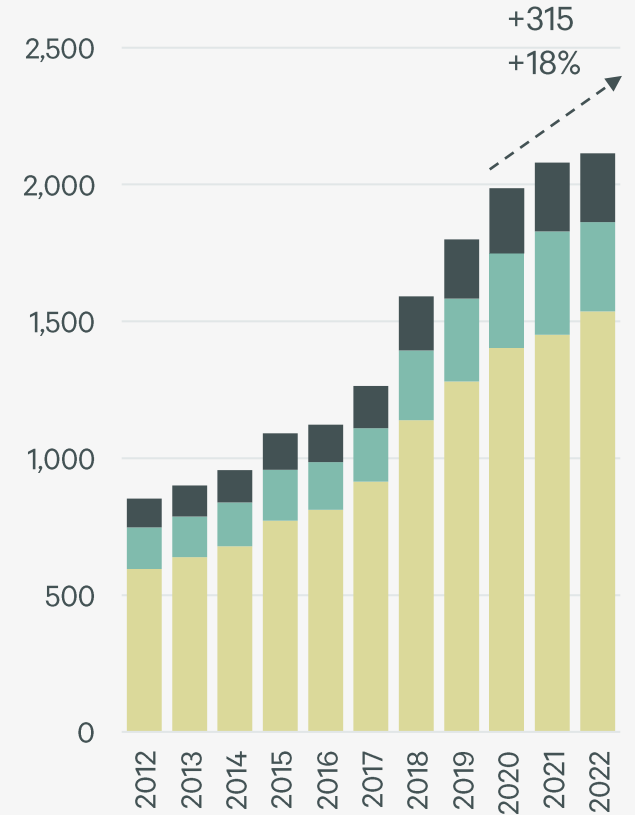
- As of June 2022, approximately 1,200 multinational corporations maintained regional headquarters in Hong Kong SAR, a decline of 5% from June 2019.
- Sociopolitical unrest in 2019 followed by the introduction of strict anti-pandemic policies prompted a select number of multinationals to temporarily relocate senior staff and regional operations to Singapore to ensure business continuity.
- There is limited evidence of a massive corporate migration out of Hong Kong SAR. The decline in multinationals' footprint has been somewhat offset by an increase in activity from mainland Chinese companies establishing subsidiaries in the city.

Figure 4:
Number of multinationals in Hong Kong SAR



Count as of June of each year

Figure 5:
Number of mainland Chinese firms in Hong Kong SAR



Local Offices Regional Offices Regional HQs

Source: Census and Statistics Department, CBRE Research, February 2023

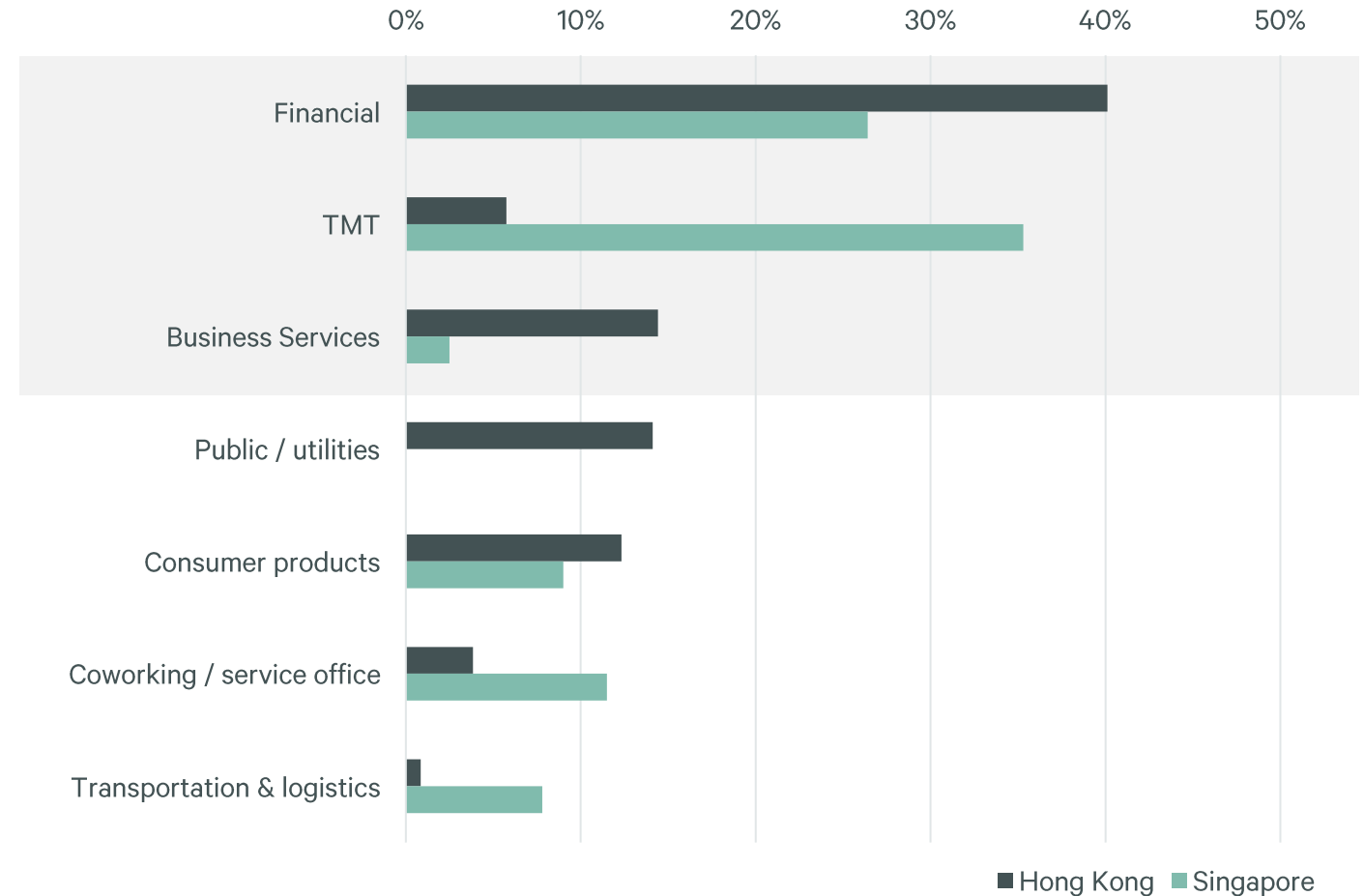
02

Industry presence and scale

Finance dominates office market in Hong Kong SAR; Finance and TMT lead in Singapore

- As an international financial centre, Hong Kong SAR's office market has traditionally been driven by the financial sector, with related business services also accounting for a large share of the leasing market.
- The outlook for financial sector demand in Hong Kong SAR is bright as the return of mainland Chinese firms after the border re-opening is set to induce more IPO and related financial demand.
- Along with the financial sector, tech is the key driver of office demand in Singapore, with both international and mainland Chinese firms in this sector expanding rapidly in recent years. However, economic headwinds and global layoffs have led to softer demand since H2 2022.

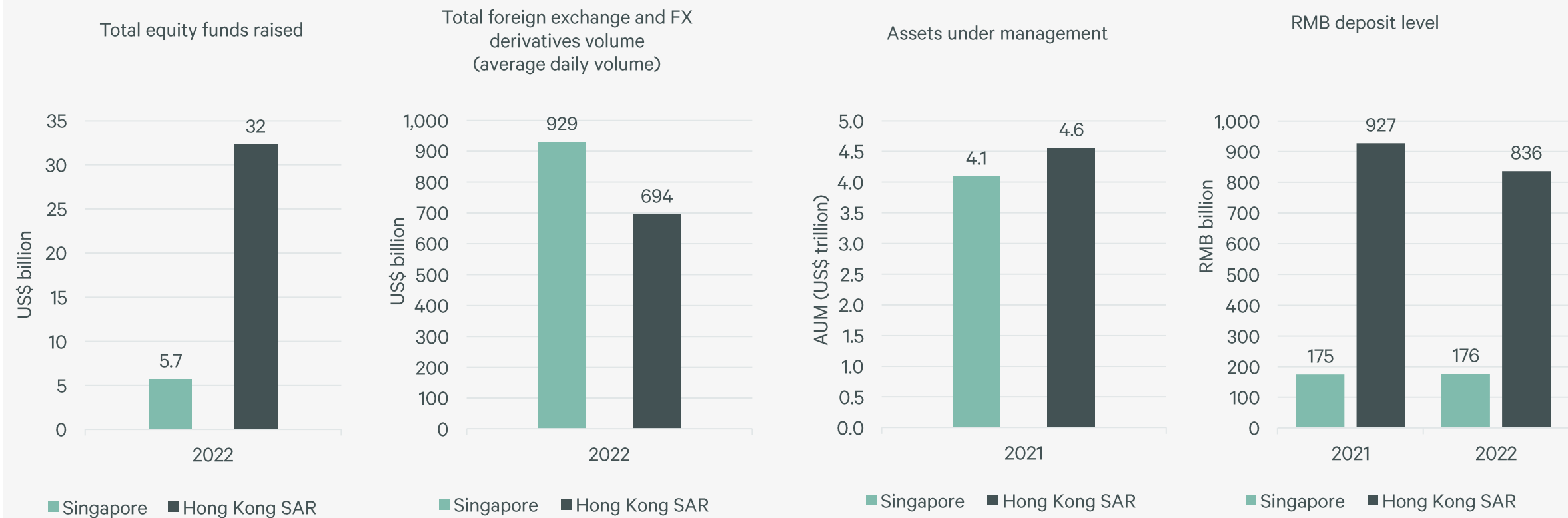
Figure 6: Percentage of total office space leased by major sectors, 2022



Source: CBRE Research, February 2023

Hong Kong SAR vs. Singapore as a financial hub

Figure 7: Financial markets and wealth management statistics



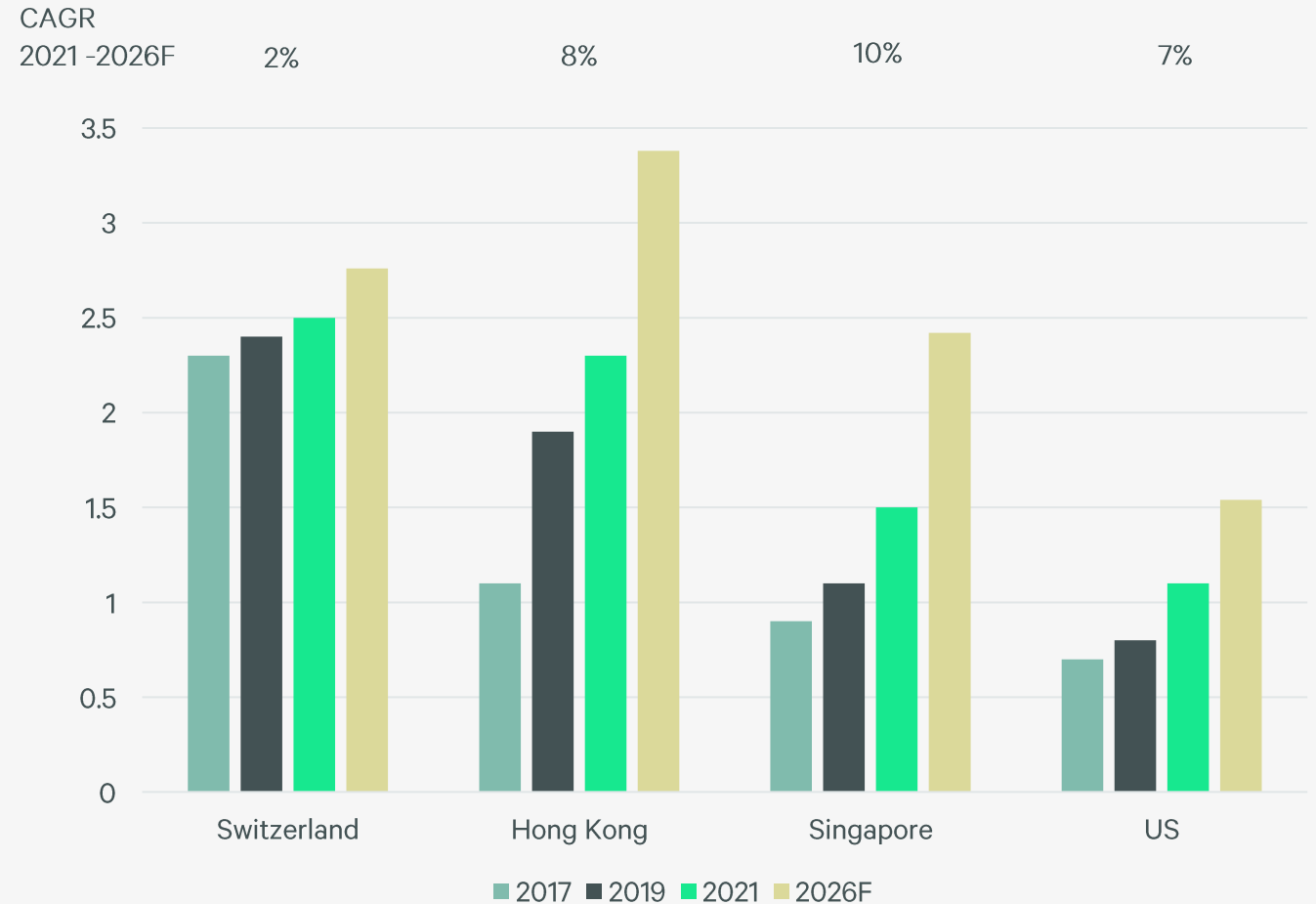
Source: Singapore Exchange Market Statistics, Hong Kong Exchanges and Clearings Market Statistics, CBRE Research, February 2023

Source: Singapore Foreign Exchange Market Committee , Hong Kong Treasury Markets Association, CBRE Research, February 2023

Hong Kong SAR set to become largest private wealth management centre

- In 2022, equity fund raising activity in Hong Kong SAR was almost 5x that in Singapore. The city's proximity to and strong ties with mainland China make it a leading global offshore RMB business hub.
- Both Hong Kong SAR and Singapore rank among the world's top three cross-border Private Wealth Management (PWM) centres. Hong Kong SAR is expected to overtake Switzerland as the largest global cross-border PWM centre by 2026, supported by a robust inflow of global capital. Hong Kong SAR cut profit tax for family offices to 0% in December 2022 to attract more family offices.
- PWM in Singapore enjoyed a Compound Annual Growth Rate (CAGR) of roughly 10% from 2021 through 2026. The number of family offices in the country increased from 400 in 2020 to 700 in 2022.

Figure 8: Cross-border wealth management AUM (US\$ Trillion)

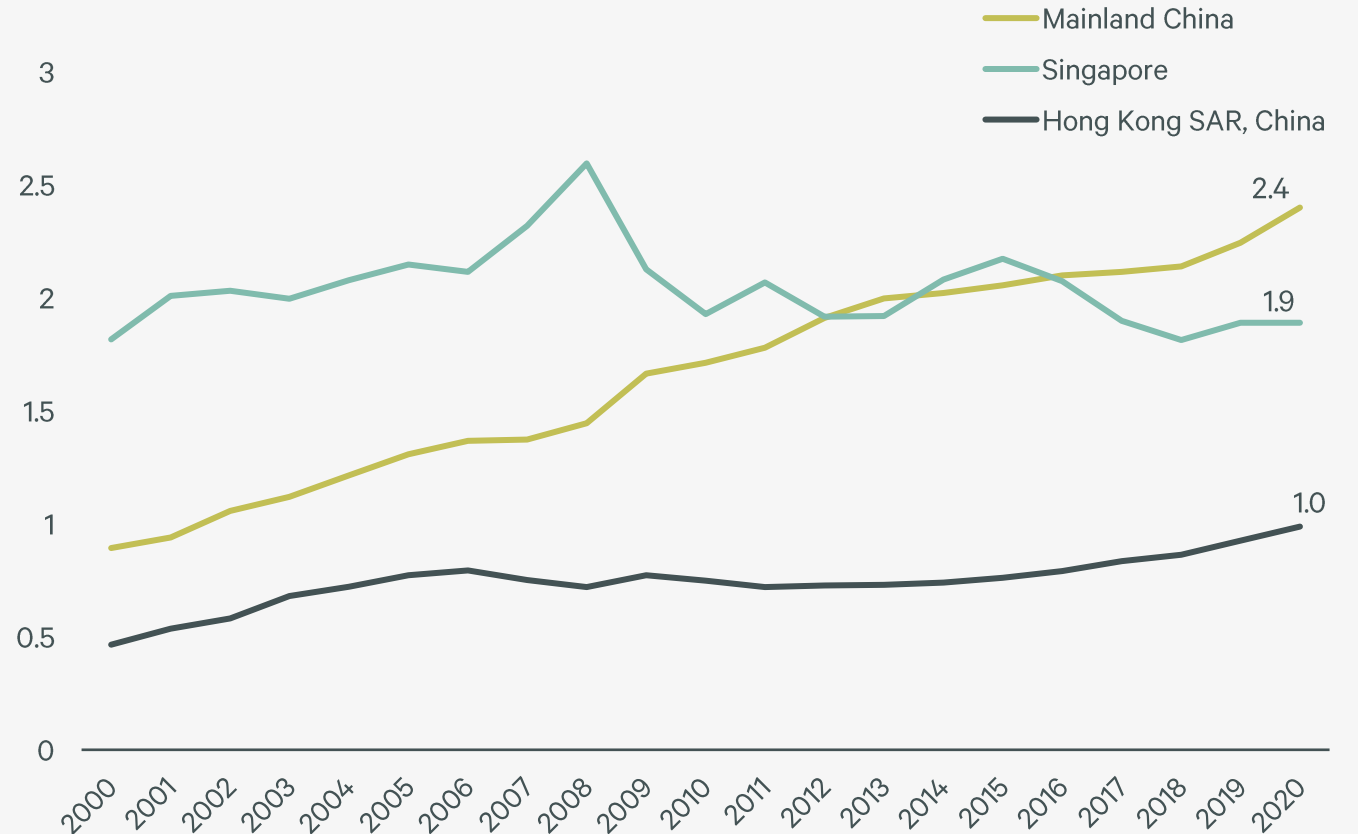


Source: Global Wealth Report 2018, 2019, 2020, 2022 (BCG), Wealth Management Competitor Analytics (Global Data), HKMA

Singapore eclipses Hong Kong SAR in R&D spending

- Singapore continues to invest heavily in technology, research and development, spending around 1.9% of its GDP on R&D. The country has a strong focus on high tech and life sciences, with the aim of developing a high-value added manufacturing industry.
- While Hong Kong SAR invested just 1.0% of its GDP in R&D in 2020, the city is leveraging mainland China's rapid technological growth to benefit its trading industry. The coming years will see closer collaboration between Hong Kong SAR and the mainland on R&D initiatives.

Figure 9: Research and development expenditure (% of GDP)



Source: UNESCO Institute for Statistics, 2022

03

Talent availability and attraction

Talent pool: Finance and tech

- Hong Kong SAR possesses a deeper financial talent pool, while Singapore boasts more science and technology workers.
- Hong Kong SAR recorded a net talent outflow in 2022, while Singapore enjoyed a stronger net inflow.
- The talent pool in both Hong Kong SAR and Singapore will continue to deepen in the long-run.

Figure 10:
Number of people employed in financial industry

In 2022, financial industries accounted for **7.6%** of Hong Kong SAR's total employment and **5.8%** of Singapore's total employment

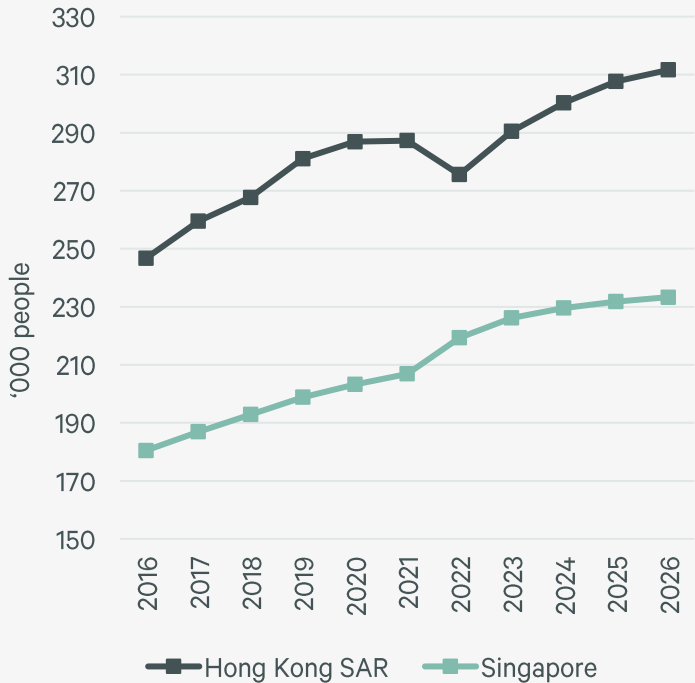
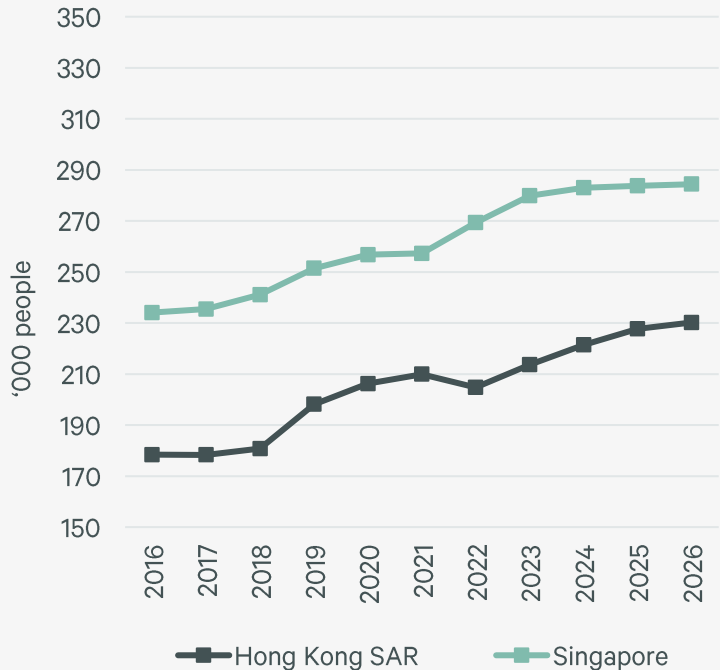


Figure 11:
Number of people employed in professional, scientific & technical activities

In 2022, professional, scientific & technical industries accounted for **6.1%** of Hong Kong SAR's total employment and **7.4%** of Singapore's total employment



Source: Oxford Economics, February 2023

The competition for talent is intensifying

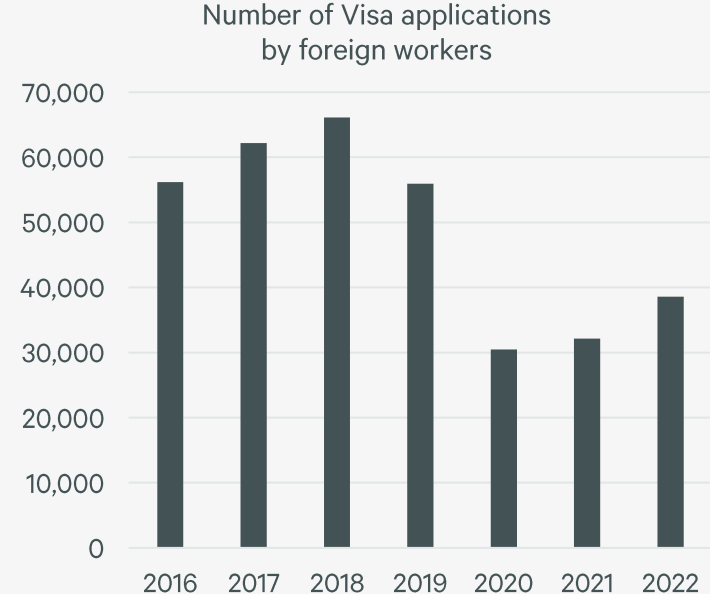
- Although Singapore registered a 13% y-o-y increase in foreign workers in 2022, the level remains below that registered in 2019.
- Growth in the number of foreign workers in Hong Kong SAR started to pick up in late 2022, pushing up total visa applications 20% above 2021 levels, but well below pre-pandemic levels.
- Both markets have recently launched new visa programmes to attract top talent.
- Singapore’s ONE Pass offers a longer validity period as opposed to the existing employment passes’ one to two years.
- Hong Kong SAR’s Top Talent Pass Scheme received 14,240 applications within two months after launching the programme in Dec 2022, according to the Labour and Welfare Bureau.
- As Singapore reports the total number of foreign workers with an employment pass and Hong Kong SAR reports the total number of new visa applications, the two sets of data cannot be compared directly.

Figure 12:
Singapore



- The Economic Development Board of Singapore recently announced it would raise the threshold of its **Global Investor Programme (GIP)** from S\$2.5 million to S\$10 million (US\$7.4 million), effective 15 March 2023
- Investments include business entity, GIP fund investment (at least 50% invested in Singapore companies), or Singapore-based single-family office investment

Figure 13:
Hong Kong SAR



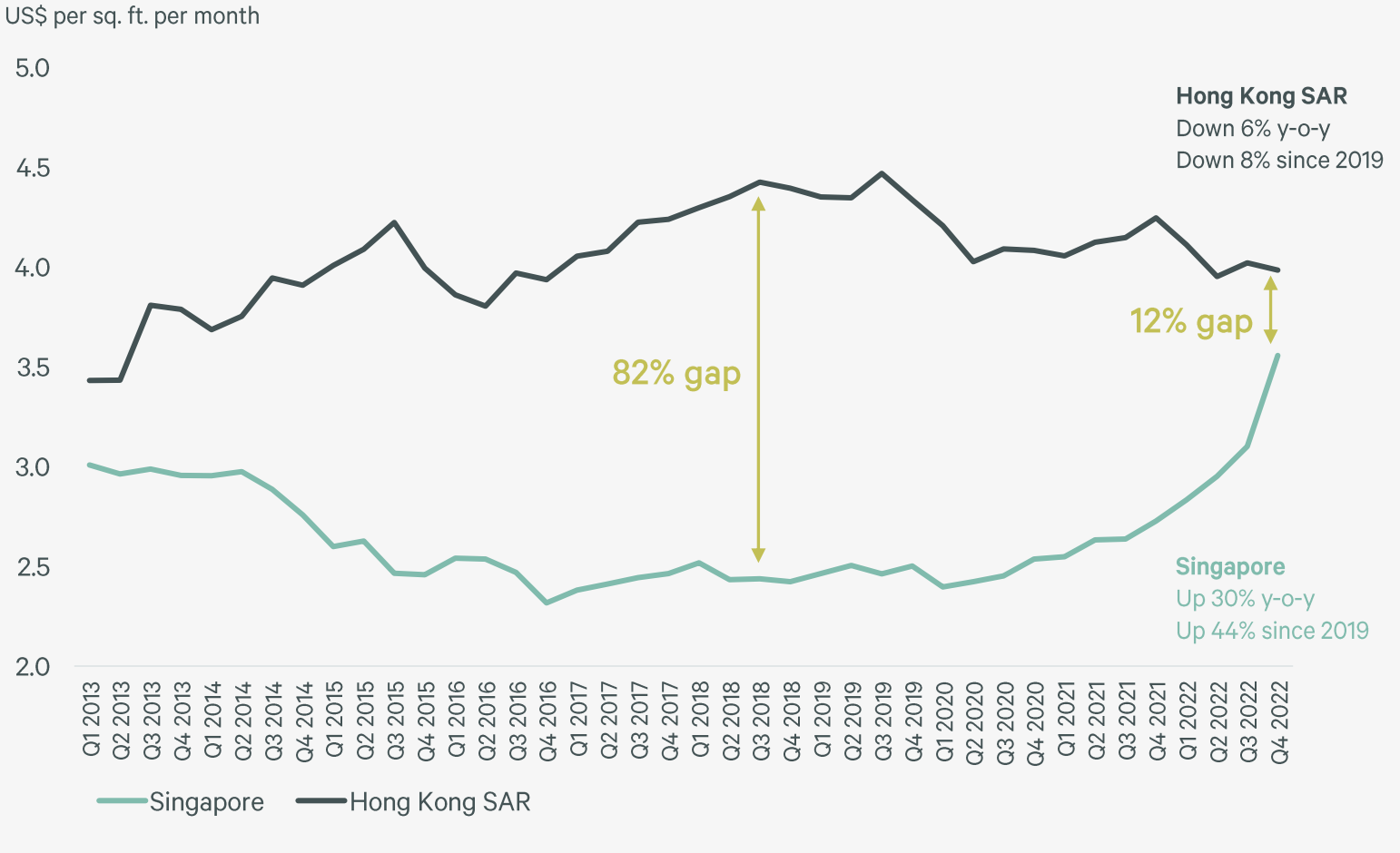
- Hong Kong SAR is to relaunch its **Capital Investment Entrant Scheme**. The original scheme was suspended in 2015 due to a large influx of hot money, which pushed up asset prices
- The amount required has not been announced but is expected to be “multiples” of the old HK\$10 million (US\$1.27 million). Properties will be removed from the eligible investment category

Source: Singapore Ministry of Manpower, Hong Kong Immigration Department and Labour and Welfare Bureau, February 2023

Residential rents in Singapore increase sharply

- The limited supply of rental housing and growing demand from new workers from overseas have pushed up non-land residential rents in Singapore by 43% over the past three years.
- Hong Kong SAR’s residential rents registered their steepest decline in a decade in 2022 due to weaker housing demand caused by prolonged travel restrictions and the departure of a large number of expatriates. With Hong Kong SAR having lifted all remaining anti-pandemic restrictions since February, the rental decline is set to stabilise.
- The residential rental gap between Hong Kong SAR and Singapore is narrowing fast. Residential rents in Singapore could soon surpass those in Hong Kong SAR’s decentralised districts of Kowloon and New Territories.

Figure 14: Residential rents in Hong Kong SAR and Singapore



Source: CBRE Research, URA, Hong Kong Rating and Valuation Department, February 2023

04

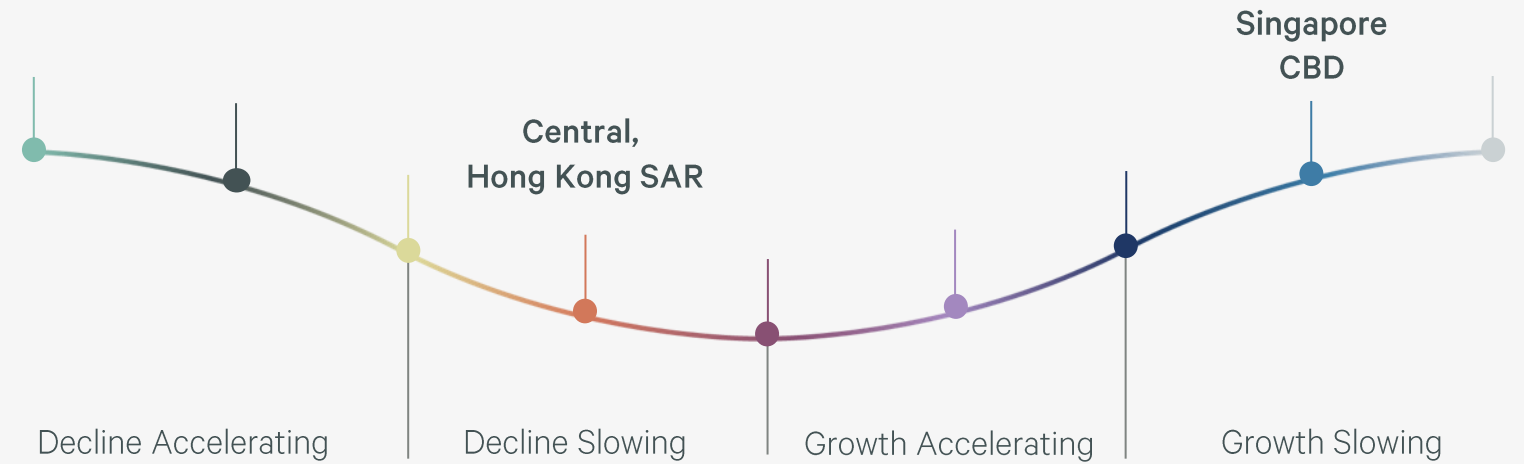
Office rents and availability

04
Market

Singapore and Hong Kong SAR are at different stages of the cycle

- Hong Kong SAR is currently a tenants' market while Singapore is currently a landlords' market.
- Despite a recent slowdown in rental growth, Singapore's office market will remain in the upward cycle and landlords are expected to retain the upper hand in negotiations in the medium term.
- While Hong Kong SAR's office market will remain weak in the medium term, the window for rental discounts is narrowing.
- The two markets differ in terms of:
 - A. The speed of the recovery in leasing demand
 - B. Cost effective options in decentralised areas
 - C. The stage of the supply cycle
 - D. The rental outlook

Figure 15: Overall office leasing volume in Hong Kong SAR and Singapore



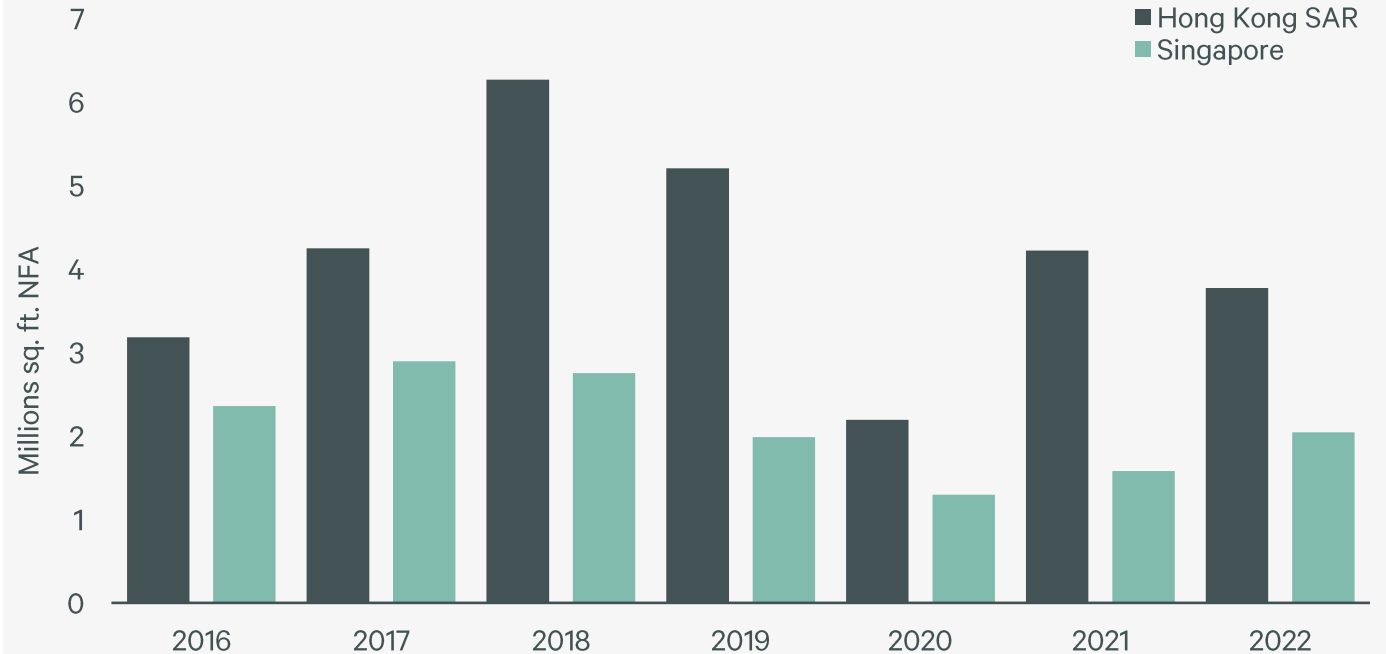
Note: The rental position represents Hong Kong – Central and Singapore – Core CBD.
Source: CBRE Research, April 2023

04
Market

Both markets witness steady recovery in leasing momentum

- Hong Kong SAR's leasing market has historically been more active than Singapore's.
- Both markets saw a steady recovery in leasing volume in 2022, with the bulk of activity driven by flight to quality and / or upgrading relocations combined with downsizing.
- Leasing volume in Singapore returned to pre-pandemic levels in 2022. However, tight availability constrained relocation and expansion demand.
- Leasing activity in Hong Kong SAR declined in 2019-2020 due to sociopolitical unrest and the onset of the pandemic. However, the anticipated return of mainland Chinese companies should eventually help drive leasing volume back to the recent peak.

Figure 16: Overall office leasing volume in Hong Kong SAR and Singapore

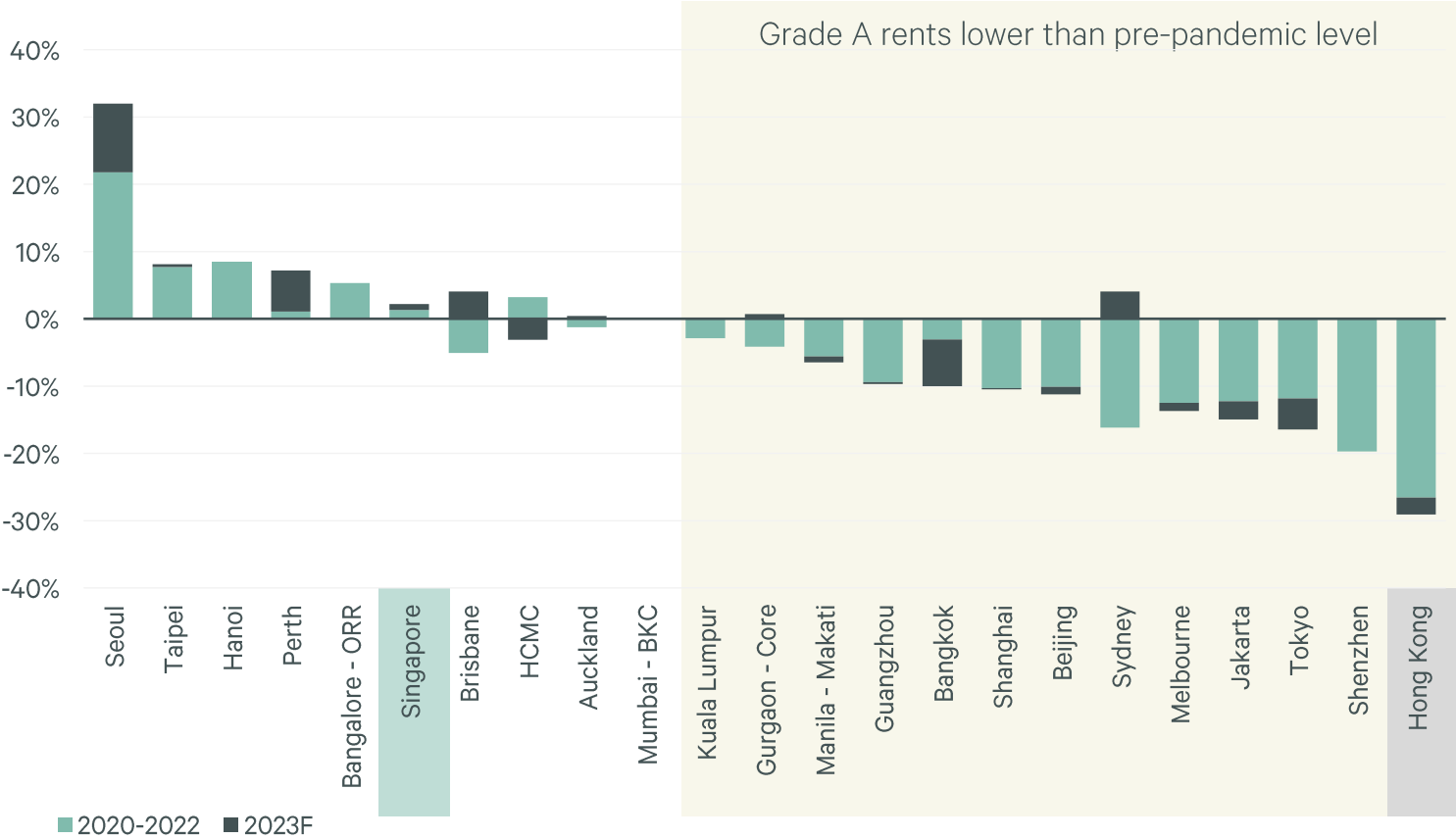


Source: CBRE Research, April 2023

Singapore’s office rents have recovered to pre-pandemic levels

- Although Grade A rents in Singapore will continue to rise in 2023, growth will slow to just 1% following robust gains in 2022.
- After dropping by 10% in 2020, Singapore’s Grade A rents rebounded rapidly and are now approaching a 10-year historical high.
- Grade A rents in Hong Kong SAR are forecasted to continue to decline before stabilising in 2024. Central CBD rents have now fallen by 30% since 2020.
- Grade A rents in Central are not expected to recover to pre-pandemic levels for at least the next three years.

Figure 17: Change in Grade A net effective rent in 2023F compared to 2019 (pre-pandemic level)

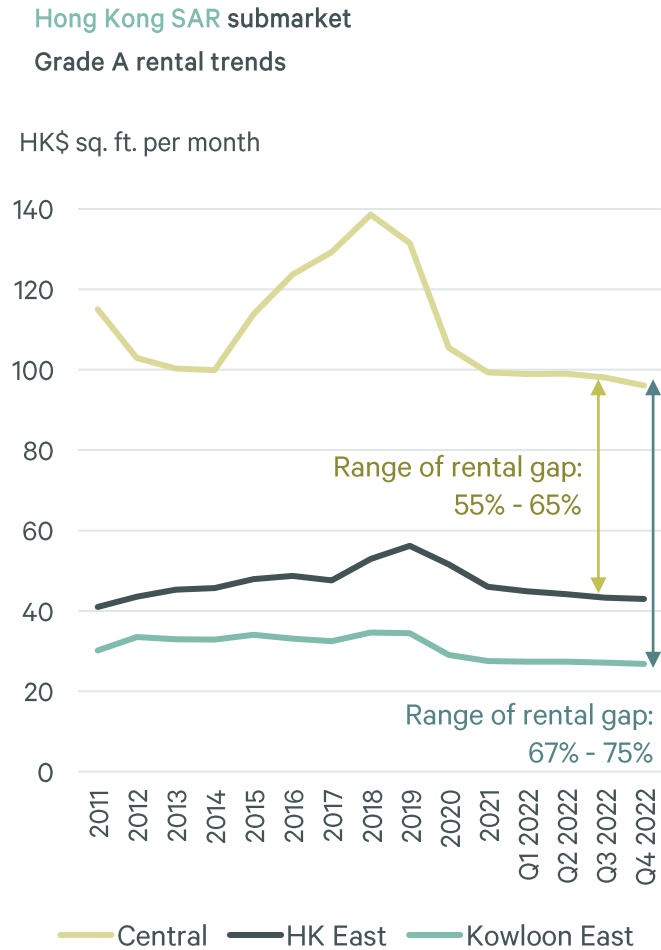


Note: Grade A rents represent rents in CBDs and core locations of each representative market.
Source: CBRE Research, April 2023

Hong Kong SAR CBD rents are higher but city offers more low-cost alternatives

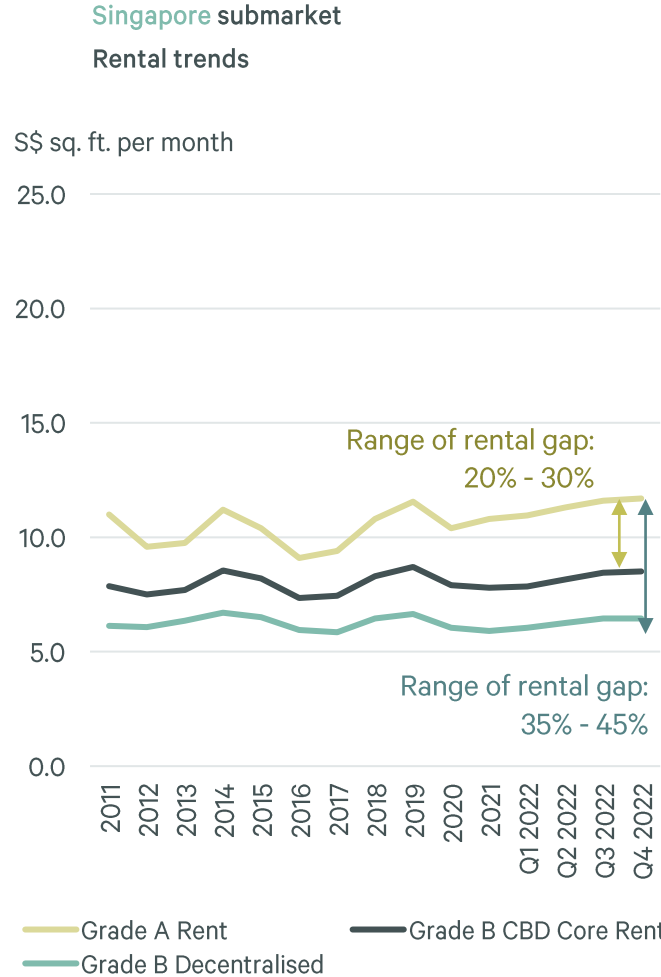
- Despite undergoing a deep correction, Hong Kong Central's Grade A rents remain the highest globally. Grade A rents in Central are currently about 40% higher than those in Singapore's core CBD.
- However, rents in decentralised Hong Kong are up to 75% lower than those in the Central CBD. Grade A rents in Hong Kong East and Kowloon East are lower than those in Singapore.
- Recent years have seen the Singapore government encourage decentralisation, with such areas offering rental savings of up to 45%. However, for high quality space, this gap drops to 20-25%.
- Singapore nevertheless boasts a large business park sector that can reduce costs for companies with back office infrastructure.

Figure 18:



Source: CBRE Research, April 2023

Figure 19:

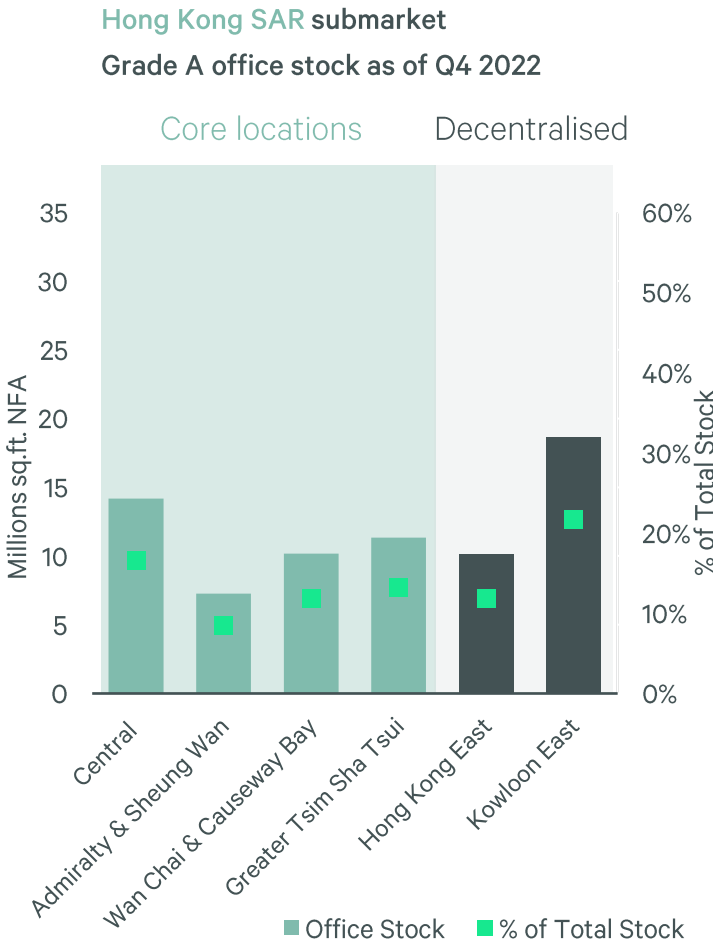


Source: CBRE Research, April 2023

Hong Kong SAR possesses a more diverse range of commercial areas

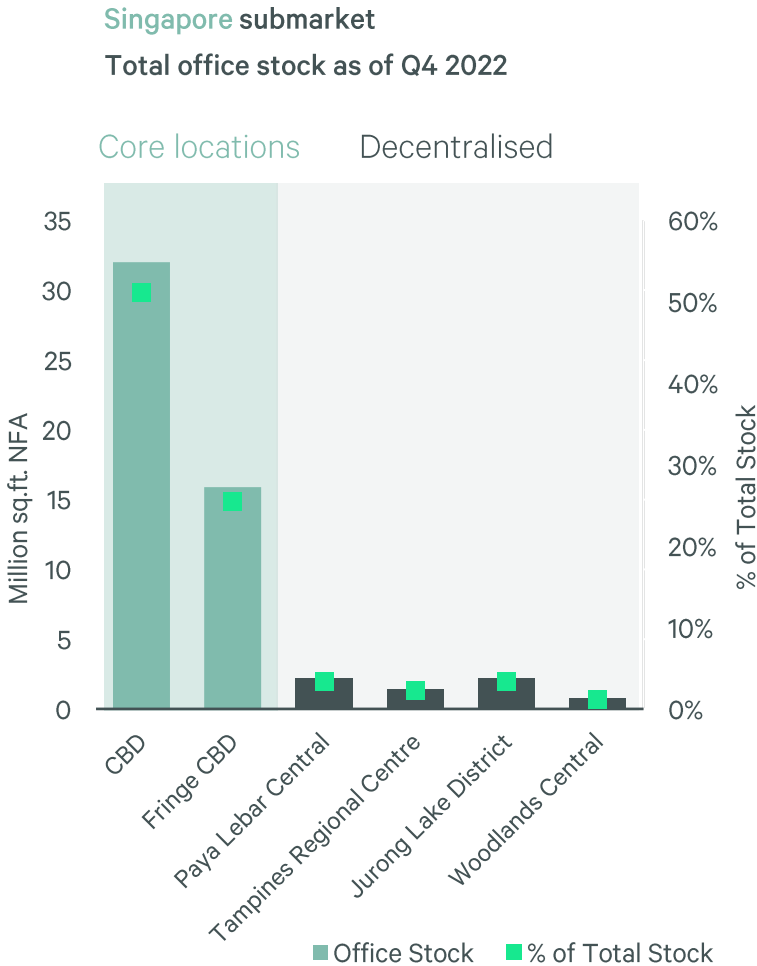
- Business nodes in Hong Kong SAR are geographically more diverse than those in Singapore, with at least one-third of the city's total Grade A office stock located in decentralised areas.
- Following recent infrastructure improvements and the addition of new supply, Kowloon East has overtaken Central CBD as the district with the large volume of Grade A office stock.
- Office space in Singapore is more concentrated in the CBD, which is home to almost 80% of stock.
- However, decentralisation could accelerate in Singapore in the coming years as the government makes more commercial land sites available outside the CBD.

Figure 20:



Source: CBRE Research, April 2023

Figure 21:

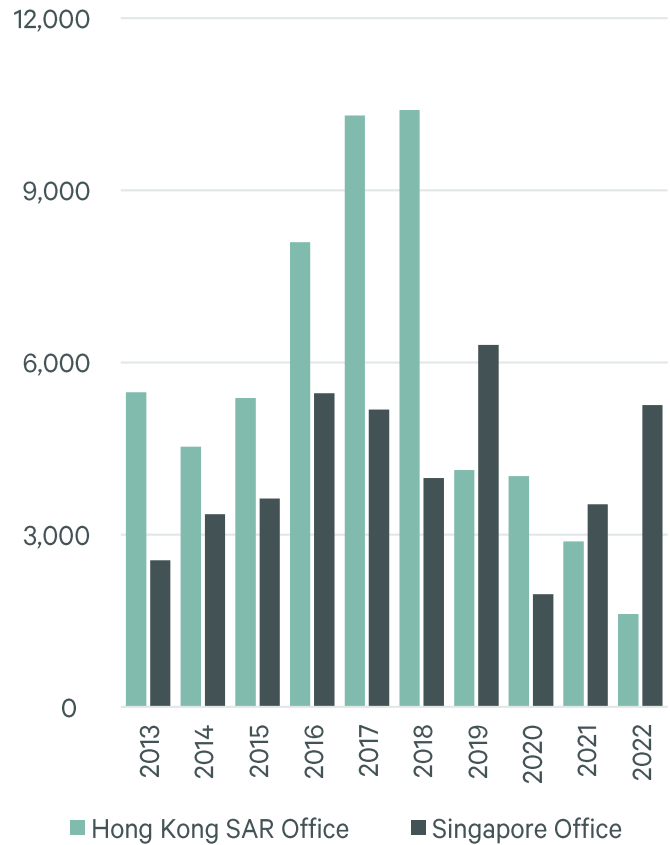


Source: CBRE Research, April 2023

Singapore has a more active office sales market

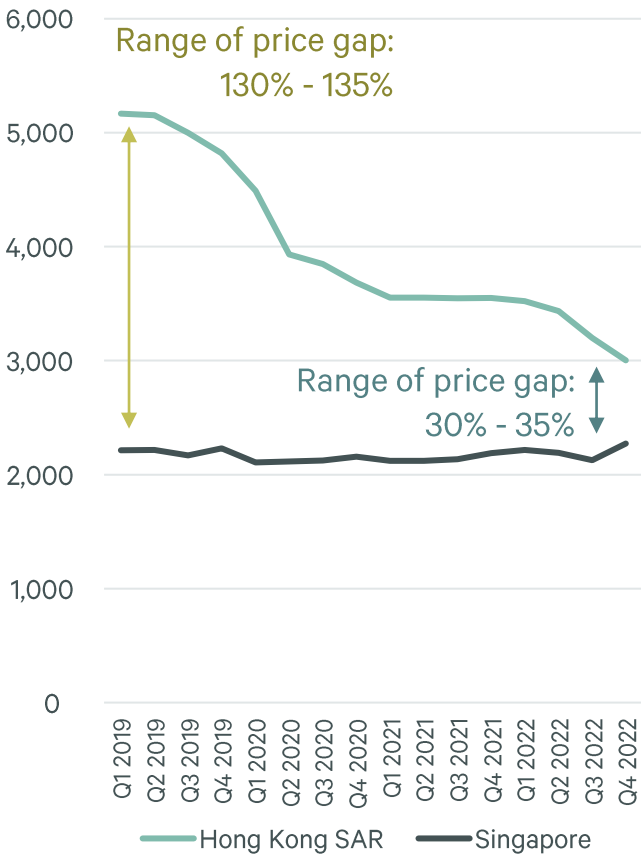
- The past few years have seen office investment activity in Singapore turn more active than that in Hong Kong SAR. Investors focusing on core and value-added continue to be attracted to Singapore’s solid economic growth, healthy long-term office sector outlook and higher availability of investable en-bloc office buildings. Singapore’s earlier border re-opening also helped secure the city a larger share of foreign investment.
- Investment transactions in Hong Kong SAR have been sluggish due to weak office demand combined with looming vacancy and new supply.
- Office capital values in Hong Kong SAR have historically tended to be higher than those in Singapore. However, with capital values in Hong Kong SAR falling by 40% since 2019, the price gap with Singapore has narrowed substantially.
- During this late cycle period, Singapore’s office sector is viewed as relatively expensive, while Hong Kong SAR’s deeply discounted prime offices are seen as offering more favourable prospects for value-oriented investors.

Figure 22: Investment transaction volume (US\$ Million)



Source: CBRE Research, April 2023

Figure 23: CBD office capital values (US\$ per sq. ft.)



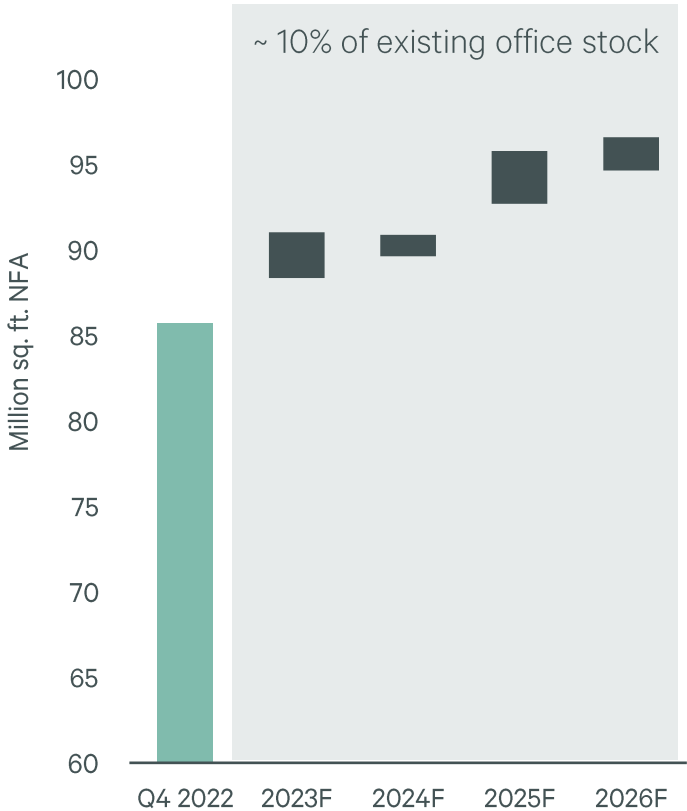
Note: Hong Kong SAR capital values are based on strata-titled office transactions. Singapore capital values are based on single landlord office transactions

Source: CBRE Research, April 2023

Hong Kong SAR has the larger office market

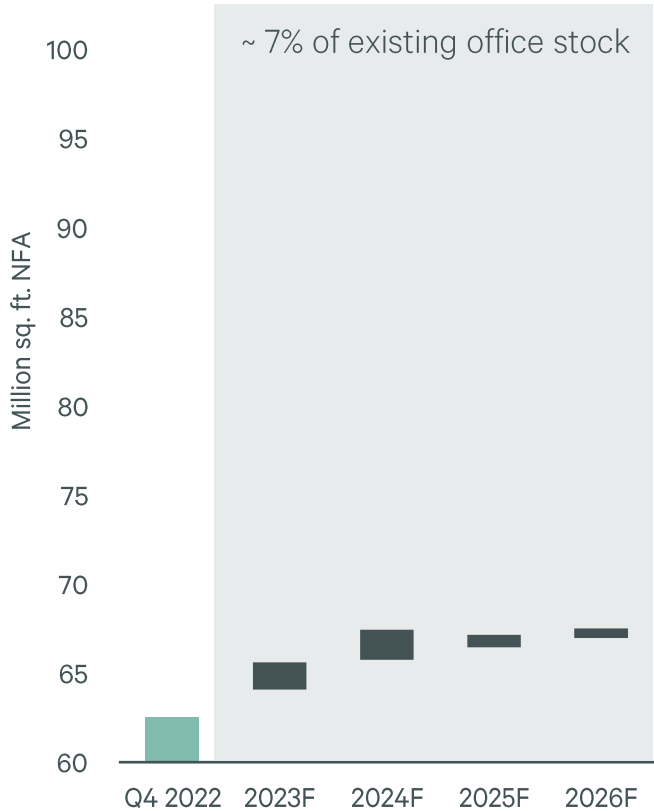
- Total office stock in Singapore is currently 73% of that in Hong Kong SAR. With ample new supply set to come on stream in Hong Kong SAR over the next four years, the gap in total stock between the two cities will widen further.
- Between 2023 and 2026, Hong Kong SAR will see the addition of new supply equivalent to around 10% of existing office stock, while Singapore will welcome the completion of new supply equivalent to 7% of existing office stock.

Figure 24:
Hong Kong SAR submarket
New Grade A office supply from 2023 -2026



Source: CBRE Research, April 2023

Figure 25:
Singapore submarket
New total office supply from 2023 -2026

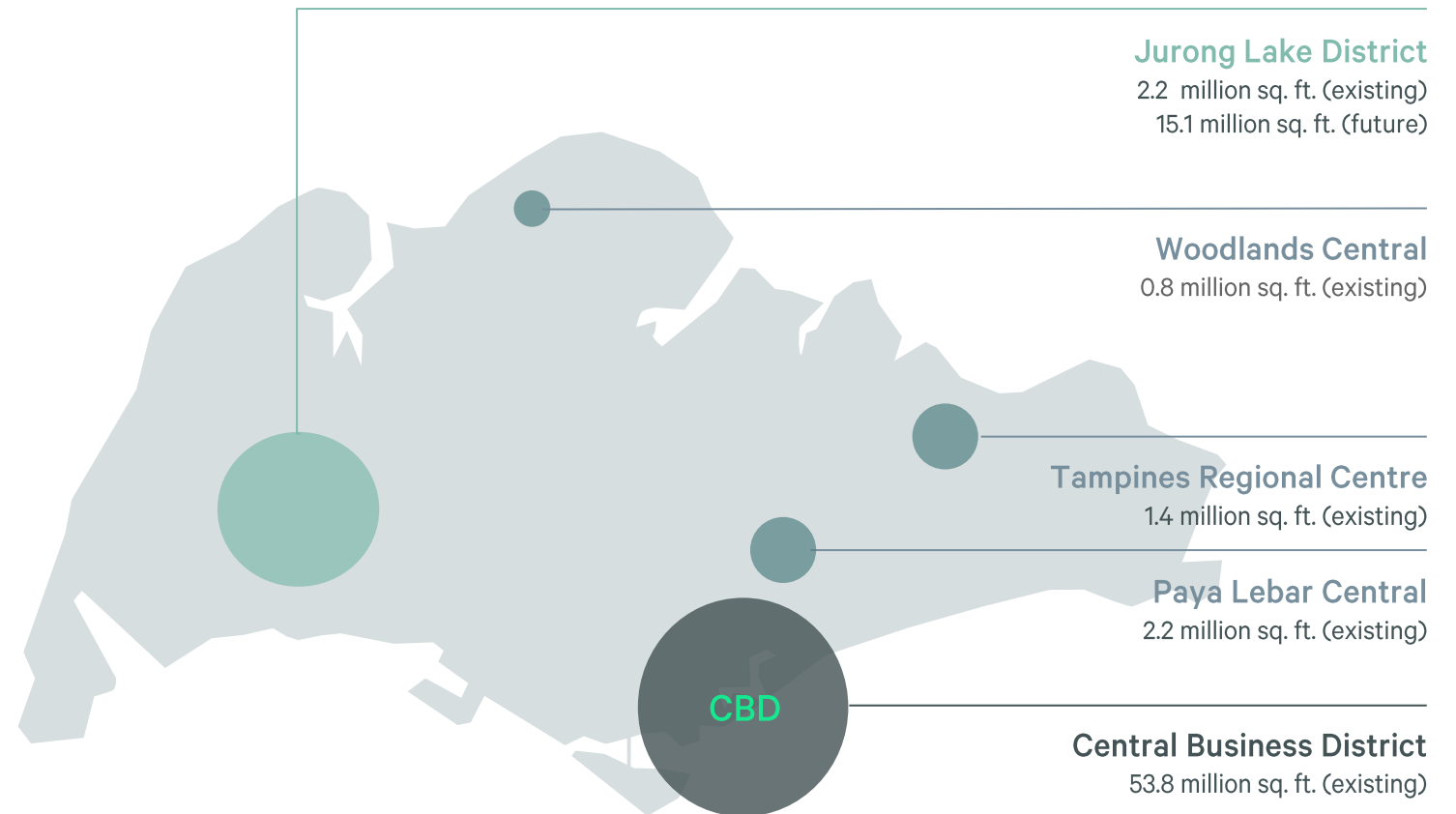


Source: CBRE Research, April 2023

Singapore plans to accelerate decentralisation over next 20 years

- As the Singaporean government looks to stimulate office decentralisation, one area of focus will be Jurong Lake District. The area is intended to eventually host 15 million sq. ft. of office space, which would make it the second largest commercial location in the country.
- In the H1 2023 GLS programme, the Singapore government released a 6.8 hectare mixed-used site which could provide about 1.6 million sq. ft. GFA of office space. This was the largest GLS office site made available since 2016 and the largest ever in a decentralised location.
- The scalability, development design and potential cost advantages should ensure the site offers a unique selling point to occupiers.

Figure 26: Commercial stock in the Singapore CBD and main decentralised office locations

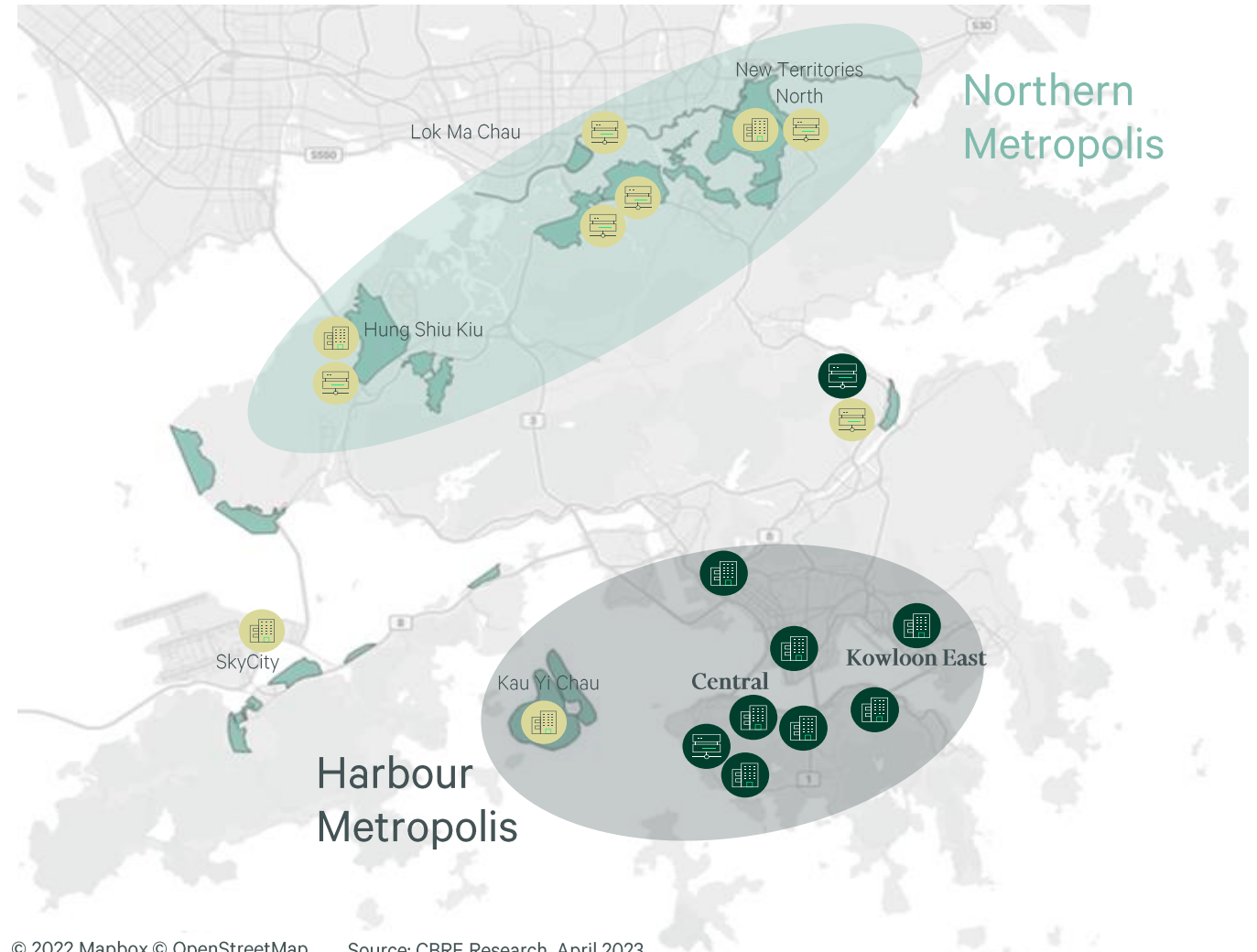


Source: CBRE Research, URA, as of August 2021

Several major new developments are planned in Hong Kong SAR

- Recent decades have seen the emergence of multiple business hubs located either side of the Victoria Harbour in what has come to be dubbed the Harbour Metropolis.
- Office districts have gradually spread to eastern parts of the island and Kowloon East, which is planned to serve as Hong Kong's CBD2.
- While the government has plans to build a HK\$580 billion (US\$75 billion) artificial island at Kau Yi Chau, which would include an office component, the project is still subject to final approval.
- The government also proposed in its 2021 Policy Address to develop a Northern Metropolis as an international innovation and technology hub.
- The Hong Kong-Shenzhen Innovation and Technology Park in Lok Ma Chau Loop will provide 12 million sq. ft. GFA of commercial / high-tech space in phases from 2024-2027.

Figure 27: Two new proposed metropolises in Hong Kong SAR



© 2022 Mapbox © OpenStreetMap

Source: CBRE Research, April 2023

04

Conclusion

04
Conclusion

	Implications for corporates	Winner
Influence in Asia Pacific	Hong Kong SAR and Singapore play complementary roles. Hong Kong SAR is more convenient for running China and North Asia operations, while Singapore is more suited to Southeast Asia and India.	Tie
Scale of financial industry	Hong Kong SAR is the leader in terms of fund raising, RMB deposits and wealth management, while Singapore’s forex business is bigger. Private wealth management is growing in both markets.	Hong Kong SAR
Scale of technology industry	Singapore invests more in R&D and leads in high-tech manufacturing, but Hong Kong SAR is catching up by deepening collaboration with Shenzhen and the Greater Bay Area.	Singapore
ESG and green building initiatives	Singapore’s green building adoption is much higher than that in Hong Kong SAR. However, Hong Kong SAR can leverage mainland China’s new energy industry growth to reduce its carbon intensity.	Singapore
Talent availability and attraction	Although both markets have new schemes to attract talent, steep residential rental appreciation and limited international school places in Singapore may deter some expatriates. In contrast, Hong Kong SAR’s emerging lower cost base might increase its attractiveness.	Tie
Office rents and prices	Singapore’s CBD is still cheaper but Hong Kong SAR offers more cost-effective decentralised nodes. However, the pricing / rental gap between the two cities’ CBD office is narrowing.	Tie
Office availability	Office vacancy in Hong Kong SAR currently stands at the highest on record with substantial new supply in the pipeline over the next four years.	Hong Kong SAR

Contacts

Asia Pacific Research

Henry Chin, Ph.D.

Global Head of Investor Thought Leadership
Head of Research, Asia Pacific
henry.chin@cbre.com.hk

Ada Choi, CFA

Head of Occupier Research, Asia Pacific
Head of Data Intelligence and Management,
Asia Pacific
ada.choi@cbre.com.hk

Cynthia Chan

Director,
Asia Pacific
cynthia.chan@cbre.com.hk

Tony Lai

Manager,
Asia Pacific
tony.lai@cbre.com

Local Heads of Research

Marcos Chan

Head of Research,
Hong Kong
marcos.chan@cbre.com.hk

Tricia Song

Head of Research,
Singapore & SEA
tricia.song@cbre.com

Business Contacts

Tom Gaffney

Regional Managing Director,
Hong Kong
tom.gaffney@cbre.com

Moray Armstrong

Managing Director,
Singapore
moray.armstrong@cbre.com.sg

Ada Fung

Executive Director, Head of Advisory
& Transaction Services, Office
Services, Hong Kong
ada.fung@cbre.com.hk

David McKellar

Senior Executive Director, Co-head
of Advisory & Transaction Services,
Office Services, Singapore
david.mckellar@cbre.com.sg

© Copyright 2023. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

