

10.7%
Availability Rate

YoY Chg	12-Mo. Forecast
▲	▲

-514K
Net Absorption, SF

YoY Chg	12-Mo. Forecast
▼	▼

HK\$65.6
Net Effective Rent, PSF

YoY Chg	12-Mo. Forecast
▼	▼

(Overall, Grade A)

HONG KONG ECONOMIC INDICATORS Q1 2020

-8.9%
GDP Growth

YoY Chg	12-Mo. Forecast
▼	▲

2.3%
CPI Growth

YoY Chg	12-Mo. Forecast
▼	▼

4.2%
Unemployment Rate

YoY Chg	12-Mo. Forecast
▲	▲

Source: Hong Kong Census and Statistics Department, Oxford Economics

Net Absorption Remains in Negative Territory for Third Consecutive Quarter

Office demand in Q2 continued to contract as business conditions worsened under the prolonged impact of the COVID-19 outbreak. As the economic outlook soured, firms from across a growing number of sectors sought to reduce costs by surrendering space in the quarter. As a result, the overall market recorded a net withdrawal of 513,510 sq ft, a similar level to that in Q1 and the third consecutive quarter of negative take-up. In all, a combined 1.4 million sq ft of office space has been returned to the market over the past three quarters. Despite the overall weak market sentiment, there was an uptick in activity among mainland Chinese firms committing to new spaces in Greater Central. In one example, China Merchants Bank expanded its office in Three Garden Road - Champion Tower by leasing another floor of 14,900 sq ft on top of its existing two floors within the same building, while in another, China Minsheng Bank committed to an additional half floor (11,000 sq ft) in Two International Finance Centre, adding to its existing 22,200 sq ft space in the same building.

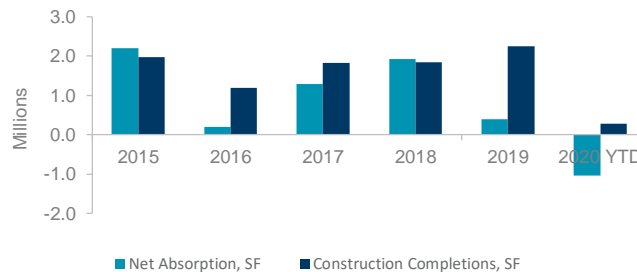
Overall Availability Hits a 15-Year High, Increasing Pressure on Landlords

Weak leasing demand coupled with numerous occupiers surrendering space across the city pushed the overall availability to a 15-year high of 10.7% in Q2, despite the absence of new supply. The rising availability fueled rental declines across all districts, with the overall average rental falling by 5.8% q-o-q. Among all districts, Greater Central saw the steepest rental contraction in the quarter, with average rentals in the submarket falling 7.5% q-o-q in an acceleration over a drop of 4.1% in Q1. In addition to reduced rents, some landlords have also begun to offer a wider range of incentives in an effort to backfill space being vacated or to retain tenants. For new tenants, these have included longer rent-free periods, partial fit-out subsidies or more flexible rights to sub-let space, while for new tenants some landlords have agreed to early lease restructures.

Weak Leasing Demand Forecast to Persist Into Second Half of Year

As the COVID-19 outbreak continues to exert pressure on business performance, many firms will likely maintain a wait-and-see attitude towards business expansion plans, reducing office demand over the near-term. Some may also consider downsizing offices as they explore allowing staff to work from home or even reduce headcount to save overall operation costs. The rising availability, coupled with weak leasing momentum, is likely to persist into the second half of the year, with landlords remaining flexible in lease negotiations and leading to further declines in office rents.

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	1,402,480	9.1%	(88,415)	(223,978)	925,100	115.7	US\$14.9	€13.4
Wanchai / Causeway Bay	9,279,831	953,295	10.3%	(129,101)	(187,267)	161,000	65.9	US\$8.5	€7.6
Greater Tsimshatsui	10,027,988	956,731	9.5%	(56,206)	(287,369)	-	59.1	US\$7.6	€6.9
CORE AREA TOTALS	34,767,008	3,312,506	9.5%	(273,722)	(698,614)	1,086,100	86.0	US\$11.1	€10.0
Hong Kong East	8,705,201	546,604	6.3%	(85,876)	(91,998)	744,800	54.4	US\$7.0	€6.3
Hong Kong South	2,322,667	233,163	10.0%	545	(43,988)	156,700	32.2	US\$4.2	€3.7
Kowloon East	14,815,800	2,196,729	14.8%	(113,671)	(160,741)	2,449,700	33.5	US\$4.3	€3.9
Kowloon West	3,844,764	585,107	15.2%	(40,786)	(43,116)	1,354,700	38.0	US\$4.9	€4.4
NON-CORE AREA TOTALS	29,688,432	3,738,567	12.0%	(239,788)	(339,843)	4,705,900	40.4	US\$5.2	€4.7
HONG KONG OVERALL TOTAL	64,455,440	6,874,109	10.7%	(513,510)	(1,038,457)	5,792,000	65.9	US\$8.5	€7.6

Exchange Rate: 1USD = 0.8983 EUR = 7.1278 RMB = 7.7512 HKD = 29.9062 TWD (as of June 1, 2020)

*All areas presented are on NFA bases

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF (NFA)	TYPE
Hysan Place	Wanchai / Causeway Bay	Regus	30,200	In-house Expansion
Three Garden Road - Champion Tower	Greater Central	CMB International	14,900	In-house Expansion
Hysan Place	Wanchai / Causeway Bay	Blue Capital	14,700	Expansion / Relocation
South Island Place	Hong Kong South	Fleet Management	12,000	In-house Expansion
Two International Finance Centre	Greater Central	China Minsheng Bank	11,000	In-house Expansion

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	OWNER / DEVELOPER	SF	COMPLETION DATE
888 Lai Chi Kok Road	Kowloon West	New World Development	366,200	4Q 2021
Two Taikoo Place	Hong Kong East	Swire Properties	744,800	1Q 2022
Airside	Kowloon East	Nan Fung Group	918,700	2Q 2022
91 King Lam Street	Kowloon West	New World Development	720,100	3Q 2022
7 Wang Tai Road	Kowloon East	Goldin Financial	310,700	4Q 2022
2 Murray Road	Greater Central	Henderson Land	330,000	2Q 2023
Hutchison House Redevelopment	Greater Central	CK Asset Holdings	370,100	4Q 2023

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