

Hong Kong Monthly

December 2020

OFFICE

Lower rents attract increasing presence of Chinese Mainland tenants

Hong Kong Island

Grade A office rentals extended their downward trend in November, albeit with a less significant rental drop than in the previous quarters. Rents in the Central and Admiralty CBD fell by 1.2% and 2.3% MoM respectively, while the submarkets remained under pressure, as demand was weak.

Multinational companies have adopted a wait-and-see approach regarding their real estate plans amid the economic recession, while many Chinese Mainland tenants have taken advantage of the downbeat environment to expand their presence in Hong Kong. We note that the proportion of Mainland tenants in Central increased from 5% in 2008 to 34% at present. The majority of them are in the banking and finance sector, accounting for nearly 30% of new lettings in 2020 and growing tenfold in the past decade.

Stepping into 2021, landlords especially in the core districts are expected to continue to offer competitive packages to retain cost-conscious tenants and fill vacant space. We expect rents to fall by 5–10% in core districts and decline by 0–3% in the decentralised areas in the coming year.

Kowloon

The majority of leasing transactions in November involved office space of

3,000–5,000 sq ft., and most tenants maintained their rental budget at HK\$15–HK\$25 per sq ft. As Kowloon East districts such as Kowloon Bay and Kwun Tong offered more affordable consolidation options, activity level remained high in these decentralised areas.

Recent transactions were dominated by renewals, as companies were reluctant to spend a considerable amount on relocation. However, some sizable companies were still looking to relocate within the same district to seek higher office quality at the same or lower rent. For instance, a local construction materials company, Man Fai Tai,

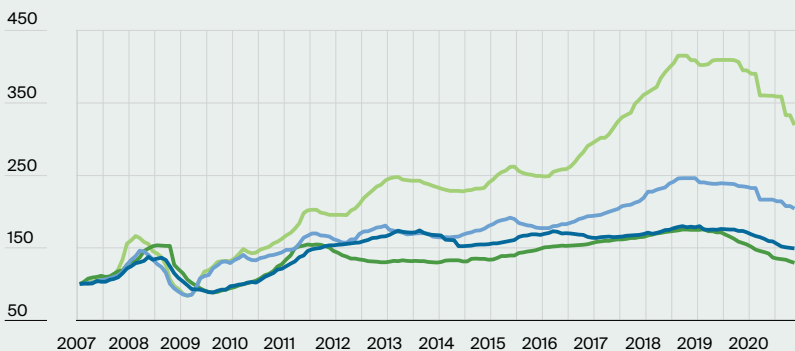
relocated and expanded its office space in Kwun Tong during the month. It rented a large floor area of 25,000 sq ft in NEO at HK\$25.5 per sq ft.

Although the economy will remain exposed to substantial uncertainty in the near term, we expect early signs of recovery towards mid-2021 once effective vaccines become available. We expect Kowloon office rents to fall moderately in the first three quarters and expect a rebound in Q4 2021. Kowloon Central districts such as Tsim Sha Tsui and Mong Kok are expected to see an increase in rents of 2–5%, and overall Kowloon office rents are expected to increase slightly by 1–3% in 2021.

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 (November 2020)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	139.6	-0.8	-14.2	-	-	-
Traditional Central	106.5	-1.4	-19.0	-	-	-
Overall Central	117.7	-1.2	-17.1	33,063	-4.3	-22.5
Admiralty	79.8	-2.3	-18.4	29,501	-3.7	-20.7
Sheung Wan	60.4	-4.0	-26.7	27,647	-5.1	-18.3
Wan Chai	59.5	-2.9	-20.1	24,748	-3.6	-15.4
Causeway Bay	64.0	0.7	-17.7	21,699	-2.3	-17.3
North Point	44.2	-1.8	-10.7	-	-	-
Quarry Bay	49.9	-0.3	-8.4	-	-	-
Tsim Sha Tsui	58.8	-0.6	-16.9	15,209	-2.9	-15.4
Cheung Sha Wan	28.7	-3.1	-12.9	-	-	-
Hung Hom	41.9	-0.5	-8.5	-	-	-
Kowloon East	28.4	-0.2	-10.3	11,817	0.0	-9.3
Mong Kok / Yau Ma Tei	53.0	-2.1	-11.7	-	-	-

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

RESIDENTIAL

Fourth wave of COVID-19 dents market sentiment

With a fourth COVID-19 wave hitting Hong Kong in late November, the residential market turned quiet again. Purchase sentiment in the primary market cooled down after brisk sales in November. According to the Land Registry, 6,070 residential transactions were recorded in November, an increase of 22.6% MoM. The latest official statistics show that overall residential prices remained largely stable in October, edging down 0.6% MoM, which has resulted in a 0.4% gain so far this year.

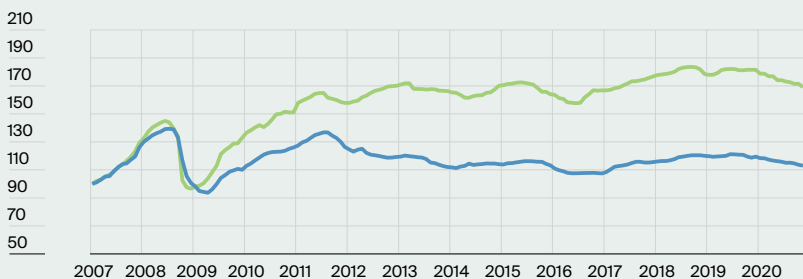
With stricter social-distancing restrictions in place, activity in both the sales and leasing market slowed down. Potential buyers and tenants adopted a wait-and-see attitude, resulting in fewer queries and requests for flat viewing. However, there were still notable transactions in the primary luxury market. For instance, transactions in Central Peak at Stubbs Road reached a record high in Mid-levels East, with a 2,104 sq ft unit selling for HK\$188 million or HK\$89,354 per sq ft, suggesting demand for high-quality prime properties persists.

This year's new construction and completion volume has fallen short of the

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

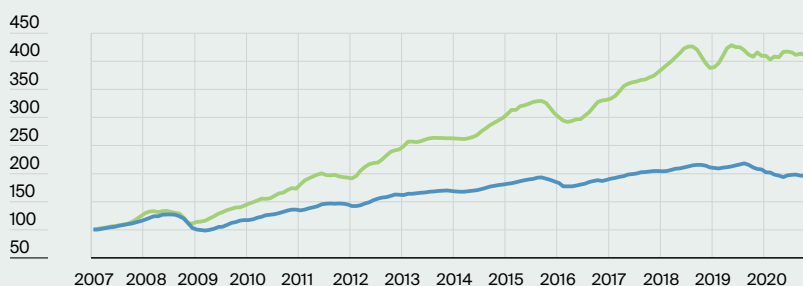


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

targets because of the pandemic. A total of 13,685 units were completed in the first 10 months this year, 35% lower than the target. In Q1–3 2020, construction started on 6,345 private housing units, representing a decrease of 14% YoY from the 7,395 units in the same period last year, and hitting a six-year low. This will

exacerbate the supply shortage situation in the next couple of years.

Looking ahead, the high unemployment rate and the economic recession will continue to weigh on the housing market. Large-scale layoffs and unpaid leave will persist in 2021. Salary increments are

expected to be very small or non-existent, which will undermine purchasing power. We expect mass residential property prices to drop by 5% next year. We expect prices in the luxury housing market to remain flat or fall by 5% at most, given the significant reduction in the number of Chinese Mainland buyers.

Selected residential sales transactions (November 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Mid-Levels East	Central Peak	Alpex II / Manor A	2,104	188	89,354
Island South	8 Deep Water Bay Drive	Tower 2 / mid floor / unit D	2,865	180.5	63,000
Island South	Residence Bel-Air	Phase 3 / house	3,308	180	54,414
Mid-Levels Central	Dynasty Court	Tower 2 / high floor / unit A	2,141	106.7	49,837
Island South	Redhill Peninsula	House	3,142	100	31,827

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

Selected residential lease transactions (November 2020)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels Central	Branksome Crest	Mid floor / unit A	1,674	123,000	73
Island South	8 Deep Water Bay Drive	Tower 1 / mid floor / unit A	3,302	220,000	67
Mid-Levels Central	3 MacDonnell Road	Mid floor / unit A	2,276	130,000	57
Island South	The Repulse Bay - Nicholson	High floor / unit B	2,217	126,500	57
Island South	The Lily	Tower 3 / mid floor	2,529	133,000	53

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

RETAIL

Landlords' promotional coupons successfully boost consumer spending

Hong Kong's sluggish retail market showed early signs of easing. According to the latest official statistics, retail sales value dropped by 8.8% YoY to HK\$27.4 billion in October. Although the sales figure remained on a protracted

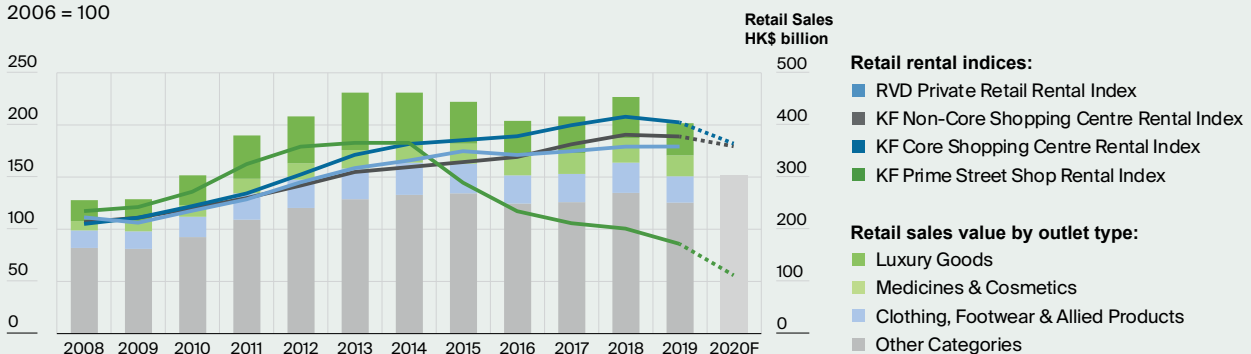
downtrend, this was the smallest fall in the past 16 months. Taking into consideration the current evaporation of tourist spending, which accounted for about 25% of local retail sales value in the previous year, the single-digit fall in retail

sales compared to last year indicates that domestic consumption has strengthened.

The latest statistics also show a notable improvement in retail sales in certain categories. For example, the sales value

Fig 4. Retail rents and sales

2006 = 100



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

of department stores increased by 11.7% YoY in October, compared to a 5.0% YoY increase in September. The drop in sales of clothing, footwear and allied products also narrowed to 10.8% YoY in October from a 19.5% YoY drop in September.

In the subdued retail environment, landlords and tenants actively launched various promotional campaigns to stimulate consumer spending. For

example, some shopping mall landlords offered substantial discounts to customers by giving out cash coupons to drive sales and foot traffic. Department stores also held large-scale sales promotions to boost revenue. Coupled with the fact that local consumers cannot travel abroad this year and are thus staying in Hong Kong during the holidays, they have significantly increased their spending in the city.

Christmas is a typical peak season for the retail market, but the fourth wave of the COVID-19 epidemic has dented consumption sentiment. However, consumers have become more used to shopping and dining with the social distancing rules than during previous waves. We expect the continued downtrend in retail sales to narrow in the coming months. In 2021, we expect to see a smaller decline in overall retail rents, dropping 10–15%.

Retail sales by outlet type (October 2020)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.9	10.5	5.1	14.2	-26.5
Clothing, footwear and allied products	2.6	9.6	11.3	6.9	-10.8
Department stores	3.2	11.7	7.4	14.2	11.7
Fuel	0.9	3.3	1.9	-0.3	-3.7
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.0	11.1	-10.6	13.6	-6.5
Consumer durable goods	4.9	17.9	17.4	13.3	-14.4
Supermarkets	4.6	16.8	-1.9	-16.7	2.5
Others	5.3	19.1	8.9	0.3	-11.1
All retail outlets	27.4	100.0	5.2	3.6	-8.8

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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