

# Hong Kong Monthly

January 2024

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

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## Office

### ► Expansion demand in CBD re-emerges amid the rental downtrend

#### HONG KONG ISLAND

Given soft market sentiment and limited demand, the overall average rent on Hong Kong Island fell further to HK\$64.7 per sq ft in December, marking a 1.4% MoM drop or 6.9% YoY drop. In full-year 2023, Central experienced the largest decline among major submarkets, with the overall average rent decreasing by 10.2%.

Despite the rental downtrend, the flight-to-quality trend continued. Companies from multiple sectors took advantage of the tenant-favoured environment to consolidate their office space. Certain expansion cases were recorded over the month. A US investment fund house, Franklin Templeton, took up a whole floor of Two International Finance Centre for office expansion. Futu Securities expanded its office space in the United Centre to approximately 20,000 sq ft. Simultaneously, there were an increasing level of enquiries and demand from Chinese mainland companies. We have noticed some newly set-up Chinese companies actively seeking small to medium-sized office space of 2,000 to 3,000 sq ft.

As office landlords are beset with record-high vacancies and unfavourable supply-demand dynamics, more of them have started slashing their asking rents or offering flexible leasing packages to attract tenants. Going forward, we expect the

office vacancy rate to remain high and overall rents on Hong Kong Island fall by 0–3% in 2024.

#### KOWLOON

Office demand continued to be soft due to the festive season. The average monthly rent was about HK\$22 per sq ft, and the deals were dominated by offices with an average size of 3,000 sq ft or below. Activity remained lively in Kowloon East, with engineering companies the key demand drivers in December.

Despite the quiet market, there was growing demand from government and infrastructure businesses, supporting leasing market activity during the month. The Immigration

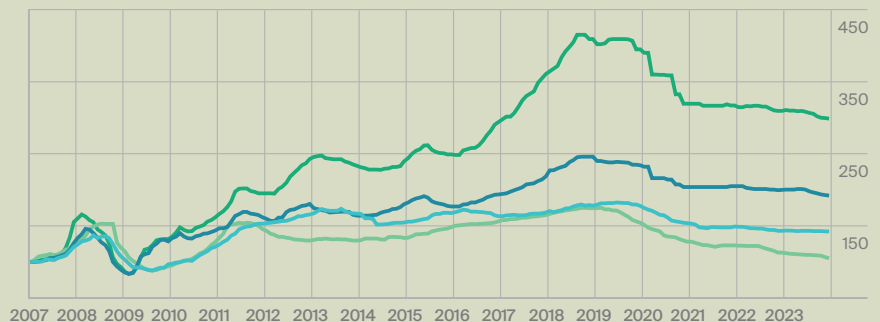
Department leased a 24,000-sq-ft office space in Manulife Financial Centre; and a machinery company rented about 20,000 sq ft in Ever Gain Plaza in Kwai Chung. Echoing activity on Hong Kong Island, the flight-to-quality trend was prevalent. Haleon, a consumer healthcare company, moved its office from The Gateway to AIRSIDE, with an area of 9,000 sq ft.

Looking forward, we expect the Kowloon office-leasing market to gradually gain momentum in Q1 2024. With further improving market demand, a more solid positive effect should hopefully be seen in Q2, and mild rental growth of 1 to 3% is expected in the Kowloon market for full-year 2024.

**Fig 1. Grade-A office rents and prices**

2007 = 100

■ Hong Kong Island price index     ■ Hong Kong Island rental index  
■ Kowloon price index             ■ Kowloon rental index



Source: Knight Frank Research

## Grade-A office market indicators (December 2023)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	111.9	-3.5	-10.9	-	-	-
Traditional Central	87.1	-0.5	-9.8	-	-	-
Overall Central	95.5	-1.7	-10.2	31,281	-0.3	-4.0
Admiralty	65.1	0.0	-1.7	27,310	-0.4	-4.1
Sheung Wan	53.5	-1.6	-3.1	26,096	0.0	-2.8
Wan Chai	50.2	-0.7	-0.3	23,295	-0.4	-3.1
Causeway Bay	53.7	-1.1	-8.0	20,439	0.0	-2.7
North Point	35.6	-1.2	-5.0	-	-	-
Quarry Bay	42.9	-2.1	-6.1	-	-	-
Tsim Sha Tsui	55.8	0.0	0.2	14,063	-0.7	-4.7
Cheung Sha Wan	29.0	0.0	2.3	-	-	-
Hung Hom	37.4	0.0	-2.2	-	-	-
Kowloon East	28.9	0.0	-2.0	11,485	0.0	-2.6
Mong Kok / Yau Ma Tei	50.6	0.0	1.0	-	-	-

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

# Residential

## ► Further price pressure under the gloomy outlook

The sluggish economy continued to cast a shadow on the residential sales market. Overall residential prices fell by 2% MoM in November, marking the seventh consecutive monthly drop, and a year-to-date (YTD) decline of 5.6%, according to the Rating and Valuation Department. Residential transaction volume rebounded for the second consecutive month in December, with the total number of transactions rising by 14.7%, according to the Land Registry. Primary sales surged by 75.3%, but secondary sales dropped slightly by 1.8%.

The surge of primary sales transactions was attributed to the

launch of new development projects, including Yoho West Phase 1, by Sun Hung Kai Properties. The project underwent four rounds of sales in December, resulting in sales of about 85% of the units among a total of 1,230 units rolled out. Other primary transactions were attributed to previously unsold inventories of several new projects offered at a discount. Unfortunately, discount offerings in the primary market have dampened the asking rates in secondary markets.

Overall rental rates saw modest growth of 0.6% in November, according to the Rating and Valuation

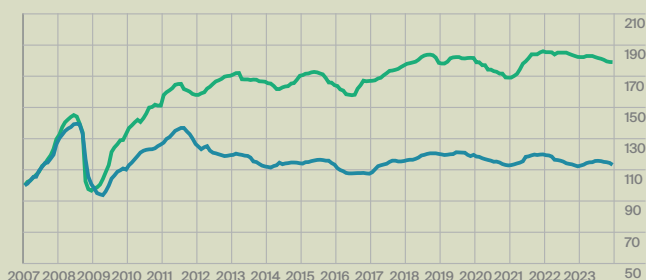
Department. Despite the slowdown in the growth rate, rental levels have increased 6.4% YTD, rising for the 10th consecutive month. Thanks to the continued influx of global talent, there is strong demand for homes in prime districts, specifically those close to universities and renowned international schools.

The luxury residential segment remains resilient. A notable transaction included a 4,521-sq-ft house in Mount Nicholson, at the Peak, which was sold for HK\$369.6 million (or HK\$81,752 per sq ft). A 4,436-sq-ft mid-floor unit in Tower 1, Mont Verra, in Beacon Hill also sold for HK\$240 million (HK\$54,103

**Fig 2. Luxury residential rents and prices**

2007 = 100

■ Price index ■ Rental index

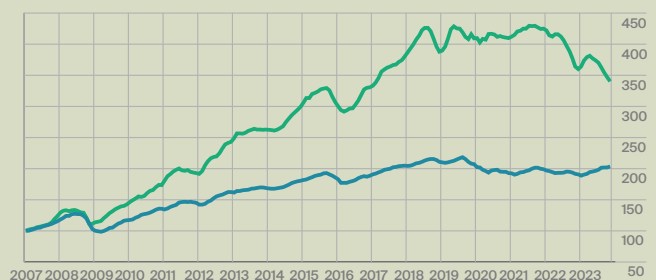


Source: Knight Frank Research

**Fig 3. Mass residential rents and prices**

2007 = 100

■ Price index ■ Rental index



Source: Knight Frank Research / Rating and Valuation Department

per sq ft). Notable rental transactions included a 3,425-sq-ft house in Chateau de Peak, at The Peak, which was leased for HK\$250,000 per month (HK\$73 per sq ft). A 2,141-sq-ft high floor Unit A in Tower 1, St George's Mansion, in Ho Man Tin, which was leased for HK\$200,000 per month

(HK\$93 per sq ft). The Government recently announced details of the new Capital Investment Entrant Scheme (CIES). The minimum investment threshold of the scheme is HK\$30 million, with at least HK\$27 million in permissible financial assets and non-residential real estate. The official

launch is scheduled for mid-2024. We believe that the new CIES could attract high-net-worth individuals from both overseas and the Chinese mainland, providing a potential catalyst for the luxury residential sector.

### Selected residential sales transactions (December 2023)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Tsim Sha Tsui	The Cullinan	Tower 21 / high floor / unit B	1,493	156.9	105,084
The Peak	Mount Nicholson	House	4,521	369.6	81,752
Beacon Hill	Mont Verra	Tower 1 / mid floor	4,436	240	54,103
Ma On Shan	Altissomo	House	4,161	214.2	51,498
Ap Lei Chau	The Corniche	Tower 3 / low floor / unit B	3,477	172.3	49,549

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

### Selected residential lease transactions (December 2023)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Ho Man Tin	St. George's Mansion	Tower 1 / high floor / unit A	2,141	200,000	93
The Peak	Chateau de Peak	House	3,425	250,000	73
Mid-Levels West	39 Conduit Road	Mid floor / unit A	2,355	170,000	72
Mid-Levels West	Yoo 18 Bonhamm	Mid floor	2,499	165,000	66
Mid-Levels Central	Tregunter	Tower 3 / high floor / unit D	3,014	160,000	53

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

# Retail

## Chinese mainland restaurateurs saw an increase in activity

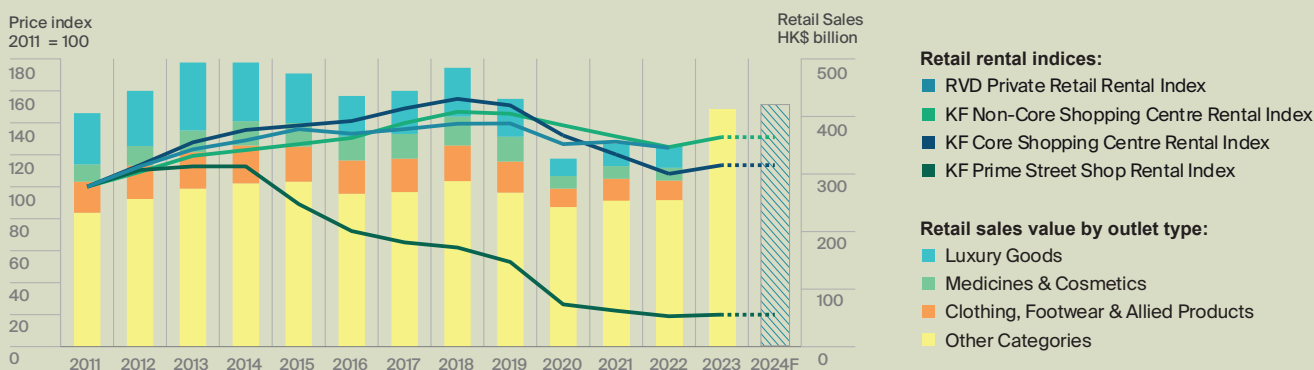
Hong Kong's retail sales continued to recover steadily on the back of moderate growth in inbound tourism and a revival in consumer sentiment. Total retail sales value in November 2023 increased by 15.9% YoY to \$34.2 billion, higher

than market expectations of 11.6%, marking the 12th consecutive month of growth.

Fueled by the recovering market, the retail leasing market gradually regained momentum in January. Tenants were

more confident and willing to commit to large shops in core areas. According to market sources, a five-storey shop (25,000 sq ft) in Wang On Building, in Mong Kok, was leased to Oriental Sauna Spa. Formerly, it was leased to

Fig 4. Retail rents and sales



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

Broadway Lifestyle, an electronics and electrical appliance company. And an entertainment operator leased a former nightclub space of nearly 60,000 sq ft in Tsim Sha Tsui East, which had been vacant for several years.

Leasing momentum continue to pick up, along with growing leasing demand from Chinese mainland restaurateurs, who have been actively expanding their footprint in Hong Kong. For example,

- Hefu Noodle, a mainland food and beverage brand, debuted in Hong Kong in a ground floor (1,576-sq-ft) restaurant in Plaza 2000, Causeway Bay.

- Muwu Barbecue, a famous barbecue restaurant in Shenzhen, is expected to open its first branch in Hong Kong. Muwu Barbecue rented a ground floor (2,583 sq ft) restaurant in Chong Hing Plaza, in Mong Kok, which was previously occupied by a bakery.
- Peking Hotpot, of Jingyu Catering Group, leased 6,000 sq ft in Peter Building, in Central, at an average monthly rent of HK\$338,000.

However, mainland F&B operators are currently seeking high street shops previously occupied by general retail

tenants. This shift in demand may exert downward pressure on retail rentals in core areas.

Looking ahead, local residents traveling to the mainland for consumption will remain a challenge for Hong Kong's retail market. Additionally, although there has been an improvement in shop occupancy rates in core shopping districts, rental levels have yet to rebound significantly. Rental affordability of shop tenants is not expected to be comparable to that pre-Covid, so any further rent increases are expected to be moderate.

## Retail sales by outlet type (November 2023)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.7	13.7	-8.3	-9.6	60.8
Clothing, footwear and allied products	4.1	12.1	18.5	15.3	49.6
Department stores	3.3	9.7	16.9	16.1	15.0
Fuel	0.8	2.4	-5.5	-10.6	-12.8
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	8.6	-4.4	-1.9	6.3
Consumer durable goods	6.8	19.9	2.4	46.9	-6.5
Supermarkets	4.0	11.8	-6.0	-11.6	-5.0
Others	7.5	21.8	-1.3	-3.6	30.9
<b>All retail outlets</b>	<b>34.2</b>	<b>100.0</b>	<b>1.0</b>	<b>5.3</b>	<b>15.9</b>

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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