COLLIERS QUARTERLY

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KOWLOON EAST ONLY SUBMARKET WITH POSITIVE NET TAKE-UP IN Q3

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Insights/recommendations

> We expect demand will remain subdued through Q4 2020, until the economy begins recovering in 2021 with GDP forecast at 5%[1].

> The optimistic IPO pipeline and gradual relaxation of the PRC's finance sector is a bright spot for office leasing demand in the next 12 months.

> We recommend occupiers to pay attention to upgrade opportunities in the core area given the rental downfall. We anticipate office rents to stablize in H2 2021.

Q3 2020 highlights

> Office demand stayed sluggish in Q3 given the weaker economy, with some surrender cases observed across different submarkets.

> Rents remained under pressure, given the lifted vacancy as more MNC firms downsizing their space.

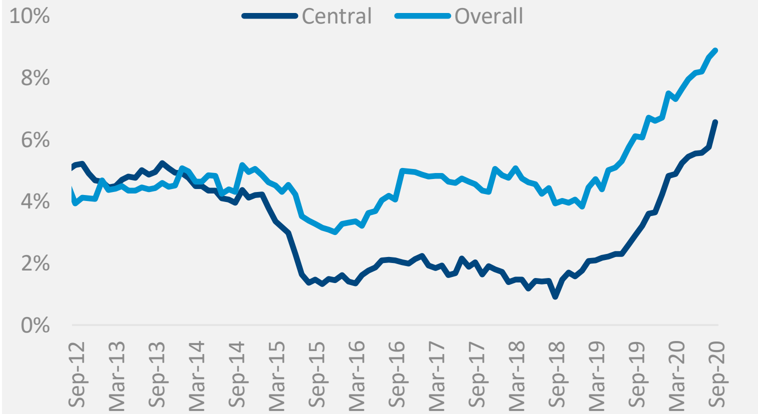
	Q3 2020	Full Year 2020	2020–24 Annual Average
Demand	-539,200 sq ft	-1.8 million sq ft	840,000 sq ft
Supply	0 sq ft	253,800 sq ft	1.7 million sq ft

	QOQ / End Q3	YOY / End 2020	Annual Avg Growth 2019–24 / End 2024
Rent	-5.1% / HKD64.1	-16.8% / HKD61.7	-1.2% / HKD69.7
Vacancy	0.8pps / 8.9%	2.8pps / 9.4%	0.9pps / 11.3%

QOQ rental change, key markets

Central/Admiralty -7.1%	Wong Chuk Hang -3.2%
Wan Chai/Causeway Bay -4.0%	Tsim Sha Tsui -4.7%
Island East -3.4%	Kowloon East -3.8%
Sheung Wan -3.8%	Kowloon West -0.8%

Hong Kong Grade A office vacancy trend



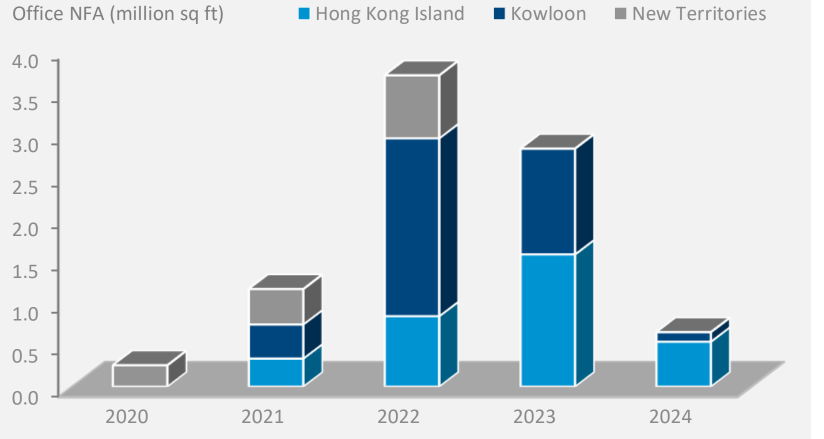
Source: Colliers International. Note: 10.76 sq feet = 1 sq metre. USD1 = HKD7.8. Rents are per sq ft per month. This report covers the Hong Kong Special Administrative Region of the People's Republic of China. [1]Forecast by Oxford Economics.

Outlook

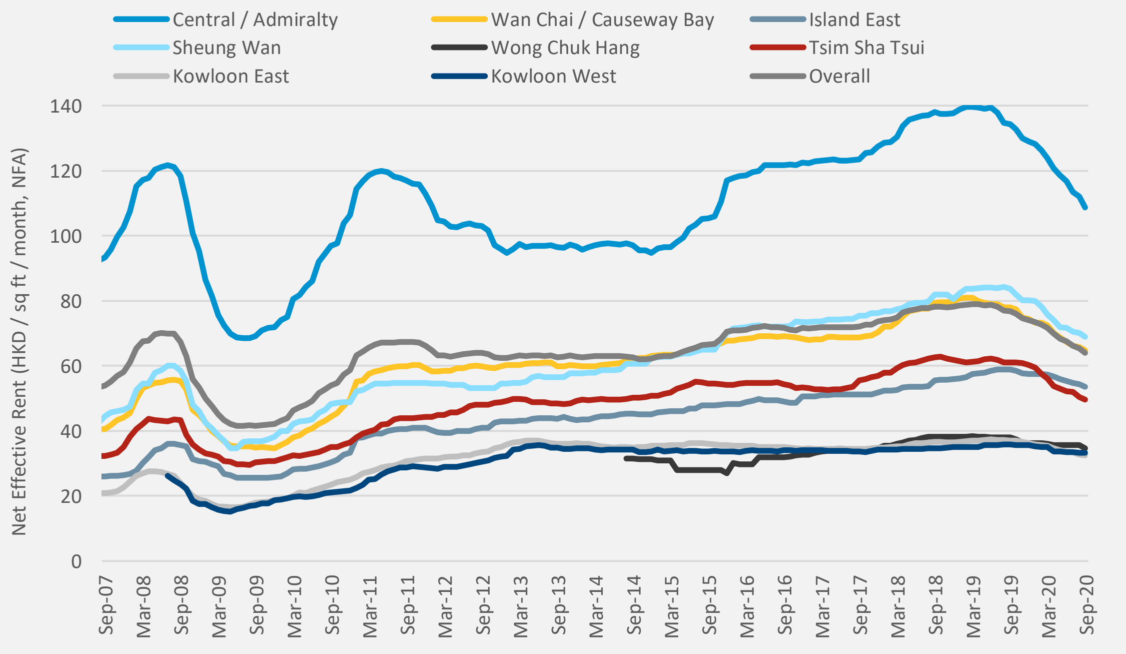
IPOs & wealth management firms to stimulate demand

- Colliers expects landlords will likely face more competitions in backfilling the returned spaces towards end-2020 amid the slow economy and high vacancy.
- In 2020, we forecast overall and CBD rents to fall by 17% YOY and 20% YOY, respectively, before they start to stabilise from 2021 onwards. We recommend occupiers to use a blend and extend strategy, negotiating lower rents in Central / Admiralty core for longer-term commitments.
- We believe the upcoming IPO pipeline, gradual opening up of China's finance sector, and the cross-border initiatives between Hong Kong and mainland China, should help to attract more PRC firms setting up offices in Hong Kong for financial services and benefit office demand.

New supply in 2020-2024



Hong Kong Grade A office rental trend



Q3 2020

Rents remained under pressure

- Office demand remained subdued, with increased surrendered space. However, Kowloon East in Q3 recorded a positive net take-up of 114,900 sq ft (10,700 sq m)
- Whilst the landlords have been more flexible to provide attractive lease terms, some occupiers, including private banks, wealth management and insurance firms, are seeking upgrading and expansion opportunities around the CBD area.
- The quarter witnessed more MNCs downsizing, pushing up vacancy to 8.9%, the highest level since Oct-2004. Rents corrected across the board, with Admiralty (-8.7% QOQ), Central (-6,7% QOQ) and Tsim Sha Tsui (-4.7% QOQ) declining the most.

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