

Investment momentum slows as market uncertainties arise

Hotels with conversion potential are gaining traction



Insights & recommendations

Market uncertainties since the start of 2022, including the outbreak of Omicron, geo-political tensions, and stock market volatilities, have disrupted investment transaction volumes in Hong Kong¹. Investors are still keen on acquiring quality assets, yet decision-making has been delayed along with the more stringent social-distancing rules in place during Q1.

We believe industrial assets will remain sought-after by investors, supported by the wide spectrum of market demand. We also recommend hotel premises, which exhibits flexibility to be converted into co-living or quarantine facilities, will likely attract more investors' attention.

Property yields² (as of Feb 2022)







Grade A Office
2.3%



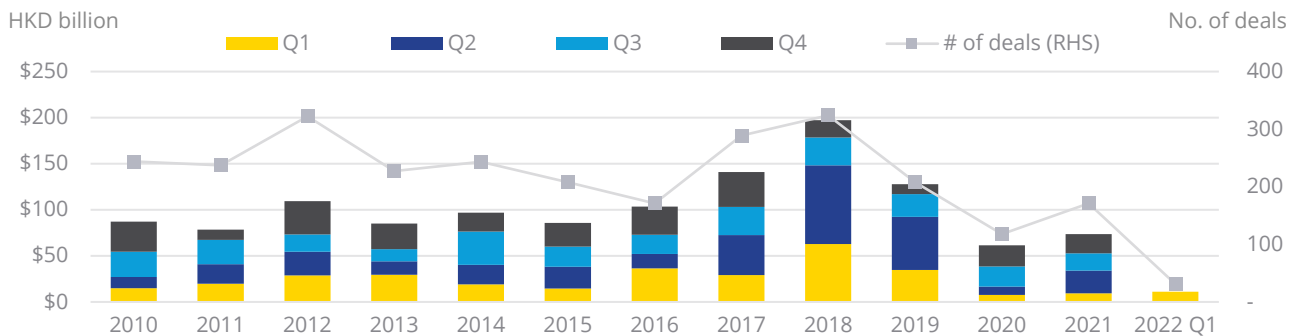
Industrial
2.9%



Retail
2.5%

	QOQ / Q1 2022	YOY / 2022F
 Total Investment Sales	-46 % HKD11.2bn	-5.0 % HKD70bn
 GDP Growth	-0.7ppts 4.8% ³	-5.4ppts 1.0% ⁴
 Strata-title Office Price ⁵	-1.5 % HKD18,650	-5.0 % HKD18,000
 Warehouse Price ⁵	0.6 % HKD4,840	3.0 % HKD4,950

Property investment transactions above HKD100 mil (2010 - Q1 2022)



Source: Colliers, [Real Capital Analytics](#). ¹This report covers the Hong Kong Special Administrative Region of the People's Republic of China. ²Rating and Valuation Department ³Q4 2021 data from Hong Kong Census and Statistics Department; ⁴Oxford Economics ⁵Price per sq. ft. Note: 1 sq metre = 10.764 sq feet. USD1 = HKD7.8. Investment transactions in this report include deals in the office, retail, industrial and hotel sectors with deal sizes above HKD100 million.

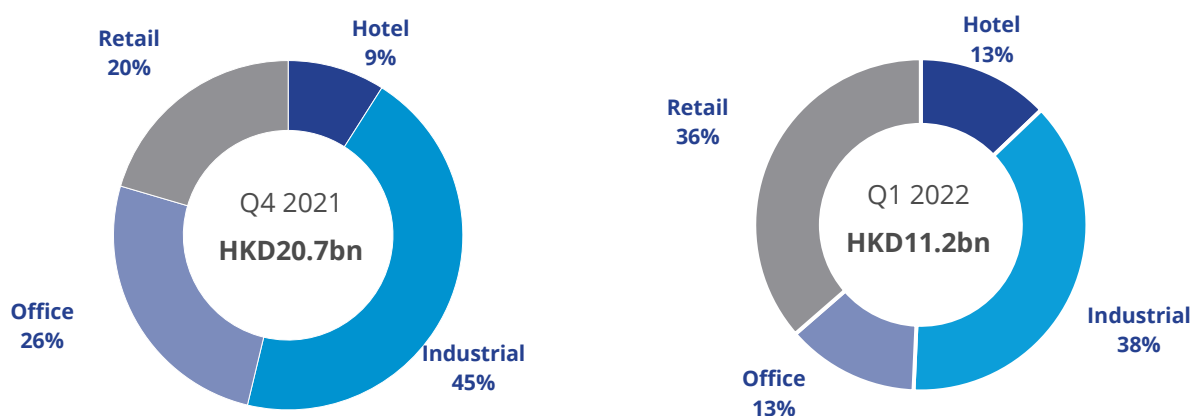
Q1 2022

Key transactions

Industrial still the hot sector; hotel assets are getting more attention

Property	Area (sq ft)	Sector	Price (HK mil)	Buyer
YOHO Mix, Yuen Long	107,000	Retail	1,629	SHKP
Travelodge Central Hollywood Road, Central (En-bloc)	58,275	Hotel	850	PGIM
TY Wider, Kwun Tong (En-bloc)	97,576	Retail (Revitalised)	763	Telecom Digital Holdings Ltd
Horizon East, San Po Kong (Multiple Floors)	68,710	Industrial	682	Local Investor

Investment transactions by sector – Q4 2021 vs Q1 2022



Source: Colliers

Market Outlook

Market to recover in H2 as the social-distancing rules gradually relax

- Looking ahead, we believe the investment market will remain slow in Q2, due to the lingering effects of Q1, which causes hesitation in investment sentiment and delays transactions. Having said that, we believe market momentum and activities will likely improve in H2 2022, as the government plans to gradually relax the social-distancing rules from 21 April onwards.
- Overall, investors are still eager to look for acquisition opportunities while pricing remains attractive for most sectors. However, we think that cross-border capital flows from Mainland investors, who used to be one of the key drivers before Covid, could be limited whilst the Mainland-Hong Kong border remains closed. Against this backdrop, unless there are big-ticket deals to boost the volume in the upcoming months, we forecast whole-year transaction volumes will likely edge down by 5% to HK\$70 billion in 2022.
- Industrial assets will likely remain sought after due to the more resilient rental performance and the solid demand for data centres and cold storage facilities. Meanwhile, we expect more hotel transactions to take place in the upcoming months, given the flexibility of the sector to convert into co-living or quarantine facilities. We expect office transactions will become more active in H2 2022, given the recovery cycle for the sector has been largely delayed by Omicron.

Investment volume by sector

Sector	Q1 2022 (HKD mil)	% Change QOQ	% Change YOY
Office	1,444	-73%	-39%
Retail	4,070	-4%	+68%
Hotel	1,440	-23%	+1,052%
Industrial	4,231	-54%	-6%
Overall	11,185	-46%	+19%

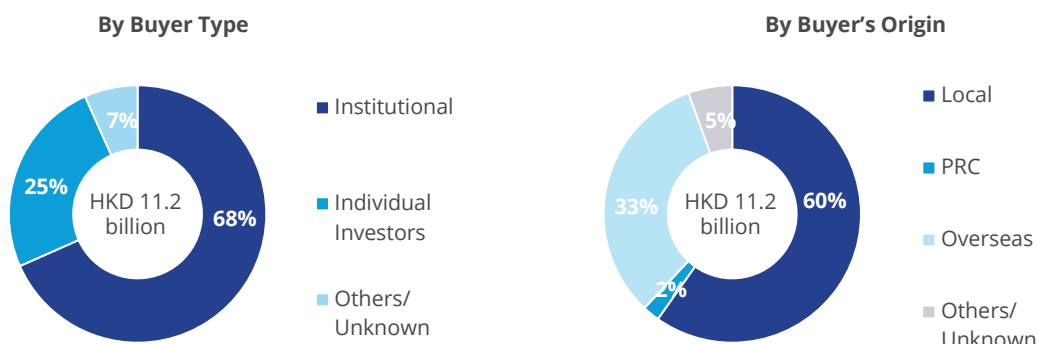
Source: Colliers

Q1 2022 Review

Market disrupted by the outbreak of Omicron, yet hotel assets started to shine

- Q1 2022 Investment volume dropped 46% QOQ to HKD11.2 billion (USD1.4 billion), yet increased 19% YOY due to the low base effect in 2021. However, over half the deals recorded in Q1 2022 were negotiated from last year and concluded in January 2022, while momentum started to slow as uncertainties crept into the market towards late-January.
- Owing to the city's lockdown and the cautious attitude of Mainland real estate developers, purchasing activities from PRC buyers remained relatively muted, as Mainland buyers only accounted for 2% of investment market volume in Q1.
- The industrial sector remained hot as 14 deals totaling HKD4.2 billion (USD542 million) were recorded in Q1. Notable deals included StorHub, a self-storage operator's acquisition of four premises for over HKD1.2 billion (USD154 million). Meanwhile, neighborhood and high street retail both captured investors' attention, with Q1 witnessed HKD 4.1 billion (USD 522 million) transactions.
- Hotels, a quiet sector in 2021, finally saw a pick-up of interest from investors looking for discounted pricing and value-add potential by converting hotels into residential-for-let projects. For instance, PGIM, an American real estate fund, acquired two hotels in Q1, both reportedly will be converted into co-living concepts. Meanwhile, several hotels and serviced apartments such as Bay Bridge Lifestyle Retreat were also reportedly under offer by different institutional investors.

Q1 2022 Investment breakdown



Source: Colliers



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