

Hong Kong Monthly

August 2024

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

knightfrank.com.hk/research

Office

► More leasing enquiries on small to medium-sized office spaces

HONG KONG ISLAND

Market sentiment in July remained soft. Year to date (YTD) the average Grade A office rent on Hong Kong Island continued its decline, dropping to HK\$62.8 per sq ft, down 2.6%. Among the major submarkets, Central, Admiralty and North Point recorded a greater rental decline of -4.1%, -6.0% and -9.3% YTD, respectively. The office vacancy rate on Hong Kong Island reached a record high of 13.5% amid weak leasing demand.

Hong Kong's legal sector has face significant headwinds. Complicated geopolitics, a protracted capital market downturn and a slow economic recovery has taken a toll on the sector. According to The Law Society of Hong Kong there were 76 foreign law firms registered in Hong Kong in July, down by 21% from four years ago. In 1H2024, US law firm Winston & Strawn closed its office in Hong Kong after a 15-year presence.

Despite the downsizing trend of foreign law firms and weak performance of finance sector, we have observed increasing demand for new Grade A office buildings. This is because the flight-to-quality trends persisted fuelled by lower rents. This upgrading of space is particularly prevalent with small to medium size office occupiers ranging from 3,000 sq ft to 6,000 sq ft. Lastly, we observed that fully fitted units are in great demand.

The outlook for the office leasing market on Hong Kong Island remains challenging. The high vacancy rate

and ample future supply will continue weigh on Grade A office rents.

KOWLOON

Following a quiet period in the first half year, office demand began to pick up in July. Although the average transaction size remained under 3,000 sq ft, the volume of new leasing transactions saw a significant month-on-month (MoM) increase of over 20%. Additionally, the average monthly rent edged up slightly, from HK\$22.8 per sq ft to HK\$23.1 per sq ft. This trend supports our earlier expectation that the Kowloon office market will continue to establish a bottom this year as leasing activity gains momentum. Among the various sub-districts, Kowloon East continues to be the primary focus of tenants, with occasional interest in Kowloon West, particularly for newer developments, like 83 King Lam Street.

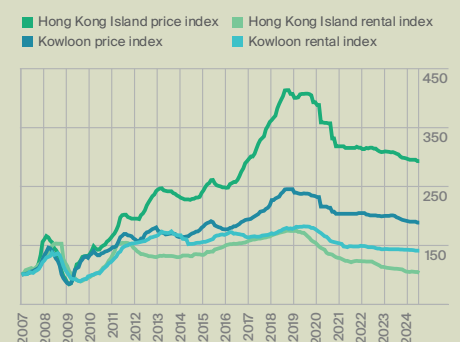
Notably, leasing demand has shifted since the beginning of the year, moving away from a predominance of government institutions and companies from the Chinese mainland. We are now witnessing a resurgence in leasing activity across various sectors, including the insurance sector. For instance, AIA recently leased 24,636 sq ft at The Gateway in Tsim Sha Tsui to accommodate its expansion.

Rents in the Grade A office market in Kowloon has been stabilised and were driven by the expansion of existing businesses and the growing

preference for higher-quality office space. Tenants in Kowloon are actively seeking opportunities to upgrade their office accommodations at no extra cost. A notable example is Triumph International, a German sourcing company. Triumph relocated from an industrial revitalisation building in Kowloon Bay to Manulife Place in Kwun Tong. They leasing a total of 35,750 sq ft of space at a comparable total cost due to space optimisation efforts.

Overall, Kowloon has seen more signs of stabilisation as we enter the second half of the year. While these developments are insufficient to trigger a significant rebound in rental rates, they may prevent further declines in rental performance. Consequently, office rents in the Kowloon market are expected to remain flat in the coming months, providing tenants with a stable outlook for long-term planning regarding office leases.

Fig 1. Grade-A office rents and prices
2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (July 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	105.3	-2.7	-11.9	-	-	-
Traditional Central	83.1	-0.5	-9.5	-	-	-
Overall Central	91.6	-1.5	-9.5	30,581	0.0	-4.4
Admiralty	59.4	-3.0	-1.6	26,885	0.0	-4.8
Sheung Wan	53.7	0.0	-2.1	25,696	0.0	-3.2
Wan Chai	49.4	-1.0	-3.1	22,864	0.0	-4.1
Causeway Bay	53.3	0.0	-4.3	20,039	0.0	-4.3
North Point	32.3	-4.5	-12.3	-	-	-
Quarry Bay	41.3	-1.6	-9.1	-	-	-
Tsim Sha Tsui	55.4	-0.1	-1.5	13,763	0.0	-5.1
Cheung Sha Wan	29.0	0.0	-2.3	-	-	-
Hung Hom	36.9	-0.2	-3.6	-	-	-
Kowloon East	28.3	-0.2	-2.5	11,385	0.0	-3.7
Mong Kok / Yau Ma Tei	49.8	0.0	-1.2	-	-	-

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

Residential

► Home prices saw historic lows amid economic uncertainty

Hong Kong's home prices fell to the lowest level in nearly eight years. This is due to pressure from first-hand price reductions, high interest rates, economic uncertainty and the negative impact of deteriorating wealth effect in the investment market. Home prices decreased by 1.2% MoM and 13.1% year on year (YoY) in June, according to the Rating and Valuation Department. This marks two consecutive months of decline after a temporary uptick following the government's removal of property curbs.

Total residential transactions fell for three months in a row after the highest single-month number of transactions

(more than 8,500) in April. The number of transactions MoM remained stable at 3,723 in July.

The trend of secondary luxury stock selling at significant reductions persisted. Notable transactions included four homes with a total of GFA 16,986 sq ft at 46 Plantation Road on the Peak, which were sold for HK\$ 1.1 billion, or HK\$64,759 per sq ft. The price was discounted more than 40% compared to a nearby luxury property transaction in 2017. Another example includes a 6,493-sq-ft house with a 6,000-sq-ft garden at 8 Purves Road, Jardine's Lookout, which was sold for HK\$360 million, or HK\$55,444 per

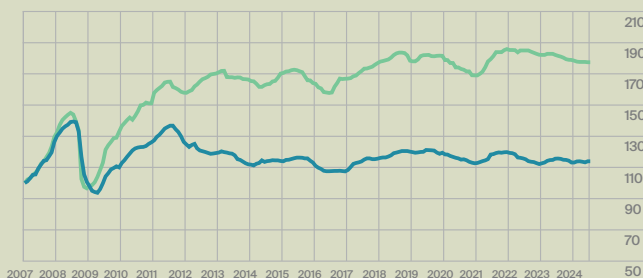
sq ft. This represented a reduction of over 60% compared to the asking price three years ago.

The rental market, in contrast, continued to outperform, with rents reaching a four-and-a-half-year high. The private residential rent index rose by 0.16% MoM, marking a cumulative rise of 2.49% over four months. There is a strong wait-and-see atmosphere in the sales market, with some prospective buyers switching from buying to renting. The supply of rental properties during the summer holiday continued to be in short supply, and listings have been absorbed quickly. Units with rents ranging from

Fig 2. Luxury residential rents and prices

2007 = 100

■ Price index ■ Rental index

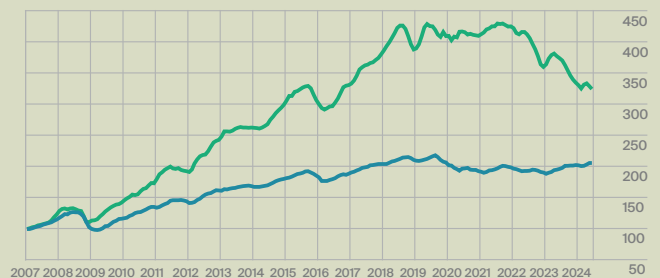


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

■ Price index ■ Rental index



Source: Knight Frank Research / Rating and Valuation Department

HK\$20,000 to HK\$50,000 are popular among locals and the new arrivals from the Chinese mainland.

Looking ahead, both homeowners and buyers are adopting a wait-and-see

attitude amid the continued high interest rates. The market expects a high chance of the first Fed rate cut in September, yet the pace of local banks to follow suit is uncertain. Therefore,

we expect that interest rates should remain high for now. The decline in home prices in 2H 2024 may slow down but we are unlikely to see a rebound this year.

Selected residential sales transactions (July 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Shouson Hill	15 Shouson Hill Road	House	4,696	320.16	68,177
Beacon Hill	Mont Verra	Tower 3, High Floor	4,451	250	56,167
Pokfulam	Bisney Crest	House	4,481	158.17	35,298
Mid-Levels Central	Dynasty Court	Tower 3, Duplex	2,321	145.22	62,568
Mid-Levels Central	Hong Villa	High Floor, A unit	3,184	128.8	40,452

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

Selected residential lease transactions (July 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tsim Sha Tsui	The Arch, Sky Tower	High Floor, A unit	2,756	220,000	80
Ho Man Tin	St Geroge's Mansion	Tower 1, Mid Floor, A unit	2,024	160,000	79
Mid-Levels Central	21 Borrett Road	Phase 1, Mid Floor	2,096	158,000	75
Tai Tam	Redhill Peninsula, Cedar Drive	House	3,136	143,000	46
Tsim Sha Tsui	Masterpiece	High Floor, E unit	2,259	135,000	60

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

Retail

► Weak retail sales continue to be a drag on market sentiment

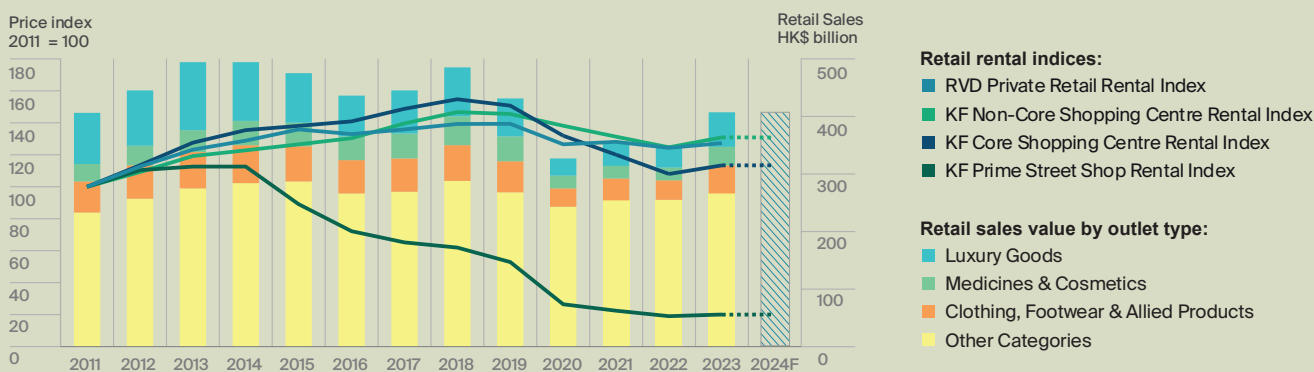
Retail sales across various categories remained weak, as the total retail sales value recorded a 9.7% YoY drop to HK\$29.9 billion in June 2024, marking a 6.6% YoY decline in H1 2024 compared to the same period in 2023. With continued low tourist spending and weak local consumption,

total sales value of clothing, footwear and allied products saw a 12.7% YoY decline, while jewellery, watches and clocks, and valuable goods tumbled by 23.1% in June 2024. The Federation of the Swiss Watch Industry published a report showing that the export value of watches to the Hong Kong

and China markets has continued to underperform, and the weak market performance is expected to continue until the end of 2024.

In core shopping districts, some large retail shops which used to be leased by large retail brands are still vulnerable. Landlords have to either

Fig 4. Retail rents and sales



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

accept short-term lease agreements or sublet to multiple tenants. Luxury watch retailer Oriental Watch gave up its flagship location at ground floor Shop B & C, Hennessy Apartments, Causeway Bay after leasing the space for about 20 years. The gross area of the shop is about 6,500 sq ft. It is now under a short-term leasing agreement of HK\$200,000 per month with a stationary retailer. On a positive note, apparel retailer Abercrombie & Fitch Co., is planning return to Hong Kong eight years after it shut its flagship store in the city. The company will lease two large retail units in prime locations,

including a 7,000 sq ft space in Hysan Place, Causeway Bay and a more than 10,000 sq ft space in New Town Plaza, Sha Tin.

Restaurant operators are also bearing the brunt of lower spending because of northbound travel by locals. Restaurant receipts by value dropped by 15% QoQ and 5% YoY in Q2 2024. A few multinational chains have downsize or terminate their operations in Hong Kong. Outback Steakhouse closed nine locations across Hong Kong, and Taiwanese hot pot restaurant Tripod King and Japanese Okonomiyaki Dohtonbori Restaurant under the

Wellcore Group ended their operations in Hong Kong.

The overall retail market remains challenging, given the weak total retail sales and restaurant turnover, which have been negatively affected by the northbound travel habits of many local residents. Meanwhile, investors are expecting a rate cut in the near future and anticipating more capital inflow to activate the market. Looking ahead, as the National Holiday and other holidays approach, more tourism activity is expected, which will attract more footfall and spending to close out 2024.

Retail sales by outlet type (June 2024)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.3	14.0	7.0	1.2	-23.1
Clothing, footwear and allied products	3.4	11.2	-9.3	-6.8	-12.7
Department stores	2.2	7.2	-21.8	-7.7	-18.6
Fuel	0.8	2.6	-1.0	3.4	-12.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.9	9.3	-3.3	10.4	-5.7
Consumer durable goods	4.2	13.9	5.4	-12.0	-12.8
Supermarkets	4.1	13.6	-0.9	4.6	-0.5
Others	7.9	25.9	-1.1	-9.4	-0.1
All retail outlets	30.6	100.0	0.2	-1.9	-7.6

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.

Research & Consultancy



Martin Wong
Senior Director
Head of Research & Consultancy,
Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Lucia Leung
Director
Research & Consultancy,
Greater China
+852 2846 4843
lucia.leung@hk.knightfrank.com

Commercial Agency

Paul Hart (E-127564)
Managing Director, Greater China,
Head of Commercial
+852 2846 9537
paul.hart@hk.knightfrank.com

Wendy Lau (E-141423)
Executive Director
Head of Hong Kong Office Strategy & Solutions
+852 2846 4988
wendy.lau@hk.knightfrank.com

Steve Ng (E-188091)
Senior Director
Head of Kowloon Office Strategy & Solutions
+852 2846 0688
steve.ng@hk.knightfrank.com

Residential Agency

Maggie Lee (E-076435)
Senior Director, Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

Retail Services

Helen Mak (E-087455)
Senior Director, Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

Valuation & Advisory

Cyrus Fong (S-368139)
Executive Director
Head of Valuation & Advisory, Greater China
+852 2846 7135
cyrus.fong@hk.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank 2024. This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein.

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

Knight Frank Petty Limited EAA (Company) Lic No C-010431
Knight Frank Hong Kong Limited EAA (Company) Lic No C-013197