Hong Kong Monthly

November 2024

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

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Office

Office leasing in Central gains modest momentum amid economic recovery

HONG KONG ISLAND

In October, the Hong Kong office market continued to navigate a challenging environment. The office vacancy rate on Hong Kong Island remained relatively high at 13.3%, showing only a minimal improvement of 0.1% compared to September. The overall Grade A office rents on Hong Kong island held steady at HK$61.9 per sq ft in October, the same as in September, but down 6.5% YoY and 3.6% YTD.

While challenges remain, there are positive indicators of moderate recovery in the financial landscape. Leasing activity in Central gained traction, driven primarily by increased demand from the financial sector. Notable transactions included a Chinese digital bank, WeBank, leasing 11,246 sq ft of office space in Three Exchange Square, and a US asset management firm leasing 14,568 sq ft in Two IFC.

As Hong Kong's financial markets gradually recover, we expect to see modest growth in office demand in the near term. The government has launched several initiatives – such as by collaborating with large-scale sovereign wealth funds, expanding the scope of tax concessions for funds and single-family offices – to promote the growth of the asset management business. This is expected to further drive demand for office space, particularly in Central. Nonetheless, we believe that rents will remain under pressure. The current high vacancy rate, coupled with the expected addition of 2.8 million sq ft of new supply on Hong Kong Island in 2025, will take time to absorb. We project a decline of 0% to 3% in office rents on Hong Kong Island throughout 2025.

KOWLOON

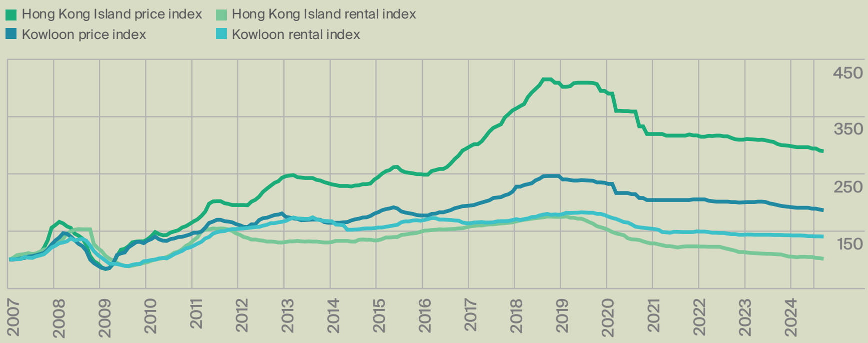
The Kowloon office leasing market is facing a complex landscape that lacks sustainable demand drivers. Overall leasing sentiment remains weak. Most leasing activity has been related to relocation and cost-cutting, primarily involving small offices of under 3,000 sq ft, with rents at HK$20 per sq ft or lower.

There has been some activity from religious organizations and educational institutions during the month, but these instances were not substantial enough to sustain the market. For example, a Christian church leased 32,974 sq ft at 83 King Lam Street in Cheung Sha Wan, and HKUST leased 31,378 sq ft at Manulife Financial Centre in Kwun Tong. Additionally, Build King, an infrastructure company, took half floor at Stelux House in San Po Kong. These policy-driven demand creates temporary leasing demand, but this will not be sustainable in the long term.

An abundance of secondary office space has accumulated as tenants relocate and downsize, resulting in a significant excess of supply. We expect rents continue to face a lot of pressure due to the growing imbalance between supply and demand, especially with an anticipated addition of 1 million sq ft of new supply to be delivered in 2025. We believe the office market has not yet reached its bottom, and rents are projected to decline by another 2% to 4% over 2025.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (October 2024)

	Net effective rent	Change		Price (Gross)	Change	
District	HK$ psf / mth	MoM %	YoY %	HK$ psf	MoM %	YoY %
Premium Central	105.0	0.2	-12.1	-	-	-
Traditional Central	82.6	0.1	-8.1	-	-	-
Overall Central	91.1	0.1	-8.8	29,713	-0.3	-5.3
Admiralty	59.0	0.0	-2.2	26,281	-0.7	-4.3
Sheung Wan	52.2	-0.6	-4.0	25,196	-0.4	-3.6
Wan Chai	49.3	0.3	-3.2	22,260	-0.9	-4.9
Causeway Bay	51.7	-0.3	-5.8	19,639	-1.0	-4.4
North Point	32.2	0.0	-12.7	-	-	-
Quarry Bay	41.5	-0.1	-10.7	-	-	-
Tsim Sha Tsui	54.2	-0.5	-1.7	13,503	-1.2	-5.0
Cheung Sha Wan	28.8	0.0	-2.6	-	-	-
Hung Hom	36.9	0.0	-1.6	-	-	-
Kowloon East	27.8	-1.0	-4.4	10,907	-1.8	-5.5
Mong Kok / Yau Ma Tei	49.8	0.0	-1.5	-	-	-

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

Residential

Surge in home sales following adjustment for mortgage loans measures and rate cuts

Following the US cutting interest rates in November by another 0.25%, six major Hong Kong lenders lowered their prime lending rates for a second time this year by 0.25%. Even before the second round of rate cuts, home sales in Hong Kong reversed a three-month downturn in October, reaching their highest level in five months. According to Land Registry data, Hong Kong's total residential transactions in October reached 4,697 units with a total sales consideration of approximately HK$37.3 billion. This represented a 65% increase in transactions MoM, up from 2,848 units, and a 79% increase in sales value compared to HK$20.8 billion in September.

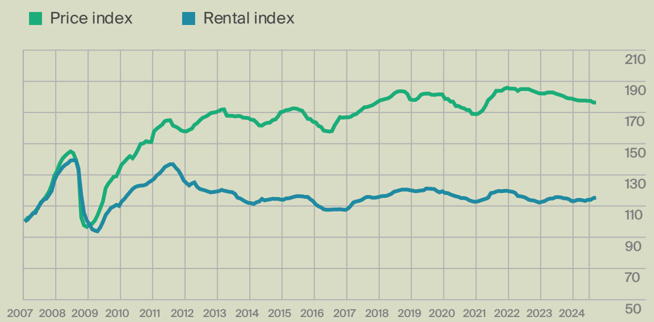
Notably, first-hand sales in October soared by more than 200% MoM to 1,611 units. Newly launched projects, namely Victoria Harbour II in North Point and Cullinan Sky in Kai Tak have seen impressive sales.

While property transactions were lifted, home prices continued to decline for the fourth consecutive month. Prices dropped by 1.7% MoM in September and 7.5% YTD, reaching their lowest level since August 2016, according to Rating and Valuation Department. With a cumulative correction of nearly 30% in home prices from their peak in 2021, the number of negative-equity cases surged to 40,713 by the end of September, the highest number in 21 years when cases reached 67,575 in Q4 2003.

Luxury homes also experienced a rise in market activity. For properties priced at HK$78 million (US$10 million) or above, the number of transactions increased by 60% MoM in October to 20 cases, with the total consideration soaring by 171% MoM. Notable transactions included a 2,821-sq-ft 3-storey house at The Beachfront in Repulse Bay sold for HK$160 million (or HK$56,717 per sq ft), which was originally listed for HK$200 million in June; and a 8,910-sq-ft house at Peak Road in The Peak sold for HK$1,050 million, or HK$117,845 per sq ft.

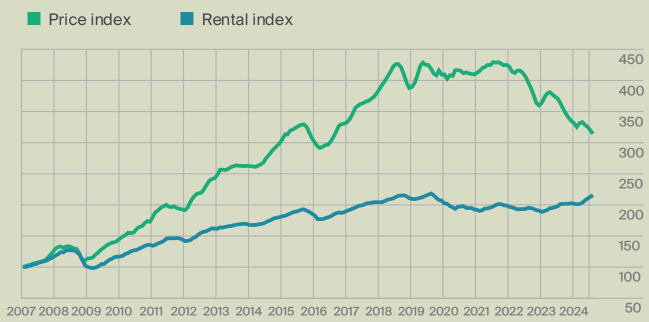
Meanwhile, leasing market remained robust, with rental levels hitting a

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 five-year high and rising for the seventh consecutive month in September. Due to a shortage of available leasing units, tenants are willing to pay higher rents. We expect rents to remain upbeat in the near term, with a further increase of 3% to 5% anticipated in 2025, potentially reaching historical highs.

Given these positive factors, including measures to raise the borrowing limit and debt-servicing ratio alongside interest rate cuts, property prices are expected to be close to the bottom. Looking ahead, we anticipate a slight rebound in the overall home prices by 5% in 2025, assuming further rate cuts.

Selected residential sales transactions (October 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK$ million)	Price (HK$ per sq ft)
The Peak	Peak Road	House	8,910	1,050	117,845
Repulse Bay	90 Repulse Bay Road	House	5,766	470	81,512
Beacon Hill	Mont Verra	Tower 2, High Floor	4,395	260	59,158
The Peak	Altadena	Low Floor, Duplex	4,201	248	59,034
Jardine's Lookout	Dukes Place	A unit, Duplex	4,078	212	51,986

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

Selected residential lease transactions (October 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK$)	Monthly rent (HK$ per sq ft)
Mid-Levels Central	8 Clovelly Path	Low Floor	3,120	163,000	52
Ho Man Tin	St George's Mansions	Mid Floor, A unit	1,870	150,000	80
Ap Lei Chau	The Corniche	Tower 1, Low Floor, B unit	2,108	141,800	67
Repulse Bay	The Lily	Tower 4, Mid Floor	2,546	140,000	55
Mid-Levels Central	Estoril Court	High Floor, F unit	2,888	130,000	45

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

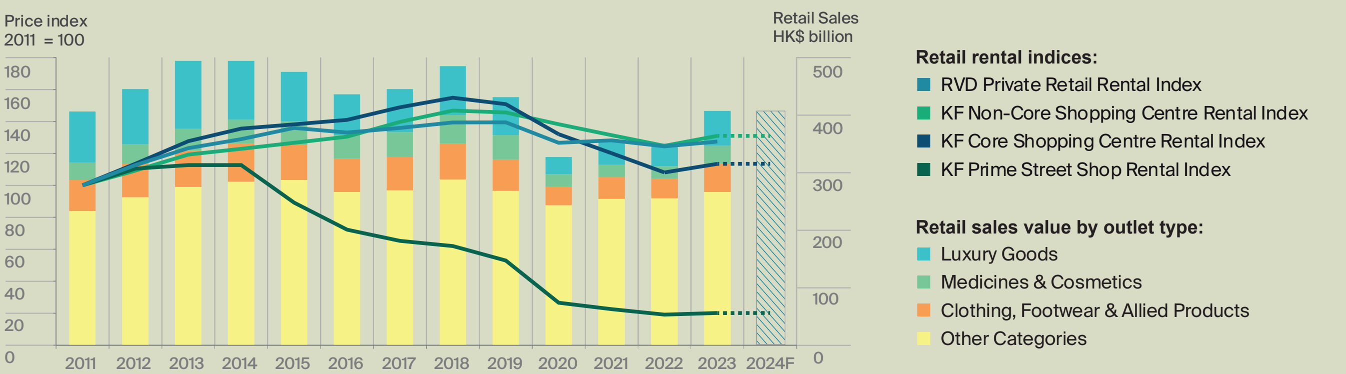
Retail

Hong Kong's demographic shift redefines the retail landscape

Although overall retail sales have been declining for the last seven months in a row, the reduction in retail sales value narrowed in September, falling by 6.9% YoY to HK$29.5 billion. Luxury sales experienced the most significant decline, with jewellery, watches and clocks, and valuable gifts recording a drop of 17.9% YoY. Consumer durable goods and department stores also saw declines of 12.5% YoY and 11.4% YoY, respectively. Meanwhile, total receipts from restaurants showed a slight decline of 0.5% QoQ, totaling HK$26.7 billion in the third quarter.

Despite the poor performance of the luxury sector, some jewelers reported that rising gold prices have provided some support for sales amid challenging market conditions. Lukfook Jewellery reported that the sales of gold products are expected to resume to normal levels as consumers adapt to the higher gold prices. Additionally, Lukfook Jewellery is relocating back to its former shop location at Rex House in Mongkok,

Fig 4. Retail rents and sales



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department which spans 12,706 sq ft and incurs a monthly rent of HK$600,000.

As 2024 comes to a close, it is evident that nearly two years after the post-COVID border reopening, the recovery of retail sales has not met market expectations. A closer examination of the contracting retail market reveals that diminished spending from visitors and increased northbound travel by local residents are not the only reasons for the sales decline.

Despite a population growth of 1.1% in Hong Kong from the first half of 2018 to the same period in 2024, the retail sales value of supermarkets has declined by 5%. Sales of daily necessities have not kept pace with overall population growth. One reason for this is that the rapid adoption of cross-border online grocery platforms in recent years may have diverted some business from physical stores. Moreover, Hong Kong's retail landscape is being reshaped by significant demographic changes. Data from the Census and Statistics Department indicates that between mid-2018 and mid-2024, there was a decrease of 100,000 individuals under the age of 20 and a reduction of 354,000 individuals aged 20 to 59, alongside an increase of 534,000 individuals aged 60 and above. This trend reflects a pattern of emigration among middle-aged Hongkongers and an aging population.

The relationship between demographic changes and retail sales underscores the urgent need for both landlords and retailers to recognize these fundamental shifts and the resulting changes in demand across various retail categories. The retail outlook for 2025 remains challenging. The contraction of Hong Kong's retail market, coupled with dwindling retail sales, will continue to constrain rental growth and property valuations. We expect retail rents to decline by up to 5% in 2025. We look forward to seeing the retail sector recalibrate its strategies to reconnect with core customers and explore new retail models that can navigate the unprecedented headwinds.

Retail sales by outlet type (September 2024)

Outlet	Value (HK$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.5	12.0	-9.3	-17.1	-17.9
Clothing, footwear and allied products	2.9	10.0	-5.9	-14.3	-8.0
Department stores	2.2	7.3	-10.4	-2.1	-11.4
Fuel	0.8	2.7	-2.9	0.6	-8.6
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.5	11.8	15.7	21.9	-3.3
Consumer durable goods	5.1	17.3	31.1	20.5	-12.5
Supermarkets	4.3	14.4	-2.6	3.0	-1.0
Others	7.3	24.5	-5.2	-8.5	1.2
All retail outlets	29.6	100.0	1.2	-1.0	-6.9

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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