

28.92B YTD Investment Volume (HKD)	-36% Y-o-Y Chg
16,409 Office Capital Value (HKD/sf)	-23% Y-o-Y Chg
2.7% Office Gross Yield	- Y-o-Y Chg

Source: Cushman & Wakefield Research

ECONOMIC INDICATORS
Q2 2020

	YoY Chg	12-Mo. Forecast
-9.0% GDP growth	▼	▲
0.7% CPI growth	▲	▲
0.7% 10-year government bond rate (U.S.)	▼	▲

Source: Hong Kong Census and Statistics Department;
Oxford Economics

Investment Market Remains Subdued Amidst Third Wave of COVID-19 Cases

Hong Kong's investment market remained subdued in Q3 as local and foreign buyers remained on the sidelines amidst the ongoing pandemic and ongoing geopolitical uncertainties. Total investment volume of properties transacted at over HKD 100 million each declined 61.8% q-o-q to HKD 7.05 billion in the quarter, though little changed if the significant sale of a 30% stake in the office portion of the West Kowloon government ("XRL") site last quarter were excluded. In comparison to Q3 2019, during which social unrest was also impacting investor sentiment, total transaction volume declined by 13.4% while the total number of transactions dropped 35.0% to a level that is the second lowest since the GFC.

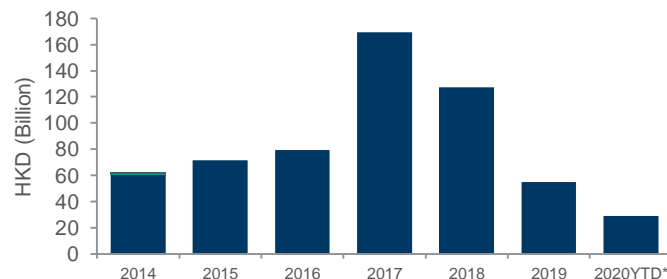
With little activity by local buyers or foreign funds, mainland Chinese buyers took the spotlight with five en-bloc acquisitions that accounted for 72.2% of total investment volume in the quarter. Among the five acquisitions, two each were office and industrial buildings while the remaining one was a hotel in Causeway Bay.

Excluding the XRL transaction, office investment volume more than tripled in Q3. This was largely driven by two en-bloc office buildings purchased by mainland Chinese buyers, accounting for about 70% of total office transactions. In the largest en-bloc transactions in 2020 so far, Peak Castle in Cheung Shan Wan was reportedly sold by Hanison Construction Holdings and PAG to a mainland Chinese buyer for HKD 1.80 billion while Tung Chiong Commercial Building in Jordan was offloaded by a local investor for HKD 510.0 million.

Investment into the industrial sector, which has generally more resilient over the past year, saw total transaction volume jump by 5.6x on a quarterly basis to HKD 2.64 billion. The increase was largely attributable to the sale of SML Tower, a refurbished industrial-office building, by SML Group to a PRC buyer for HKD 1.50 billion while in another significant transaction, China Resources Beer reportedly acquired Kadar Industrial Building in Fanling for HKD 820.0 million.

As the sector most impacted by the pandemic, retail property remained out of favor by investors in Q3. Just two transactions were recorded in the quarter with retail investment volume plummeting to HKD 657 million, down by 84.3% q-o-q. Both transactions involved instances of local developers taking the opportunity to dispose their non-core retail assets in the city. In the first, Wheelock Properties sold the retail podium of Oasis Place in Kai Tak for HKD 200.0 million, while in the second, Chinachem Group offloaded the remaining retail portion of Billionnaire Royale to UOW College for HKD 457.0 million for owner-occupation.

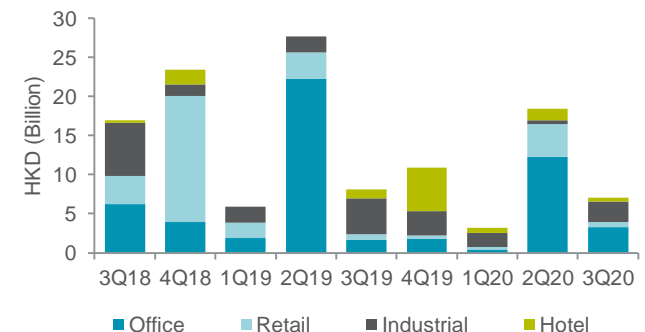
OVERALL COMMERCIAL INVESTMENT VOLUME



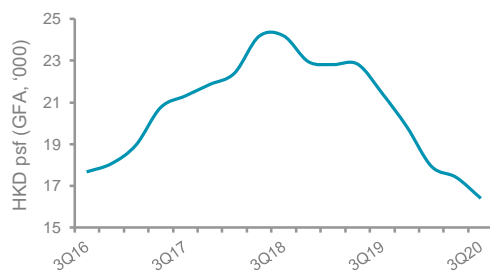
*: Data as of end-September 2020

Source: EPRC; Media articles; HKEx; Cushman & Wakefield Research

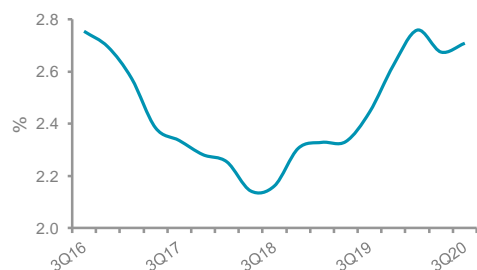
INVESTMENT VOLUME BY SECTOR



Capital Value (Office)



Gross Yield (Office)



Source: Cushman & Wakefield Research

Reed Hatcher

Head of Research, Hong Kong

16/F, Jardine House,
1 Connaught Place, CentralTel: +852 2956 7054 / reed.hatcher@cushwake.comcushmanwakefield.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

Office Capital Values Marked Fifth Straight Quarter of Decline in Q3

Overall office capital values continued to trend downwards against weak market fundamentals in Q3, falling 5.8% q-o-q or 32.1% since the last peak in Q4 2018. Among the major submarkets, the core areas of Wanchai/Causeway Bay and Greater Central suffered the most as availability in both rose to a 15-year high while rents declined to a five-year low. As a result, capital values in Wanchai/Causeway Bay and Greater Central plummeted by 8.1% and 6.4% q-o-q or 39.4% or 33.0% from the peak in Q4 2018, respectively.

As the city's overall rentals fell for the sixth consecutive quarter, down by 4.7% q-o-q, overall office yields remained relatively flat at 2.7% in Q3. In Greater Central, yields compressed by 10bps as the submarket continued to see the steepest rental declines among all districts.

Investment Activity to Remain Subdued Over the Near Term

In view of the subdued economic outlook and geopolitical uncertainties, along with a continuing gap in pricing expectations between vendors and buyers, investment activity is expected to remain subdued as both the number of transactions and investment volume in 2020 is expected to fall to a 10-year low. That trend is expected to continue over the next six to 12 months as local investors and institutional funds are likely to continue to adopt a wait-and-see approach towards property acquisitions of most types over the near term. On the other hand, end-users may take advantage of this market downturn to acquire properties for self-use while Mainland Chinese buyers are likely to remain relatively active in the market seeking for suitable investment opportunities.

Investment opportunities are expected to focus on certain alternative sectors that are more cyclically resilient. Investment interest for data centers is likely to remain high due to the rising popularity of working from home and increasing demand from cloud providers. However, the lack of available suitable stock is likely to limit the investment activity in that sector.

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (HKD BN)
Peak Castle, Castle Peak Rd 476	Cheung Sha Wan	PRC Buyer	Hanison Construction / PAG	Office (En-Bloc)	1.80 (~HK\$12,413 psf)
SML Tower, Hoi Bun Rd 165	Kwun Tong	PRC Buyer	SML Group	Industrial (En-bloc)	1.50 (~HK\$10,026 psf)
Tung Chiong Commercial Building, Nathan Road 221-221A	Jordan	PRC Buyer	Local Investor	Office (En-Bloc)	0.51 (~14,922 psf)
Billionnaire Royale, 83 Sa Po Road	Kowloon City	UOW College Hong Kong	Chinachem Group	Retail (Various Units)	0.46 (~HK\$13,530 psf)
Le Petit Rosedale Hotel, Moreton Terrace 7	Causeway Bay	PRC Buyer	ITC Properties Group	Hotel (En-bloc)	0.46 (~HK\$14,764 psf)

Source: EPRC; Media articles; HKEx; Cushman & Wakefield Research