



PROPERTY INSIGHTS

Hong Kong | Quarter 1, 2017

Hong Kong Property Market Insight Q1 2017

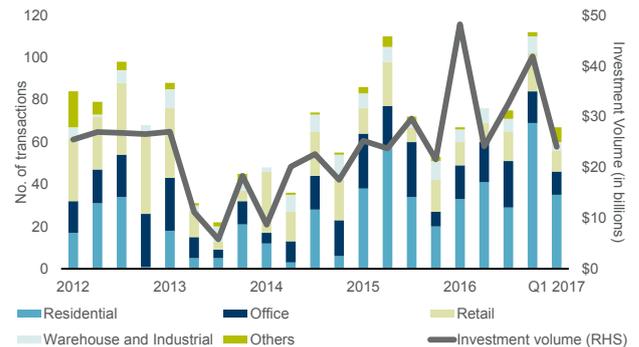
Market Overview

Market Highlights

- In Q1, investment volume and the number of major transactions sold at over HKD 100 million dropped 38% q-o-q and 35% q-o-q, respectively, on a seasonal slowdown.
- Strong demand in the hotel sector, in which five properties changed hands, boosted investment volume in Q1.
- PRC developers dominated the residential land sales market, acquiring all three development sites in Kai Tak and Ap Lei Chau for a total consideration of HKD 29.8 billion.
- Office investment volume decreased 83% q-o-q owing to fewer en-bloc transactions during the quarter. Investment sentiment, nonetheless, remained intact with several strata-titled transactions achieving record highs in terms of unit price.
- Improving retail indicators saw investors gradually return to core shopping areas. The number of transactions remained flat from the previous quarter.
- Ahead, investors are likely to favor the office sector, especially properties in Central, on rising rent and limited availability.

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 expanded 3.1% y-o-y in Q4 2016, resulting in growth of 1.9% for the year. The labor market remained tight at 3.3% unemployment, while CPI growth slowed to 1.2% y-o-y in Q4.

Office Market

In the office market, investment volume decreased 83% q-o-q against fewer en-bloc transactions in Q1. Nonetheless, investment sentiment remained positive, as evidenced by several record-setting strata-titled sales. A small unit at 9 Queen's Road Central in Greater Central sold for HKD 146.0 million, setting a new unit price high in Hong Kong at HKD 39,800 per sq ft. As a result, capital values in Central jumped 10.1% q-o-q in Q1. Elsewhere, New World Development paid a record HKD7.79 billion (A.V. HKD 7,808 per sq ft) to win the tender for a commercial development site in Cheung Sha Wan (NKIL 6505).

Residential Market

PRC developers dominated the residential land sales market, winning all three development sites available for public government tender during the quarter. After acquiring two additional development sites in Kai Tak for a total consideration of HKD 13.0 billion, HNA remained the largest landlord in Kai Tak, owning four sites with the potential to yield about 3,000 flats. Meanwhile, a joint venture between Logan Property and KWG Property purchased a site in Ap Lei Chau (APIL 136) for a record HKD 16.9 billion. To benefit from the positive sentiment, developers have launched several projects, such as CK Property's Seanorama in Ma On Shan and Sun Hung Kai Properties' Cullinan West in Kowloon West, onto the primary sales market, which received a warm welcome from both investors and home buyers.

Table 1

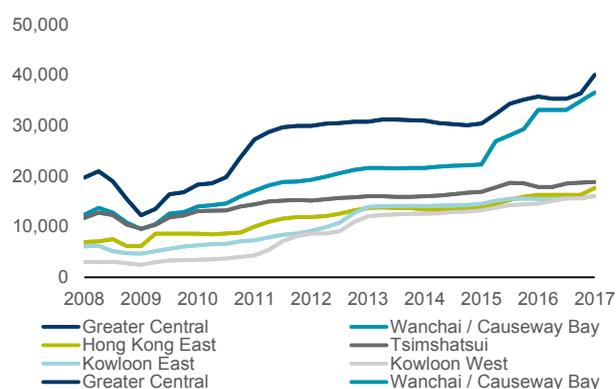
Economic indicators

	Q3 16	Q4 16	12 Month Outlook
GDP Growth	2.0%	3.1%	▬
CPI Growth	2.7%	1.2%	▾
Unemployment rate	3.3%	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 (HKD million) and Number of Transactions above HKD 100 million



Source: DTZ/Cushman & Wakefield research

Retail Market

With visitor arrivals to Hong Kong showing signs of improvement, investors gradually shifted their focus to the retail market. Notably, three floors at the retail podium of Harbourfront Landmark were sold by Prosperity REIT for HKD 885.7 million (HKD 11,500 per sq ft). The buyer, reportedly a local investor, recently put the three floors up for sale with an asking price of HKD 1.2 billion (HKD 15,000 per sq ft). If realized, the investor stands to reap a gain of 30%.

Outlook

Investors are expected to remain on the lookout for office properties in Central amid a tight vacancy environment and rising rental market. Capital values in Central are likely to trend higher after the upcoming land sale tender of the highly anticipated Murray Road

Multi-storey Carpark. According to local press, the site, with a tender closing date in May 2017, could fetch in the range of HKD16.3-18.6 billion (A.V. HKD35,000-40,000 per sq ft).

An improving inbound tourism market and stabilizing high street shops rents are likely to continue to draw investors to the retail sector, further lending support to investment activity, both in core areas as well as suburban locations such as Yuen Long and Tuen Mun, which continue to witness rental growth.

Mainland Chinese developers and investors are expected to remain active in the city's investment and land sales markets. We expect the Murray Road Multi-storey Carpark and some upcoming residential development sites, especially those located in Kai Tak, to draw strong interest from PRC players looking for trophy assets or to grow their brand in the city.

Table 2

Significant Investment Transactions, Q1 2017

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK\$M)
Duplex Apartments, 1-3 Pollock's Path	High Grand Development	Brown Rosamond Annis 1/2	Luxury Residential	2,800
Newton Place Hotel, Kwun Tong	Local Investor	Henderson	Hotel	2,248
Zung Fu Aberdeen Garage, Aberdeen	Empire Group	Zung Fu Company	Industrial	1,560
House 1, Mount Nicholson Road, No. 8 Mount Nicholson Road	Giant Victory Holdings	Wharf/Nan Fung	Luxury Residential	1,080
3 floors at the Harbourfront Landmark, Hung Hom	Local Investor	Prosperity REIT	Retail	886
Kai Kwong Commercial Building, Wanchai	Soundwill Holdings	Local Investor	Office	410

GENERAL DISCLOSURE

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COUNTRY SPECIFIC

HONG KONG

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