

Hong Kong Monthly

October 2020

OFFICE

Multinational financial institutions give up more office space

Hong Kong Island

Compared to the first two quarters of the year, the rental declines in the overall Hong Kong Island started to narrow in Q3, registering a 2.4% QoQ drop. Non-core districts such as Quarry Bay and Wong Chuk Hang recorded relatively mild quarterly adjustments, with a QoQ drop of 1.5% and 1.3% respectively.

As the COVID-19 pandemic showed signs of abating in September, potential tenants became more active in on-site inspections, resulting in growth in the number of transactions. Most of the new letting cases during the month were small to mid-sized premises of less than 3,000 sq ft in affordable Grade-A buildings at a relatively attractive rental level.

However, leasing activity and demand for premium Grade-A office buildings remained weak. Some sizeable financial institutions, who are heavily impacted by the coronavirus recession started to give up their office space. With the large vacant space to be returned by Nomura and Deutsche Bank due to downsizing, and from Westpac as they are closing their operations in Hong Kong. As such, we expect the vacancy rate on Hong Kong Island increase in the coming months. The rental levels, particular in the CBD, will continue a downward trend.

Kowloon

Like Hong Kong Island, Kowloon witnessed a surge in the number of inspections, as the number of local COVID-19 infections fell. Most of the new lettings recorded during the month were small units of around 3,000 sq ft in Kowloon East and West at below HK\$25 per sq ft.

Despite the rebound of inspection activity, tenants in a cost-conscious environment favour a lease renewal over a relocation. Landlords are aware of this prevailing trend. As a result, they continue to compete by offering more flexible incentives to tenants, such as offering rent free period for renewal cases, which was not common before COVID-19. Two large-sized lease renewal cases that

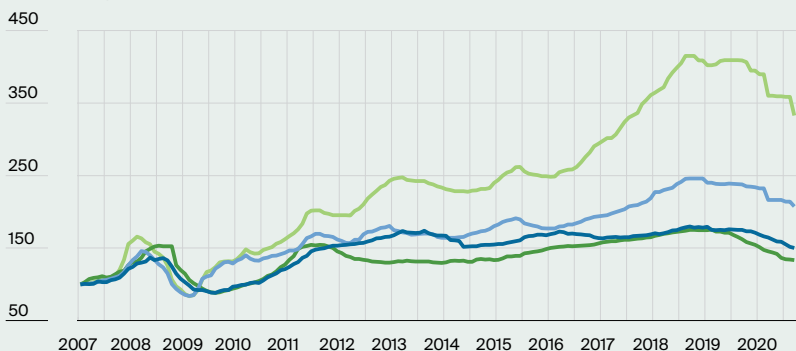
reflected the trend of landlords offering preferential renewal terms to existing tenants include ICBC Bank's lease of a 136,930 sq ft space in Millennium City in Kwun Tong and Spanish apparel company Tendam's lease of a 11,000 sq ft space in Exchange Tower in Kowloon Bay.

Looking into Q4, sizeable companies continue to be cautious in their real estate plan. Tenants start to compare leasing options in a more detailed manner to seek the optimum long-term solution. As such, together with the rebound of inspection activity and the increasing incentives from landlords, the market will continue to be very competitive and rent will remain under pressure towards the end of the year.

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 (September 2020)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	143.4	-1.5	-22.0	-	-	-
Traditional Central	109.9	-0.6	-17.6	-	-	-
Overall Central	121.3	-1.0	-19.4	34,563	-9.6	-21.0
Admiralty	83.5	-0.4	-17.0	30,627	-9.4	-21.8
Sheung Wan	66.1	-0.6	-20.4	29,147	-4.9	-14.9
Wan Chai	62.2	-0.6	-17.9	25,683	-4.7	-15.7
Causeway Bay	64.6	-0.6	-16.9	22,199	-6.1	-16.0
North Point	45.6	0.0	-8.3	-	-	-
Quarry Bay	50.1	0.0	-10.0	-	-	-
Tsim Sha Tsui	59.2	-0.5	-17.7	15,661	-3.3	-14.2
Cheung Sha Wan	30.0	0.0	-8.9	-	-	-
Hung Hom	42.4	0.1	-4.5	-	-	-
Kowloon East	28.7	-1.3	-9.8	11,817	-2.6	-10.1
Mong Kok / Yau Ma Tei	53.7	-2.6	-11.1	-	-	-

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

RESIDENTIAL

Residential transaction volume picks up amid sliding prices

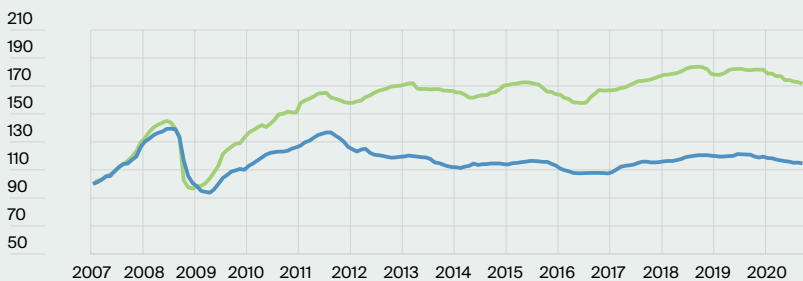
With the COVID-19 outbreak easing and some of the social-distancing restrictions lifted, purchase sentiment in the residential market improved. The sales market became more active in September, with transaction volume increasing by 15% MoM to 5,024 units. The primary market, in particular, was under the spotlight, given a number of new project launches, including CK Asset's Sea to Sky in Lohas Park, Sun Hung Kai Properties' Wetland Seasons Park in Tin Shui Wai, and ITC Properties and URA's Hyde Park in Cheung Sha Wan. Most recently, the first two batches of flats at New World Development and MTR's The Pavilia Farm in Tai Wai was heavily oversubscribed by 57 times, the highest subscription rate since 1997.

However, the economic recession and mounting market uncertainty continued to weigh on housing prices. According to the latest official statistics, overall residential prices dropped by 1.1% MoM in August. This was the largest decline since February, resulting in a price gain of only 0.4% so far this year. In the luxury market, some homebuyers successfully leveraged the price correction amid a more volatile market to get on the property ladder, most targeting apartments priced at HK\$20–30 million.

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

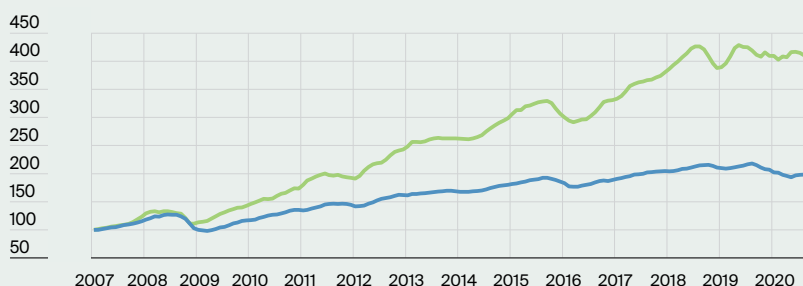


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

The leasing market regained momentum during the month. Flats that were put on the market were leased out quickly since landlords were willing to negotiate. There were more enquiries from expatriates who plan to come to Hong Kong early next year. Serviced apartments offered deeper

discounts, as they faced competition from hotels offering long-stay promotion packages and other attractive offers.

Looking ahead, the primary sales market is expected to remain active with a few new projects scheduled for launch in the

fourth quarter. Developers may provide more incentives and discounts to speed up sales before the year end. With more units available for sale and protracted negative market factors, we expect housing prices to drop by 3–5% in the rest of 2020.

Selected residential sales transactions (September 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Island South	Island Grove	House	3,148	285	90,534
Shek Kip Mei	Mont Rouge	House	2,850	169	59,298
Jardine's Lookout	Dukes Place	Duplex unit B	2,849	168	58,968
The Peak	Carolina Garden	Block B / high floor	2,448	143	58,415
Kowloon Tong	28 La Salle Road	House	5,230	177	33,843

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

Selected residential lease transactions (September 2020)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	The Lily	Tower 1 / high floor / unit B	2,647	180,000	68
Island South	Bel-Air on the Peak	Tower 3 / low floor / unit B	1,985	105,000	53
Mid-Levels Central	Queen's Garden	Block B / low floor	2,255	110,000	49
Island South	127 Repulse Bay Road	Low floor / unit B	2,333	100,000	43
Island South	Pacific View	Tower 3 / high floor / unit A	2,692	108,000	40

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

RETAIL

Daily necessities stores expand in prime locations amid the pandemic

Hong Kong's retail market remained weak amid the economic recession, absence of inbound tourism, and continuing social-distancing restrictions. According to the latest official statistics, retail sales value dropped by 13.1% YoY to HK\$25.6 billion in August. The drop narrowed compared to previous months

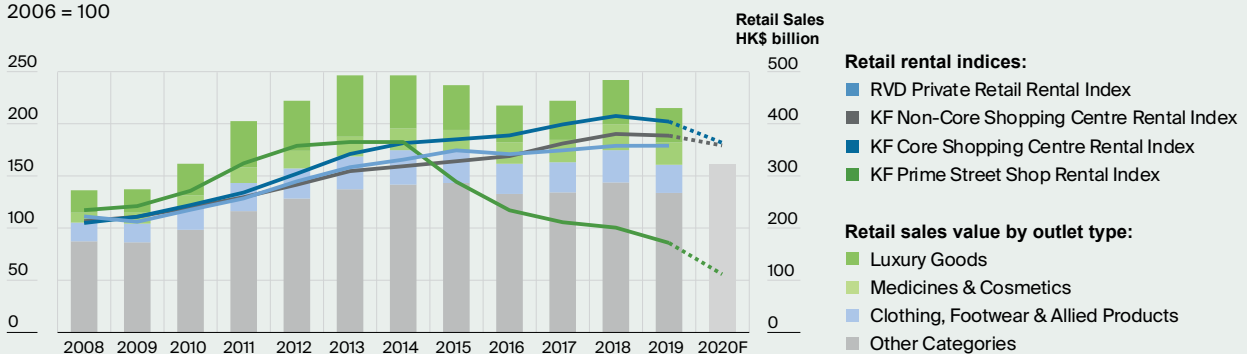
because of the low base effect. Retail sales value in the first eight months of the year totalled HK\$213 billion, down 30.2% YoY.

Without inbound tourists, local consumption has become the sole constituent of retail sales. Sales of categories such as groceries and fresh

food have been relatively more resilient. Retail sales figures from January to August show that supermarket sales value increased by 12.1% YoY, while the sales growth in the categories of fish, livestock and poultry, fresh and frozen, led all classes, rising 15.0% YoY.

Fig 4. Retail rents and sales

2006 = 100



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

While many retailers have struggled to stay afloat amid the pandemic, some supermarket and grocery retailers have defied the market downturn by expanding their store networks. One notable example is the rapidly expanding Japanese discounted retailer Don Don Donki. After its debut in Hong Kong in July 2019, the retailer recently announced the opening of three more outlets in early 2021.

Prime shopping streets such as Queens Road Central and Russell Street have seen the most significant reshuffling of tenant mix in recent history, with more mid-priced brands entering the streets, and luxury brands exiting. Supermarkets and shops selling necessities that previously could afford rents only in neighbourhood or community malls are now showing their presence in prime

street locations, given the significant downward rental corrections.

With vacancy rates in prime streets still hovering at the 20–25% level, prime street rents are expected to continue to face heavy downward pressure for the rest of 2020.

Retail sales by outlet type (August 2020)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.5	9.6	-2.3	22.5	-37.7
Clothing, footwear and allied products	2.0	7.9	-18.0	-34.8	-32.3
Department stores	2.6	10.3	-6.1	-27.4	-9.2
Fuel	0.8	3.3	-8.7	-1.3	-4.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	11.6	11.0	3.1	-15.7
Consumer durable goods	4.7	18.2	7.5	6.0	8.3
Supermarkets	5.2	20.2	-6.4	9.0	10.8
Others	4.8	18.8	-8.2	-7.3	-22.4
All retail outlets	25.6	100.0	-3.4	-4.6	-13.1

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.

Knight Frank Research



Martin Wong
Associate Director, Research & Consultancy,
Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com

Commercial Agency

Paul Hart (E-127564)
Executive Director, Greater China,
Head of Commercial
+852 2846 9537
paul.hart@hk.knightfrank.com

Wendy Lau (E-141423)
Executive Director
Hong Kong Office Services
+852 2846 4988
wendy.lau@hk.knightfrank.com

Patrick Mak (E-187858)
Head of Kowloon Office Services &
Head of Tenant Representation, Greater China
+852 2846 0628
patrick.mak@hk.knightfrank.com

Residential Agency

Maggie Lee (E-076435)
Senior Director, Head of Residential Agency
+852 2846 9550
maggie.lee@hk.knightfrank.com

Retail Services

Helen Mak (E-087455)
Senior Director, Head of Retail Services
+852 2846 9543
helen.mak@hk.knightfrank.com

Valuation & Advisory

Thomas Lam (S-372521)
Executive Director, Head of Valuation &
Advisory
+852 2846 4819
thomas.lam@hk.knightfrank.com

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