

# Hong Kong Monthly

June 2020

## OFFICE

**Downsizing and cost-saving dominating the market amid considerable uncertainty**

### Hong Kong Island

Heightened political tensions, along with the weak economy and the lingering impact of the COVID-19 pandemic, continued to affect business sentiment. Office tenants remained cautious and continued to seek downsizing and other cost-saving options, resulting in a 30% reduction in monthly rental costs because of downsizing and relocation since January 2020. In some sectors, such as banking and finance, office tenants put their plans on hold. Recent news about MNCs surrendered Grade-A office space highlighted the challenges office landlords face.

Improving workplace health and safety has become one of the most pressing needs of companies, given the COVID-19 threat. There is stronger demand for superior building specifications and facility management, such as better ventilation systems and higher ceilings. Cost-conscious tenants are more willing to relocate to non-core districts provided that there are higher building standards and more affordable rental levels.

Although leasing activity increased compared to the previous few months, the overall vacancy rate on Hong Kong Island hit a record high of 5.5% in May. In this turbulent time, we expect office landlords to be more flexible in lease negotiations.

### Kowloon

During the month, leasing momentum improved in Kowloon, with a notable increase in the number of transactions, particularly in Kowloon East. However, most lease transactions were recorded at a low rent level of HK\$25 per sq ft or below per month.

With the unprecedented level of uncertainty caused by the weak global economy and social conditions, tenants continued to adopt a conservative attitude and preferred flexible lease terms. As a result, more tenants asked

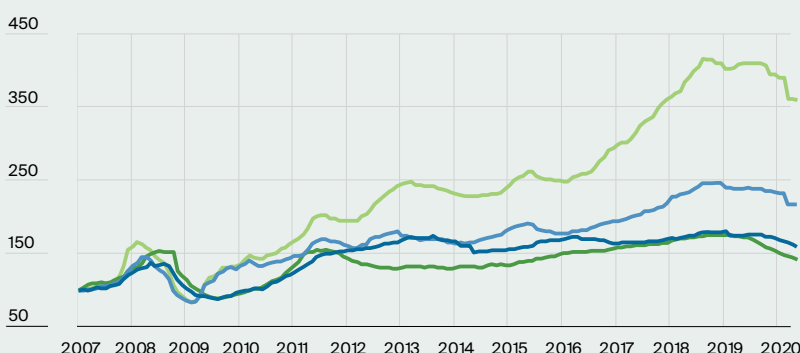
for shorter leases, typically of one year, to avoid long-term commitments. Small-scale co-working spaces of about 100 desks or fewer were sought after by tenants, given the flexible lease terms and favourable workplace environment. Landlords were more willing to adjust their asking rents downward and to pay for higher agency fees to attract tenants. In the coming months, with the alarming double-digit vacancy rate and a vast future supply, especially in Kowloon East, we have adjusted our full-year forecast for the overall Kowloon office rental further downward from a drop of 4-6% to 6-8%.

**Fig 1. Grade-A office rents and prices**

2007 = 100

■ Hong Kong Island price index  
■ Kowloon price index

■ Hong Kong Island rental index  
■ Kowloon rental index



Source: Knight Frank Research

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

| District              | Net effective rent | Change |       | Price (Gross) | Change |       |
|-----------------------|--------------------|--------|-------|---------------|--------|-------|
|                       | HK\$ psf / mth     | MoM %  | YoY % | HK\$ psf      | MoM %  | YoY % |
| Premium Central       | 152.6              | -0.5   | -19.5 | -             | -      | -     |
| Traditional Central   | 116.1              | -1.9   | -19.3 | -             | -      | -     |
| Overall Central       | 128.5              | -1.4   | -19.4 | 38,563        | 0.0    | -12.2 |
| Admiralty             | 88.3               | -1.5   | -23.2 | 33,815        | -0.4   | -13.7 |
| Sheung Wan            | 75.2               | 0.0    | -11.6 | 30,793        | 0.0    | -10.3 |
| Wan Chai              | 67.2               | -0.6   | -14.8 | 26,950        | 0.0    | -11.6 |
| Causeway Bay          | 70.9               | -4.1   | -12.4 | 23,699        | 0.0    | -10.3 |
| North Point           | 46.5               | -0.7   | -11.0 | -             | -      | -     |
| Quarry Bay            | 51.1               | 0.0    | -6.2  | -             | -      | -     |
| Tsim Sha Tsui         | 63.9               | -2.4   | -10.7 | 16,355        | 0.0    | -9.8  |
| Cheung Sha Wan        | 30.9               | -0.7   | -7.2  | -             | -      | -     |
| Hung Hom              | 43.6               | -0.8   | -1.6  | -             | -      | -     |
| Kowloon East          | 29.6               | -1.1   | -7.4  | 12,256        | 0.0    | -8.2  |
| Mong Kok / Yau Ma Tei | 56.3               | -0.7   | -6.5  | -             | -      | -     |

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

# RESIDENTIAL

## Improved sentiment underpins sales but heightened uncertainty

Sentiment in the residential market has improved recently although heightened Sino-US tension has weighed on the economic outlook. Purchasing power that accumulated in the past few months has been gradually unleashed, with transaction volume surging 45.9% MoM to 5,984 cases in May. Overall residential prices, which remained resilient under the contracting economy, edged down just 0.1% MoM in May and dropped by 0.8% so far this year, according to the latest official residential price index.

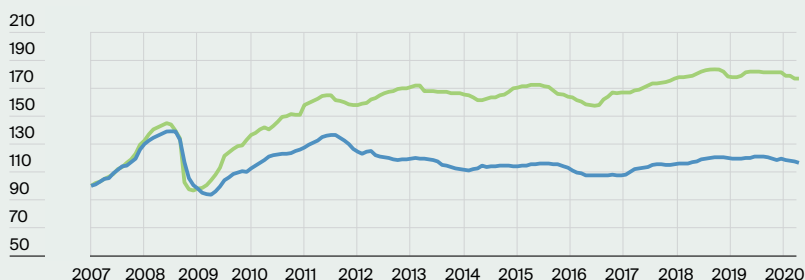
With pent-up end-user demand, the mass primary market was active during the month, with a number of new projects massively oversubscribed. The first batch of 188 units at The Campton was 37 times oversubscribed, and all units were sold out in two batches; and almost all units in the third batch of Phase II of the Wetland Seasons Park project in Tin Shui Wai were sold. Luxury properties were also sought after by buyers. For instance, a duplex unit at Dukes Place in Jardine's Lookout, covering 2,849 sq ft, was sold, together with two car parking spaces, for HK\$172 million or HK\$60,372 per sq ft.

In the land sale market, the warm response to the recent government land

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

2007 = 100

Price index Rental index

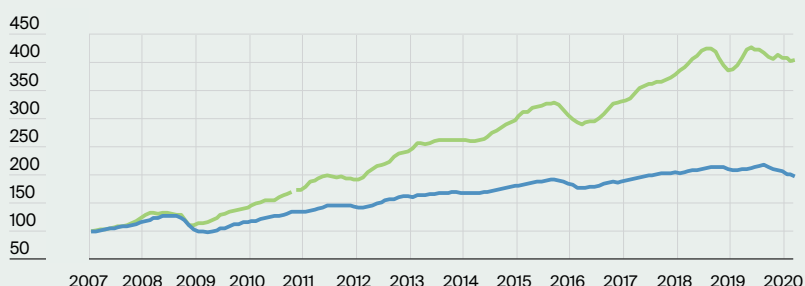


Source: Knight Frank Research / Rating and Valuation Department

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

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

tenders indicates that developers are still optimistic about the future market despite the recent social and political turbulence. Tai Cheung Holdings won the tender for a residential plot on Praya Road in Ap Lei Chau for HK\$1.33 billion, or an accommodation value of HK\$15,097, close to the upper end of the market valuation.

Despite the lacklustre business conditions, momentum in the leasing market persisted, with most corporate clients maintaining their budget for housing expenses. Some tenants took the opportunity of a downbeat market to upgrade their accommodation to a larger unit or a better area within the same budget range.

Looking ahead, uncertainty in the residential market has heightened, given the worsening labour market and deteriorating Sino-US relations. As house price movements usually follow economic and employment conditions, the adverse impact of contracting economic activity on the residential market could gradually emerge later this year.

#### Selected residential sales transactions (May 2020)

| District           | Building          | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|--------------------|-------------------|----------------------|-----------------------|----------------------|------------------------|
| Jardine's Lookout  | Duke Place        | High floor / unit A  | 2,848                 | 222.1                | 78,000                 |
| Shek Kip Mei       | Mont Rouge        | Villa                | 5,148                 | 370                  | 71,873                 |
| Mid-Levels Central | 8 Kennedy Terrace | High floor / unit A  | 2,896                 | 130                  | 44,890                 |
| Kau To             | St Moritz         | House                | 3,733                 | 160.8                | 43,075                 |
| Island South       | Redhill Peninsula | House                | 3,142                 | 98.5                 | 31,349                 |

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

#### Selected residential lease transactions (May 2020)

| District     | Building           | Tower / floor / unit | Lettable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|--------------|--------------------|----------------------|-----------------------|---------------------|-------------------------------|
| Island South | The Lily           | Tower 4 / high floor | 2,627                 | 175,000             | 67                            |
| Island South | The Somerset       | Low floor / unit C   | 2,413                 | 147,000             | 61                            |
| Island South | Regalia Bay Garden | Block 6 / high floor | 2,049                 | 99,000              | 48                            |
| The Peak     | Chelsea Court      | Low floor            | 3,100                 | 144,000             | 46                            |
| Island South | Regalia Bay        | House                | 2,790                 | 86,000              | 31                            |

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

## RETAIL

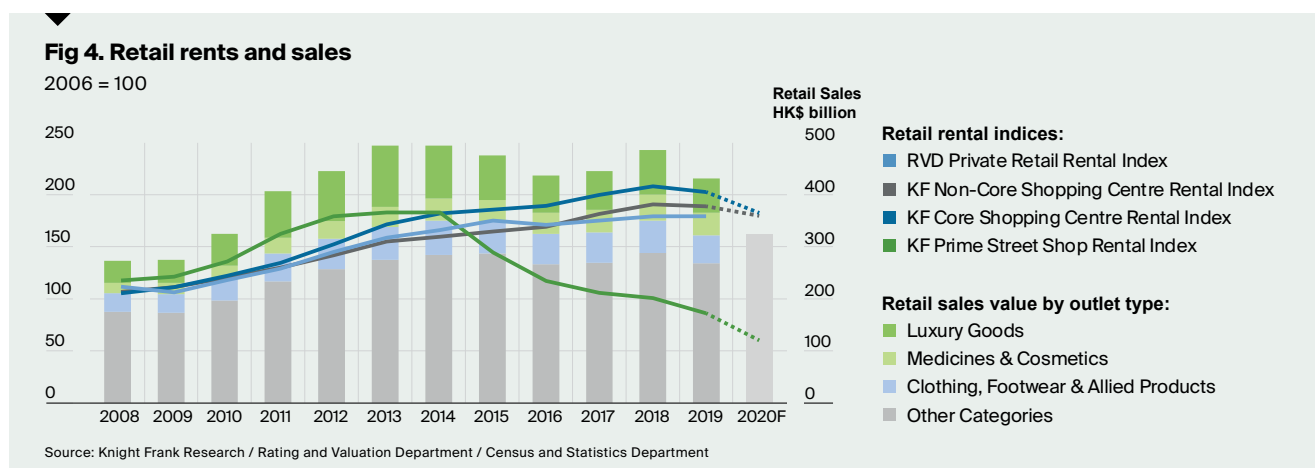
### *Crisis creates opportunities for mid-priced retailers and local chains*

Despite the easing epidemic situation, Hong Kong's retail market remained sluggish during the month, given the collapse in inbound tourism and worsening labour market conditions. Total retail sales value fell 36.1% YoY to HK\$24.1 billion in April. With visitor

arrivals plummeting 99.9% YoY to about a mere 4,000, luxury sales plunged by 76.6% YoY to HK\$1.4 billion. The weak economy, coupled with the rising unemployment rate (5.9% in the period between March and May, the highest level in 15 years), have further undermined

consumer confidence and local consumption.

In an economic downturn, people tend to cut down their consumption of luxuries and prefer mid-priced, affordable products and services. This has opened



up opportunities for retailers and F&B operators that target the mid-priced market. One recent expansion example is Sushiro – a Japan-based sushi restaurant chain – which will open its fifth branch in Lok Fu.

The current down market has also led to a reshuffling of the tenant mix and the retailer footprint in the retail market. Jewellery brands Folli Follie and Links of London were among a list of

international brands that retreated from Hong Kong recently. Some local fitness centre and restaurant chains, however, are taking advantage of the lower rents to expand.

Hong Kong's economy is still shrouded in uncertainty, given the possibility of a second wave of the epidemic, escalating geopolitical tensions and lingering social unrest. There is evidence that the slowing decline in retail sales value

bottomed in April, but it should hover at low levels in the coming months, given the poor economy and fatigue consumption.

With the soaring retail vacancy rate in the core retail districts, rents for street shops are expected to continue their steep downtrend in 2020. Looking ahead, we expect to see a makeover for Hong Kong's prime shopping districts as more luxury brands exit, with mass-market and local brands reappearing in prime locations.

## Retail sales by outlet type (April 2020)

| Outlet   | Value<br>(HK\$ billion) | Share of<br>total % | Change<br>MoM % | Change<br>QoQ % | Change<br>YoY % |
|--|-------------------------|---------------------|-----------------|-----------------|-----------------|
| <b>Jewellery, watches and clocks, and valuable gifts</b>               | 1.4                     | 5.7                 | -17.2           | -72.3           | -76.6           |
| <b>Clothing, footwear and allied products</b>                          | 1.9                     | 8.1                 | 8.3             | -57.1           | -62.6           |
| <b>Department stores</b>   | 3.1                     | 12.9                | 29.6            | -12.3           | -18.1           |
| <b>Fuel</b>  | 0.7                     | 3.0                 | -6.8            | -18.3           | -14.1           |
| <b>Food, alcoholic drinks and tobacco<br/>(excluding supermarkets)</b> | 3.0                     | 12.4                | 10.9            | -31.9           | -14.0           |
| <b>Consumer durable goods</b>  | 4.2                     | 17.4                | 7.1             | -19.6           | -18.2           |
| <b>Supermarkets</b>  | 4.8                     | 19.8                | -6.6            | -9.6            | 14.4            |
| <b>Others</b>  | 5.0                     | 20.8                | 8.2             | -43.9           | -45.9           |
| <b>All retail outlets</b>  | 24.1                    | 100.0               | 5.0             | -36.1           | -36.1           |

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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