



# PROPERTY INSIGHTS

Hong Kong | Quarter 4, 2016

## Hong Kong Property Market Insight Q4 2016

### Market Overview

#### Market Highlights

- In Q4, there were 99 transactions with consideration price over HK\$100 million each, with total investment volume exceeding HK\$39 billion. For all of 2016, Hong Kong recorded HK\$144.1 billion worth of investment, breaking the previous high.
- Significant deals in 2016 included: office - Mass Mutual Tower (now China Evergrande Centre) for HK\$12.5 billion; residential - 15 Gough Hill Road for HK\$2.1 billion; and warehousing - NWS Kwai Chung Logistics Centre for HK\$3.75 billion.
- With RMB devaluating 6.83% against USD in 2016, PRC investors remained to be the main driver in the Hong Kong investment market with all above-mentioned properties being acquired by PRC capital.
- Office properties were the most popular type of investment in 2016 with just under half of the capital invested in this sector. Luxury residential properties also attracted almost one third of total investment.
- Outstanding performance of office and residential sectors was supported by strong fundamental of limited supply and strong underlining demand.

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 continued to pick up, posting GDP growth of 1.9% y-o-y in Q3. CPI increased 1.2% y-o-y, while the unemployment rate fell for the first time since 2015 to 3.3%.

## Office Market

In 2016, investors showed strong interest in acquiring Hong Kong office properties, especially en-bloc office buildings. Demand was robust despite prime office yields dropping to 2.65% at the end of the year. Swire Property set a new Kowloon record in Q4, when it sold a Kowloon Bay project under construction for HK\$6.528 billion. The strata-title office market continued to be bullish in 2016, with Wan Chai/Causeway Bay posting the highest capital value growth among submarkets at 18.8%.

## Residential Market

The luxury market made a comeback in Q4 with 58 investments of more than HK\$100 million each, accounting for almost half of investment volume of the quarter. Against the backdrop of the government's new 15% stamp duty, which aims to suppress residential investment activities, this is considered particularly high and reaffirmed the market's confidence in the housing sector.

PRC investors won six government land tenders in 2016. Notably, HNA Group outbid 20 competitors to secure Kai Tak Area 1L Site 3 at approximately HK\$13,500 per sf, a staggering 88% over the appraised value.

## Retail Market

In Q4, Link REIT sold another five retail properties in decentralized residential areas, raising HK\$3.64 billion and attracting offers 29% above the appraised value on average. The disposal marked Link REIT's third batch sale this year, containing 14 shopping malls

Table 1

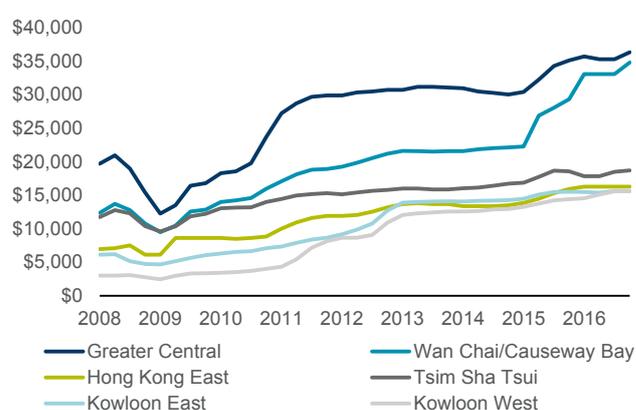
### Economic indicators

	Q2 16	Q3 16	12 Month Outlook
GDP Growth	1.7%	1.9%	▲
CPI Growth	2.4%	1.2%	▼
Unemployment rate	3.4%	3.3%	▲

Source: Census and Statistics Department

Figure 2

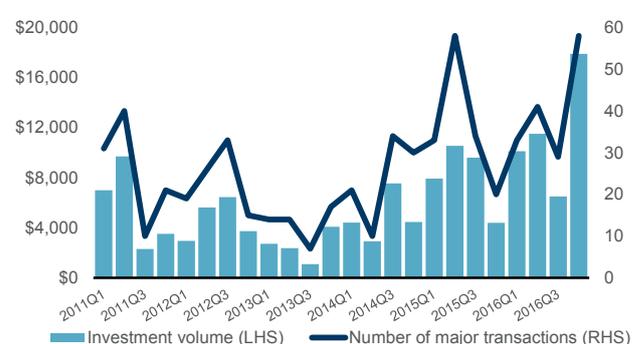
### Grade A Office Capital Value (HK\$/sf)



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

in total and again attracting PRC investors. It is believed that Sunlink Group Company Limited paid 68% over the appraised value for Sun Tin Wai Commercial Centre, which was among the most recent properties let go.

## Outlook

Despite political uncertainties in Europe and the US, investors' confidence in the Hong Kong property market is expected to continue in 2017. Mega deals, especially in the office sector, are expected and may fetch record price levels. A portion of The Centre currently owned by Cheung Kong Group, for instance, may be the next sizeable deal to watch. Further depreciation of the yuan against the US dollar will also be a key factor influencing PRC investors' moves in Hong Kong, although their enthusiasm is expected to be further challenged by China's recent tightening on capital controls.

In terms of development sites, Murray Road Car Park is scheduled to be sold by government tender in Q1 2017. This is the first time in over two decades for Hong Kong government to sell a Grade A office development site in Central and is likely to attract fierce competition and achieve a record-breaking price. This will also contribute to the hikes of office prices in 2017.

Table 2

### Significant Investment Transactions, Q4 2016

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK\$M)
Wang Chiu Road & Lam Lee Street, Kowloon Bay	TBA	Swire	En-bloc Office	6,528
Portion A-D on 1/F, Flat A1-A9, A10-A14, Flat B2-11 On 1/F Flat A1-11, B1-6, B10-11 Matauwei Apartments, Nos. 57, 57A-57H, 57J-57K, 65-69 Ma Tau Wai Road & Nos. 2-18, 18A & 20 Bailey Street	Henderson	TBA	Luxury Residential	1,739
Cheung Hong Commercial Centre	TBA	Link REIT	Retail	1,150
16A & 16B Mount Nicholson, No. 8 Mount Nicholson Road	TBA	Wheelock & Nan Fung	Luxury Residential	912
30/F, United Centre	Wang On Properties	Thing On	Strata-title Office	512

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## COUNTRY SPECIFIC

### HONG KONG

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