

HONG KONG

Investment Q4 2019

46.93B YTD Investment Volume (HKD)	YoY Chg -63%
19,800 Office Capital Value (HKD/sf)	-14%
2.6% Office Gross Yield	+30bps

Total Commercial Property Investment Transactions Over HKD 100 Million Fell To a Decade-Low Level in Q4

Investment sentiment in the city's commercial property market remained subdued in Q4 in the face of ongoing trade tensions and social unrest. The total number of property transactions over HKD 100 million each in Q4 plummeted to its lowest level in a decade and amounted to just around 30% of the five-year historical quarterly average (41 transactions). Despite growing 60.5% q-o-q to HKD 9.53 billion, investment volume still amounted to a level of just 38% of the five-year historical quarterly average of HKD 25.19 billion. Growth for the quarter was supported by the sale of the Kimberley Hotel to China Cinda Asset Management for HKD 4.30 billion. For the full year, investment volume amounted to HKD 46.93 billion, the lowest level in a decade and representing a 62.9% y-o-y drop.

Local investors remained the most active in the commercial property investment market. However, their involvement has cooled somewhat compared to 1H 2019. Constrained by capital outflow controls and the devaluation of the Renminbi, mainland Chinese investors remained absent in the city's commercial property investment market. Meanwhile, the previously-active PERE funds continued to adopt a wait-and-see approach as the ongoing social unrest shows no signs of ending.

A lack of major en-bloc and strata-title office transactions saw investment into the sector dropping to HKD 1.41 billion, its lowest quarterly level in five years and representing a decline of 13.4% q-o-q and 65.1% y-o-y. Investment volume of properties of over HKD 100 million each rebounded 8.3% q-o-q and 77.6% y-o-y to total HKD 22.1 billion. Among the most notable, a private company sold 37 Hollywood Road in Central to a local investor for HKD 380.0 million (about HKD 15,900 per sq ft) and YMCA acquired an office block in 523 Nathan Road for HKD 350 million (about HKD 17,000 per sq ft).

Attracted by the favorable Industrial Refurbishment Scheme 2.0 that allows redevelopment of old industrial buildings into commercial space with a 20% increase in plot ratio, local investors remained on the look-out for en-bloc industrial assets. This quarter saw three industrial buildings changing hands, contributing to investment volume amounting to HKD 2.13 billion in Q4 2019. In the largest such deal, a local investor reportedly agreed to purchase the whole of Hang Fat Industrial Building in Cheung Sha Wan for HKD 1.10 billion.

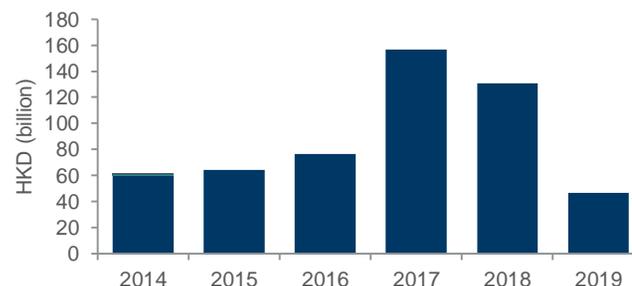
The record decline in both retail sales and tourism arrivals driven by escalating social unrest continued to weigh on the retail investment market. Transaction volume in the sector fell to 41.2% q-o-q and 97.3% y-o-y to HKD 437.0 million, the lowest quarterly level in a decade.

ECONOMIC INDICATORS Q3 2019

	YoY Chg	12-Mo. Forecast
-2.9% GDP growth	▼	▼
3.2% CPI growth	▼	▼
1.9% 10-year government bond rate (U.S.)	▼	▲

Source: Hong Kong Census and Statistics Department & Oxford Economics

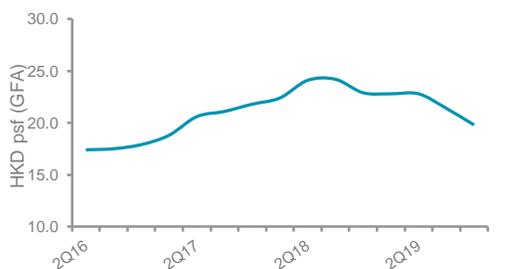
OVERALL COMMERCIAL INVESTMENT VOLUME



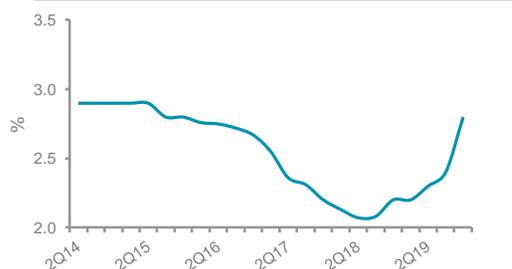
INVESTMENT VOLUME BY SECTOR



Capital Value (Office)



Gross Yield (Office)



Office Capital Values Continued to Decline

Slowing occupier demand along with a declining rental market led to a retreat in capital values across all office submarkets in Q4. Greater Central, Wanchai/Causeway Bay and Greater Tsimshatsui were the hardest-hit with capital values retreating by 7.0% q-o-q, 8.7% q-o-q and 8.8% q-o-q, respectively. For the full year, capital values in Greater Central dropped by 13.4% while those in Wanchai/Causeway Bay and Greater Tsimshatsui plummeted 18.6% and 12.6%, respectively.

Another Quiet Year Ahead Due to Ongoing Trade Tensions and Social Unrest

The gloomy outlook for the commercial property investment market is unlikely to recover over the near term. Despite a phase-one trade deal scheduled to be signed in mid-January 2020, the Sino-U.S. trade tensions are likely to continue to weigh on the local market. Coupled with the ongoing social unrest, which shows no signs of ending since starting in June 2019, all major players (local, PRC, PERE funds) are expected to continue to adopt a wait-and-see approach. As a result, we believe the investment market is likely to remain muted in 2020 with both investment volumes and total number of transactions to fall below the 2019 level.

Investment sentiment for industrial properties should remain relatively resilient in 2020 supported by the Industrial Refurbishment Scheme 2.0. Single-owned en-bloc aged industrial properties, especially those located in Kwun Tong and Kowloon Bay in Kowloon East and Cheung Sha Wan in Tsuen Wan in Kowloon East, should be the most sought-after as investors continue to bank on the ongoing MNC decentralization trend into these emerging office districts.

Reed Hatcher

Head of Research, Hong Kong

16/F, Jardine House,
1 Connaught Place, Central

Tel: +852 2956 7054 / reed.hatcher@cushwake.com

cushmanwakefield.com

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KEY SALES TRANSACTIONS Q4 2020

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (HKD BN)
Hang Fat Industrial Building No. 550-556 Castle Peak Road	Cheung Sha Wan	Institutional Fund	Local Investor	Industrial (En-bloc)	1.100 (~HK\$5,800 psf)
Silka Tsuen Wan	Tsuen Wan	Weave Group	Golden Wheel Tiandi Holdings Co. Ltd (Nanjing-based developer)	Hotel (En-bloc)	0.515 (~HK\$13,800 psf)
Milo's Industrial Building Phase 1 No 2 Tai Yuen Street	Kwai Chung	EDJ II (HK) Limited	May-Tak Investment Company Limited	Industrial (En-bloc)	0.880 (~HK\$4,500 psf)
No 15 On Lok Mun Street	Fanling	Polar Light Limited	Rohm & Haas Electronic Materials Asia Limited	Industrial (En-bloc)	0.150 (~HK\$36,800 psf)
No. 37 Hollywood Road C Wisdom Centre	Central	Private Investor	Profit Surplus Limited	Office (En-bloc)	0.380 (~HK\$30,000 psf)