

# Hong Kong Monthly

October 2024

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

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## Office

### ► Finance companies saw an increase in leasing activity

#### HONG KONG ISLAND

In September, the Hong Kong office market continued to face challenges. The overall Grade A office rent on Hong Kong island continued to drop to HK\$61.9 per sq ft in September, decreasing by 6.8% YoY and 3.6% YTD. Among the major submarkets, Central (Premium), Admiralty and North Point recorded a larger rental drop of -6.3%, -6.7% and -9.7% YTD, respectively. The office vacancy rate on Hong Kong Island remained at a high level of 13.4% owing to continued stagnant leasing demand.

On a positive note, market momentum improved, and more expansion activity was recorded. During the month, we observed some expansion cases in the banking, finance and wealth-management sectors. Examples included Millennium Management, a US investment firm, which expanded its office space in Two IFC to 20,000 sq ft. Also, a wealth management company will expand its office space to 14,000 sq ft, moving from Hysan Place to Lee Garden One in Causeway Bay.

Moving forward, we expect overall business sentiment and leasing activity to gradually improve, thanks to some positive catalysts, like the interest rate cut and improved stock market. Furthermore, the Government announced in the Policy Address 2024 its intention to develop a “headquarters economy” to attract enterprises from outside Hong Kong to

set up headquarters and/or corporate divisions in Hong Kong. We believe that this policy may attract large MNCs to relocate to Hong Kong and could help drive office rental activity.

#### KOWLOON

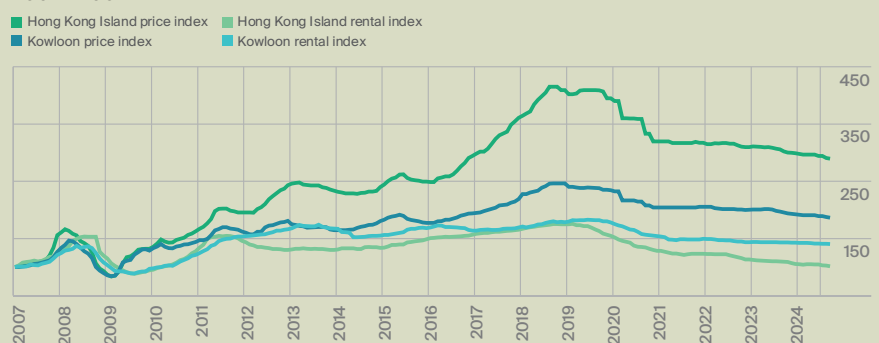
Leasing momentum in September was slow, with strong wait-and-see sentiment. There was occasional movement related to project-based leasing and cost reduction. In September, the volume of new leasing transactions saw a MoM decrease of 25%. With limited new demand, the average monthly rent dropped slightly to HK\$22.5 per sq ft. Most of the leasing transactions were dominated by small to medium-sized units of under 3,000 sq ft and rents of HK\$20 per sq ft or less. Leasing activity from electronics companies was more active during the month.

A few relocation cases, especially in Kowloon East, dominated the leasing market in September. For instance, MTR expanded from Telford Plaza to Hang Seng Tower in Kowloon Bay, taking a 26,000 sq ft space; and AECOM expanded to two floors in Grand Central Plaza Tower 1 with 17,834 sq ft of space. However, these project-based expansion cases are short-term, as they expanded mainly because they were awarded individual government projects. These companies will likely terminate their leases after project completion.

ICBC's moving from Kwun Tong will significantly increase office vacancy. We expect major developers in Kowloon East to adjust their rents to attract new tenants. Overall rent levels in the area are expected to fall until the end of the year, when more relocations are likely. Overall, we expect a rental drop of 1–3% over 2024.

**Fig 1. Grade-A office rents and prices**

2007 = 100



Source: Knight Frank Research

## Grade-A office market indicators (September 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	104.8	-0.5	-12.2	-	-	-
Traditional Central	82.5	-0.2	-8.9	-	-	-
Overall Central	91.0	-0.3	-9.3	29,813	-0.7	-5.5
Admiralty	59.0	-0.7	-2.6	26,464	-0.3	-4.7
Sheung Wan	52.5	-1.2	-3.5	25,296	-0.4	-3.6
Wan Chai	49.2	-0.7	-3.3	22,460	-0.7	-4.4
Causeway Bay	51.8	-1.1	-5.7	19,839	-0.5	-3.9
North Point	32.2	0.0	-12.7	-	-	-
Quarry Bay	41.5	0.0	-10.6	-	-	-
Tsim Sha Tsui	55.4	0.0	-1.3	13,663	0.0	-4.5
Cheung Sha Wan	28.8	-0.3	-2.7	-	-	-
Hung Hom	36.9	0.0	-1.7	-	-	-
Kowloon East	28.0	-0.7	-3.2	11,107	-1.6	-4.6
Mong Kok / Yau Ma Tei	49.8	0.0	-1.5	-	-	-

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

# Residential

## Home prices sink to historic lows despite the rate cut; the Policy Address may offer some relief

Despite the prospects of lower interest rates, the downward trend in property prices showed no sign of abating. According to Rating and Valuation Department, home prices declined for the fourth consecutive month, dropping by 1.7% MoM in August, and 6.2% YTD, reaching an eight-year low. The total transaction volume declined for the fifth consecutive month, plunging by 22% MoM to 2,848 in September, the lowest level since February this year. First-hand transactions dropped more than 50% MoM following a sharp

surge to 1,154 transactions. Both buyers and sellers were waiting for potential new measures to be announced in the Policy Address and further interest rate cuts.

Following the recent interest rate cut, developers are capitalising on the opportunity to aggressively launch new projects with attractive discounts. In Happy Valley, One Jardine's Lookout offers units at an average price of approximately HK\$17,900 per sq ft after discounts, marking the lowest price for first batch units in 13 years. In Kai Tak, first-round sales of 300 units in

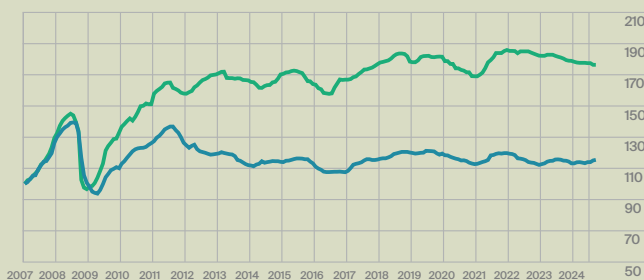
Cullinan Sky received an overwhelming response, with an oversubscription of nearly 142 times, thanks to its proximity to an MTR station and shopping mall.

On the leasing front, overall rents increased for the sixth consecutive month, up 1.1% MoM and 6.8% YoY. In the first eight months of the year, rents have risen by more than 6%. In the luxury residential segment, in contrast, there is greater flexibility for negotiating rents. For instance, in Pokfulam, the asking rent of a townhouse was reduced by over 20% to approximately HK\$130,000 per month.

**Fig 2. Luxury residential rents and prices**

2007 = 100

Price index Rental index

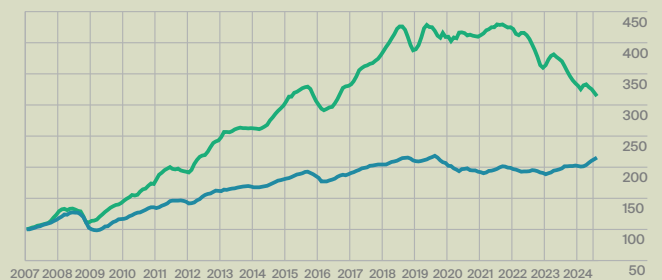


Source: Knight Frank Research

**Fig 3. Mass residential rents and prices**

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

Policy Address 2024 announced a relaxation in the loan-to-value ratio cap for all property mortgages to 70%. With lower interest rates, we are now seeing more high-income local and overseas

professionals to enter the mid-to-high-end residential property market. This is a good sign and bodes well with a longer-term recovery. Nonetheless, we expect the overall property prices to

remain under pressure in the near term, as despite recent rate cuts, interest rates remain relatively high, and second-hand properties continuing to struggle due to aggressive primary sales.

### Selected residential sales transactions (September 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Kowloon Tong	No. 7 Devon Road	House	6,532	333	50,980
Beacon Hill	Mont Verra	Tower 3 High Floor	4,557	260	57,055
Ho Man Tin	St George's Mansions	Tower 3 High Floor A & B	3,927	193	49,147
Pok Fu Lam	Residence Bel-Air Phase 4	Tower 1 Duplex	4,527	190	41,970
Mid-Levels Central	Dynasty Court	Tower 3 High Floor B unit	2,268	144.02	63,501

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

### Selected residential lease transactions (September 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Pokfulam	Bel-Air Peak Rise	House	4,190	240,000	57
Deep Water Bay	61-63 Deep Water Bay	House	2,727	230,000	84
Repulse Bay	South Bay Close	Block B7 High Floor	2,845	190,000	67
Tam Tai	Villa Rosa	House	3,314	150,000	45
Mid-Levels Central	3 MacDonnell Road	Flat A	2,277	148,000	65

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

# Retail

## ► Changing consumption patterns continued to hit the retail sector

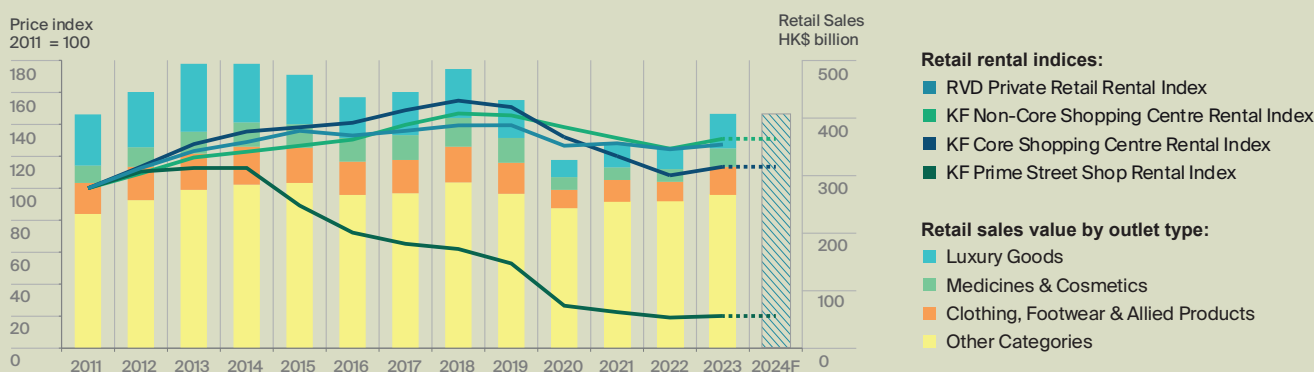
Hong Kong's retail market remained weak, with total retail sales value declining for the sixth straight month in August 2024, registered a 10.1% YoY decrease to HK\$29.2 billion. Outbound travellers continued to outnumber visitor arrivals, which further undermined local retail market performance. Local departures from

Hong Kong surged more than 29.8% in July and August 2024 compared with the same period in 2023, while there were only 8.38 million total visitor arrivals in Hong Kong (a 9.3% increase) during the same period in 2024.

Total retail sales value for tourism-related categories, namely clothing, footwear and allied products,

department stores, jewellery, watches and clocks, and valuable gifts declined by 11.0%, 15.6%, and 15.8% YoY, respectively, from January to August 2024. Local spending was also weak, as reflected in the decline in the sales value of the food and supermarkets category compared to that in 2023, dropping by 4.4% and 2.0% YoY, respectively.

Fig 4. Retail rents and sales



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

On the leasing front, there were a handful of expansion cases from foreign brands in major shopping malls and streets. The Swatch Group expanded its footprint, taking corner shop G35 in Mira Place, Tsim Sha Tsui. The shop is about 1,000 sq ft, with a monthly rent of HK\$400,000. Apparel retailer Abercrombie & Fitch will return to Hong Kong and open two new stores – 7,000 sq ft. in Hysan Place, Causeway Bay, and more than 10,000 sq ft. in New Town Plaza, Shatin – eight years after it closed its four-storey flagship store in Central in 2016. Other fashion groups expanding in Hong Kong include Mango, which has rented a 19,000 square-foot store in

Asia Standard Tower in Queen’s Road Central for about HK\$1.2 million a month.

In the investment market, owing to the US Fed’s interest rate cut, transaction momentum is gradually returning. A notable transaction was recorded in Tsim Sha Tsui for G/F Unit D1, D2, E&F at No. 86 Nathan Road, about 4,500 sq ft, in total, which was sold for HK\$200 million. The transaction was rumoured for several months and was finalised after the rate cut announced by the Fed. Although the current rental yield of the shop is said to be about 3.5%, which is lower than the expected yield from other

transactions earlier this year, it shows that investors are still confident in prime street shops bringing more value after the gradual rate cut.

The retail market is still adjusting and adapting to the new consumption patterns by both tourists and locals. Shopping mall landlords are more flexible in rent negotiations in the short term to maintain a higher occupancy rate. Prime street shops in core areas remain attractive to investors waiting for the market to rebound. As market headwinds continue, retailers and restaurants are still cautious about further expansion.

### Retail sales by outlet type (August 2024)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.9	13.5	5.0	-1.7	-24.0
Clothing, footwear and allied products	3.1	10.8	-16.0	-17.0	-12.3
Department stores	2.4	8.2	10.7	-14.6	-15.8
Fuel	0.8	2.8	3.5	2.6	-10.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	10.3	18.2	1.9	0.1
Consumer durable goods	3.9	13.4	-3.2	-3.0	-15.8
Supermarkets	4.4	15.0	1.1	4.8	-3.6
Others	7.6	26.0	-2.7	-5.3	-1.9
All retail outlets	29.2	100.0	0.1	-4.4	-10.1

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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