

Hong Kong Monthly

April 2024

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

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Office

► Despite the high vacancy rate, leasing demand was led by Chinese mainland companies

HONG KONG ISLAND

The Hong Kong Island Grade A office market continued to face weak demand amid economic uncertainty. In Q1 2024, the overall rent on Hong Kong Island slipped by 0.5% QoQ. The overall vacancy rate on Hong Kong Island hovered at a record high of 12.2%, boosted by a 0.7% increase QoQ. Central experienced the most significant rental decline among the major submarkets, with the overall rent dropping by 1.7%.

During March, leasing demand was driven mainly by Chinese mainland companies. A handful of upgrading cases were recorded over the month, further intensifying the flight-to-quality trend. For example, Golden MediTech moved from Bank of China Tower to The Henderson with a floor space of about 6,000 sq ft. Brilliance China Automotive Holdings also leased approximately 6,300 sq ft in The Henderson.

As office landlords are pressured by the prevailing record-high vacancies, they are compelled to offer more flexible leasing packages and incentives, such as a fit-out allowance and free amenities, to drive tenancy deals.

Despite the present lack of new demand, in the long run, we expect the office market to benefit from the Hong Kong government's initiatives. More family offices and capital investments will be attracted to Hong Kong via the New Capital Investment Entrant Scheme. In addition to boosting investment activity, we believe these initiatives will generate additional demand for office leasing.

KOWLOON

The Kowloon market saw a significant rebound in leasing transactions. New letting transactions in March doubled compared to those in February, as many companies halted business activity during the Chinese New Year in February. In March, most transactions involved small to medium-sized premises, with an average size of about 4,000 sq ft. The average monthly rent in the Kowloon market was HK\$23.80 per sq ft. The overall rent level in Kowloon remained stable in Q1 2024, with a slight increase by 0.2% QoQ.

In Q1 2024, significant transactions and expansion demand were driven mainly by government and quasi-government organisations, insurance companies and Chinese mainland companies. Some notable transactions in March were as follows:

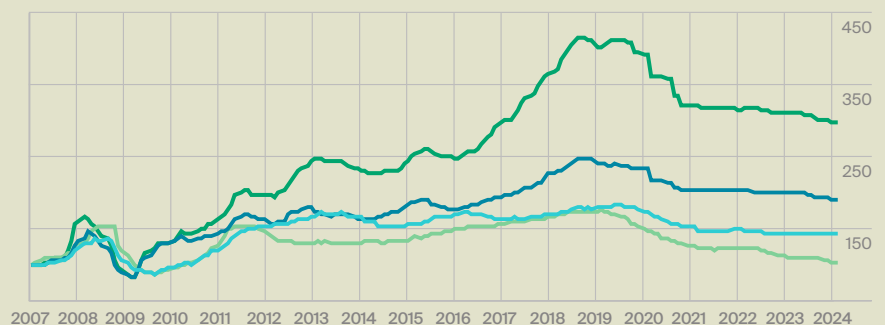
- The Hong Kong Monetary Authority relocated from Pacific Place to International Commerce Centre, taking up a total area of about 110,000 sq ft.
- China Mobile leased a total area of about 47,000 sq ft in the Kowloon Commerce Centre in Kwai Chung.
- Singapore-based bank OCBC relocated from Hong Kong Island to AIRSIDE, leasing a total area of 73,000 sq ft.

The outlook for 2024 remains challenging, as weak economic sentiment and conservative plans for business expansion continue to sap leasing demand. Nonetheless, we are cautiously optimistic about the market this year, as we believe it has already bottomed. We expect rent levels to move on par with the inflation rate and maintain our rental forecast of +1% to +3% throughout the year.

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 (March 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	109.3	0.3	-11.1	-	-	-
Traditional Central	85.2	-0.6	-9.2	-	-	-
Overall Central	93.9	0.3	-9.5	30,781	0.0	-5.2
Admiralty	62.9	-0.6	4.6	27,110	0.0	-4.8
Sheung Wan	53.7	0.4	-1.8	25,896	0.0	-3.6
Wan Chai	50.3	0.5	0.2	23,095	0.0	-4.4
Causeway Bay	53.4	-0.3	-7.9	20,239	0.0	-4.1
North Point	35.0	0.2	-2.8	-	-	-
Quarry Bay	42.8	0.0	-6.3	-	-	-
Tsim Sha Tsui	55.6	0.0	-5.1	13,863	0.0	-6.4
Cheung Sha Wan	29.6	0.0	-5.3	-	-	-
Hung Hom	38.0	0.0	-13.1	-	-	-
Kowloon East	28.8	0.0	0.0	11,485	0.0	-2.8
Mong Kok / Yau Ma Tei	50.0	-0.3	-0.7	-	-	-

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

Residential

Home sales see a revival as stamp duties slashed

The residential sector is teetering on the cusp of recovery following the government’s scrapping of the property-cooling measures in late February. Transaction volumes, captured by the Land Registry turned the corner, recording remarkable growth of 67.2% MoM in March. Primary and secondary sales surged by 139% and 4.1% MoM, respectively. However, according to the Rating and Valuation Department, overall prices still fell by 1.7% MoM and 12.8% YoY in February, the 10th consecutive monthly decline.

As highlighted above, primary

sales witnessed a significant rebound as developers actively launched new developments at discounted prices to clear inventory. Recent primary sales activities showed momentum with oversubscribed tickets in new launches, such as Season Place in Phase 12 of Lohas Park and Belgravia Place in Cheung Sha Wan. We also noted a resurgence in big-ticket buyers purchasing first-hand units in bulk since the withdrawal of the property curbs, with some purchasing as many as 24 units at a time.

The luxury residential segment was also energised after the government

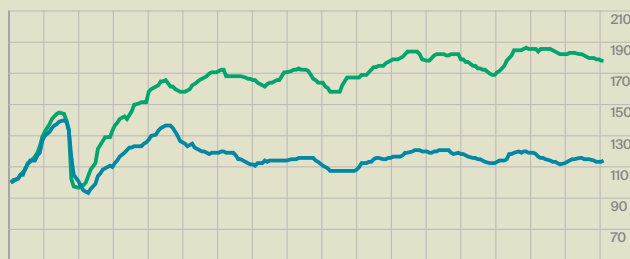
incentives. The most notable transaction recorded during the month was an 11,589-sq-ft house at Mont Verra, Beacon Hill, which was sold for HK\$1 billion (or HK\$86,289 per sq ft), setting a record for the highest price per sq ft in Kowloon. The luxury market has seen an influx of high-profile mainland buyers with backgrounds in the financial industry.

In the leasing market, rents remained stable in February, registering a modest 0.1% MoM drop whilst keeping up a 5.8% YoY gain. Notable luxury rental transactions include:

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

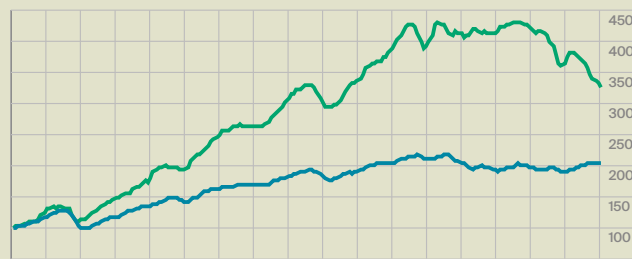


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

- 2,094-sq-ft mid-floor Unit A in Harmony, Mid-Levels East, which was leased for HK\$200,000 per month (or HK\$96 per sq ft); and
- 3,021-sq-ft house at Three Bays, Stanley was leased for HK\$220,000 (HK\$66 per

sq ft). As sales momentum is poised to improve, more landlords are listing properties for sale.

Despite buoyant buying sentiment and higher transaction volume since the removal of all property curbs,

we believe that in the near term, developers will continue to put new flats up for sale at a discount to compete for buyers. The potential delay in interest rate reductions may also dampen market recovery.

Selected residential sales transactions (March 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Beacon Hill	Mont Verra	House	11,589	1,000	86,289
Kai Tak	Cullinan Harbour	Tower 1, High Floor A unit	2,187	120.88	55,272
Kowloon Station	Grand Austin	Tower 2, High Floor A unit	1,931	117.5	60,849
Mid-Levels Central	Altamira	High Floor B unit	2,206	115.8	52,493
Wong Chuk Hang	The Southside Phase 1, Southland	Tower 1A Duplex	1,867	95.8	51,312

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

Selected residential lease transactions (March 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels East	Harmony	Mid Floor A unit	2,094	200,000	96
Stanley	Three Bays	House	3,021	200,000	66
Kowloon Station	The Austin	Tower 2 High Floor B unit	2,694	165,000	61
North Point	Victoria Harbour	Tower 6, High Floor A unit	1,066	119,000	112
Mid-Levels West	Argenta	Mid Floor	2,123	115,000	54

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

Retail

► Subdued retail sentiment battered by weak local consumption

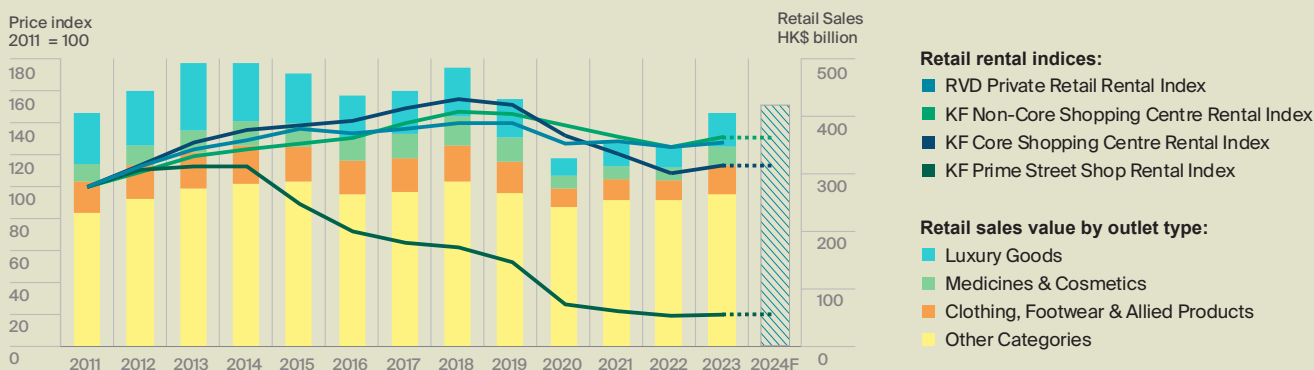
Hong Kong's retail market continued to be in the doldrums as the trend of residents heading north for shopping and leisure intensified. Total retail sales value in February increased by 1.9% YoY to HK\$33.8 billion. However, this

growth rate was excessively modest and disappointing. By category, supermarkets (+14.1% YoY) clothing, footwear and allied products (+12.3%) rose sharply in February, mainly because of the Chinese New Year effect.

The sales value of jewellery, watches and clocks, and valuable gifts decreased by 3.6% YoY as visitor consumption remained soft.

Owing to weak spending by locals and Chinese mainland visitors, several

Fig 4. Retail rents and sales



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

supermarket operators closed. According to market sources, grocery chain Dah Chong Hong (DCH) ceased operations at its 28 DCH foods retail stores, and supermarket chain U Select has closed dozens of money-losing branches. Japanese discount store Don Don Donki is to seek restructuring of its operations as earnings declined due to overexpansion in a weak market.

On a positive note, we witnessed some active expansion by Chinese F&B operators. Notably, a 2,095-sq-ft ground-floor unit in Whampoa

Garden Phase 1 in Hung Hom was leased to Xiao Noodles for HK\$200,000 per month (HK\$96 per sq ft).

Hong Kong's luxury retail market is also set to regain some lost ground as some high-end brands gradually find their way back into the city. For instance, Louis Vuitton, a French luxury fashion house, will return to Times Square in Causeway Bay after a three-year break. The company is reported to have leased a duplex shop in the mall for more than five years, which reflects a bullish stance on the city that has not been seen in years. Also, Beijing-based

Laopu Gold, a specialized brand of handmade gold with traditional Chinese craftsmanship will open a flagship store in Silvercord on Canton Road, Tsim Sha Tsui, the former location of Burberry's flagship store.

Looking ahead, retail sales in Q2 are expected to remain soft, as weak local consumption persists. Shop rentals in core retail areas are expected to remain under pressure in the short term, as the absorption rate is still slow, given the cautious attitude of retailers and F&B operators towards expansion plans.

Retail sales by outlet type (February 2024)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.8	14.3	-11.3	3.1	-3.6
Clothing, footwear and allied products	4.5	13.4	2.9	9.9	12.3
Department stores	2.5	7.5	-8.6	-23.7	4.7
Fuel	0.7	2.2	-7.1	-9.5	-14.5
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.7	11.0	4.0	25.5	9.3
Consumer durable goods	4.2	12.4	-21.2	-38.8	-25.1
Supermarkets	4.3	12.9	-0.3	8.0	14.1
Others	8.9	26.4	-9.9	19.6	11.0
All retail outlets	33.8	100.0	-7.6	-1.2	1.9

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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