Weak leasing demand was indicated by negative net take-up and rising vacancies. Landlords have offered more incentives and discounts. PRC firms and flexible workspace continued consolidating. Investment volume dropped 77.4% QOQ to HKD1.5 billion (USD187 million) and Grade A office prices declined 1% QOQ amid uncertainties.

Due to the slow economy, demand should stay weak and rents will likely fall in 2020 despite very little new supply. We recommend tenants desiring Central offices look now considering the higher vacancies and lower rents. Whilst we expect strata-office prices to fall by 10% in 2020, this should provide a window of opportunity for investors.

### Q4 2019 highlights

- Weak leasing demand was indicated by negative net take-up and rising vacancies.
- Landlords have offered more incentives and discounts. PRC firms and flexible workspace continued consolidating.
- Investment volume dropped 77.4% QOQ to HKD1.5 billion (USD187 million) and Grade A office prices declined 1% QOQ amid uncertainties.

### Outlook/recommendations

- Due to the slow economy, demand should stay weak and rents will likely fall in 2020 despite very little new supply.
- We recommend tenants desiring Central offices look now considering the higher vacancies and lower rents.
- Whilst we expect strata-office prices to fall by 10% in 2020, this should provide a window of opportunity for investors.

### Key markets (QOQ rental change)

- **Central/Admiralty** -3.9%
- **Wong Chuk Hang** -4.5%
- **Wan Chai/Causeway Bay** -4.6%
- **Tsim Sha Tsui** -1.2%
- **Island East** -2.4%
- **Kowloon East** -2.4%
- **Sheung Wan** -4.3%
- **Kowloon West** -0.7%

### Hong Kong Grade A office vacancy trend

Source: Colliers International. Note: 10.76 sq feet = 1 sq metre. Rents are in per sq ft per month. This report covers the Hong Kong Special Administrative Region of the People’s Republic of China.
The slow market momentum to continue in 2020

> With cases of MNCs, banks and PRC firms downsizing or relocating out of the CBD, we expect CBD rents to fall by 13.1% in 2020. Kowloon East should under pressure from the high vacancy rate despite limited supply in 2020.

> Flexible workspace and PRC firms should continue to consolidate in 2020. Most other industries should remain cautious amid uncertainties. However, we expect business outlook and office demand to recover during the year of strong supply in 2021.

> Strata-title Grade A office prices in the CBD should see a double-digit fall in 2020, indicating a potential rise of office yields, providing good opportunities for investors.

A weakening market

> Tenants have been looking for lower-cost locations. CBD vacancy rose 1 pps in Q4 to 4.5%.

> In Q4, as Wan Chai/Causeway Bay took the lead in dropping rents, it became the key relocation destination on the Island. Tenants entering the area include PRC firms and legal firms.

> With buyer sentiment affected by the social unrest, only one en bloc transaction was recorded, for HKD448 million (USD57 million). The strata-title office volume fell by 81.7% QOQ to HKD1 bn (USD129 mn).

> The total number of transactions dropped 43.1% QOQ, indicating a very quiet market.

### Hong Kong Grade A office rental trend

- **Central / Admiralty**
- **Sheung Wan**
- **Wan Chai / Causeway Bay**
- **Island East**
- **Wong Chuk Hang**
- **Tsim Sha Tsui**
- **Kowloon East**
- **Kowloon West**
- **Overall**

Source: Colliers International
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