

Hong Kong Monthly

September 2024

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

knightfrank.com.hk/research

Office

► Market uncertainty dampens leasing momentum

HONG KONG ISLAND

In August, Hong Kong office leasing momentum remained lacklustre amid weak market sentiment. The overall Grade A office rent on Hong Kong island continued to decline to HK\$62.6 per sq ft in August, decreasing by 6.5% YoY and 3% YTD. Among the major submarkets, Central, Admiralty and North Point recorded a larger rental decline of -5.8%, -6.0% and -9.7% YTD, respectively. The overall vacancy rate for Grade A offices remained at a high level of 13.4%.

The slow economic growth and property market downturn in Hong Kong has significantly impacted local legal firms and the stock market. Several local law firms, particularly those specialising in conveyancing, IPOs and local securities firms, have scaled back their operations due to the challenging economic environment. Landlords are much more flexible in rental concessions and negotiations to attract and retain tenants.

Despite these challenges, we saw new hedge funds set up in the market, driving new demand for office space below 5,000 sq ft. Recently, a local hedge fund leased the whole 9th floor (5,700 sq ft) of LHT Tower. The resiliency and growth of hedge funds is expected to drive some leasing activity in the coming months.

In the near term, we expect the office leasing market to remain

downbeat. We maintain our rental forecast of a 3% to 5% drop in 2024.

KOWLOON

Following a gradual pickup in leasing activity in July, Kowloon experienced a slowdown in activity in August due to the summer holiday period. European companies, in particular, delayed their real estate decision-making, resulting in a significant drop in leasing activity. In August, the volume of new leasing transactions saw a MoM decrease of 13%. With limited new demand, the average monthly rent dropped slightly to HK\$22.8 per sq ft. As key decisions are expected to resume after the summer holiday, leasing activity is expected to gradually pick up in September and October.

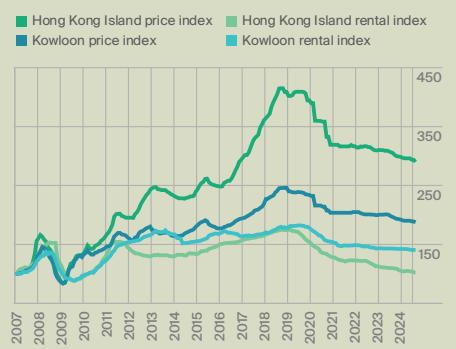
Despite a quiet market, leasing activity from semi-retail tenants picked up during the month. One notable new leasing case was HKU Space, a post-secondary education institution, which leased a 23,593 sq ft office in Kingston International Centre in Kowloon Bay.

Moreover, the trend of tenants seizing the opportunity presented by falling rents in centralised areas to upgrade their locations continued to prevail in the market. One notable example was the Industrial and Commercial Bank of China (ICBC), which relocated and expanded from a 135,000 sq ft office space in Millennium City 1 in Kwun Tong to a 165,000 sq ft

office space in One Harbourfront in Hung Hom, including a canteen area. With ICBC moving out of Kwun Tong, this shift will exert additional pressure on landlords in Kowloon East, potentially leading to a ripple effect that drives down rents in the area.

Overall, given the current condition of the local and global economy, more uncertainty is expected in the market towards the end of the year. Consequently, office rents in the Kowloon market are expected to experience a mild drop in the coming months, as tenants adopt a more conservative approach to the market outlook. We expect rents in Kowloon East to drop by 3-5% due to the ripple effect caused by the exit of ICBC from Kwun Tong, and the overall Kowloon market to drop by 1-3% for the full year of 2024.

Fig 1. Grade-A office rents and prices
2007 = 100



Source: Knight Frank Research

Grade-A office market indicators (August 2024)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	105.4	0.1	-11.8	-	-	-
Traditional Central	82.7	-0.5	-9.4	-	-	-
Overall Central	91.3	-0.3	-9.4	30,013	-1.9	-5.9
Admiralty	59.4	0.0	-1.9	26,547	-1.3	-5.7
Sheung Wan	53.1	-1.1	-2.9	25,396	-1.2	-4.0
Wan Chai	49.5	0.2	-2.9	22,610	-1.1	-4.8
Causeway Bay	52.4	-1.6	-6.0	19,939	-0.5	-4.3
North Point	32.2	-0.4	-12.7	-	-	-
Quarry Bay	41.1	-0.4	-9.5	-	-	-
Tsim Sha Tsui	55.4	0.0	-1.5	13,663	-0.7	-5.2
Cheung Sha Wan	28.9	-0.3	-2.3	-	-	-
Hung Hom	36.9	0.0	-2.8	-	-	-
Kowloon East	28.2	-0.4	-2.5	11,285	-0.9	-3.9
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 at an eight-year low while the rental market shows resilience

Home prices in Hong Kong continued their downward trajectory in July, dropping by 1.9% MoM, and 4.7% YTD, reaching the lowest level in nearly eight years. There has been a significant decline of 25% from the historical peak in September 2021.

Residential transactions have declined for four consecutive months following a recent peak of over 8,500 transactions in April. The total transaction volume remained low at 3,652 in August, according to the Land Registry. However, sales of new developments, including ONE INNOVALE – Archway, in Fanling, and NOVO LAND Phase 1A, in Tuen Mun,

supported by discounts, were well-received. First-hand transactions surged nearly 40% MoM to 1,154 in August.

Despite the slow economic recovery, demand for luxury homes remained steady. The most notable transaction recorded during the month was at Mont Verra in Beacon Hill, where an 11,382-sq-ft house was sold for HK\$1,028 million, or HK\$90,318 per sq ft.

The rental market, in contrast, maintained its upward trend. Overall rents increased by 1.1% MoM in July, reaching a record high since August 2019. The strong demand was driven

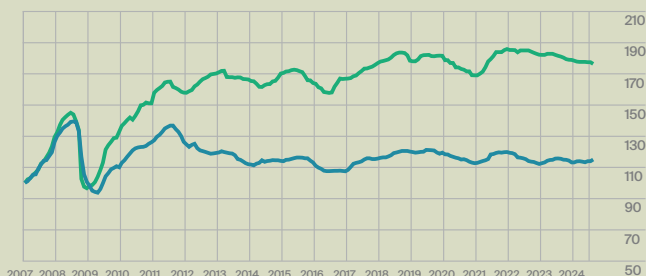
mainly by newly arrived talent and students from the mainland. Flats near the universities with rents ranging from HK\$7,000 to HK\$8,000 are highly sought-after by non-local university students. Postgraduate students prefer larger flats with a monthly rent of over \$20,000.

According to the latest data from the Education Bureau, the eight publicly funded universities have admitted a total of 14,756 non-local undergraduate students this academic year, and the universities plan to double the quota to 40% in the future. Recently, the 63-room Popway Hotel in Tsim Sha Tsui was sold for HK\$180 million, and plans are

Fig 2. Luxury residential rents and prices

2007 = 100

■ Price index ■ Rental index

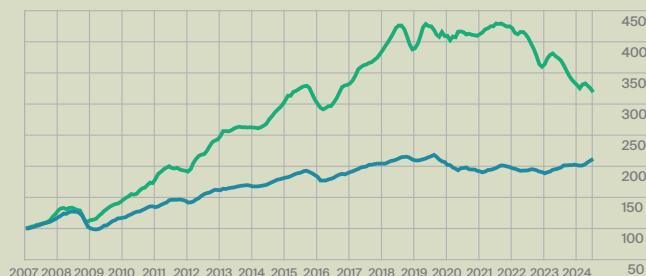


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

■ Price index ■ Rental index



Source: Knight Frank Research / Rating and Valuation Department

underway to transform it into student housing to meet future demand.

With the US Fed announcing a 0.5% interest rate cut in September, a new cycle of interest rate cuts has officially begun. The Hong Kong Interbank Offered Rate (HIBOR) is expected to

continue to fall, while the Prime Rate (P) will go down more slowly. The overall high-interest rate environment will continue to affect the cost of new mortgages. As the actual mortgage rate has risen considerably since 2022, there is still insufficient short-term

purchasing power in the market. Given the high inventory of primary stock, we expect property prices to remain under pressure in the near term. Second-hand properties will struggle given aggressive developer pricing.

Selected residential sales transactions (August 2024)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Beacon Hill	Mont Verra	House	11,382	1,028	90,318
Shouson Hill	Shouson Hill 15	House	9,694	717	74,000
Mid-Levels Central	Branksome Crest	High Floor	3,329	250	75,098
Kowloon Tong	Kent Road	House	5,994	228	38,005
Tsim Sha Tsui	Masterpiece	High Floor, B Unit	2,969	148	49,848

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

Selected residential lease transactions (August 2024)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Tai Tam	8 Tai Tam Road	House	3,957	290,000	73
Mid-Levels Central	Regence Royale	Block 1, Low Floor, A Unit	3,738	200,000	54
Mid-Levels West	39 Conduit Road	High Floor, B Unit	2,355	190,000	81
Wong Chuk Hang	Marinella	Tower 2, A Unit	2,300	180,000	78
Mid-Levels Central	Queen's Garden	Tower A, High Floor, Flat 1	2,141	168,000	78

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

Retail

► Gloom deepens in the retail sector as sales drop further

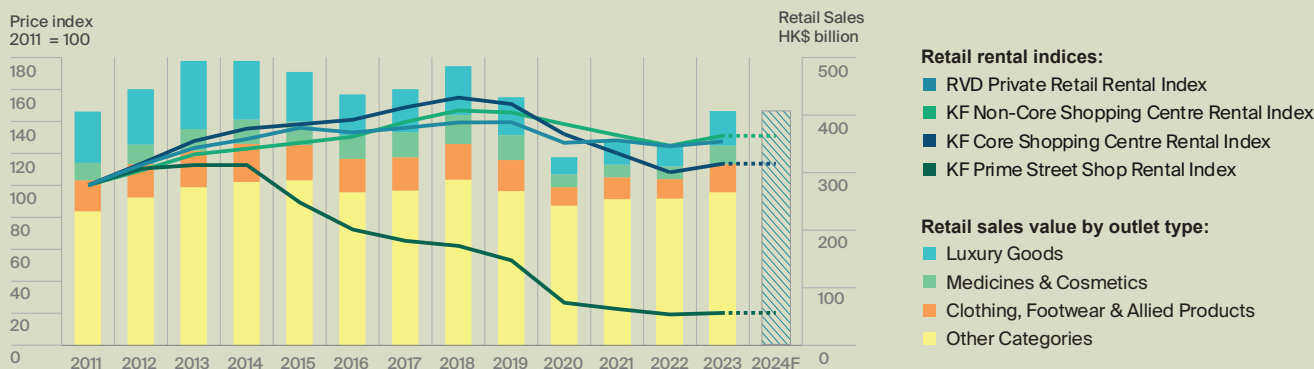
Hong Kong's retail market continued to contract, as more locals continued to go north or travel abroad during the summer break. Total retail sales value plunged 11.8% YoY to HK\$29.1 billion in July 2024. This marks the fourth consecutive month of decline, underscoring the ongoing weakness in consumer sentiment. Tourism-oriented

trades, including clothing, footwear and allied products, department stores, and jewellery, watches and clocks, and valuable goods, all suffered a double-digit decrease in sales value during the first seven months of 2024 compared to the same period in 2023.

The retail leasing market faces difficulties in both core shopping areas

and livelihood areas. One of the Hong Kong's most iconic shopping streets, Canton Road, which used to boast a cluster of luxury retail flagship stores, has undergone a seismic shift in tenant mix. Recently, G/F Shop 3A in Hanley House, Tsim Sha Tsui, with a gross area of 1,500 sq ft, was leased to a local cha chaan teng restaurant at a monthly rent

Fig 4. Retail rents and sales



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

of HK\$300,000, or HK\$200 per sq ft monthly. This is the first reappearance of a cha chaan teng in nearly 20 years on this prime shopping street. Moreover, Emperor Watch and Jewelry leased a prime street shop in G/F & 1/F Shop A in Shanghai Commercial Bank Tower, Central with a substantial downward adjustment in rent. The shop has over 7,000 sq ft and was leased for HK\$1.6 million per month, starting in March 2025, with a five-year tenancy. The expansion of this local luxury retailer in the prime shopping area indicates that the location value remains strong, but the lower monthly rent suggests the retail market has yet to find bottom.

Two longstanding local gym chains, Pure Fitness and Physical

Fitness, struggled with rent disputes in multiple locations. The latter even closed all its branches, and a restructuring is pending, according to a market source. The potential vacant spaces from gyms closing down in various locations will pose a challenge for landlords to find replacement tenants.

The downgrading consumption pattern from tourists and weak spending by locals have had a direct impact on developers. With their deteriorating financial performance, developers are showing more flexibility in rent negotiations to secure high occupancy rates in shopping malls and core retail properties.

In terms of retail asset investment, we are seeing more sales activity happening on prime retail streets, but the overall market sentiment remains subdued. This could be some investors looking for small shops at prime location at a much-discounted price, yet no large transactions were seen.

Looking ahead, the retail sales performance for the remainder of 2024 is expected to remain soft. Nonetheless, the gradual recovery of macroeconomic environment, given the easing of global interest rates, a potential rebound of the renminbi and the influx of top talent from multiple talent schemes, may provide a glimpse of hope for the retail sector.

Retail sales by outlet type (July 2024)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.7	12.9	-12.3	0.0	-25.0
Clothing, footwear and allied products	3.7	12.8	8.8	13.0	-16.8
Department stores	2.2	7.5	-1.3	-9.0	-24.3
Fuel	0.8	2.7	0.8	7.0	-9.7
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.5	8.7	-10.9	-6.4	-4.1
Consumer durable goods	4.0	13.8	-5.2	-21.1	-13.8
Supermarkets	4.3	14.9	4.5	9.9	-4.2
Others	7.8	26.6	-2.1	2.0	-2.3
All retail outlets	29.1	100.0	-2.5	-1.5	-11.8

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 Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank 2024. This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein.

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

Knight Frank Petty Limited EAA (Company) Lic No C-010431
Knight Frank Hong Kong Limited EAA (Company) Lic No C-013197