Rental growth accelerates in Central as leasing demand and occupancy further improve

▲ 375K sq. ft.
Overall Net Absorption

16.8% (▼0.4-ppt q-o-q)
Overall Vacancy Rate

▲ 1.6% q-o-q
Overall Rents

Note: All floor sizes mentioned in this report refer to Net Floor Area (NFA). All rents mentioned in this report refer to Net Effective Rent.

Executive Summary

- Gross leasing volume contracted by 21.8% q-o-q to 877,200 sq. ft. in Q1 2026 despite rising 1.6% y-o-y. Central and Greater Tsim Sha Tsui accounted for 50% of quarterly leasing volume as new supply catered to flight-to-quality demand from tenants looking to consolidate and expand.
- Net absorption reached 375,400 sq. ft., a fourth consecutive positive quarter. Over the past four quarters, total net absorption has totalled 2.7 million sq. ft.. Central reported 162,900 sq. ft., marking its fifth consecutive quarter of positive net absorption, fueled by improved occupancy in both the Grade A1 and non-A1 segments. Greater Tsim Sha Tsui logged -45,600 sq. ft., its first negative figure since Q4 2024. Kowloon East experienced negative net absorption as tenants returned previously occupied space after relocating to new offices.
- This quarter's lack of new supply combined with positive net absorption saw vacancy drop 0.4-ppt. to 16.8%, the biggest decline since Q2 2015.
- Overall rents increased 1.6% q-o-q for their strongest growth since Q3 2018. Growth was mainly driven by Central (5.9% q-o-q) and Greater Tsim Sha Tsui (0.9% q-o-q). Rents in Grade A1 buildings in Central reported their strongest gains since Q3 2010, with rents up by 12.1% q-o-q. Rents in all major decentralised submarkets continued to decline.

The Backdrop

- The stock market experienced a volatile first quarter, with the Hang Seng Index reaching 27,968 points in January but subsequently pulling back to 24,788 points, a 3.4% q-o-q decline.
- Despite secondary market fluctuations, Hong Kong's IPO market was robust in Q1 2026, with fund raising hitting about HK$110 billion, a rise of 10X y-o-y and representing 31% of 2025's total. Persistent high IPO volume tends to lead to strong office demand from the financial and professional services sectors.
- The U.S. Federal Funds Rate and Hong Kong's Best Lending Rates remained unchanged in Q1 2026, while the Hong Kong Interbank Offered Rate was reduced by 86bps. Future rate cuts over the remainder of the year will largely depend on inflationary pressures in the U.S., driven by geopolitical uncertainty and volatility in oil prices.
- The central government has launched its 15th Five-Year Plan for the country, which emphasises support for the overseas expansion of Chinese enterprises. This focus is expected to create sustained demand for Hong Kong's financial services, asset management, insurance services, and other related professional services. Hong Kong will unveil its own city-level First Five-Year Plan later in 2026.

Demand and Activity

Gross leasing volume fell 21.8% q-o-q to 877,200 sq. ft. in Q1 2026 despite a rise of 1.6% y-o-y. Central and Greater Tsim Sha Tsui accounted for 50% of leasing volume as new supply catered to flight-to-quality demand from tenants looking to consolidate and expand.

Banking and finance remained the most active sector with 313,400 sq. ft. of leasing volume, representing 36% of the total. The largest transaction this quarter saw a global investment bank lease 187,500 sq. ft. in the upcoming Artist Square Towers in Tsim Sha Tsui West, relocating from Kowloon East. The transaction ensured Greater Tsim Sha Tsui outperformed Central by contributing 30% of total leasing volume, the area's highest share since Q2 2024.

Some noteworthy transactions involving retail and wholesale tenants were completed in Q1 2026, with the sector registering 97,100 sq. ft. or 11% of total leasing volume, its highest since Q1 2024. Conair Far East leased 28,600 sq. ft. at Manulife Place in Kwun Tong for a same-district relocation, while Canon committed to 23,700 sq. ft. in 83 King Lam Street in Cheung Sha Wan.

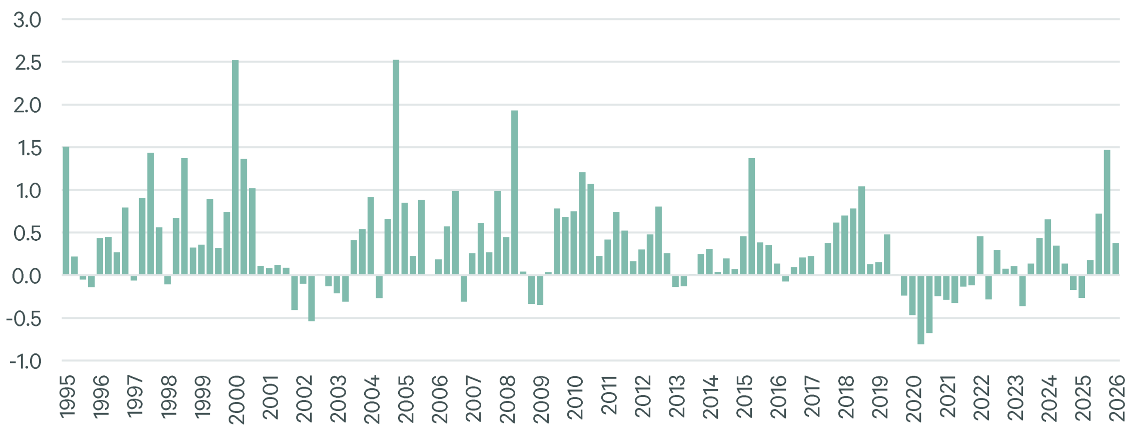
Leasing activity by mainland Chinese firms remained limited, with only 84,100 sq. ft. leased, representing 10% of total volume. Demand primarily came from IT and financial firms. Major deals included Huatai Financial Holdings leasing 17,300 sq. ft. in The Center.

Citywide net absorption registered 375,400 sq. ft., the fourth consecutive quarter of positive net absorption. Over the past four quarters, total net absorption has totalled 2.7 million sq. ft., the highest four-quarter total since 3.1 million sq. ft. was logged between Q4 2017 and Q3 2018.

All submarkets on Hong Kong Island reported positive net absorption, resulting in a total of 441,000 sq. ft.. Central reported 162,900 sq. ft. of net absorption, marking a fifth consecutive quarter in positive territory, fueled by improved occupancy in both the Grade A1 and non-A1 segments. Hong Kong East reported 14,500 sq. ft., the third consecutive quarter of positive net absorption, thanks to improved occupancy in Oxford House and 1111 King's Road.

Greater Tsim Sha Tsui reported -45,600 sq. ft. of net absorption, the first negative quarter since Q4 2024, due to fewer transactions and small deal sizes. Net absorption in Kowloon East was also negative as leasing activity was largely driven by relocations with limited new demand.

FIGURE 1: Quarterly Net Absorption (million sq. ft. NFA)



Source: CBRE Research, Q1 2026.

TABLE 1: Selected Leasing Transactions in Q1 2026

Building	District	Tenant	Size (sq. ft. NFA)
Artist Square Towers	Tsim Sha Tsui West	an investment bank	187,500
One International Finance Centre	Central	Capital Group	31,200
Manulife Place	Kwun Tong	Conair Far East	28,600
83 King Lam Street	Cheung Sha Wan	Canon	23,700
Exchange Tower	Kowloon Bay	Vast Win Development	20,600
One Causeway Bay	Causeway Bay	Standard Chartered Bank	18,700
The Center	Sheung Wan	Huatai Financial Holdings Ltd.	17,300
Lee Garden Three	Causeway Bay	Acclime Hong Kong	15,700
83 King Lam Street	Cheung Sha Wan	Christian Alliance Intl' School of HK	15,000
The Henderson	Central	a hedge fund	14,200

Source: CBRE Research, Q1 2026.

Vacancy

The lack of new supply combined with positive net absorption ensured vacancy dropped 0.4-ppt to 16.8% in Q1 2026. While vacancy fell across all leading Hong Kong Island submarkets, all remained in the double-digits.

Vacancy in Greater Central fell by 1.0-ppt q-o-q to 10.0%, a fifth consecutive quarterly decline and dropping to the lowest level since Q2 2023. Almost half of buildings reported improved occupancy. Core Central vacancy fell to 9.6%, the first time it has been below 10% since Q4 2023, with no Grade A1 buildings recording lower occupancy.

Wan Chai and Causeway Bay saw vacancy decline by 1.3-ppt to 11.0%, the lowest since Q4 2021, mainly driven by improved occupancy in Wan Chai North. Hong Kong East vacancy was largely unchanged at 14.7%.

Negative net absorption ensured Greater Tsim Sha Tsui vacancy edged up by 0.3-ppt to 19.6%, the first growth after falling for four consecutive quarters. Vacancy in core Tsim Sha Tsui increased by 0.3-ppt to 8.2%. Vacancy in Kowloon East increased by 0.7-ppt to 23.6% as tenants returned their previous space after relocating to new premises.

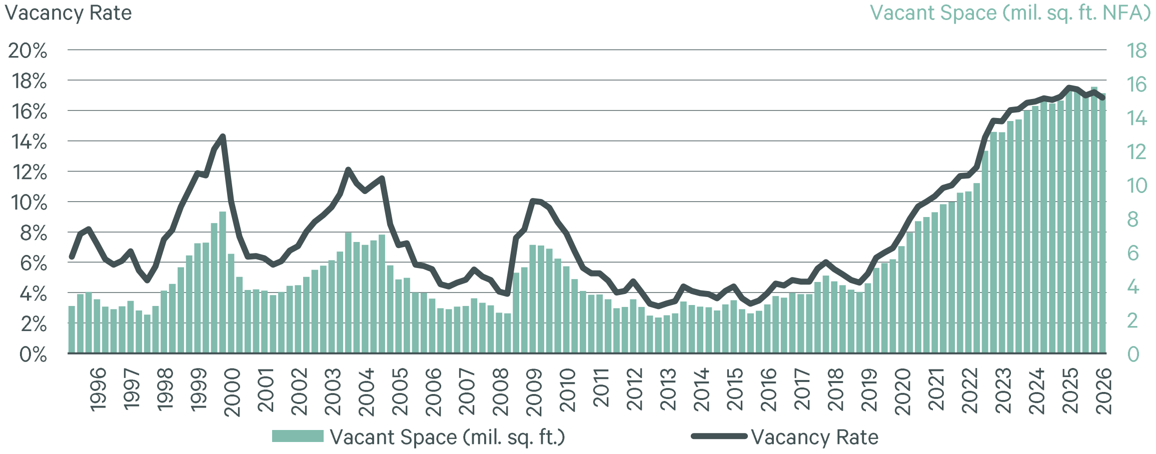
Rents

Improved vacancy and strong growth in Central ensured overall rents increased by 1.6% q-o-q. Rental growth in Central was primarily driven by Grade A1 buildings, for which grew 12.1% q-o-q during the quarter. This marked the largest quarterly increase for these buildings since Q3 2010 and brought the total rental recovery to 19.3% from its lowest point in September 2025. Non-A1 buildings in Central also saw a 1.7% q-o-q rise in rents in Q1 2026.

Outside of Central, rents in Wan Chai and Causeway Bay remained stable, while those in Tsim Sha Tsui increased by less than 1% q-o-q.

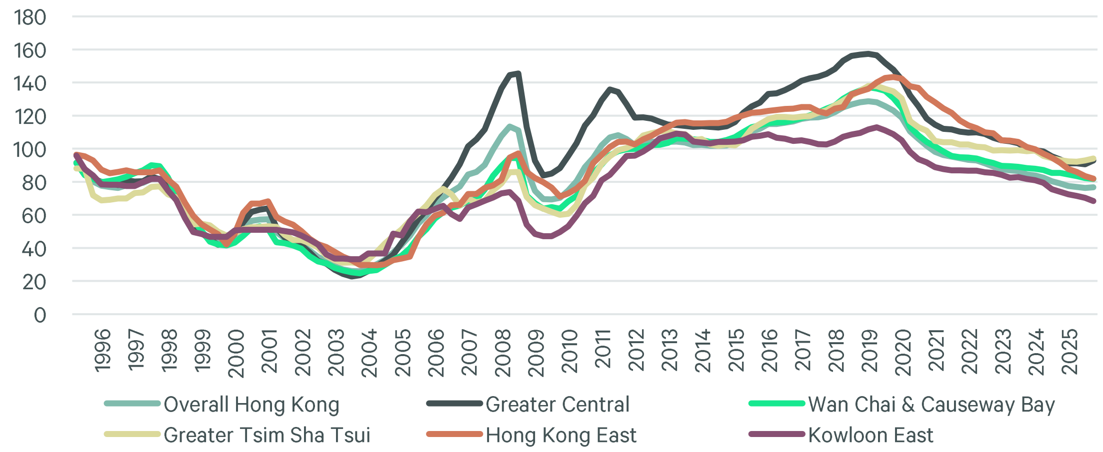
Persistent high vacancy ensured all decentralised submarkets continued to experience rental declines in Q1 2026. Rents in Hong Kong East and Kowloon East dropped by a further 1.7% q-o-q and 1.8% q-o-q, respectively, although this decline moderated compared to Q4 2025.

FIGURE 2: Quarterly Vacancy



Source: CBRE Research, Q1 2026.

FIGURE 3: Quarterly Rental Movement (Index, Q1 1995=100)



Source: CBRE Research, Q1 2026.

Outlook

Current global geopolitical volatility may create opportunities in Hong Kong as international investors seek out safer markets for investments and wealth management. Furthermore, the central government's 15th Five-Year Plan emphasises support for the overseas expansion of Chinese enterprises, which is likely to create consistent demand for Hong Kong's financial services. These services include offshore fundraising, asset management, banking, insurance, and other related professional services. As a result, there will likely be increased demand for prime office space, particularly from banks and other financial services firms.

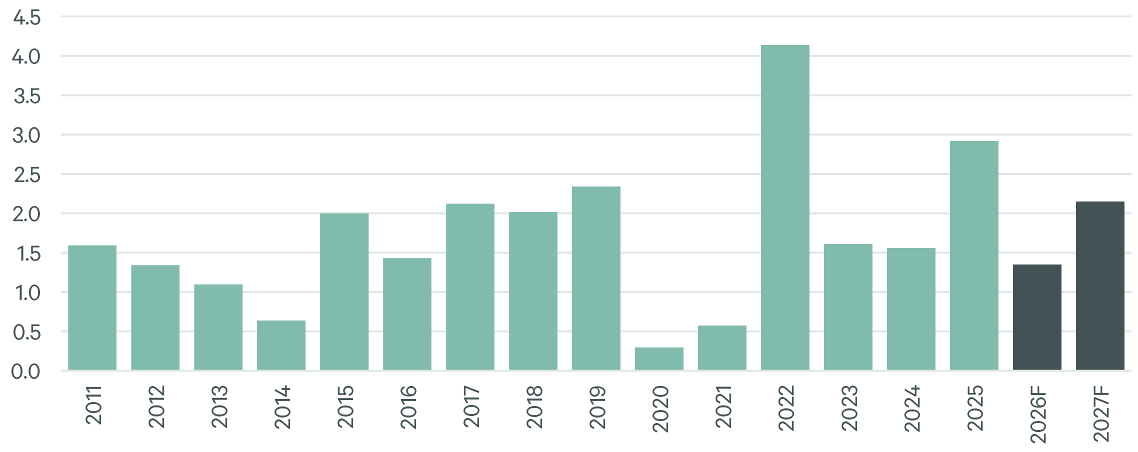
Newer and high-specification buildings in Central and Tsim Sha Tsui West are well-positioned to meet demand from these financial firms. Both submarkets are expected to outperform other districts in 2026, with a flight-to-quality demand expected to continue. Financial firms that recognise the benefits of being located near the High-Speed Rail station and that wish to take advantage of discounted rental rates may consider Tsim Sha Tsui West as a new office destination.

In addition to strong demand from the financial sector, CBRE expects to see upgrading demand from other sectors in decentralised locations due to the narrowing rental gap between Grade A and non-Grade A offices. However, vacancy is set to remain high because of the upcoming 1.4 million sq. ft. of new supply scheduled for 2026, which currently has low pre-commitment rates.

While the strong rental rebound in Grade A1 buildings will further widen the rental gap between Central and other submarkets, this gap remains significantly narrower than it was before the pandemic. While vacancy rate in each submarket remains at a double-digit level, the rental gap is unlikely to lead to another wave of decentralisation in the short term.

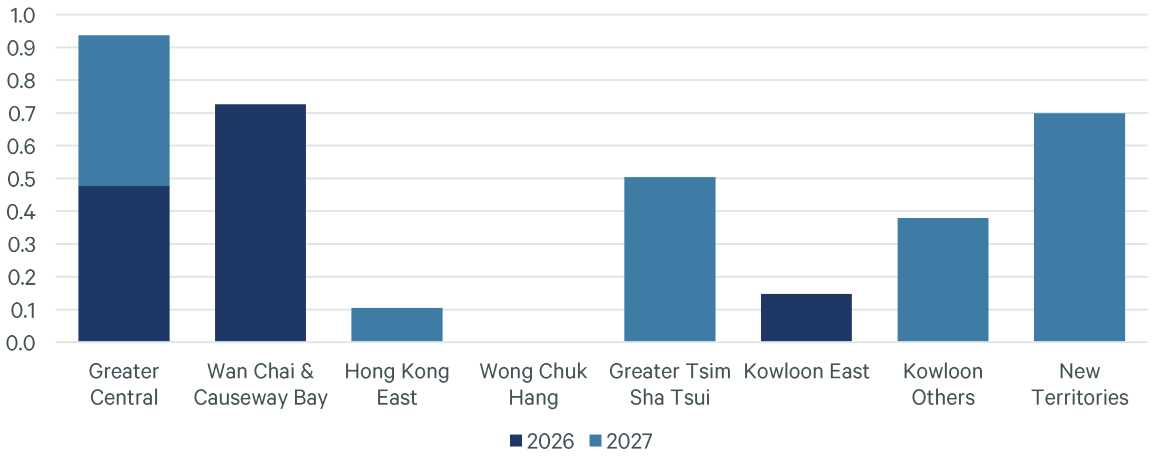
Landlords in decentralised locations will need to remain flexible, indicating potential for further rental cuts. Rental growth in Central and Tsim Sha Tsui is expected to remain positive, primarily due to the strong recovery in selected buildings. Overall rents in Central are projected to increase by approximately 8%-10% this year, particularly driven by growth in rents for Grade-A1 buildings, which could see increments of 15%-20%. However, rental declines in decentralised submarkets will weigh on overall rental growth, resulting in overall Grade A rents falling 1.0-3.0% y-o-y decline for the full year.

FIGURE 4: Grade A Office Supply (million sq. ft. NFA)



Source: CBRE Research, Q1 2026.

FIGURE 5: Two-year Submarket Supply Pipeline (million sq. ft. NFA)



Source: CBRE Research, Q1 2026.

TABLE 2: Rental Performance

Submarkets	Q1 2026 Rental Change (q-o-q)	2025 Full Year Rental Change (y-t-d)	Q1 2026 Net Effective Rents (HK$/sq. ft./mth)	Q1 2026 Net Effective Rents High / Low (HK$/sq. ft./mth)
Overall	1.6%	-2.9%	44.5	127.8 / 13.4
Greater Central	4.5%	-0.6%	75.9	127.8 / 35.7
Wan Chai / Causeway Bay	0.1%	-4.5%	46.3	87.5 / 25.5
Hong Kong East	-1.7%	-10.5%	31.6	50.0 / 18.6
Wong Chuk Hang	-0.9%	-8.4%	21.4	27.4 / 15.2
Greater Tsim Sha Tsui	0.9%	1.0%	45.3	85.9 / 22.3
Kowloon East	-1.8%	-7.9%	21.2	31.7 / 13.4
Kowloon Others	-3.2%	-6.4%	27.2	46.5 / 17.5
New Territories	-2.0%	-4.0%	27.2	33.8 / 17.3

Source: CBRE Research, Q1 2026.

TABLE 3: Net Absorption and Vacancy

Submarkets	Q1 2026 Net Absorption (sq. ft. NFA)	2025 Full Year Net Absorption (sq. ft. NFA)	Q1 2026 Vacancy Rate	Vacancy Change (ppt, q-o-q)	Vacancy Change (ppt, y-o-y)
Overall	375,400	2,101,500	16.8%	-0.4	-0.7
Greater Central	214,100	651,500	10.0%	-1.0	-3.0
Wan Chai / Causeway Bay	142,400	384,300	11.0%	-1.3	-0.7
Hong Kong East	14,500	-45,500	14.7%	-0.1	-0.3
Wong Chuk Hang	69,800	148,900	17.6%	-2.8	-7.0
Greater Tsim Sha Tsui	-45,600	797,000	19.6%	+0.3	+7.4
Kowloon East	-131,000	-3,200	23.6%	+0.7	-0.6
Kowloon Others	132,500	149,000	17.6%	-1.8	-5.3
New Territories	-21,200	19,400	28.8%	+0.4	+0.3

Source: CBRE Research, Q1 2026.

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