



# PROPERTY INSIGHTS

Hong Kong | Quarter 4, 2017

## Hong Kong Property Market Insight Q4 2017

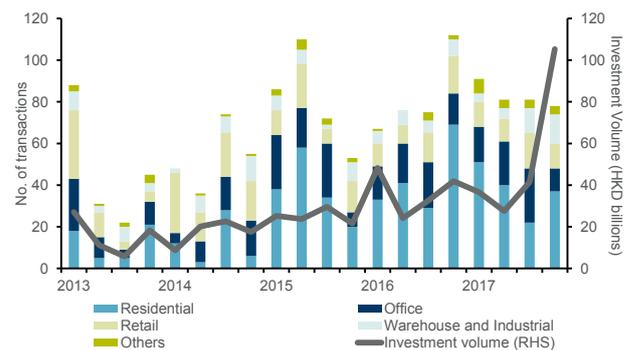
### Market Overview

#### Market Highlights

- In Q4, buoyed by several substantial en-bloc transactions, the total investment volume of commercial and luxury residential property transacted at over HKD 100 million surged 154% q-o-q to reach a record HKD 105.25 billion in Q4 2017.
- For the full year, investment volumes amounted to HKD 203.49 billion, representing a 62% y-o-y jump and setting a new record for Hong Kong.
- Growth was underpinned by strong demand in both en-bloc and strata-title sales and Mainland Chinese investors dominate the investment market in this quarter, with the largest en-bloc office deal of the year coming from a PRC-led consortium, acquiring a 75% stake in The Center for HKD 40.2 billion. With these acquisitions, Mainland Chinese investors have now accounted for four of the top five largest office transactions in the city.
- Ahead, positive investment sentiment for investment will remain, and large-scale transactions similar to those seen in Q4 are likely to ensure the total transaction volume for the year reaches new heights.

Figure 1

**Number of Transactions Over HKD 100 million by Sector and Total Investment Volume (HKD billion)**



Source: Cushman & Wakefield research

# Trends & Updates

## Economic Overview

The economy maintained positive at 3.6% in Q3 and unemployment rate remained low and relatively stable at 3.0%. Property investment remained robust and confidence in the retail market returned amidst growing tourist volume.

## Office Market

Mainland Chinese investor were especially active in the en-bloc office market, who were the buyers in two of the largest transactions in 2017.

In the largest deal of the year, a PRC-led consortium acquired a 75% stake in The Center from CK Asset Holdings for HKD40.2 billion (HKD 32,961 per sq ft), which surpassed the HKD 12.5 billion sale of Mass Mutual Tower in Wanchai to China Evergrande in 2015 to become the largest office transaction in the city. Meanwhile, LVGEM-China, a Shenzhen-based developer, purchased 8 Bay East, an upcoming Grade A office project developed by Wharf (Holdings) in Kowloon East, for HKD 9.0 billion or HKD 15,095 per sq ft.

Investment sentiment for strata-titled office properties in core areas also remained strong with several transactions achieving record highs. Amongst the most notable, a whole floor in the high zone of Far East Finance Centre in Admiralty was sold for HKD527.6 million (HKD 50,143 per sq ft) while a small unit at Convention Plaza in Wanchai was sold for approximately HKD 106.0 million (HKD 38,000 per sq ft); with both unit prices setting new benchmarks in their respective buildings.

## Retail Market

Investment activity was highlighted by several high-profile shopping center transactions against improving retail sales and relatively strong local consumption demand. In the largest retail transaction in the city, LINK REIT sold 17 shopping centers in

Table 1

### Economic indicators

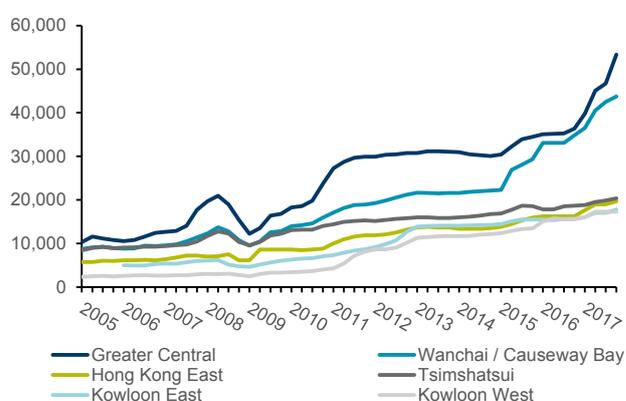
	Q2 17	Q3 17	12 Month Outlook
GDP Growth	3.8%	3.6%*	▼
CPI Growth	1.9%	1.4%	▲
Unemployment Rate	3.1%	3.0%	▲

Source: Census and Statistics Department

\*preliminary figure

Figure 2

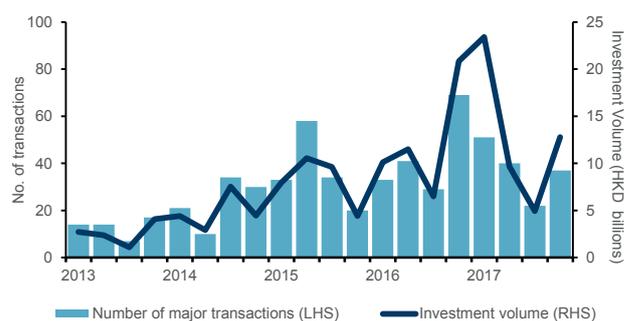
### Grade A Office Capital Value (HKD/sf, NFA)



Source: Cushman & Wakefield research

Figure 3

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



Source: Cushman & Wakefield research

non-core areas to a consortium led by Gaw Capital Partners for HKD 23 billion. Meanwhile, Fortune REIT sold Provident Square in North Point to Chelsfield Asia and Pamflet for HKD 2 billion.

## Residential Market

Investment sentiment for luxury residential market remained red hot with total transaction volumes increased by 154% q-o-q to HKD 12.78 billion in Q4. Of this total, about 39% came from the sale of eight units and one house at Mount Nicholson on The Peak. Two units were sold to a Mainland Chinese buyer for HKD 1.16 billion or HKD 132,060 per sq ft, setting a new record high for apartment buildings in Asia, in terms of unit price.

## Outlook

It is expected that the number of transactions over HKD 100 million may fall below 300 in 2018, but large-scale transactions similar to that seen in Q4 are likely to ensure the total transaction volume for the year reaches new heights.

In the office market, Mainland Chinese investors are likely to remain on the lookout for premium office

buildings in prime locations. As of the writing of this publication, a PRC consortium acquired 18 King Wah Road, a recently completed Grade A office development by Henderson Land, for HKD 9.95 billion (HKD 30,174 per sq ft). Meanwhile, local investors are expected to focus on office assets with redevelopment potential, especially those in the city's core-areas. Capital values in Greater Central are likely to trend higher against limited available saleable stock, low holding costs and continued rental growth.

Investment demand for the luxury residential properties are likely to remain intact as investors continue to look for "art piece" assets amid limited supply and record high prices achieved in the segment. In view of strong pent-up demand and relatively low borrowing rates, we remain optimistic on the sales activity in the primary residential market. Sun Hung Kai Properties, for instance, successfully sold all 118 units at St Barths in Ma On Shan on the day the project was launched in early January 2018.

Table 2

### Significant Investment Transactions, Q4 2017

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK\$M)
The Center (75% Stake)	A PRC-led Consortium	CK Asset Holdings	En-bloc Office	40,200
A Portfolio of 17 Shopping Centers	A Consortium led by Gaw Capital Partners	Link REIT	Retail	23,000
8 Bay East	LVGEM (China)	Wharf (Holdings)	En-bloc Office	9,000
Winner Godown Building	Billion Development	Wing Tai Properties	Industrial	2,163
86-90 Peak Road	Local Investor	CK Asset Holdings / Power Assets	Residential	2,000
Provident Square	Funds of Chelsfield Asia / Pamfleet	Fortune REIT	Retail	2,000

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## COUNTRY SPECIFIC

### HONG KONG

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