



PROPERTY INSIGHTS

Hong Kong | Quarter 2, 2016

Investment Snapshot Q2 2016

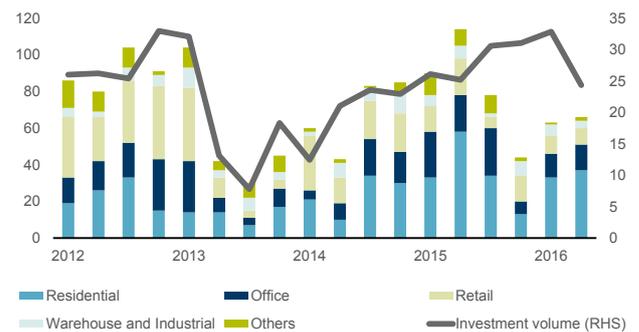
Market Overview

Market Highlights

- A sluggish economy, both locally and externally, has not undercut Hong Kong's investment market, recording 66 over-HK\$100 million property investments totaling HK\$24.34 billion in the second quarter. Luxury residential properties remained the most popular sector for investors with over a third of the total investment volume netted.
- Retail investments attracted great interest thanks to discounts of up to 40% on some properties.
- Office transactions dropped significantly from previous quarters due to limited supply of property for sale and owners' firm asking price.
- Four industrial transactions took place, including the HK\$3.75 billion sale of NWS Kwai Chung Logistics Centre to a state-owned PRC company.
- Ahead, investors should remain active assuming reasonable price levels and viable, value-added prospects are for sale.

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

Hong Kong's economy slowed for the third consecutive quarter in Q1, posting the slowest quarterly growth in four years at 0.8%. Inflation accelerated 0.5 percentage points q-o-q to 2.9%, while the city's unemployment rate edged up to 3.4%, from 3.3% the previous quarter.

Office Market

Office investment cooled from the previous two quarters although volume was robust. The second quarter saw 14 over-HK\$100 million deals at a combined consideration of HK\$4.10 billion. Significant transactions included The Mark at 164 Wai Yip Street in Kwun Tong, which was converted from a 1990s industrial building under the government's revitalization policy.

Overall Grade A strata-title office capital value remained stable. Office buildings in Greater Central and Kowloon East fell slightly, but those in Kowloon West rose by 4.6 percentage points (see Figure 2).

Residential Market

Mass residential sales recovered from the first quarter panic. Demand for primary and secondary units picked up from last quarter's 20-year low, doubling in transaction volume in the second quarter to reach 2H15 levels.

The luxury market fetched higher sales in terms of units sold and investment volume compared to Q1. There were 37 over-HK\$100 million transactions at a total consideration of HK\$8.93 billion - both the second highest reading in five years (see Figure 3).

Retail Market

In Q2, nine retail transactions accounted for HK\$2.50 billion in total. Investors showed strong interest in retail properties despite further declines in

Table 1

Economic indicators

	Q4 15	Q1 16	12 Month Outlook
GDP Growth	1.9%	0.8%	▼
CPI Growth	2.4%	2.9%	—
Unemployment rate	3.3%	3.4%	▲

Source: Census and Statistics Department

Figure 2

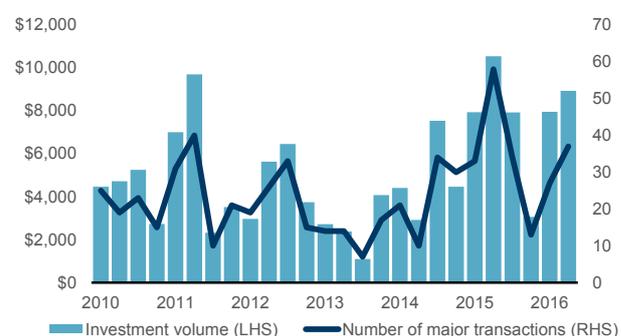
Grade A Office Capital Value (HK\$/sf)



Source: DTZ/Cushman & Wakefield research

Figure 3

Residential Investment Volume (HK\$ million) and Number of Transactions above HK\$100 million



Source: DTZ/Cushman & Wakefield research

retail sales in the broader market. Following two shopping mall disposals in late March for HK\$1.69 billion, Link REIT sold another seven malls for HK\$2 billion. Investors have been encouraged to act by steep discounts of 30 to 40% off peak prices.

Outlook

The mass residential market may be haunted in the second half by a sluggish local economy, continuing slowdown in mainland China and the possibility of another rate hike in the U.S. Although investor sentiment may remain cautious, the overall market is expected to be stable. Such market sentiment is less a

consideration for investors as long as viable investment opportunities continue to appear. The Brexit result in the UK may positively impact Hong Kong real estate, although there is much uncertainty and little evidence to tell exactly how at present.

Table 2

Significant Investment Transactions, Q2 2016

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK\$M)
NWS Kwai Chung Logistics Centre	China Resources	NWS Holdings Ltd.	Industrial	3,750.0
House 5, Phase 1, Mount Nicholson	He Jian Feng	Market Prospect Ltd.	Residential	740.0
The Mark, 164 Wai Yip Street	Sitoy Group Holdings Ltd.	Pamfleet (HK) Ltd.	Office	560.0
79/F, The Center, 99 Queen's Road Central	To Be Announced	Excel Fine Holdings Ltd.	Office	500.0
Kam Ying Court Shopping Centre, No.9 Kam Ying Road, Ma On Shan, Shatin	Vantage Int. Holdings Ltd.	The Link REI	Retail	471.0

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COUNTRY SPECIFIC

HONG KONG

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