

# Hong Kong Monthly

February 2020

## OFFICE

Tenants defer expansion plans amid the COVID-19 outbreak

### Hong Kong Island

The coronavirus (COVID-19) outbreak has posed a new threat to Hong Kong's Grade-A office market, which has already been subdued in the wake of social unrest and trade disputes before the outbreak. Premium Central office space was the hardest hit, with rents dropping by 20% YoY in January. Many companies have cautiously put their expansion plans on hold. Bracing for more pressure on rents, many landlords are warming to the idea of offering rental concessions to secure renewals. Interestingly, this downward pressure on rents has led to some tenant activity as they search for relocation options.

The outbreak has forced many companies to implement flexible work arrangements and rosters, or to set up disaster recovery sites to mediate business risk. This has led to increased inquiries for temporary office space and satellite offices, and prompted more leasing transactions with short lease terms.

Unlike the social unrest, which was localised and had less of an impact on the office than on the retail and tourism markets, the COVID-19 outbreak has already begun to affect the global economy, which in turn, has affected Hong Kong's business environment. The main risk to the office sector, in our view, is the inactivity caused by businesses'

delaying their real estate decisions. At this point, we expect leasing demand to remain weak, at least in the next month or so.

### Kowloon

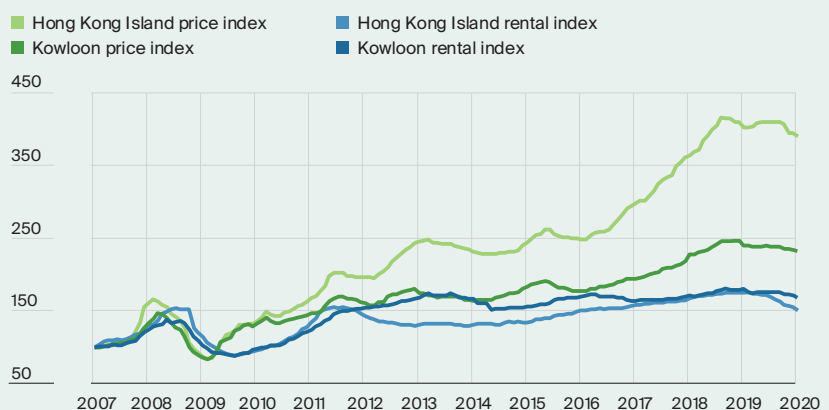
Kowloon saw a significant decrease in the number of office on-site inspections and in tenant movement. Many companies have deferred their expansion or relocation plans to save for contingencies. In contrast, renewal cases were on the rise, though most were for short-term tenancies. Most of the new lettings recorded during the month were small offices of less than 3,000 sq ft, at monthly rents below HK\$25 per sq ft.

There were two significant cases of consolidation and expansion at The Quayside in Kwun Tong during the month. One was Manulife's lease of a 52,000 sq ft space at an effective rent of HK\$28 per sq ft per month for expansion purposes. The other was Adidas' lease of a 72,000 sq ft space at HK\$28.5 per sq ft per month to consolidate its Kwun Tong and Taikoo offices.

Subdued demand combined with substantial supply has weakened the bargaining position of some Kowloon landlords. Under the current market conditions, the scale is firmly tilted towards tenants in lease negotiations in the coming months.

Fig 1. Grade-A office rents and prices

2007 = 100



Source: Knight Frank Research

## Grade-A office market indicators (January 2020)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	158.3	-1.6	-20.0	-	-	-
Traditional Central	125.3	-3.5	-14.4	-	-	-
Overall Central	136.5	-2.8	-16.7	42,407	-0.6	-0.4
Admiralty	93.7	-1.1	-19.5	36,689	-1.3	-5.0
Sheung Wan	78.8	-2.6	-7.6	33,617	-0.7	-0.2
Wan Chai	72.5	-1.9	-9.3	28,764	-1.7	-4.2
Causeway Bay	76.3	-1.8	-9.2	25,549	-1.9	-1.8
North Point	49.0	-1.1	-9.3	-	-	-
Quarry Bay	54.5	0.0	2.6	-	-	-
Tsim Sha Tsui	68.5	-2.3	-4.3	17,840	-0.8	-2.6
Cheung Sha Wan	31.6	-0.6	-3.8	-	-	-
Hung Hom	44.2	0.0	1.3	-	-	-
Kowloon East	31.1	-0.8	-6.7	12,834	-0.6	-4.4
Mong Kok / Yau Ma Tei	58.9	-0.6	-1.2	-	-	-

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

# RESIDENTIAL

## Land deals concluded amidst slow sales activity

Because of the COVID-19 outbreak, a “wait-and-see” attitude is prevalent amongst both buyers and owners. Transactions dropped 13.3% MoM, falling to a 13-month low of 2,762 units in January, according to the Land Registry. Developers also held back project launch and focused on clearing stock instead. As a result, both viewing and sales activities slowed down.

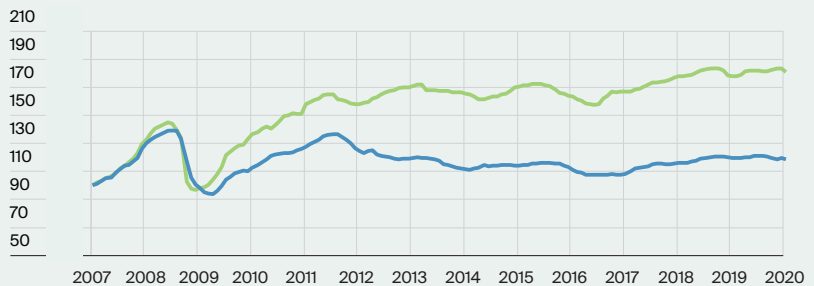
With home buyer confidence ebbing, there were more cases of deposit forfeits in January. For instance, a buyer cancelled the transaction of a four-bedroom unit at The Zumurud in Ho Man Tin, forfeiting the deposit of HK\$3.5 million. Lack of activity is also affecting the leasing market. Landlords are more flexible on leasing terms and are willing to offer short-term leases to attract tenants.

Despite growing uncertainty, recent large land sales, such as those at Tai Hang Road, Tuen Mun Castle Peak Road and Lohas Park, suggest that developers remained optimistic about the long-term outlook. In February, Wheelock won in the tender for the latest phase of the Lohas Park development, which is the

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

2007 = 100

Price index Rental index

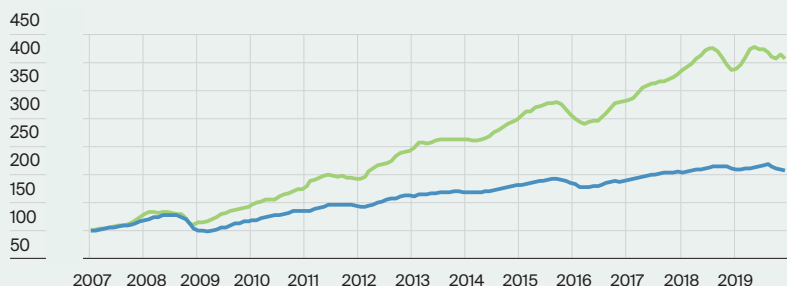


Source: Knight Frank Research / Rating and Valuation Department

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

largest residential plot among all phases of Lohas Park in the past five years.

With fewer units available in the market and less sales activity, transaction

volume, especially in the primary market, is expected to drop in the next one to two months. History shows that the market impact of a virus will not persist

indefinitely. Therefore, we do not expect massive price cuts like those during the SARS outbreak in 2003.

### Selected residential sales transactions (January 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
North Point	Victoria Harbour	Phase iB / tower 1 / high floor / unit A	2,083	153	73,469
Mid-Levels West	39 Conduit Road	High floor / unit B	4,664	295	63,250
Happy Valley	The Leighton Hill	Tower 3 / high floor / unit B	1,461	70.5	48,255
The Peak	Mountain Lodge	Mid floor / unit A	2,222	85	38,254
Mid-Levels West	Elegant Terrace	Block 2 / high floor / unit C	2,136	63.6	29,775

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

### Selected residential lease transactions (January 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	5,620	368,000	65
Island South	Ruby Court	Tower 2 / mid floor / unit B	1,390	75,000	54
Mid-Levels West	Azura	Low floor / unit A	1,292	70,000	54
Mid-Levels Central	Dynasty Court	Tower 5 / low floor / unit A	1,522	80,000	53
Island South	Residence Bel-Air	Tower 6 / high floor / unit A	1,365	70,000	51

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

# RETAIL

*The COVID-19 outbreak has added to sector headwinds*

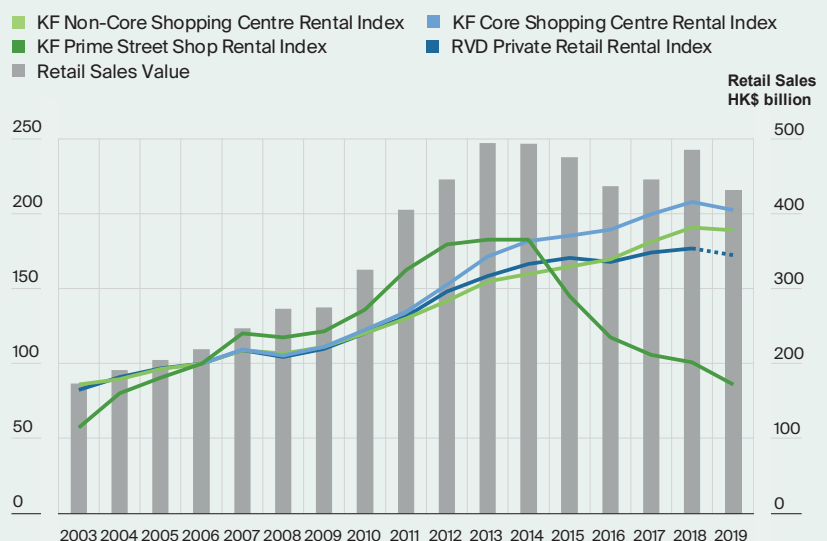
After 11 months of decline, Hong Kong's retail sales value dropped again in December by 19.4% YoY. Sales further plummeted during the Chinese New Year period because of the COVID-19 outbreak. According to the Hong Kong Retail Management Association, most retailers saw their sales drop by 30 to 50% on average, and up to 80% in some trades, such as jewellery, watches, cosmetics and clothing.

Most leasing activity was on hold, even for short-term leases of temporary retail space. For example, pop-up stores, used by brands during the social unrest to avoid long-term commitments, were no longer prevalent.

As people stayed indoors, all retail and entertainment outlets saw limited foot traffic, resulting in reduced sales.

**Fig 4. Retail rents and sales**

2006 = 100



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

Retailers such as SaSa, Chow Tai Fook and some restaurant operators have shut down some outlets permanently. Some retailers in key shopping malls even unprecedentedly shut their shops to urge for rental concessions from landlords. Meanwhile, some international brands, such as J.Crew, have retreated from the Hong Kong market.

The situation has resulted in most shopping malls, including premium malls with a relatively stable tenant mix, to introduce relief measures, such as rental reductions and rent-free period for tenants.

The SARS experience shows that anxiety subsided with the end of the outbreak, and the economy rebounded

soon afterwards. However, with the coronavirus having spread to many markets and with the backdrop of a slowing global economy, we expect its impact of the coronavirus on the market to be more severe than SARS. It will take longer for the retail industry to pick up. Therefore, we expect the weak retail landscape to persist at least throughout 1H 2020.

## Retail sales by outlet type (December 2019)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	5.2	14.4	57.6	41.8	-36.7
Clothing, footwear and allied products	4.9	13.4	49.7	65.0	-21.8
Department stores	4.0	10.9	6.5	39.4	-25.3
Fuel	0.9	2.5	-1.2	-4.3	13.5
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.8	10.5	20.2	-0.4	-2.0
Consumer durable goods	5.6	15.5	1.6	3.6	-12.6
Supermarkets	4.3	11.9	0.1	-4.7	-3.1
Others	7.5	20.8	30.8	31.0	-21.4
<b>All retail outlets</b>	<b>36.2</b>	<b>100.0</b>	<b>20.9</b>	<b>21.0</b>	<b>-19.4</b>

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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