

Hong Kong Monthly

January 2020

OFFICE

HK Island saw an increase in activity despite uncertainties

Hong Kong Island

As sentiment continued to soften in the Grade-A office market in the current political and economic climate, vacancies in Central (3.4%) and its peripheral districts (Admiralty: 5.6%, Wan Chai: 5.0% and Causeway Bay: 4.1%) rose to the highest level in five years as decentralisation picked up speed. However, the leasing market saw an increase in activities, with tenants taking advantage of the weakened sentiments to renew, relocate or downsize.

There were also a handful of cases of office expansion, as some relatively downturn-resistant companies searched for lower rents in the downbeat market.

Market conditions remain uncertain moving into 2020, as a wait-and-see attitude dictates tenants' market outlook and business plans. In Central, demand for office space with an asking rent of HK\$100 per sq ft or less remains strong, as more firms are looking for options to optimise their office-leasing budgets.

Kowloon

Leasing demand weakened further in December. Most of the transactions recorded during the month were small offices of less than 3,000 sq ft, at monthly rents below HK\$25 per sq ft. On the supply side, the large amount of office supply and increasing number of downsizing cases have prompted landlords to become more flexible in negotiations and to provide attractive renewal incentives to retain existing tenants.

Leasing costs are a major concern for sourcing, shipping and logistics

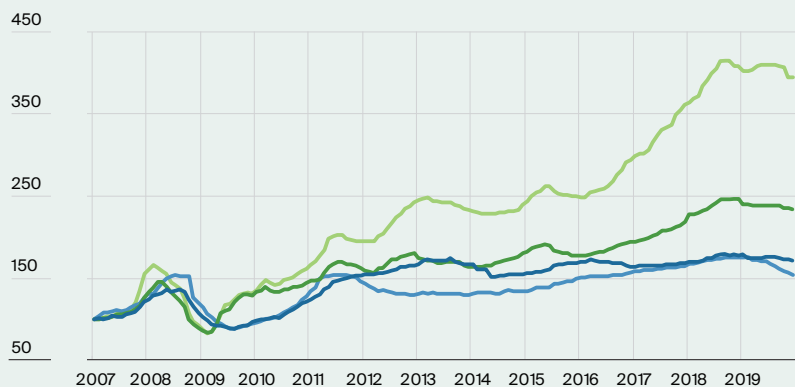
companies, as they have been particularly affected by the China-U.S. trade war. Many of them have downsized their offices to as much as half of their original area.

We expect the trend of landlords offering more flexible terms to persist in the coming months, given the current substantial amount of supply. Office rents in Kowloon should continue to soften in the first half of this year and pick up in the second half when most of the supply is absorbed.

Fig 1. Grade-A office prices and rents

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 (Dec 2019)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	160.9	-1.1	-18.7	-	-	-
Traditional Central	129.8	-1.3	-11.2	-	-	-
Overall Central	140.4	-1.2	-14.3	42,676	0.0	-4.2
Admiralty	94.7	-3.1	-18.6	37,189	0.0	-3.7
Sheung Wan	81.0	-1.7	-5.1	33,860	0.0	-4.2
Wan Chai	73.9	-0.6	-7.4	29,264	0.0	-2.6
Causeway Bay	77.7	0.0	-7.5	26,049	-0.8	0.1
North Point	49.5	0.0	-8.2	-	-	-
Quarry Bay	54.5	0.0	2.4	-	-	-
Tsim Sha Tsui	70.1	-0.8	-1.8	17,983	0.0	-5.1
Cheung Sha Wan	31.8	-3.5	-3.4	-	-	-
Hung Hom	44.2	-3.4	0.9	-	-	-
Kowloon East	31.3	-1.0	-3.6	12,917	-0.8	-4.6
Mong Kok / Yau Ma Tei	59.2	-1.4	0.1	-	-	-

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

RESIDENTIAL

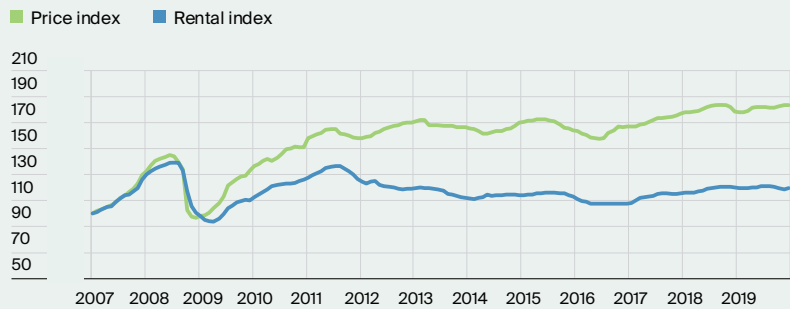
Healthy year-end sales driven by primary market

Because of the cautious outlook following the protracted social unrest, coupled with the typically quiet period near the end of the year, the housing market was slow in December. Overall sales volume reached the lowest level of the year, dropping 44.7% MoM to 3,184 units, according to the Land Registry.

Although property prices were under pressure in the second half of 2019, favourable Government policies, including a higher mortgage ceiling, provided support for transaction volume during the year. The number of primary transactions reached 21,108 units, a 15-year high. As the new mortgage ceiling has helped homebuyers afford bigger homes, demand for nano units dropped significantly over the past few months.

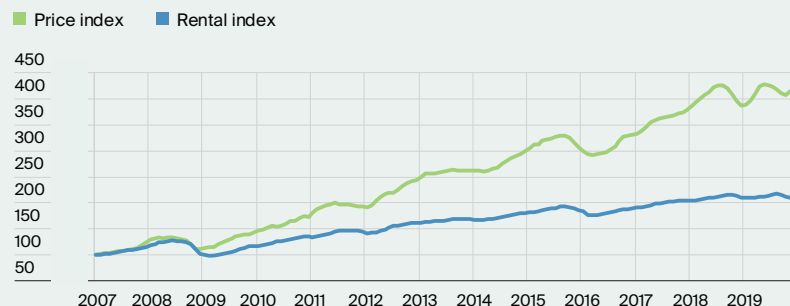
Despite cautious sentiment related to potential headwinds, many local developers were optimistic about the luxury residential market in the long run. A Tai Hang Road residential plot attracted fierce competition among developers and was won by state-backed conglomerate CITIC Pacific for HK\$3.2 billion, or an accommodation value of

Fig 2. Luxury residential prices and rents
2007 = 100



Source: Knight Frank Research

Fig 3. Mass residential prices and rents
2007 = 100



Source: Knight Frank Research / Rating and Valuation Department

HK\$24,836 per sq ft. Citic Pacific plans to invest HK\$5.5 billion in the project, providing about 130 flats with asking prices that could reach more than HK\$50,000 per sq ft.

As several new projects will be launched this year at attractive prices, such as Wetland Seasons Park in Tin Shui Wai and West Park in Cheung Sha Wan, we expect the primary market to rebound

after Chinese New Year. As for the leasing market, we foresee landlords to continue to offer flexible terms such as short-term leases or rent free to attract tenants in the upcoming leasing season.

Selected residential sales transactions (Dec 2019)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	Phase 3 / mid floor / unit D	4,517	528.5	117,011
North Point	Victoria Harbour	High floor / unit A	1,585	155	97,815
Island South	Shouson Hill Road East	House	2,840	160	56,338
The Peak	Bayview	House	3,350	166	49,552
Kowloon Tong	Parc Inverness	House	4,252	168	39,511

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

Selected residential lease transactions (Dec 2019)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	The Summa	Tower 1 / mid floor / unit A	1,513	98,000	65
Island South	The Lily	Tower 2 / high floor	2,544	150,000	59
Sheung Wan	Upton	Mid floor / unit B	1,702	100,000	59
Mid-Levels Central	Regence Royale	Tower 2 / low floor	1,933	110,000	57
Island South	Larvotto	Tower 2 / low floor / unit A	1,836	90,000	49

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

RETAIL

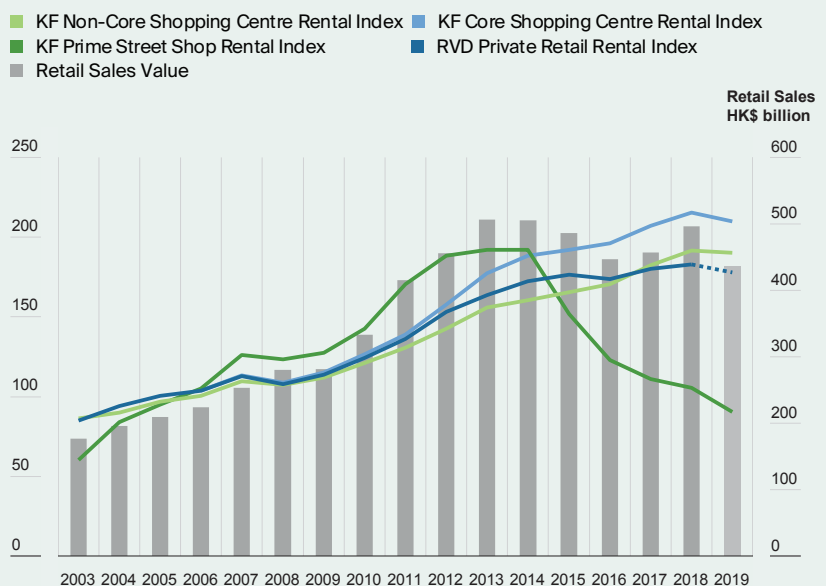
Retail sales marked the second biggest drop on record

Hong Kong's retail market continued to be severely impacted by months of social unrest and subdued economic conditions. Total retail sales value registered a significant drop of 23.6% YoY in November 2019, representing a continuous decline for 10 months, and the second biggest drop on record. We expect this drop to narrow in December 2019 because of the holiday season, but total retail sales value in 2019 is expected to return to the level of 2016, the last bottom of the retail sales.

Visitor arrivals continued to fall drastically, with total visitor arrivals plunging 51.5% YoY in December and arrivals from the Mainland dropping 53.2% YoY. The slump was close to that during the SARS period in 2003, when arrivals fell more than 60%. Full-year provisional visitor arrivals in 2019 amounted to 55.9 million, a decline of 14.2% YoY. Consumption sentiment

Fig 4. Retail sales and rents

2006 = 100



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

and spending by Mainland visitors were negatively affected by the social unrest and the slowdown in China's economy. Brands and retail chains have cut down the number of outlets, despite rental reductions offered by landlords. For instance, Chow Tai Fook Jewellery Group will stop renewing leases of as many as 15 Hong Kong stores in tourist districts, about one-fifth of its shops in Hong Kong.

There has been a significant increase in foot traffic in some community malls compared to regional malls as consumers prefer to shop and dine in their neighbourhoods. Regional mall operators are looking at new ways to beat the downturn, including tapping the local consumer market and targeting the residents of nearby neighbourhoods to boost traffic and sales.

The performance of retail sector is likely to slacken further entering 2020. We expect to see some store closures, as brands are forced to streamline the number of outlets because of sluggish sales. We forecast that the prime street shop rents will drop by at least 15% in 2020 to the level in 2010 and 2011, when retail rents hit the last trough.

Retail sales by outlet type (Nov 2019)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.3	11.1	-14.8	-15.6	-43.5
Clothing, footwear and allied products	3.3	10.9	9.8	8.7	-31.8
Department stores	3.7	12.5	30.2	28.7	-32.9
Fuel	0.9	3.0	-4.1	4.2	11.2
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.2	10.6	-2.2	-9.8	-11.0
Consumer durable goods	5.5	18.4	-3.7	28.3	-16.7
Supermarkets	4.3	14.4	-4.1	-7.9	2.6
Others	5.7	19.2	-2.7	-7.2	-26.4
All retail outlets	30.0	100.0	-0.3	2.0	-23.6

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



David Ji
Director, Head of Research & Consultancy,
Greater China
+852 2846 9552
david.ji@hk.knightfrank.com

Commercial Agency

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

Knight Frank Research
Reports are available at
knightfrank.com/research

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank 2020: This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein.

This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

Knight Frank Petty Limited EAA (Company) Lic No C-010431
Knight Frank Hong Kong Limited EAA (Company) Lic No C-013197

