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

Flight-to-quality trend continues amid weak market sentiment

HONG KONG ISLAND

Approaching the end of the year, more tenants are sitting on the sidelines amid mounting uncertainty in the business environment. Leasing momentum remained soft in November, with an accelerating rental decline. The overall monthly rent on Hong Kong Island fell to HK$65.6 per sq ft over the month, edging down 2% MoM or 5.6% year to date (YTD). Rents in Wan Chai outperformed among the major business districts, with mild YTD growth of 0.5%. Office space in Wan Chai has been gradually filled up owing to the affordable rent level, so some owners started firming up their asking rents.

Amid the challenging economic environment, cost-competitiveness remained a pressing consideration for tenants. Given the significant amount of new supply, particularly in the CBD in 2024, with approximately 1.2 million sq ft. of new completions, vacancies in Central could continue to rise to an unprecedented level. This will exert pressure on landlords to lower rental expectations and offer flexibility to retain and attract tenants.

Going into 2024, we expect rents on Hong Kong Island to continue their downward trajectory, falling by up to 3%. There will be a recentralisation trend, as occupiers seize the opportunity from falling rents in prime districts. We also foresee continued rising demand for brand-new office buildings. Those with better ESG and sustainability criteria will be more sought-after by occupiers in the market. Meanwhile, as the capital value of office buildings has dropped significantly over the past year, some cash-rich end-users and occupiers are expected to shift from leasing to buying office properties.

KOWLOON

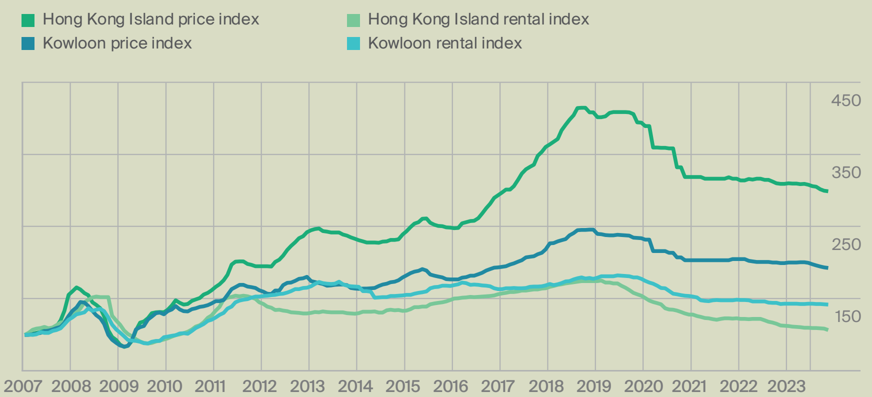
Leasing activity in November was moderate amid soft market sentiment. Leasing transactions were dominated by premises of 3,000 sq ft or below, with rents of around HK$22 per sq ft. Leasing activity in Tsim Sha Tsui improved, supported predominately by demand from Chinese mainland companies. Electronics companies continued to be a major demand driver over the month.

Flight-to-quality remained an occupier priority and supported leasing demand. Occupiers continued to look for a quality or location upgrade. A Taiwanese electronics company relocated from Millennium City 2 in Kwun Tong to The Gateway in Tsim Sha Tsui for 4,000 sq ft for a location upgrade. Growing demand from government organisations and Chinese mainland companies also continued to be key demand drivers.

The presence of 7 million sq ft of available stock in the Kowloon market is exerting considerable pressure on landlords to offer generous incentives to attract tenants, which could include a renovation subsidy, a longer rent-free period and more flexible leasing terms, amid the downward rigidity of rents. Stepping into 2024, we anticipate a gradual improvement in sentiment in the Kowloon office market, with the overall rent expected to see a slight increase of 0% to 2%.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (November 2023)

District	Net effective rent HK$ psf / mth	Change MoM %	Change YoY %	Price (Gross) HK$ psf	Change MoM %	Change YoY %
Premium Central	115.9	-3.0	-7.6	-	-	-
Traditional Central	87.5	-2.6	-9.4	-	-	-
Overall Central	97.1	-2.7	-8.7	31,281	-0.3	-3.7
Admiralty	65.1	-0.8	-1.7	27,410	-0.2	-3.7
Sheung Wan	54.4	0.0	-1.5	26,096	-0.1	-2.8
Wan Chai	50.6	-0.7	0.5	23,395	0.0	-2.7
Causeway Bay	54.3	-1.0	-7.1	20,439	-0.5	-2.7
North Point	36.1	-2.1	-5.3	-	-	-
Quarry Bay	43.8	-3.1	-4.2	-	-	-
Tsim Sha Tsui	55.8	-0.1	0.5	14,163	-0.3	-3.8
Cheung Sha Wan	29.0	-1.8	2.7	-	-	-
Hung Hom	37.4	-0.1	-2.8	-	-	-
Kowloon East	28.9	-0.4	-2.0	11,485	-0.5	-2.6
Mong Kok / Yau Ma Tei	50.6	0.2	-0.1	-	-	-

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

Residential

Volume picking up but prices remain bearish amid deteriorating sentiment

Residential prices declined at a faster pace as market sentiment deteriorated. Overall residential prices slipped 2.2% MoM in October, and the year-to-date (YTD) decline reached 4%, back to the level in March 2017, according to the Rating and Valuation Department. Thanks to the easing of property stamp duties, residential transaction volume rebounded considerably in November, with the total number of transactions surging by 20.3% MoM, the Land Registry shows. Primary and secondary sales rose by a significant 53.7% and 13.6% MoM, respectively.

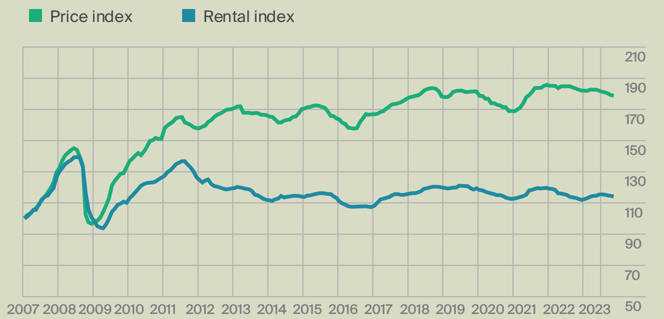
Launches in the primary market continued to be the spotlight, as developers offered deep discounts and flexible mortgage schemes to clear unsold inventories. Some developers were willing to provide longer completion times to buyers and higher commissions to agents to increase their competitiveness in the challenging market.

Notable transactions recorded during the month included a 4,395-sq-ft high floor unit in Tower 2, Mont Verra in Beacon Hill, which was sold for HK$258.2 million (or HK$58,793 per sq ft). Another 3,237-sq-ft high floor unit in Tower 2, University Heights, in Mid-Levels West was sold for HK$254.3 million (or HK$78,560 per sq ft).

Rental rates, in contrast, have thrived, but the gains slowed down, with a mild increment of just 0.3% MoM recorded in October. Market activity slackened after the traditional peak rental season from July to September and approaching the end of the year. We still see resilience on the luxury front, particularly in Southern District. A 4,759-sq-ft house in Shouson Hill in Island South was leased for HK$600,000 per month (or HK$126

Fig 2. Luxury residential rents and prices

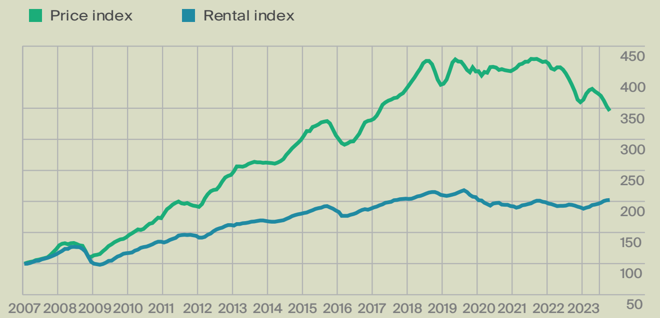
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100



Source: Knight Frank Research / Rating and Valuation Department per sq ft), and a 4,190-sq-ft house in Residence Bel-Air Phase 5, Pokfulam, was leased for HK$308,000 per month (or HK$74 per sq ft).

Looking ahead to 2024, the high interest-rate environment will continue to weigh on home prices, leading to a higher number of foreclosed properties. Volume is expected to rise steadily in light of government's relaxation of "cooling measures" and more incoming Chinese mainland talent. We expect home prices to decline up to 5% in 1H 2024, but leasing momentum to continue, with a 5–8% rise, given ongoing demand from newcomers.

Selected residential sales transactions (November 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Mid-Levels West	University Heights	Tower 2 / high floor / unit A	3,237	254.3	78,560
Mid-Levels Central	21 Borrett Road	Mid floor unit	2,169	136	62,702
Beacon Hill	Mont Verra	Tower 2 / high floor / unit A	4,395	258.2	58,739
Ho Man Tin	St. George's Mansions	Tower 1 / low floor	2,140	89	41,589
Kowloon	The Aura	House	5,183	210	40,517

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

Selected residential lease transactions (November 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Island South	Shouson Hill	House	4,759	600,000	126
Island South	Residence Bel-Air	Phase 5 / house	4,190	308,000	74
Island South	Fairmount Terrace	High floor / unit B	2,334	170,000	73
Ho Man Tin	King's Park Hill	House	2,333	170,000	73
Mid-Levels East	Fortune Court	High floor / unit B	2,499	164,000	66

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

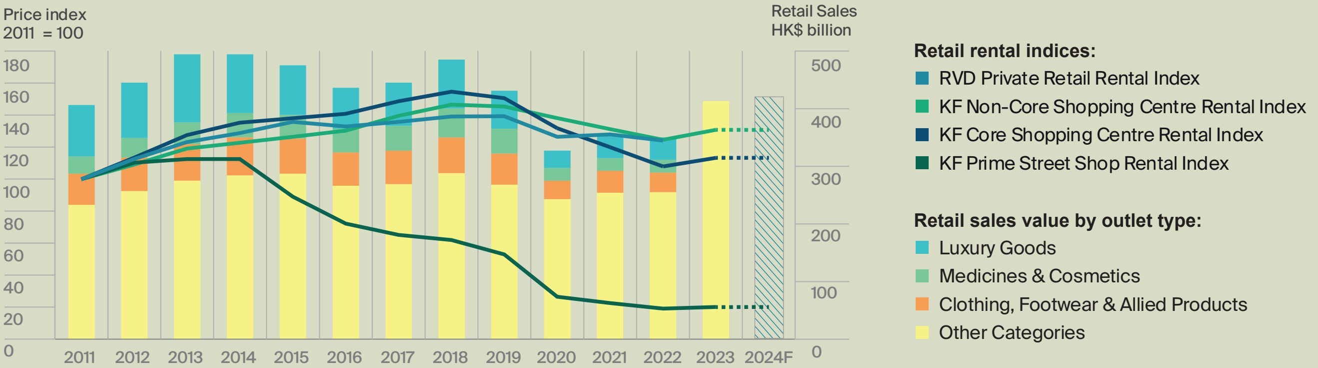
Retail

Hongkongers heading north will continue to strain local retail

Total retail sales value in October increased by 5.6% YoY to HK$33.8 billion amid the continuing tourism revival, marking the 11th consecutive month of growth. However, retail sales grew at a much slower-than-expected rate in October from a year ago, marking the smallest increase this year. Additionally, total sales value in October was 15% lower than the peak in 2018, as economic uncertainty continued to weigh on consumption sentiment.

The Christmas and New Year holiday period is a typical peak season for the retail market. However, according to Hong Kong Retail Management Association, more than 70% of retailers were concerned about business

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department performance during the Christmas holiday, as retailers believed that many Hong Kong residents will head north or travel overseas during the holiday. Furthermore, inbound visitors may not spend as much as before. Therefore, we expect retail sales value to reach HK$413 billion for full-year 2023, a cautiously optimistic figure in the post-pandemic era, given the government's various support initiatives, such as "Night Vibes Hong Kong".

The retail leasing market continued to recover at a moderate pace during the month, particularly in the prime streets of Tsim Sha Tsui. For instance, a 4,260-sq-ft ground floor space (units 1 & 2) in Star House was leased to a Japanese-style department store for HK$1 million (HK$235 per sq ft) per month. The shop had been vacant for two years. A 1,500-sq-ft ground floor unit in the shopping arcade at The One was leased to Chow Sang Sang Jewellery for HK$450,000 (HK$300 per sq ft). Despite rents remaining below peak levels, there are signs that leasing momentum has started to pick up, as retail landlords can now lease large shops that are in demand from tenants with higher rental affordability.

Looking ahead to 2024, we expect the prominent trend of local residents heading north to Shenzhen for shopping to outnumber the number of mainland tourists coming to Hong Kong, which will remain a huge challenge for Hong Kong's retail market. The imbalance will continue to strain the business of Hong Kong retailers. With the continued revival of inbound tourists, we expect retail sales value to move slightly higher to HK$420 billion in the coming year. We expect retail rents to remain flat and stable, with only a mild drop in the shop vacancy rate. To successfully navigate the changing retail landscape, particularly in the face of intensified competition from large-scale shopping centres on the mainland, it is crucial to maintain a flexible leasing structure and cultivate robust collaboration between landlords and tenants. One effective strategy to consider is the promotion of pop-up stores, capex subsidies and revenue-sharing models. These approaches enable the establishment of versatile and resilient leasing arrangements effectively aligned with evolving retail trends.

Retail sales by outlet type (October 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	18.1	2.0	27.4
Clothing, footwear and allied products	3.5	10.3	9.1	-22.3	25.2
Department stores	2.8	8.4	16.6	-1.3	1.0
Fuel	0.9	2.5	-1.1	-2.5	-17.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.1	9.1	-14.4	16.2	1.3
Consumer durable goods	6.6	19.5	12.7	41.1	-11.7
Supermarkets	4.3	12.7	-0.9	-5.5	-5.8
Others	7.5	22.3	5.1	-5.1	19.7
All retail outlets	33.8	100.0	6.3	2.2	5.6

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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