Hong Kong Monthly

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

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Office

Muted market activity and weaker rents amid economic headwinds

HONG KONG ISLAND

Grade A office leasing demand remained stagnant in June due to weak economic conditions and the summer holiday. In June, the overall Grade A office rent on Hong Kong Island continued to fall, recording HK$63.8 per sq ft, down 1.2% year to date (YTD).

Among the major submarkets, Central, Admiralty and North Point recorded a larger rental decline of -2.6%, -3.1% and -5.1% YTD, respectively. The overall vacancy rate on Hong Kong Island remained high, reaching 13.4% in June. The high vacancy rate is exerting considerable pressure on landlords to offer generous incentives to attract tenants. Overall, these factors suggest that tenants have more bargaining power in the current market.

On the bright side, new letting cases dominated the leasing market in June, with most of the leasing activity in Central. The major take-up sources were primarily from the professional and financial companies. Examples include Dymon Asia Capital, which leased a 7,000-sq-ft space in Edinburgh Tower in Central. The recentralisation and flight-to-quality trends persisted amid the soft market. Dun & Bradstreet, a company that provides commercial data and analytics, relocated from Kowloon East to Six Pacific Place with a floor space of 7,348 sq ft.

There have been continuous inquires and new demand from Chinese mainland companies about setting up offices in Hong Kong. For example, Gayun Capital Ltd, a new Chinese mainland company leased an 11,000-sq-ft space at One IFC in Central during the month.

Looking ahead, GFA of approximately 930,000 sq ft of future Grade A office supply, mainly in Central and Causeway Bay (around 500,000 sf of this will come from One Causeway Bay), is expected to be completed by 2025. We believe the spotlight will be on these new Grade A office buildings, given an increasing number of enquiries on the new buildings from tenants. New leasing in Hong Kong's Grade A office market will be driven by upgrades and relocation demand, as more new offices are scheduled for completion.

KOWLOON

Kowloon saw a significant slowdown in activity amid the prevailing economy uncertainty and the beginning of summer holiday period. Renewal cases dominated the market instead of new lettings.

In June, the number of new transactions recorded dropped by 38% MoM. Transactions in the Kowloon market were supported mainly by small deals of under 3,000 sq ft, at an average rent of HK$22.8. Both average transaction size and average transaction rent recorded a drop last month.

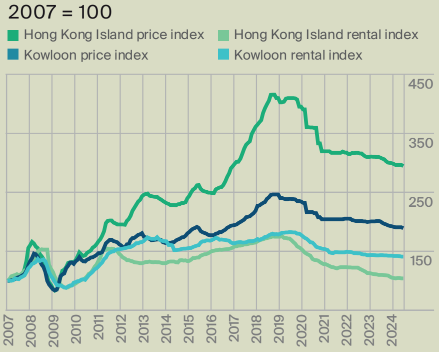
While there was a lack of sizeable new letting cases in June, some notable renewal cases that provide an indication of market rent levels were Ralph Lauren's renewal of a 37,464-sq-ft space at The Gateway Tower 1 in Tsim Sha Tsui for HK$45.5 per sq ft and Nike's renewal of its 54,019-sq-ft space at Manulife Place in Kwun Tong for $26.5 per sq ft. These two cases are examples of tenants seriously studying a move but as occupancy in new buildings has dropped, rents have climbed, and existing landlords are more willing to compromise on rent and incentives during renewals, relocation decisions are getting more difficult in Kowloon.

Exceptions are for companies who are in Grade B buildings seeking space in Grade A buildings for an upgrade amid stable rent. In addition to financial incentives, some landlords are willing to provide a capex subsidy, such as flexible leasing packages and fit-outs, to attract tenants. The trend has continued, and this demand source is expected to be one of the key supporters of the market in the next couple of months.

Domination of renewal and upgrade-driven relocation cases implies signs of stability, so we expect activity levels and rents in the Kowloon office market to remain relatively stable in 2H 2024.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (June 2024)

District	Net effective rent	Change		Price (Gross)	Change	
	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	108.3	-0.1	-9.8	-	-	-
Traditional Central	83.6	0.0	-9.6	-	-	-
Overall Central	93.0	-0.1	-8.7	30,581	-0.6	-5.0
Admiralty	61.3	0.0	1.5	26,885	-0.8	-5.3
Sheung Wan	53.7	0.0	-2.1	25,696	-0.8	-3.6
Wan Chai	49.9	0.0	-1.4	22,864	-1.0	-4.9
Causeway Bay	53.3	-0.2	-4.9	20,039	-1.0	-4.6
North Point	33.8	0.0	-8.2	-	-	-
Quarry Bay	42.0	0.0	-7.6	-	-	-
Tsim Sha Tsui	55.4	-0.1	-1.4	13,763	-0.7	-6.4
Cheung Sha Wan	29.0	0.0	-2.3	-	-	-
Hung Hom	37.0	0.0	-3.4	-	-	-
Kowloon East	28.4	-0.2	-2.5	11,385	-0.9	-4.5
Mong Kok / Yau Ma Tei	49.8	0.0	0.0	-	-	-

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

Residential

The positive impact of scrapping the property curbs has been tapering off

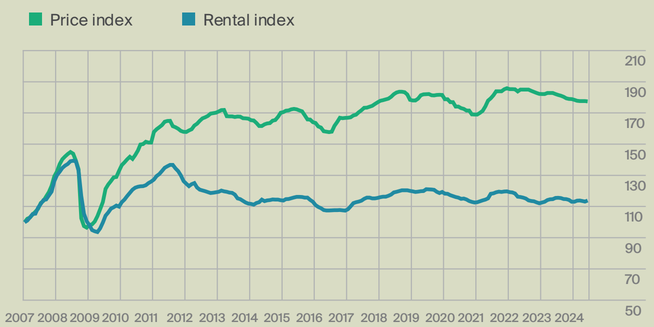
After the withdrawal of cooling measures, the pace of buyers entering the market accelerated significantly in March and April. The number of residential transactions rebounded to more than 8,500 in April, the highest single-month transaction number in the past decade. However, owing to factors such as the delay in interest rate cuts, market uncertainty and the high volume of unsold new units, the number of transactions fell back to about 5,550 in May and slipped a further 30% to 3,856 in June.

Home prices also increased after the withdrawal of cooling measures for two consecutive months in March and April. Home prices fell by 1.2% MoM in May 2024, however, 12.7% lower than the year before. Despite ongoing price cuts from developers, buyers remained cautious amid the continued high interest rates. The Uppland, the first phase in Gold Coast Bay, marked the first time in eight years that a new launch in Tuen Mun was priced under HK$10,000 per sq ft on average. This reflects that the positive impact of scrapping the property curbs has worn off after some pent-up demand was fulfilled.

In the luxury residential segment, sales momentum demonstrated resilience. Some older secondary luxury stocks have been trading at significant discounts to peak values. For example, House 19 at Villa Rosa in Tai Tam, a 3,314 sq ft villa, was sold for HK$68 million, or HK$20,519 per sq ft. This marked a 47% discount to the transacted price at HK$129 million in 2011.

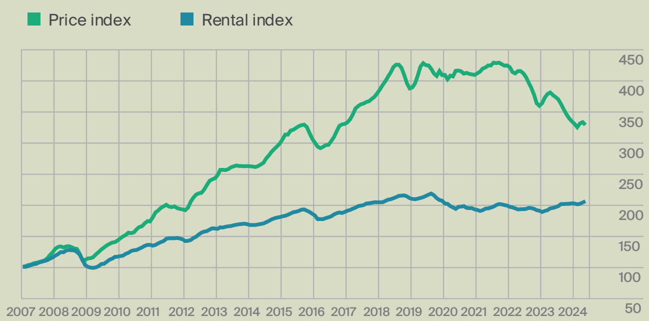
The influx of talent has also bolstered the leasing market, driving the rental index to a four-and-a-half year high, and a MoM increase of 1%. We expect the leasing market to continue to be fuelled by the growing number of non-local students, the influx of professional talent and the return of expats. Some insurance

Fig 2. Luxury residential rents and prices
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential rents and prices
2007 = 100



Source: Knight Frank Research / Rating and Valuation Department companies registered overseas have expressed interest in relocating their offices to Hong Kong, according to an industry representative.

Looking ahead, we do not expect residential prices to rebound until the mortgage rate falls to about 3%. Developers also need to destock another 8,000–10,000 units before they can raise prices. This will take at least another six to nine months to achieve.

Selected residential sales transactions (June 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Kai Tak	Pano Harbour	Villa	4,837	380	78,561
Beacon Hill	Mont Verra	Tower 3 High Floor	4,483	255.8	57,060
Happy Valley	23-39 Blue Pool Road	House	4,599	250	54,360
Mid-Levels Central	Branksome Crest	High Floor	3,329	250	75,098
Pokfulam	Bisney Crest	House	4,246	150	35,327

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

Selected residential lease transactions (June 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Jardine's Lookout	19 Cooper Road	House	7,727	720,000	93
Deep Water Bay	61-63 Deep Water Bay	House	2,838	229,330	81
Pak Shek Kok	Mayfair By The Sea II	House	3,661	165,000	45
Wong Chuk Hang	Southside La Marina	Tower 1B High Floor B unit	2,362	150,000	64
Repulse Bay	127 Repulse Bay	Mid Floor A unit	2,334	135,000	58

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

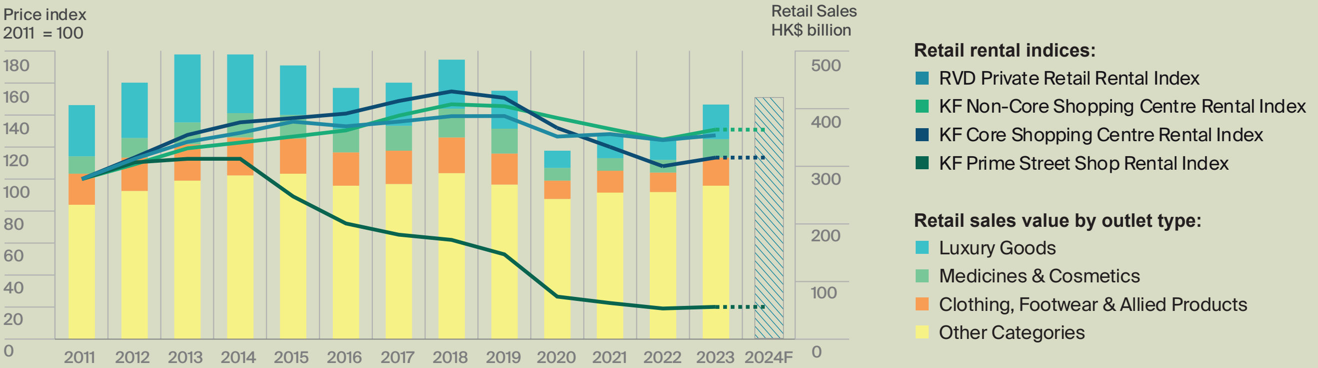
Retail

Lack of exciting retail inducements entering the second half of 2024

Hong Kong's retail market has continued to experience a downturn, with total retail sales value declining by 11.5% YoY to HK$30.5 billion in May 2024. This marks the second consecutive double-digit drop in YoY sales since February–March 2022. By category, the retail sales value of fresh fruits and vegetables in the first five months of 2024 plummeted by 19.9% compared to the same period in 2023, indicating the profound impact of the northbound spending phenomenon on the local retail sector. Furthermore, the sales value of consumer durable goods declined by 12.4% YoY during the same period, underscoring the ongoing weakness in consumer sentiment.

The retail leasing market trend for food and beverage outlets in the first half of 2024 is mixed. On the one hand, the trend of store closures was visible. According to data from the Food and Environmental Hygiene Department,

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department the total number of General Restaurant Licences and Light Refreshment Licences declined by 2.0% from January to June 2024. On the other hand, some restaurant brands, particularly from the Chinese mainland, expanded rapidly into Hong Kong, only to find that their turnover was insufficient to overcome the high rents.

Despite the prevailing challenges, investment opportunities still exist for retail properties that offer attractive rental yields. A state-owned conglomerate, CR Longdation, acquired two retail podiums, KF88 in Kwai Chung and the recent purchase of a retail section at Alto Residences in Tseung Kwan O. The rental return was above 6%, with occupancy rates at almost full capacity. Additionally, a ground floor unit in Prince Commercial Building was sold for HK$52.5 million, with a yield of 5.6%. As investors await potential rate cuts, they are seeking retail properties with yields above 5.5% to provide a cushion against short-term uncertainty.

On a positive note, Chinese Mainland EV brands are actively expanding into Hong Kong's retail market, focusing particularly on showroom space in highly visible sites in areas such as Wan Chai and Kowloon Bay. Notably, some motor operators are also renting short-term exhibition space in shopping malls to test market sentiment without committing to long-term leases.

As we enter the summer holiday season, retail sales typically slow down as locals go on vacation. Looking ahead, retail sales will require an 8–10% growth in 2H 2024 compared to the same period in 2023 to match last year's total retail value of HK$407 billion. This will be challenging as there is currently limited market stimulus.

Retail sales by outlet type (May 2024)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.0	13.1	6.6	-17.0	-21.4
Clothing, footwear and allied products	3.8	12.4	14.7	-16.1	-18.0
Department stores	2.8	9.2	17.9	11.2	-21.0
Fuel	0.8	2.6	7.2	8.4	-11.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	9.7	8.5	-20.1	-4.0
Consumer durable goods	4.0	13.2	-21.2	-2.1	-11.1
Supermarkets	4.2	13.7	6.0	-3.6	-3.4
Others	7.9	26.0	4.4	-11.8	-5.1
All retail outlets	30.5	100.0	3.2	-9.6	-11.5

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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