

# Hong Kong Monthly

November 2020

## OFFICE

*Leasing activity driven by decentralisation*

### Hong Kong Island

While office rents continued to drop in the downbeat market, tenants seized the opportunity for better relocation options, resulting in high activity in the leasing market during the month. However, landlords further softened their approach and adopted a more realistic stance in negotiating leasing terms to secure tenants, so the majority of tenants tended to renew their leases. As a result, new take-up of Grade-A office space was at an exceptional low level during the month, particularly in the CBD area.

Despite a significant overall rental decline of 17.8% YoY in Central, from HK\$144.9 per sq ft to HK\$119.1 per sq ft in October, the rental difference between Hong Kong Island and Kowloon remained significant. Huge rental savings have encouraged tenants on Hong Kong Island to seek more cost-effective options in Kowloon.

Amid the challenging economic environment, cost-competitiveness remains a pressing consideration for tenants. Going into 2021, we therefore expect to see a continuing decentralisation trend. We also foresee rising demand for co-working space, as more companies, especially small and medium-sized enterprises (SMEs), which have been heavily impacted by the coronavirus-induced recession to actively explore flexible leasing options.

### Kowloon

Compared to the previous month, new letting cases in October recorded a smaller average leasing size and lower unit rent, ranging from HK\$18 to HK\$25 per sq ft, indicating that tenants are increasingly cautious about rental expenditure.

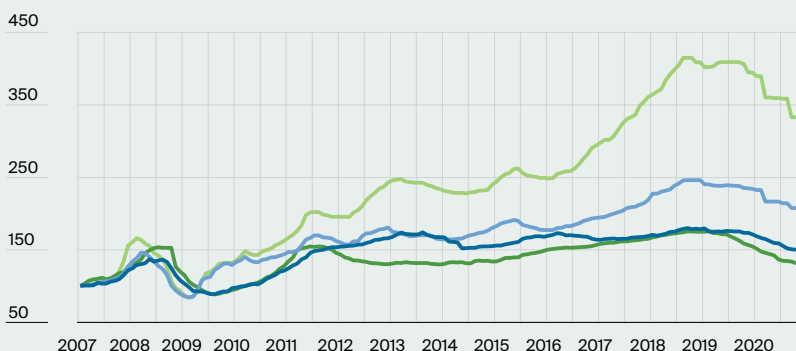
Most of the new letting cases were dominated by SMEs, while sizable companies preferred renewals rather than relocation to avoid substantial fit-out costs. During the month, several multinational corporations renewed their leases, including Otis Elevator, in Goldin Financial Global Centre, and Wyeth Nutrition, in Manhattan Place.

A vast number of tenants in Kowloon are in trade-related sectors, such as sourcing, garments and apparel, and manufacturing, which are expected to be heavily impacted by the U.S. presidential election and the related tariff and trade policies. These companies, especially U.S.- and Europe-based companies, are likely to slow down their leasing decisions, as the macroeconomic uncertainty remains. We expect the leasing market to cool down in the coming months.

**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 (October 2020)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	140.7	-1.9	-16.3	-	-	-
Traditional Central	108.0	-1.7	-18.7	-	-	-
Overall Central	119.1	-1.8	-17.8	34,563	0.0	-19.0
Admiralty	81.6	-2.2	-18.5	30,627	0.0	-21.8
Sheung Wan	62.9	-4.8	-23.6	29,147	0.0	-13.9
Wan Chai	61.3	-1.6	-18.7	25,683	0.0	-15.7
Causeway Bay	63.6	-1.6	-18.2	22,199	0.0	-16.0
North Point	45.0	-1.2	-9.1	-	-	-
Quarry Bay	50.1	0.0	-8.1	-	-	-
Tsim Sha Tsui	59.1	-0.1	-16.6	15,661	0.0	-12.9
Cheung Sha Wan	29.6	-1.3	-9.7	-	-	-
Hung Hom	42.1	-0.8	-4.5	-	-	-
Kowloon East	28.4	-1.1	-10.1	11,817	0.0	-9.6
Mong Kok / Yau Ma Tei	54.2	-1.8	-9.9	-	-	-

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

# RESIDENTIAL

## Primary market outperforms as buyers snap up new projects

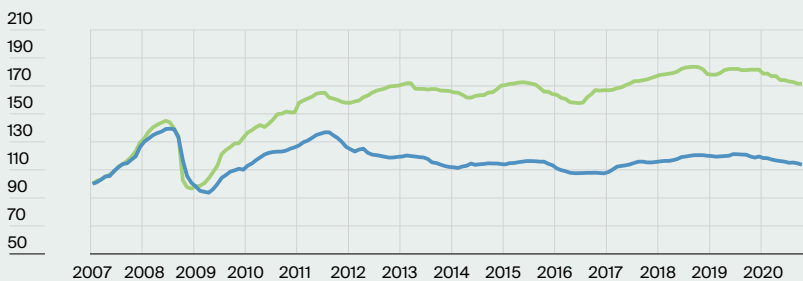
Homebuyer sentiment in the residential market remained positive in October, given the stable epidemic situation in Hong Kong. According to the Land Registry, a total of 4,951 residential transactions were recorded in October, on par with the level in September. Primary sales accounted for 1,046 cases, a surge of 29% MoM. One new project that caught market attention was Central Peak on Stubbs Road, a super-luxury development by Sun Hung Kai Properties. It invited tender submissions for its initial batch of four units, with market expectations of the unit price reaching at least HK\$70,000 per sq ft.

There were close to 4,000 transactions in the secondary market in October amid mixed sentiment. Some owners sold their properties at a loss, given the economic recession and rising unemployment rate. As an example, a house owner in Valais in Sheung Shui sold the property for HK\$41 million after holding it for 10 years, for a total loss of HK\$22 million, including transaction fees. Meanwhile, buyers seized opportunities in the down market to purchase properties. A first-time buyer bought a house in Manderly Garden in Deep Water Bay for HK\$168 million or HK\$53,000 per sq ft.

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

2007 = 100

Price index Rental index

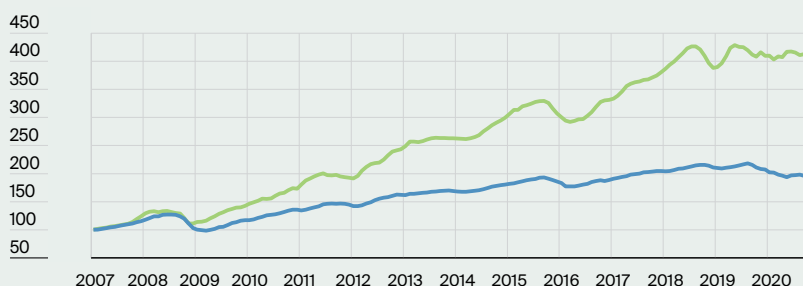


Source: Knight Frank Research

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

The deteriorating labour market has also taken its toll on the leasing market. As many aircrews were affected by Cathay Dragon's massive layoff, there was a sudden surge in available flats and rental

apartments in Tung Chung and Discovery Bay. As a result, landlords had to cut asking rents to compete for new tenants.

Looking ahead, with economic uncertainties still lingering, large-

scale layoffs and pay cuts are expected to gradually emerge. This will weigh on both the sales and leasing markets in the coming months. We also expect the number of repossessed units to pick up, as more owners are unable to repay their mortgages.

### Selected residential sales transactions (October 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
Ho Man Tin	St. George's Mansions	Penthouse	3,330	238	71,471
Island South	8 Deep Water Bay Drive	Tower 2 / low floor	2,865	175	61,000
The Peak	Severn 8	House	3,330	175	52,553
Island South	Marinella	House	2,747	138	50,164
Tai Tam	Redhill Peninsula	House	5,201	206	39,608

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

### Selected residential lease transactions (October 2020)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Island South	Burnside Villa	House	2,763	157,000	57
Island South	The Lily	Tower 2 / high floor	2,626	145,000	55
Island South	Bel-Air on the Peak	Tower 3 / mid floor / unit B	1,985	106,500	54
Mid-Levels West	Azura	High floor / unit C	1,990	90,000	45
Island South	Repulse Bay Garden	Block 4 / low floor	2,576	107,000	42

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

## RETAIL

### Landlords become much more flexible under sluggish market conditions

Hong Kong's retail market remained subdued, given poor consumer sentiment and the absence of inbound tourism. According to the latest official statistics, retail sales value dropped by 12.9% YoY to HK\$26.1 billion in September, falling for the 20th straight

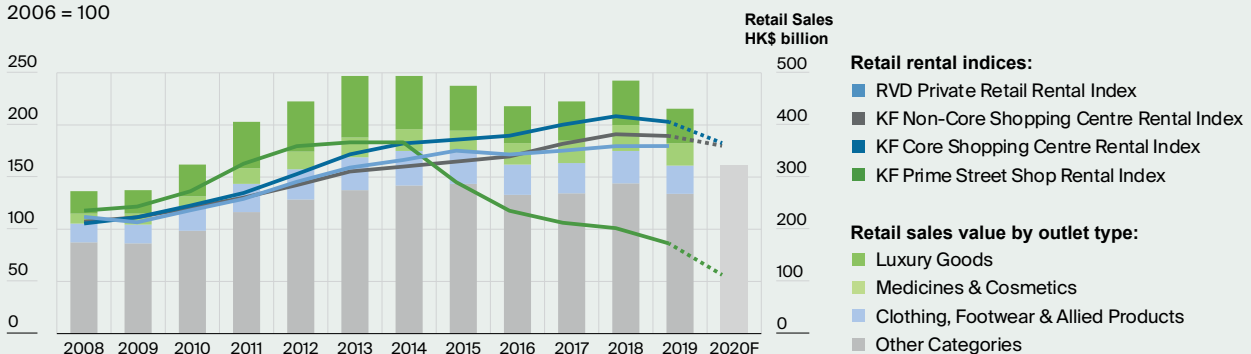
month. Retail sales value in the first nine months of 2020 totalled HK\$239 billion, down 28.7% YoY. The food and beverage (F&B) sector also faltered. The total value of restaurant receipts plunged 35.5% YoY to HK\$17.0 billion in the third quarter. By restaurant type, bars recorded the largest

YoY drop in sales of 62.7%, followed by Chinese restaurants, whose sales plunged 46.6%.

As the retail market has been in the doldrums for a prolonged period, more and more retailers have struggled to

**Fig 4. Retail rents and sales**

2006 = 100



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

keep their businesses afloat, adding pressure to the already alarmingly high shop vacancy rates and downswing in shop rents. We have seen street shop landlords becoming much more flexible in negotiating rent and lease terms under the sluggish market conditions. For instance, some tenants who had planned to shut down their businesses when their leases expired were given flexible terms by their landlords, including short-term extensions of their

leases and a significant reduction in face rents.

The economic recession, heightened job insecurity, and rising unemployment have all but sealed the fate of the retail sector. Even if the border opens again in 2021, inbound tourism is unlikely to return to its heyday in the short term. We expect the F&B sector to continue to face tremendous challenges under the prevailing social-distancing measures,

and restaurant receipts to continue their downtrend. We expect retail sales value this year to total HK\$320 billion to HK\$340 billion and to continue to hover at low sales levels next year. With declining rental affordability across the board and no silver lining in sight, we expect retail rents to drop further in 2021. Beyond that, we foresee the significant rental corrections will lead to a new retail landscape that will reshape a “new norm” for the sector.

## Retail sales by outlet type (September 2020)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	2.7	10.5	10.6	9.0	-25.7
Clothing, footwear and allied products	2.4	9.1	16.3	-12.2	-19.9
Department stores	3.0	11.5	13.8	-10.5	5.5
Fuel	0.9	3.4	6.9	-10.0	-4.7
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.4	13.1	14.9	22.4	-11.1
Consumer durable goods	4.2	16.0	-10.4	-0.6	-23.2
Supermarkets	4.7	18.0	-9.1	0.7	3.8
Others	4.8	18.5	0.1	-10.2	-16.1
All retail outlets	26.1	100.0	2.0	-1.8	-12.9

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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