

# Hong Kong Monthly

August 2020

## OFFICE

Strata-title offices saw steep rent reductions

### Hong Kong Island

With the coronavirus transmission rate started increasing again in July, working from home has become more widely adopted. As some businesses have scaled back through staff cuts, more and more companies are reconsidering their workplace strategy – in particular, shrinking their office footprint and raising the desk-sharing ratio, instead of the conventional office setting of one-person workstations, thereby reducing overhead.

With Hong Kong business activity contracting further in July, landlords, especially in the non-core districts, became more aggressive in offering rental reductions to prospective tenants, resulting in significant rental declines in July. Wan Chai recorded a 6.9% QoQ drop, while Causeway Bay slipped 11.8% QoQ. There was also a steep drop in strata-title rentals. For instance, rentals plunged 8.3% QoQ in The Center and 15.4% QoQ in the Far East Finance Centre, as individual landlords may have lower risk-aversion capability.

Amid the current market downturn and mounting uncertainty, we expect landlords to be even more flexible in lease negotiations and to offer larger rent reductions. In view of this, we adjusted our full-year forecast for the overall Hong Kong Island office rental market further downward from a drop of 10-12% to 15-18%.

### Kowloon

July leasing activity in Kowloon continued to be low. Most of the deals were dominated by renewal leases of small- to mid-size units of less than 5,000 sq ft. As companies have sought bargain deals in the recent down market, several entire-floor new letting cases were recorded in buildings with major rent adjustments. For example, an Italian architectural and engineering company leased a 24,000-sq-ft floor in One Kowloon, and an Austrian accessory brand rented a 27,300-sq-ft floor in One Bay East.

As the decentralisation trend gains steam, it is noteworthy that the vacancy rate

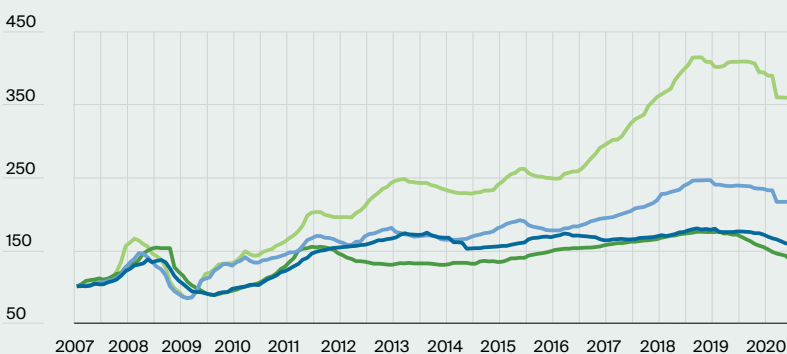
in Tsim Sha Tsui soared from 2.9% to 7.5% within a year, reaching a 15-year high. While in non-core districts such as Kowloon East, the vacancy rate remained at a double-digit rate.

Given the sluggish economy, demand for office space is expected to remain weak in the near term. Like rental levels in the Hong Kong Island market, rents in the Kowloon office market are expected to continue to drop, but given the decentralisation trend, the extent of the adjustment will continue to vary significantly by district.

Fig 1. Grade-A office rents and prices

2007 = 100

■ Hong Kong Island price index     ■ Hong Kong Island rental index  
■ Kowloon price index             ■ Kowloon rental index



Source: Knight Frank Research

## Grade-A office market indicators (July 2020)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	145.5	-1.4	-23.3	-	-	-
Traditional Central	110.6	-0.4	-20.6	-	-	-
Overall Central	122.4	-0.8	-21.7	38,235	-0.8	-12.9
Admiralty	83.8	-0.9	-23.9	33,815	0.0	-13.7
Sheung Wan	69.0	-1.8	-17.6	30,643	-0.5	-10.8
Wan Chai	63.0	-2.6	-19.0	26,950	0.0	-11.6
Causeway Bay	65.2	-3.7	-18.1	23,639	-0.3	-10.7
North Point	45.6	0.0	-11.9	-	-	-
Quarry Bay	50.1	-1.5	-10.0	-	-	-
Tsim Sha Tsui	61.7	-3.3	-14.5	16,203	-0.9	-11.3
Cheung Sha Wan	30.4	-0.5	-8.9	-	-	-
Hung Hom	43.2	-0.4	-3.0	-	-	-
Kowloon East	29.3	-0.6	-8.0	12,135	-1.0	-8.4
Mong Kok / Yau Ma Tei	55.5	-0.9	-7.2	-	-	-

Source: Knight Frank Research  
Note: Rents and prices are subject to revision.

# RESIDENTIAL

## Coronavirus third wave curbs purchase sentiment

The resurgence in the number of COVID-19 cases in Hong Kong has put heavy pressure on the local residential market. Given stricter social-distance restrictions imposed by the government, transaction volume dropped by 12% MoM to 6,133 cases in July. According to the latest statistics from the Rating and Valuation Department, mass residential prices edged up by 0.1% in June, at a time when the COVID-19 outbreak was still under control.

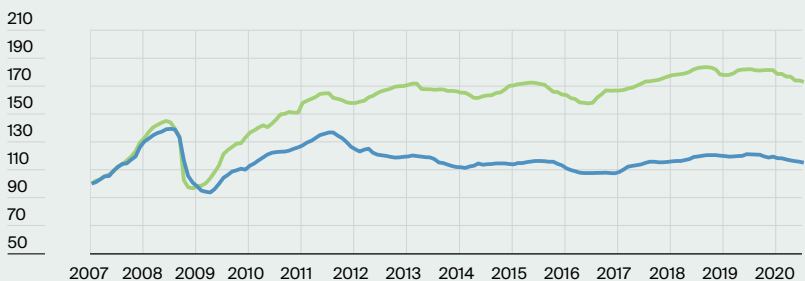
As the COVID-19 situation drastically worsened in July, purchase sentiment in the luxury market cooled instantly. We saw a significant drop in the number of enquiries and requests for viewing from prospective buyers. However, there were not many new property listings since the holding power of homeowners remained strong. This indicates that many homeowners are still optimistic about the mid- to long-term outlook for the luxury market.

The luxury leasing market, however, was more active, with local moves dominating leasing activity. Tenants who could maintain their budget level took advantage of the low market to upgrade their premises. Falling rents

**Fig 2. Luxury residential rents and prices**

2007 = 100

Price index Rental index

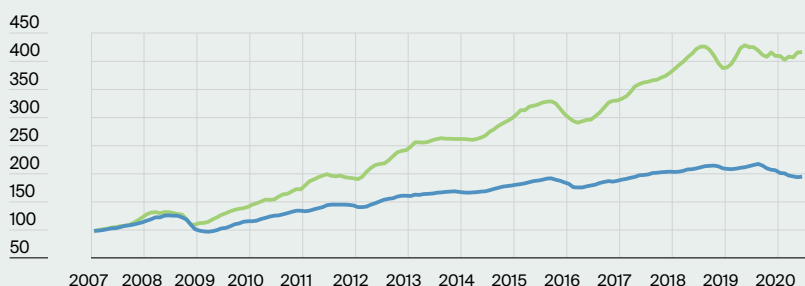


Source: Knight Frank Research / Rating and Valuation Department

**Fig 3. Mass residential rents and prices**

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

have allowed some tenants to move from an apartment to a house or upgrade to a premier building. Some expatriate tenants trimmed their budgets, however, as more companies looked to reduce costs amid the recession.

As Hong Kong is still facing a third wave of COVID-19 infections, the residential sales market is expected to remain quiet in August. Although the rising unemployment rate will curb purchase sentiment in the short term, the

prolonged low interest rate environment will still be a favourable factor. We expect prices of both mass and luxury residential properties to drop by about 5% in full-year 2020.

### Selected residential sales transactions (July 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Overthorpe	House	2,387	171	71,638
The Peak	Bayview	House	3,018	160	53,015
Ho Man Tin	Ultima	Phase 1 / tower 6 / high floor / unit A	1,911	83.8	43,851
Happy Valley	47A Stubbs Road	High floor / unit B	2,600	110	42,308
Mid-Levels Central	Tregunter	Tower 3 / high floor / unit D	2,407	86	35,729

Source: Knight Frank Research  
Note: All transactions are subject to confirmation.

### Selected residential lease transactions (July 2020)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 2 / high floor unit	2,596	140,000	54
Island South	Parkview Heights	Tower 15 / low floor / unit 85	2,169	113,000	52
Mid-Levels East	Bamboo Grove	Block 82 / high floor / unit 01	2,114	105,400	50
The Peak	Chelsea Court	Duplex unit B	3,100	144,000	46
Mid-Levels Central	Kennedy Heights	High floor / unit A	2,929	130,000	44

Source: Knight Frank Research  
Note: All transactions are subject to confirmation.

# RETAIL

## Unprecedented landscape in Central amid turbulent times

Hong Kong's retail market continued to struggle in a difficult season, as the number of infection cases has spiked since mid-July. According to the latest official statistics, retail sales valued dropped by 24.8% YoY in June to HK\$26.5 billion, a smaller decline compared to that in the previous four

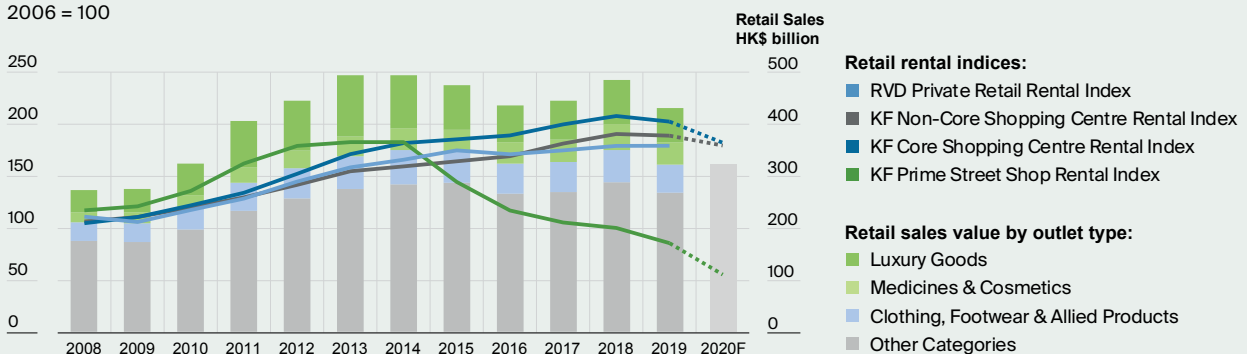
months. The value of restaurant receipts dropped by 25.9% YoY to HK\$21.2 billion in Q2, following a 31.3% YoY decline in Q1.

With the retail sector facing a turbulent time since the middle of last year, Queen's Road Central, one of the prime shopping streets in the city, has witnessed an

all-time high vacancy rate. It used to be dominated by luxury shops and flagship stores of first-tier international brands. But with shops closing one after another, including GAP, Adidas, TOPSHOP and Esprit, in the past couple of months due to the tough retail environment, our

**Fig 4. Retail rents and sales**

2006 = 100



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department

research shows 14 vacant shops on the street, an unprecedented situation in this prestigious area.

With more luxury brands shutting down stores, Queen's Road Central has witnessed a reshuffling of the tenant mix, shifting towards more mass and affordable brands. For instance, Japanese discount retailer Don Don Donki rented a space of 17,800 sq ft at 100 Queen's Road Central for its fifth

outlet in the city. Affordable French sporting goods retailer Decathlon rented the 9,300 sq-ft shop previously taken by MCM on the ground floor and basement of 30 Queen's Road Central. Based on market news, the rent is reported to be at least 50% less than that paid by MCM, falling back to the level during the SARS period in 2003–2004.

Given the third wave of COVID-19 infections, the F&B sector will continue

to suffer the hardest hit, and restaurant receipts are expected to further contract in Q3. In our view, as consumption sentiment remains weak, the retail market is unlikely to hop on the trajectory of recovery for the rest 2020, and the overall vacancy rate is expected to climb to above 11% by the end of 2020, which would be higher than the 10.8% rate during the SARS period. Therefore, we may see more cases of substantial rent cuts later this year.

## Retail sales by outlet type (June 2020)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.5	9.4	24.4	51.7	-56.5
Clothing, footwear and allied products	2.7	10.1	-13.5	49.4	-39.0
Department stores	3.3	12.6	-7.6	39.5	-7.0
Fuel	1.0	3.7	17.2	27.5	8.3
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.8	10.5	-3.2	3.3	-13.1
Consumer durable goods	4.2	15.8	-4.6	7.0	-10.4
Supermarkets	4.7	17.6	-1.8	-8.8	4.5
Others	5.3	20.2	3.1	15.4	-35.0
All retail outlets	26.5	100.0	-1.0	15.4	-24.8

Source: Knight Frank Research / Census and Statistics Department

**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**

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