real estate advisory

Hong Kong • Singapore

HONG KONG • 2020

MARKET OVERVIEW

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2019

MARKET HIGHLIGHTS

With the continuation of the China-US trade war, economic uncertainty featured prominently in early 2019. Despite concerns, the low vacancy rate environment carried over from 2018, leading to a slight increase in the CBD's rental rate.

Decentralisation was still the main focus for MNCs, which resulted in steady rental growth in submarkets on Hong Kong Island, particularly Island East. Kowloon East saw a number of new completions which provided additional options for corporations pursuing a departure from traditional core districts..

In the midst of the China-US trade war and looming economic uncertainty. Hong Kong businesses were also affected by a number of social movements, with the local unrest forcing businesses to take precautionary measures by cutting costs and identifying contingency plans.

Consolidations from MNCs and flexible workspace operators affected vacancy rates, particularly Kowloon East where the majority of tenants are in the trading sector. With weak demand across all market sectors, office rental rates were pressured into negative territory in the last quarter of 2019.

VACANCY RATES & DEMAND

Hong Kong office demand has dropped significantly as corporations continue to take a cautious approach towards new lease commitments amidst global economic uncertainty caused by the outbreak of COVID-19, as well as the US-China trade war and social unrest carried over from 2019. Decentralisation remains a key focus, with the majority of recorded take-ups in Kowloon East.

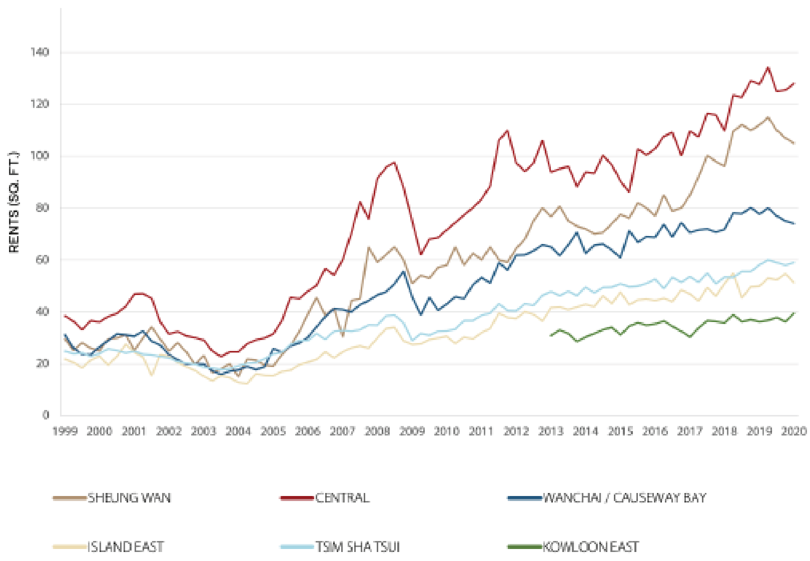
Increased vacancy rates across all districts has exerted downward pressure on overall market rents, leading to a decrease of 1% month-on-month (m-o-m). Central in particular, saw vacancy rates rise to 4%, the first time it has reached this level in over 5 years.

With weakening demand, new lettings in prime locations such as Central dropped an estimated 50% m-o-m. The majority of activities were primarily driven by existing tenants within the central business district (CBD) that were seeking expansion and relocation within the same district.

With the slowdown of the office leasing market, the already quiet investment market recorded only an ample number of transactions, of which the lump sum of transactions were relatively small and outside the CBD.

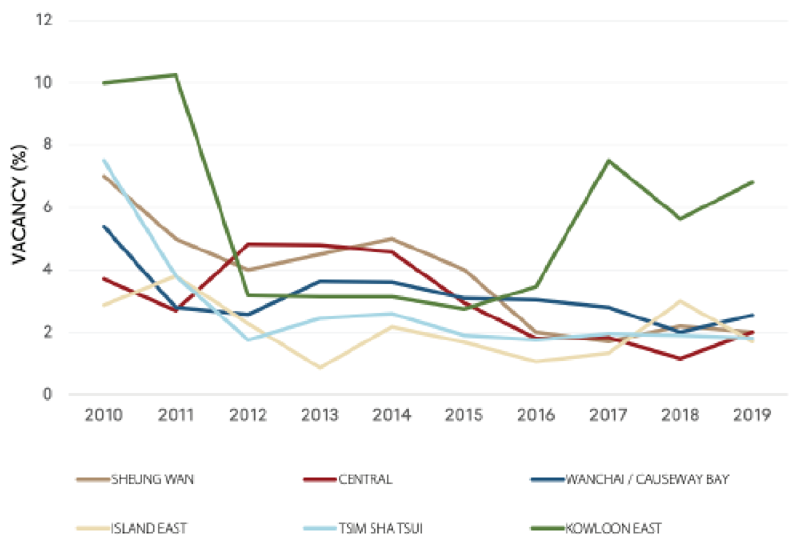
While we expect corporations to remain cautious on their real estate decisions, flexible space operators such as serviced offices and co-working spaces will focus on attracting companies that are looking at cost saving, flexible office solutions, especially with home office arrangements becoming more of the norm in 2020.

AVERAGE HONG KONG OFFICE RENTAL RATES (BY DISTRICT)



Source: Ratings and Valuations Department Hong Kong

HONG KONG OFFICE VACANCY RATES



Source by: VestAsia Hong Kong

NEW SUPPLY

A lack of new supply means activities for large floor take up will be limited this year. A total of 510,000 sq.ft. of office space will be completed in 2020, marking a 14 year low. The majority of completions in 2020 will be situated in decentralised locations, meaning that core locations are unlikely to see dramatic reductions in asking rentals as supply remains constrained in these districts.

New supply in Central will remain low over the next 3 years, with the next significant developments due for completion being the Murray Road car park redevelopment (2022) and Hutchison House redevelopment (2023), which will add approx. 700,000 sq.ft. of prime office space.

With new supply of approx. 1 million sq.ft. due to come on the market in 2021 and further development in the pipeline for 2022 and 2023, it is likely that 2020 will be a year of transition, where corporations look to study their longer term office plans and decide whether there remains a necessity to occupy a CBD location or whether it is worth restructuring and confirming brand new spaces ahead of completion in 2021.

NEW DEVELOPMENTS 2019-2023

DEVELOPMENT	LOCATION	ESTIMATED SIZE (SQ.FT.)	ESTIMATED COMPLETION
2019			
The Gateway Extension	Tsim Sha Tsui	275,000	Q4 2019
2020			
Connaught Marina	Sheung Wan	47,000	Q3 2020
2021			
NKIL 6582	Kowloon West	366,000	Q1 2021
2022			
Two Taikoo Place	Hong Kong East	737,000	Q1 2022
91 King Lam Street	Kowloon West	720,000	Q3 2022
Murray Road	Central	330,000	Q3 2022
2023			
NKIL 6572	Kowloon West	268,000	Q2 2023
Hutchison House Redevelopment	Central	370,000	Q4 2023
Site C Peel Street	Central	TBC	TBC

MARKET FORECAST

Emerging from a turbulent 2019 and amidst a current global economic slowdown due to COVID-19, we expect rental corrections across all districts in 2020. We anticipate rental rates in the CBD to fall between 10-15% and Grade A buildings in other districts to see falls in the range of 10-20%.

Companies in trading/sourcing, logistics and consumer goods are likely to be the first to suffer, resulting in higher vacancy rates and rental reductions in Causeway Bay, Tsim Sha Tsui and Kowloon East.

However, with Hong Kong's geographic proximity to China, and reputation as an IPO hotspot, we foresee rental adjustments in Central will remain constant. With decentralisation continuing to be key trend, landlords in the submarket will be keen to provide incentives for prospective tenants to fill up their buildings.

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ABOUT VESTASIA

VestAsia Hong Kong is a commercial real estate brokerage and consultancy firm specialising in conflict-free tenant representation. We assist multinational corporations in the setting-up, relocation and leasing of their office spaces and branches in Hong Kong and across South East Asia.

We welcome any enquiries or feedback on our services. Please feel free to contact us should you require any further information.

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