

Hong Kong Monthly

February 2024

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

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Office

► Soft market sentiment amid limited office demand

HONG KONG ISLAND

In January, the overall average Grade A office rent in Hong Kong Island continued to fall, recording HK\$64.4 per sq ft in January, down 0.5% MoM or 6.7% YoY. Most of the submarkets on Hong Kong Island experienced a rental decline. Central recorded a larger than average drop of 1.5% MoM or 10.8% YoY.

There was increasing demand from Chinese mainland companies, but most were looking for small to medium-size office space. Central was the main beneficiary among the major submarkets in Hong Kong Island.

In the short term, most landlords are expected to focus on occupancy over rent, given the weak business sentiment and high vacancy rates. We expect landlords to offer more innovative and flexible leasing packages and scale up building level amenities to retain and attract tenants. Buildings that offer quality, flexibility and attractive amenities will outperform the market. We expect office demand to stabilise in the first half of 2024 and an upswing in transaction volume in the second half of the year.

KOWLOON

During the month, leasing momentum was hobbled by stagnant demand. Average monthly rent was HK\$25.2 per sq ft in January, and most of the transactions involved an average size of about 3,900 sq ft. Leasing activity remained active in Kowloon East, with electronics and engineering companies the main demand drivers.

Given the soft market sentiment, tenants tended to be more cautious in making leasing decisions. Instead of considering relocation options, they were more inclined to renew their leases at the attractive rents offered by landlords. Therefore, renewal cases dominated the leasing market during the month.

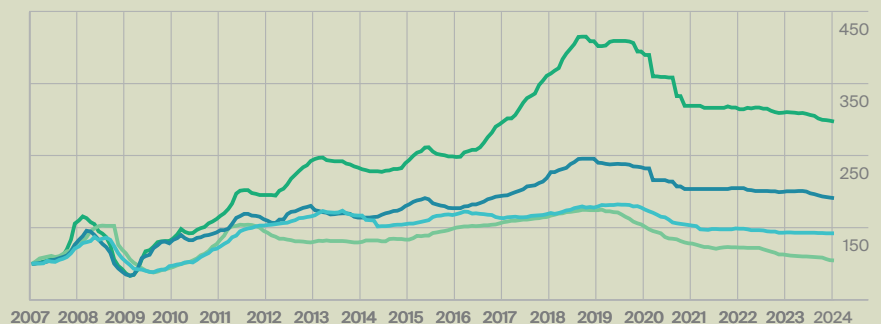
The market was buoyed by a number of positive factors, including growing demand from the government and infrastructure-related organisations, the setting up of new enterprises in the Greater Bay Area, the flight-to-quality trend, and cost optimisation. For example, the Registration and Electoral Office rented an entire floor (63,000 sq ft) of Standard Chartered Tower in Millennium City 1, and Prudential moved out of Metroplaza in Kwai Fong, to upgrade and occupy about 54,000 sq ft in AIRSIDE.

A gradual improvement is anticipated in the Kowloon office market after Chinese New 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 (January 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	109.0	-2.6	-12.6	-	-	-
Traditional Central	86.4	-0.8	-9.5	-	-	-
Overall Central	94.0	-1.5	-10.8	30,981	-0.6	-4.9
Admiralty	67.4	3.6	1.8	27,210	-0.4	-4.8
Sheung Wan	53.5	0.0	-3.1	25,996	-0.4	-3.2
Wan Chai	50.0	-0.5	-0.3	23,195	-0.4	-3.9
Causeway Bay	53.7	0.0	-7.0	20,339	-0.5	-3.6
North Point	35.0	-1.7	-6.6	-	-	-
Quarry Bay	42.8	-0.2	-6.1	-	-	-
Tsim Sha Tsui	55.8	-0.1	-0.2	13,963	-0.7	-5.7
Cheung Sha Wan	29.6	1.8	4.1	-	-	-
Hung Hom	37.4	-0.1	-2.6	-	-	-
Kowloon East	28.9	-0.1	-2.2	11,485	0.0	-2.8
Mong Kok / Yau Ma Tei	50.0	-1.2	-0.4	-	-	-

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

Residential

► Home prices and rents continue to diverge

Residential prices demonstrated a downward trajectory over the past year, reaching the lowest point in seven years. Overall prices dropped by another 1.4% MoM in December last year. Over the full year, prices plummeted by 6.8%, according to the Rating and Valuation Department. Transaction volumes rebounded for the third consecutive month in January with an 18.7% MoM increase, according to the Land Registry. Primary and secondary sales surged MoM by 4.6% and 25.6%, respectively.

The price decline narrowed in December. The improved volume was attributed mainly to the US Federal Open Market Committee (FOMC) meeting in mid-December. The meeting marked the third consecutive pause since July 2023 and hinted at three rate cuts by a total of 0.75% in 2024..

Rental market trends, in contrast, continued to climb on rising demand. Overall rental rates surged by 0.9% MoM in December, up 6.6% YoY, the highest in four years. Throughout

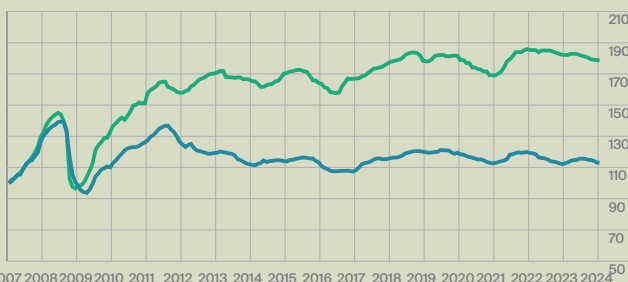
the year, the influx of overseas and mainland talent attracted by the Government's various talent schemes have been a major demand catalyst in the leasing market. The total number of approved applicants for the Top Talent Pass Scheme reached 51,000 as at the end of December 2023.

The luxury segment continued to exhibit resilience, with several big-ticket transactions recorded throughout the month. Significant sale transactions include a 4,579-sq-ft high-floor unit at Mount Nicholson at The Peak. The

Fig 2. Luxury residential rents and prices

2007 = 100

■ Price index ■ Rental index

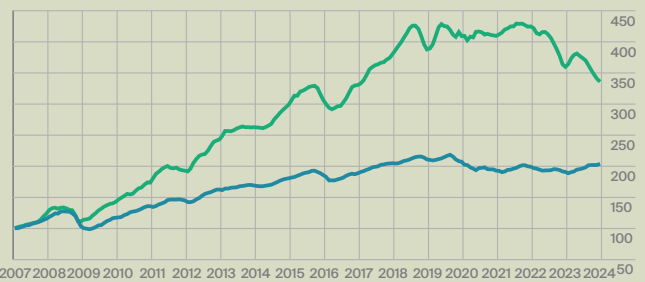


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

■ Price index ■ Rental index



Source: Knight Frank Research / Rating and Valuation Department

unit was sold for HK\$600 million (HK\$131,033 per sq ft). Notable rental transactions included a 4,214-sq-ft low-floor unit in Tower B, Mount Nicholson at The Peak. The unit was leased for HK\$560,000 per month

(HK\$133 per sq ft), and a 4,607-sq-ft house at Clear Water Bay was leased for HK\$325,000 (HK\$71 per sq ft).

The market is anticipating more supportive measures will be introduced in the coming budget. We maintain

our view that the government should scrap the remaining property cooling measures, to reverse the current downturn and stimulate the market.

Selected residential sales transactions (January 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	Tower D / high floor	4,579	600	131,033
Tsim Sha Tsui	The Arch	Star Tower / high floor / unit B	2,659	219.9	82,708
Beacon Hill	Mont Verra	Tower 2 / low floor	4,431	208.5	47,055
Happy Valley	The Hampton	High floor	3,895	160	41,078
Pok Fu Lam	Bisney Crest	House	4,389	180	41,012

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

Selected residential lease transactions (January 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
The Peak	Mount Nicholson	Tower B / low floor	4,214	560,000	133
Clear Water Bay	3 Clear Water Bay	House	4,607	325,000	71
Mid-Levels West	Altamira	High floor / unit B	2,303	160,000	69
Island South	The Somerset	High floor / unit C	2,463	155,000	63
Island South	50 Stanley Village Road	House	2,719	163,000	60

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

Retail

Continued gradual recovery in the retail market

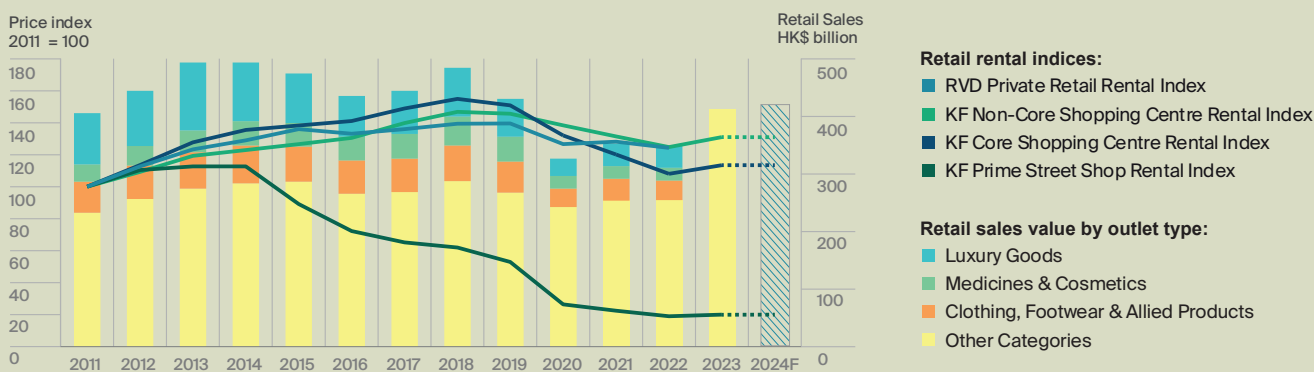
Despite the traditional peak retail season, Hong Kong's retail market sentiment did not improve in December 2023. Total retail sales value in December increased by 7.8% YoY to HK\$36.3 billion. But the growth

in total retail sales was weaker than expected. For full-year 2023, the total value of retail sales increase by 16.2% YoY to HK\$407 billion, still below our expectation of HK\$420 billion.

In contrast, the food and beverage

sector saw some rays of sunshine. The total value of restaurant receipts in Q4 2023 increased by 7.5% YoY to \$27.4 billion. Bars and miscellaneous eating and drinking places outperformed other food and beverage segments,

Fig 4. Retail rents and sales



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

with receipt values increasing by 19.7% and 13.5%, respectively. In addition, according to market sources, a number of Chinese restaurants were fully booked during the festive period, with business recovering to 95% of the pre-pandemic level.

On the leasing front, we observed increased market activity in core shopping districts. More Chinese F&B operators debuted in the local retail scene. Hermès, a French luxury goods company, planned to open its eighth branch in Lee Gardens, Causeway Bay.

The three-storey retail unit is now being renovated and is expected to open in 2024. This prominent deal indicates that the luxury brand has an optimistic outlook for the retail market and tourism in Hong Kong.

As for the investment market, some property owners have grudgingly reduced the asking price of retail podiums substantially to offload them from their loan-to-rent ratio. This represents an opportunity for investors who are looking to purchase retail properties at discounted prices. These

properties may offer significant potential upside in the future, making them an attractive investment option.

Looking ahead, we expect retailers to be prudent in extending their presence in the market. Cross-border consumption habits of local residents remain a formidable challenge for the local retail sector. We expect retail sales to continue to improve, but they are unlikely to return to pre-pandemic level in the short term.

Retail sales by outlet type (December 2023)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.5	15.0	16.8	26.5	50.1
Clothing, footwear and allied products	4.6	12.7	12.3	44.3	18.3
Department stores	3.3	9.0	-1.6	34.2	4.5
Fuel	0.8	2.2	-2.6	-9.0	-12.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.3	9.0	11.2	-8.9	-1.6
Consumer durable goods	5.9	16.3	-13.6	1.0	-17.4
Supermarkets	4.2	11.5	4.3	-2.9	-6.3
Others	8.8	24.2	18.2	22.9	22.9
All retail outlets	36.3	100.0	6.3	14.4	7.8

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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