

Hong Kong Monthly

May 2020

knightfrank.com.hk/research

OFFICE

Unheralded decentralisation trend in Kowloon amid weak sentiment

Hong Kong Island

Along with the improving COVID-19 situation in Hong Kong and the return to normal economic activity, market sentiment has improved, with a higher level of leasing activity in the office market. Most of the new leases in Central were premises of no more than 10,000 sq ft, while isolated new leases of larger areas were found outside the CBD area.

With no quick escape in sight for COVID-ravaged economies, many tenants continued to look for cost-saving solutions, which include rental abatement, rental deferment or lease restructuring to ease their financial pressure. But rental reductions were seen mainly for office tenants with a retail presence and were implemented only on a case-by-case basis.

As a small open economy, Hong Kong has seen the worst economic performance in the first quarter of the year. With the government forecasting a GDP contraction of 4% to 7% over 2020, office tenants will remain cautious in the coming months.

Kowloon

Leasing activity in Kowloon continued to be slow because of weak business sentiment. Most of the new leases were for small premises of less than 3,000 sq ft at monthly rents below HK\$25 per sq ft. Among the new lease cases, a large amount of office space in Kowloon was taken up by manufacturing and logistics companies. These companies are in a more immediate need of cost-cutting initiatives, as the adverse impact of the COVID-19 pandemic is more significant for them, resulting in an unheralded decentralisation trend in Kowloon.

Although rents in higher-end buildings in the core urban area of Kowloon, such as Tsim Sha Tsui and Mong Kok, were aligned with the downward adjustment in the market, cost-conscious tenants tended to relocate to buildings in Kowloon East, where they can find more affordable rents at below HK\$25 per sq ft. As a result, demand for buildings under this rent level in Kowloon continued to edge up.

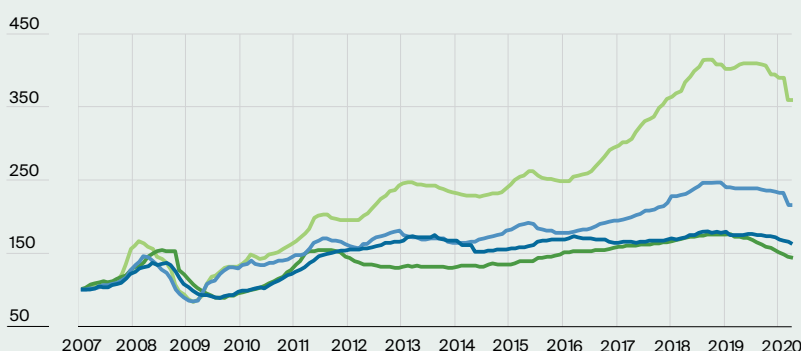
In the short run, we foresee a more prominent trend of companies either downsizing or relocating to districts with more affordable rents.

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 (April 2020)

District	Net effective rent	Change		Price (Gross)	Change	
	HK\$ psf / mth	MoM %	YoY %	HK\$ psf	MoM %	YoY %
Premium Central	153.4	0.0	-20.6	-	-	-
Traditional Central	118.4	-1.0	-18.1	-	-	-
Overall Central	130.3	-0.6	-19.1	38,563	0.0	-11.9
Admiralty	89.6	-0.5	-22.6	33,939	0.0	-13.4
Sheung Wan	75.2	-1.3	-12.5	30,793	0.0	-9.6
Wan Chai	67.6	-2.1	-13.5	26,950	0.0	-11.6
Causeway Bay	74.0	-1.1	-11.5	23,699	0.0	-10.3
North Point	46.8	-0.9	-10.3	-	-	-
Quarry Bay	51.1	-2.5	-5.6	-	-	-
Tsim Sha Tsui	65.4	-2.0	-8.6	16,355	0.0	-9.5
Cheung Sha Wan	31.2	-0.3	-6.6	-	-	-
Hung Hom	43.9	-1.3	-0.7	-	-	-
Kowloon East	30.0	-1.1	-6.5	12,256	0.0	-8.7
Mong Kok / Yau Ma Tei	56.7	-0.9	-5.9	-	-	-

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

RESIDENTIAL

Resilient purchase demand despite reduction in economic activity

As the government has begun to resume public services, and ease restrictions on travel and social distancing, market sentiment has gradually improved, with the residential market showing early signs of recovery. Transaction volume increased by 6% MoM to 4,102 in April, and the latest official residential price index increased 0.4% MoM. Despite the weak economy, homebuyer demand is still resilient.

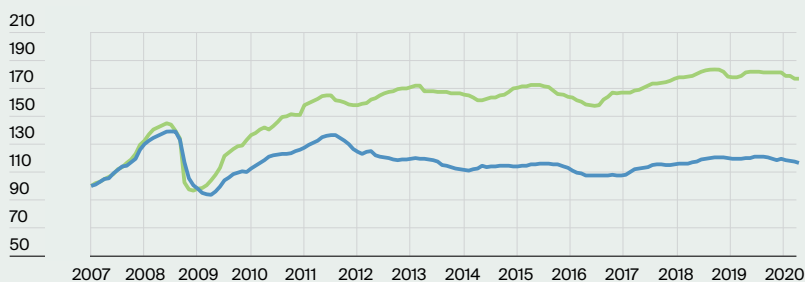
Potential buyers who previously put their purchase plans on hold have gradually re-entered the market. Many are taking advantage of the current down market to bottom-fish, as they expect to see the market rebound with the coronavirus crisis abating. Some notable transactions were recorded during the month, including a 2,657 sq ft house at 1 Shouson Hill Road East, which was sold for HK\$198 million or HK\$74,520 per sq ft, and a 5,128 sq ft house in Mont Rouge, Kowloon Tong, was sold for HK\$350 million or HK\$68,253 per sq ft, showing that the investment appetite of some deep-pocket buyers in the city remains strong.

Likewise, the leasing market regained momentum, with activity shooting upwards quickly. As expatriates are still unable to come to the city, leasing demand

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

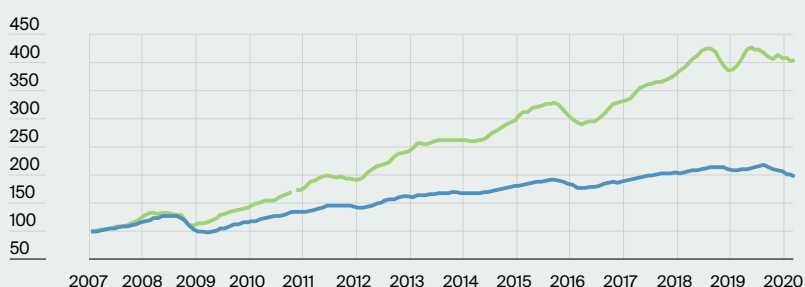


Source: Knight Frank Research / Rating and Valuation Department

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

is coming mainly from locals at present. Given the improved market sentiment, deferred leasing demand has driven transaction volume. During the month, the 3,581 sq ft House 8 at 8 Severn Road on The Peak, was leased for HK\$350,000 per month, or HK\$97.7 per sq ft per month.

Since the local stock market has rebounded, and business activity has largely resumed, sentiment in the residential market is expected to continue to be positive. Coupled with the government's relaxation of social distancing measures, potential buyers are

likely to become active in flat viewings again, and developers are expected to start launching more projects. We expect transaction volume to pick up quickly in the coming months.

Selected residential sales transactions (April 2020)

District	Building	Tower / floor / unit	Saleable area (sq ft)	Price (HK\$ million)	Price (HK\$ per sq ft)
North Point	Fleur Pavilia	Tower 2 / duplex unit	2,058	105	51,000
Kai Tak	Vibe Centro	Block 2A / duplex unit	2,700	123.5	45,741
Island South	Bel-Air No.8	Tower 3 / high floor / unit A	1,751	70.7	40,366
Happy Valley	Broadview Villa	High floor / unit A	2,583	94.8	36,702
Island South	Grand Garden	Block 1 / high floor / unit A	2,555	86.8	33,973

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

Selected residential lease transactions (April 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 / low floor	2,552	138,000	54
Happy Valley	Broadwood Park	High floor / unit B	2,414	110,000	46
Island South	Repulse Bay Garden	Block 2 / high floor	2,049	88,000	43
Mid-Levels Central	Mayfair	Mid floor / unit A	2,155	80,000	37
Island South	Regalia Bay	House	2,781	98,000	35

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

RETAIL

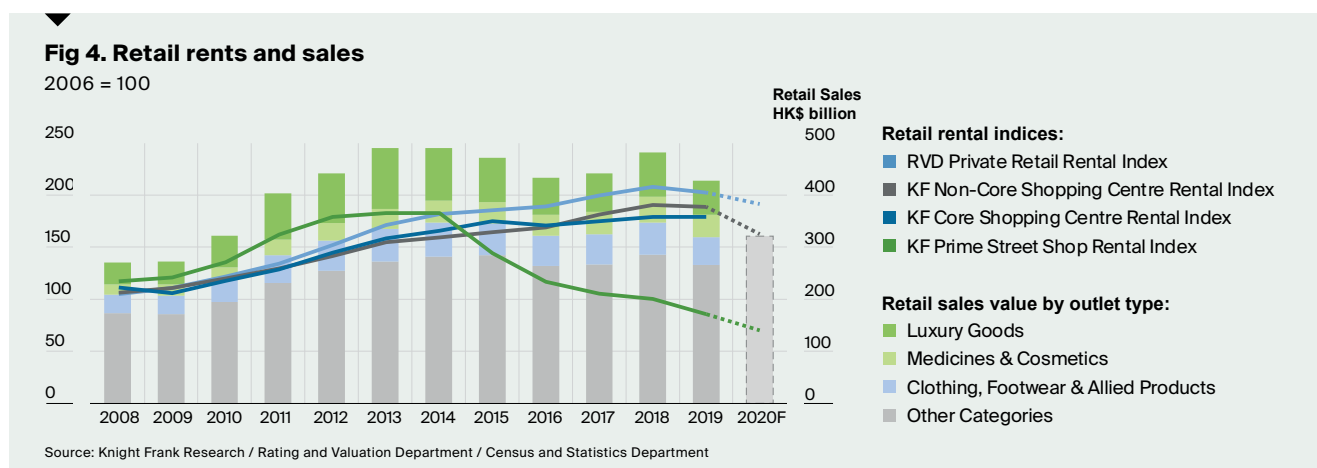
Luxury sales value expected to reach bottom

The retail industry continued to be hit hard by the COVID-19 pandemic. The latest retail sales value registered a significant drop in March, plunging 42% YoY to HK\$23 billion, on par with the record-breaking figure in February. Sales of luxury products plummeted by 75.2%

YoY to HK\$1.66 billion, the lowest level recorded since June 2003, when retail sales were hit by the SARS outbreak. But the figure picked up 6.9% MoM.

In the F&B sector, total restaurant receipts fell by 31.2% YoY in value in Q1 2020 to

HK\$21.7 billion. Chinese restaurants were affected the most, with sales falling 39.6% YoY; while fast food shops, which did comparatively better in previous economic downturns, suffered the worst quarter drop on record (down 17.1% YoY), as people avoided eating out.



As the virus outbreak has shown signs of abating, and the government has gradually eased restrictions on social distancing, commercial activity has been returning to normal. Although consumption patterns are unlikely to see V-trend recovery in the short term, many retailers and F&B operators looking for long-term returns have started plans to

cater for “revenge spending” when the pandemic is over, which will underpin demand for retail leasing.

With the luxury retail segment having experienced a severe downturn in the past few months, prime street rents are under substantial downward pressure, with current rents down by about 50%

from the peak in 2014. Going forward, we expect the prime street rents to continue the downward trend as uncertainties persist. While rents of community malls and non-luxury shopping centres will also adjust downward but in a relatively mild extent in the short run.

Retail sales by outlet type (March 2020)

Outlet	Value (HK\$ billion)	Share of total %	Change MoM %	Change QoQ %	Change YoY %
Jewellery, watches and clocks, and valuable gifts	1.7	7.2	6.9	-68.3	-75.2
Clothing, footwear and allied products	1.8	7.8	5.8	-63.1	-66.4
Department stores	2.4	10.5	36.1	-38.7	-42.7
Fuel	0.8	3.4	10.1	-13.3	-8.0
Food, alcoholic drinks and tobacco (excluding supermarkets)	2.7	11.7	-21.6	-29.3	-21.2
Consumer durable goods	3.9	17.0	1.1	-30.2	-31.4
Supermarkets	5.1	22.3	7.6	19.4	16.1
Others	4.6	20.1	-5.5	-38.2	-48.8
All retail outlets	23.0	100.0	1.4	-36.3	-42.0

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

