

10.0%

Availability Rate

YoY
Chg12-Mo.
Forecast**-525K**

Net Absorption, SF

**HK\$70.0**

Net Effective Rent, PSF



(Overall, Grade A)

**HONG KONG ECONOMIC INDICATORS
Q4 2019**
-2.8%

GDP Growth

YoY
Chg12-Mo.
Forecast**2.9%**

CPI Growth

**3.3%**

Unemployment Rate

Source: Hong Kong Census and Statistics Department,
Oxford Economics
Office Demand Hit Hard by COVID-19 Outbreak

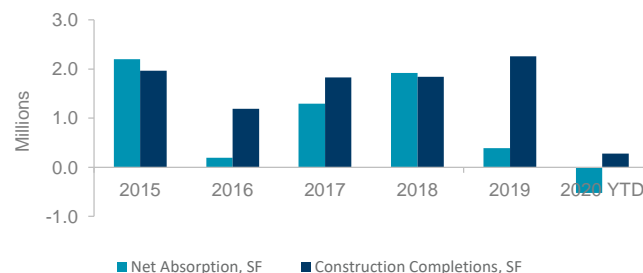
Office demand, already weakened from last year's social unrest, received another blow in Q1 as the COVID-19 outbreak brought Hong Kong to a standstill and companies postponed leasing decisions to address more urgent issues. All in all, the market shrank the most in 18 years, recording a net withdrawal of 525,000 sq ft in the second consecutive quarter of negative absorption. As the outbreak further contributed to an uncertain outlook following last year's social unrest, there were an increasing number of cases of firms downsizing in the quarter. Notable examples included companies within the finance, insurance, and co-working sectors.

Overall Availability Hits Double Digits Pushing Rentals Sharply Lower

Weak demand and the completion of one new office development at 88 Yeung Uk Road in Kowloon West pushed overall availability to a 10-year high of 10.0% in Q1. As a result, rentals, which have trended lower across most submarkets in recent quarters, fell sharply as landlords came under increasing pressure. Core areas were the hardest hit with Greater Central and Wanchai/Causeway Bay rentals retreating by 4.1% and 5.2% q-o-q, respectively, as availability in both submarkets climbed to their highest levels in at least 15 years.

Leasing Demand Forecast to Remain Weak with Rental Declines to Accelerate

As the economic impact from the COVID-19 outbreak continues to grow, leasing activity is expected to remain weak in coming months. Relocation demand – a pillar of growth in recent quarters – is set to remain weak as firms look to preserve capital. Meanwhile, downsizing by some firms, particularly in core areas, will continue to drag net absorption into negative territory in the near term. Amidst an environment of subdued demand and high availability, tenants are expected to enjoy the upper hand in rent negotiations. In view of the deteriorating outlook, office rents in 2020 are forecast to see the steepest annual decline since the Global Financial Crisis, retreating by 13-18% overall and by 15%-20% in Greater Central.

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) (2021-2024)	GRADE A NET EFFECTIVE RENT		
							HKD\$/SF/MO	US\$/SF/MO	EUR\$/SF/MO
Greater Central	15,459,189	1,346,650	8.7%	(135,563)	(135,563)	925,100	125.1	US\$16.1	€14.4
Wanchai / Causeway Bay	9,279,831	824,104	8.9%	(58,166)	(58,166)	164,200	69.6	US\$8.9	€7.9
Greater Tsimshatsui	10,027,988	906,630	9.0%	(231,163)	(231,163)	-	62.4	US\$8.0	€7.2
CORE AREA TOTALS	34,767,008	3,077,384	8.9%	(424,892)	(424,892)	1,089,300	92.1	US\$11.9	€10.7
Hong Kong East	8,705,201	460,740	5.3%	(6,122)	(6,122)	744,800	55.9	US\$7.2	€6.5
Hong Kong South	2,322,667	233,708	10.1%	(44,533)	(44,533)	156,700	33.9	US\$4.4	€3.9
Kowloon East	14,826,734	2,103,966	14.2%	(47,070)	(47,070)	2,449,700	35.0	US\$4.5	€4.0
Kowloon West	3,844,752	560,830	14.6%	(2,330)	(2,330)	1,354,700	40.7	US\$5.2	€4.7
NON-CORE AREA TOTALS	29,699,354	3,359,244	11.3%	(100,055)	(100,055)	4,705,900	42.1	US\$5.4	€4.8
HONG KONG OVERALL TOTAL	64,466,362	6,436,628	10.0%	(524,947)	(524,947)	5,795,200	70.0	US\$9.0	€8.1

Exchange Rate: 1USD = 0.8965 EUR = 6.9574 RMB = 7.7710 HKD = 30.2114 TWD (as of Mar 03, 2020)

*All areas presented are on NFA bases

KEY LEASE TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	TENANT	SF (NFA)	TYPE
The Quayside	Kowloon East	Adidas	55,000	Consolidation / Relocation
The Quayside	Kowloon East	Manulife	36,200	Expansion
PCCW Tower	Hong Kong East	The Executive Centre	25,900	Expansion
Kowloon Commerce Centre – Tower A	Kowloon West	Olympus	24,200	Relocation
One Exchange Square	Greater Central	China Guangfa	13,000	Expansion / Relocation

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	OWNER / DEVELOPER	SF	COMPLETION DATE
NKIL 6582 (Cheung Sha Wan)	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
NKIL 6556 (Kai Tak)	Kowloon East	Nan Fung Group	918,700	2Q 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	CK Asset Holdings	370,100	4Q 2023

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