

Hong Kong Monthly

March 2020

OFFICE

Landlords looking to keep premises occupied

Hong Kong Island

With the rampant spread of COVID-19 worldwide, business sentiment has been severely affected. The weaker global economy and the across-the-board impact of the virus has made businesses very cautious. Many office tenants, both local and multinational, have tended to delay or put on hold their real estate decisions, resulting in low levels of leasing activity.

That said, we note some green shoots in the office sector. Transactions are still occurring, with some occupiers proactively looking for opportunities for bargain deals, either for consolidation or expansion against the backdrop of an overall downward trend in rents.

Landlords in general have been more flexible in lease negotiation and more willing to offer favourable renewal terms to retain tenants. Since vacancy rates remained relatively low (Central: 3.7%, overall Hong Kong Island: 4.4%), we do not see any possibility of substantial rental reductions. Instead, we expect mild downward adjustments in rents in the coming months.

Kowloon

Similar to the situation on Hong Kong Island, activity in the office leasing market on Kowloon side remained low. Most of the deals were renewal leases of small-to-mid-size units of less than 5,000 sq ft. As cost-savings gain priority, leasing activities were largely dominated by renewals, unless the new space has significantly lower rents which would allow tenants to considerably reduce occupancy costs.

One example was the new lease of a 32,000-sq-ft space at Kowloon Commerce Centre Tower A, in Kwai

Chung by camera brand Olympus. By downsizing and economising at the same time, the new rent is about 30% lower than that of its current 35,000 sq ft-space in Langham Place in Mong Kok.

As the COVID-19 outbreak has been declared a pandemic, this will inevitably exacerbate market volatility and negative sentiment. The office market will be significantly dampened in the near-term. Coupled with mounting vacant office stocks, rents in Kowloon are expected to see visible shrinkage 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 (February 2020)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	156.1	-1.4	-21.1	-	-	-
Traditional Central	123.3	-1.5	-15.8	-	-	-
Overall Central	134.4	-1.5	-18.0	42,407	0.0	-0.4
Admiralty	90.1	-3.8	-22.6	36,689	0.0	-5.0
Sheung Wan	76.2	-3.3	-11.4	33,617	0.0	-0.2
Wan Chai	69.1	-4.8	-14.1	28,764	0.0	-4.2
Causeway Bay	74.8	-2.0	-11.9	25,549	0.0	-1.8
North Point	47.2	-3.6	-12.5	-	-	-
Quarry Bay	53.5	-1.7	-1.6	-	-	-
Tsim Sha Tsui	67.6	-1.3	-5.6	17,840	0.0	-2.6
Cheung Sha Wan	31.4	-0.8	-4.4	-	-	-
Hung Hom	44.5	0.7	0.8	-	-	-
Kowloon East	30.5	-1.8	-5.2	12,834	0.0	-4.2
Mong Kok / Yau Ma Tei	57.9	-1.7	-2.0	-	-	-

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

RESIDENTIAL

Market sentiment further eroded amid a wider outbreak

The rapid spread of COVID-19 around the world has further eroded market confidence and dampened the city's property market. As both buyers and sellers have become more vigilant amid the volatile economy, sales activity remained low during the month. Developers offer more flexible packages and payment terms to sell unsold units in the primary market. According to the Land Registry, sales volume continued to hover at a low level in February at 3,572 units.

Meanwhile, potential homebuyers in the secondary market are grabbing the opportunity to negotiate a lower price in the downbeat market. Transactions at major estates were recorded at discounts ranging from 2% to 8%. Moreover, with rising market uncertainty, we note that more property owners have started selling long-held properties to generate cash flow. For instance, a 2,257 sq ft unit in Bellevue Court in Mid-Levels East with the same owner for 54 years was sold for HK\$58 million.

In the leasing market, given the growing impact of the coronavirus on the global economy, many international firms and other large corporates have

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

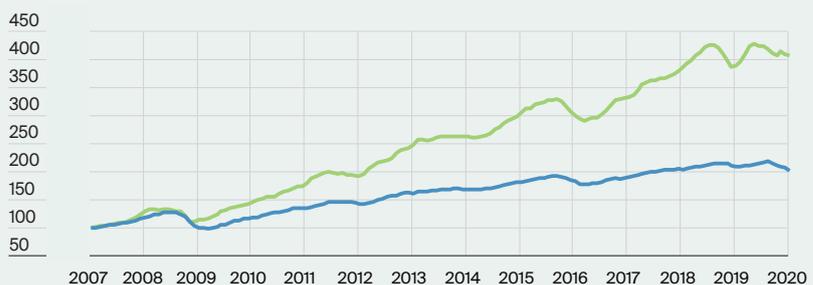


Source: Knight Frank Research / Rating and Valuation Department

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

tightened business expenses and deferred expansion plans within the region, resulting in softer leasing demand from expatriates. Landlords in general were more willing to offer flexible terms and adjustments on the asking rent.

With the twice unexpected interest rate cuts in the U.S., HKMA followed suit by lowering its base rate. Hong Kong home market would benefit as HIBOR stays low for the foreseeable future. However, we

expect buyers to remain prudent in the short term as economic uncertainties and the various headwinds will continue to curb buyer confidence.

Selected residential sales transactions (February 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
The Peak	2 Island Road	House	3,836	500	130,344
Mid-Levels East	Dukes Place	Duplex unit A	2,846	176.5	62,000
Ho Man Tin	Ultima	Tower 5 / high floor / unit C	2,130	128.6	60,376
The Peak	22 Mount Austin Road	Low floor / unit B	2,221	130	58,532
Kowloon Tong	2 Lincoln Road	House	6,659	380	57,066

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

Selected residential lease transactions (February 2020)

District	Building	Tower / floor / unit	Lettable area (sq ft)	Monthly rent (HK\$)	Monthly rent (HK\$ per sq ft)
Mid-Levels West	Seymour	High floor / unit B	1,398	95,000	68
Island South	The Lily	Tower 4 / high floor	5,644	380,000	67
Island South	Marinella	Tower 1 / high floor / unit A	1,949	110,000	56
Island South	Pacific View	Block 3 / high floor / unit B	1,674	80,700	48
Mid-Levels Central	Tregunter Tower	Tower 1/ low floor / unit B	2,330	85,000	36

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

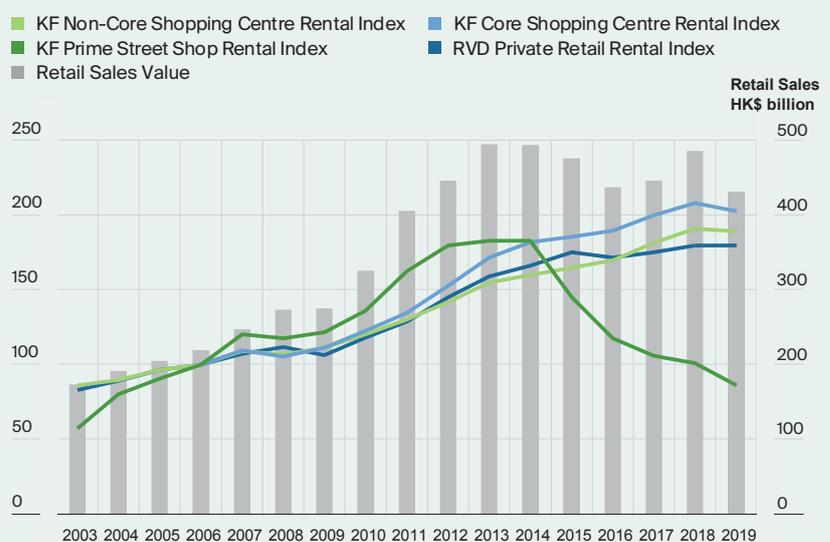
RETAIL

Retailers are in survival mode as headwinds multiply

Hong Kong's latest retail sales figure recorded a significant drop of 21.4% YoY in January as the outbreak of the coronavirus deterred mainland visitor arrivals, disrupted consumer activity and curbed market sentiment. The jewellery & watches industry continued to suffer the worst performance with sales value plummeted 43.5% YoY. Supermarkets, in contrast, enjoyed double-digit growth of 10.2% YoY, reflecting the surge in demand for daily necessities and household merchandise, and trades related to local spending such as fresh food and fuels thrived through the epidemic situation.

Many retailers and F&B operators suspended their operations temporarily to limit losses. The temporary closure of the Jumbo Kingdom restaurant is a case in point. Unfortunately, some of them closed down. For instance, Jamie's

Fig 4. Retail rents and sales
2006 = 100



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

Italian shut down both of its restaurants which represented its complete withdrawal from the Hong Kong market. Michelin-starred Hong Kong restaurant Rech by Alain Ducasse also closed for good.

As the COVID-19 impact on markets continues to grow, it has shaken up the local retail landscape. The current retail

scene shows that retailers who target local clientele have regained their pivotal role, while the luxury segment and other retailers relying on Mainland visitors no longer dominate. From a long-term perspective, we expect many retailers to redistribute their retail footprint in Hong Kong and the market to recalibrate to cater for the local demand, resulting in greater diversity in retail offerings.

We expect retail sales value in the coming months to continue to fall off a cliff. Furthermore, with vacancy rates of street shops keep rising, shop rentals are expected to shrink further, which extent could be faster than the drop in retail sales. Looking ahead, we expect the COVID-19 pandemic to have a long-term impact on Hong Kong's retail scene and for it to be a long journey for the retail sector on the road to recovery.

Retail sales by outlet type (January 2020)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	4.9	13.0	-5.9	25.7	-41.6
Clothing, footwear and allied products	4.6	12.1	-6.5	54.0	-27.5
Department stores	3.5	9.4	-10.4	23.7	-27.0
Fuel	0.9	2.3	-0.9	-6.4	12.4
Food, alcoholic drinks and tobacco (excluding supermarkets)	4.4	11.6	15.3	35.3	-6.8
Consumer durable goods	5.2	13.8	-6.7	-8.9	-20.6
Supermarkets	5.3	14.0	22.5	17.6	10.1
Others	9.0	23.8	19.6	51.9	-22.9
All retail outlets	37.8	100.0	4.4	25.7	-21.4

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

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.hk/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

