

TIME FOR OCCUPIERS TO STRATEGIZE WITH MORE BARGAINING OPPORTUNITIES AHEAD

Rosanna Tang
Head of Research |
Hong Kong SAR and Southern China
+852 2822 0514
rosanna.tang@colliers.com

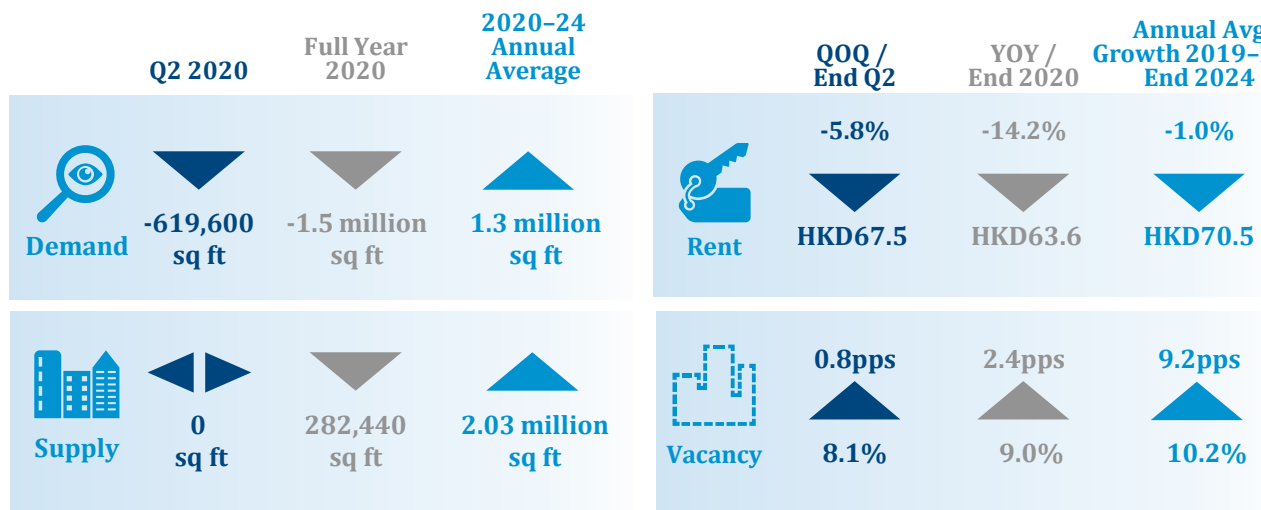
Anthony Wong
Assistant Manager | Research | Hong
Kong SAR
+852 2822 0588
anthony.wong@colliers.com

Insights/recommendations

- > In H2, global economic slowdown is expected to continue to weigh on sentiment and office leasing momentum as occupiers have turned more cautious.
- > Occupiers should take advantage of their bargaining power and the greater space availability & landlord flexibility to upgrade.
- > We expect to see some return of mainland Chinese demand as more PRC firms seek dual-listing opportunities in HK.

Q2 2020 highlights

- > Corporates turned more cost-conscious, with some MNCs, trading firms and co-working operators downsizing in Q2, pushing vacancies up to 8.1%
- > Rents further softened across submarkets amid weaker take-up, with overall and CBD rents falling back to 2015 levels.



QOQ rental change, key markets

Central/Admiralty -5.6%	Wong Chuk Hang -1.1%
Wan Chai/Causeway Bay -6.9%	Tsim Sha Tsui -7.2%
Island East -3.3%	Kowloon East -4.8%
Sheung Wan -5.6%	Kowloon West -4.2%

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.

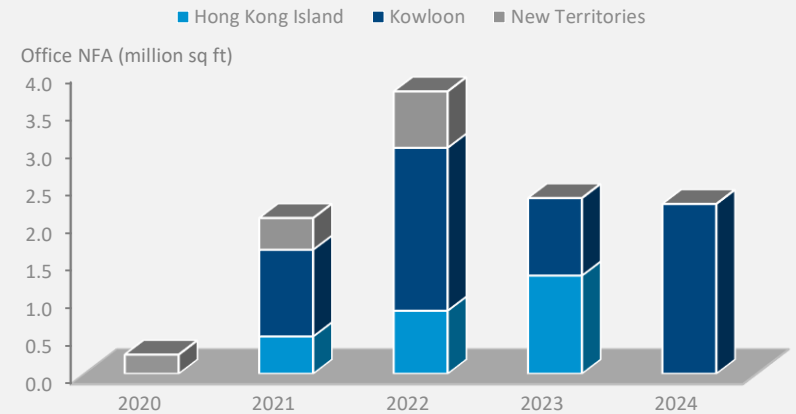


Outlook

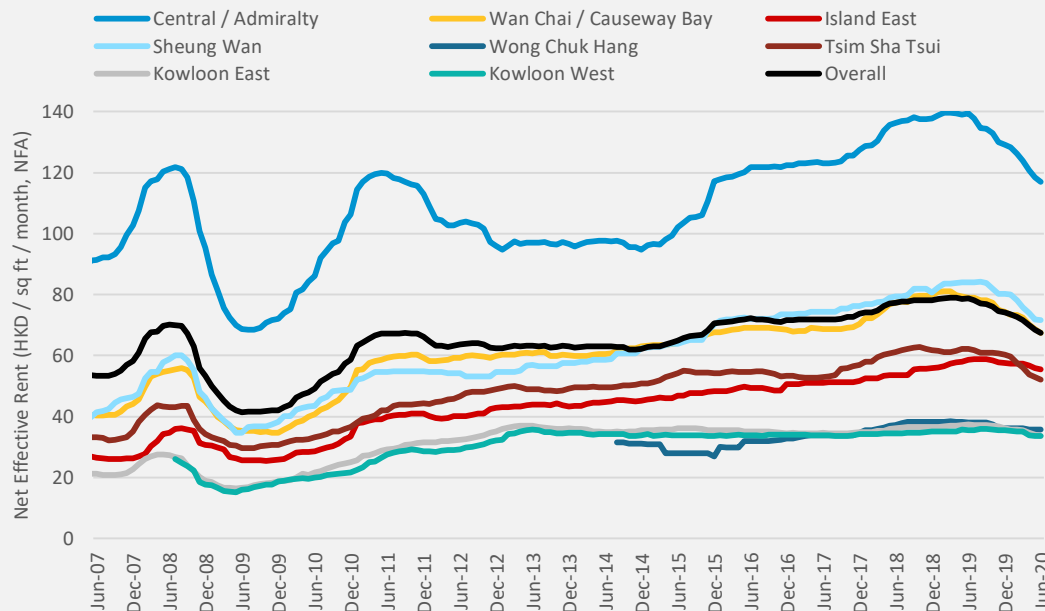
Potential return of demand from mainland Chinese firms

- > Despite the limited Grade A office supply in 2020, we expect the vacancy rate to continue edging upwards this year given the relatively muted new demand.
- > We recommend occupiers plan ahead for their space needs and take advantage of the current rental correction cycle. In 2020, we forecast overall rents and CBD rents to fall by 14% YOY and 18% YOY, respectively, providing more leasing options at attractive rental rates.
- > We believe the tightening of regulations on US-listed Chinese companies should encourage more mainland Chinese firms to list in Hong Kong. The closer integration of the Greater Bay Area should also help support demand from Chinese occupiers in the longer-term.

New supply in 2020-2024



Hong Kong Grade A office rental trend



Q2 2020

Rents stayed under pressure

- > While most occupiers have resumed working from their offices in Q2, we observed an uptick of enquiries from tenants seeking to bargain for rental relief or more cost-effective relocation options.
- > Office demand remained subdued, with surrendered space contributing to a negative net take-up of -619,600 sq feet (-57,560 sq metres) in Q2.
- > Some landlords may face challenges in backfilling the returned spaces and become more flexible in rental negotiations. Among key submarkets, rents in Admiralty (-7.6% QOQ), Wan Chai (-7.5% QOQ) and Tsim Sha Tsui (-7.2% QOQ) experienced the most notable quarterly decline.

Primary Author:

Anthony Wong

Assistant Manager | Research | Hong Kong SAR
+852 2822 0588

Anthony.Wong@colliers.com

For further information, please contact:

Nigel Smith

Managing Director | Hong Kong SAR
+852 2822 0508

Nigel.Smith@colliers.com

Fiona Ngan

Head of Office Services | Hong Kong SAR
+852 2822 0751

Fiona.Ngan@colliers.com

Rosanna Tang

Head of Research | Hong Kong SAR and Southern China
+852 2822 0514

Rosanna.Tang@colliers.com

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than \$3.0 billion (\$3.5 billion including affiliates), with \$33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, [Twitter](#) or [LinkedIn](#)

Copyright © 2020 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

