

MARKETBEAT



5.94B
INVESTMENT
VOLUME (HKD)

-77.0%
VOLUME
(Q-O-Q)

-47.1%
NO. OF TRANSACTIONS
(Q-O-Q)

WHAT'S NEXT

KEY TAKEAWAYS

- Investment into Hong Kong's commercial property market, both in terms of investment volume and number of transactions, fell to the second lowest level in six years in Q3
- All major players, including previously-active PERE funds, increasingly moved to the sidelines amid escalating social unrest and global uncertainties
- Investment activity is expected to remain subdued over the near term as investors watch for signs of improvement to Hong Kong's current challenges

MARKET OVERVIEW

Investment into Hong Kong's commercial property market, both in terms of investment volume and number of transactions, fell to the second lowest level in six years in Q3 (slightly above Q1) as all major players, including previously-active PERE funds, increasingly moved to the sidelines amid escalating social unrest and global uncertainties.

Total investment volume of properties over HKD 100 million each fell 77.0% q-o-q and 64.9% y-o-y to HKD 5.94 billion. That was approximately 23% of the five-year historical quarterly average of HKD 25.68 billion. In terms of the number of transactions, only 18 were concluded in the quarter, representing a 47.1% q-o-q and 50.0% y-o-y decline.

A lack of major en-bloc office transactions and slowdown in strata-title sales saw investment in the office sector dropping by 92.5% q-o-q and 73.8% y-o-y to HKD 1.62 billion in Q3. Among the most notable, SOCAM Development sold 93 Wai Yip Street in Kwun Tong to an investor for HKD 387.0 million (HKD 13,900 per sq ft).

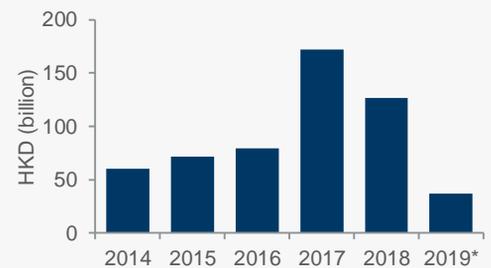
With retail sales recording their steepest decline on record, investment sentiment for retail properties remained weak. Investment volume in the sector fell 63.7% q-o-q and 79.6% y-o-y to HKD 743.0 million in Q3. Investment was largely limited to demand for shops in non-core areas (85% of the total investment volume in retail) as local consumption remained relatively resilient amidst falling visitor arrivals (plummeting by 32.7% y-o-y in August).

Economic Indicators

	1Q19	2Q19	12-Month Forecast
GDP Growth	0.6%	0.5%	▼
CPI Growth	2.1%	3.3%	▲
Unemployment Rate	2.8%	2.9%	▲

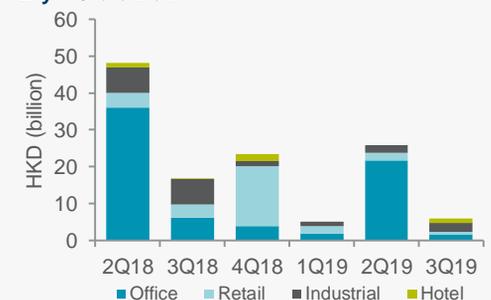
Source: Hong Kong Census & Statistics Department; Oxford Economics

Investment Volume



Source: EPRC; Market Info; Cushman & Wakefield
Note*: Investment Volume are as of end-Sept2019 (YTD)

Investment Volume By Sector

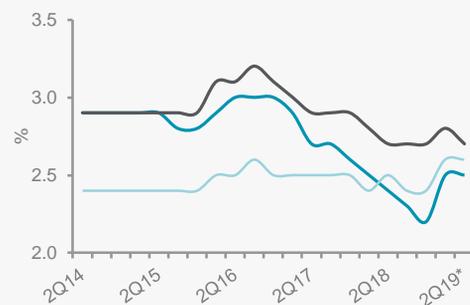


Source: EPRC; Market Info; Cushman & Wakefield

MARKET OVERVIEW (CON'T)

In contrast, investment volumes into industrial property picked up slightly, up by 15.8% q-o-q, to HKD 2.39 billion. The increase was supported by an en-bloc transaction as a local investor agreed to purchase Central Industrial Building in Kwai Chung from a joint venture between Hanison Construction and China Merchants Capital for HKD 1.08 billion (HKD 3,890 per sq ft). The building has been approved by the government for redevelopment into an industrial-office building (283,500 sq ft) with a 20% increase of plot ratio under the current Industrial Refurbishment Scheme 2.0.

Yields



Source: Hong Kong Rating & Valuation Department
* Yields are as of end-June 2019

OUTLOOK

The outlook for investment in commercial property in Hong Kong is likely to remain muted over the remainder of the year. While there is the possibility that a single sizable transaction could push investment volumes higher in Q4 from the record low last quarter, investors are likely to largely remain on the sidelines.

The escalating political unrest has injected growing uncertainty into the market and with no end yet in sight, conditions for underwriting deals has become challenging for foreign PERE funds. Meanwhile, mainland Chinese investors have also been quiet due to the recent devaluation in the Renminbi. Only when the current uncertainties clear can a return of market confidence be expected to support an improvement in the investment market.

SECTOR	HKD (BN)	CHANGE (Q-O-Q)	CHANGE (Y-O-Y)
Office	1.62	-92.5%	-73.8%
Retail	0.74	-63.7%	-79.6%
Industrial	2.39	15.8%	-65.0%
Hospitality	1.18	-	327.1%
OVERALL	5.94	-77.0%	-64.9%

Significant Investment Transactions, 3Q19

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (HKD BN)
Central Industrial Building (57-61 Ta Chuen Ping Street)	Kwai Chung	Local Investor	Hanison Construction Co.	Industrial (En-bloc)	1.08 (~\$3,900 psf)
Winway Building (50 Wellington Street)	Central	SEA Group	Sunny Enterprise	Office (Strata-titled)	0.78 (~\$22,800 psf)
No 111 High Street	Sai Ying Pun	Evergreen Real Estate Partners	Hanison Construction Co	Hotel (En-bloc)	0.42 (~\$24,200 psf)
93 Wai Yip Street	Kwun Tong	Millennium Fortune	Shui On Construction	Office (En-bloc)	0.39 (~\$13,900 psf)

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