

# Hong Kong Monthly

January 2021

## OFFICE

Professional services support leasing activity in CBD prime buildings

### Hong Kong Island

Grade-A office leasing demand remained soft in December amid weak economic conditions and the traditional offseason, but the overall market was buoyed by the professional sector, particularly the finance and legal service industries, which took up space in premium buildings in the CBD area. Two Chinese Mainland financial companies, the Bank of Dongguan and FountainVest Partners, leased an entire floor in Two IFC, which was previously occupied by Nomura Holdings.

Medical companies also expanded their footprint in the core districts. A medical centre leased the entire top floor of 9 Queen's Road Central to meet the increasing demand for healthcare and wellbeing.

Given the weak economic situation, some tenants gave up more office space. With the current high vacancy rate of 7.8% on Hong Kong Island, we expect some landlords to soften their approach and be more willing to negotiate.

### Kowloon

Leasing activity in Kowloon continued to slow down in December. New lease transactions dropped by 20% on a monthly basis. Most of the leasing activity was in Kowloon East, at monthly rents below HK\$25 per sq ft.

While most industries have been largely affected by the COVID-19 pandemic, the logistics industry has remained strong and is one of the winners. Some logistics companies have taken advantage of this golden opportunity in the downbeat market to expand and upgrade their work environment and location. A recent notable example was the relocation of logistics giant DHL. It moved out of Megabox and took up a 91,015 sq ft space in the premium Grade A office International Trade Tower in Kwun Tong, making it the largest new lease acquisition in the market so far in 2020.

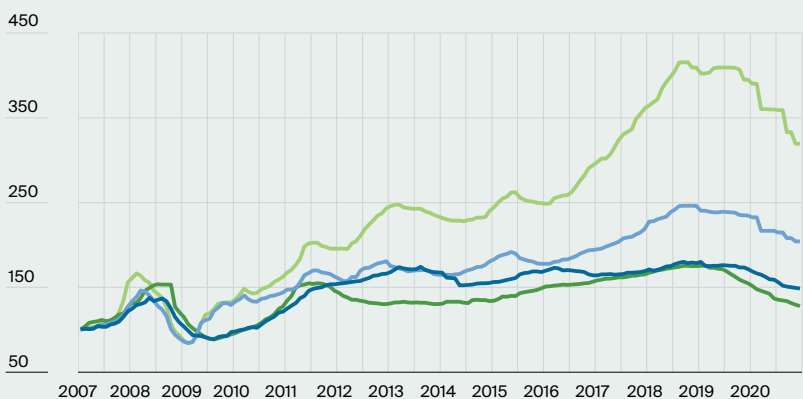
After reviewing its office requirements, DHL chose to reconfigure its work pattern and adopt agile work practices to achieve workplace size optimisation.

Curtailed by the pandemic and economic uncertainty, tenants will continue to be cost-sensitive and seek cost-effective options in Kowloon. Given the approach of the traditional festive season and the continuing unstable COVID-19 situation, we expect leasing demand to remain soft and the current low-level leasing volume to last until at least Lunar New 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 (December 2020)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	138.7	-0.7	-13.9	-	-	-
Traditional Central	104.8	-1.6	-19.1	-	-	-
Overall Central	116.3	-1.2	-17.1	33,063	0.0	-22.5
Admiralty	77.4	-3.0	-18.3	29,501	0.0	-20.7
Sheung Wan	60.4	0.0	-25.4	27,647	0.0	-18.3
Wan Chai	59.0	-0.7	-20.2	24,748	0.0	-15.4
Causeway Bay	64.0	0.0	-17.7	21,699	0.0	-16.7
North Point	43.7	-1.1	-11.7	-	-	-
Quarry Bay	49.9	0.0	-8.4	-	-	-
Tsim Sha Tsui	58.6	-0.3	-16.4	15,209	0.0	-15.4
Cheung Sha Wan	28.5	-0.7	-10.4	-	-	-
Hung Hom	41.7	-0.5	-5.7	-	-	-
Kowloon East	28.2	-0.5	-9.8	11,817	0.0	-8.5
Mong Kok / Yau Ma Tei	53.0	0.0	-10.4	-	-	-

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

# RESIDENTIAL

## Land prices on the Peak reach a record high

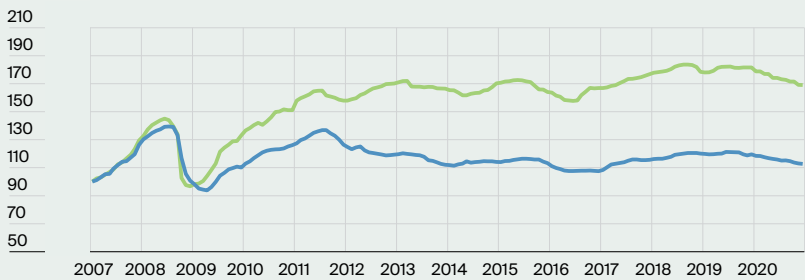
Despite the fourth wave of the COVID-19 outbreak, purchase momentum in the residential market continued in December. According to the Land Registry, 6,067 residential transactions were recorded during the month, which resulted in a total of 59,880 transactions in 2020, on par with the 59,797 transactions in 2019. The latest official statistics show that overall residential prices remained largely stable in November, edging down by 0.2% MoM, for a 0.3% gain in the first 11 months of 2020.

In the land sale market, Wharf Holdings acquired a luxury residential plot on Mansfield Road on The Peak for a record HK\$12 billion, or an accommodation value of HK\$46,270, making it the most expensive residential site in terms of unit price sold through government tender. This implies that developers are optimistic about the outlook of the luxury residential market despite the economic uncertainty and protracted pandemic. A significant transaction on the Peak helped bolster confidence in the market. A 4,266-sq-ft luxury flat on Mount Nicholson was sold for HK\$490 million or about HK\$115,000 per sq ft.

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

2007 = 100

Price index Rental index

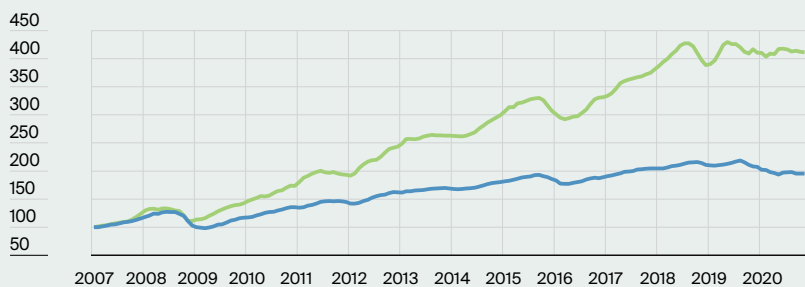


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

The leasing market turned quiet in December as the city battled the fourth wave of COVID-19. Property owners were generally more willing to provide incentives to attract tenants. Owners of mass residential units slightly lowered their asking rents, and luxury property

owners were more willing to negotiate rent and lease terms.

Looking ahead, the protracted COVID-19 epidemic is expected to weigh on the residential market, which could result in a mild downward adjustment in overall

housing prices. Hong Kong's economy faces a long road to recovery, since the unemployment rate is expected to remain high for at least for the first half of 2021. Buyers in the residential market are expected to remain cautious.

### Selected residential sales transactions (December 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	28 Barker Road	House	4,270	530	124,122
Mid-Levels East	Central Peak	Alpex II / Manor B	2,080	176	84,615
Island South	Manderly Garden	House	3,160	168	53,165
Mid-Levels Central	The Albany	Block C / high floor / unit E	2,028	103.5	51,036
Kowloon Tong	Parc Inverness	House	3,452	116.3	33,685

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

### Selected residential lease transactions (December 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	2,650	157,000	59
Mid-Levels Central	Queen's Garden	Block B / low floor	2,255	110,000	49
Island South	Pine Grove	Block 6 / unit D	2,337	108,000	46
Island South	Hong Kong Parkview	Tower 13 / high floor	2,308	100,000	43
Mid-Levels Central	Tregunter	Tower 3 / high floor / unit C	2,887	120,000	42

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

## RETAIL

### Market headwinds prompt more retailers to open pop-up stores

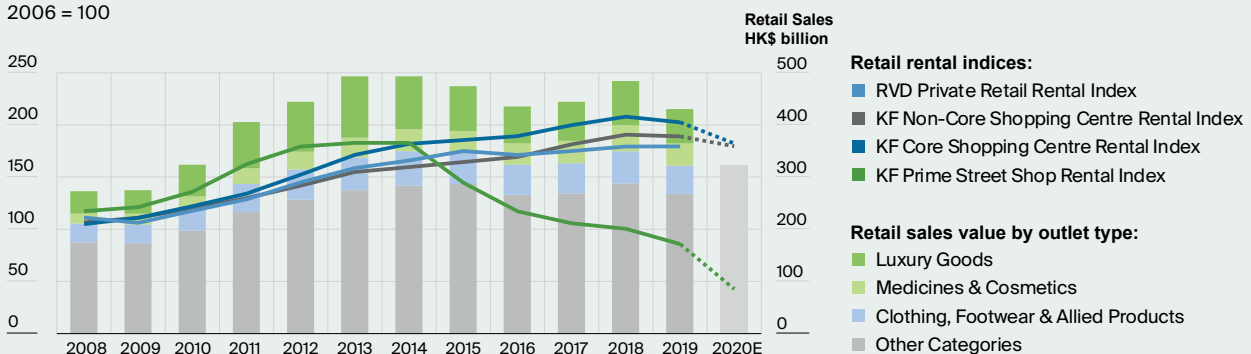
Hong Kong's retail market showed some signs of recovery before the fourth wave of the pandemic hit the city. According to the latest official statistics, retail sales value dropped by 4.0% YoY to HK\$28.7 billion in

November, narrowing from an 8.7% decrease in October. However, the improving retail sales momentum in November was dragged down again by the fourth wave of the epidemic, which hit the city more severely.

Given the lingering market uncertainty, most retailers were conservative about their business plans and took a cautious approach to procurement. To reduce upfront capital expenses, more retailers adopted unconventional real estate

**Fig 4. Retail rents and sales**

2006 = 100



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

strategies by opting for pop-up stores and co-retailing space as opposed to traditional long leases. Paying a fixed rent for just a couple of months, several retailers jointly rent a temporary shop for multi-brand sales and promotions, thus sharing the rental cost and facility fees.

From the landlords' perspective, allotting space and leases for multi-brand pop-up stores helps diversify the tenant mix and fill vacant shops.

With a larger variety of products from different retailers, it also creates synergy and increases footfall, which underpins the long-term economic value of the premises. Inspire Hub in Central and the AEON pop-up store in Gala Place in Mongkok are recent openings in prime locations.

Looking ahead, local retail sales performance will depend mainly on how the well COVID-19 situation in the city is

contained. As the fundamentals of retail market remained fragile, with inbound tourism remaining at a standstill, most retailers will pre-empt the risks associated with the pandemic and focus on controlling the cost of inventory. We expect retail sales value to hover at around HK\$320 billion for full-year 2021, a level similar to that of a decade ago after the global financial crisis.

## Retail sales by outlet type (November 2020)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.8	9.7	-3.0	12.3	-16.1
Clothing, footwear and allied products	2.8	9.7	5.6	37.5	-14.1
Department stores	3.3	11.3	1.3	23.8	-12.3
Fuel	0.9	3.0	-7.3	2.6	-5.5
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.9	10.1	-4.7	-2.4	-8.8
Consumer durable goods	6.7	23.3	36.9	44.2	21.3
Supermarkets	4.4	15.2	-5.1	-15.3	1.6
Others	5.1	17.7	-3.2	5.6	-11.6
All retail outlets	28.7	100.0	4.7	12.4	-4.0

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)  
Managing 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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