

Hong Kong Monthly

May 2024

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

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Office

► Rents continue to soften as vacancies keep rising

HONG KONG ISLAND

The high vacancy rates continued to weigh on rents. The overall average Grade A office rent on Hong Kong Island softened in April 2024 to HK\$64.2 per sq ft, dropping by 5.2% YoY and 0.5% year to date (YTD). The overall vacancy rate on Hong Kong Island reached a record high of 12.6% in April, increasing from 12.2% in March. Quarry Bay and Wong Chuk Hang, in particular, saw vacancies rise significantly, reaching 14.9% and 18.3%, respectively. Most of the submarkets on Hong Kong Island experienced a rental decline, with Central experiencing the most significant decline of 9.1% YoY.

The recentralization and flight-to-quality trends persisted amid the downbeat market, with Enfusion Hong Kong relocating from Club Lusitano to Man Yee Building, with a floor space of 9,091 sq ft, and Infini Capital Management confirming that it would take 8,650 sq ft of floor space in Cheng Kong Center II. A manufacturing company from Chai Wai Industrial Building took advantage of the tenant-favoured environment to upgrade its office space to 12 Taikoo Wan Road, Quarry Bay.

There have been continuous inquires and new demand from Chinese mainland companies. In general, small and medium-sized quality office space below 5,000 sq ft with a sea view and fitting out are more competitive and appealing in the market. Given the lack of new demand, we expect the office vacancy rate to

remain high in the near term and overall rents on Hong Kong Island to fall by 0–3% in 2024.

KOWLOON

Leasing momentum remained downbeat in the Kowloon market. In April, the average monthly rent dropped 1.7% MoM to HK\$22.8 per sq ft, marking the third consecutive month of declines. Although the extent of the rental drop on a monthly basis appeared to be trivial, edging down by 1.6% MoM in January, 2.1% MoM in February, and 2.2% MoM in March, altogether, there was a significant 7.6% YTD decline. Deals were dominated by small transactions with an average size of 3,000 sq ft or below. Leasing was more active in Kowloon East, with relocation being the key demand driver in April.

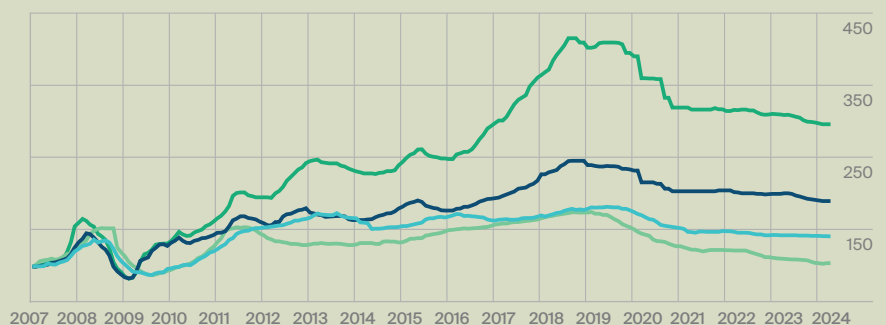
Despite the soft market sentiment, some notable new leasing cases supported market activity during the month. Bela Offices, a co-working space operator, took We-Work's existing office space of 29,735 sq ft with fitting out in Two Harbour Square; and Yusen Logistics moved from Kwai Chung to rent a 26,000 sq ft office at 83 King Lam Street, a brand-new Grade A office with competitive rent in Cheung Sha Wan.

With market uncertainty likely to linger, tenants are expected to maintain a conservative stance. We believe office properties that offer cost-saving capex subsidies and attractive rents can distinguish themselves from the competition. Overall, we expect the Kowloon office market to remain challenging in the near term amid oversupply and weak demand.

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 (April 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	109.9	0.5	-9.1	-	-	-
Traditional Central	85.2	0.0	-8.8	-	-	-
Overall Central	94.0	0.2	-8.5	30,781	0.0	-4.9
Admiralty	62.5	-0.6	3.5	27,110	0.0	-4.5
Sheung Wan	53.7	0.0	-2.1	25,896	0.0	-3.6
Wan Chai	50.1	-0.3	-0.7	23,095	0.0	-4.0
Causeway Bay	53.4	0.0	-8.7	20,239	0.0	-3.6
North Point	35.0	0.0	-5.9	-	-	-
Quarry Bay	42.8	0.0	-5.4	-	-	-
Tsim Sha Tsui	55.6	-0.1	-1.1	13,863	0.0	-6.4
Cheung Sha Wan	29.6	0.0	0.4	-	-	-
Hung Hom	37.4	-1.5	-2.6	-	-	-
Kowloon East	28.7	-0.4	-0.9	11,485	0.0	-3.6
Mong Kok / Yau Ma Tei	50.0	0.0	0.4	-	-	-

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

Residential

► Surge in first-hand residential transactions as developers slash prices

Hong Kong's residential property market saw a notable rebound in April amid active new project launches by developers at deep discounts. According to the Rating and Valuation Department, overall residential prices increased by 1.06% MoM in March, ending 10 consecutive months of decline. On a yearly basis, however, overall prices still fell by 13.2%, and 23% lower than the peak recorded in 2021. The number of negative equity cases peaked in Q1 2024, the highest in two decades, according to figures reported by the Hong Kong Monetary Authority.

As developers are rapidly selling off their inventory, coupled with the removal of cooling measures, residential transaction volume recorded a significant jump in April of 115.3% MoM and 86.6% YoY to 8,551 cases, according to the Land Registry. Primary sales accounted for 3,636 cases, surging 142.6% MoM and 134.6% YoY. Recently, there has been high demand and oversubscribed tickets for new launches, such as The YOHO Hub II in Yuen Long, Onmantin in Ho Man Tin, and Blue Coast in Wong Chuk Hang.

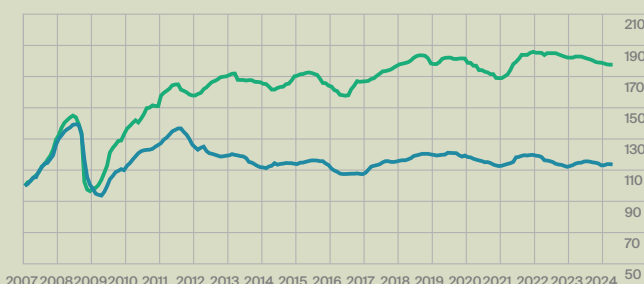
In the luxury housing market, demand from investors and Chinese mainland buyers persisted. The most notable transaction recorded during the month was at Mont Verra, Beacon Hill, where an 8,239-sq-ft house was sold for HK\$600 million (HK\$72,824 per sq ft), making it the most expensive unit sold in Kowloon in April.

The leasing market also showed improvement, as the continued inflow of top talent drives rental demand. Rents rebounded slightly in March after a two-month fall, with the

Fig 2. Luxury residential rents and prices

2007 = 100

■ Price index ■ Rental index

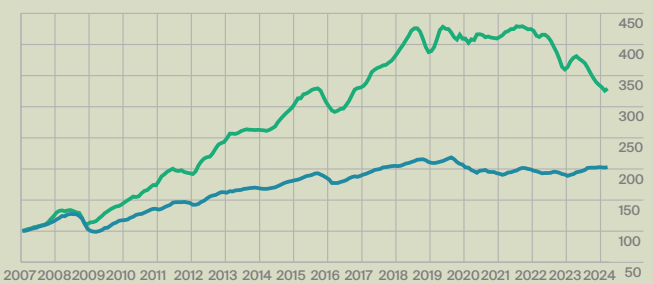


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

■ Price index ■ Rental index



Source: Knight Frank Research / Rating and Valuation Department

rental index rising 0.5% MoM and 5.6% YoY. Flats near the MTR station in Western District, with decent decoration and monthly rents ranging from HK\$20,000 to HK\$40,000 were

preferred by mainland professionals.

A potential delay in the US Federal Reserve's rate cut could continue to pressure overall residential market sentiment and activity. Looking

ahead, as prospective buyers continue to flock to new projects, we expect primary sales to remain robust in the upcoming months.

Selected residential sales transactions (April 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Beacon Hill	Mont Verra	House	8,239	600	72,824
Pokfulam	Mount Pokfulam	House	4,765	333.55	70,000
Kai Tak	Cullinan Harbour	Tower 5, Duplex	3,156	230.39	73,000
Mid-Levels Central	21 Borrett Road	Phase 1, Mid Floor	2,945	218	74,024
Repulse Bay	Grosvenor Place	High Floor	1,975	122	61,772

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

Selected residential lease transactions (April 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels East	8 Kennedy Terrace	Mid Floor, A unit	2,890	300,000	104
Mid-Levels Central	21 Borrett Road	High Floor	2,096	180,000	86
Mid-Level Central	Dynasty Court	Tower 2, Mid Floor, A unit	2,153	155,000	72
Mid-Levels East	High Cliff	High Floor, B unit	2,624	155,000	59
Pokfulam	Residence Bel-Air	Phase 2, Tower 2, High Floor, A unit	1,206	150,000	124

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

Retail

► Unsatisfactory retail sales and restaurant receipts restrict rental growth

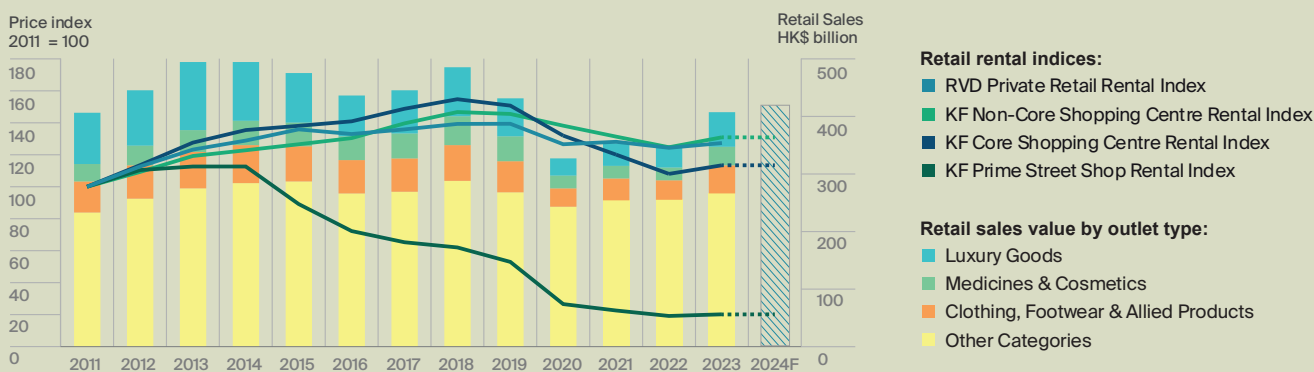
Hong Kong's retail sales remained weak, with total retail sales in March slumping significantly by 7% YoY to HK\$31.2 billion, the worst performance in two years. Sales value of clothing, footwear and allied products dropped by 16.7% YoY to HK\$3.69 billion, and

sales of jewellery, watches and clocks, and valuable gifts recorded a 17.7% YoY decline to HK\$4.18 billion. In Q1 2024, total retail sales decreased by 1.3% YoY.

On a positive note, leasing activity has shown stronger momentum in prime retail streets recently. On, a Swiss

performance running shoe brand, will debut in Hong Kong by launching its first flagship store on G/F, Shop 2, in H Queen's, Central. The store will comprise over 3,684 sq ft, for a monthly rent of HK\$600,000. Other leasing transactions included a 1,700 sq ft shop

Fig 4. Retail rents and sales



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

in Parker House, Central, leased by Falconeri at HK\$400,000 per month; and a 1,700 sq ft shop in Pacific House, leased by Nike, also at HK\$400,000 per month.

Despite more retail leasing transactions in prime retail streets, rents continued to face downward pressure as retail sales dipped further. As for retail investment, sales transactions have been impeded by the lack of rental growth potential and shop owners' reluctance to lower prices

in the hope of maintaining an attractive rental yield.

Regarding the food and beverage sector, total restaurant receipts in Q1 2024 rose slightly by 2.3% YoY to HK\$28.2 billion; and fast-food shops showed relatively steady growth in Q1 2024 with a 3.4% QoQ increase and a 5.8% YoY increase. Total receipt value from bars in Q1 2024, in contrast, plunged significantly by 33% QoQ and 17% lower than in Q1 2023 when the borders were not fully opened until

February, reflecting the challenging business environment for bar operators.

Many retailers responded that sales were disappointing in Golden Week 2024. Lower visitor spending patterns, the weak Chinese yuan, and China's slow economic rebound all pose challenges to Hong Kong's tourism recovery. As market headwinds prevail, retailers and operators have underlined the severity of the business downturn, forcing them to slow down their expansion plans in 2024.

Retail sales by outlet type (March 2024)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.8	15.4	-0.2	-11.4	-5.0
Clothing, footwear and allied products	3.7	11.8	-18.6	-20.0	-16.7
Department stores	2.4	7.6	-5.8	-26.9	-14.1
Fuel	0.8	2.5	3.8	-3.5	-14.5
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.6	8.3	-30.1	-21.1	-11.3
Consumer durable goods	4.8	15.4	15.3	-18.8	-5.9
Supermarkets	4.0	12.7	-8.7	-5.4	-3.4
Others	8.8	28.3	-1.2	-0.1	7.3
All retail outlets	31.2	100.0	-7.6	-14.1	-7.0

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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