



PROPERTY INSIGHTS

Hong Kong | Quarter 3, 2016

Hong Kong Property Market Insight Q3 2016

Market Overview

Market Highlights

- In Q3, there were 56 property transactions with consideration price over HK\$100 million being recorded in Hong Kong, which totaled HK\$24.61 billion in sales value. In particular, office properties accounted for more than half of the total transaction volume, at HK\$16.81 billion.
- En-bloc office assets were particularly in high demand. One HarbourGate East Tower was sold at a consideration price of HK\$4.5 billion, making it the largest lump-sum transaction in Kowloon this year.
- The softening of retail property values in recent months has attracted investors to retail properties in decentralized locations. Nine transactions of retail properties with consideration price over HK\$100 million were recorded during the quarter, totaling HK\$1.75 billion in transaction value.
- Looking forward, office and retail investments should continue to be attractive, amid limited luxury residential investment opportunities and strong Chinese and local investors' interests in commercial 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

Hong Kong's economy registered 1.7% y-o-y growth in Q2, rebounding from a three-quarter's slide. CPI cooled to 2.4%, while the unemployment rate held at 3.4%.

Office Market

In general, investor sentiment remains positive in the office market, which saw five en-bloc office sales in Q3.

Notable transactions in this quarter included Cheung Kei Group's purchase of One HarbourGate East Tower in Hung Hom for HK\$4.5 billion and the sales of Golden Center at No. 188 Des Voeux Road for over HK\$4 billion.

Strata-titled office transaction activity was also strong. Convention Plaza saw floors 21 and 22 sold for HK\$925 million, with the 23rd floor selling for HK\$462.5 million.

Capital values of Grade A strata-title offices remained relatively stable except for Tsimshatsui, which registered an increase of 3.8% (Figure 2).

Residential Market

The luxury market recorded 22 transactions with consideration price over HK\$100 million in Q3, dropping from 42 transactions in Q2. Total considerations also fell to HK\$4.64 billion in Q3, from HK\$9.77 billion last quarter.

Luxury residential properties are still one of the most popular property investments in Hong Kong with a 19% share in terms of total consideration across all property types. But the market has slowed as investors found more investment opportunities in other sectors.

Table 1

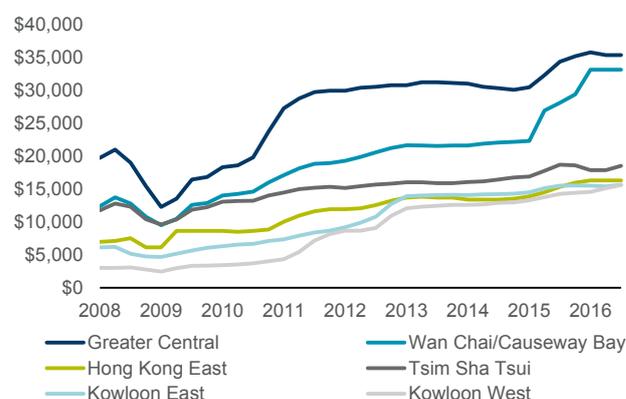
Economic indicators

	Q1 16	Q2 16	12 Month Outlook
GDP Growth	0.8%	1.7%	▲
CPI Growth	2.9%	2.4%	▼
Unemployment rate	3.4%	3.4%	▲

Source: Census and Statistics Department

Figure 2

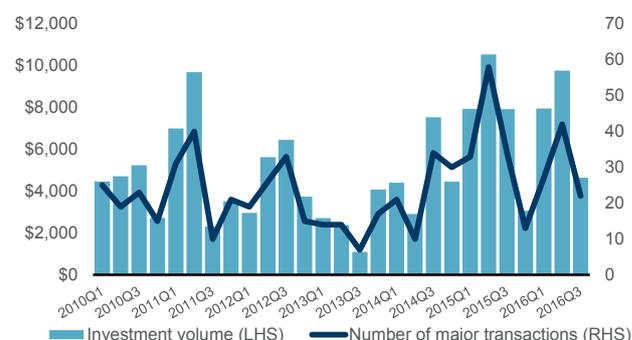
Grade A Office Capital Value (HK\$/sf)



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 Market

With the retail outlook improving as sales and visitor arrivals recover, the number of retail properties sold at over HK\$100 million in Q3 matched last quarter's with nine deals. All nine properties are located in non-core areas where there appears to have been some discounting. This resulted in the total consideration dropping to HK\$1.75 billion compared to HK\$2.39 billion in Q2.

Recent retail investment activity demonstrates that the investment community still has faith in the mid- to long-term retail outlook. Nevertheless, investors are still exercising caution, requiring both the right investment opportunities and attractive pricing before committing to the sector.

Outlook

For the remainder of 2016, office and retail sectors look set to continue to be the more attractive markets as a result of strong interest from Chinese and local investors alike in commercial property investment.

Office properties may see strong interest through the end of the year as investors in general continue to hold a positive outlook for office leasing and ongoing investment demand in this sector. As retail indicators continue to see improvement, the sector is likely to witness further investor interest provided that vendors' expectations remain realistic. We anticipate reasonable levels of transaction activity in Q4.

Local investment demand looks positive, remaining intact as PRC investors continue to increase their interest in Hong Kong property. Overseas investors, noting the strong demand fundamentals and interest from Mainland China, may also become more active in Hong Kong - a trend which is supported by recent transaction records.

Table 2

Significant Investment Transactions, Q3 2016

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK\$M)
One HarbourGate, East Tower	Cheung Kei Group	Wheelock	En-bloc Office	4,500
No. 188 Des Voeux Road, Golden Center	TBA	Henderson Land.	En-bloc Office	4,368
Kwun Tong View	Prosperity REIT	Phoenix Property	En-bloc Office	1,875
EIB Centre	Pamfleet	Local investor	Office	1,000

GENERAL DISCLOSURE

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COUNTRY SPECIFIC

HONG KONG

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