

Intelligent Investment

# 2024 Market Outlook

REPORT

HONG KONG S.A.R.  
REAL ESTATE

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# Contents

## 01 **Economy**

Although keenly anticipated rate cuts will raise the likelihood of an improvement in investment activity in 2024, a range of headwinds will ensure economic growth remains modest.

## 02 **Investment**

Lower interest rates should result in stronger investment activity for real estate. However, negative carry and demand-side uncertainty will limit chances of a strong uptick in investment volume.

## 03 **Office**

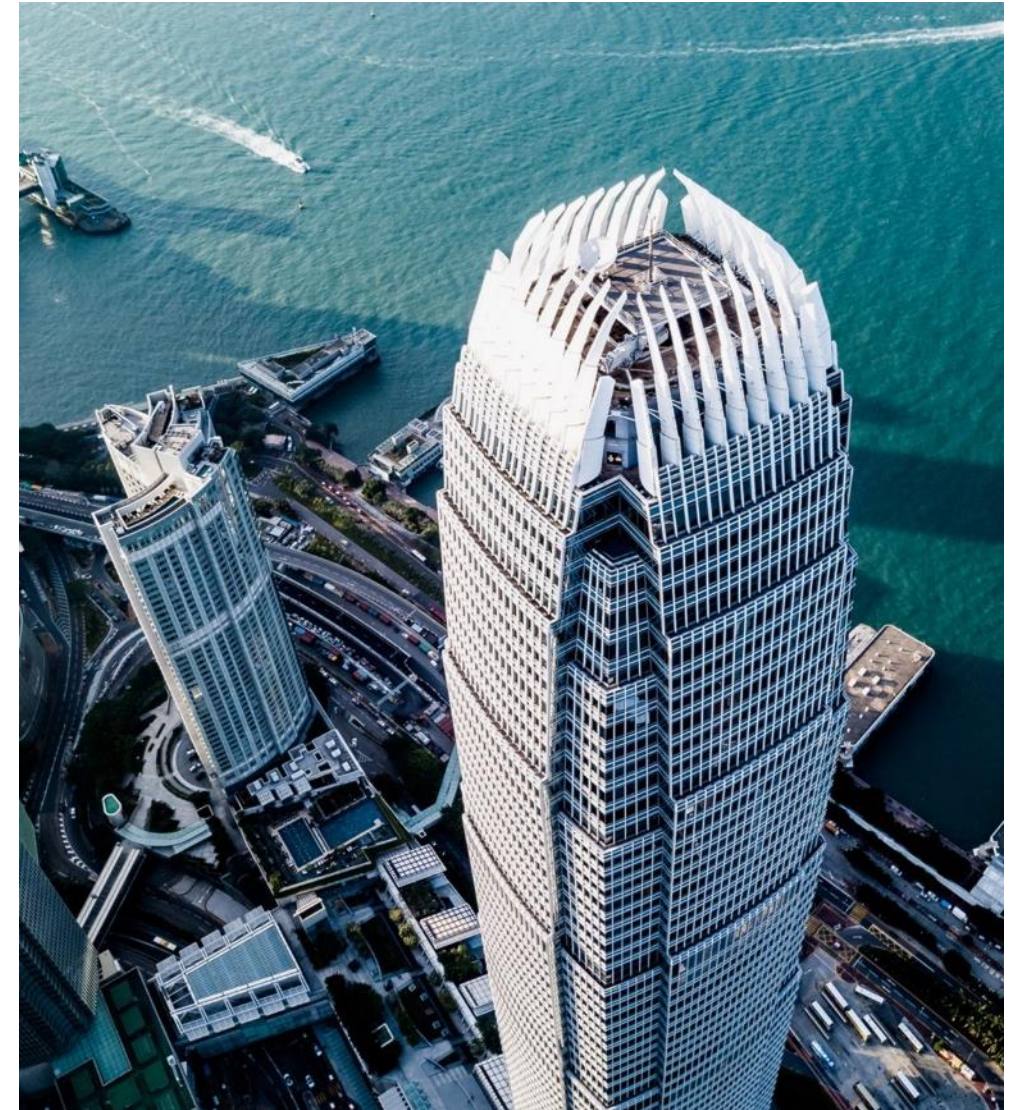
While new leasing momentum will continue to pick up along with the gradual recovery of the Chinese economy and anticipated rate cuts, any upturn in deal flow will be insufficient to reduce vacancy pressure. Rents are set to decline further in 2024.

## **Retail**

04 Leasing demand is expected to remain healthy, backed by a continued improvement in retail sales. With rental affordability set to remain a challenge, any further increases will be moderate.

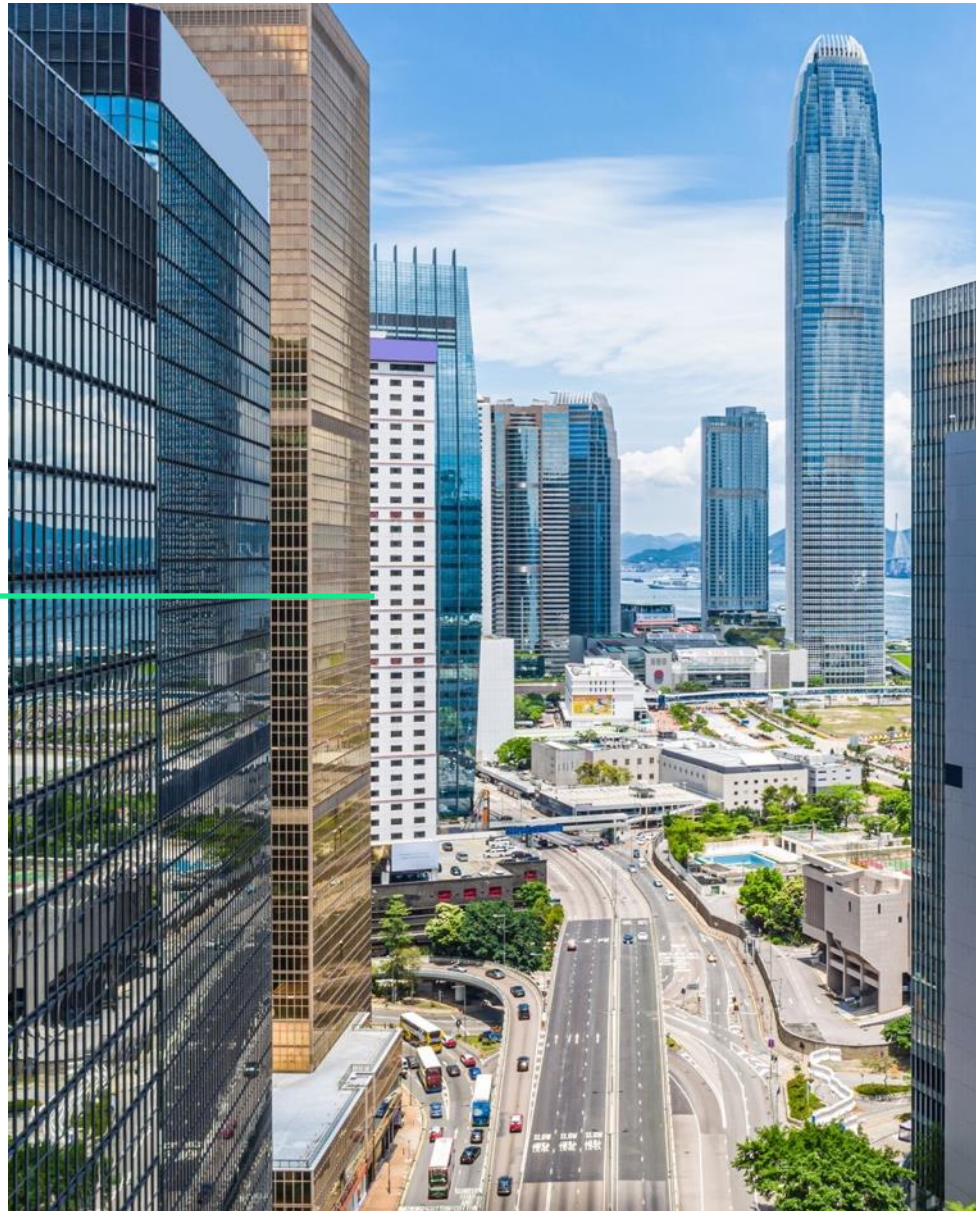
## 05 **Industrial & Logistics**

Occupier demand from traditional sectors is set to remain limited, meaning that emerging trades will fuel demand for industrial space. Despite low vacancy, attractive rental packages will remain key to securing tenants in a market with fragile demand.



# Executive Summary

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## 2023 – Improved leasing but downbeat investment

With travel normalisation helping to stimulate inbound tourism, economic momentum improved and labour market conditions returned to pre-pandemic levels. While total visitor arrivals registered just 30.1 million in the first 11 months of the year, well below retail sector expectations, this was partly due to the late re-opening of the border in February 2023, which ensured that total visitors fell some distance behind the 60 million average annual tourist arrivals in 2017-2019. Other headwinds included further rate hikes, which deepened negative carry for investment properties. Coupled with cautious lending from banks, overall investment volume halved y-o-y. Leasing was better, with new retail leasing volume setting a record high and that for offices climbing 7% y-o-y.

## 2024 – Stronger deal flow due to interest rate cuts

With long-anticipated rate cuts expected to materialise in 2024, financial and property market sentiment is expected to improve. However, a 75-bps reduction as indicated by the US Federal Reserve will not reverse negative carry for Hong Kong commercial property. Appetite for property investment will likely remain subdued but be stronger compared to 2023. A weaker HKD under the peg will begin to discourage offshore spending and benefit local consumption, while the recovery of the RMB will support tourist consumption in Hong Kong. Retail sales should improve over the course of the year. Geopolitical tension will persist, ensuring continued economic uncertainty.

01

# Economy

Although keenly anticipated rate cuts will raise the likelihood of an improvement in investment activity in 2024, a range of headwinds will ensure economic growth remains modest.

# 2023: economy witnesses mild recovery

A combination of a weaker-than-expected inbound tourism recovery and decade-high interest rates constrained economic growth and inhibited demand in 2023.

Despite 2022's low-base, Hong Kong's GDP grew by just 2.8% y-o-y in the first three quarters of 2023. The Aggregate Bank Balance fell by more than half to HK\$45.0 billion over the course of the year, but the Monetary Base contracted by just 1% y-o-y to HK\$1,896 billion. The Best Lending Rate and HIBOR<sup>1</sup> rose by another 25 bps and 92 bps, respectively. High financing costs and mounting geopolitical uncertainty weighed on the stock market, with the Hang Seng Index falling 14% to a 14-year low. Home prices slid nearly 10% y-o-y.

The diminishing wealth effect failed to exert a further negative impact on domestic household demand, with private consumption expenditure rising by 8.8% y-o-y over the first nine months of the year. Combined with the gradual return of tourists, this underpinned a 17.1% y-o-y rise in total retail sales in the first 10 months of the year.

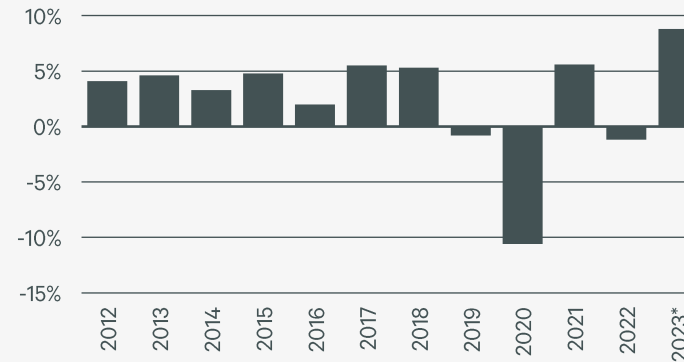
Sustained growth in domestic consumption during 2023 was partly due to healthy labour market conditions. The unemployment rate improved from 3.3% to 2.9% during the first 11 months of 2023. Median household income rose by 6.3% y-o-y in Q3 2023.

The trade sector remained weak, with total merchandise trade dropping by a further 9.7% y-o-y in Q1-Q3 2023. Trade with Taiwan eclipsed that with the U.S., a trend that first emerged in 2020.

<sup>1</sup>The Hong Kong Association of Banks 1-month HIBOR

**Figure 1: Private consumption expenditure**

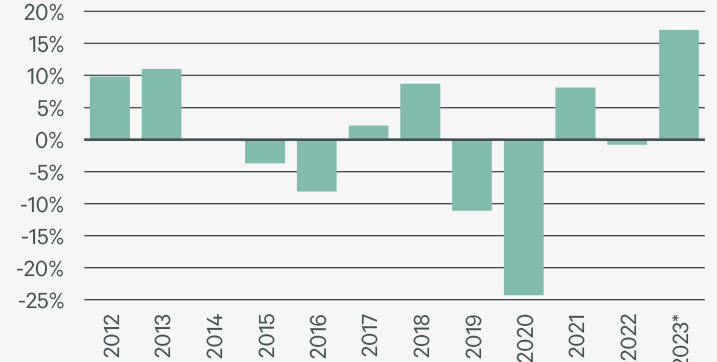
Private consumption expenditure (in real terms, annual, y-o-y)



\*First three quarters  
Source: Census and Statistics Department, January 2024

**Figure 2: Retail market momentum**

Total retail sales growth (by value, annual, y-o-y)



\*First 11 months  
Source: Census and Statistics Department, January 2024

**Figure 3: Labour market conditions**

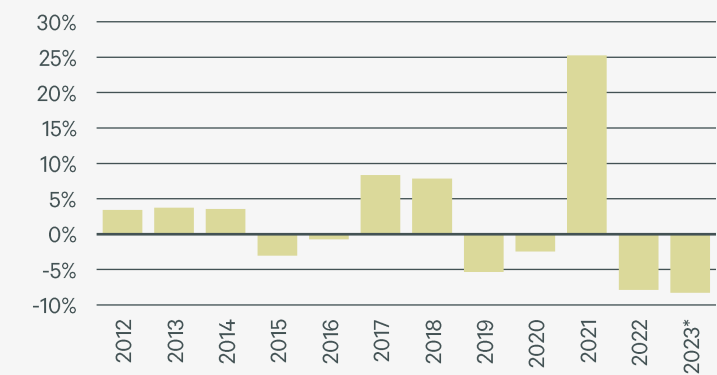
Unemployment rate (monthly, seasonally adjusted)



Source: Census and Statistics Department, January 2024

**Figure 4: Trade flows**

Aggregate trade growth (by value, annual, y-o-y)



\*First 11 months  
Source: Census and Statistics Department, January 2024

# 2024: challenges to persist but lower rates could provide tailwinds

Geopolitical uncertainty; the high cost of capital; and government budget deficit will continue to constrain economic growth in 2024. However, widely anticipated interest rate cuts point to improved investment activity in the second half of the year.

China’s efforts to spur consumption and property demand will likely power economic and income growth in 2024, driving stronger tourist consumption. Visitor arrivals are expected to improve further in 2024. Locally, the recent launch of capital investment and talent entrance schemes will attract affluent individuals and high earners to Hong Kong.

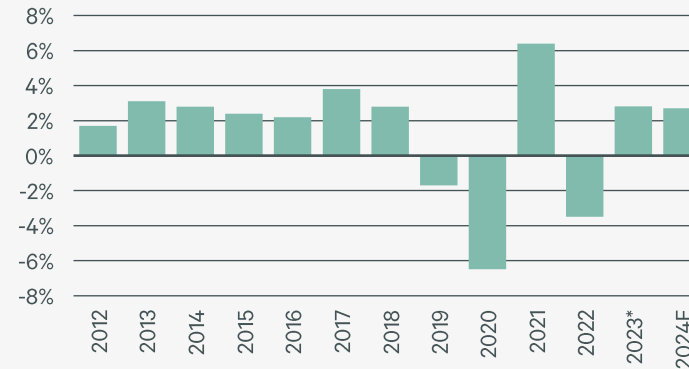
Stock market volatility is expected to persist amid ongoing global political uncertainty. However, the possibility of lower financing costs may underpin a gradual recovery in IPO demand. 2024 should see a relative upturn in investment market momentum.

Demand for the RMB will likely strengthen as the Chinese economy recovers. Potential rate cuts will also devalue the USD/HKD against the RMB and benefit Hong Kong’s retail market. Desire for outbound travel and offshore consumption is expected to fall should the HKD weaken.

Despite a possible reversal in the direction of interest rates, overall funding costs will stay higher for longer. Global trade and logistics demand is expected to remain weak, while the budget deficit may force the Hong Kong government to reduce public spending in some areas.

**Figure 5: Economic momentum**

Real GDP growth (by value, annual, y-o-y)

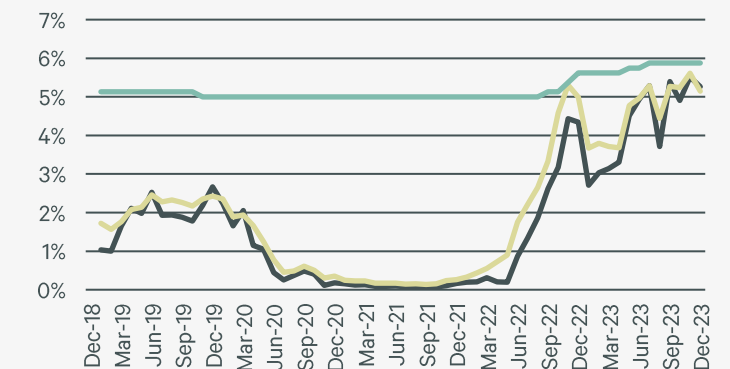


\*First three quarters

Source: Census and Statistics Department, Oxford Economics, January 2024

**Figure 6: Interest rates**

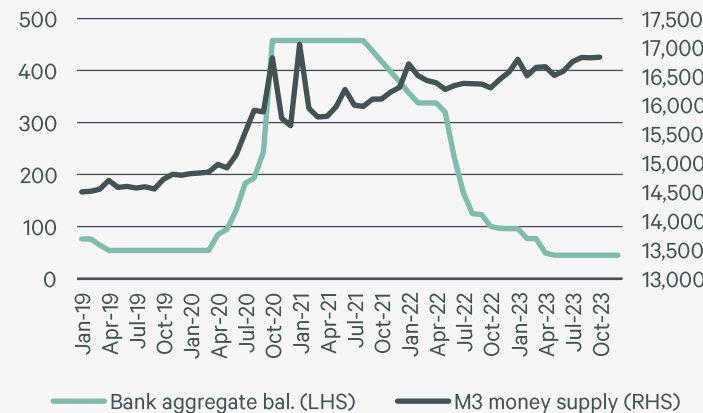
Best lending rate vs. three-month & one-month HIBOR



Source: The Hong Kong Association of Banks, HKMA, January 2024

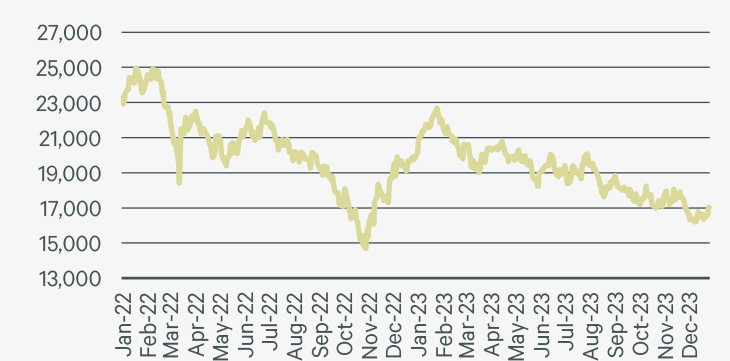
**Figure 7: Capital availability**

Bank balance vs. M3 money supply (HK\$ billion, monthly)



Source: Hong Kong Monetary Authority, January 2024

**Figure 8: Stock market performance**



Source: Hang Seng Indexes Company Limited, January 2024

02

# Investment

Lower interest rates should result in stronger investment activity for real estate. However, negative carry and demand-side uncertainty will limit chances of a strong uptick in investment volume.

## 2023: investor appetite weakens as financing costs rise

Borrowing costs continued to rise in 2023, with the 1-month HIBOR climbing by a further 92 bps to reach 5.27%, the highest level since 2001. The HSBC Best Lending Rate was also raised 25 bps to 5.875%. Property yields, while also edging up, failed to offset escalated financing costs. Deepening negative carry and higher opportunity costs from bank deposits reduced investors' appetite for commercial properties.

Commercial real estate investment volume<sup>1</sup> halved y-o-y to HK\$40.3 billion in 2023, the lowest full-year total since 2008. Only 108 deals were completed over the year, the lowest annual total since 2005. Most transactions involved assets with small price tags, with just seven deals exceeding the HK\$1 billion mark. The largest transaction, which saw the Securities and Futures Commission pay HK\$5.4 billion for 12 office floors in One Island East for self-use, accounted for nearly 13% of the full-year total.

End-users, who tend to be less yield-sensitive, accounted for HK\$10.2 billion or 25% of investment volume. Of the 15 deals involving end-users, eleven were office-related, driven largely by deep capital value discounts. This ensured offices comprised the single largest share among all asset classes (35%) despite the sector's high vacancy and falling rents. Return-driven institutional investors were inactive, spending only HK\$2.0 billion this year, the lowest since 2009, and failing to make any office acquisitions.

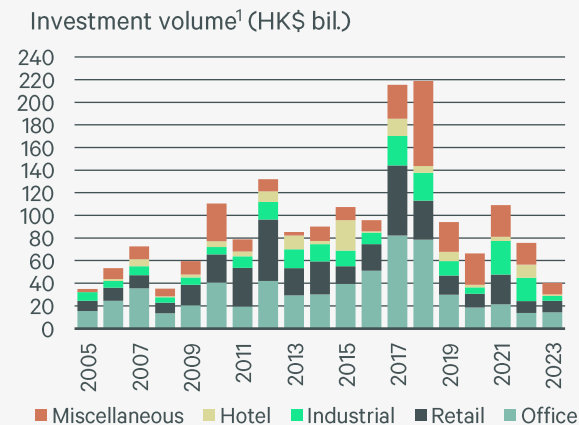
High funding costs and tepid apartment sales saw property developers turn less active in bidding for development sites. Of the eight residential sites launched for tender in 2023, three fell through. Another two sites also failed to be tendered by the MTRC. Elsewhere, a commercial land plot in Mong Kok was awarded to a sole bidder in a government tender for a price far below the market consensus valuation.

Supported by the rental recovery, retail capital values were on the rise over the year. However, the office and industrial sectors continued to report a decline in capital values.

Figure 9: Top 10 investment transactions

Time	Asset	Sector	Price (HK\$ mil)	Purchaser
Nov 2023	42/F-54/F, One Island East	Office	5,400	Securities and Futures Commission
Feb 2023	Site, 30-38 Magazine Gap Road	Residential	5,000	Chow Tai Fook Enterprises Limited & Sino Harbour Holdings Group
Dec 2023	En-bloc, Harbour East	Office	2,208	Li-Ning
Feb 2023	En-bloc, KOHO	Office	1,700	A local investor
Sep 2023	Multiple units, Pine Hill Villa	Residential	1,112	A developer
Feb 2023	En-bloc, Concord Square	Retail	1,000	Asiasec Properties Limited
Oct 2023	En-bloc, Kerry Warehouse (Fanling 1)	Industrial	1,000	China Resources
Sep 2023	En-bloc, De Fenwick Service Apartment	Hotel	898	China Travel
Aug 2023	En-bloc, 24 Middle Gap Road	Residential	850	CSI Properties
Nov 2023	G/F, 1/F-6/F & RF, Kiu Fai Mansion	Retail	800	TBC

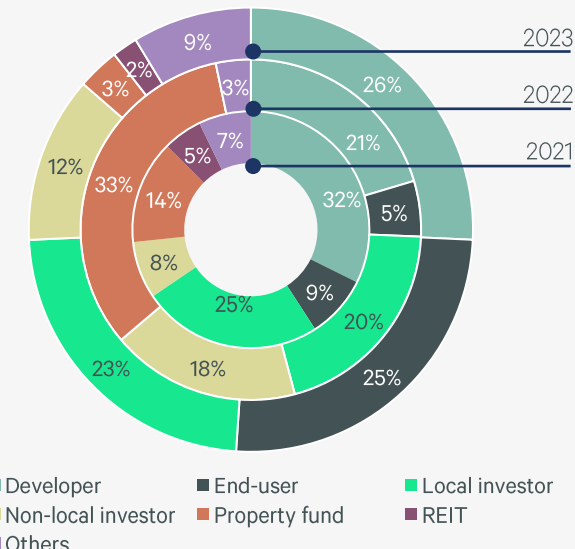
Figure 10: Investment momentum



Miscellaneous – car park, mixed, school campus, bare site, property opt for redevelopment, etc.

<sup>1</sup>Commercial properties >US\$10 million (HK\$78 million), excluding government land sales and related transactions

Figure 11: Investor type



Source: CBRE Research, January 2024

# 2024: mild recovery expected as cost of capital declines

With the U.S. Federal Reserve’s roadmap to a 75-bps rate cut in 2024 having sent positive signals to the investment market, CBRE expects capital flows to trend up as IPO activity heads for a rebound. While property investment demand should improve from 2023, negative carry will persist, limiting prospects for a strong uptick in overall investment volume.

End-users and small-cap local investors will likely underpin purchasing activity in 2024. Availability of discounted and distressed assets is set to fuel demand for self-use properties, while the revised Capital Investment Entrance Scheme will encourage non-local high net-worth investors to target small-cap properties such as carparks, non-core street shops and strata-title non-domestic units. However, deploying capital offshore will remain a challenge for many mainland Chinese investors.

Should lower interest rates spur an increase in apartment sales, demand for land parcels will improve. The recent lowering of the compulsory sale threshold for buildings of over 50 years of age (from 80% to 70%-65%) should see more bulk purchases in some older districts. Site amalgamation will also be witnessed in the New Territories as the government accelerates the development of its Northern Metropolis scheme.

Accommodation/hospitality and storage/warehousing will remain the focus for return-driven institutional investors. The anticipated inflow of high-earners will drive leasing demand for middle-to-upper class apartments in and around newer downtown districts and adjacent to business parks where IT talent is clustered. Investors will likely observe and re-assess the impact of outbound spending on local consumption before making selective purchases of retail assets. Office demand is expected to remain weak due to persistently high vacancy.

High vacancy will see office yields continue to expand, with capital values falling by another 10%-15% in 2024. Until global trade and local retail sales improve, investors will require marginal yield expansion before considering industrial and retail assets.

Figure 12: Investment objectives

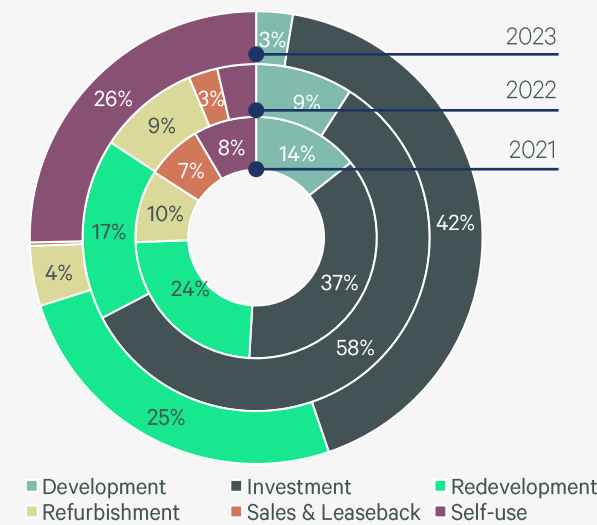


Figure 14: Capital Values

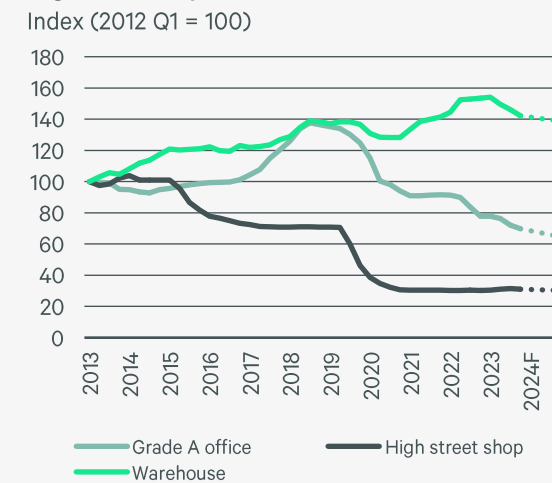


Figure 13: Interest rates and carry (%)

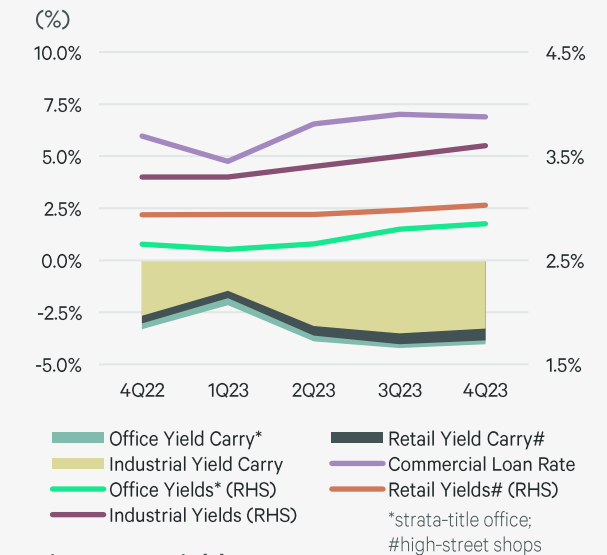
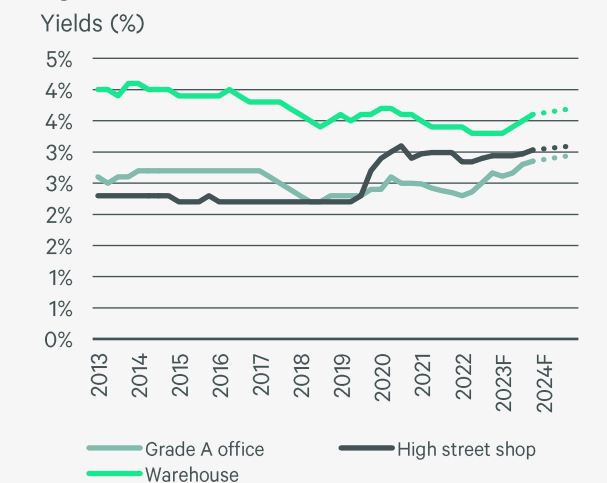


Figure 15: Yields



Source: CBRE Research, January 2024

03

# Office

While new leasing momentum will continue to pick up along with the gradual recovery of the mainland Chinese economy and anticipated rate cuts, any upturn in deal flow will be insufficient to reduce vacancy pressure. Rents are set to decline further in 2024.

## 2023: mild improvement in new leasing activity fails to halt rising vacancy

The resumption of quarantine-free inbound travel was insufficient to fuel Hong Kong’s office leasing market with a level of demand anticipated by market stakeholders at the start of the year. Leasing volume improved mildly by 9% y-o-y, with full-year new leasing volume reaching 4.1 million sq. ft. Thanks partly to some forced and upgrading relocation demand in Kowloon, overall net absorption registered 216,000 sq. ft. in 2023, a second consecutive year of growth.

Demand from mainland Chinese firms failed to recover to a level required to pull down overall vacancy. Only 10% of citywide new leasing activity involved Chinese companies, compared with 15%-20% before 2019’s market downturn. Greater Central, where 44% of Chinese firms are based, reported net absorption of -275,000 sq. ft.

The inbound tourism recovery spurred business growth for insurance and retail companies, leading to an increase in office demand. Tsim Sha Tsui and Causeway Bay landlords benefited from this trend, leasing out a total of 154,000 sq. ft. of space to tenants from these industries. While many banks and financial firms opted to renew or downsize in their existing location, the sector remained the largest single driver of leasing activity.

Despite registering -359,000 sq. ft. of net absorption, Hong Kong Island vacancy rose by just 0.8-ppt due to the absence of new supply. Kowloon vacancy climbed 1.3-ppt after welcoming 1.3 million sq. ft. of new space, despite net growth of 625,000 sq. ft. in total occupied space. Citywide vacancy continued to set new records, ending the year at 14.3 million sq. ft. (16.4%), a figure greater than total Grade A stock in Central. After reaching double-digit levels in October, Central vacancy ended the year at 9.7%.

The rental decline accelerated in 2023 as vacancy increased. Resilient rents in Harbour City ensured weighted average rents in Tsim Sha Tsui held stable, while lower vacancy in Wan Chai/Causeway Bay meant rents fell at a slower rate than in 2022. With rents falling by another 7.7% over the year, Hong Kong East is becoming increasingly attractive.

Figure 16: Top 10 leasing transactions

Time	Tenant	Sector	Location	Size (sq. ft. NFA)
Feb 2023	FT Life	Insurance	83 King Lam Street	188,600
Aug 2023	Hospital Authority	Others	Harbourside HQ	76,300
Sep 2023	Hong Kong Broadband Network	IT, Tech & Telecom	The Quayside	75,100
Feb 2023	MUFG	Banking & Finance	Airside	64,200
Jan 2023	Hasbro	Wholesale & retail trades	Hang Seng Tower	60,100
Jul 2023	MTR Corporation	Trading & Logistics	Hang Seng Tower	40,000
May 2023	Hong Kong Monetary Authority	Banking & Finance	Kowloon Commerce Centre, Tower A	36,900
Nov 2023	AS Watson Group	Retail & Wholesale	Two Harbourfront	35,300
Aug 2023	Fujifilm Hong Kong	Retail & Wholesale	The Millennity, Tower 1	33,000
Apr 2023	Registration and Electoral Office	Others	Millennium City 1	32,800

Figure 17: New leasing volume

Office Leasing Volume (mil. sq. ft., NFA)

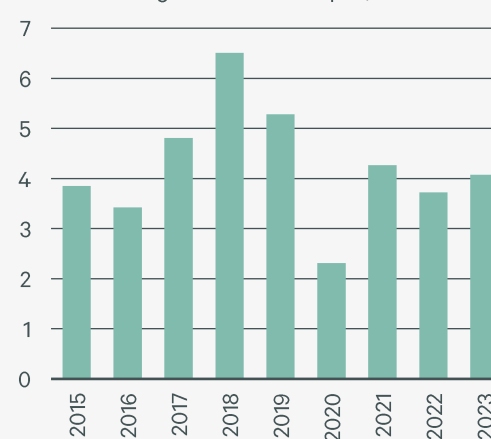
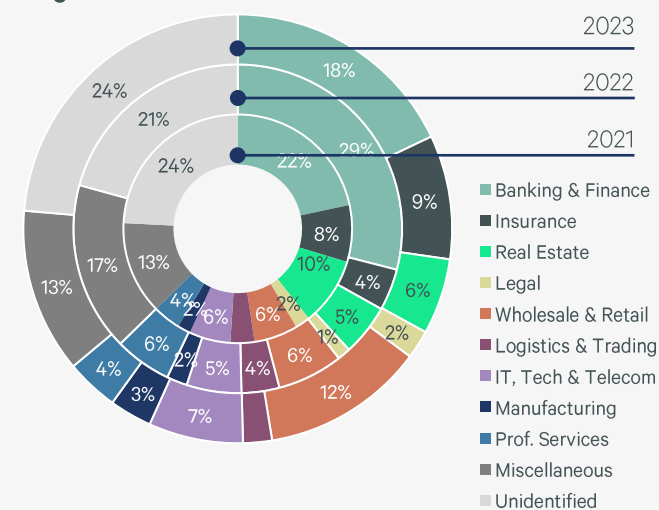


Figure 18: Source of demand



Source: CBRE Research, January 2024

# 2024: potential improvement in deal flow unlikely to offset higher vacancy pressure

The gradual recovery of the mainland Chinese economy and widely anticipated U.S. interest rate cuts should boost financial market sentiment in 2024. Strengthening fund raising demand will benefit office leasing momentum, leading to an improvement in new leasing volume. Net absorption should stay positive, thanks partly to pre-commitments in projects currently under construction.

As firms look to take advantage of the Capital Investment Entrance Scheme, headcount growth will likely be seen in the asset management field. The IPO recovery may also drive more business for accounting and legal firms, leading to new hiring. Other sectors with brighter business prospects include I&T, electric vehicles and related trades as well as civil engineering and construction. After some expansion in 2023, requirements from insurance firms will likely decelerate.

While some sectors are projected to display modest demand growth, other industries will stay cost cautious amid the challenging macro environment. Corporates will continue to maximise workplace efficiency to keep OpEx low. Except for flight-to-quality moves, renewals will be the preferred option as occupiers look to capitalise on landlords' generous rental discounts upon lease expiry. High CapEx will remain a major barrier to relocation despite landlords of new buildings offering competitive rents.

Construction delays will push up new supply for 2024 to 2.2 million sq. ft.. 30% of new stock will be in Kowloon. Five new office buildings are scheduled for completion on Hong Kong Island, with around 1.5 million sq. ft. of space remaining unleased. Overall vacancy is forecasted to rise above 17% by end-2024.

Competition to attract tenants will intensify as vacancy climbs. Any improvement in deal flow is unlikely to offset escalating vacancy pressure. Completed and under-construction new projects with low occupancy will need to offer very attractive terms to compete with secondary market landlords, who are prepared to be flexible to retain occupiers. Overall rents are forecasted to fall by another 5%-10% in 2024.

Figure 19: Office vacancy

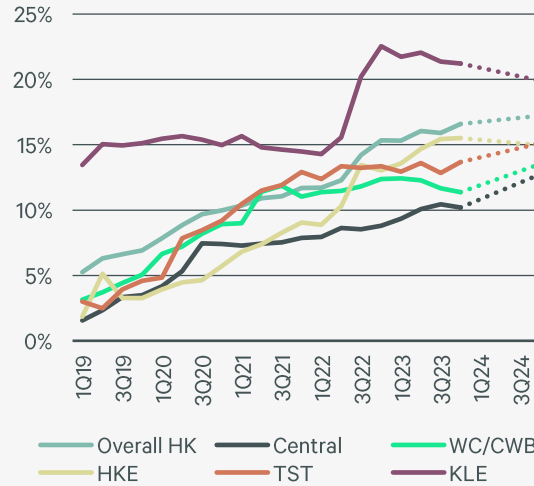


Figure 20: Office supply

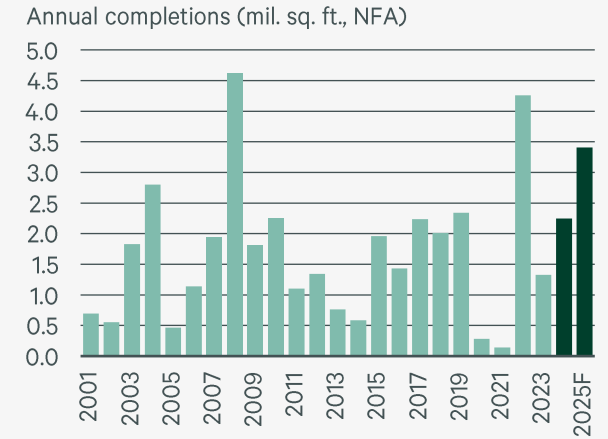
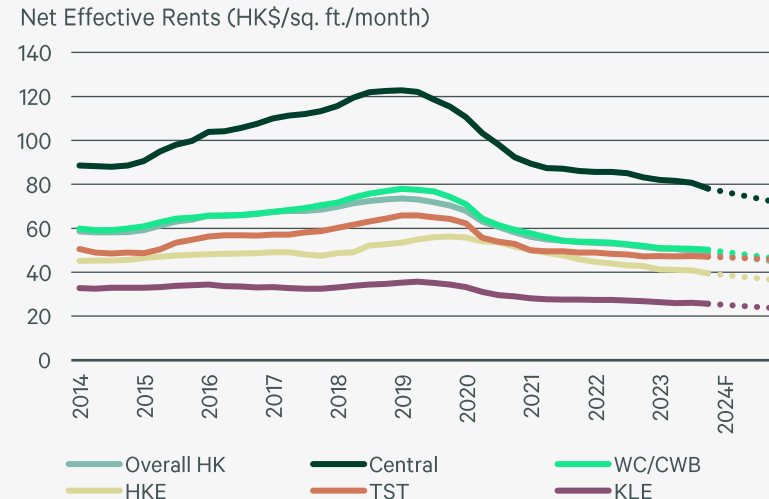


Figure 21: Office rental trends



Submarkets	2023	2024F
Overall	-6.0%	-5%-10%
Central	-6.1%	-5%-10%
WC/CWB	-3.2%	-5%-10%
HK East	-7.7%	-5%-10%
TST	-0.3%	-0%-5%
KLN East	-3.9%	-5%-10%

Source: CBRE Research, January 2024

04

# Retail

Leasing demand is expected to remain healthy, backed by a continued improvement in retail sales. With rental affordability set to remain a challenge, any further increases will be moderate.

## 2023: business growth lags retailers' expectations

The recovery in inbound tourism translated to improved retail leasing momentum throughout 2023. New leasing volume registered 1.6 million sq. ft. for the year, the highest since 2010. However, leasing momentum slowed over the year in q-o-q terms as total visitor arrivals failed to return to pre-pandemic levels and locals opted to spend more overseas.

While Japan remains a preferred destination for Hong Kong travellers, Shenzhen has emerged as a popular choice for day-trips or over weekends. Improved connectivity, the strong HKD and a wider variety of entertainment options is encouraging spending across the border. Although retailers and eateries saw business growth improve from 2022's low base, some failed to return to pre-pandemic levels. Total retail sales grew 17% y-o-y in the first 11 months of 2023 but fell 6% from 2019.

Leasing demand was driven by the F&B and pharmacy trades. New restaurant brands were mostly focused on Chinese and Japanese cuisine. Other sources of leasing demand observed over the course of the year included medical centres, electric vehicle dealers and art galleries.

Demand from luxury labels remained thin despite growth of 55% y-o-y in watch and jewellery sales. Anecdotal evidence suggests mainland Chinese tourists have adopted more prudent spending patterns, which is leading to luxury goods retailers displaying a cautious attitude towards expansion.

Stronger leasing activity ensured high street shop vacancy fell at a faster pace in 2023. Average vacancy for the four core shopping districts finally returned to single-digit levels, ending the year at 9.1%. Improved occupancy saw street shop rents climb by 6.3% y-o-y during the year.

Figure 22: Top 10 leasing transactions

Time	Tenant	Sector	Location	Size (sq. ft. GFA)
Jun 2023	a themed restaurant	F&B	G/F, 1/F, 2/F, Silvercord, Tsim Sha Tsui	75,100
Dec 2023	Lung Fung Pharmacy	Pharmacy	G/F-3/F, Yue Hwa Int'l Building, Tsim Sha Tsui	20,200
Sep 2023	Lung Fung Pharmacy	Pharmacy	G/F, Gala Place, Mong Kok	19,000
May 2023	DBS	Bank	LG/F, G/F, New World Tower I, Central	18,400
May 2023	Chanel	Luxury	G/F, 1/F, Capitol Centre, Causeway Bay	17,600
Feb 2023	Giormani	Furniture	G/F, Macpherson Place, Mong Kok	15,100
Nov 2023	Bâtard	F&B	Pedder Building, Central	15,000
Feb 2023	Sushiro	F&B	G/F, Albion Plaza, Tsim Sha Tsui	10,500
Jul 2023	Lao Pu Gold	Luxury	G/F, 1/F, 2/F, Silvercord, Tsim Sha Tsui	10,100
Feb 2023	Matsumoto Kiyoshi	Pharmacy	Grand Plaza, Mong Kok	10,000

Figure 23: New leasing volume

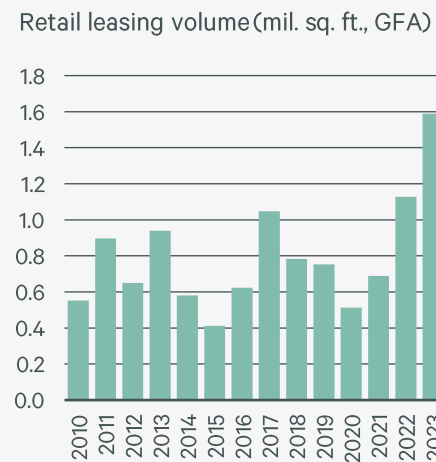
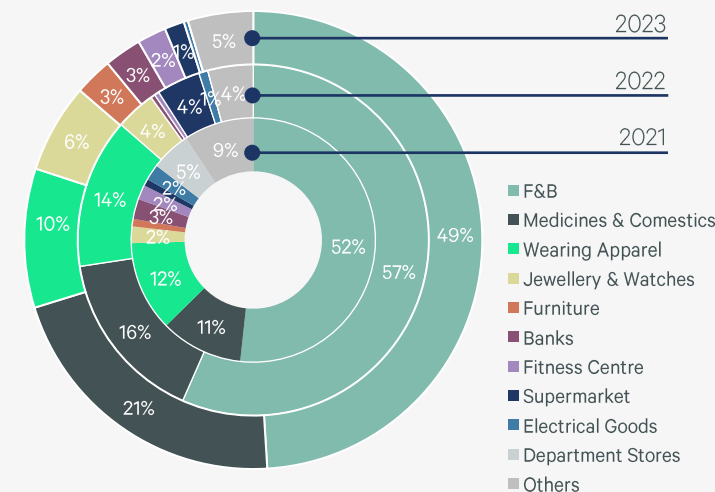


Figure 24: Source of demand



Source: CBRE Research, January 2024

# 2024: moderate consumption growth to support healthy demand and rental hikes

Gradual rate cuts over the course of 2024 will lighten the household burden on home financing, providing support for moderate local consumption growth. However, the strength of discretionary spending will rest upon overall economic growth and a financial market recovery. Before a noticeable upturn emerges, spending growth will be driven by daily necessities.

As the Chinese economy strengthens and U.S. interest rates begin to fall, the RMB is expected to recover. Price levels in the mainland will also likely climb as aggregate demand picks up. While Hong Kong residents' appetite for spending across the border is expected to weaken, plans to establish more 24/7 border gates between Hong Kong and China will facilitate smoother travel. The weaker HKD, which will be a consequence of rate cuts, will also discourage overseas consumption.

The coming year may bring some lasting change in spending patterns. Retail and dining concepts with a stronger emphasis on local culture and experience will draw more tourists than standardised and traditional offerings. The tourist footprint will also continue to broaden beyond core shopping districts, leading to the decentralisation of Hong Kong's retail property market.

The opening of 11Skies at Chek Lap Kok, Lantau is set to form a new tourist attraction alongside the nearby AsiaWorld-Expo, Citygate Outlets, Hong Kong Disneyland and Hong Kong-Zhuhai-Macao Bridge. This 2.6 million sq. ft. retail mall accounts for 70% of the 3.8 million sq. ft. of new retail supply scheduled for 2024.

High street shop vacancy is forecasted to decline further as market sentiment improves. While spending growth, and hence leasing demand, is expected to be focused on daily necessities, rental affordability will remain key. Lower vacancy will continue to support rental growth, but the magnitude of any future increases will likely be modest. CBRE expects high street shop rents to climb by a further 5% in 2024.

Figure 25: High-street shop vacancy

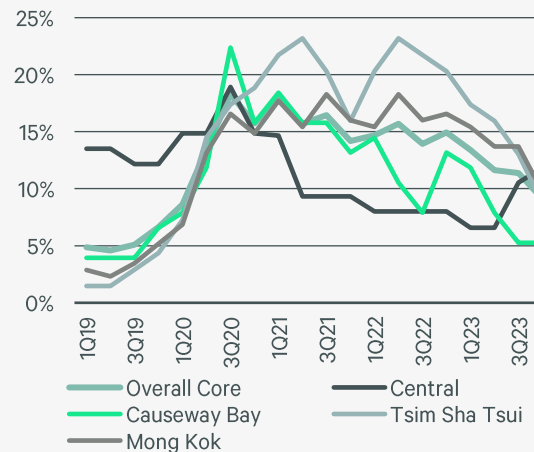


Figure 26: Retail supply

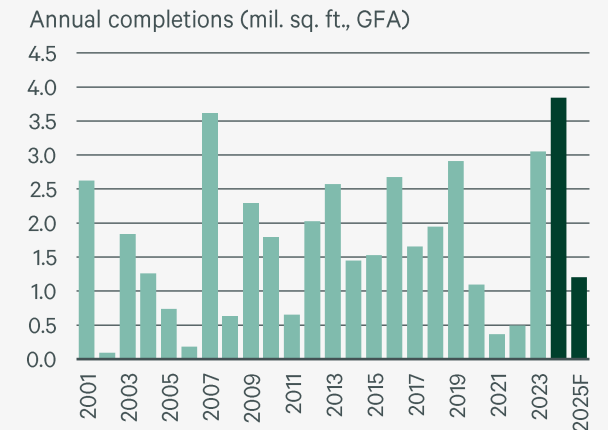
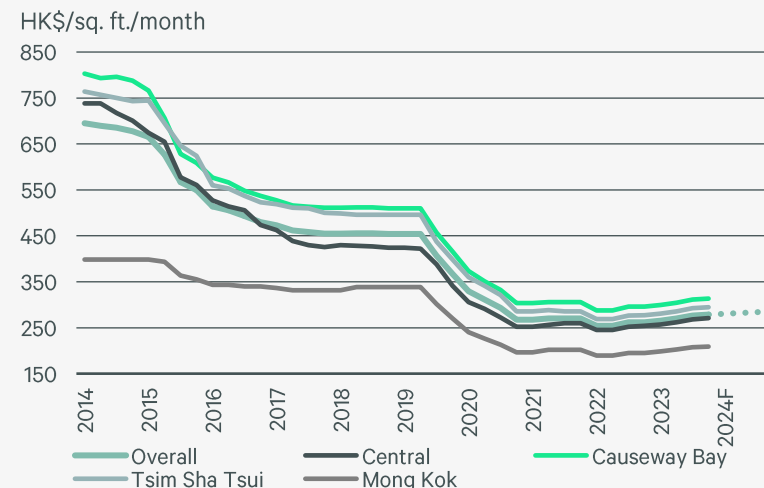


Figure 27: High-street shop rental trends



Submarkets	2023	2024F
Overall	+6.3%	+0%-5%
Central	+6.8%	-
CWB	+5.7%	-
TST	+6.3%	-
MK	+7.0%	-

Source: CBRE Research, January 2024

05

# Industrial & Logistics

Occupier demand from traditional sectors is set to remain limited, meaning that emerging trades will fuel demand for industrial space. Despite low vacancy, attractive rental packages will remain key to securing tenants in a market with fragile demand.

## 2023: low vacancy caps rental correction despite slower leasing momentum

Mainland China’s slow economic recovery and subdued global trade demand continued to weigh on trade flow in Hong Kong, causing the city’s aggregate trade to drop a further 8.3% y-o-y in the first 11 months of 2023. While airfreight volume was up by 1.7% y-o-y relative to the first 11 months of 2022, container throughput was 13.8% below that of a year earlier.

Reduced demand, high relocation costs and limited space availability led to a 52% drop in new leasing volume. Retail-related sectors displayed slower expansion, with e-commerce, supermarket and F&B operators leasing just 284,500 sq. ft. of space combined, only 32% of that registered in 2022. Activity was driven by emerging trades, with a total of 424,400 sq. ft. of space leased to art galleries, auction houses and car dealers. The rapid adoption of AI technologies drove demand from data centres, with 537,800 sq. ft. of space transacted for these purposes.

Subdued investor sentiment slowed the pace of building redevelopment over the course of 2023. While forced relocation demand continued to be observed, such activity was less prominent compared with previous years.

Despite slower leasing velocity, some new projects were able to secure new tenants. Built in 2022, Goodman Westlink leased another 306,000 sq. ft. of space over to two retail-related companies. Elsewhere, the recently completed Cainiao Smart Gateway located near the airport remained unleased. Owing to the large size of this property (4.1 million sq. ft.), citywide warehouse vacancy rose 2.8-ppt, ending the year at 5.3%. Excluding this project, vacancy edged down 0.8-ppt to 1.7%.

New supply in non-prime industrial districts did not negatively affect the leasing landscape in traditional industrial districts. Low vacancy in most existing buildings limited the rental correction despite weaker demand for space. Warehouse rents fell by 1.2% in 2023, a lower rate of decline compared to the 5.3% drop in 2022.

Figure 28: Top 10 leasing transactions

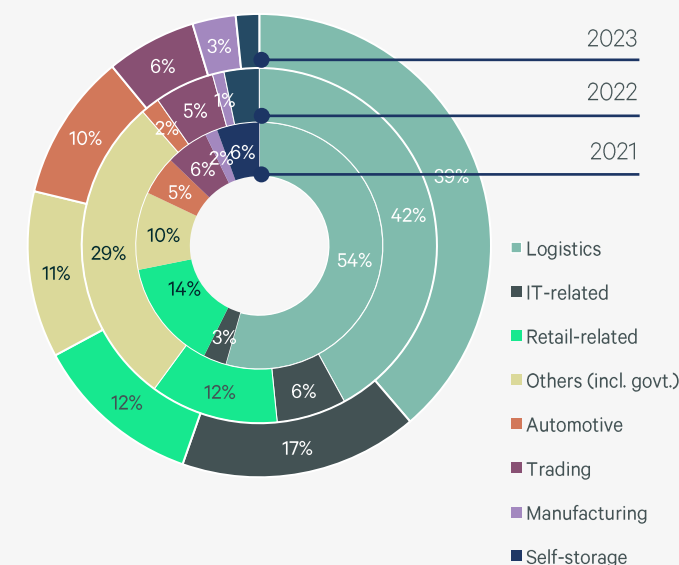
Time	Tenant	Sector	Location	Size (sq. ft. GFA)
May 2023	GDS	IT-related	Brilliant Cold Storage Tower 2	293,850
Oct 2023	Christian Dior	Retail Trades	Goodman Westlink	223,422
Jun 2023	AirTrunk	IT-related	San Miguel Industrial Building	143,973
Sep 2023	JC Motor Ltd (BYD)	Automotive	Hong Kong Spinners Industrial Building Phase 6	110,000
Nov 2023	Microsoft	IT-related	2-10 Tai Yuen Street	100,000
May 2023	JC Motor Ltd (BYD)	Automotive	Sunshine Kowloon Bay Cargo Centre	92,963
Mar 2023	Bollore Logistics	Logistics	Goodman Westlink	83,356
Sep 2023	Havi Logistics Services	Logistics	Hing Wai Ice & Cold Storage Building	70,387
Mar 2023	Flexport Asia	Logistics	Goodman Westlink	65,418

Figure 29: New leasing volume

Industrial leasing volume (million sq. ft.)



Figure 30: Source of demand



Source: CBRE Research, January 2024

# 2024: emerging sectors set to boost leasing demand

The central government’s efforts to stimulate local consumption and housing demand should drive an improvement in imports to mainland China over the coming year, boosting Hong Kong’s trade sector. However, geopolitical tension will continue to limit growth in mainland China’s exports. Overall logistics demand is expected to improve from 2023 before a more noticeable boost occurs when financing costs become more affordable for business and investment.

Mandates to fast-track Hong Kong’s I&T capabilities will spur demand for industrial and logistics space from tech-related companies in the coming year. While these firms’ R&D functions will likely be housed in purpose-built business parks, warehouses will be needed for downstream storage of product inventory and supplies. Space for data centres will also be in demand to support high-tech business applications.

As the Hong Kong government accelerates the development of the Northern Metropolis, construction firms will require open storage space to accommodate building materials and civil engineering supplies. Land resumption will result in forced brownfield relocation, either to high-rise buildings or other open sites, creating competition among occupiers. High-spec industrial buildings suitable for automation are set to benefit from occupiers of more basic facilities who may consider upgrading.

As electric vehicles continue to lead car sales, mainland Chinese manufacturers’ growing share of the electric vehicle market in Hong Kong will drive demand for maintenance centres. This segment is expected to account for a bigger slice of the leasing market in 2024.

Although upcoming lease expiries will create some vacancy in H1 2024, the lack of new supply will ensure warehouse vacancy remains broadly stable. Rental competitiveness will nevertheless remain key in a market with fragile demand, meaning that warehouse rents will contract within a range of 5% in 2024.

Figure 31: Warehouse vacancy

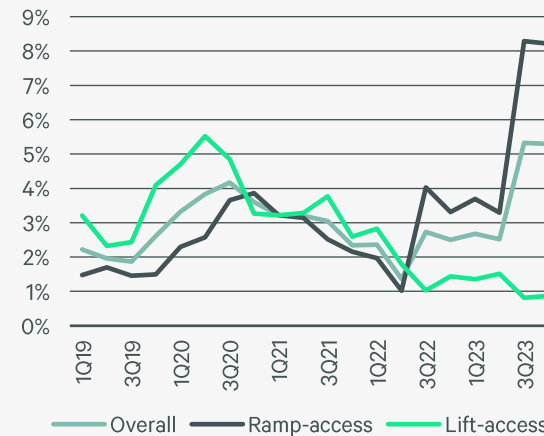


Figure 32: Warehouse supply

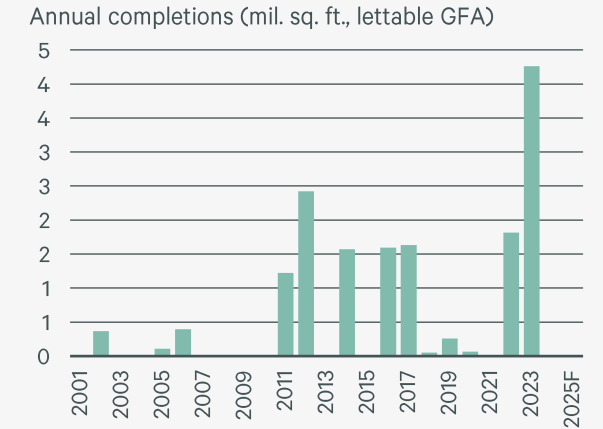
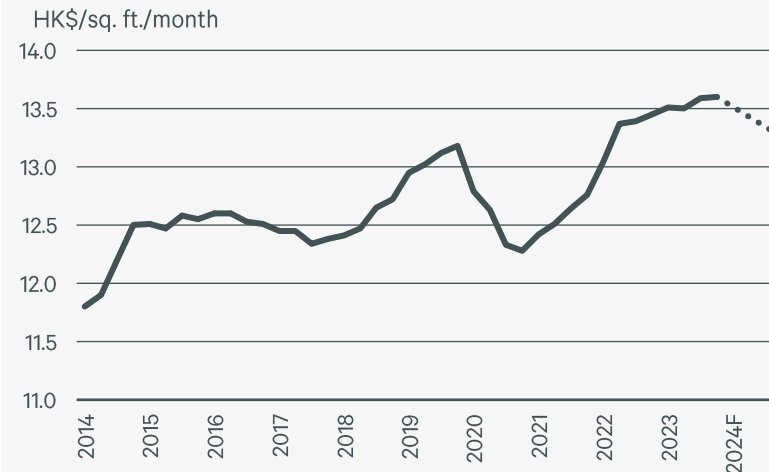


Figure 33: Warehouse rental trends



Submarkets	2023	2024F
Overall	+1.2%	-0%-5%
Kwai Chung	+3.7%	-
Tsuen Wan	+2.9%	-
Tsing Yi	+1.4%	-
Shatin	-0.5%	-
Fanling/ Sheung Shui	Flat	-
Tuen Mun/ Yuen Long	Flat	-

Source: CBRE Research, January 2024

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