

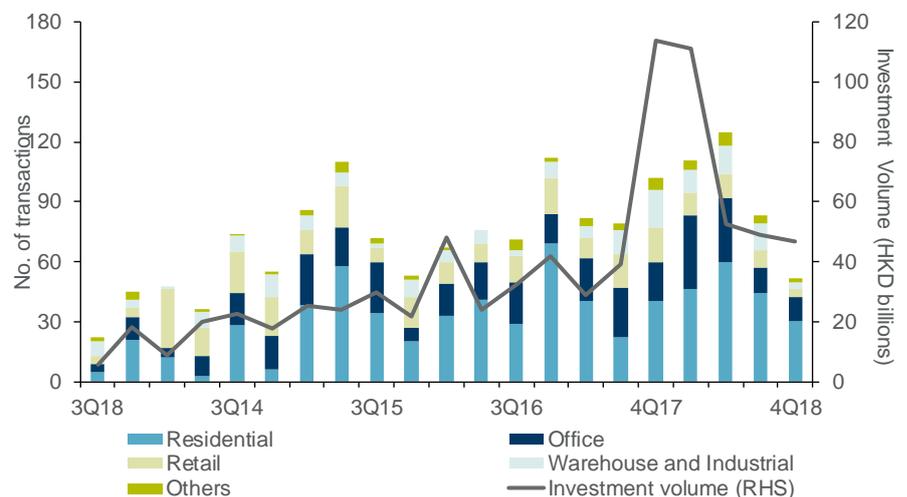


Market Highlights

- Investment in Hong Kong commercial property remained subdued against mounting uncertainties brought about by rising interest rates and U.S.-China trade tensions. In Q4, investment volume of commercial assets with a deal size over HKD100 million each dropped 31.6% q-o-q and 77.6% y-o-y to total HKD22.1 billion.
- Despite the steep decline in 2H, strong momentum early in 2018 provided a cushion for the full year. The city recorded total annual investment volume of HKD126.3 billion, the second highest following 2017.
- Investment into retail property dominated Q4, due to the strong domestic consumption demand, sustainable economic development and low unemployment level.
- In the office market, there were no major en-bloc deals, as similar to the previous quarters. The overall investment fell to HKD3.92 billion in 4Q, the lowest level since 2017.
- In view of growing global uncertainties, we expect commercial property investment volume to remain muted in 1H 2019. Nevertheless, en-bloc industrial property should remain favorable given limited availability and strong demand.

Figure 1

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



Source: Cushman & Wakefield Research

Economic Overview

The economy in Q4 2018 turned down to 1.2%, and the unemployment rate remained low at 2.8%. The capital investment activity is moderated because of the increasing risk and uncertainties, which is led by the US-China trade tension and the changes of US interest rate.

Office Market

Office property investment fell to HKD3.92 billion in Q4, a decline of 81.5% q-o-q and 92.8% y-o-y. Investment activity in the strata-titled office market remained concentrated in core areas, accounting for around 80% of all strata sales this quarter.

Residential Market

Investment sentiment for luxury residential properties was subdued in Q4. Total transaction volume of residential properties over HKD 100 million each dropped by 47.0% q-o-q and 56.2% y-o-y to HKD 58.71 billion. About 19% of the total transaction volume came from the sale of two properties at Twelve Peaks on the Peak with House 1 transacted at HKD 666.5 million or HKD 143,000 per sq ft, a record high unit price for the project. Further, in response to the vacancy tax that would make the completed homes left vacant for over six months liable to a penalty equivalent to 5% of the property, we expect more developers to offer the completed but unsold flats for rent. For instance, a local developer has recently leased two houses and two duplex apartments at 8 Deep Water Bay Road to its executive and directors to avoid tax pain.

Retail Market

Investment into retail property dominated Q4. In by far the largest deal of the quarter, a Gaw Capital Partners-led consortium acquired a portfolio of 12 shopping centers for HKD12 billion from Link REIT. And Wheelock Properties sold three malls in Tseung Kwan O for HKD3.4 billion to Phoenix Property Investors, reflecting the funds' positive outlook for the city's neighbourhood malls.

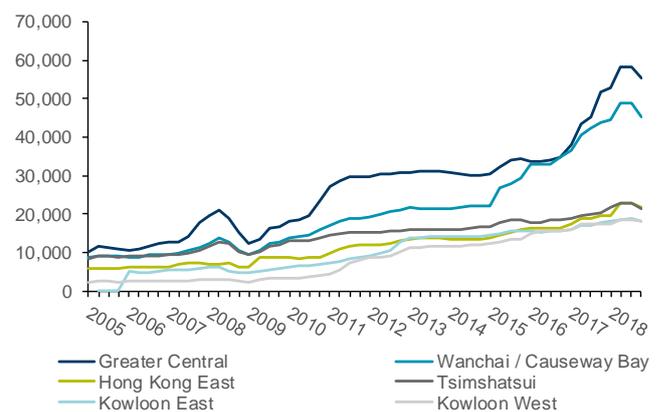
Table 1

STATS ON THE GO			
Economic Indicators			
	Q3 18	Q4 18	12-Month Forecast
GDP Growth	2.9%	1.2%*	▼
CPI Growth	2.7%	2.5%	▼
Unemployment Rate	2.8%	2.8%*	▲

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

Outlook

In view of growing global uncertainties, we expect commercial property investment volume to remain muted in 1H 2019. Nevertheless, en-bloc industrial property should remain favourable given limited availability and strong demand. This will be supported by the government's industrial refurbishment scheme, which allows the conversion of old industrial buildings to other commercial or residential uses, as well as increased trade between Hong Kong and the west bank of the Pearl River Delta following the recent opening of the Hong Kong-Zhuhai-Macao Bridge.

In the office market, we believe institutional funds and local investors are likely to be major players, while mainland Chinese investors are likely to remain on the sidelines due to tightened capital controls at home. In view of strong local consumption demand, especially for necessities and food & beverage, we expect investors to maintain focus on shopping centers and street shops located in high-density neighbourhoods which appear to offer comparatively safe investment opportunity, underpinned by strong local consumption and sustained economic growth.

Table 2
Significant Investment Transactions, Q4 2018

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE (HK\$ BILLION)
Capri Place, Savannah Place & Monterey Place	Phoenix Property Investors	Wheelock Properties	Retail	3.3
Novum West, 460 Queen's Road West	The University of Hong Kong	Group Leader Ltd	Retail	0.5
Unit 1-2, 6 & 8, 36/F, Lippo Centre (Tower 1), No.89 Queensway Hong Kong	SK Investment Holdings (Hong Kong) Ltd	German Industry and Commerce Ltd	Office	0.4
49/F, The Center	Hopson Development	Local Investor	Office	1.1
18/F Shun Tak Centre (China Merchants Tower)	Bondwell Ltd	Shun Tak Centre Ltd	Office	0.7
Various Floors, Chuan Kei Factory Building, No 15-23 Kin Hong Street, Kwai Chung	Private Investor	Local Investor	Industrial	0.6

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