Hong Kong Monthly

June 2024

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

knightfrank.com.hk/research

Office

Leasing momentum remained soft but saw new demand from Mainland companies

HONG KONG ISLAND

The office sector on Hong Kong Island continued to face challenges and grapple with dropping rents and increasing vacancies. The average Grade A office rent on Hong Kong Island weakened in May to HK$63.8 per sq ft, decreasing by 5.2% YoY and 1.1% YTD. Among all the submarkets, Central saw the biggest drop in rent, falling by 3.4% YTD. With limited new demand and soft market sentiment, the overall vacancy rate hit a record 12.3% in May.

On a positive note, there was a resurgence in new office demand from some Chinese mainland businesses, inquiring about high-quality office space under 5,000 sq ft. And despite the financial sector's generally dismal performance, there have been a few expansion examples involving foreign financial institutions.

The recentralisation and flight-to-quality trends continued, as some occupiers grasped the opportunity from falling rents for office or location upgrades. For example, a publicly traded holding company expanded its office space in One Exchange Square with a 12,610 sq ft space. As tenants opt for upgrades, more tenants are focusing on new developments with better amenities. This has driven landlords to increasingly recognise the importance of providing amenities such as conference spaces, collaboration areas and gyms to attract tenants.

Given the current state of the macroeconomy, we expect office-leasing demand to remain moderate in 2H 2024. As rents continue to fall in prime districts, we expect the average Grade-A office rent on Hong Kong Island to fall by 3% to 5% for the whole year. Against the backdrop of the weak office-leasing market, we also expect the office sales market to be dominated by end-users and private investors. We expect most private equity real estate funds and insurance capital to continue to adopt a wait-and-see approach in the short term.

KOWLOON

The Kowloon market saw an increase in leasing volume. In May, new letting transactions increased about 23% MoM, as some companies resumed business activity after the Easter holiday in April.

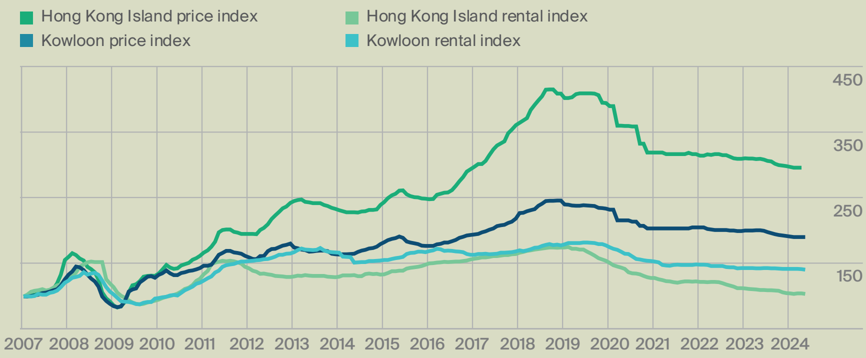
However, the transaction amount continued to be soft. In May, the average monthly rent dropped slightly to HK$22.6 per sq ft, marking the fourth consecutive month of declines. An increase in transaction volume combined with a decrease in transaction amount implies that the average size of deals were diminishing, hence indicating a further bottoming of the market. Landlords are waiting for more positive signals from sizeable tenants, as the market is still dominated by small transactions with an average size of 3,000 sq ft or below. Once the market sees more sizeable transactions with increased volume, rents and the total transaction amount are expected to rebound.

In May, there was only one notable new letting case: AIA Insurance relocated from North Point to Airside in Kai Tak, occupying four floors, with 146,000 sq ft of office space.

Looking ahead, whether the Kowloon office leasing market will bottom out and rebound soon still depends on how fast the supply surplus is absorbed. Stable rental growth of 0% to 2% is expected in the Kowloon market in 2024.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (May 2024)

District	Net effective rent HK$ psf / mth	Change MoM %	Change YoY %	Price (Gross) HK$ psf	Change MoM %	Change YoY %
Premium Central	108.4	-0.7	-9.9	-	-	-
Traditional Central	83.6	-1.8	-9.8	-	-	-
Overall Central	93.0	-0.8	-8.8	30,781	0.0	-4.9
Admiralty	61.3	-2.0	1.5	27,110	0.0	-4.8
Sheung Wan	53.7	0.0	-2.1	25,896	0.0	-3.6
Wan Chai	49.9	-0.4	-1.4	23,095	0.0	-4.0
Causeway Bay	53.4	0.0	-4.7	20,239	0.0	-3.6
North Point	33.8	-3.4	-8.2	-	-	-
Quarry Bay	42.0	-2.0	-7.6	-	-	-
Tsim Sha Tsui	55.5	-0.4	-1.4	13,863	0.0	-6.4
Cheung Sha Wan	29.0	-2.0	-1.9	-	-	-
Hung Hom	37.0	-1.1	-3.2	-	-	-
Kowloon East	28.5	-1.0	-2.0	11,485	0.0	-3.6
Mong Kok / Yau Ma Tei	49.8	-0.5	0.0	-	-	-

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

Residential

Momentum fades after the removal of market curbs

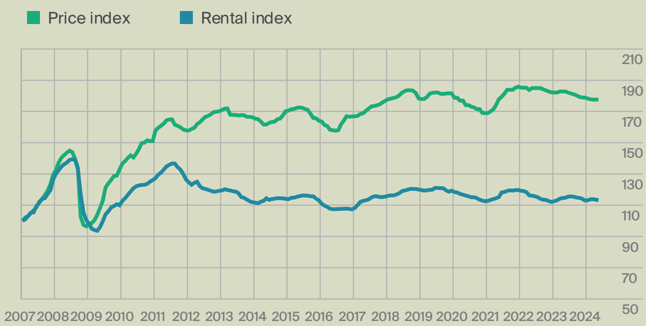
In the past three months, more than 7,000 new homes were sold, but the initial enthusiasm once the property-cooling regulations were lifted has started to wane. Overall transaction volume cooled down in May after a significant rise in April, falling by 35.1% MoM in May to 5,546 cases. Primary sales dropped significantly by 46.8% MoM to 1,934 in May but were still up by 38.5% YoY. First-hand sales were supported mainly by developers' discounted inventory and new launches near MTR stations, such as The YOHO Hub II in Yuen Long and Onmantin in Ho Man Tin. Both projects were in high demand among first-time buyers and existing homeowners who have been looking for new flats within the same district.

Residential property prices edged up slightly by 0.3% MoM in April, marking two consecutive months of growth and a cumulative increase of 2.1%, but they still fell by 12.8% YoY, according to the Rating and Valuation Department. There continued to be cases of massive repricing in the market. A 737 sq ft flat in a blue-chip estate in Eastern District was sold at a 26% discount from its asking price HK$11.8 million, about 7% below its purchase price a decade ago.

The luxury residential segment remained resilient. The most notable transaction recorded during the month was at 33 Island Road in Deep Water Bay, where a 4,812 sq ft house was sold for HK$468 million, or HK$97,257 per sq ft.

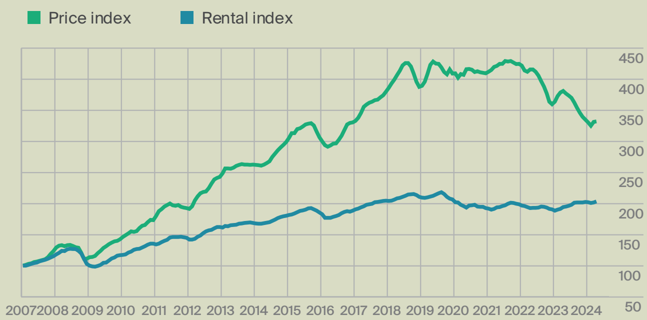
By the end of May, various talent immigration programs in Hong Kong had received over 300,000 applications, and over 120,000 people had arrived, surpassing the annual target of 35,000 new professionals, according to the Labour and Welfare Bureau. The influx of new talent has provided support for the leasing

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 market, driving the rental index to increase for two consecutive months by 0.9% MoM and 4.5% YoY in May.

Looking ahead, the unfavourable economic climate and high interest-rate environment will continue to put pressure on home prices. We expect home prices to continue to move downwards in the second half of the year. Owing to the abundance of unsold inventory and the absence of other positive factors, a rebound in prices is expected to take much longer. We maintain our forecast for home prices to fall by 5% in 2024.

Selected residential sales transactions (May 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
Deep Water Bay	33 Island Road	House	4,812	468	97,257
Shouson Hill	14 Shouson Hill Road	House	3,863	259.96	67,295
Stanley	One Stanley	Duplex	2,466	173.614	70,403
Mid-Levels Central	Grenville House	High Floor	3,349	160	47,775
The Peak	Strawberry Hill	House	3,195	146	45,696

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

Selected residential lease transactions (May 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Deep Water Bay	42 Island Road	House	4,539	450,000	99
The Peak	Infinity (Oasis)	Mid Floor	4,265	350,000	82
Deep Water Bay	8 Deep Water Bay Drive	Tower 1, Mid Floor, A unit	3,302	260,000	79
Pok Fu Lam	Residence Bel-Air	South Tower, T6, High Floor, A unit	3,934	155,000	39
Ho Man Tin	St George's Mansion	Mid Floor, A unit	1,752	150,000	86

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

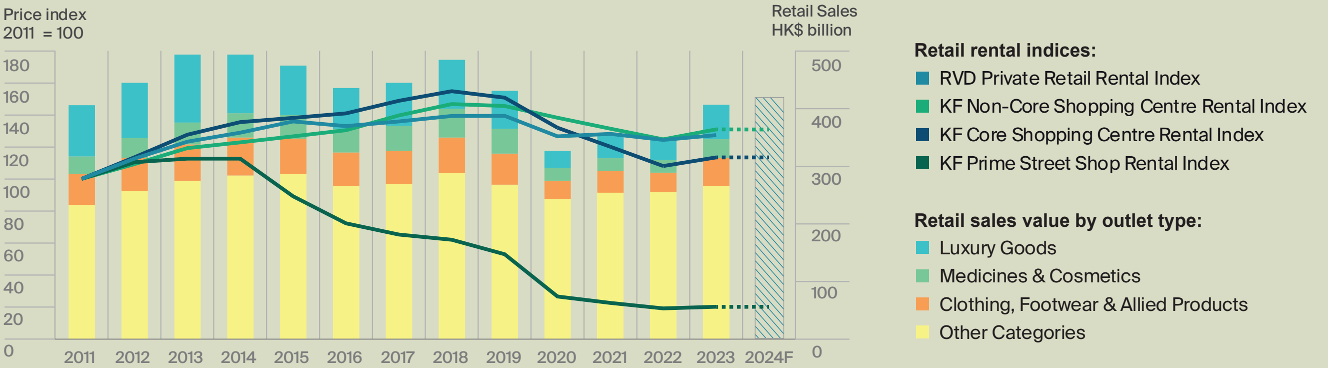
Retail

Disappointing retail performance casts a shadow on rental growth

The retail sector in Hong Kong has seen a sharp decline in sales performance. In April 2024, total retail sales value was HK$29.6 billion, down 14.7% YoY. This latest shortfall in retail sales indicates that Hong Kong is grappling with persistent challenges in low consumer confidence, waning competitiveness and changing tourism spending patterns.

The value of total retail sales for the first four months of 2024 dropped by 4.7% from the same period in 2023, including a 7.8% YoY decline in sales of luxury goods to HK$18.2 billion. One of the primary reasons for this decline is the shifting spending habits and travel behaviour of mainland visitors, who comprise a significant portion of the city's tourist base. These visitors are now more inclined to seek "cultural

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department tourism" than traditional shopping activities. The strong Hong Kong dollar also hindered spending from visitors and is unfavourable for the local retail sector.

The luxury retail sector, which used to pay the highest rents, is now facing the brunt of this downturn. Owing to the poor performance of luxury sales, luxury retailers have adjusted their presence and are not expected to expand further, so retail rents are expected to remain at a low level.

Some Mainland F&B operators who were seeking opportunities to introduce their brands and test the market's appetite have started to feel the pain. There were some cases of store closures and early surrenders for some Mainland F&B operators, which highlights the difficulties they have encountered when branching out into the city. According to a market source, LMM Hand Crushed Lemon Tea reportedly closed its ground floor store in Hang Lung Mansion, though its lease runs until April 2025. Four months after opening in Hong Kong, Radish Southward, a fast-food chain serving spicy Jiangxi food, closed its Dundas Square location. The brand had rented the 1,745 sq ft store for HK$250,000 a month until December 2026.

Retail investment opportunities still depend on owners reducing prices to provide a satisfactory rental return for investors. Given the prevailing trend and the lack of retail momentum, we have a conservative outlook for retail sales performance in 2024, with a possible lower level than that in 2023. As the poor retail performance has cast a shadow on retail rental growth in the city, we expect overall retail rents to remain flat across the board for the remainder of 2024.

Retail sales by outlet type (April 2024)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.7	12.7	-11.3	-31.0	-28.8
Clothing, footwear and allied products	3.3	11.2	-10.2	-24.8	-24.0
Department stores	2.4	8.1	0.7	-13.3	-21.6
Fuel	0.7	2.5	-2.6	-6.1	-9.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.7	9.2	5.2	-23.5	-12.2
Consumer durable goods	5.1	17.3	6.0	-3.7	-5.2
Supermarkets	3.9	13.3	-0.5	-9.4	-3.0
Others	7.6	25.7	-13.0	-23.2	-11.7
All retail outlets	29.6	100.0	-5.1	-19.0	-14.7

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