

Hong Kong Monthly

March 2024

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

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Office

► Leasing demand contracts as companies offload space amid dampened sentiment

HONG KONG ISLAND

The Hong Kong office leasing market was mostly stagnant in February due to weak sentiment and the Chinese New Year holiday. Transaction volume and rents across all major office submarkets contracted further. The overall average Grade A office rent in Hong Kong Island saw a decline of 1.6% MoM and 7.6% YoY to HK\$63 per sq ft in February. Leasing activity in areas such as North Point and Causeway Bay was particularly quiet.

Overall business sentiment was downbeat during the month, as businesses downsized operations under the pressure of the slow economic recovery. Some international law firms and sizeable Chinese-based finance and real estate corporations offloaded prime office space in the CBD. There were also a handful of decentralisation moves from these companies, if not a full retreat from the Hong Kong market.

New leasing demand was limited and piecemeal during the month. Characterised by small- to medium-sized space requirements, leasing activity was underpinned mainly by a few non-finance, Chinese-based technology and innovation companies. Some leasing interest was drawn to new developments in the Kowloon market, thus further dampening leasing momentum on Hong Kong Island.

KOWLOON

Given the soft market sentiment towards the CNY break, leasing momentum tapered off in February. Transaction volume plummeted significantly, with new letting transactions dropping by half MoM. The average monthly rent in the Kowloon market was HK\$23.8 per sq ft in February, and most of the transactions involved an average size of about 4,800 sq ft. Small- to medium-sized deals dominated the leasing market, with electronics and sourcing companies the major take-up sources.

The insurance sector and government policy-driven organisations were the key demand drivers of office space in the Kowloon market. Examples include an

international insurance company, which leased 54,000 sq ft. on a low floor at Airside, and a local university, which has benefitted from the recent changes in the education policy, leased two floors totalling 40,000 sq ft. at The Millennity. However, these demand drivers were mostly stimulated by new policy and has no sustained demand. We expect market demand to decline from Q2 onward.

There appears to be leasing demand from tenants moving from Hong Kong Island to Kowloon, but it is hard to discern a trend at the moment. In the near term, without any new positive factors to provide strong support for the market, transactional volume should remain tepid, with diminishing demand.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (February 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	109.0	0.0	-11.6	-	-	-
Traditional Central	85.3	-1.3	-9.7	-	-	-
Overall Central	93.3	-0.8	-10.5	30,781	-0.6	-5.5
Admiralty	63.3	0.0	4.6	27,110	-0.4	-4.8
Sheung Wan	53.5	0.0	-2.9	25,896	-0.4	-3.6
Wan Chai	50.0	0.1	-0.3	23,095	-0.4	-4.4
Causeway Bay	53.6	-0.2	-7.5	20,239	-0.5	-4.1
North Point	35.0	0.0	-6.6	-	-	-
Quarry Bay	42.8	0.0	-5.3	-	-	-
Tsim Sha Tsui	55.7	0.0	-0.4	13,963	-0.7	-6.4
Cheung Sha Wan	29.6	0.0	4.3	-	-	-
Hung Hom	37.4	0.0	-2.5	-	-	-
Kowloon East	28.9	-0.1	-2.4	11,485	0.0	-2.8
Mong Kok / Yau Ma Tei	50.0	0.0	0.5	-	-	-

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

Residential

► Market momentum poised to turn the corner

In the 2024 Budget in late February, the government announced the immediate withdrawal of all property cooling measures which had been in place since 2010. The Hong Kong Monetary Authority (HKMA) also eased lending rules for property buyers, including a suspension of stress tests and allowing buyers to purchase self-use apartments with lower down payments. This move has made the most relaxed market conditions in the past 14 years.

Before the Budget, Hong Kong's residential market was still affected by stubbornly high interest rates, ample unsold first-hand inventory and the prevailing challenging economic conditions. Overall prices fell by 1.6% MoM and 9.4% YoY in January, the ninth consecutive monthly decline, according to the latest release by Rating and Valuation Department. Transaction volume plummeted to 2,375 units in February with a 31.7% MoM decline, according to the Land Registry.

Since the withdrawal of cooling measures, developers have been actively launching new sales, leading to a notable rebound in new sales transaction immediately. Primary residential property transactions upsurged to 1,620 cases just in the first 10 days of March, according to market sources.

Rents levelled off at the beginning of the new year with a marginal 0.3% MoM drop but maintained a 6.9% YoY increase. Notable luxury rental

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

transactions included a 4,752-sq-ft house in Walford Villa at The Peak which was leased for HK\$270,000 per month (or HK\$57 per sq ft); and a 4,591-sq-ft unit at Block A, Repulse Bay Mansion, Repulse Bay, which was

leased for HK\$220,000 (HK\$48 per sq ft).

The removal of all property cooling measures immediately resulted in a significant increase in local and overseas transactions in both the

primary and secondary markets. This improved confidence has tempered price declines and we may now see a rebound once interest rates begin to drop in the second half of the year.

Selected residential sales transactions (February 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Beacon Hill	Mont Verra	House	8,495	636	74,868
Shouson Hill	Shouson Hill Road 15	House	6,695	498.1	74,400
Happy Valley	23-39 Blue Pool Road	House	4,602	230	49,978
Tsim Sha Tsui	Harbourside	Tower 1 High Floor A unit	1,750	106	60,571
Mid-Levels East	Highcliff	High Floor A unit	3,816	98.8	25,891

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

Selected residential lease transactions (February 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
The Peak	Walford Villa	House	4,752	270,000	57
Repulse Bay	Repulse Bay Mansion	Block A, B unit	4,591	220,000	48
Repulse Bay	Repulse Bay Apartment	Block A High Floor	3,784	187,000	49
Mid-Levels West	55 Conduit Road	Mid Floor A unit	2,665	175,000	66
Mid-Levels East	Highcliff	High Floor B unit	2,624	160,000	61

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

Retail

► No sentiment breakthrough despite signs of a recovery in leasing transactions

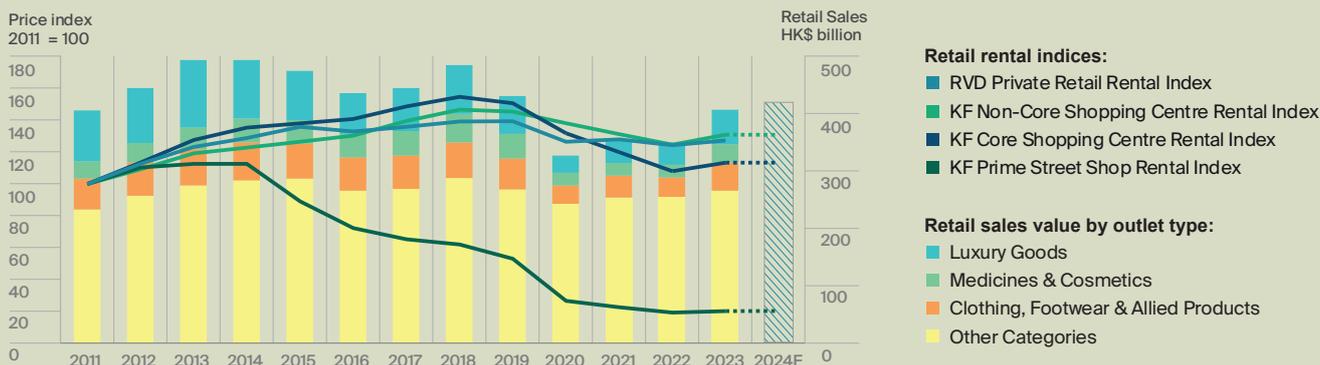
Hong Kong's retail market continued to be soft against the backdrop of subdued economic conditions. Total retail sales value in January 2024 registered 0.9% growth YoY to HK\$36.5 billion, lower than market expectations of 6.9%, the slowest increase in 14

months. The reason for the low YoY growth rate was that the border was not fully reopened in January 2023, so most local residents stayed in Hong Kong during the Lunar New Year. However, many people went north to shop in January this year. The figures

demonstrate that the Hong Kong retail market is not yet out of the woods and that conditions remain very difficult.

Looking on the bright side, the retail leasing market showed more signs of a gradual recovery. Some vacated retail street shops in the

Fig 4. Retail rents and sales



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

popular tourist-driven areas, such as Causeway Bay and Tsim Sha Tsui, have been gradually filled by retailers. For example, a 1,000-sq-ft ground floor space in Russell Street, after more than two years of short-term tenancy, was leased for HK\$300,000 (HK\$ 300 per sq ft) per month to a pharmacy. Another example is a 2,497-sq-ft ground floor space in 3-6 Central Building in Central, which was leased for \$700,000 (HK\$280 per sq ft) to local premium eyewear brand Puyi Optical. Leasing activity was concentrated mainly in the

core shopping districts, however, many neighbourhood areas are still struggling.

In the latest Budget 2024, the government revealed that more than 80 mega-events with a variety of themes will be staged in Hong Kong in the first half of the year. The government also announced that it had earmarked HK\$100 million to boost mega-event promotions over the next three years.

Two more Chinese cities, Xian and Qingdao, were officially included in the Individual Visit Scheme to Hong Kong starting on 6 March. The potential

increase in overnight visitors is expected to stimulate a recovery in the local food and beverages industry, and the hotel and aviation sectors.

Retail sales in Q1 are expected to remain soft amid weak local consumption. Shop rentals in core retail areas are expected to remain under pressure while absorption is taking place slowly. In the long term, we are confident that the proposed mega-events will create more opportunities for retailers in related industries and attract more overseas visitors to Hong Kong.

Retail sales by outlet type (January 2024)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.5	15.2	1.9	8.6	25.2
Clothing, footwear and allied products	4.4	12.1	-4.4	26.3	2.8
Department stores	2.8	7.6	-15.2	-2.4	-9.2
Fuel	0.8	2.2	0.0	-7.9	-14.5
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.6	9.7	8.5	15.2	-8.0
Consumer durable goods	5.3	14.5	-10.7	-20.4	-12.8
Supermarkets	4.4	11.9	3.9	1.8	-9.3
Others	9.8	26.8	11.1	29.9	12.1
All retail outlets	36.5	100.0	0.5	7.9	0.9

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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