Leasing momentum moderates from previous quarter but remains healthy

▲ 0.9% q-o-q
High Street Shop Rents*

▲ 0.6 q-o-q
Rents (Shopping Centre)

6.8% ▲ (1.0-ppt q-o-q)
High Street Shop Vacancy*

(*) High street shops in core shopping districts, which include Central, Causeway Bay, Tsim Sha Tsui and Mong Kok.

Executive Summary

- Leasing volume in Hong Kong's core retail districts declined on a q-o-q basis due to seasonal factors but increased y-o-y, with 213,800 sq. ft. of space newly leased in Q1 2026.
- The F&B sector leased 43% less space q-o-q, accounting for just 35% of total volume, its lowest share in four quarters. Mainland Chinese tea and coffee shops continued to expand.
- Fashion brands were the second most active trade, leasing 22% of total volume, their highest share since Q4 2016. The figure was mainly driven by demand from new brands debuting in Hong Kong.
- Watch and jewellery brands leased just 1,100 sq. ft. across only two transactions, their second lowest volume since Q2 2020, with both deals occurring in Tsim Sha Tsui. Only a handful of transactions were recorded by other trades.
- While vacancy for high street shops in core retail districts increased slightly by 1.0-ppt q-o-q to 6.8%, this was the second lowest figure since Q1 2024. Low vacancy pushed up rents by 0.9% q-o-q, marking a fifteenth consecutive quarterly increase.

The Backdrop

- Market fundamentals strengthened in Q1 2026, with visitor arrivals up 18.4% y-o-y in January and February combined, accelerating from the previous quarter's gain of 12.7% y-o-y.
- Retail sales in January-February rose by 11.8% y-o-y, their fastest growth since 2018 for the same period, except for in 2023 when the market was normalising from the pandemic-era shutdown. Sales totalled HK$72 billion, the highest figure for a January-February period since 2019. Growth was primarily driven by a 32.4% y-o-y rise in electronic goods sales, followed by a 27.7% y-o-y surge in watch and jewellery sales, 8.3% y-o-y growth in medicine and cosmetics sales, and 6.6% y-o-y growth in clothing and footwear sales.
- Online retail sales increased by 27.5% y-o-y in January-February, following 29.2% y-o-y growth in Q4 2025. Although their share of total retail sales remained low at 8.3%, growth for the period outpaced brick-and-mortar sales.
- Total restaurant receipts edged up by 0.9% y-o-y in Q4 2025, the biggest increase since Q1 2024. This brought full year growth for 2025 to 0.2% y-o-y.
- Stock market volatility and concerns about oil price-driven inflation at the end of Q1 2026 may lead to more cautious spending behavior in the coming months.

Leasing Trends

Retail leasing momentum slowed in Q1 2026 during what is traditionally a quiet period for new leases. New leasing volume in core districts fell 38% q-o-q to 213,800 sq. ft., although this was 5.5% higher than the level registered in Q1 2025.

While F&B remained the most active sector, it accounted for only 35% of total leasing volume, its lowest share since Q1 2025, down from 40% in 2025. Mainland Chinese tea and coffee shops continued to expand, with CHAGEE leasing 4,800 sq. ft. at Mira Place 1 in Tsim Sha Tsui and Luckin Coffee taking 1,300 sq. ft. at China Hong Kong City in the same district. Additionally, Lam Heung Ling Lemon Tea secured a new location on Dundas Street in Mong Kok.

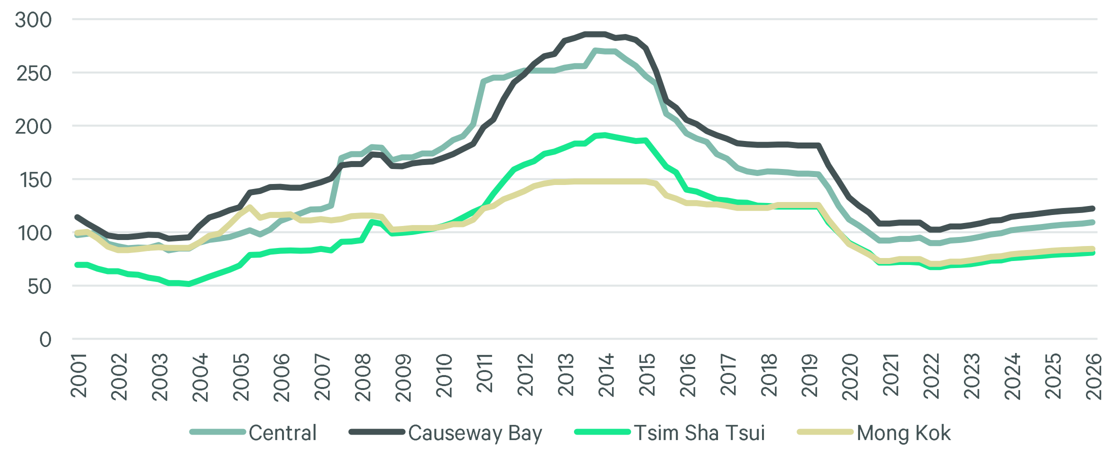
Fashion was the second-largest contributor to total leasing volume, accounting for 22%, its highest share since Q4 2016. This increase was primarily driven by demand from new brands entering Hong Kong. Highlights included mainland Chinese fashion brand W.Management leasing 30,000 sq. ft. at a space in Hang Lung Centre in Causeway Bay previously occupied by H&M since 2015, and Korean sportswear brand Alo Yoga taking 7,000 sq. ft. at K11 Musea in Tsim Sha Tsui.

Leasing activity in the watch and jewellery sector was confined to 1,100 sq. ft. across two transactions, both of which occurred in Tsim Sha Tsui. This figure marked the sector's second-lowest quarterly leasing volume since Q2 2020. Other trades each contributed 2% or less to the quarter's total leasing volume. Discounted rents stimulated activity from a diverse trade mix in core districts. These included a stationary shop, which leased 3,600 sq. ft. on Des Voeux Road Central in Central.

With leasing momentum moderating, high-street shop vacancy increased by 1.0-ppt q-o-q to 6.8%. Vacancy in Central remained at 1.3%, the lowest among core districts. In Causeway Bay and Mong Kok, vacancy rose by 1.3-ppt and 1.1-ppt, respectively, reaching 9.1% and 5.7%. Tsim Sha Tsui saw vacancy edge up by 1.5-ppt to above 10%.

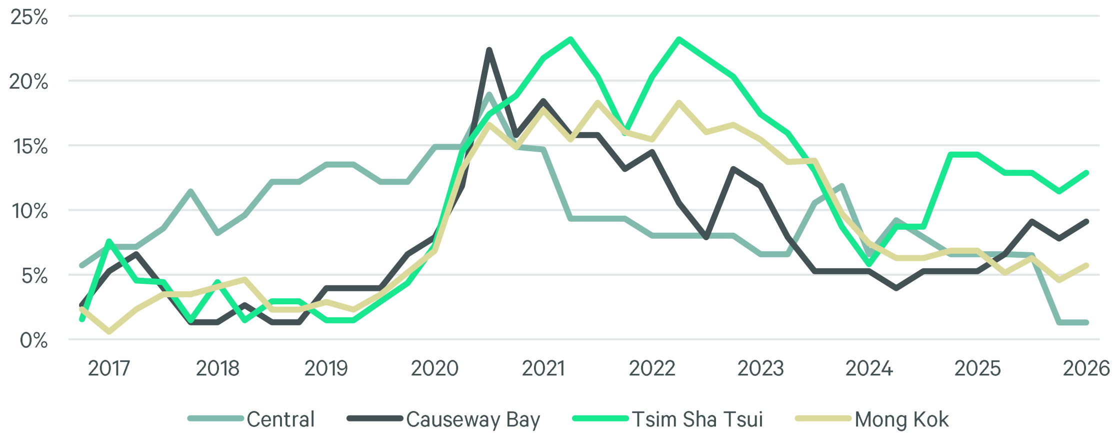
While vacancy remained at its second lowest level since Q1 2024, high-street shop rents increased by 0.9% q-o-q, marking the fifteenth consecutive quarterly increase and ensuring momentum remained steady after full-year growth of 2.9% in 2025.

FIGURE 1: High-street Shop Rental Index (1996 Q1 = 100)



Source: CBRE Research, Q1 2026.

FIGURE 2: High-street Shop Vacancy Rate



Source: CBRE Research, Q1 2026.

Outlook

Heightened global macroeconomic uncertainty, along with a steady rise in oil prices, is likely to see households turn more cautious toward spending in the coming months. Higher logistics costs may also push up retail prices for some products, which could reduce consumer purchasing power. Additionally, any significant negative impact on equity prices resulting from global stock market volatility could affect households' wealth and discourage discretionary spending.

High earners in fast-growing economic sectors, such as the financial industry, are likely to benefit from the improving market outlook, as Hong Kong is viewed by global investors as a safe haven for investment. However, workers in other sectors facing significant challenges may find their job security threatened as their employers look for ways to reduce overheads. This could lead to slower domestic consumption growth in the quarters ahead.

Despite these challenges, the recovery in the residential sales market will provide a positive wealth effect for homeowners, who account for 60% of households in Hong Kong. Geopolitical tension and disruption to flight schedules may encourage Hong Kong residents and mainland Chinese visitors to travel within the nation, benefiting the city’s tourism and retail sectors.

Despite potential macroeconomic challenges, Q2 2026 is expected to feature a robust lineup of international events, such as the Hong Kong Sevens. High levels of tourist foot traffic are anticipated, contributing to sustained growth in total retail sales.

Hong Kong’s retail market is strengthening its strong appeal to international brands on the back of the ongoing increase in visitor arrivals. Additionally, mainland Chinese retailers, including fashion brands, F&B, and financial firms, are expected to seek opportunities in Hong Kong to expand their overseas networks. The growing number of students and young professionals in the city will also attract mid-tier fashion and sports brands whose products cater to this younger demographic.

Lower vacancy is projected to support rental growth of 5.0% to 7.0% y-o-y for high street shops in core shopping districts by the end of 2026. Shopping malls in major commercial areas are also expected to record positive rental growth, although neighbourhood shops will continue to experience intense competition amid limited new leasing demand.

TABLE 1: Selected Leasing Transactions in Q1 2026

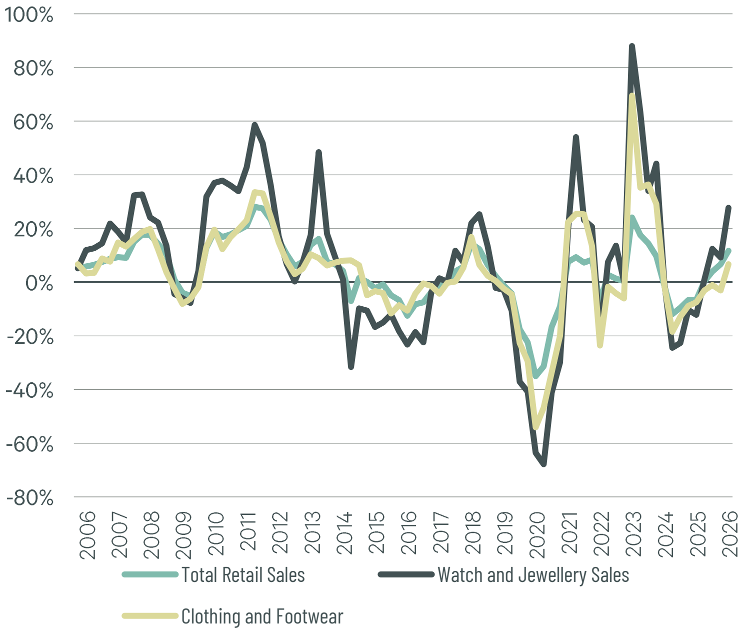
Tenant	District	Property	Address	Size (sq. ft., GFA)
A beauty centre	Central	G/F-5/F, 9 On Lan Street	9 On Lan Street	4,700
Stationary Lo	Central	G/F, 1/F, Central 88	84-86 Des Voeux Road Central	3,600
Social Goods Modern Bakery	Central	LG/F, Sun Lee Building	43-49 Wellington Street	3,500
A restaurant	Central	G/F, 1/F, Yu Yuet Lai Building	43-55 Wyndham Street	3,300
W.Management	Causeway Bay	1/F-2/F, Hang Lung Centre	2-20 Paterson Street	37,500
A restaurant	Causeway Bay	UG/F, Sino Plaza	255-257 Gloucester Road	4,900
Fairwood	Causeway Bay	1/F, Causeway Bay Plaza 1	489 Hennessy Road	4,700
Alo Yoga	Tsim Sha Tsui	G/F, K11 Musea	18 Salisbury Road	8,800
A restaurant	Tsim Sha Tsui	G/F, Ritz Plaza	122 Austin Road	5,300
CHAGEE	Tsim Sha Tsui	G/F, Mira Place 1	132 Nathan Road	4,800
A restaurant	Tsim Sha Tsui	G/F, Chinachem Cameron Centre	42-44 Cameron Road	2,200
A restaurant	Mong Kok	1/F, 2/F, 187-191 Portland Street	187-191 Portland Street	4,700
Kuen Fat Restaurant	Mong Kok	G/F, M/F, 103-109 Sai Yeung Choi Street South	103-109 Sai Yeung Choi Street South	4,000
A restaurant	Mong Kok	G/F, 210 Sai Yeung Choi Street South	210 Sai Yeung Choi Street South	1000

Source: CBRE Research, Q1 2026.

FIGURE 3: Visitor Arrivals (million, quarterly)

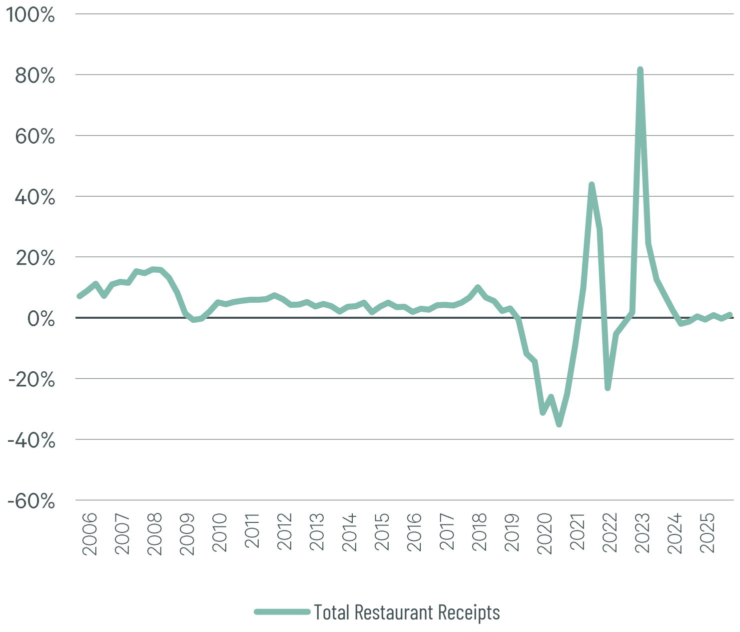
Source: Hong Kong Tourism Board, Q1 2026.

FIGURE 4: Retail Sales (y-o-y, quarterly)



Source: Census and Statistics Department, Q1 2026.

FIGURE 5: Restaurant Receipts (y-o-y, quarterly)



Source: Census and Statistics Department, Q1 2026.

TABLE 2: Economic Indicators

Indicators	Jan-Feb 2026	Jan-Feb 2026 (y-o-y change)	2025 Full Year	2025 Full Year (y-o-y change)
Visitor Arrivals	9,953,414	+18.4%	49,894,832	+12.1%
Visitor Arrivals (from mainland China)	7,893,820	+21.5%	37,833,784	+11.1%
Total Retail Sales (HK$ mil.)	72,377	+11.8%	380,445	+1.0%
Watches and Jewellery Sales (HK$ mil.)	11,026	+27.7%	52,321	+1.9%
Clothing and Footwear Sales (HK$ mil.)	8,918	+6.6%	42,370	-3.9%
Restaurant Receipts (HK$ mil.)*	27,827	+0.9%	109,633	0.2%

Source: Census and Statistics Department.
*Q4 2025.

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