VIEWPOINT

HONG KONG

Intelligent Investment

Identifying prospects in a new era of economic growth

CBRE RESEARCH
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Overview

- Hong Kong's economy continues to display resilience as the city navigates its way through various external headwinds and structural shifts. Growth is occurring across many sectors, with some industries performing on a level comparable to pre-pandemic times. Despite a multitude of challenges, the situation is not as dire as some market commentators suggest.
- CBRE believes the resurgence of the mainland Chinese economy, policy support from the central government, and public sector investment in Hong Kong’s long-term development will create opportunities for corporations and investors in the long run.
- The city’s transformation from a traditional services economy to a hybrid economy, supported by both the financial and tech industries, will see it ascend the value chain.
- Business prospects emerging from the city’s economic transformation and emergence of new trading partners will provide a strong foundation for long-term growth.
- Challenges will come from ongoing geopolitical tension between China and the U.S. and higher operating costs, compared with other gateway cities in the region.
- With Hong Kong's economy continuing to recover, real estate demand will strengthen. However, property owners must adapt to overcome challenges posed by oversupply in the office sector and changes in retail consumption patterns.
- Embracing change in economic, consumer, and workplace dynamics also underscores the need to integrate greater flexibility into real estate.

A bumpy economic recovery

While Hong Kong's economic landscape continues to pose a challenge for both business and property owners alike, many sectors display resilience and offer growth opportunities.

Hong Kong's real GDP increased by 3.2% y-o-y in 2023, almost wholly reversing the 3.7% y-o-y decline registered in 2022. Q1 2024 continued to see economic resilience, with GDP growing by another 2.7% y-o-y.

The economy first started to regain momentum in February 2023 following the quarantine-free re-opening of the city's borders. Since then, however, more Hong Kong residents have chosen to take advantage of the strong HKD and the convenience of cross-border travel to visit and spend in destinations such as Japan, Korea, and cities in the Greater Bay Area (GBA); a trend that has led to concerns about the negative impact this is having on local consumption.

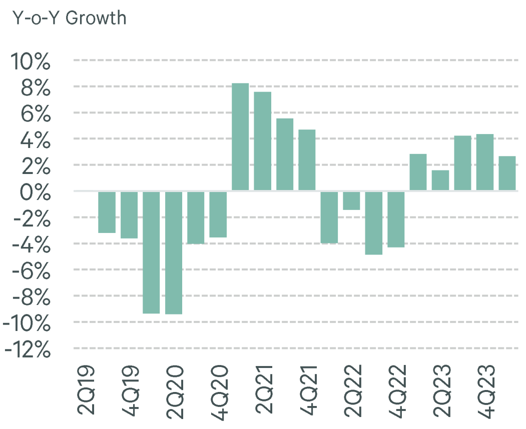
Although offshore markets do pose competition, local consumption grew by 7.3% y-o-y in 2023 to HK$1,956 billion in real terms. This level is on par with 2019 and just 1.7% below the historical peak set in 2018. By nominal value, local consumption is now at an all-time high.

The decline in tourism revenue presents a challenge, however, with tourist arrivals in the rolling 12 months to April 2024 reaching just 41 million; some distance from the 65 million logged in 2018. Although mainland Chinese tourists still account for most visitors to Hong Kong, most now spend far more prudently than before.

Other challenges include high interest rates, which have resulted in weaker investment demand and have had a negative knock-on effect on other economic activity. Property and equity values have fallen and businesses remain cautious, with many corporates staying in cost-saving mode.

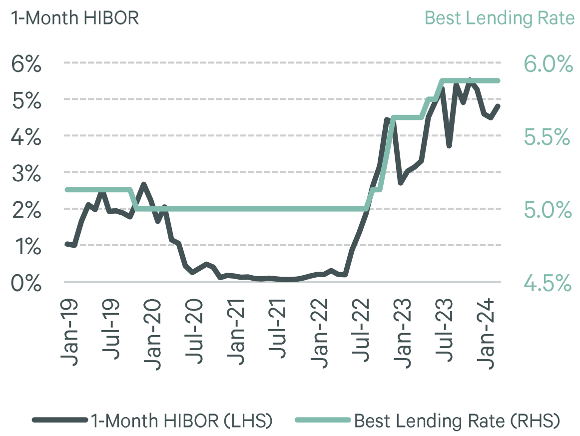
Despite these headwinds, authorities continue to promote investment and tourism initiatives to hasten the recovery. Various long-term economic schemes are being introduced to provide Hong Kong with renewed impetus for sustainable growth.

Figure 1: HK Real GDP



Source: Census and Statistics Department, May 2024

Figure 2: Financing Costs



Source: The Hong Kong Association of Banks, Hong Kong Monetary Authority, May 2024

The backdrop

Hong Kong's economy has faced strong headwinds since H2 2019, with prolonged social unrest followed by the onset of the COVID-19 pandemic combining to ensure GDP contracted in 10 out of the 14 quarters between H2 2019 and Q4 2022. The economy finally returned to growth mode in Q1 2023 once travel restrictions were fully lifted. Quarterly GDP growth accelerated q-o-q in each quarter of 2023 and continued to register solid growth of 2.7% y-o-y in Q1 2024.

While substantial media coverage has been given to the lower-than-expected growth in tourist arrivals; limited foot traffic during long weekends; falling property prices; business closures; capital outflows and the reduced number of foreign enterprises with a presence in the city; the economy continues to recover gradually and the situation is not as dire as some market commentators suggest.

Inbound tourism

Inbound tourism, which exerts a substantial influence upon the business of retailers, F&B operators and other tourist-oriented trades, continues to struggle, with the number of tourists visiting Hong Kong still lower than pre-pandemic levels. As of April 2024, the number of rolling 12-month visitor arrivals stood at 41 million, just two-thirds of the average annual total from 2017 to 2019. The last time Hong Kong welcomed 40 million tourists in a year was in 2011, when the RMB/HKD exchange rate strengthened from around 0.85 to 0.81, and the Chinese economy grew at a rate of 9.6% per annum. Since the resumption of international travel, the RMB/HKD exchange rate has softened from circa 0.86 to 0.93, and China has logged full-year GDP growth of 5.3%. This data highlights the relative strength of Hong Kong's inbound tourism market, despite current performance lagging pre-pandemic levels.

Figure 3: Tourist Arrivals

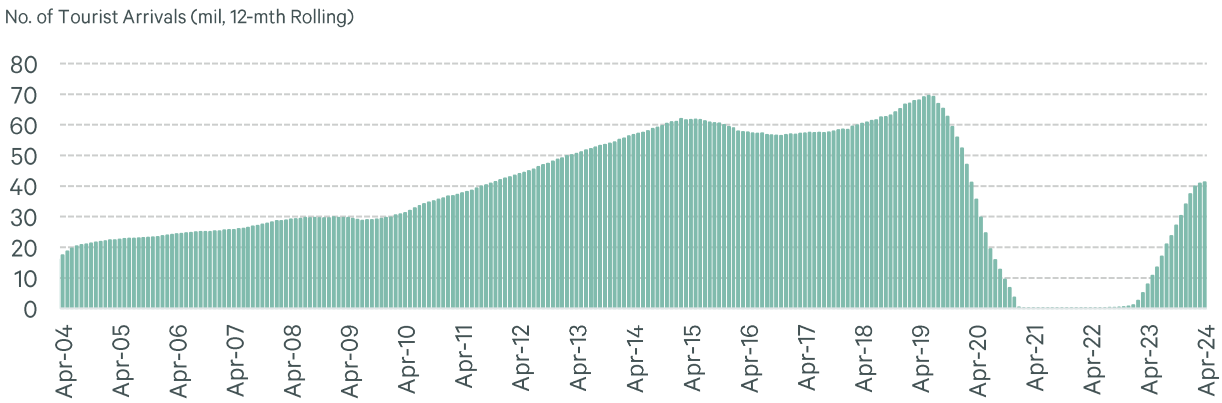


Figure 4: Exchange Rate (RMB/HKD)

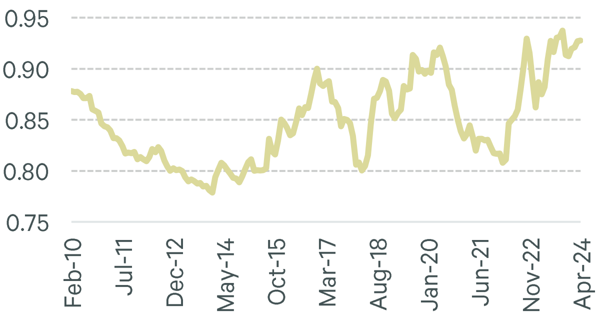
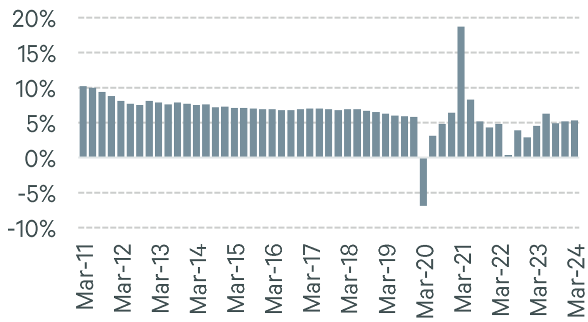


Figure 5: China Real GDP Growth (y-o-y)



Source: Hong Kong Tourism Board, Hong Kong Monetary Authority, National Bureau of Statistics of China, CBRE Research estimates, May 2024

Even with fewer tourists, Hong Kong continues to register the second highest tourist per capita ratio in both Asia (after Macau) and major global tourism destinations.

Figure 6: Tourist to Population Ratio (selected major tourism markets)

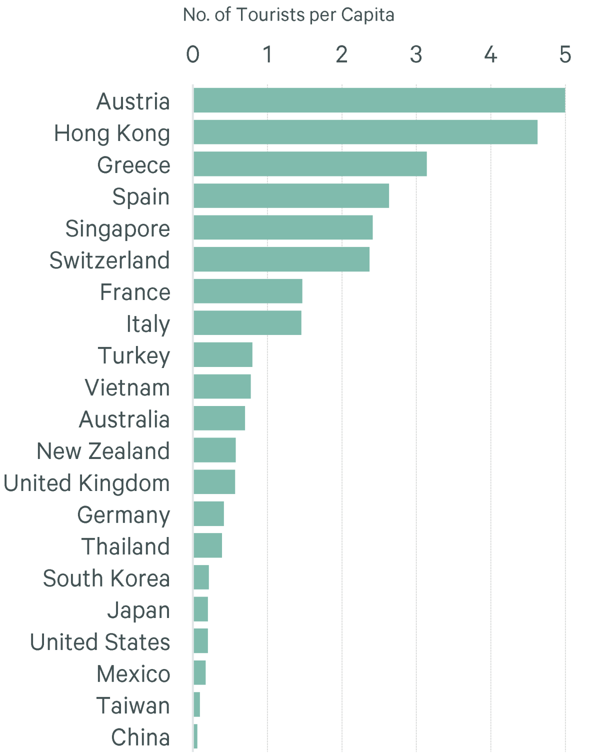
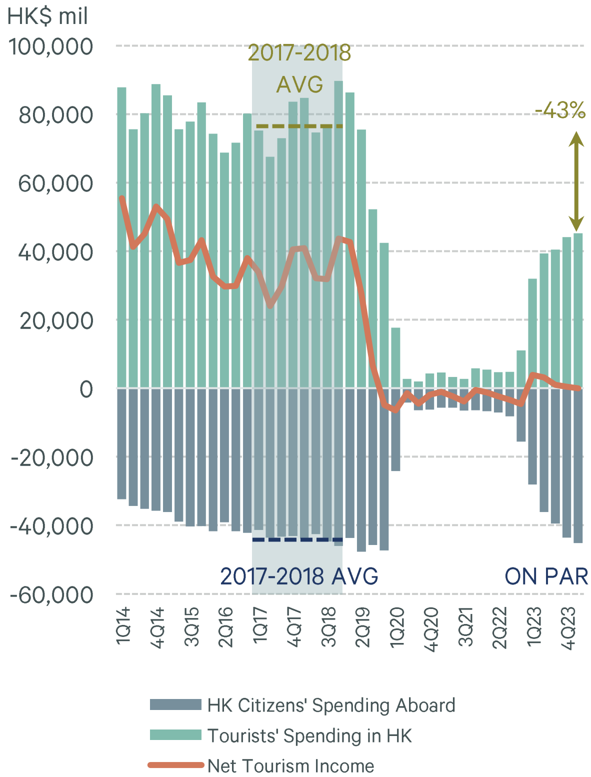


Figure 7: Net Tourism Income (HK$ mil)



Source: Statistics bureaus and tourism organizations of individual countries, World Bank, Census and Statistics Department, CBRE Research estimates, May 2024

Outbound travel

Hong Kong residents' pent-up desire for travel and the strength of the HKD against the foreign currencies of popular travel destinations have driven an increase in outbound travel and overseas spending. The HKD has appreciated by 18% against the JPY since the beginning of 2023 and is now nearly 8% stronger against the RMB compared to the start of 2023.

During the four quarters of 2023, overseas spending by Hong Kong residents rose by an average of 316% y-o-y, reaching HK$42.3 billion in Q4 2023. However, this is similar to average quarterly spending in 2017-2018 and approximately 7-8% below the levels seen in Q2 2019 and Q4 2019. Hong Kong residents have therefore not spent excessively overseas compared to the period immediately prior to the onset of the pandemic.

At the same time, however, tourist spending in Hong Kong is declining. While expenditure by non-residents in Hong Kong rose by an average of 567% y-o-y during the four quarters of 2023, reaching HK$42 billion in Q4 2023, this figure is 43% lower than the quarterly average in 2017-2018 and on par with the level seen in Q4 2019 when tourism to Hong Kong was seriously damaged by political unrest.

Net tourism income (expenditure by non-residents in Hong Kong less Hong Kong residents spending abroad) has been largely neutral in recent years and only marginally recovered to positive territory in recent quarters.

Wealth effect and local consumption

Overseas travel by Hong Kong residents is therefore not negatively impacting domestic consumption. Indeed, local consumption has been solid, with private consumption expenditure growing by 12.9% y-o-y in 2023 to reach HK$2,103 billion, a level marginally higher than that registered in 2018 and 2019. However, growth has decelerated in recent quarters.

Negative growth in wealth has prevented domestic consumption from growing at a faster rate. While median household income is 5% higher now than in 2018, the Hang Seng Index (HSI) fell nearly 14% in 2023 and edged down a further 3% in Q1 2024, while residential prices have fallen by circa 20% in the last 24 months. These trends have prompted households to spend more prudently and wisely. The HSI has recovered by 10% since April 2024.

Although online consumption continues to account for just 8% of retail consumption, e-commerce sales reached HK$32 billion in 2023. However, the value of goods sold online fell by 5.8% y-o-y in 2023, a sharp contrast to the 16.2% y-o-y growth in total retail sales recorded over the same period. While e-commerce is bringing about a structural change in the retail market, it is not necessarily a material cause of the shortfall in brick-and-mortar sales compared to pre-pandemic times.

Figure 8: Income and Expenditure

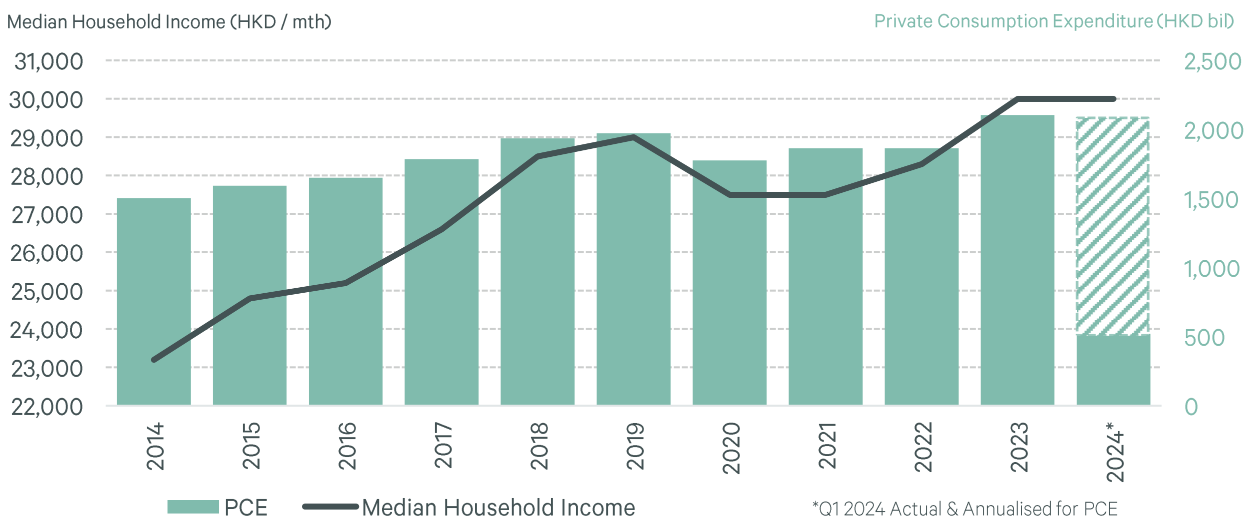


Figure 9: Wealth Effect

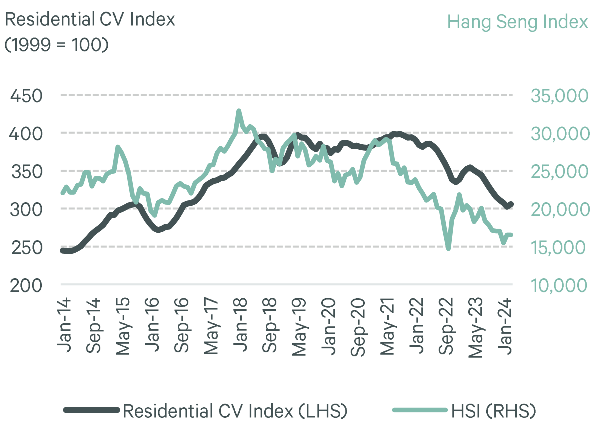
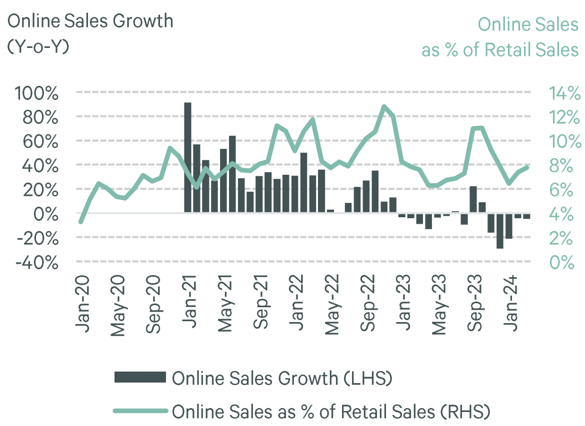


Figure 10: Online Consumption



Source: Census and Statistics Department, Rating and Valuation Department, Yahoo Finance, CBRE Research estimates, May 2024

Business closures

Available data do not indicate a significant wave of business closures in Hong Kong. The number of small and medium-sized enterprises (SMEs) is 2.2% higher than the peak set in 2018, despite a slight y-o-y decline registered in 2019 and 2020. Businesses often deregister and frequently do so regardless of market cycles. Based on the number of companies in the Grade A office market, which can be considered as a proxy for larger enterprises, there was a 3% decrease in the number of companies between 2019 and 2022. However, the count has been steadily increasing since then and is now approaching the 2019 level.

Figure 11: SMEs in Hong Kong

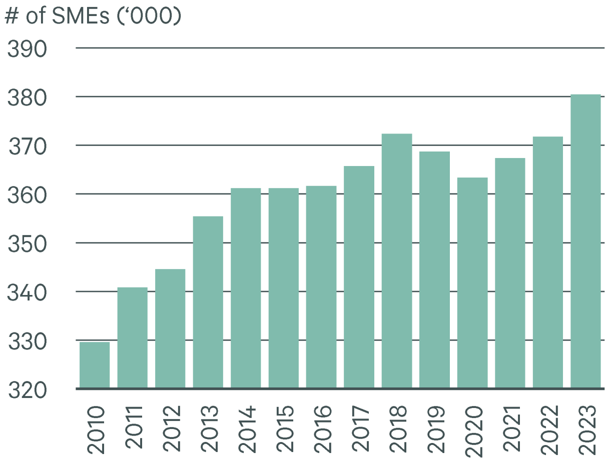
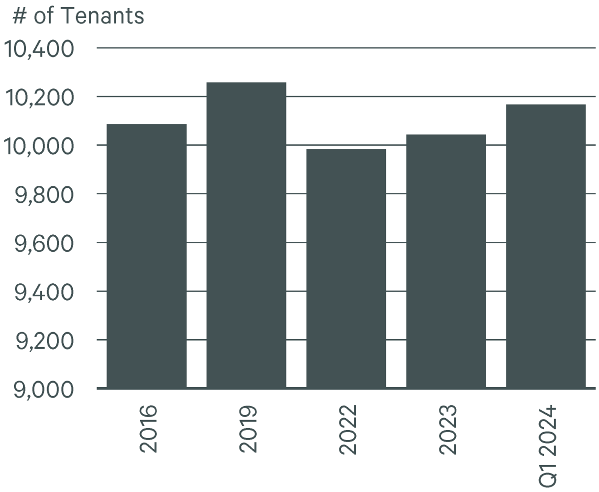


Figure 12: Grade A Office Tenants in Hong Kong



Source: Census and Statistics Department, CBRE Research, May 2024

Capital availability

Hong Kong is one of the freest economies in the world with regular inflows and outflows of capital. While the city's Monetary Base has fluctuated during the recent economic downturn, it now stands 15% higher than immediately before the pandemic, reaching HKD 1,915 billion as of the end of April 2024. Around 2% of this growth has occurred in the last 12 months. M2 and M3 money supply stands at nearly 17% above 2019 levels.

Figure 13: Hong Kong Monetary Base

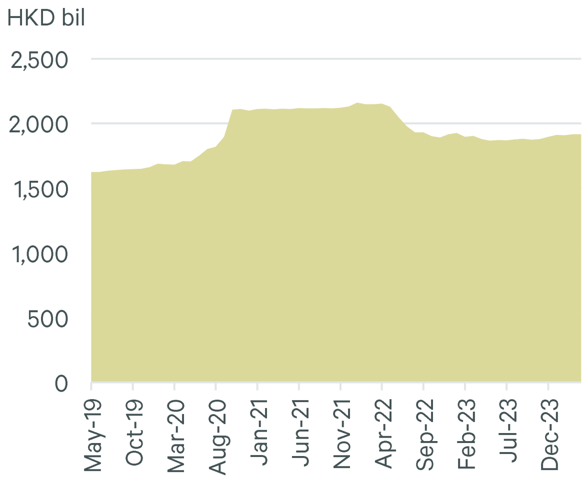
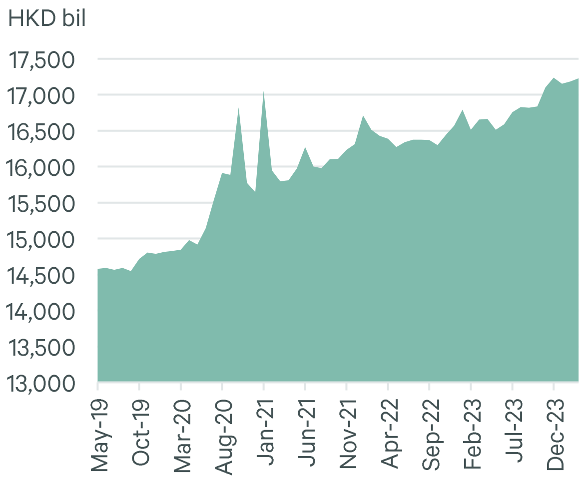


Figure 14: Hong Kong M3 Supply



Source: Hong Kong Monetary Authority, May 2024

Expats and foreign enterprises

While the number of non-local companies operating in Hong Kong remains largely unchanged compared to before the pandemic, the function of such enterprises has evolved. As of both 2019 and 2023, Hong Kong hosted slightly over 9,000 non-local companies. However, the percentage of this number operating a regional headquarters in the city has decreased from 17% to 15%, while the percentage of regional offices has decreased from 27% to 25%. This change in the composition of companies in Hong Kong has hindered the growth of office demand as there has been a shift from more regional to local functions.

Although the number of companies from the U.S. and the UK has fallen in recent years, there has been an increase in firms from other markets, including Singapore, Germany, Taiwan, and Switzerland. The decline in the number of multinational corporations has been offset by the increase in the number of enterprises from mainland China; a trend which has narrowed the ratio between mainland Chinese firms and multinationals from 1:7.7 in 2013 to 1:3.1 in 2023.

The introduction of various new talent admission schemes ensured the number of work visas approved in 2023 exceeded the number approved in 2018 and 2019 combined. Over 75% of approved applicants were from mainland China. The influx of expatriate individuals and families has helped Hong Kong's total population recover from 7.4 million in 2021 to 7.5 million as of the end of 2023.

Figure 15: Non-local Companies in Hong Kong

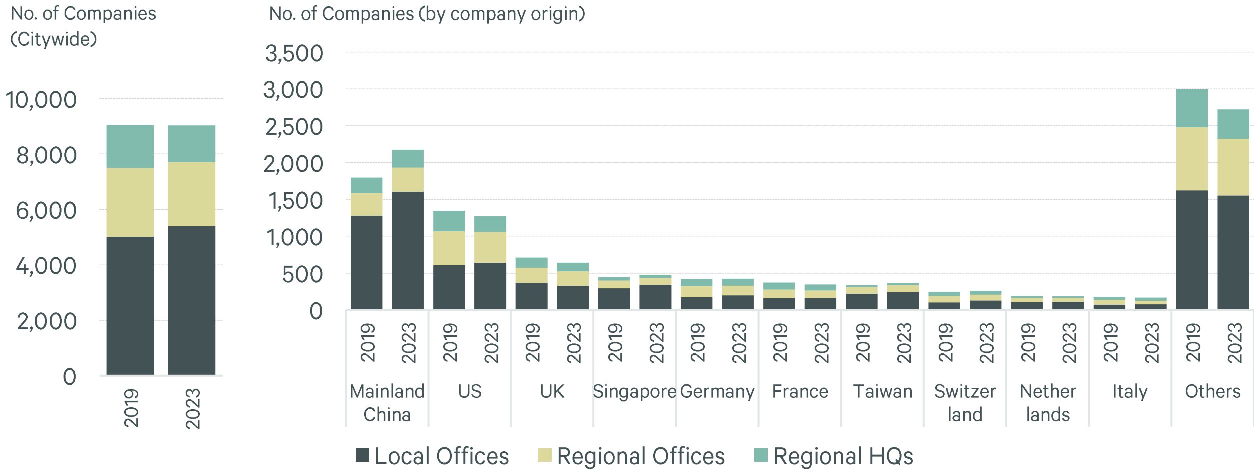


Figure 16: Multinational Companies

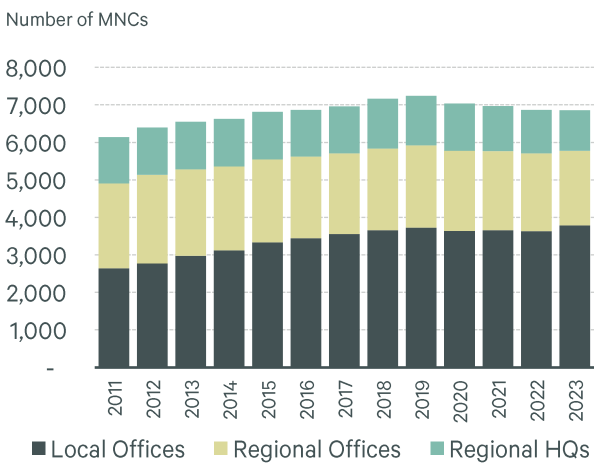
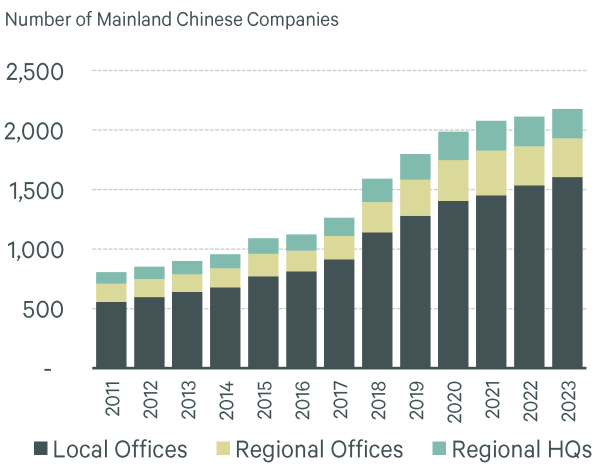


Figure 17: Mainland Chinese Companies



Source: Census and Statistics Department, CBRE Research, May 2024

Outlook

The short-term outlook for Hong Kong's economy largely depends on two factors: the timing and magnitude of interest rate cuts and the pace of the inbound tourism recovery. The long-term outlook hinges on the government's ability to maintain and strengthen Hong Kong's position as a global financial centre as well as fostering the city's innovation and tech ambitions.

Short-term Outlook

With headwinds expected to persist for some time yet, the recovery of property demand in Hong Kong will require progress in a few key areas:

1. Interest rate environment and investment market sentiment

   Hong Kong's currency peg provides local policymakers with limited control over the direction of interest rates. The market consensus is that U.S. and hence Hong Kong's interest rates will remain high for an extended period, with the first rate cut not expected to commence until H2 2024. Negative carry is expected to persist and transaction volume is anticipated to remain low. However, the government's recent decision to remove all property market austerity measures is expected to restore the market mechanism and ensure improving sentiment in the residential market spreads to other commercial property sectors.

   Equity market trends are partly influenced by external factors and depend on the speed of recovery of the Chinese economy. The China Securities Regulatory Commission and Hong Kong regulators recently announced several measures to enhance mutual access between the mainland and Hong Kong capital markets, brightening the outlook for the Hong Kong financial market (see Table 1).

Table 1: Recent Policy Initiatives to Brighten the Outlook of the Hong Kong Financial Market

Policy Initiatives	Key actions
Stock Connect Enhancements	• Expanding the scope of eligible exchange-traded funds (ETFs) under the Stock Connect. • Incorporating real estate investment trusts (REITs) into the Stock Connect. • Supporting the inclusion of yuan-denominated stocks into southbound Stock Connect. • Enhancing the scheme of mutual recognition of funds. • Supporting the listing of leading mainland companies in Hong Kong.
Swap Connect	• Accepting interest rate swap contracts with payment cycles based on the International Monetary Market dates for clearing to enrich the product types and align with mainstream products traded globally. • Introducing compression service and the clearing of backdated swap contracts as the associated supporting arrangement to improve the ancillary services and facilitate participating institutions to manage the notional amount outstanding as well as lower capital costs. • Rolling out other system enhancements and incentive programmes to reduce the participation costs of Mainland and overseas investors.

Source: Hong Kong Special Administrative Region Government, CBRE Research, May 2024

2. Domestic consumption growth and outbound travel

   Hong Kong's job market remains upbeat, with the unemployment rate averaging just 2.9% for the past 12 months. This continues to provide a strong foundation for domestic consumption demand. However, northbound consumption is set to become an irreversible trend given the development of new infrastructure to facilitate a more seamless travel experience for Hong Kong residents. Policy-driven regional development of the Greater Bay Area (GBA) will also encourage the flow of people between cities in the region.

   The loss of retail spending in Hong Kong to nearby cities in mainland China is also being driven by price and retail offering differentiation; a trend expected to continue for the foreseeable future. While the strength of the HKD will continue to spur outbound travel and overseas consumption in the coming months, measures to facilitate the inflow of high-earning talent and support the continuous recovery of inbound tourism will boost retail and F&B demand and drive consumption growth.

3. Inbound tourism

   As China's economic recovery continues to accelerate, outbound travel demand from the mainland is picking up. The recent expansion of the Individual Visit Scheme (IVS) to an extra population of 56 million people across ten cities in China and enhancements made to exit endorsements for mainland business travellers (see Table 2) will broaden the pool of visitors to Hong Kong. Although economic factors may prevent a significant increase in shopping expenditure by mainland Chinese tourists, arrivals from this market are expected to increase further over the course of 2024.

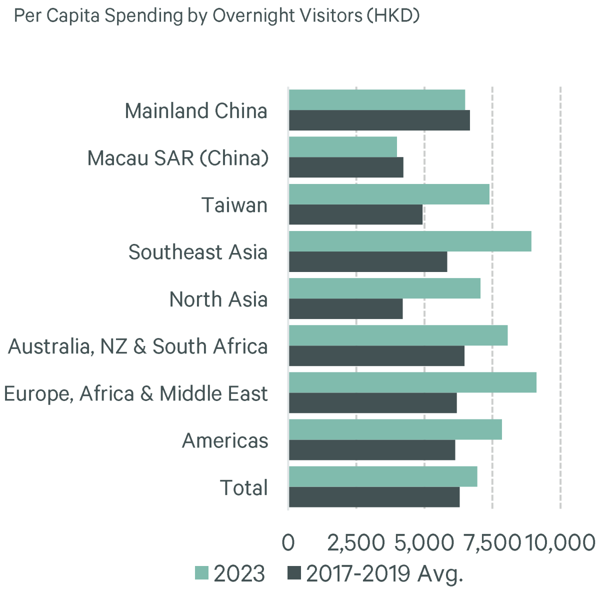
   With international tourists now displaying stronger growth in per capita spending than those from China, authorities are stepping up efforts to attract visitors from these markets. The government disbursed over HKD 300 million through the Mega Arts and Cultural Events Fund and the "M" Mark System in the 2023/24 financial year. Over 210 government-led events are scheduled for 2024, more than 100 of which will happen in the second half of the year. In addition to government-sponsored events, there are over 90 conference and exhibition events in the pipeline, more than half of which are expected to attract global travellers. The government forecasts 50 million visitor arrivals in 2024, representing growth of 47% y-o-y.

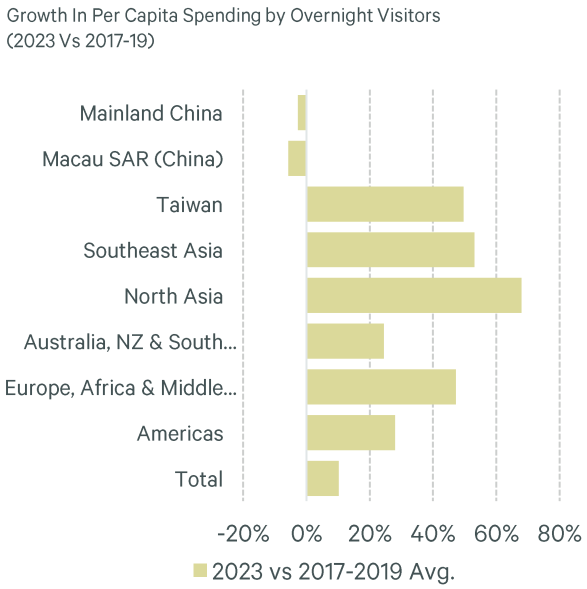
Table 2: Recent Policy Initiatives to Drive People Flow Between Mainland China and Hong Kong

Policy Initiatives	Key actions
Expansion of the Individual Visit Scheme	• Adding Qingdao, Xian, Harbin, Hohhot, Urumqi, Lanzhou, Lhasa, Xining, Yinchuan and Taiyuan. • Total number of cities eligible for the scheme set to reach 59.
Enhancements to exit endorsements for mainland business travelers	• Doubled the period of stay of each visit from seven days to 14 days for holders of an exit endorsement for business visit to Hong Kong. • Applications for the exit endorsement for business visit will be accepted nationwide and can be processed at any of the relevant offices across the country, irrespective of the applicant's place of household registration or place of residence. • Expanding the application for talent exit endorsement from Greater Bay Area cities to Beijing and Shanghai.

Source: Hong Kong Special Administrative Region Government, CBRE Research, May 2024

Figure 18: Per Capita Spending by Overnight Visitors





Source: Hong Kong Tourism Board, CBRE Research estimates, May 2024

4. Faster economic growth in China

Following full-year growth of 5.2% y-o-y in 2023, China's economy expanded by 5.3% y-o-y in Q1 2024. The country's economic recovery is progressing well, thanks to recent fiscal stimulus and efforts to revive real estate demand, which are expected to lead to business and investment growth. The expansion of mainland Chinese firms and improving business prospects of Hong Kong-based companies will drive demand for commercial real estate, ultimately strengthening market fundamentals and boosting investment opportunities.

5. Recovery of trading activity

Geopolitical tension and trade conflict between China and the U.S. will continue to pose headwinds for Hong Kong's re-export business. While direct goods flow with the U.S. accounts for just 5% of Hong Kong's goods trade, re-exports for China and U.S. takes a 52% share of it. However, with ASEAN having become China's largest trading partner (18% and 37% larger than the total trade with the E.U. and the U.S. in 2023, respectively), Hong Kong is likely to expand its role in facilitating trade between the two regions. Closer ties between China and the circa 150 Belt and Road countries will also improve Hong Kong's trade resilience. These countries provided 39% of China's total trade when the Belt and Road Initiative (BRI) was launched in 2013; a figure that has now reached 45%.

With more BRI infrastructure projects due to be completed in the coming years, these countries' connectivity with China will be enhanced, spurring trading activity. This could potentially create new opportunities for Hong Kong's trade and logistics sector in the long run.

Figure 19: Hong Kong's Trade with ASEAN

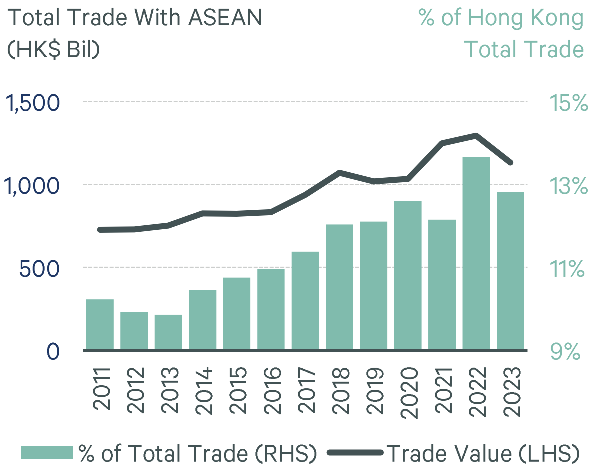


Figure 20: China's Trade with ASEAN

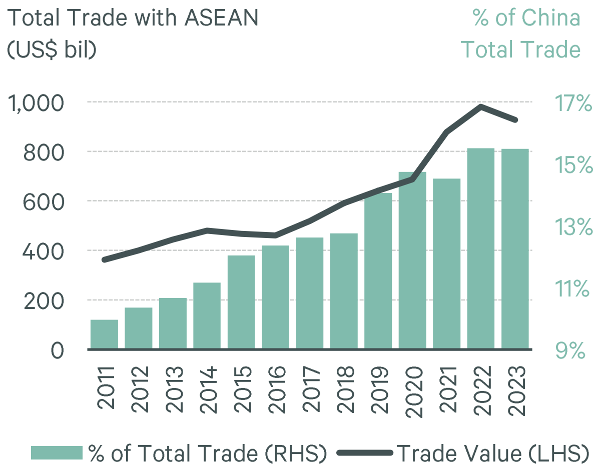


Figure 21: Hong Kong's Trade with Belt and Road Countries (B&RC)

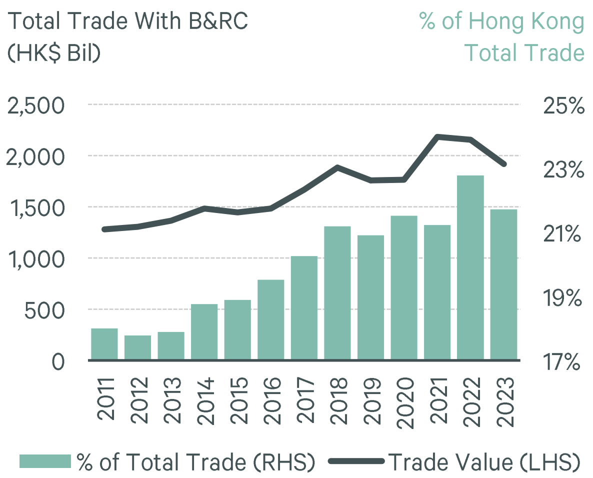
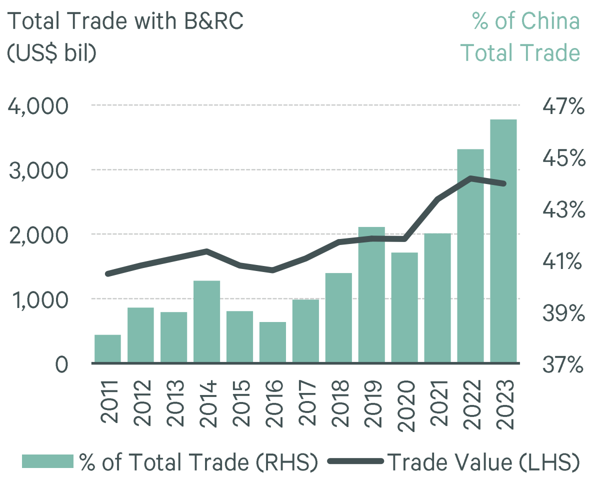


Figure 22: China's Trade with Belt and Road Countries (B&RC)



Source: Census and Statistics Department, General Administration of Customs, International Monetary Fund, CBRE Research estimates, May 2024

Long-term Outlook

Ambitious city development plans and closer integration with the mainland economy will underpin sustainable growth for the Hong Kong economy in the long run. Property demand will align with growth and will be driven by several key trends:

1. Growing population of high-calibre talent

   Recent years have seen the government introduce various talent admission and immigration schemes to attract high-calibre individuals and high net worth families. These schemes will increase the population of the city, both in terms of quantity and quality, which in turn will boost demand for goods and services and support housing needs. Since the end of 2022, the government has approved 120,000 talented individuals to move to Hong Kong, providing a solid foundation for growth in services relating to high earners.

2. Bigger inflow of non-local students

   The government's doubling of the annual quota allocated to non-local university students from September 2024 will drive more requirements for student accommodation. The creation of a bigger pool of university students signals the greater availability of locally-trained high-skilled earners and will benefit Hong Kong's competitiveness in the long run.

Table 3: Major Talent Admission Schemes

Policy	Requirements based on any of the following points
Top Talent Pass Scheme (TTPS)	• Annual income of greater than HKD 2.5 million in the past year. • Graduated from a top 100 university with ≥ three years work experience in the past five years. (Limited quota for less experienced applicants).
Immigration Arrangements for Non-local Graduates (IANG)	• Non-local recent graduate of a full-time and locally-accredited programme in Hong Kong, including GBA graduates from an equivalent recognised programme. • Non-local non-recent graduate of a full-time and locally-accredited programme in Hong Kong with confirmed letter of employment, including GBA graduates from an equivalent recognised programme.
General Employment Policy (GEP)	• Confirmed letter of employment and good education background, normally a first degree in the relevant field.
Admission Scheme for Mainland Talents and Professionals (ASMTP)	• Confirmed letter of employment and good education background, normally a first degree in the relevant field.
Quality Migrant Admission Scheme (QMAS)	• Pass either the General Points Test or Achievement-based Points Test, and possess a good education background, normally a first degree in the relevant field. (Limited quota given based on selection exercise)
Technology Talent Admission Scheme (TechTAS)	• Full-time employee in Hong Kong, employing company has a valid quota, applicant mainly engaged in specific R&D, and graduated with a STEM degree from a top 100 university for STEM related subjects.

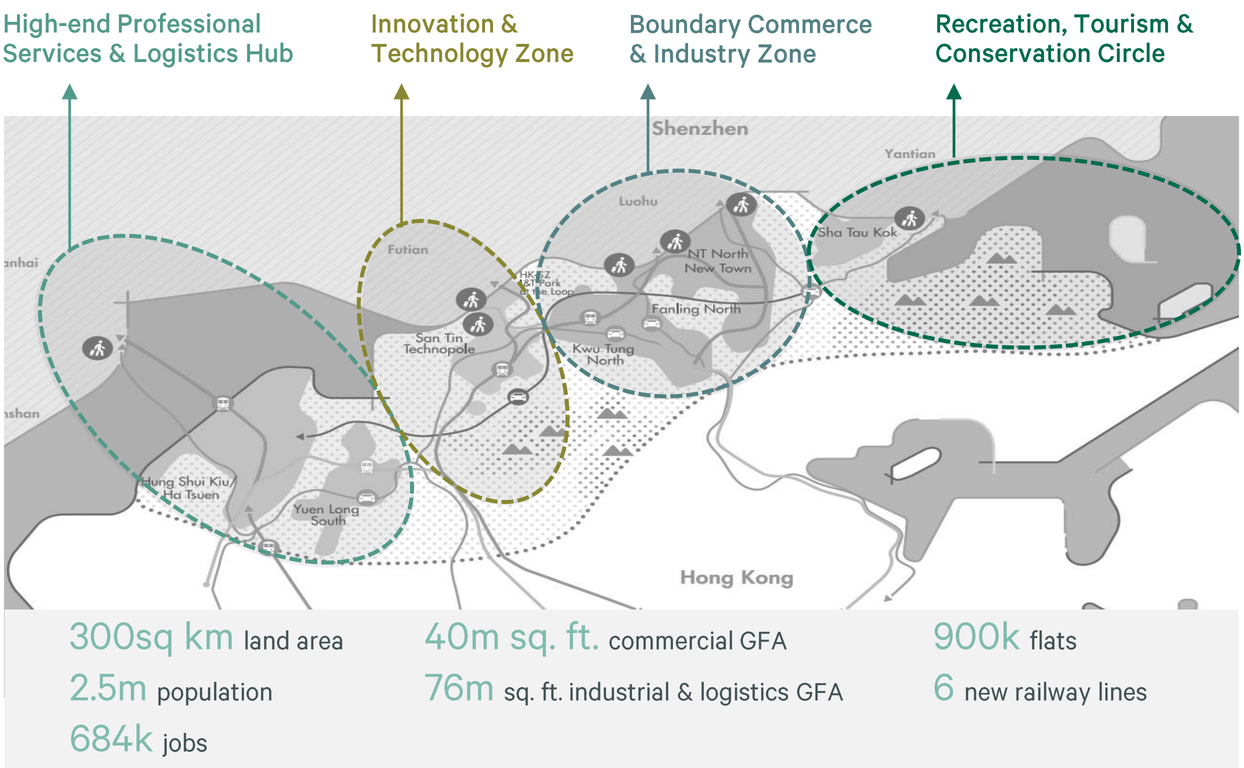
Source: Hong Kong Special Administrative Region Government, CBRE Research, May 2024

3. Expanding the city's development landscape

PwC estimated in 2022 that the development of the Northern Metropolis would require an investment of up to HKD 3 trillion. The massive scheme will support the growth of traditional sectors such as project financing, civil engineering, construction and property development. The Northern Metropolis is expected to be built over the next two decades, attracting strategic enterprises to Hong Kong, mainly related to innovation and technology. This will support the city's transformation from a finance-driven to an Innovation and Technology (I&T)-driven economy, creating significant new business and investment opportunities. The project involves the construction of over 200 million sq. ft. of non-domestic GFA and the development of an additional 500,000 apartments.

The government also plans to reclaim land at Kau Yi Chau, a mega project aimed at accommodating Hong Kong's long-term population growth and enhancing the population's living standards. Although still at the planning stage, this project is expected to be built over a period of several decades, providing the city with further economic impetus.

Figure 23: The Northern Metropolis



Source: Northern Metropolis Action Agenda, CBRE Research estimates May 2024

4. Transformation into an international arts and cultural and I&T hub

The government has committed to cultivating Hong Kong as a hub for arts and cultural exchange. With its low tax rate and numerous art fairs, the city attracts art enthusiasts from around the globe and has established itself as one of the world's top three art trading centres. Hong Kong is now home to numerous prominent galleries, auction houses, and art fairs, with the total trade value of artworks and antiques doubling to HK$105 billion between 2019 and 2023. Investment in museums and world-class arts and cultural events is set to yield substantial economic benefits, further elevating the significance of this industry.

The government has also identified I&T as a crucial driver for the high-quality development of the city's economy. The plan is for Hong Kong to be gradually transformed into an I&T hub with a focus on the development of selected sectors including AI and robotics, big data analytics, biomedical, smart city, and smart manufacturing. The government's strategic policy initiatives and financial incentives will attract global tech companies to invest in Hong Kong and strengthen the city's long-term economic competitiveness. Downstream businesses to serve I&T sector companies will also enjoy bright growth prospects in the coming years.

5. A new chapter for the financial sector

The Global Financial Centre Index ranked Hong Kong 4th in 2023, a position unchanged from the previous year. Ongoing efforts by the central and Hong Kong governments to enhance the breadth and depth of the city's capital market, along with the city's deep-rooted institutional advantages, will ensure Hong Kong's financial market maintains its competitiveness in the long run.

The recent expansion of the Stock Connect and Swap Connect arrangements between Hong Kong and mainland China demonstrate Hong Kong's growing role in facilitating financial transactions between China and the rest of the world. As the world's largest offshore RMB business hub with the largest offshore RMB liquidity pool, Hong Kong is working to develop an offshore RMB ecosystem to support the internationalisation of the RMB. Global demand for Hong Kong's financial services is therefore expected to remain robust.

Efforts to establish Hong Kong as a wealth management and family office hub will create new opportunities for the financial sector. As the largest hedge fund centre and the second-largest private equity management hub in Asia after China, Hong Kong is working to strengthen its standing in these areas and simplify procedures for relevant businesses. Deloitte data indicates that Hong Kong has approximately 2,700 single-family offices, nearly double the number in Singapore. When multiple-family offices are also considered, Hong Kong's market is even larger. Emerging markets' increasing number of HNWIs and closer economic ties with the Middle East and BRI countries will lead to sustained demand for Hong Kong's investment and wealth management services.

Figure 24: Financial Centres Rankings

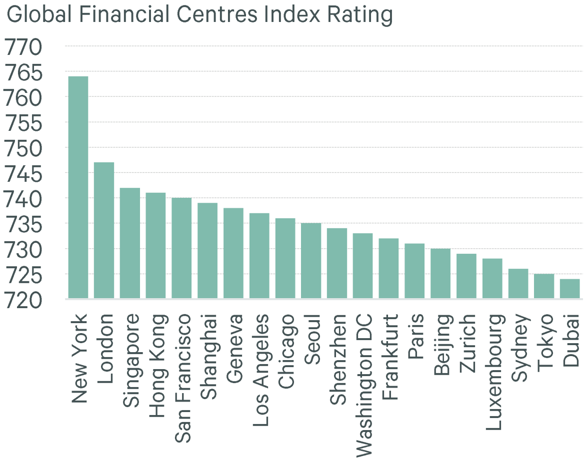
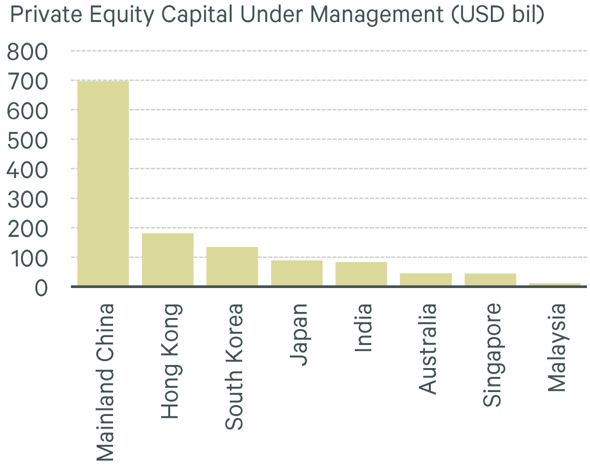


Figure 25: Wealth Management Market Scale



Source: Global Financial Centres Index 35 (2024), Asian Venture Capital Journal (2021), CBRE Research, May 2024

Conclusion

Despite ongoing challenges and difficulties faced by some industry sectors, Hong Kong's economic recovery remains on track. While external headwinds persist, the resurgence of the Chinese economy, policy support from the mainland, and public sector investment in Hong Kong's long-term development will create growth opportunities for corporations and investors in the long run.

Nearly all of Hong Kong's long-standing competitive advantages and strengths remain intact, ensuring continued economic prosperity. Factors such as business and government efficiency, economic freedom, financial stability, global gateway to and from China, an independent legal system, and a large and diverse talent pool will help Hong Kong maintain its position as a leading international business and financial hub.

That said, ongoing geopolitical tension between China and the U.S. will have a lasting impact on Hong Kong's business landscape. The city's gradual transformation from a traditional services economy to a hybrid economy, supported by both the financial and tech industries, will see Hong Kong ascend the value chain. Higher operating costs will negatively impact the city's business competitiveness, especially compared with other gateway cities in the region.

Positioned at the centre of Asia, Hong Kong offers unparalleled convenience for both local residents and tourists. While government initiatives continue to open doors for the growth of business and leisure travel in the city, Hong Kong's retail and tourism sectors must adapt to meet changing consumer trends and compete with the array of attractions offered by neighbouring cities.

What does it mean for real estate?

With Hong Kong's economy continuing to recover, real estate demand will strengthen in the coming months, presenting opportunities for landlords and boosting investment activity as interest rates fall. However, property owners must adapt to overcome challenges posed by oversupply in the office sector and changes in retail consumption patterns.

Embracing change in economic, consumer, and workplace dynamics underscores the need to integrate greater flexibility into real estate. CBRE recommends land administrators and town planners carefully assess how space will be used in future and facilitate changes to the built environment that align with Hong Kong's ongoing economic transformation. Landlords are encouraged to incorporate flexible leasing strategies to meet tenants' rapidly evolving needs.

While commercial real estate investment momentum may take longer to rebound, business prospects emerging from the city's economic transformation and emergence of new trading partners will provide a strong foundation for long-term growth. The expanding local population supported by the inflow of high-quality talent, will drive demand for consumption, services, and real estate, creating attractive investment opportunities for institutional investors looking to capitalise on the city's ambitious infrastructure and development projects.

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