MARKET IN MINUTES
Savills Research

September 2025 – Hong Kong Research

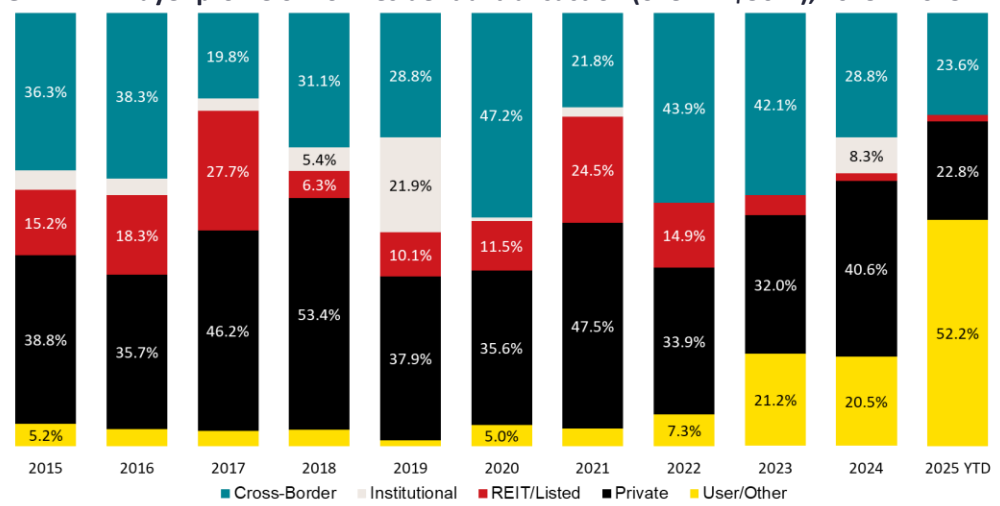
INVESTMENT

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> "The Hong Kong investment market experienced a significant rebound in Q2/2025, fueled by strong equity market performance and a temporary reduction in funding costs, which collectively enhanced investor confidence and transaction activity. While end users continued to be the primary contributors, there was also a notable increase in cross-border capital, predominantly driven by Mainland funds."
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> JACK TONG, SAVILLS RESEARCH & CONSULTANCY

Hong Kong's stock market demonstrated remarkable strength throughout Q2 2025, delivering a year-to-date gain of about 21% by June end—the largest seen since 2021. This resurgence was fueled by global investor interest, especially in light of upcoming IPOs such as Shein, diversified sector growth (technology, consumer staples, retail, and software), and supportive macro policies from Beijing. Monthly revenue in H1 2025 surged 94% year-on-year, with March and April witnessing particular spikes in investment flows and fee income from securities lending. Ample liquidity, driven in part by low deposit returns, steered investors toward equities and, by extension, commercial property assets, underpinning the buoyant sentiment observed in the middle of the year.

GRAPH 1: Buyer profile of non-residential transaction (over HK$50M), 2015 – 2025YTD



Source EPRC, MSCI RCA, Market News, Savills Research & Consultancy

Between January and August 2025, commercial property transaction volume reached approximately HK$21 billion, representing a 22% decline compared to the same period last year. Notably, 75% of these transactions occurred between May and August 2025, highlighting the strong market sentiment driven by a buoyant stock market, temporarily reduced funding costs, and increased availability of discounted properties.

Notably, end users strengthened their dominance in the segment, accounting for about 52% of major transactions, as owner-occupiers actively purchased assets for long-term operational needs rather than speculative or yield-driven motives. Examples from the period include a securities firm's HK$1 billion acquisition of Virtus Medical Centre in Central to establish a new Hong Kong headquarters, epitomizing long-term confidence among strategic end users.

In one highlight transaction, after purchasing Park Aura in April, the co-founder of Meitu acquired an under-construction commercial building at 20-28 Cannon Street, Causeway Bay for HK$750 million from Winland Group, committing further funds for completion. Altogether, the IT executive spent over HK$1.4 billion within six months on Hong Kong Island commercial properties.

Savills Team

Please contact us for further information

Investment & Sales

Peter Yuen
Managing Director
+852 2842 4436
pyuen@savills.com.hk

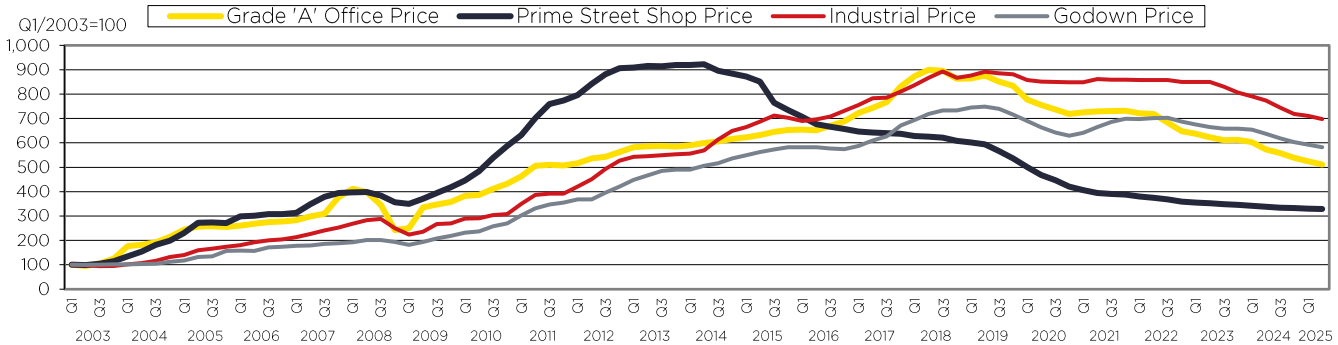
Research

Jack Tong
Director
+852 2842 4213
jtong@savills.com.hk

Savills (Hong Kong) Limited
23/F Two Exchange Square, 8 Connaught Place, Central, Hong Kong
Licence: C-002450

A new student hostel scheme, announced in July, has catalyzed the conversion of commercial properties to student accommodation, reflecting policy support for alternative asset classes. Five entities—including hotels, serviced apartments, and co-living spaces—have traded hands since the announcement. Significant examples include the sale of Hotel Ease Mong Kok for HK$435 million (HK$2.22 million per key) and The Nate for HK$272 million (HK$3.83 million per room), confirming investor appetite for adaptive reuse and underscoring broader market diversification.

GRAPH 2: Commercial and Industrial Price Indices, Q1/2003 – Q2/2025



Price Change	Q2/2025	Q1/2025	2024	From Peak
Office	-2.4%	-2.8%	-12.0%	-43.1% (Q2/2018)
Prime Street Shop	-0.6%	-0.6%	-3.8%	-64.4% (Q2/2014)
Industrial	-1.8%	-1.2%	-10.8%	-21.8% (Q3/2018)
Warehouse	-2.0%	-1.8%	-8.3%	-22.3% (Q2/2019)

Source Savills Research & Consultancy

In stratified office segments, end users capitalized on substantial market corrections, securing premises at discounts of 50% to 60% from the 2018 peak. Buyers represented a wide spectrum—from educational institutions (e.g., HKUST acquired the 4/F United Centre for HK$354 million, or HK$11,283/sq ft), to professional associations (e.g., Law Society of Hong Kong purchased the 26/F of The Center for HK$345 million, HK$13,811/sq ft), and public organizations (e.g., Employees Retraining Board bought multiple floors at First Group Centre for HK$510 million, HK$5,985/sq ft). The primary sellers were private investors and mid-cap developers navigating financial distress, illustrating the ongoing churn among holders of distressed assets.

Retail market deals in the HK$30 million to HK$100 million band became more prevalent, typically yielding 4% to 6%. Activity has been boosted by tourism recovery and declining retail rents, with investors focusing on core-district shops and select trophy assets. While high-value deals above HK$50 million remain rare, competition for well-tenanted retail properties with stable yields is increasing as capital seeks income-generating opportunities within the current cycle.

A pivotal factor behind Q2's investment surge was the temporary decline in funding costs. The 1-month HIBOR, a key reference rate for commercial loans, dipped below 1% during the quarter before rebounding above 3% by August as the Hong Kong Monetary Authority defended the dollar peg and drained excess bank liquidity. The normalization in funding costs and heightened bank caution toward commercial real estate lending now threatens to temper future investment momentum. As borrowing costs rise, landlords may need to craft long-term fixed lease packages anchored by reliable tenants to attract buyers in an environment demanding greater income certainty.

Looking ahead, the commercial property market is poised to be primarily influenced by cash-rich end users who are not constrained by financing or immediate rental return requirements. These buyers are expected to become more discerning, focusing on deeply discounted or distressed assets from local investors, investment funds, mid-cap developers, or receivers. Demand for prime investment assets is likely to remain strong, though pricing discipline will be essential as economic and funding challenges adjust risk appetites and return expectations throughout 2025.

Distress-driven asset sales, particularly among financially stretched property investors and mid-tier developers, are expected to continue, potentially attracting both domestic and opportunistic international capital. Strategic buyers will actively seek unique repositioning opportunities in student accommodation, data infrastructure, and mid-market retail, while end-user acquisitions in the office sector will continue to support robust transaction volumes.

Savills Price Forecasts	2H2025	Savills Rental Forecasts	2H2025
Grade A Office	-5%	Grade A Office	-5%
Prime street shop	0% to -5%	Prime street shop	0% to -5%