

MARKET FUNDAMENTALS

20.5B¹
YTD Investment Volume (HKD)

Y-o-Y Chg
-27.0%

10,910
Office Capital Value (HKD/sf)

Y-o-Y Chg
-17.7%

2.8%
Office Gross Yield

Y-o-Y Chg
+12bps

¹ Data as of 30 Sep 2024
Source: Cushman & Wakefield Research

ECONOMIC INDICATORS Q3 2024

3.3%
GDP growth (Q2 2024)

YOY Chg ▲ 12-Month Forecast ▲

2.5%
CPI Growth² (Aug 2024)

YOY Chg ▲ 12-Month Forecast ▲

3.81%
10-year government bond rate (U.S.) (Sep 2024)

YOY Chg ▼ 12-Month Forecast ▼

² Composite CPI, non-seasonally adjusted
Source: Hong Kong Census and Statistics Department; U.S. Department of Treasury; Moody's Analytics

DISTRESSED SALES AT DISCOUNTS REMAIN A KEY THEME

The impact of the persistent high interest rate environment, coupled with banks' tightening approvals on commercial loans and a lack of high-yield assets, saw overall investment activity in Q3 2024 remain sluggish. However, due to a relatively low basis for comparison, total large-sized (>HK\$100 million) non-residential investment volume in the quarter recorded HK\$9.0 billion¹, representing a rise of 90.1% q-o-q and 10.1% y-o-y, respectively.

In the face of liquidity challenges and heavy interest expenses amid the interest rate environment, more landlords were willing to offload assets at discounted prices. Of the 23 transactions concluded in Q3, four were receivership deals, with another seven properties sold at capital losses compared to their entry prices. Meanwhile, the ongoing price correction across sectors has been providing a window for cash-rich investors and end-users to bargain-hunt.

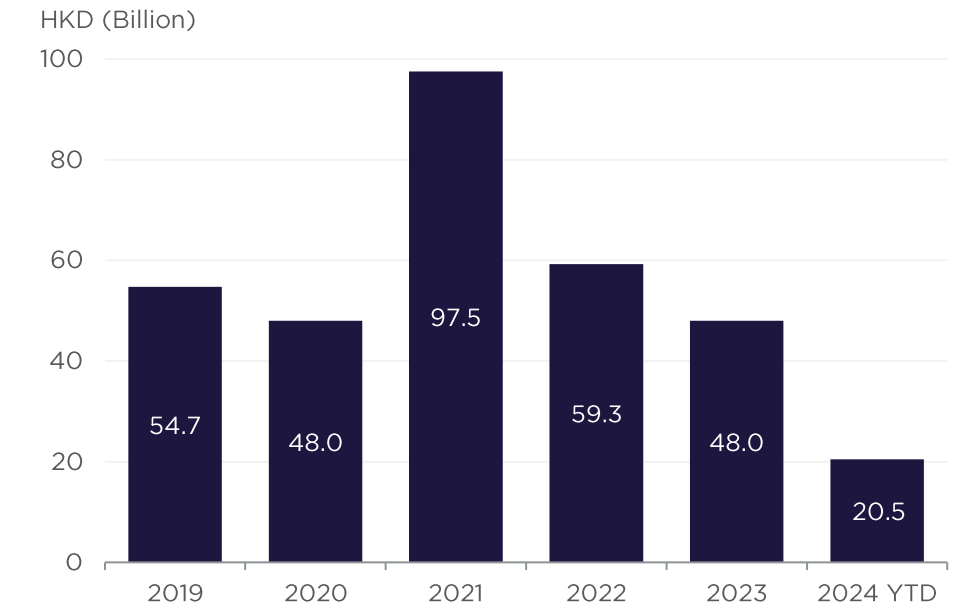
OFFICE ASSETS DOMINATE INVESTMENT TRANSACTIONS

Among all asset classes, twelve office transactions were recorded in Q3, accounting for 59% of the total quarterly investment volume. Transactions included a Singaporean fund's acquisition of a property portfolio at One Vista in Tuen Mun for HK\$1.4 billion. A local investor also sold two whole floors at The Center to DBS Bank for a combined HK\$1.32 billion, enabling the bank to bottom-fish and expand its Grade A office portfolio in Central district. A notable strata-titled deal was a basket of 53 office units at the NCB Innovation Centre in Cheung Sha Wan, sold by New World for HK\$760 million, with the buyer optimistic for the appreciation potential of the new office building.

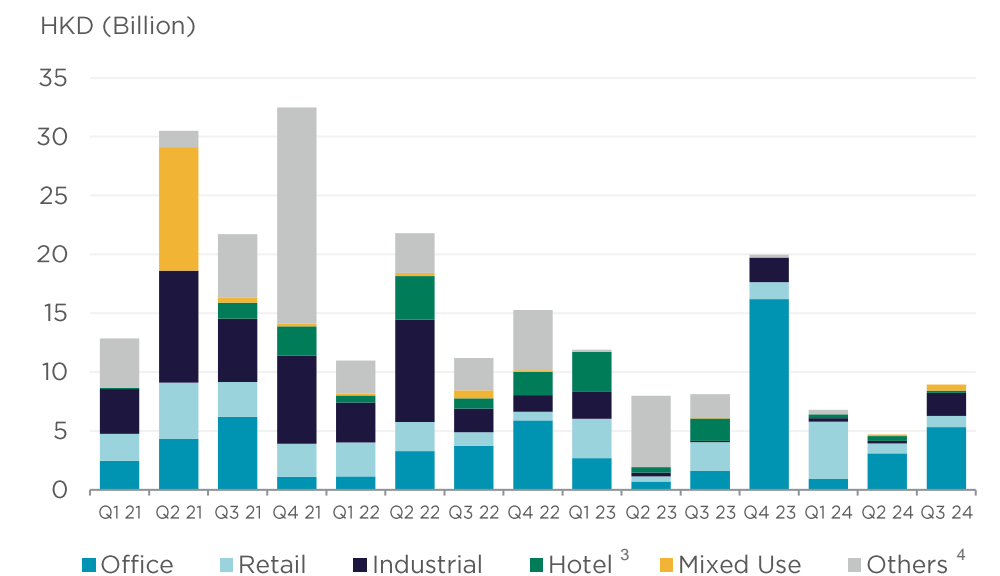
Two deals in the industrial sector comprised 22% of total Q3 consideration. The first was Jingdong (JD) Property's acquisition of the en-bloc LiFung Centre in Shatin for HK\$1.8 billion, marking it the largest deal in Q3 by transaction price. The second transaction was the Occupational Safety & Health Council's purchase of the ground floor of the Hong Kong Industrial Building in Sai Ying Pun, intending to hold the property for self-use.

Six retail assets were transacted during the quarter, representing 11% of total transaction volume. Deals included one floor of the Allway Gardens Phase 3 shopping arcade, purchased by the existing tenant for HK\$218 million. A local investor also purchased a retail space on Nathan Road at HK\$200 million, attracted by the property's prime location.

OVERALL INVESTMENT VOLUME



INVESTMENT VOLUME BY SECTOR



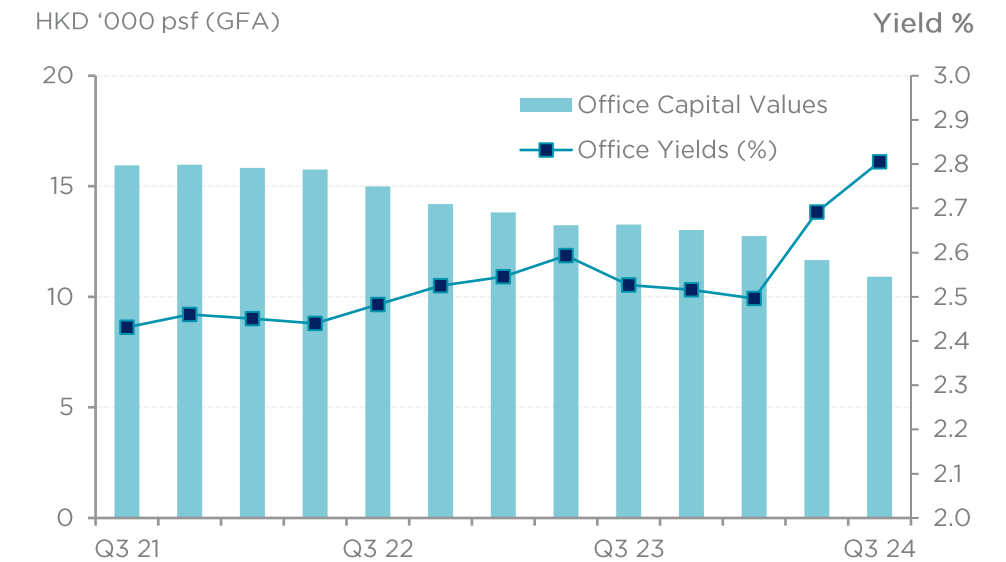
³ "Hotel" category includes investment for co-living and rental apartments;
⁴ "Others" category covers carparks and private sites for development or conversion purpose
Source: EPRC; Media articles; HKE; Cushman & Wakefield Research

The hotel sector and mixed-use assets with value-added conversion potential continued to be sought after by investors in Q3. The Popway Hotel in Tsim Sha Tsui was acquired at a price of HK\$180 million, while Crystal Group purchased the en-bloc Incredible Residence in Hung Hom for HK\$123 million. The two new owners will both intend to convert the strategically located properties into student accommodation. Given the shortage of beds in the city’s student housing market in the face of the influx of incoming non-local students, the properties are expected to generate stable rental incomes following the conversion. A further mixed-use asset purchase in Q3 was the en-bloc property located at 37-39 Carnarvon Road in Tsim Sha Tsui. A local investor purchased the asset, which has the potential to be redeveloped as a “Ginza-style” commercial building, for HK\$420 million.

FED’S RATE CUTS YET TO IMMEDIATELY BOOST INVESTMENT TRANSACTIONS

With the U.S. Fed officially announcing a rate cut in September, the market generally perceives it as the beginning of the rate-cutting cycle. However, investors generally do remain cautious, as the commercial loans rate is still at a relatively high level. However, if the interest rate continues to adjust downwards in the upcoming months, this could help bring down mortgage rates and hence the borrowing costs of transactions, benefitting the recovery of real estate investment sentiment. Meanwhile, a lower interest rate will also gradually help stimulate economic activities and business sentiment, supporting fundamental demand for real estate assets such as offices, retail spaces and warehouses. In turn, this will aid rental recovery across sectors. We expect this could provide investors with a window of opportunity amid the current market to bottom-fish for higher-yielding properties before property prices fully recover.

OFFICE CAPITAL VALUE AND GROSS YIELD



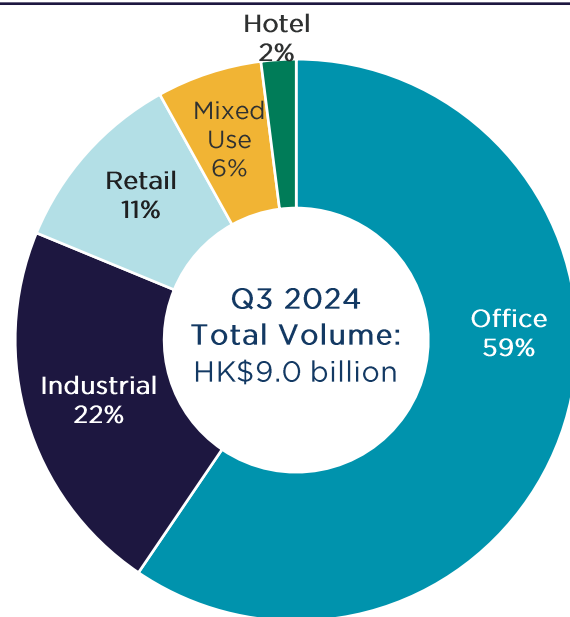
ROSANNA TANG

Executive Director,
Head of Research, Hong Kong
27th Floor, One Island East,
Taikoo Place, 18 Westlands Road, Quarry Bay
Tel: +852 2956 7021
rosanna.tang@cushwake.com

JULIA LAW

Manager, Research, Hong Kong
27th Floor, One Island East,
Taikoo Place, 18 Westlands Road, Quarry Bay
Tel: +852 2956 7042
julia.law@cushwake.com

Q3 2024 TRANSACTIONS BY SECTORS



Q3 2024 KEY INVESTMENT TRANSACTIONS

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE (HKD MN)
LiFung Centre (En-bloc)	Shatin	JD Property	M&G Real Estate	Industrial	1,800
Property portfolio, One Vista	Tuen Mun	Singaporean Fund	Receivership Deal	Office	1,400
66/F and 75/F, The Center	Central	DBS Bank	Local Investor	Office	1,320
A basket of units, NCB Innovation Centre	Cheung Sha Wan	Private Investor	New World	Office	760
37 & 39 Carnarvon Road (En-bloc)	Tsim Sha Tsui	Grand Harvest	Receivership Deal	Mixed Use	420

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