

# HONG KONG

## Investment Q2 2020

<b>16.89B</b> YTD Investment Volume (HKD)	<b>-54%</b> Y-o-Y Chg
<b>17,414</b> Office Capital Value (HKD/sf)	<b>-24%</b> Y-o-Y Chg
<b>2.7%</b> Office Gross Yield	<b>+34bps</b> 12-Mo. Forecast

### ECONOMIC INDICATORS Q1 2020

Indicator	YoY Chg	12-Mo. Forecast
<b>-8.9%</b> GDP growth	▼	▲
<b>2.3%</b> CPI growth	▼	▲
<b>0.7%</b> 10-year government bond rate (U.S.)	▼	▲

Source: Hong Kong Census and Statistics Department & Oxford Economics

### Investment Volume Falls to the Second Lowest Level Since GFC as COVID-19 Outbreak Continues to Roil Markets

Investment activity remained subdued in Q2 2020 as most investors stayed on the sidelines amid the COVID-19 outbreak and growing geopolitical uncertainties. Nonetheless, total investment volume of commercial properties transacted at over HKD100 million each rose fourfold to HKD 13.87 billion, on the back of the sale of a 30% stake in the office portion of the Guangzhou-Shenzhen-Hong Kong Express Rail Link site (KIL 11262) by Sun Hung Kai Properties and a related family party to Ping An Insurance for HKD 11.27 billion.

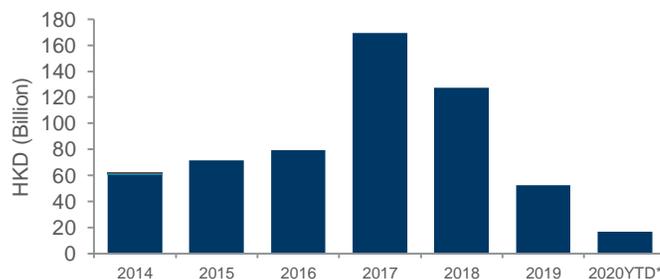
Excluding this transaction, however, both the total number of transactions and investment volume fell to their second lowest level since Q1 2009. The total number of transactions dropped 67.6% y-o-y, to a level just a little under 20% of the five-year historical quarterly average (38). Investment volumes plummeted further, by 90.6% y-o-y, to merely HKD 2.60 billion, equivalent to about 10.6% of the five-year historical quarterly average.

With investors adopting a wait-and-see approach, investment into industrial properties fell significantly to just HKD 356.0 million, representing a 80.7% q-o-q and 82.7% y-o-y drop. The only two transactions recorded this quarter were the purchase of two industrial sites on 7 On Fuk Street and 3 On Kui Street in Fanling by Grand Ming Group for a combined consideration of HKD 356.0 million. It is reported that the local developer will redevelop the sites into two high-tier data centers for long-term leasing purposes.

The office sector performed slightly better as investors remained on the lookout for distressed opportunities, as a handful of vendors sold strata-title assets at reduced prices amid a declining rental market and increasing availability. Among the most notable, Best Mart 360, a local snack/food retailer, acquired a whole floor in the mid-zone of C-Bons International Centre in Kwun Tong for HKD 176.9 million (about HKD 10,500 per sq ft) as their headquarters in the city. As a result, investment volume into the sector doubled to HKD 915.0 million.

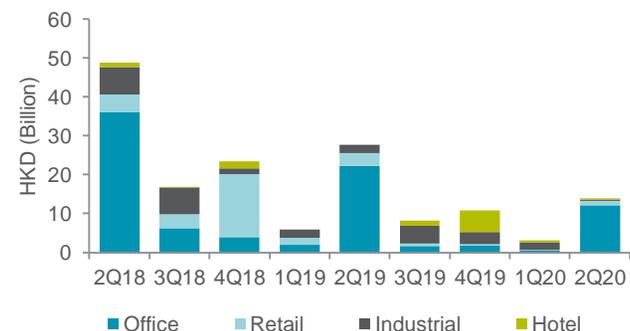
Despite tourist arrivals plummeting to a historic low due to border closures, investment activity in the retail sector nonetheless ticked up slightly as local cases of COVID-19 showed signs of slowing towards the end of 2Q. Investment volume in the sector increased by almost fourfold in the quarter to HKD1.07 billion, the highest level since 2Q19. The increase was largely driven by the purchase of a three-story shop in COSCO Tower in Sheung Wan by local investment company Get Nice Holdings for HKD 500.0 million (~HKD18,000 per sq ft).

### OVERALL COMMERCIAL INVESTMENT VOLUME

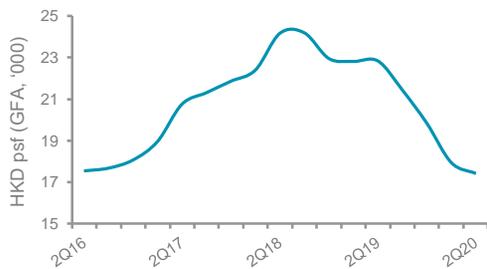


\*: Data as of end-June 2020

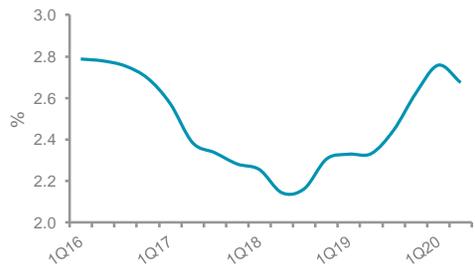
### INVESTMENT VOLUME BY SECTOR



## Capital Value (Office)



## Gross Yield (Office)



## Office Capital Values Continued to Retreat

The impact of the COVID-19 outbreak on the office leasing market began to surface in Q2 with net absorption for the overall market dipping below -500,000 sq ft for the second consecutive quarter, as more firms gave up/downsized their office spaces. The shrinking demand drove availability in Q2 up to 10.7%, the highest level in 15 years. As a result, rents continued to trend lower across the board. Against weakening market fundamentals, capital values continued to retreat in the quarter, albeit at a slower pace than in Q1. Continuing a downward trend that began in late 2018, Greater Central continued to suffer the most with capital values in the submarket down by 3.6% q-o-q.

## Investment Activity to Remain Weak for the Rest of 2020 Against Weak Economic Outlook

Investment activity is expected to remain subdued in 2H 2020 as investors continue to adopt a wait-and-see approach in the face of a weakened economic outlook and geopolitical uncertainties. In addition, a continuing gap in price expectations between investors on the lookout for distressed opportunities and financially strong owners able to weather the downturn is likely to continue to limit the number of transactions. As a result, we expect the total investment volume for the full year to fall to its lowest level since at least 2008.

Opportunities are likely to focus on certain niche property types such as data centers, which have seen rising demand amidst an increase in data usage from online shopping and remote working. Such opportunities generally involve aging industrial properties which offer the potential for conversion or redevelopment into a data center.

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## KEY SALES TRANSACTIONS Q2 2020

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (HKD BN)
SHK's West Kowloon commercial site	Tsimshatsui	Ping An Life	Sun Hung Kai Properties	Office Site (30%)	11.273 (~HK\$13,300 psf)
Three storeys retail shops / one floor of office, COSCO Tower	Sheung Wan	Get Nice Holdings	New World Development	Retail / Office	0.500 (~HK\$18,000 psf)
3 On Kui Street & 7 On Fuk Street	Fanling	Grand Ming Group	Local Investors	Industrial	0.356 (~HK\$1,900 psf)
Yue Thai Commercial Building, No. 128 Connaught Road Central	Sheung Wan	N.A.	KaiLong Fund	Office (Various Units)	0.350 (~HK\$20,300 psf)
H1 Hotel, No.423 Reclamation Street	Mongkok	Local Investor	Local Investor	Hotel (En-bloc)	0.260 (N.A.)