PROPERTY INSIGHTS

Hong Kong | Quarter 2, 2017

Hong Kong Property Market Insight Q2 2017

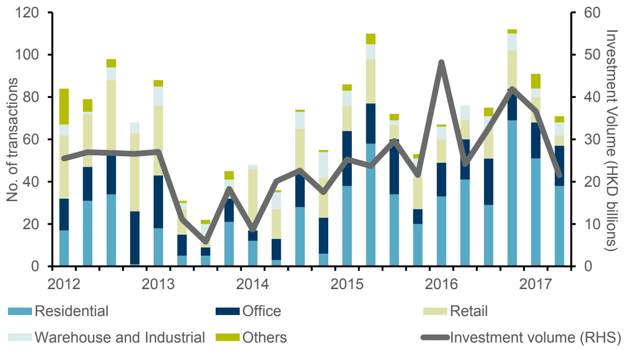
Market Overview

Market Highlights

- In Q2, local developers acquired three commercial development sites in Cheung Sha Wan, Central and Kai Tak for a total consideration of HKD 51.9 billion.
- Strong land sale results prompted vendors to become aggressive on asking prices with a handful of strata-titled office properties in core areas transacted at record high unit prices at the building level.
- Buoyed by several en-bloc transactions in Sheung Wan and Kowloon East, investment volume for office properties increased two-fold to HKD 7.6 billion in Q2.
- PRC developers remained dominant in the residential land sales market, winning the land sale tender of two development sites in Kai Tak and Tuen Mun for a total of HKD 10.4 billion.
- Ahead, office investment volume is likely to be supported by en-bloc transactions, while investment activity in Central is expected to be focused on non-Grade A office properties.

Figure 1

Number of Transactions Over HK$100 million by Sector and Total Investment Volume (HK$ billion)



Source: DTZ/Cushman & Wakefield research

Trends & Updates

Economic Overview

The economy continued to perform well, increasing 4.3% y-o-y in Q1. Property investment remained robust despite the Hong Kong Monetary Authority's raising the interest rate by 0.25% in Q2. Domestic demand also held up with solid private consumption growth of 3.7% y-o-y in Q1 and a stable unemployment rate of 3.2%. CPI remained relatively stable throughout the quarter.

Table 1

Economic indicators

	Q4 16	Q1 17	12 Month Outlook
GDP Growth	3.2%	4.3%	▼
CPI Growth	1.2%	0.5%	▲
Unemployment Rate	3.3%	3.2%	▲

Source: Census and Statistics Department

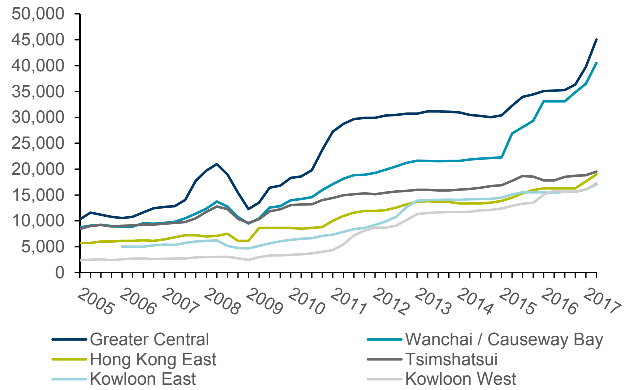
Office Market

The Murray Road Carpark site in Central was sold to Henderson Land for HKD 23.3 billion, with an accommodation value of HKD 50,064 per sq ft setting a new global record high for a government site. Strong government land sale results prompted vendors to turn aggressive on asking prices with a handful of strata-titled office properties in core areas transacted at record high unit prices at the building level. Notably, a floor in the high zone of COSCO Tower in Sheung Wan was sold for HKD 630.0 million with the unit rate of HKD 30,723 per sq ft setting a new record high in the area.

Office investment volume increased two-fold to HKD 7.6 billion on the back of robust demand for en-bloc non-Grade A office properties especially in Sheung Wan and Kowloon East. A local investor, for instance, acquired Kwun Tong View in Kwun Tong from Phoenix Property Investors for HKD 1.99 billion (HKD 13,745 per sq ft).

Figure 2

Grade A Office Capital Value (HKD/sf, NFA)



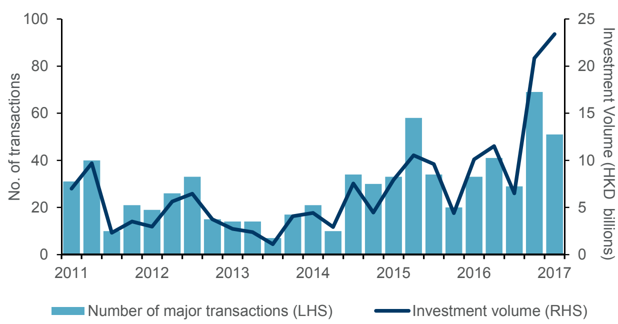
Source: DTZ/Cushman & Wakefield research

Retail Market

During the quarter, there were five confirmed retail transactions that were more than HKD 100 million. Among the most notable, a local investor sold a unit at Lippo Centre in Admiralty for HKD 700 million. Given continued uncertainty in the market, retailers are approaching the market cautiously.

Figure 3

Residential Investment Volume (HKD million) and Number of Transactions above HKD 100 million



Source: DTZ/Cushman & Wakefield research

Residential Market

Despite another round of cooling measures launched in May, a number of new residential projects were well received on the back of pent-up demand in the market. Cheung Kong Property, for instance, sold 99% of 970 units at Ocean Pride in Tsuen Wan within two weeks after launching the project to the market.

PRC developers remained dominant in the residential land sales market, winning two development sites in Kai Tak and Tuen Mun for a combined HKD 10.4 billion in Q2. PRC developers have won all five residential sites sold by tender in 2017. Meanwhile, local developers acquired three commercial development sites for a total of HKD 51.9 billion.

Outlook

Office investment volume for all of 2017 is likely to surpass 2016 as several vendors looking to capitalize on still-positive investment sentiment put their en-bloc properties on the block. Champion REIT reportedly put the office tower of Langham Place in Mongkok up for sale. If transacted at the asking price of HKD 24.5 billion, the building would surpass the HKD 12.5 billion-sale of Mass Mutual Tower in Wanchai in 2015 to become the most expensive office building in the city.

In Central, capital values are expected to surge against a rising rental market and strong government land sales results. Given limited availability of saleable Grade A office stock, investment activity is likely to focus on non-Grade office properties, especially those in Sheung Wan.

Meanwhile, retail investment activity is likely to gain traction as investors are set to re-enter the property market in anticipation of a recovery brought about by improving tourist arrivals and hotel occupancy rates. A local investor, for instance, is reportedly in the final negotiation to acquire a street shop in Mongkok for HKD 130 million.

Table 2

Significant Investment Transactions, Q2 2017

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK$M)
Kwun Tong View, Kwun Tong	Local Investor	Phoenix Property Investors	Office	1,990
Rosedale Hotel, Causeway Bay	TBC	Bank of China's Fund	Hotel	1,800
Butterfly on Hollywood, Sheung Wan	Travelodge	Alpha Investment Partners	Hotel	850
Hsin Chong Centre, Kwun Tong	Local Investor	Hsin Chong Group	Industrial	760
1/F, Lippo Centre	TBC	Local Investor	Retail	700
House 10, Mount Nicholson, The Peak	Local Investor	Wheelock Properties / Nan Fung Group	Luxury Residential	664

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HONG KONG