

Adaptive Spaces

Demand for medical real estate poised for rapid growth in Hong Kong

VIEWPOINT

CBRE RESEARCH
MAY 2022



A resilient sector for landlords

Despite tourist arrivals to Hong Kong remaining non-existent due to measures to contain the spread of COVID-19, demand fundamentals for medical services remain solid and are set to drive solid requirements for real estate.

Strong demand for medical facilities in Hong Kong

Hong Kong's ageing population, rising medical spending by wealthier individuals and wider insurance coverage are set to spur strong demand for healthcare and medical services in the coming years. Rising IPO and M&A activity within the healthcare sector will also accelerate expansion by medical providers.

In 2019, CBRE forecasted that medical centres would require an additional 1.0 million+ sq. ft. of commercial space for expansion. While part of this demand has been delayed due to recent economic volatility, it will be unleashed once the COVID-19 pandemic stabilises. Despite persistent economic headwinds, the healthcare sector expanded by 200,000 sq. ft. just in Hong Kong's Grade A office market in the three years to Q1 2022. Another 200,000 sq. ft. of new demand was seen in various newly built medical-centric commercial buildings during the period.

The high availability of commercial units for lease at attractive rents during the current economic downcycle is providing medical tenants with opportunities to secure suitable premises to accommodate their long-term strategic needs.

Landlords and investors are becoming more amenable to leasing space to medical tenants and are responding to growing demand by developing purpose-built medical buildings to ensure doctors and other healthcare specialists can provide one-stop services within a single building.

As medical groups are usually financially stable and can afford to pay higher unit rents compared to many non-financial companies, they are desirable tenants. This ensures medical-centric buildings achieve high and stable occupancy.

In addition to office buildings, medical services companies are advised to consider leasing space in retail and revitalised industrial premises, provided land use and building specification requirements are met.

Hong Kong's silver hair population by 2047

33%
of total population, up from 20%
in 2022

Life expectancy by 2047

88 years
old
up from the current 85 years old

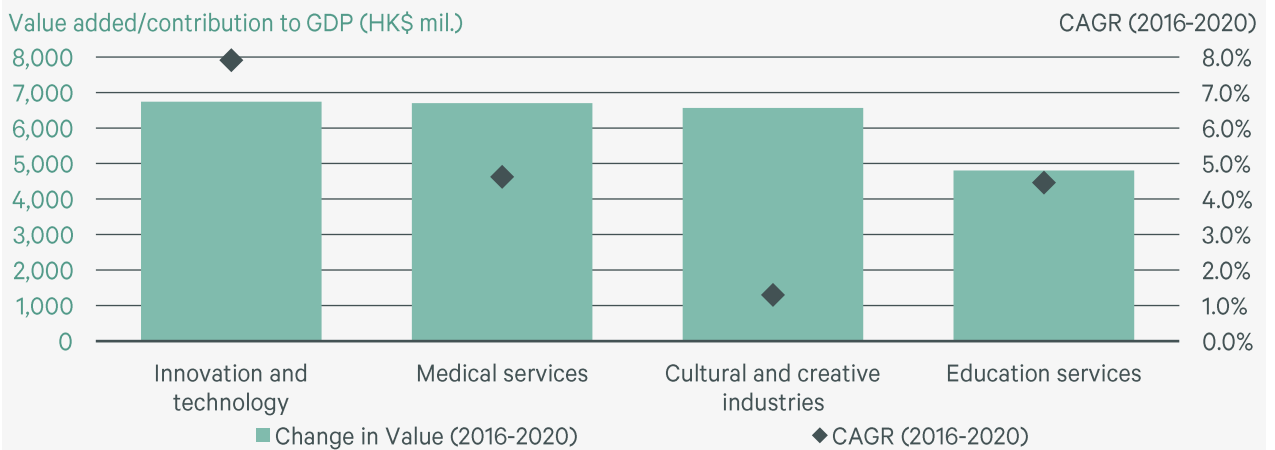
Number of individuals covered
by privately purchased medical
insurance

+33%
over last 10 years

Demand fundamentals for medical services remain strong

Authorities first identified medical services as an ‘emerging industry’ for Hong Kong’s future development in 2009. From 2016 to 2020, medical services’ value-added (net output of economic contribution) grew by HK\$6.7 billion, representing a 4.6% compound annual growth rate (CAGR), making it the second strongest growing selected emerging industry during this period. On top of rapid growth in demand from mainland Chinese tourists, Hong Kong’s ageing population, rising medical spending by wealthier individuals and more comprehensive insurance coverage have been key demand drivers for medical services.

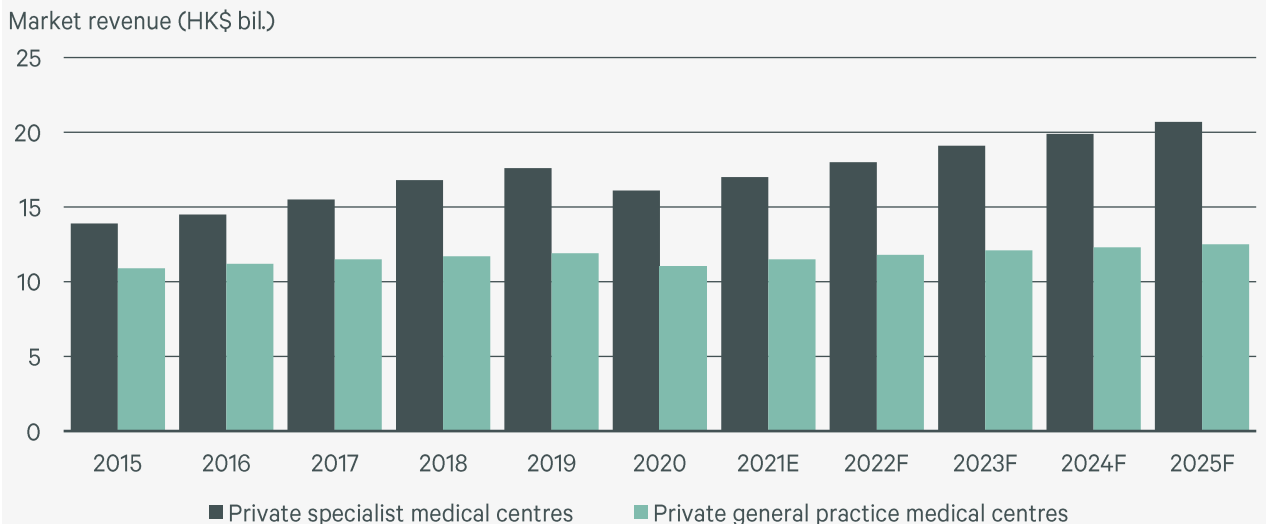
Figure 1: Value added of emerging industries in Hong Kong



Source: Census and Statistics Department, May 2022

In particular, specialist medical centres have seen faster revenue growth in recent years and are expected to experience faster growth in future years. The market revenue of private specialist medical centres increased from HK\$13.9 billion in 2015 to HK\$16.1 billion in 2020, representing a CAGR of 3.0%. Strong demand for more sophisticated medical services will see revenue growth of these centres accelerate to 5.0% per annum between now and 2025.

Figure 2: Revenue of private medical centres

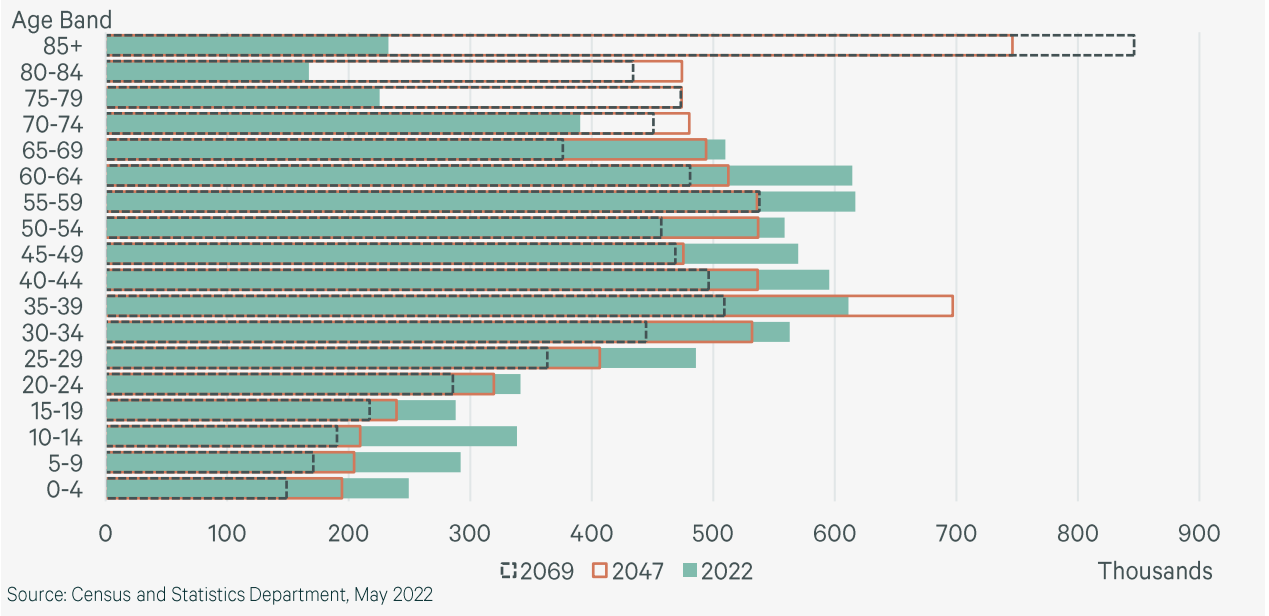


Source: Frost & Sullivan

Note: Western medicine related institutions only

Hong Kong’s ‘silver hair population’ (>65 years of age) is set to rise from 1.5 million in 2022 to 2.7 million by 2047, an increase of 75% in just 25 years, raising its proportion of the overall population from 20% to 33%. The rise in the ageing curve will be at its steepest between 2021 and 2030, climbing at a CAGR of 4.5%. By 2047, those aged over 85 years will be the largest population cohort in Hong Kong, indicating a high likelihood of a surge in demand for medical services.

Figure 3: Projected Hong Kong population pyramid 2022 vs. 2047 vs. 2069



Looking at health expenditure data alone, inflation and stronger demand boosted Hong Kong’s total health expenditure five-fold from HK\$33 billion in 1989/1990 to HK\$180 billion in 2019/2020. Strong growth in health expenditure has been one of key contributors to healthier and longer living, with Hong Kong’s life expectancy having risen from 77 years to 85 years over the past three decades, putting it well above 2021’s global average of 72.9 years. Hong Kong has reported the world’s longest life expectancy for the last seven years, with life expectancy in the city expected to lengthen even further to 88 years by 2047. At the same time, the death rate across most age groups has fallen considerably over the past decade and is expected to remain low for the foreseeable future.

Figure 4: Hong Kong’s life expectancy and total health expenditure

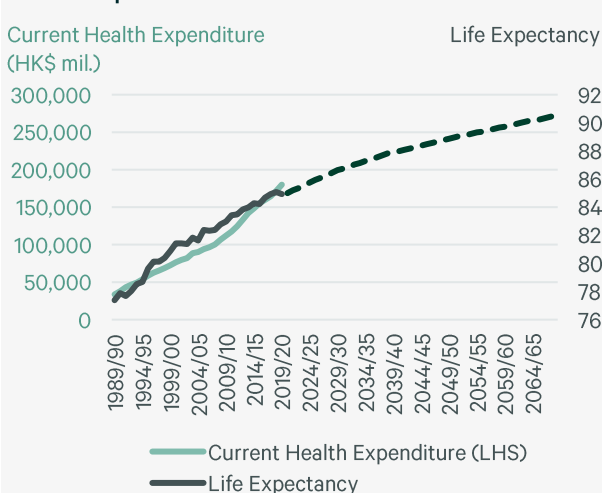


Figure 5: Global life expectancy (Top 10 rankings)

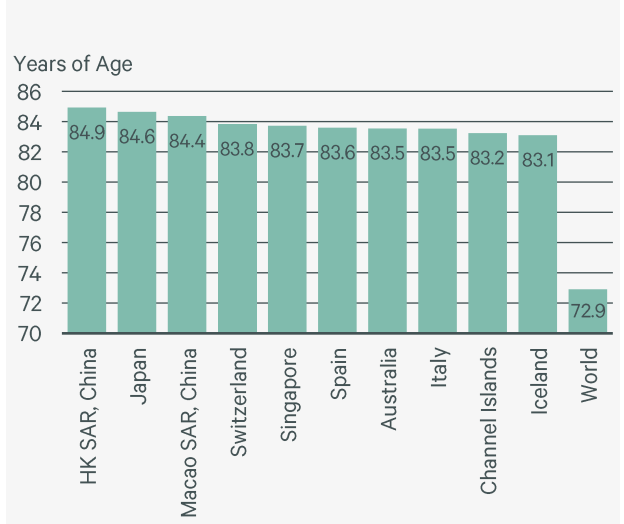
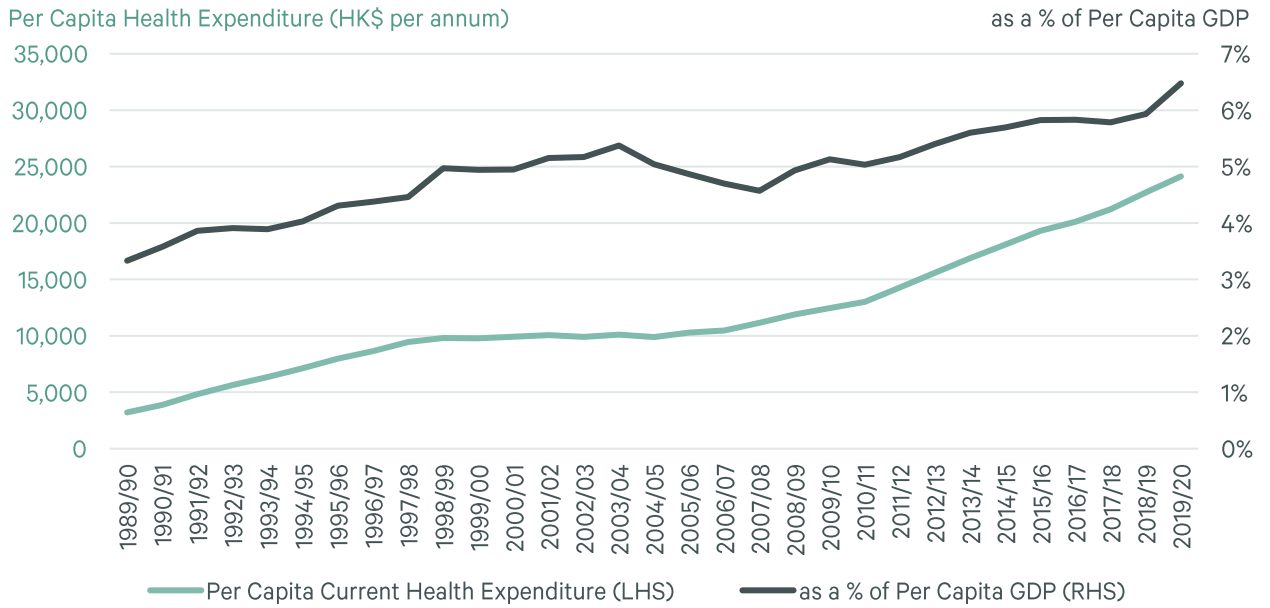


Figure 6: Hong Kong’s per capita healthcare expenditure

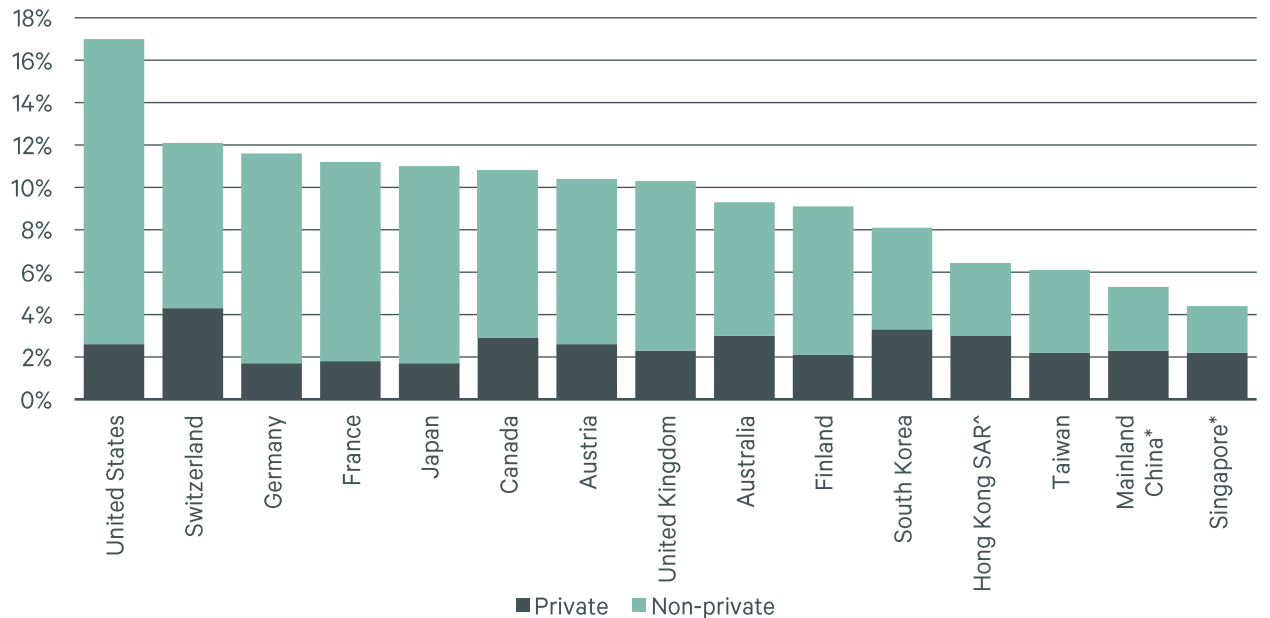


Source: Hospital Authority, Census and Statistics Department, May 2022

As of 2019, Hong Kong possessed the world’s second highest median wealth per capita at US\$180,510. Hong Kong residents’ relatively high living standards are underpinning a strong focus on personal health, which is expected to drive solid growth in healthcare-related spending as the city’s population ages.

Hong Kong’s medical expenditure as a percentage of GDP per capita rose from 5.1% in 2009/2010 to 6.5% in 2019/2020. Despite steady gains, this ratio remains low compared to other major economies, suggesting significant potential for future expansion by Hong Kong’s medical service sector.

Figure 7: Health expenditure as a % of GDP comparison



As of 2019, except for *2018 data. ^2019/2020 data.

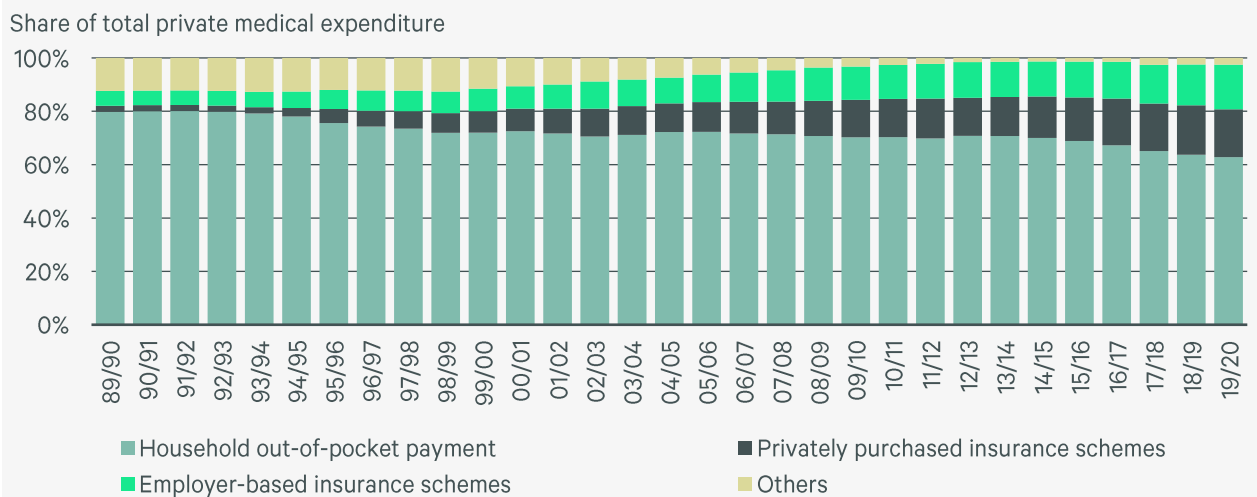
Source: OECD, World Health Organization’s Global Health Expenditure Database, government sources, May 2022

Strong Growth in Medical Insurance

Advances in technology, higher living standards and greater awareness of wellness do not necessarily reduce health-related risks, a fact borne out by the 17.3% rise in the number of new cancer cases in Hong Kong from 139,790 in 2010-2014 to 163,870 in 2015-2019. Rising health risks and medical costs are generating strong demand for medical insurance coverage.

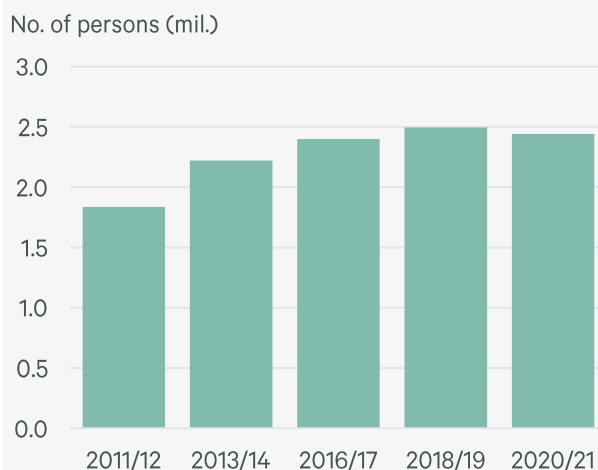
Over the past 30 years, medical expenditure in Hong Kong paid by insurers, including both personal and employment schemes, has risen more than four-fold from 8% to 35%. The number of individuals covered by privately purchased medical insurance schemes has increased from 1.8 million in 2011/12 to 2.4 million in 2020/21, representing growth of 33% in a decade. Apart from a rise in personal insurance coverage, employers have been offering comprehensive medical insurance schemes to attract and retain employees. In 2020/21, around 62% of Hong Kong’s employed persons were entitled to medical benefits provided by employers or companies, compared to 57% ten years ago. CBRE expects reduced out-of-pocket expenditure to encourage higher spending on medical services and drive demand for healthcare centres in and around Hong Kong’s major residential and commercial clusters.

Figure 8: Method of financing for medical services in Hong Kong



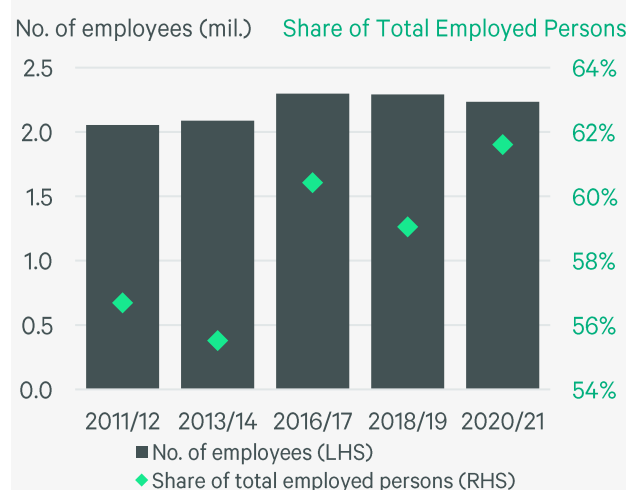
Source: Hong Kong’s Domestic Health Accounts, May 2022

Figure 9: Number of persons covered by privately purchased medical insurance schemes



Source: Census and Statistics Department, May 2022

Figure 10: Number of employees entitled to medical benefits provided by employers/companies

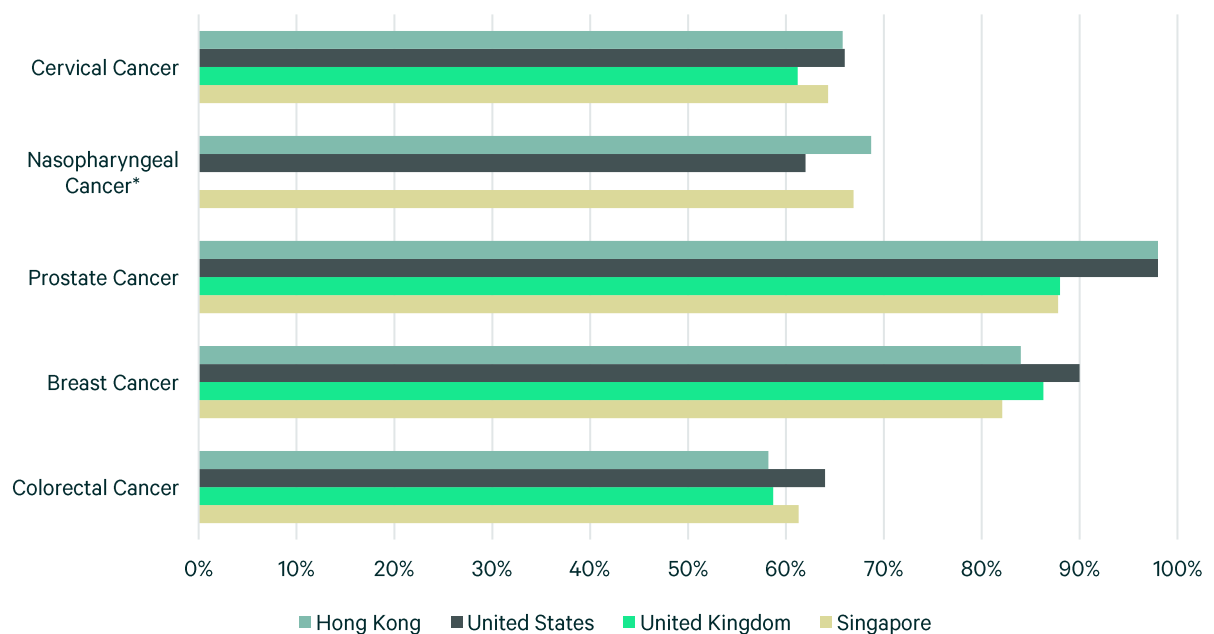


Source: Census and Statistics Department, CBRE Research, May 2022

Potential for Medical Tourism

Hong Kong's high standards and abilities in the area of complex medical surgery underline the city's potential for medical tourism growth. Persons undergoing liver transplants in Hong Kong have a five-year survival rate of 85.7%, well above the global average of 70-80%. The city also has an impressive cancer curing rate, with prostate, nasopharyngeal and cervical cancer patients in Hong Kong enjoying a higher or similar five-year survival rate compared to the U.S, U.K. and Singapore. For nasopharyngeal cancer in particular, Hong Kong's five-year survival rate eclipses that of the U.S. and Singapore by 6.7 pp and 1.8 pp, respectively.

Figure 11: Comparison of five-year relative survival rate of five common cancers



*Data from United Kingdom is not available

Source: Hospital Authority, HKSAR Cancer Online Resource Hub, Hong Kong Integrated Oncology Centre, American Cancer Society, Public Health England, Singapore Cancer Registry Annual Report 2019 (released in 2022)

Mainland China's 1.4 billion population represents a huge market of potential customers for Hong Kong's medical service providers. According to the 2021 Yi Tsai Hurun Wealth Report, there are 2.1 million high-net-worth households in mainland China possessing at least RMB 10 million in total wealth. Around 860,000 of these households are based in Beijing, Shanghai and Guangdong. The latter, which is just over the border with Hong Kong, is home to 300,000 high-net-worth households alone.

Rival markets for medical tourism include established locations such as Singapore and Korea, along with emerging markets such as Malaysia and Thailand, which are promoting high-quality medical services at significantly lower costs. Hong Kong's advantages include a compatible currency, cultural and linguistic commonality and geographical proximity, all which mean the city is highly attractive to the mainland Chinese population.

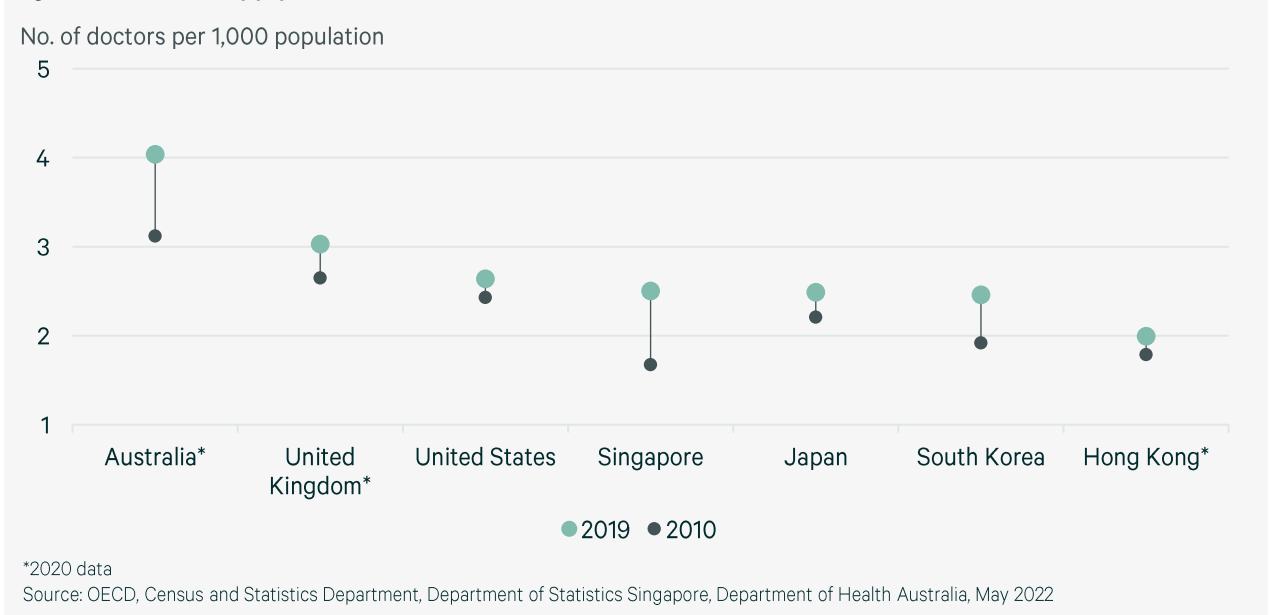
Although improvements to mainland China's healthcare system could gradually diminish demand for overseas medical services, Hong Kong will remain an attractive option for potential customers owing to its prevailing use of Western medicine. Fostering collaboration with mainland Chinese medical platforms and enhancing mainland Chinese customers' accessibility to Hong Kong's medical services will be critical success factors for Hong Kong's medical service providers.

Shortages of medical manpower and facilities

The number of doctors in Hong Kong is low compared to other advanced economies such as the U.S., the U.K., Australia, Japan, and Singapore. While Singapore had only 1.7 doctors per 1,000 population in 2010 compared to Hong Kong's 1.8, the former's ratio had increased to 2.5 by 2019/2020 compared to the latter's 2.0. Australia had up to 4.0 doctors per 1,000 population in 2020, the highest among advanced economies.

Despite its current deficit in medical manpower, Hong Kong has strong growth potential. While the Food and Health Bureau has projected that the city's shortfall of doctors would reach 1,610 in 2030, the government's passing of a bill in October 2021 permitting foreign-trained doctors to practice in the city should ensure the supply of doctors increases in the coming years. CBRE expects the boost in the number of medical personnel in Hong Kong to translate to stronger real estate demand from medical centres, private clinics and other related service providers.

Figure 12: Doctor supply in selected cities/countries



Along with a shortage of doctors, the inadequacy of public medical facilities has resulted in long waiting times in Hong Kong's public hospitals. Accident & Emergency (A&E) services can take between one to six hours to treat patients, while visits to specialist doctors for stable new cases can take as long as three years to arrange.

These bottlenecks are underpinning strong local demand for private medical treatment. The Hospital Authority's recent launch of an imaging and laboratory referral service for private medical centres and clinics, coupled with an Electronic Health Record Sharing System (eHealth) that allows report-sharing between public and private practitioners, is set to channel demand into private healthcare providers as patients seek more timely treatment.

Hong Kong's recent Omicron-led surge in COVID-19 cases underscored the crucial role played by private medical facilities. After public hospital and community centres were overwhelmed with patients, private hospitals and medical centres were encouraged to enroll in a Vaccination Pilot Scheme to cater to immediate needs. Private clinics and medical centres also hosted COVID-19 polymerase chain reaction (PCR) testing services to ease the burden on public hospital and testing centres.

Private medical centre real estate demand and supply

As of May 2022, about 560 private medical centres, including 230 day-procedure centres, were operating in 320 commercial buildings in Hong Kong. Medical tenants with clinics outside of the city centre tend to operate from retail premises, partly due to the lack of office options, while those with centres in core commercial districts are typically located in office buildings. While there are currently around 200 medical centres operating in Grade A office buildings, recent years have seen the development of more medical-centric buildings, the bulk of which are located in the city core. Although these medical-centric buildings are not usually Grade A office standard, they allow medical groups to offer comprehensive services under the same roof. CBRE expects clinics and medical centres to pursue expansion in non-core locations in the coming years as they look to tap into strong demand from rising populations in fast-growing residential districts.

Figure 13: Distribution of private clinics and medical centres in Grade A office buildings

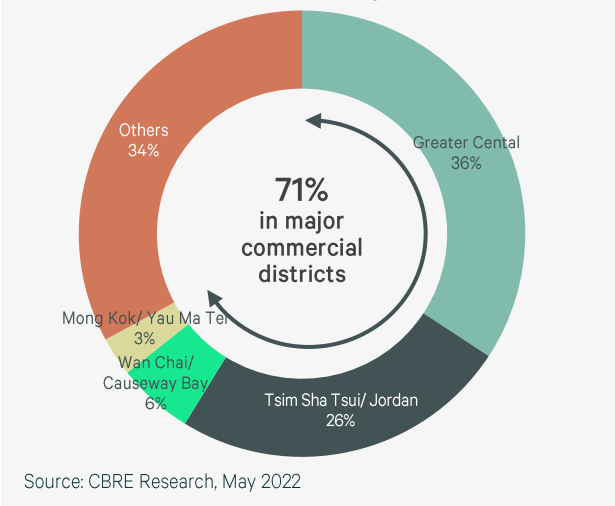
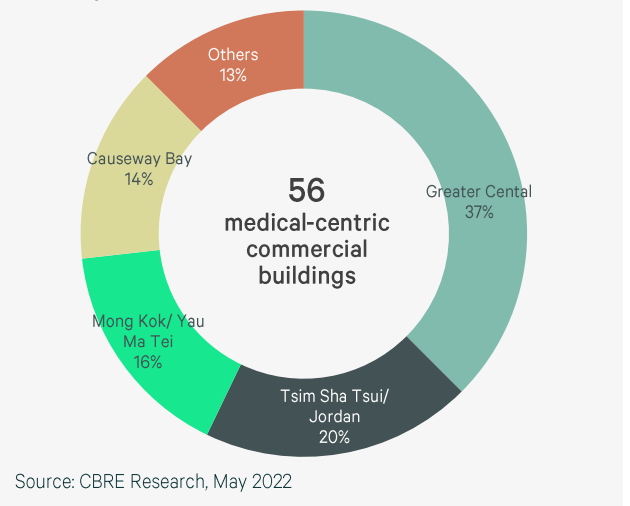
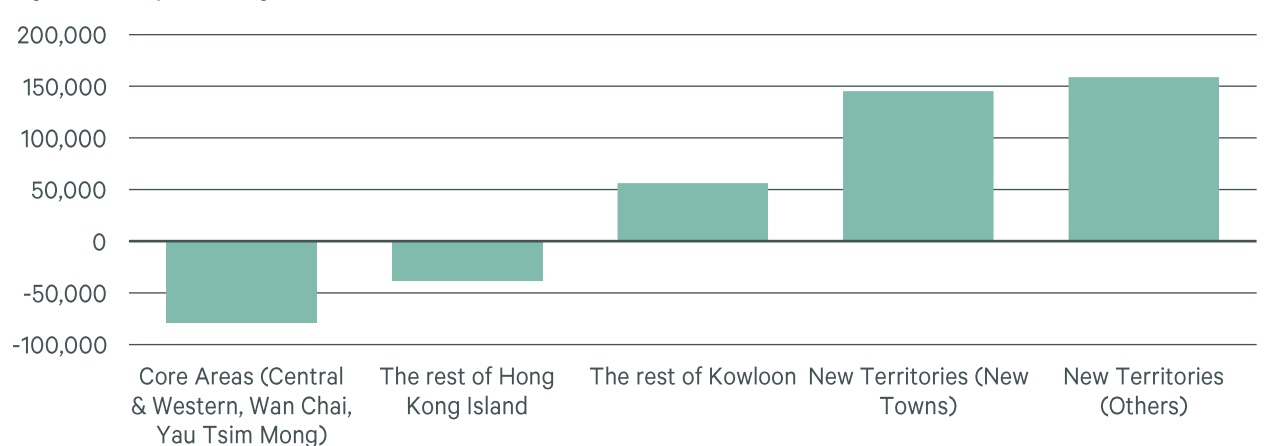


Figure 14: Distribution of medical-centric commercial buildings



According to projections by the Planning Department, the population in Hong Kong Island and ‘Yau Tsim Mong’ in Kowloon will drop by 116,700 persons between 2022 and 2029, while that in the rest of Kowloon and the New Territories will increase by 360,300, respectively. CBRE believes emerging locations with strong population and employment growth, such as Kai Tak, Tung Chung and new towns in the Northern Metropolis including Fanling North, Kwu Tung North, Hung Shui Kiu, Lau Fau Shan and Kam Tin South, are likely to emerge as preferred destinations for medical centres already established in core urban areas.

Figure 15: Population growth between 2022 and 2029

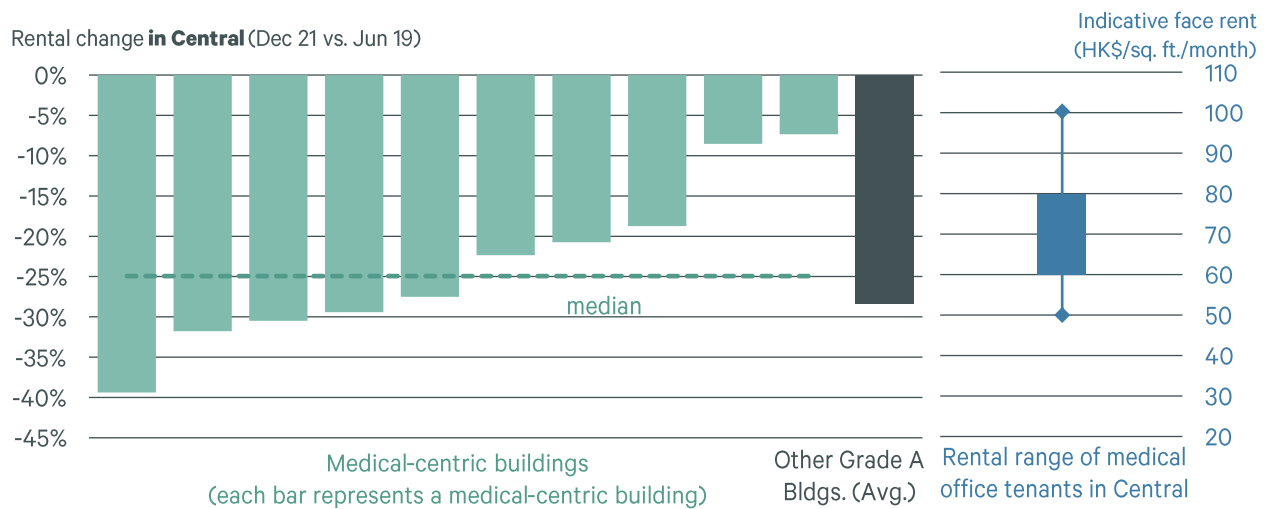


Private medical centres as anchor tenants

Vacancy in medical-centric buildings has remained relatively healthy during the current market downcycle owing to medical tenants’ resilience to economic fluctuations, preference for longer lease terms and relatively lower sensitivity to real estate costs compared to traditional office tenants. Despite the broad-based market slowdown in recent years due to social unrest and the COVID-19 pandemic, new set up and expansion by medical tenants has largely continued unabated.

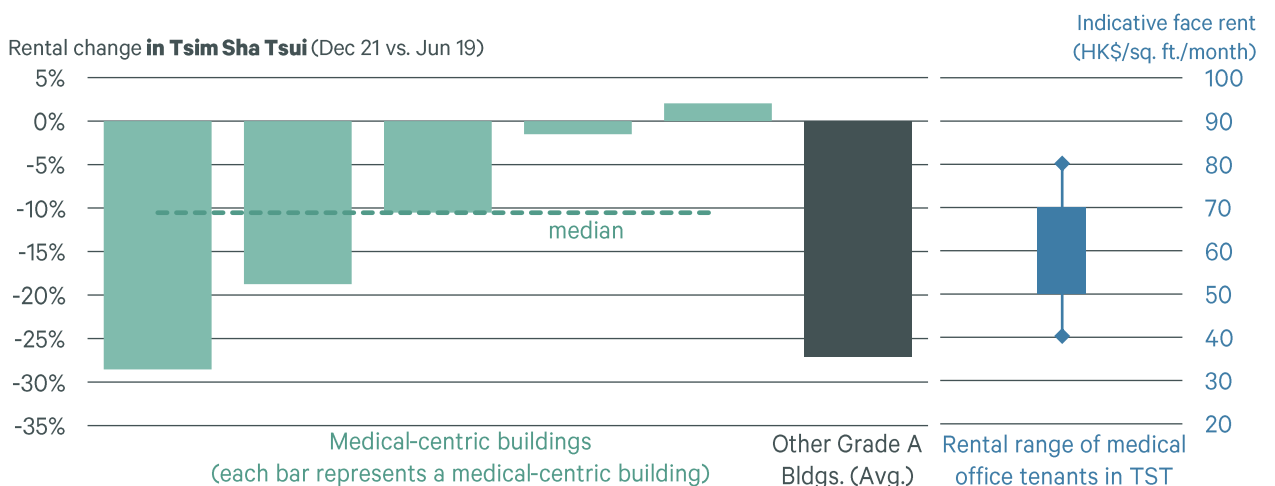
CBRE’s 2019 Viewpoint entitled *Healthy Returns: Medical Real Estate Opportunities in Hong Kong* mentioned that medical tenants are typically able to pay a rental premium of 10%-20% over traditional office tenants (except major banks, multinational financial firms and professional services firms, which tend to be located in the Central CBD). Today, such a premium continues to remain in place. While overall Grade A office rents have fallen by 27% since the downcycle commenced in mid-2019, many medical-centric buildings have registered a comparatively slower rental decline over the same period.

Figure 16: Rental change comparison (medical-centric buildings vs. other Grade A buildings in Central)



Source: CBRE Research, May 2022

Figure 17: Rental change comparison (medical-centric buildings vs. other Grade A buildings in Tsim Sha Tsui)



Source: CBRE Research, May 2022

Recent years have seen an increasing number of private doctors and specialists co-operating to form alliance medical groups. These medical groups prefer to operate under the same umbrella and offer patients one-stop medical services at multiple units or floors within a single building. This is driving strong demand for purpose-built medical buildings able to accommodate highly specialised space configurations and medical equipment.

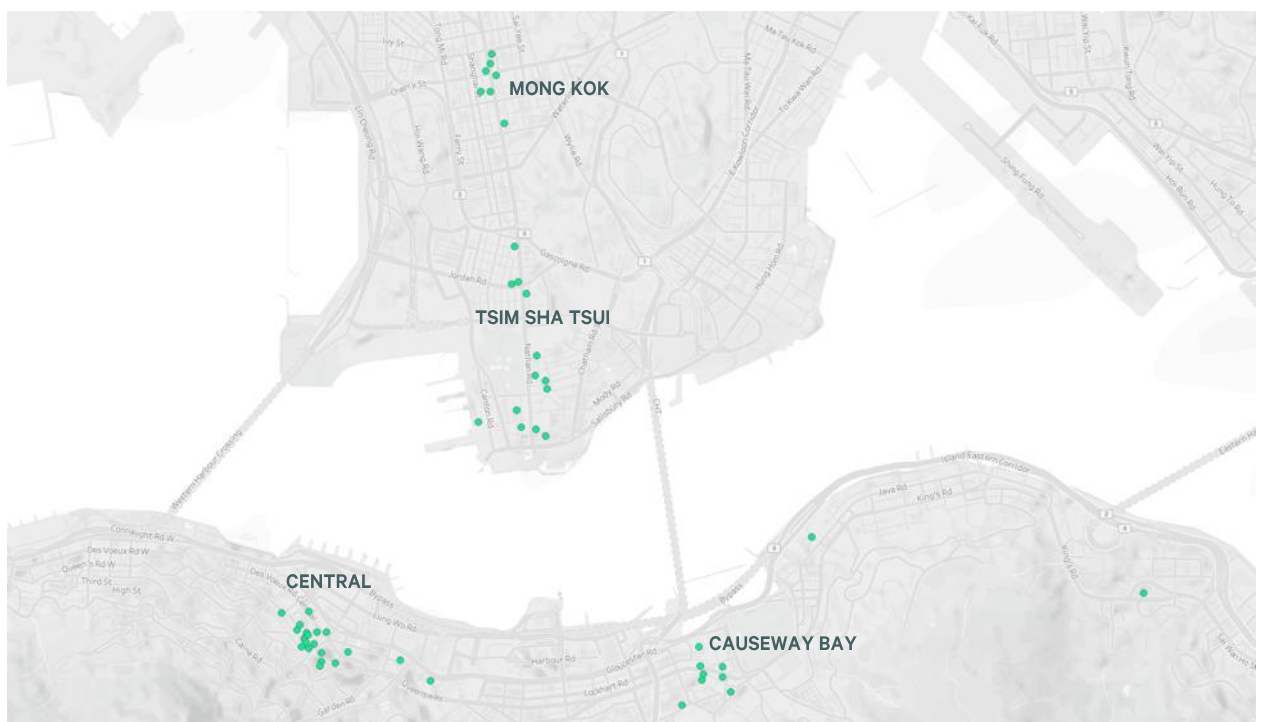
Collaborations were also found between medical groups and insurance companies. In 2019, in response to rising demand for medical insurance, AIA Hong Kong and Union Hospital jointly established the AIA Union Medical Centre in North Point. Spanning over 5,000 sq. ft. in AIA Tower, the facility offers one-stop services to customers. CBRE expects these and other collaborative initiatives between medical centres and insurance companies to accelerate the growth of the medical sector and generate new requirements for office space.

While the number of purpose-built medical buildings in Hong Kong remains limited, landlords are gradually gaining a more comprehensive understanding of medical tenants' requirements. Disabled-friendly elevators and washrooms, high floor loading capacity, and medical waste disposal system are among the specialised building features keenly sought-after by medical centre operators.

Although medical centres and private clinics continue to agglomerate in traditional office buildings in core areas, alternative options are increasing in the form of new purpose-built medical buildings located outside the city's core commercial districts. New World Development has assigned one of the three office towers in its new 11 SKIES project specifically to medical and wellness tenants to cater to growing demand.

Economic recovery and strong underlying fundamentals will likely see medical groups accelerate their expansion plans in the years ahead. CBRE Research expects doctors and other healthcare practitioners will generate 1.0 million+ sq. ft. of commercial space demand in the next three years.

Figure 18: Distribution of medical-centric buildings in Hong Kong's urban core



Source: CBRE Research, May 2022

Figure 19: Purpose-built medical-centric buildings

Building	Location	Completion Date	Building GFA (sq. ft.)	% of GFA Assigned for Medical Floors
21 Ashley	Tsim Sha Tsui	2023	100,000	~90%
11 SKIES (office portion)	Chek Lap Kok	2022	570,000	~30%*
9 Keswick Street	Causeway Bay	2022	32,000	~90%
35 QRC	Central	2020	49,000	~95%
H Zentre	Tsim Sha Tsui	2019	340,000	~50%
Virtus Medical Tower	Central	2018	38,000	~80%
International Medical Centre	Central	2018	58,000	~90%

Source: CBRE Research, May 2022

*office portion

Figure 20: Building specification requirements for medical tenants

Hardware	Medical Centre Requirements	Typical Offerings of Office of Similar Grades
Clear ceiling height (m)	~2.7	~2.8
Floorplate (NFA sq. ft.)	2,000 (minimum) to 10,000 (optimal)	3,000 to 10,000
Floor loading (kPa)	4 (clinical services) / 5+ (diagnosis services)	4 to 5
Water supply / Water plant	Extra plumbing or exclusive water tanks for medical occupiers	General water tank
Vertical transportation	<ul style="list-style-type: none"> Ideally exclusive lifts for patients Service lifts size 1.5m x 1.8m x 2.7m 	Service lift size 1.9m x 2.3m x 3.2m
Air ventilation	<ul style="list-style-type: none"> Positive pressure Separated A/C system Floor louvre availability 	Central A/C system
Others	<ul style="list-style-type: none"> Power provision subject to services provided and centre size Medical waste disposal (separate channel for radioactive materials) Operable windows Disabled-friendly accessibility 	N/A

Source: CBRE Research, May 2022

Outlook and opportunities

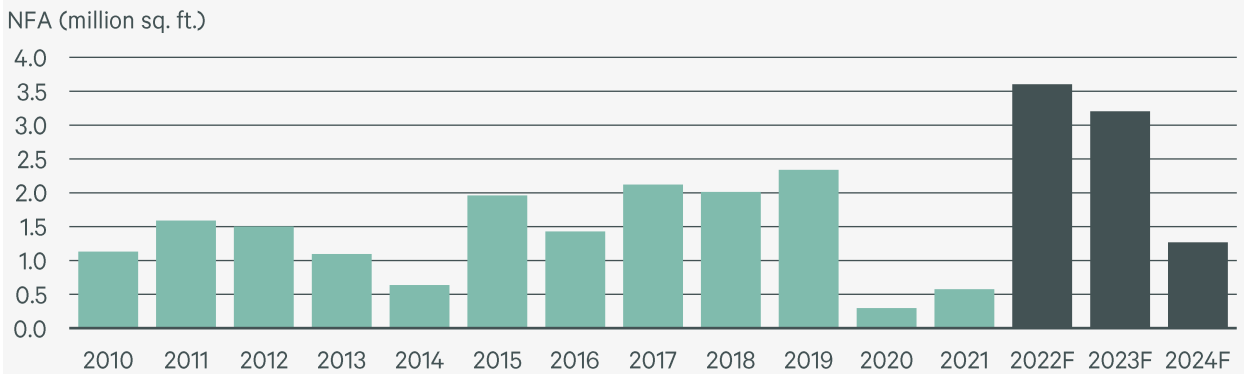
For medical/healthcare business operators

With the COVID-19 pandemic having raised awareness around health and underlined the importance of medical insurance coverage for both privately purchased and employer-based insurance schemes, demand for regular check-ups is set to grow significantly. Despite the pandemic-driven economic downturn, healthcare expenditure will remain inelastic, with Hong Kong’s ageing population and relative wealth driving strong demand for both general and specialist medical services. Indeed, the near breakdown in the public hospital system during the recent surge in COVID-19 infections point to a pressing need for the more effective utilisation of private medical facilities and services.

With nearly 14 million sq. ft. of new supply due to come on stream from 2022 to 2026, Hong Kong’s Grade A office market will provide substantial expansion opportunities for medical occupiers over the next five years. After having relocated to upper office floors following the onset of the upward rental cycle in 2011/2012, alternatively, medical groups are also recommended to explore retail leasing opportunities to take advantage of higher new space availability in various emerging districts and the deep rental discounts in some core commercial hubs.

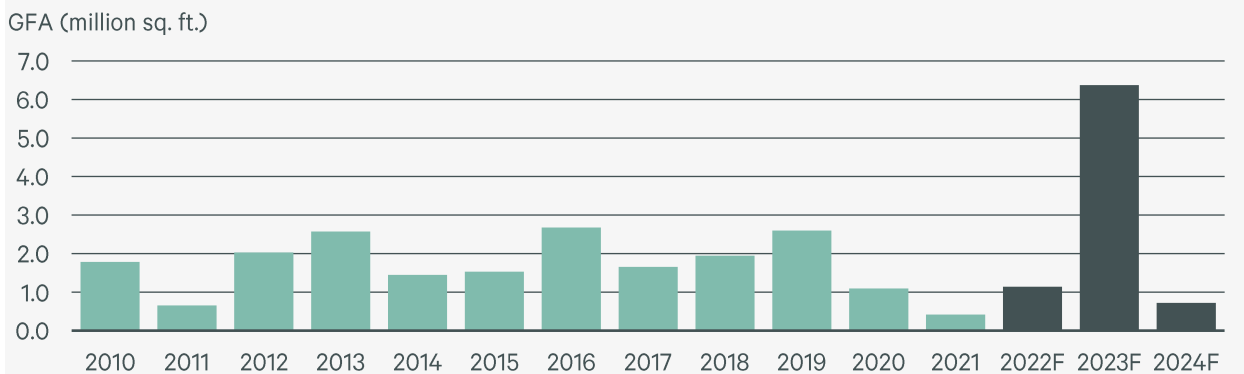
Indeed, the recent market downcycle provides attractive prospects for private medical groups to acquire discounted properties for self-use. With office capital values at nearly 35% below the peak, medical groups can consider leverage the window of opportunity that currently exists to hedge against rental volatility in the long run.

Figure 21: Grade A office supply



Source: CBRE Research, May 2022

Figure 22: Retail supply



Source: CBRE Research, May 2022

For real estate stakeholders

Strong underlying services demand from both local residents and mainland Chinese tourists will ensure Hong Kong's medical sector to experience sustainable growth for many years down the road.

October 2021 saw the passing of the Medical Registration (Amendment) Bill 2021, which creates a new pathway for foreign-trained doctors to practice in Hong Kong. The bill permits non-locally trained doctors and non-Hong Kong permanent residents who hold a recognised medical qualification and have engaged in full-time employment in public healthcare institutions for five years to obtain full registration in Hong Kong. The resulting increase in the supply of doctors in Hong Kong could see real estate requirements from medical centres and clinics rise faster than expected.

Healthcare sector M&A has turned more active in recent years, unlocking significant potential for medical groups to establish or expand their presence in the city. PwC data shows that the healthcare sector was a top three sector in terms of M&A deal volume in Greater China in 2021, outperforming other sectors in terms of annual growth in M&A deal volume and deal value. Recent major M&A deals such as EC Healthcare's purchase of a dental service chain will deepen and enhance these medical chains' service capability, ensuring the need for real estate expansion in the long run.

As of April 2022, 12 of the 31 medical groups listed on the Hong Kong Stock Exchange have medical centre operations in Hong Kong, up from seven in 2019. Most of these listed groups have strong revenue growth and intend to pursue expansion. While there are 20 mainland Chinese medical companies listed in Hong Kong, only one has medical centre business on the ground, highlighting the potential new set-up demand in the future. The commencement of Hong Kong's new listing regime for special purpose acquisition companies (SPACs) on 1 January 2022 will attract more life science and healthcare companies to list on Hong Kong Stock Exchange, leading to robust demand for real estate to accommodate laboratories, sales offices and patient centres.

Discounted prices combined with rental premium and stable occupancy highlight the investment potential for medical-centric commercial buildings. The introduction of the Private Healthcare Facilities Ordinance in November 2018, which requires private medical practitioners to obtain a license or a letter of exemption, helps simplify channels for consumer complaints. This will improve the overall quality of medical services and increase covenant strength of medical sector tenants.

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