



12.6%

Availability Rate\*

YoY  
Chg12-Mo.  
Forecast

-624K

Net Absorption, SF

HK\$58.5

Net Effective Rent, PSF

(Overall, Grade A)

Source: Cushman &amp; Wakefield Research

HONG KONG ECONOMIC INDICATORS  
Q3 2020

-3.5%

GDP Growth

YoY  
Chg12-Mo.  
Forecast

-2.1%

CPI Growth

6.3%\*\*

Unemployment Rate

Source: Hong Kong Census and Statistics Department,  
Oxford Economics

\*\* The figure refers to the first two months of Q4 2020

## Net Absorption in 2020 Plummeted by 2.3M sq ft in Steepest Annual Drop on Record

Office demand remained extremely weak in Q4 as many firms continued to contract in the face of challenging economic conditions along with signs that some are shifting to allow a larger percentage of their workforce to work from home on a long-term basis, reducing their office space needs. As a result, overall net absorption of Grade A office space fell by 623,700 sq ft in the quarter, a similar level to that of Q3, and pulling net take-up for the year down to -2.3M sq ft, the steepest annual drop on record. Among active sectors, serviced offices showed signs of growth as Regus expanded into the Gateway Tower 5 Extension by taking two floors (36,700 sq ft) vacated by another international co-working operator. Meanwhile, Hongkong Land reserved two floors in Edinburgh Tower to be operated as a serviced office in a sign landlords are becoming more active in the sector, as a way to backfill vacant space while responding to tenants' desire for greater flexibility.

## Overall Rentals Fall Back to 2014 Level as Availability Rate Climbed to the Highest Level Since 2005

Subdued leasing demand coupled with a rising amount of surrender and sublet space pushed availability higher in Q4, with the overall availability rate climbing one percentage point in the quarter to 12.6%, the highest level since Q1 2005. Against this backdrop, rentals across all submarkets continued to retreat in Q4. Overall, average rentals experienced the steepest quarterly decline since Q2 2009, falling by 6.3% and bringing the full year decline to 19.3%. Among all districts, Greater Central continued to suffer most with rentals falling 6.7% q-o-q and 22.4% y-o-y on average respectively, while Hong Kong East continued to outperform other districts supported by an availability rate that remains in the single digits, with the average rental down by 12.7% y-o-y.

## Weak Economic Environment Set to Persist into 2021

Although there was positive news in the quarter in the global fight against COVID-19 with the arrival of several vaccines, the near-term impact on the local market will be minimal as firms continue to face a challenging economic environment while also weighing possible shifts to working from home. Thus, leasing demand is expected to remain subdued, particularly in the first half of the year, and surrendered space may continue to climb. As a result, although new supply is set to remain limited, vacancy rates are forecast to climb further, continuing to put pressure on rentals. Overall, rentals are forecast to fall between 11% and 16% over 2021, led by declines in Greater Central of between 13% and 18% as landlords face increasing competition to retain tenants and backfill vacant spaces. Longer term, however, leasing activity should begin to rebound later in the year as large occupiers are likely to take advantage of the downturn to consolidate at reduced rents in several major projects set for completion in 2022.

## SPACE DEMAND / DELIVERIES



Source: Cushman &amp; Wakefield Research

## OVERALL GRADE A AVAILABILITY &amp; NET EFFECTIVE RENT



Source: Cushman &amp; Wakefield Research

\* Availability rate includes confirmed leasing stock that is currently vacant or becoming vacant 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) (2021-2025)	GRADE A NET EFFECTIVE RENT		
							HKD\$/SF/MO	US\$/SF/MO	EUR\$/SF/MO
Greater Central	15,467,110	1,682,890	10.9%	(115,531)	(507,579)	948,500	101.2	US\$13.1	€11.0
Wanchai / Causeway Bay	9,284,554	1,195,562	12.9%	(152,984)	(429,532)	574,500	58.7	US\$7.6	€6.4
Greater Tsimshatsui	10,042,944	1,201,692	12.0%	(107,043)	(532,232)	-	54.0	US\$7.0	€5.9
<b>CORE AREA TOTALS</b>	<b>34,794,608</b>	<b>4,080,144</b>	<b>11.7%</b>	<b>(375,558)</b>	<b>(1,469,343)</b>	<b>1,523,000</b>	<b>76.2</b>	<b>US\$9.8</b>	<b>€8.3</b>
Hong Kong East	8,728,284	734,130	8.4%	(26,940)	(279,406)	744,800	49.4	US\$6.4	€5.4
Hong Kong South	2,324,410	271,540	11.7%	(24,059)	(82,365)	154,000	30.6	US\$3.9	€3.3
Kowloon East	14,809,759	2,370,010	16.0%	(163,183)	(334,022)	2,438,300	30.5	US\$3.9	€3.3
Kowloon West	3,847,228	671,916	17.5%	(33,916)	(130,017)	1,403,500	34.9	US\$4.5	€3.8
<b>NON-CORE AREA TOTALS</b>	<b>29,709,681</b>	<b>4,047,596</b>	<b>13.6%</b>	<b>(248,098)</b>	<b>(825,810)</b>	<b>4,740,600</b>	<b>36.8</b>	<b>US\$4.7</b>	<b>€4.0</b>
<b>HONG KONG OVERALL TOTAL</b>	<b>64,504,289</b>	<b>8,127,740</b>	<b>12.6%</b>	<b>(623,656)</b>	<b>(2,295,153)</b>	<b>6,263,600</b>	<b>58.5</b>	<b>US\$7.5</b>	<b>€6.3</b>

Exchange Rate: 1USD = 0.8409 EUR = 6.5746 RMB = 7.7515 HKD = 28.4780 TWD (as of November 25, 2020)

\*All areas presented are on NFA bases

## KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	SF (NFA)	TYPE
The Gateway Tower 5 (Extension)	Greater Tsimshatsui	Regus	36,700	Expansion
AXA Tower, Landmark East	Kowloon East	Crystal International Group	29,800	Relocation
The Quayside, Tower 1	Kowloon East	Adidas	18,300	Relocation
Neo (8 Bay East)	Kowloon East	Man Fai Tai Holdings	17,200	Relocation
Tower 1, Times Square	Wanchai/Causeway Bay	Perfect Shape	12,900	Expansion

## KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	OWNER / DEVELOPER	SF	COMPLETION DATE
Landmark South	Hong Kong South	Sino Land (60%) / Empire Group (40%)	154,000	4Q 2021
Two Taikoo Place	Hong Kong East	Swire Properties	744,800	2Q 2022
AIRSIDE	Kowloon East	Nan Fung Group	918,700	2Q 2022
91 King Lam Street	Kowloon West	New World Development	720,100	3Q 2022
98 How Ming Street	Kowloon East	SHKP (50%) / Transport International (50%)	487,800	3Q 2022
2 Murray Road	Greater Central	Henderson Land	330,000	2Q 2023
Cheung Kong Centre 2	Greater Central	CK Asset Holdings	378,300	4Q 2023

Source: Cushman & Wakefield Research

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