Colliers

Hong Kong

Quarterly Market Report

Q2 2024

MARKET OVERVIEW

Executive Summary

In Q2 2024, Hong Kong's commercial real estate sectors displayed mixed performance, reflecting the prevailing macroeconomic environment. While the office and industrial sectors continued to face increasing vacancy and declining rents, high-street retail continued to be resilient.

The Grade A office vacancy rate reached 16.6% at the end of the quarter, underscoring businesses' cautious approach to expansion amidst economic uncertainties. Our latest report *Hong Kong Occupier Survey 2024* also suggests that office occupiers are increasingly prioritising cost savings and optimization in their real estate requirements over the next 12 months, which is likely to exert further downward pressure on rents.

Conversely, the high-street retail markets benefited from the continued recovery in tourism, registering steady growth in both rents and capital values. However, domestic spending has declined due to Hongkongers' increased outbound and cross-border travel, which affected the performance of neighbourhood retail. The impact of the Hong Kong Tourism Board's May 2024 establishment of its Mega Events Development Division on the retail market remains to be seen.

The warehouse leasing market is facing a dual challenge of slowing demand and increasing availability, leading to a rental drop of 0.4% in Q2 2024.

In the investment market, recent signals from the U.S. Federal Reserve suggest that interest rates may be flat or only see a slight decrease this year. We think this may improve market sentiment in H2 2024, however the sustained high rates are constraining capital inflows and investment sentiment, resulting in Q2 2024's lower HKD5.3 billion investment volume.

Q2 2024 Highlights

Grade A Office Vacancy	High-street Shop Rent	Warehouse Rent	Investment
16.6%	▲7.4% YoY change	▼0.4% QoQ change	50% of deals concluded are distressed sales / capital loss

Hong Kong market review and outlook | Q2 2024

		Q2 2024 (QoQ)	H1 2024 (YTD)	2024F (YoY)
Grade A office rent	Tenants are cost-conscious and highly sensitive to the rental level. High vacancy and subdued demand will keep rents on a downward path.	-1.0% ↓ HKD51.0 psf	-3.5% ↓	-7% ↓
High-street shop rent	High-street shop rents remained resilient despite an outbound travel rush. We anticipate rents to rise as tourism continues to recover.	+1.0% ↑ HKD234 psf	+2.9% ↑	+≤10% ↑ HKD250 psf
Warehouse rent	Falling rents amid weakening demand and increasing tenant options. Tenants remained cautious as business competition intensifies.	-0.4% ↓ HKD14.7 psf	-1.8% ↓	-5% ↓
Investment volume	Distressed sales featured prominently in Q2's market, but if interest rates are cut in H2 we expect transaction volumes to stage a comeback.	-4.6% ↓ HKD5.3 bn	-13.7%* ↓ HKD10.9 bn	-19% ↓ HKD30 bn

Source: Colliers. Note: 1 square m = 10.7639 square ft.
**H1 2024 vs H1 2023*

Office

Cost-conscious tenants with limited expansion appetite drive further rent decline

Selected Transactions | Q2 2024

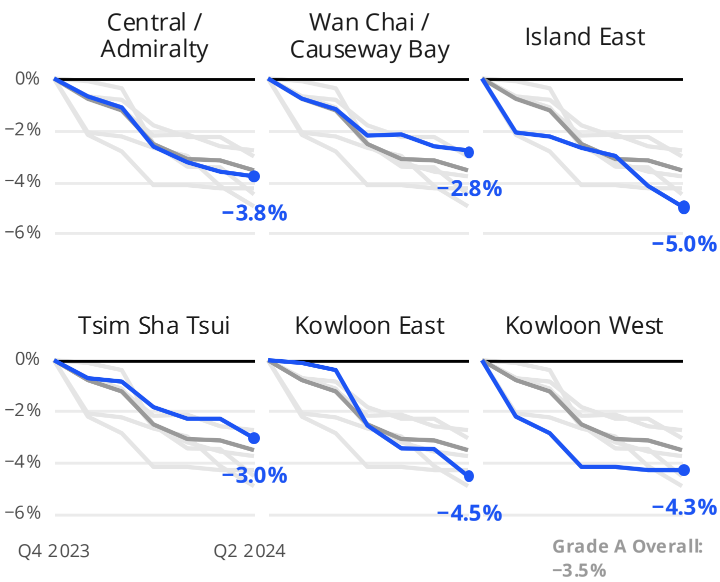
District	Building	Area (sq. ft.)	Tenant Sector
Central	One International Finance Centre	*11,000	Other
Cheung Sha Wan	83 King Lam Street – Tower A	†24,800	Shipping / Logistics
Cheung Sha Wan	83 King Lam Street – Tower A	†31,600	Construction / Engineering
Kwun Tong	Two Harbour Square	†29,700	Business Centre
Wan Chai	Great Eagle Centre	*12,700	Legal

*Lettable area †Gross area

Market Outlook

- Our *Hong Kong Occupier Survey 2024* shows firms are becoming more cost-conscious and the appetite to expand is lower than that of 2023. Only 19% of survey respondents are planning to expand their office footprint, while 27% are planning to downsize.
- The survey also revealed that rental level and the relocation costs are the crucial factors for tenants. Together with the limited market demand, we forecast the overall Grade A office rent will decline by about 7% this year.
- Cheung Kong Center II, completed in May 2024, is the last major new office supply in 2024. In H2 2024, we expect vacancy to fluctuate around its current level.

YTD Grade A Office Rental Change by Submarkets

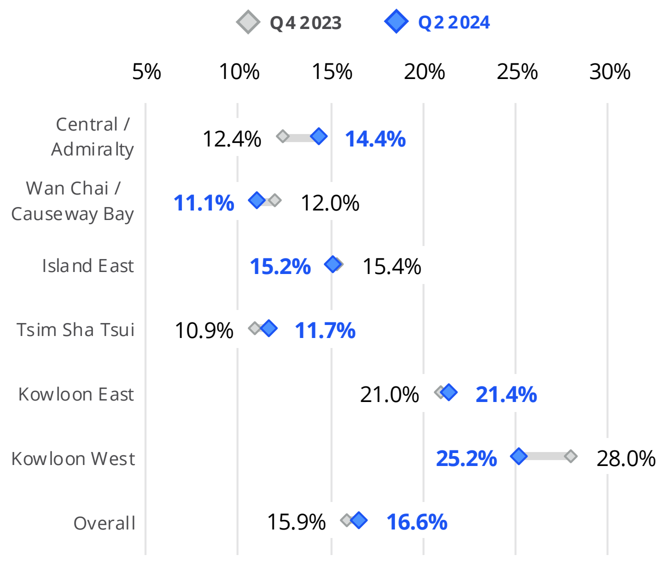


Source: Colliers

Q2 2024 Review

- In Q2 2024, rental rates across all submarkets fell, causing the overall Grade A office rent to decline 1.0% QoQ (–3.5% YTD) to HKD51.0 per sq. ft. in June 2024. Central / Admiralty dropped 1.2% QoQ (–3.8% YTD) to HKD89.6 per sq. ft., while Island East experienced the sharpest drop out of all submarkets (–2.4% QoQ, –5.0% YTD).
- Vacancy climbed to 16.6% in Q2 2024. Central / Admiralty witnessed a substantial increase of two percentage points (pp), driven by the completion of two major projects (The Henderson and Cheung Kong Center II) with limited tenant pre-commitments.
- The total vacant Grade A office area has reached 13.8 million sq. ft. NFA, setting a record high by surpassing the previous peak in Q1 2024 by an additional 0.4 million sq. ft.

Vacancy Rate by Submarkets



Source: Colliers

Retail

Retailers continued to look for prime street shops as rents remained attractive

Selected Transactions | Q2 2024

District	Building / Street	Gross Area (sq. ft.)	Brand / Tenant Sector
Causeway Bay	Times Square	12,000	Louis Vuitton
Causeway Bay	50–52 Russell St	1,600	OROGOLD
Central	New World Tower	1,700	Franck Muller
Tsim Sha Tsui	35–37 Haiphong Rd	1,650	UPSO
Tsim Sha Tsui	Star House (Facing Canton Road)	5,000	Pharmacy

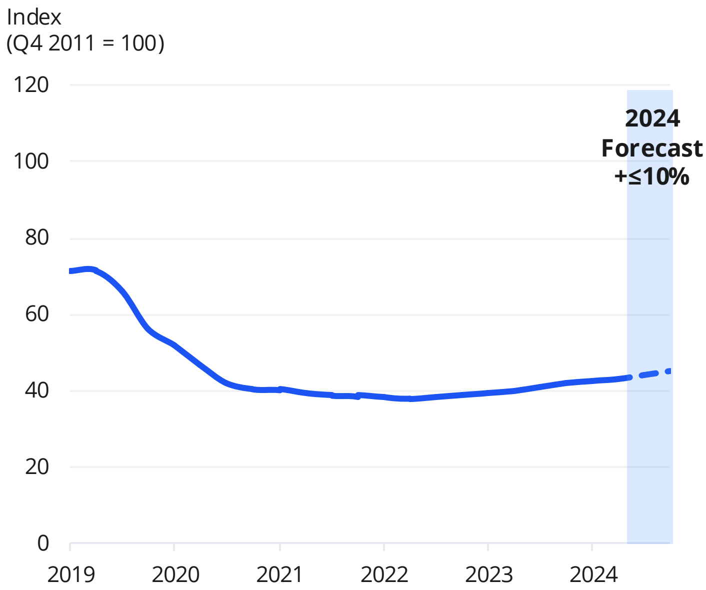
Market Outlook

- High-end retail brands are leveraging the currently affordable rents to expand or relocate to first-tier locations, driving up demand for high streets in core districts as well as Grade A shopping malls. While goldsmiths' demand may slow down, cosmetics should remain active with reviving sales.
- While the outbound travel rush continues to constrain the retail market, Mega Events and the further expansion of the Individual Visit Scheme (IVS)[1] should boost inbound tourism.
- In addition, the increased duty-free allowance for mainland residents effective in August[2] is likely to benefit retail spending. However, the effect may be limited due to the still relatively low threshold of RMB12,000. A higher allowance would be needed to have a more significant impact in the long run.

Q2 2024 Review

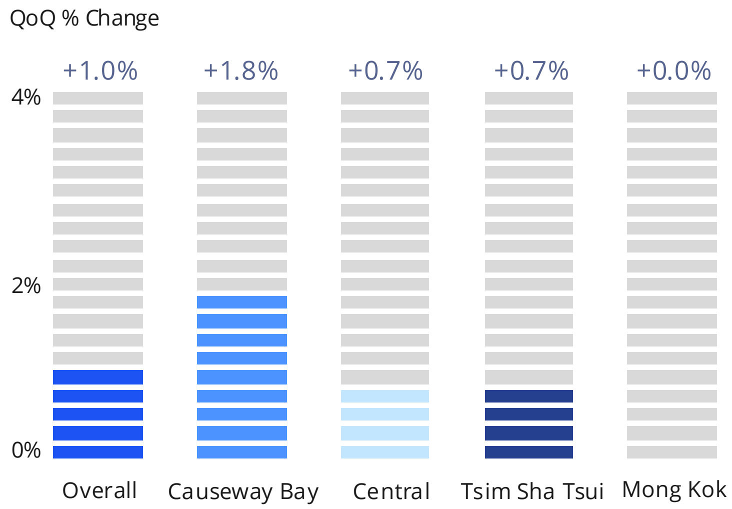
- Hong Kong residents' increased northbound and outbound travel stole attention from the retail sector, particularly in neighbourhood and regional malls. This led to a 6.1% YoY drop in retail sales over the first five months of 2024.
- F&B in non-core areas bore the brunt of the decline, with both local and mainland brands shuttering their establishments in quick succession.
- Still, overall high-street rents remained resilient in Q2, registering a 1.0% QoQ increase and 7.4% YoY increase as tourism recovers. Causeway Bay outperformed with rents edging up by 1.8% QoQ.
- With the current attractive rents, retailers continued to secure shops in prime locations, and this underpinned high-street rents, which is likely to outperform non-core retail in the coming quarters.

High-street Shop Rental Trend and Forecast



Source: Colliers

High-street Rental Changes | Q2 2024



Source: Colliers

[1] Individual visit scheme to expand, HKSAR Government
[2] Duty-free allowance increased, HKSAR Government

Industrial

Muted market sentiment amid weakening demand and increasing options for tenants

Selected Transactions | Q2 2024

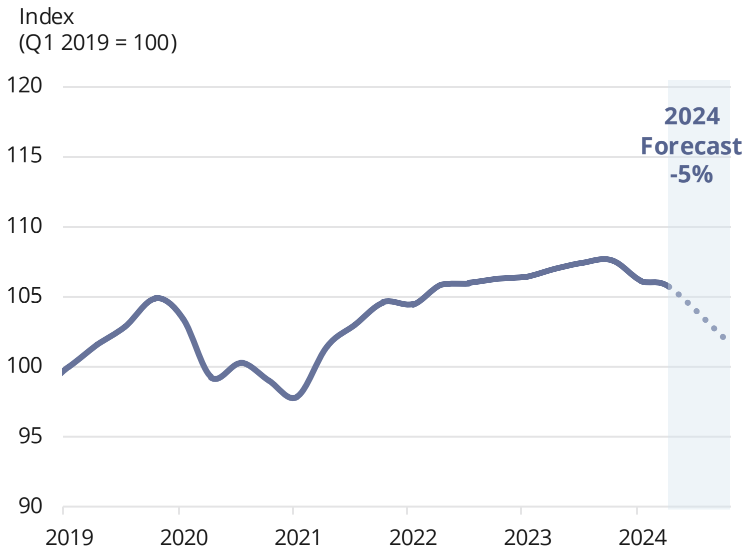
District	Building	Gross Area (sq. ft.)	Rent (HKD psf)	Tenant Sector
Tsing Yi	Mapletree Logistics Hub	147,500	14.6	Retail
Tsing Yi	Goodman Interlink	39,100	17.5	Logistics
Tsuen Wan	Dynamic Cargo Centre*	33,900	14.6	Logistics
Tsuen Wan	Goodman Tsuen Wan Centre*	23,200	14.2	Logistics

* Renewal

Market Outlook

- The industrial market is navigating a complex environment as a labour shortage is driving occupiers to upgrade from tin-shed facilities to more efficient, more conveniently located purpose-built warehouses.
- At the same time, the enhanced connectivity between Hong Kong and the Greater Bay Area, enabled by the availability of 24-hour cross-boundary cargo clearance services and the development of road infrastructure such as the Shenzhen–Zhongshan Link, is leading operators to relocate their slow-moving stock across the border for lower costs.
- With the resumption of ongoing brownfield land redevelopment in the Northern Metropolis, supply in the North District is expected to further tighten, with new leasing activity primarily driven by relocation requirements.

Warehouse Rental Trend and Forecast

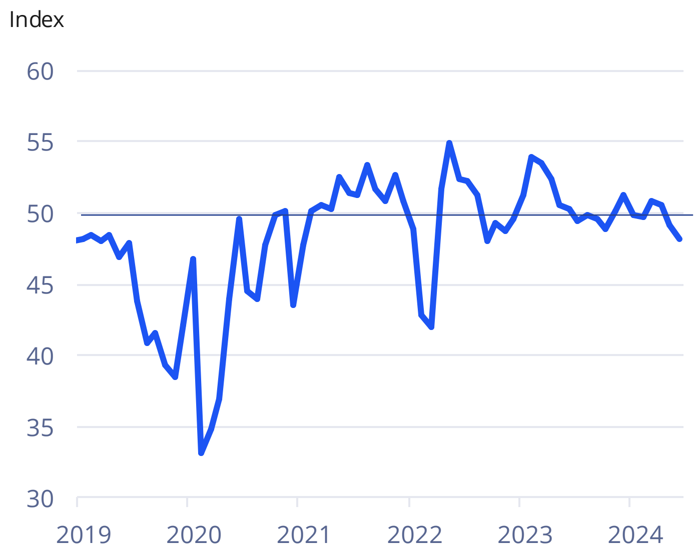


Source: Colliers

Q2 2024 Review

- The overall industrial market remained tepid in Q2 2024. Coupled with lacklustre economic activity, contracting demand, and growing competition from mainland China, the Hong Kong Purchasing Managers' Index (PMI) fell below the 50.0 neutral mark in May and June, signalling degrading business conditions.
- Most tenants, especially third-party logistics (3PLs) companies, were adopting a conservative attitude with renewals dominating the leasing activity in Q2.
- Among the handful of new letting transactions, one deal worth noting included the expansion of online retailer YesAsia, which currently occupies an autonomous mobile robotics (AMR) fulfilment centre in Goodman Interlink, to Mapletree Logistics Hub Tsing Yi. This move allows YesAsia to further scale its operation and take advantage of the proximity of the two facilities.

Hong Kong Purchasing Managers' Index



Source: Trading Economics

Investment

Distressed assets became sought-after as market remained subdued

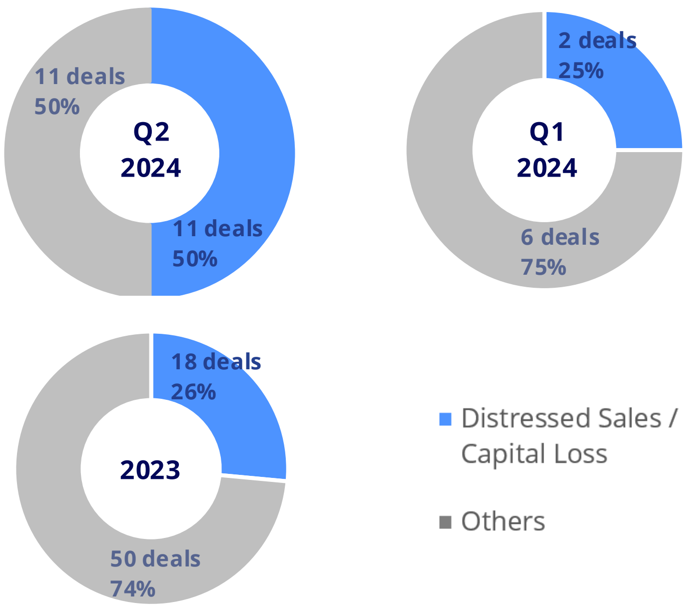
Selected Transactions | Q2 2024

Property	Sector	Price (HKD)	Buyer
Urbanwood Hotel, Hung Hom	Hotel	1 bn	Hong Kong Metropolitan University
88WL, Sheung Wan	Office	750 m	Local Family Office
29/F, Nine Queen's Road Central, Central	Office	310 m	Christopher Chan Chi Ming
23/F, Bank of America Tower, Central	Office	250 m	Opal Corporation Ltd

Market Outlook

- In H2, we expect sellers to become more realistic and more distressed deals will take place, while any potential U.S. Fed interest rate cut should boost buyers' confidence to enter the market.
- As such, we forecast transaction volume in H2 will slightly edge up to HKD20 billion, from the low base in H1, pushing 2024's total volume to HKD30 billion. Still, this is a YoY decline of 19%.
- Other than cash-rich investors, family offices and credit funds are also actively looking for new opportunities yielding at least 5% in the market. Apart from asset or share deals, buyers may also consider more complex transactions which will likely become more attractive in H2.

Distressed Sales and Capital Loss Deals



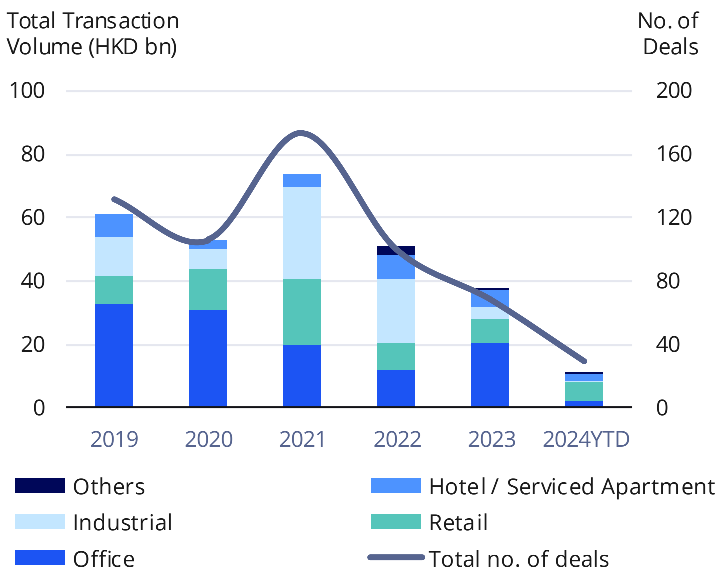
Source: Colliers

Q2 2024 Review

- Commercial real estate investment sentiment remained subdued in Q2. Despite an uptick of +175% QoQ in the number of big-ticket deals* (22 deals), most were less than HKD200 million, and the total investment volume dropped to HKD5.3 billion, –4.6% QoQ.
- Distressed or discounted assets deals remained the key theme, accounting for 50% (11 deals) of big-ticket deals in Q2. Some deals closed with sellers realising a capital loss of around 60% compared with their purchase price in 2017–18.
- Luxury residential sales were stimulated by the removal of cooling measures in February, but banks' cautious approach on mortgage approvals crimped transaction activities towards the end of the quarter compared to March and April.

Deal size HKD100 million or above, excluding residential sites and luxury residential premises.

Property Investment Deals (HKD100 m or Above)



Source: Colliers

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