HONG KONG OFFICE AND RETAIL LEASING MARKETS

Q3 2022

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OFFICE MARKET

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Overall Rental Remained Under Pressure

Correction most notable in Greater Tsimshatsui and Greater Central

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Submarkets	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q-o-Q Δ With Q3 new completions	Q-o-Q Δ Without Q3 new completions	YTD Δ	2022 FY Forecast
Prime Central	$113.1	$114.7	$113.7	$111.6	$108.9	-2.4%	-2.4%	-5.0%	-6 ~ -5%
Greater Central	$96.8	$98.3	$97.8	$96.7	$94.7	-2.1%	-2.1%	-3.7%	-5 ~ -4%
Wanchai / Causeway Bay	$56.0	$55.9	$55.6	$55.2	$54.5	-1.2%	-1.2%	-2.5%	-4 ~ -3%
Hong Kong East	$48.6	$47.5	$46.4	$45.7	$46.0	0.7%	-1.2%	-3.2%	-5 ~ -4%
Hong Kong South	$30.3	$29.8	$29.3	$29.1	$29.2	0.3%	0.0%	-2.0%	-3 ~ -2%
Greater Tsimshatsui	$49.7	$49.0	$48.9	$49.1	$47.6	-3.1%	-3.1%	-2.8%	-4 ~ -3%
Kowloon East	$28.9	$29.3	$29.1	$29.1	$29.3	0.7%	-0.6%	0.1%	-1 ~ 0%
Kowloon West	$34.8	$34.9	$35.0	$34.3	$33.9	-1.0%	-1.0%	-2.7%	-4 ~ -3%
All Districts Average	**$55.9**	**$56.1**	**$55.6**	**$55.1**	**$53.9**	**-2.3%**	**-1.6%**	**-4.0%**	**-5 ~ -3%**

Unit: Net effective rent, HK$ / sf / month

Prime Central: *12 prime office buildings in Greater Central*

Greater Central*: Admiralty, Central and Sheung Wan including Prime Central*

Hong Kong East*: North Point, Quarry Bay and Tai Koo Shing*

Hong Kong South*: Wong Chuk Hang and Pok Fu Lam*

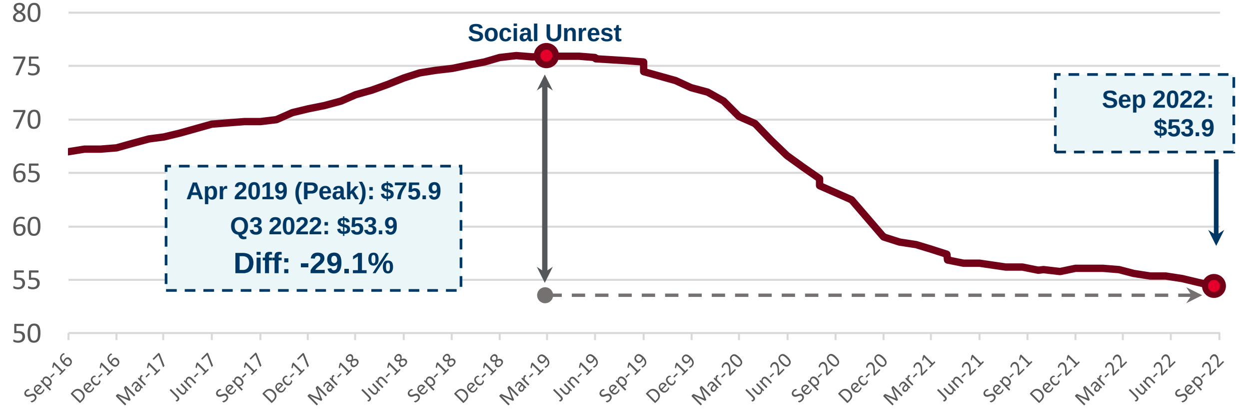
Greater Tsimshatsui*: Tsimshatsui, Tsimshatsui East, Hung Hom and Kowloon Station*

Kowloon East*: Kwun Tong, Ngau Tau Kok, Kowloon Bay and Kai Tak*

Kowloon West*: Kowloon Tong, Mongkok, Cheung Sha Wan, Kwai Chung and Tsuen Wan*

Rents are based on net area, and exclusive of air conditioning & management fees, and government rates

All District Average Rents
(Net Effective Rent, HK$ psf/m)



Source: Cushman & Wakefield Research

Positive Net Absorption Led by Commitment in New Completions

Yet leasing momentum remained slow amid overall weak new demand

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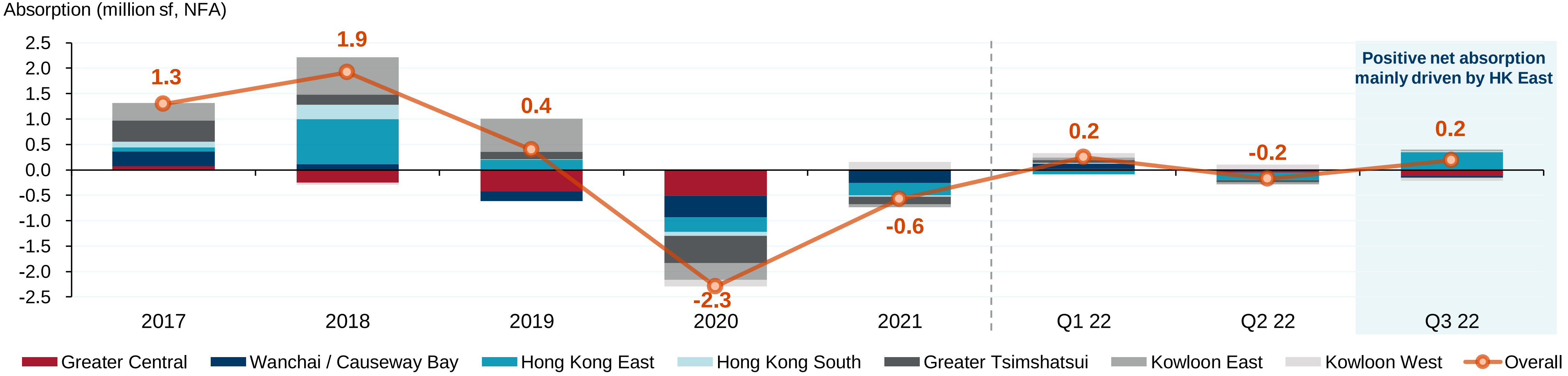
Submarkets	2017	2018	2019	2020	2021	Q1 22	Q2 22	Q3 22
Greater Central	67,000	-247,500	-427,700	-507,600	10,400	18,100	-55,500	-119,200
Wanchai / Causeway Bay	299,900	115,000	-187,100	-429,500	-261,700	101,400	7,400	-31,800
Hong Kong East	76,900	878,700	195,700	-279,400	-241,500	-84,200	-142,200	347,800
Hong Kong South	108,700	285,000	11,100	-82,400	-20,800	14,900	6,000	25,300
Greater Tsimshatsui	415,000	202,400	149,300	-532,200	-152,500	54,300	-45,000	-2,200
Kowloon East	352,300	736,100	645,700	-334,000	-59,300	53,500	-39,100	26,700
Kowloon West	-27,300	-50,800	3,500	-130,000	146,800	87,000	91,600	-63,200
Overall	**1,292,500**	**1,919,000**	**390,500**	**-2,295,200**	**-578,700**	**245,100**	**-176,900**	**183,400**

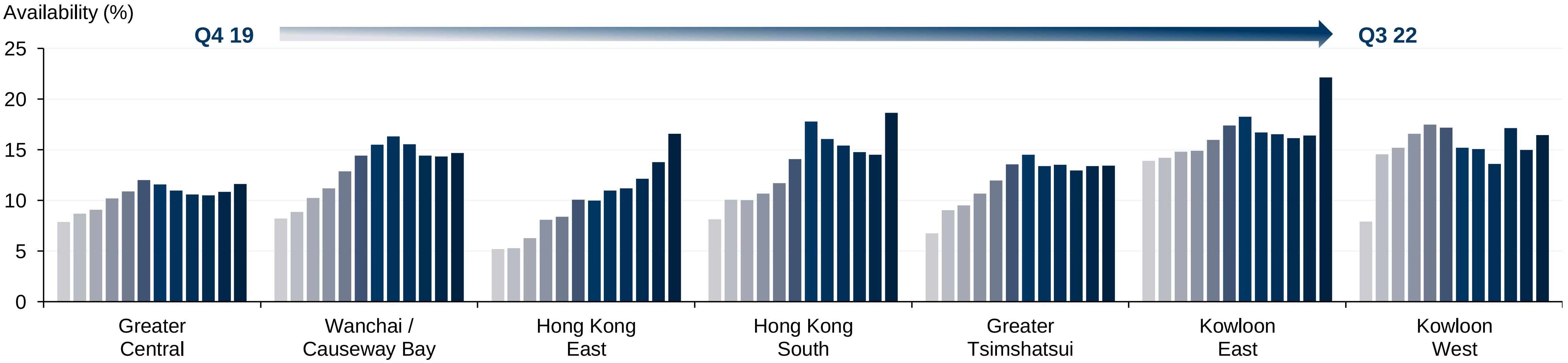


Source: Cushman & Wakefield Research

Overall Availability Increased Notably

New completions pushed up the availability in non-core submarkets

Submarkets	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22
Greater Central	7.9%	8.7%	9.1%	10.2%	10.9%	12.0%	11.6%	11.0%	10.6%	10.5%	10.9%	11.6%
Wanchai / Causeway Bay	8.2%	8.9%	10.3%	11.2%	12.9%	14.4%	15.5%	16.3%	15.5%	14.4%	14.4%	14.7%
Hong Kong East	5.2%	5.3%	6.3%	8.1%	8.4%	10.1%	10.0%	11.0%	11.2%	12.2%	13.8%	16.6%
Hong Kong South	8.1%	10.1%	10.0%	10.7%	11.7%	14.1%	17.8%	16.1%	15.4%	14.8%	14.5%	18.7%
Greater Tsimshatsui	6.8%	9.0%	9.5%	10.9%	12.0%	13.6%	14.5%	13.4%	13.5%	13.0%	13.4%	13.4%
Kowloon East	13.9%	14.2%	14.8%	14.9%	16.0%	17.4%	18.3%	16.7%	16.5%	16.2%	16.4%	22.1%
Kowloon West	7.9%	14.6%	15.2%	16.6%	17.5%	17.2%	15.2%	15.1%	13.6%	17.1%	15.0%	16.5%
Overall Availability*	**8.8%**	**10.0%**	**10.7%**	**11.6%**	**12.6%**	**14.0%**	**14.4%**	**13.9%**	**13.6%**	**13.6%**	**13.8%**	**16.1%**



*Note: Availability includes confirmed leasing stock that is currently vacant or becoming vacant over the next 12 months

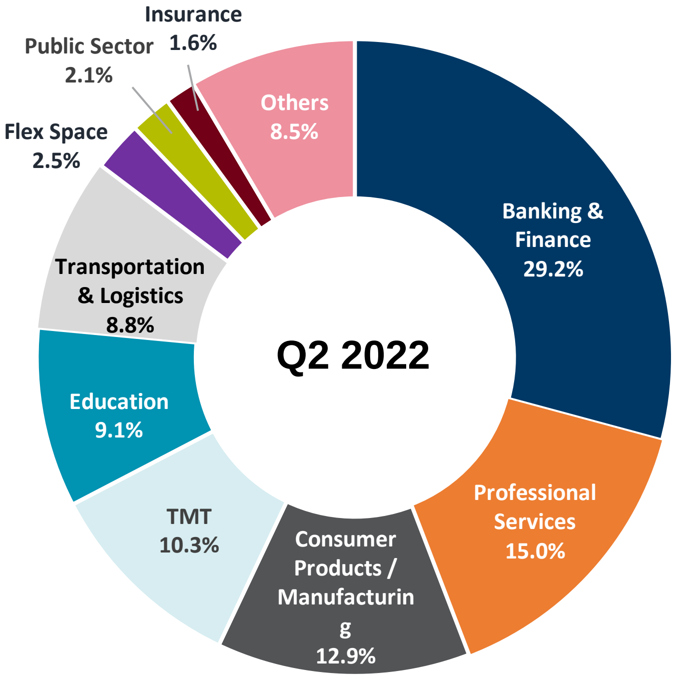
Source: Cushman & Wakefield Research

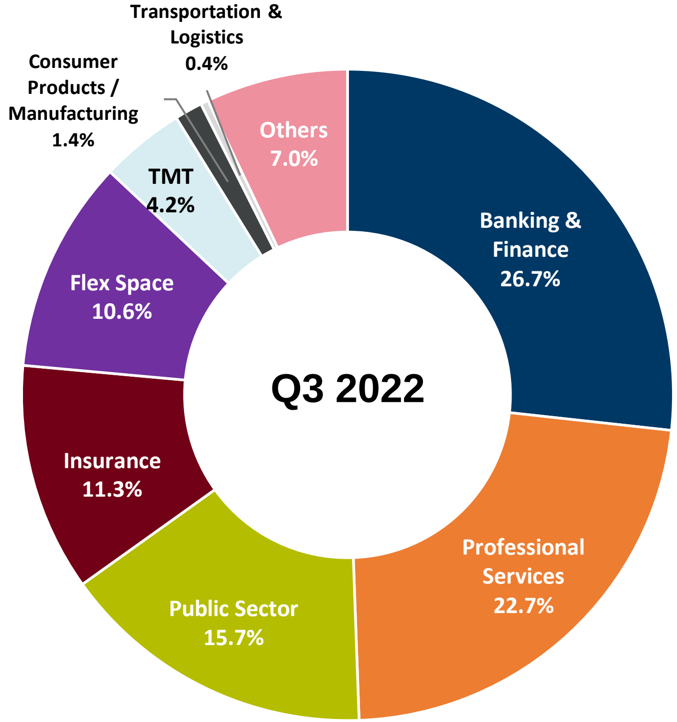
Public Sector, Insurance and Flex Space Demand Picked Up

Banking & finance and professional services remained the key drivers

% Proportion of New Lease Transactions by NFA sf

% of New Lease	Q2 22	Q3 22	Δ q-o-q change
Public Sector	2.1%	15.7%	↑ 13.6% pts
Insurance	1.6%	11.3%	↑ 9.7% pts
Flex Space	2.5%	10.6%	↑ 8.1% pts





Source: Cushman & Wakefield Research

Q3 2022 New Lease Transactions Highlights

Banking & Finance

Building	Tenant	NFA sf	Type
Two Taikoo Place	SMBC	41,200	Relocation
International Commerce Centre	CICC 中金公司	34,200	Expansion

Professional Services

Building	Tenant	NFA sf	Type
12 Taikoo Wan Road	Deloitte.	21,400	Expansion
K11 ATELIER King's Road	bakertilly 天職國際	16,500	Downsizing

Public Sector

Building	Tenant	NFA sf	Type
Two Taikoo Place	FRC Financial Reporting Council 財務匯報局	31,100	Relocation & Expansion
AIA Tower	The Government of the Hong Kong Special Administrative Region	25,300	New Setup

Insurance

Building	Tenant	NFA sf	Type
The Gateway Tower 5	Sun Life	17,500	Expansion
Devon House	FWD	13,500	Expansion

Flex Space

Building	Tenant	NFA sf	Type
International Commerce Centre	Signature by Regus	24,300	Expansion
Cheung Kong Center	THE GREAT ROOM BY INDUSTRIOUS	18,300	Expansion

Emerging Demand from Flex Space

Greater Central became popular among flex space operators post-COVID outbreak

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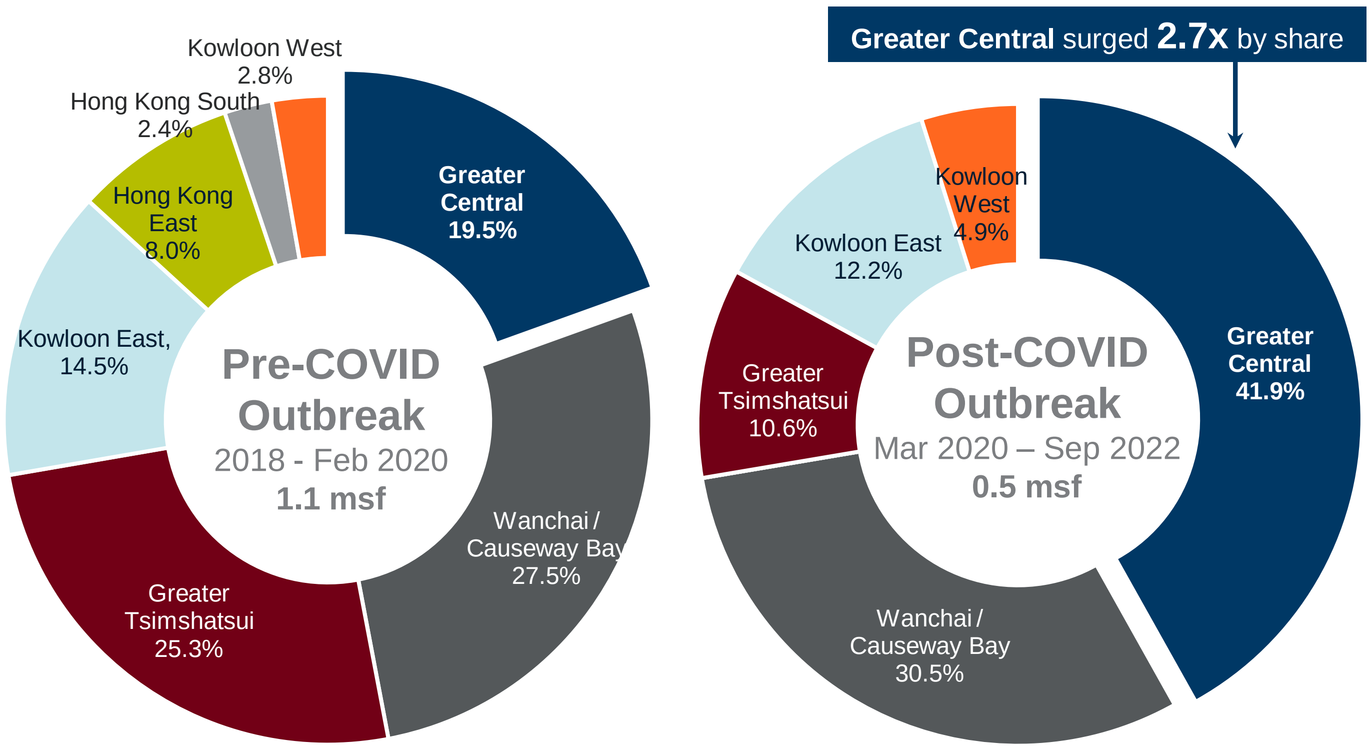
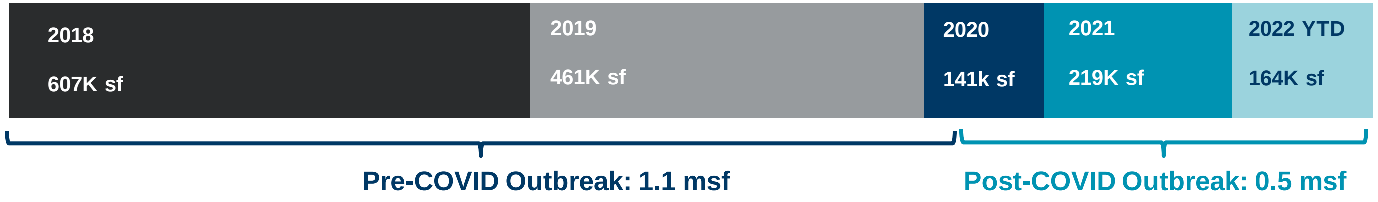
% Proportion of Flex Space Transactions by NFA sf



Flex space new letting in 2022 YTD* are relatively active



Note: * YTD refers to figures as of Sep-2022 by NFA sf

Major Transaction Highlights

	District	Building	Tenant	NFA sf
Q3 2022	Kowloon West	International Commerce Centre	Signature by Regus	24,300
Q3 2022	Greater Central	Cheung Kong Center	THE GREAT ROOM by INDUSTRIOUS	18,300
Q3 2022	Greater Central	LKF Tower	Signature by Regus	17,900
Q3 2022	Kowloon East	Enterprise Square Five Tower 1	theDesk	12,200
Q2 2022	Kowloon East	One Pacific Centre	theDesk	12,100
Q1 2022	Wanchai / Causeway Bay	8 Queen's Road East	SPACES.	54,400
Q1 2022	Greater Central	Chinachem Tower	the Hive. × CCG COMMONS	11,900
Q1 2022	Greater Central	Dina House	BELA OFFICES	9,000
Q4 2021	Wanchai / Causeway Bay	Tower 535	SPACES.	16,400
Q4 2021	Greater Central	9 Queen's Road Central	wework	10,300
Q2 2021	Greater Central	28 Stanley Street	THE EXECUTIVE CENTRE	35,600

Source: Cushman & Wakefield Research

Office Market Review and Outlook

Key Takeaways

1. Positive net absorption in Q3 was mainly driven by lease commitment in Hong Kong East’s new completion
2. Public sector, insurance firms and flex space operators have been more active in driving new leases
3. ~2M sf new completions emerged, lifted availability rate to 16%; further pressed rents by -2.3% q-o-q
4. Tenant favourable market will continue; landlords become more willing to offer incentives & subsidies
5. Interest rate hike, high inflation, geopolitical concerns and economic uncertainties are likely to curb office demand in Q4

RETAIL MARKET

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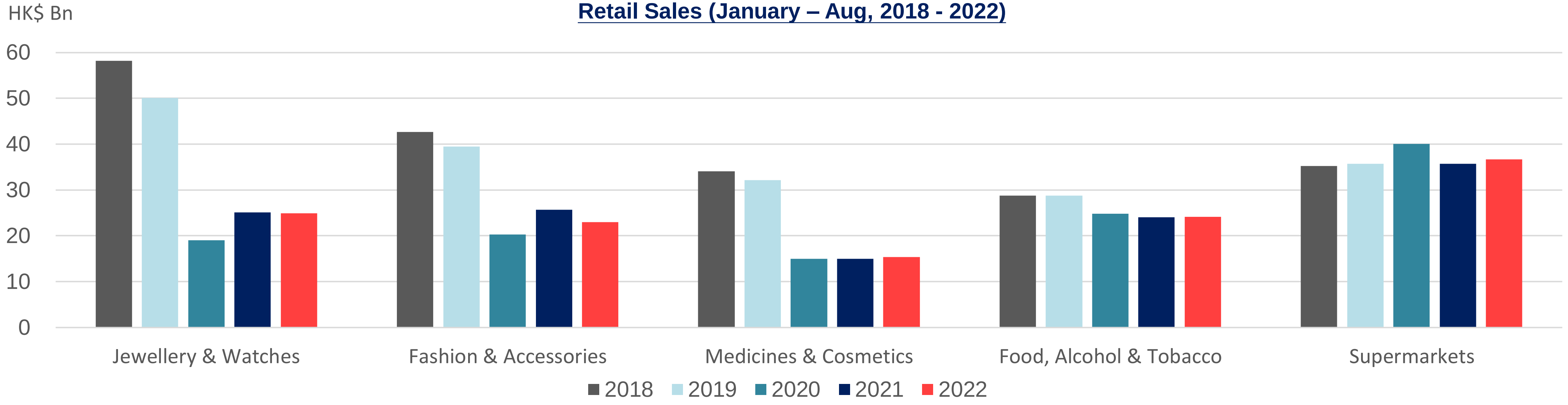
Daily Necessities Continued to Lead

Most retailers remained cautious on near-term retail performance

Retail Sales (HK$ Bn)	Jan – Aug					
	2018	2019	2020	2021	2022	Y-o-Y ∆
Jewellery & Watches	58.19	50.08	19.00	25.08	24.89	-0.8%
Fashion & Accessories	42.67	39.48	20.29	25.65	23.00	-10.3%
Medicines & Cosmetics	34.09	32.16	15.02	14.95	15.35	2.7%
Food, Alcohol & Tobacco	28.74	28.79	24.81	24.06	24.18	0.5%
Supermarkets	35.23	35.71	40.02	35.75	36.64	2.5%
Total	**324.69**	**305.09**	**212.87**	**230.15**	**226.73**	**-1.5%**

Retail Sales (January – Aug, 2018 - 2022)

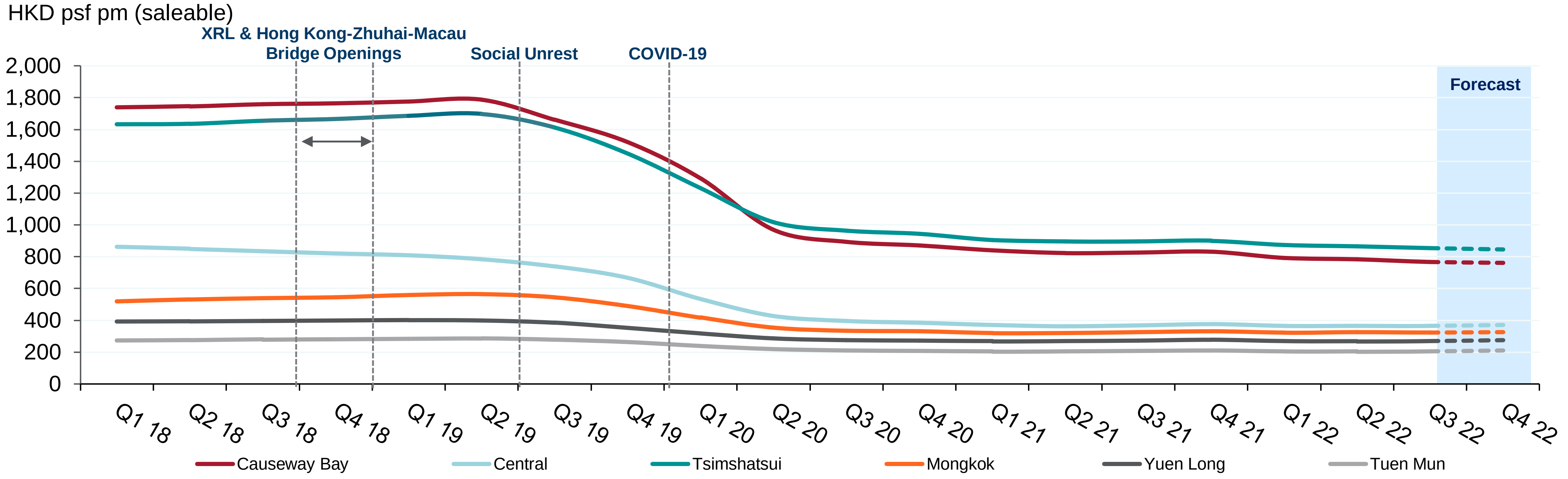


Source: Hong Kong Census & Statistics Department; Cushman & Wakefield Research

High Street Rents Dropped in Causeway Bay and Tsimshatsui

While submarkets' rents in New Territories stabilized

Districts	2018	2019	2020	2021	Q1 22	Q2 22	Q3 22	Q-o-Q ∆	YTD ∆	Q4 22 F
Causeway Bay	$1,765	$1,520	$870	$831	$793	$783	$768	-1.9%	-7.6%	-2 ~ 0%
Tsimshatsui	$1,667	$1,448	$944	$900	$873	$864	$854	-1.2%	-5.1%	-2 ~ 0%
Central	$822	$667	$384	$376	$366	$366	$366	0.0%	-2.6%	+0 ~ 2%
Mongkok	$546	$491	$331	$332	$322	$324	$323	-0.4%	-2.6%	+0 ~ 2%
Yuen Long	$398	$352	$271	$278	$270	$270	$271	0.4%	-2.5%	+1 ~ 3%
Tuen Mun	$281	$263	$207	$211	$205	$205	$206	0.0%	-2.4%	+1 ~ 3%

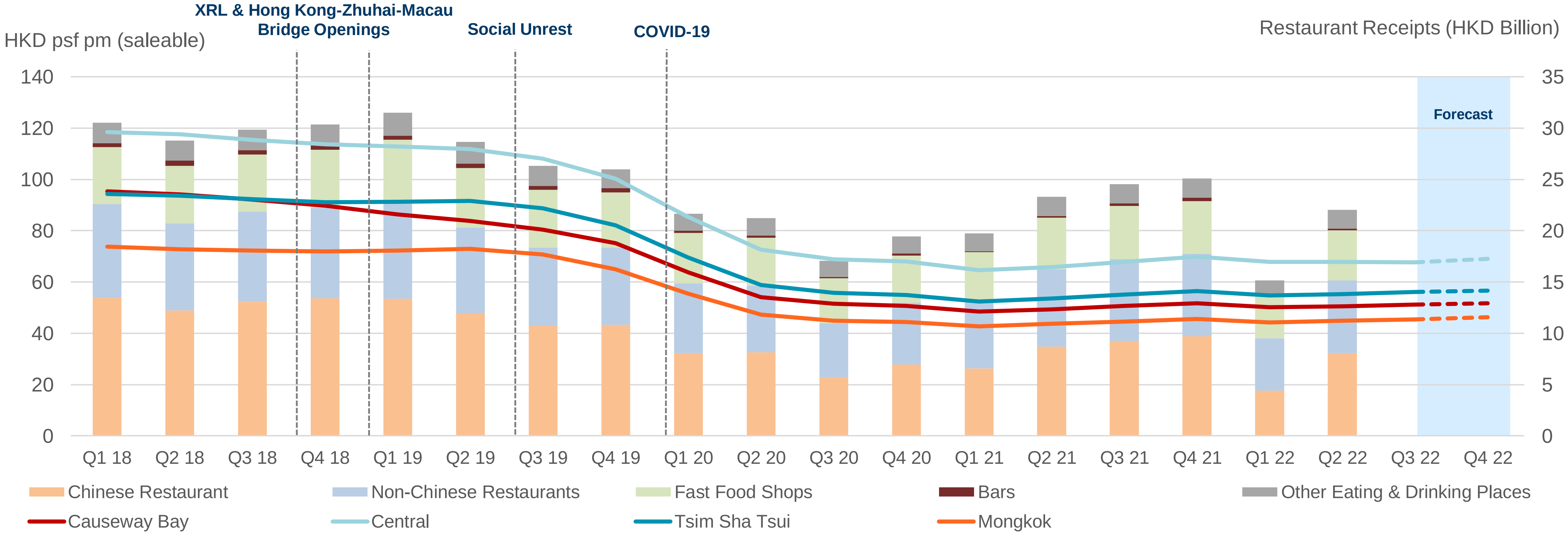


Source: The Land Registry; Market Info; Cushman & Wakefield Research

F&B Rents Increased Moderately in Q3

Rents in Causeway Bay, Tsimshatsui and Mongkok rose for two consecutive quarters

Districts	2018	2019	2020	2021	Q1 22	Q2 22	Q3 22	Q-o-Q ∆	YTD ∆	Q4 22 F
Causeway Bay	$89.8	$75.1	$50.6	$51.8	$50.2	$50.5	$51.2	1.4%	-1.1%	+0 ~ 2%
Central	$113.7	$100.3	$68.1	$69.9	$67.8	$67.8	$67.7	-0.3%	-3.3%	+1 ~ 3%
Tsimshatsui	$91.1	$82.1	$55.0	$56.4	$54.8	$55.3	$56.1	1.3%	-0.6%	+0 ~ 2%
Mongkok	$71.9	$65.0	$44.3	$45.5	$44.3	$44.9	$45.4	0.9%	-0.4%	+1 ~ 3%

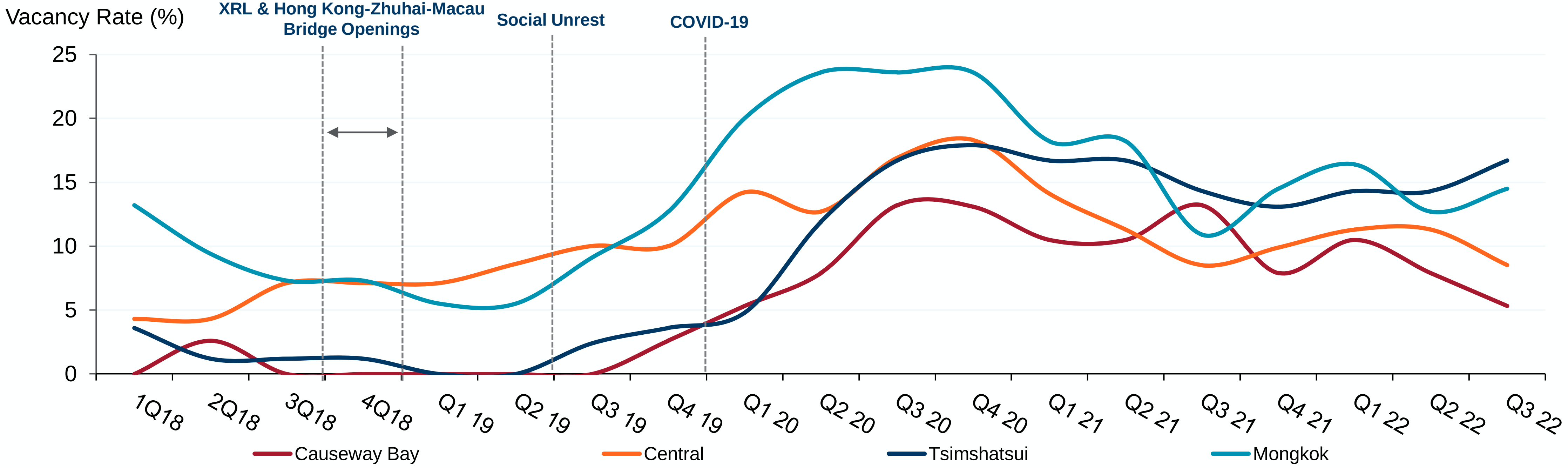


Source: The Land Registry; Market Info; Cushman & Wakefield Research

Vacancy Edged Down in Hong Kong Island’s Submarkets

Mainly supported by athleisure brands and retailers with short-term leases

Districts	2018	2019	2020	2021	Q1 22	Q2 22	Q3 22
Causeway Bay	0.0%	2.6%	13.1%	7.9%	10.5%	7.9%	5.3%
Central	7.1%	10.0%	18.3%	9.9%	11.3%	11.3%	8.5%
Tsimshatsui	1.2%	3.6%	17.9%	13.1%	14.3%	14.3%	16.7%
Mongkok	7.3%	12.7%	23.6%	14.5%	16.4%	12.7%	14.5%



Source: The Land Registry; Market Info; Cushman & Wakefield Research

Outlook – Potential Implications of Further Quarantine Relaxation

“0+3” may encourage locals to travel abroad, but yet to boost near-term domestic retail spending

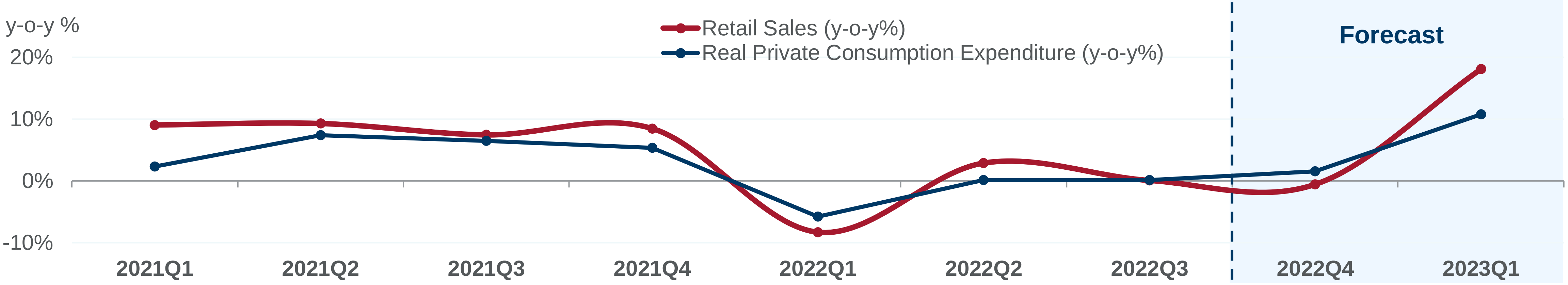
Short-term Implications:

- Retailer to remain wait-and-see as HK-Mainland border yet to fully open
- Cautious on near-term recovery as “0+3” will trigger outbound travel
- Short terms leases will still be popular

Longer-term Implications:

- More notable pick up in 2023 if “0+0” could happen
- Return of luxury spending and some retailers’ expansion activities
- Supporting retail rents to gradually recover when tourists return to HK

Retail Sales vs. Consumption Expenditure (By Quarter)



Source: Cushman & Wakefield Research, Moodys’ Forecast

Retail Market Review & Outlook

Key Takeaways

1. High street shop vacancy edged down in Q3, led by submarkets in Hong Kong Island
2. F&B rents picked up moderately; despite high street rents remained under pressure in CWB & TST
3. Athleisure and fashion brands to help support retail demand, with some expansion activities observed
4. Latest “0+3” policy can help long term growth, but it may shift local spending abroad in the near-term
5. Retail market could see a more meaningful recovery in 2023 if the quarantine rules are further relaxed

Hong Kong Grade A Office and Retail Leasing Markets

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