



8.8%

Availability Rate

YoY
Chg12-Mo.
Forecast

-378K

Net Absorption, SF



HK\$72.8

Net Effective Rent, PSF



(Overall, Grade A)

HONG KONG ECONOMIC INDICATORS
Q3 2019

-2.9%

GDP Growth

YoY
Chg12-Mo.
Forecast

3.2%

CPI Growth



2.9%

Unemployment Rate

Source: Hong Kong Census and Statistics Department,
Oxford Economics

Overall Net Absorption in Q4 Recorded Its Worst Quarterly Performance in 17 Years

Subdued leasing demand brought about by the ongoing social unrest and the holiday seasons led to the overall market recording a net withdrawal of 378,000 sq ft in Q4, the worst quarterly performance since Q2 2001. For the full year, net absorption amounted to just 390,500 sf, the lowest level in three years and only one-third of the five-year historical annual average of 1.17 million sq ft. New lettings concluded this quarter were in smaller scale (in terms of size) compared to previous quarters, with insurance companies among the most active. Two Hong Kong-based insurers, FWD and AIA, expanded into Millennium City 1, Tower 1 in Kwun Tong and The Gateway Extension – Sun Life Tower in Tsimshatsui, respectively.

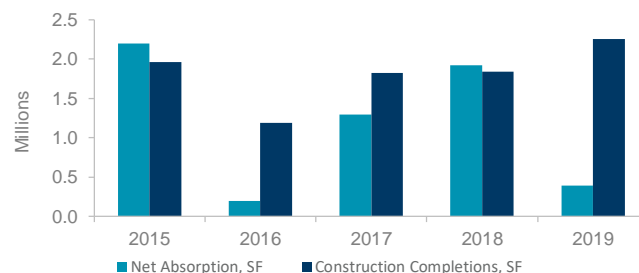
Rentals Fell Across the Board With Core Areas Hit Hardest

Rents in all submarkets retreated in Q4 with core areas being the hardest hit. In Greater Central, limited PRC demand and high availability saw landlords in prime office buildings become more flexible in their leasing terms, leading to a quarterly rental decline of 3.2% in the submarket. For the full year, Greater Central rents retreated by 6.9%, the steepest decline since 2012 (-15.1%). As the social unrest escalated further in Q4, cases of tenants decentralizing to non-core areas fell as many took a wait-and-see approach. As a result, rents in Hong Kong East and Kowloon East retreated slightly, edging down 0.7% q-o-q and 1.1% q-o-q, respectively. Due to the broad-based rental decline, the overall average rental recorded the sharpest quarterly decline in more than six years, retreating 2.5% q-o-q.

Outlook Remains Gloomy Amid Uncertainties

The trade tensions between China and the U.S. are expected to continue to impact the market in 2020 despite a phase-one trade deal scheduled to be signed in mid-January 2020. Meanwhile, local social instability which began in June shows no sign of ending in the near term. Coupled with limited demand from PRC financial services firms and co-working operators (two pillars of growth through 1H19), we expect leasing demand to remain weak in 2020, especially in the city's core areas. Despite only one new building slated to enter the market in 2020, most landlords will be more flexible in rental negotiations to attract tenants and lease their properties. As a result, we forecast rents in the overall market to fall in the range of 10-15% overall with rents in Greater Central retreating the most, down by 13-18%.

SPACE DEMAND / DELIVERIES



Source: Cushman & Wakefield Research

OVERALL GRADE A AVAILABILITY & NET EFFECTIVE RENT



Source: Cushman & Wakefield Research

* Availability rate includes stock that has been confirmed to return to the market over the next 12 months

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	AVAILABILITY (SF)	AVAILABILITY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF) (2020-2023)	GRADE A NET EFFECTIVE RENT		
							HKD\$/SF/MO	US\$/SF/MO	EUR\$/SF/MO
Greater Central	15,455,346	1,216,107	7.9%	(70,806)	(427,667)	925,100	129.5	US\$16.6	€15.0
Wanchai / Causeway Bay	9,332,773	765,938	8.2%	(87,765)	(187,056)	164,200	73.4	US\$9.4	€8.5
Greater Tsimshatsui	10,046,346	681,426	6.8%	(47,519)	149,255	-	66.1	US\$8.5	€7.6
CORE AREA TOTALS	34,834,465	2,663,471	7.6%	(206,090)	(465,468)	1,089,300	96.2	US\$12.3	€11.1
Hong Kong East	8,705,201	454,618	5.2%	(72,061)	195,665	744,800	56.6	US\$7.2	€6.5
Hong Kong South	2,322,667	189,175	8.1%	2,554	11,106	156,700	35.9	US\$4.6	€4.1
Kowloon East	14,826,734	2,064,203	13.9%	(54,494)	645,708	2,315,800	35.9	US\$4.6	€4.1
Kowloon West	3,568,452	282,200	7.9%	(47,899)	3,460	1,630,200	42.7	US\$5.5	€4.9
NON-CORE AREA TOTALS	29,423,054	2,990,196	10.2%	(171,900)	855,939	4,452,900	43.1	US\$5.5	€5.0
HONG KONG OVERALL TOTAL	64,257,519	5,653,667	8.8%	(377,990)	390,471	5,936,800	72.8	US\$9.3	€8.4

Exchange Rate: 1USD = 0.903898 EUR = 7.03146 RMB = 7.82388 HKD = 30.5200 TWD (as of Nov 22, 2019)

*All areas presented are on NFA bases

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF (NFA)	TYPE
Hysan Place	Wanchai/Causeway Bay	The Trade Desk	29,500	Relocation / Expansion
Millennium City 1, Tower 1	Kowloon East	FWD Insurance	23,700	Expansion
Two International Finance Centre	Greater Central	Citadel Investment	22,200	In-house Expansion
One Pacific Place	Greater Central	Huarong Overseas	20,300	Relocation
The Gateway Extension – Sun Life Tower	Greater Tsimshatsui	AIA	19,600	Expansion
C-Bons International Center	Kowloon East	Lands' End	12,100	New Set-up

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	OWNER / DEVELOPER	SF	COMPLETION DATE
88 Yeung Uk Road	Kowloon West	Billion Development	275,500	1Q 2020
NKIL 6582	Kowloon West	New World Development	366,200	2Q 2021
7 Wang Tai Road	Kowloon East	Goldin Financial	310,700	4Q 2021
Two Taikoo Place	Hong Kong East	Swire Properties	744,800	1Q 2022
91 King Lam Street	Kowloon West	New World Development	720,100	3Q 2022
2 Murray Road	Greater Central	Henderson Land	330,000	4Q 2023
Hutchison House Redevelopment	Greater Central	CA Asset Holdings	370,100	4Q 2023

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