

Hong Kong Monthly

February 2021

OFFICE

Banks to shrink existing office space and tap on flexible workspace

Hong Kong Island

Grade-A office leasing transactions during the month were mostly dominated by cost-saving and downsizing deals. Rental levels in the CBD, such as Central and Admiralty, continued to contract amid the COVID-19 pandemic, so landlords in prime locations were more willing to offer rental discount to tenants. A new lease of 13,000 sq ft office space in 9 Queen's Road Central by a Chinese Mainland charity foundation at about HK\$60 per sq ft was recorded, which was about 15% lower than the rental level in Q1 2020.

Banking industry continued to review their real estate needs amid COVID-19. For instance, Standard Chartered gave up eight floors at Standard Chartered Bank Building in Central and three floors at Millennium City in Kwun Tong. The bank announced earlier that their staff will start using co-working spaces operated by IWG globally. Under the flexible work arrangements, more banks and corporates will cut their existing permanent office space, and rely even more heavily on flexible workspace. As a result, demand for flexible and agile workspace will increase.

While some multinational companies have downsized their office space with the adoption of work-from-home arrangements amid the pandemic, we expect this sizable vacant space to be taken up gradually by companies that have thrived in the wake of the pandemic, particularly those in the medical and

healthcare sector, which are expanding their footprint in the core districts.

Kowloon

Office leasing momentum in Kowloon remained weak in January. Average monthly rents for Grade-A offices continued to shrink, reaching about HK\$20 per sq ft. Leasing activity was concentrated mainly in Kowloon East, with leasing demand primarily from the manufacturing and electronics sectors. The sluggish leasing market has prompted landlords to further soften their attitude, resulted in rent reductions for most lease renewals.

Despite the low level of activity, some companies are capturing the market

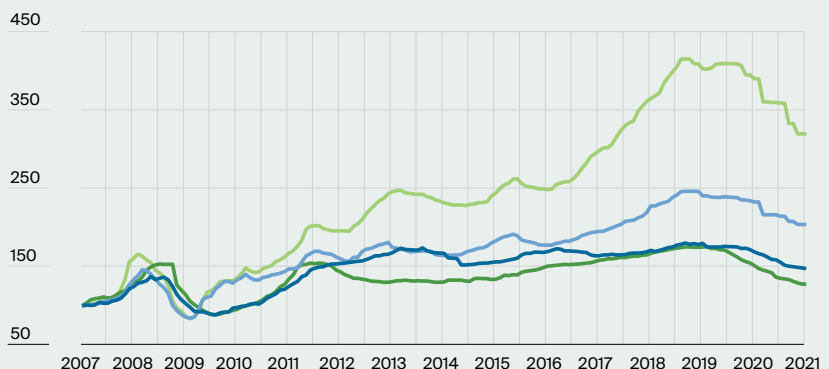
opportunity to commit to special deals, one of which was a 41,322 sq ft deal in Landmark East, rented by clothing manufacturer Crystal Group at HK\$22 per sq ft. Another example was mobile application service provider Green Tomato's lease of a 26,204 sq ft office in Harbourside HQ at HK\$20 per sq ft. Technology giant Tencent's lease of the 10,000 sq ft of office space in Gateway in the mid HK\$50s per sq ft also caught market attention.

With weak business sentiment, tenants will continue to take a wait-and-see approach in the coming months. We expect the subdued leasing momentum to linger in February, given the quiet market following the typical Chinese New Year pattern.

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 (January 2021)

District	Net effective rent			Price (Gross)		
	HK\$ psf / mth	Change MoM %	Change YoY %	HK\$ psf	Change MoM %	Change YoY %
Premium Central	138.7	0.0	-12.4	-	-	-
Traditional Central	104.0	-0.8	-16.9	-	-	-
Overall Central	115.7	-0.5	-15.2	33,063	0.0	-22.0
Admiralty	78.0	0.8	-16.7	29,501	0.0	-19.6
Sheung Wan	60.7	0.5	-23.0	27,647	0.0	-17.8
Wan Chai	59.0	-0.1	-18.7	24,748	0.0	-14.0
Causeway Bay	64.0	0.0	-16.2	21,699	0.0	-15.1
North Point	43.7	0.0	-10.7	-	-	-
Quarry Bay	49.9	0.0	-8.4	-	-	-
Tsim Sha Tsui	58.4	-0.4	-14.7	15,209	0.0	-14.7
Cheung Sha Wan	28.2	-1.2	-11.0	-	-	-
Hung Hom	41.5	-0.3	-6.1	-	-	-
Kowloon East	28.0	-0.9	-10.0	11,817	0.0	-7.9
Mong Kok / Yau Ma Tei	53.0	0.0	-9.9	-	-	-

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

RESIDENTIAL

Primary residential sales drive market momentum

Purchase sentiment in the residential market rose, as the fourth wave of the COVID-19 outbreak slightly abated. During the month, a number of new projects, such as Wheelock Properties' Monaco in Kai Tak and Nan Fung's LP10 in Lohas Park were massively oversubscribed, showing strong purchase sentiment in the residential market moving into 2021.

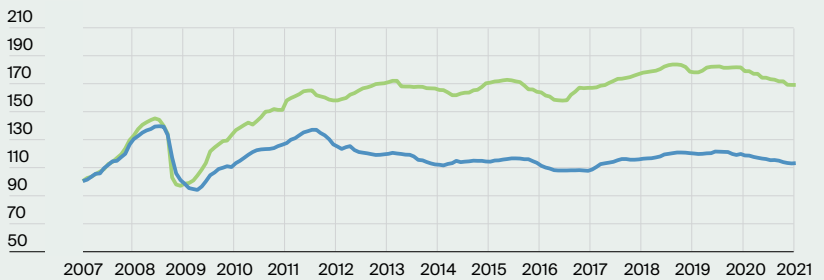
The latest official statistics show that overall residential prices remained largely stable in December 2020, sliding merely 0.4% MoM. After experiencing mild up-and-down adjustments over the year, the overall price stayed flat to conclude the year 2020. According to the Land Registry, 4,562 residential transactions were recorded in January, 586 of which, or 13%, were primary sales.

In January, the positive wealth effect amid the stock market rally stimulated buyers' purchase sentiment, leading to more enquiries and unit viewings from potential buyers, most of them end-users. However, buyers remained cautious about making offers, given the economic uncertainty and poor labour market conditions.

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

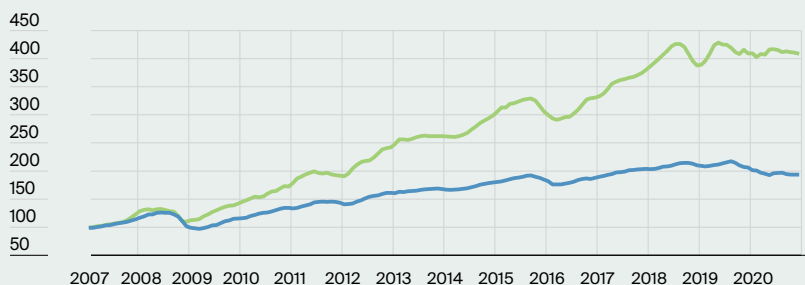


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

Demand in the leasing market has gradually stabilised. Rental reductions, especially for properties located in prime locations, narrowed. As the restrictions for non-locals entering Hong Kong were still in place, leasing demand was driven

mainly by local moves. Most of them are families upgrading their apartments amid the rental downtrend.

Given the mass-vaccination programme set to be launched after Chinese New Year,

we are optimistic about the market outlook, particularly the primary market, with developers' accelerating the launch of new projects and offering attractive incentives to attract buyers.

Selected residential sales transactions (January 2021)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	Mount Nicholson	Tower C / high floor	4,266	490.2	114,906
Mid-Levels East	Central Peak	Everex II / Manor B	1,665	129.2	77,598
Island South	8 Deep Water Bay Drive	Tower 2 / mid floor	2,865	186.2	65,000
The Peak	Carolina Garden	Block A / mid floor	2,070	100.5	48,551
Kowloon Tong	Parc Inverness	House	3,499	103	29,437

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

Selected residential lease transactions (January 2021)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Admiralty	Pacific Place Apartment	Mid floor	1,890	126,000	67
The Peak	31 Barker Road	House	3,845	250,000	65
Mid-Levels Central	Branksome Grande	Mid floor / unit B	2,278	140,000	61
Island South	The Lily	Tower 4 / high floor	2,639	140,000	53
Mid-Levels Central	Queen's Garden	Block A / high floor	2,141	101,000	47

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

RETAIL

Fast food and cafés least affected by the restrictions on dine-in services

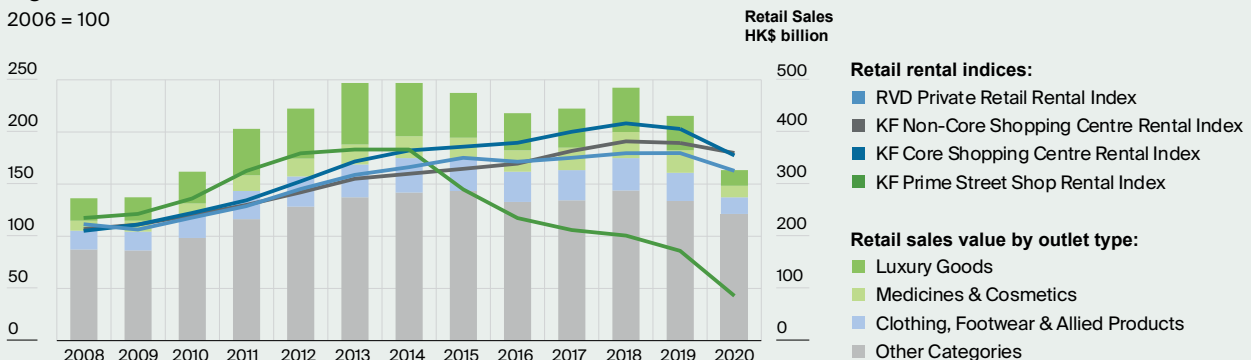
Hong Kong's retail market witnessed the worst performance in a decade, as the COVID-19 pandemic dampened consumer sentiment and kept tourists away. Total retail sales value in

December 2020 registered a decline at 13.2% YoY to HK\$31.4 billion. For 2020 as a whole, total retail sales value plunged 24.3% YoY to HK\$326.5 billion, which was the biggest decline on record.

Among all types of retail categories, luxury goods were impacted the most, with sales value plunging over 50% YoY in 2020, owing to the absence of inbound tourism. Thanks to local-based

Fig 4. Retail rents and sales

2006 = 100



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

consumption, the sales value of groceries in supermarkets, in contrast, increased by 9.7% YoY in 2020. This further contracted the proportion of luxury goods sales to 9% of total retail sales in 2020 compared to 18% in 2018 and the peak of 24% in 2013.

The F&B sector has been hit hard amid the pandemic because of the government's total ban on evening dine-in services. According to the latest official statistics, the value of restaurant receipts

plummeted by 25.1% YoY in Q4 last year, resulting in a 29.4% YoY drop for the whole year. Bars were affected the most, with receipt value tumbling substantially by 47.9% YoY in 2020, as a result of the temporary closure of all bars and pubs in the city. The smallest impact was in the category of fast food shops, whose receipts dropped by 19.1% YoY because they serve light meals mainly before 6pm. This also explains why more cafés have opened during the pandemic.

Looking ahead, the business environment for the brick-and-mortar retail market will remain challenging in the coming months. As the government's employment support scheme has ended, more shops and restaurants are expected to have difficulty keeping their businesses afloat. We expect retail sales to remain weak in the short term, with another wave of store closures inevitably looming. We expect the vacancy rate to continue to set new highs in Q1 this year.

Retail sales by outlet type (December 2020)

Outlet	Value (HK\$ billion)	Share of total%	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	3.1	9.9	11.5	13.0	-40.8
Clothing, footwear and allied products	3.5	11.0	23.9	45.3	-29.2
Department stores	3.2	10.3	-0.7	8.5	-18.3
Fuel	0.8	2.6	-6.0	-9.9	-9.9
Food, alcoholic drinks and tobacco (excluding supermarkets)	3.3	10.4	13.0	-3.9	-14.3
Consumer durable goods	6.6	20.9	-1.7	57.0	17.2
Supermarkets	4.8	15.3	10.2	2.6	11.7
Others	6.2	19.6	21.0	27.7	-17.9
All retail outlets	31.4	100.0	9.4	20.4	-13.2

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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