

Hong Kong Investment, Q2 2021

Investment demand improves as business confidence strengthens further

 Office CV (Stratified) Flat

 Retail CV (High St. Shops) +0.2% q-o-q

 Industrial CV (Warehouses) +3.7% q-o-q

 Investment Turnover +163% q-o-q

- Commercial real estate investment momentum accelerated in Q2 2021 as the economy continued to pick up along with the commencement of the city’s vaccination programme.
- The 1M-HIBOR fell to 0.10%, the lowest since Q3 2010.
- Commercial real estate investment volume (deals worth over HK\$77 million, excluding pure land or related transactions) rose by 163% q-o-q to HK\$25.3 billion, the second highest quarterly figure since Q4 2018.
- The sale of KITEC in Kowloon Bay for HK\$10.5 billion accounted for 42% of total investment volume.
- Property funds collectively deployed HK\$5.4 billion, 21% of the quarter’s total, with all acquisitions involving industrial assets.
- Property companies disposed of HK\$13.1 billion worth of assets, accounting for over half of total investment volume.
- Hong Kong’s economic recovery, improved prospects of a border reopening with mainland China, and low financing costs will ensure the investment market remains upbeat in H2 2021.
- Yield expansion is unlikely to be witnessed in H2 2021 given the gradual improvement in leasing momentum and peak vacancy across all property sectors.

Commercial real estate investment momentum continued to accelerate in Q2 2021 as the economy continued to pick up along with the commencement of the city’s vaccination programme. Although interest rate movements were not a major trigger, Hong Kong’s 1M-HIBOR fell to 0.10%, the lowest since Q3 2010.

Commercial real estate investment volume (deals worth over HK\$77 million, excluding pure land or related transactions) rose by 163% q-o-q to HK\$25.3 billion, the second highest quarterly figure since Q4 2018. The sale of KITEC in Kowloon Bay for HK\$10.5 billion accounted for 42% of the quarter’s total investment volume and marked the largest en bloc deal since the reported sale of Goldin Financial Centre in December 2020 for HK\$14 billion.

Property funds spent a further HK\$5.4 billion, all on industrial properties, after shelling out HK\$3.3 billion in Q1 2021. Of the top ten investment deals completed in H1 2021, five were for industrial assets.

Despite high Grade A office vacancy, Hysan and Chinachem jointly won a government tender during the quarter for a commercial site in Causeway Bay for HK\$19.8 billion (HK\$18,374 per sq. ft. Accommodation Value).

Despite higher vacancy and falling rents, several large office assets changed hands in Q2 2021. Apart from the office component of the KITEC deal, other deals included the sale of the 38/F of The Center in Sheung Wan for HK\$871 million (HK\$34,275 sq. ft.) to Kaisa Group.

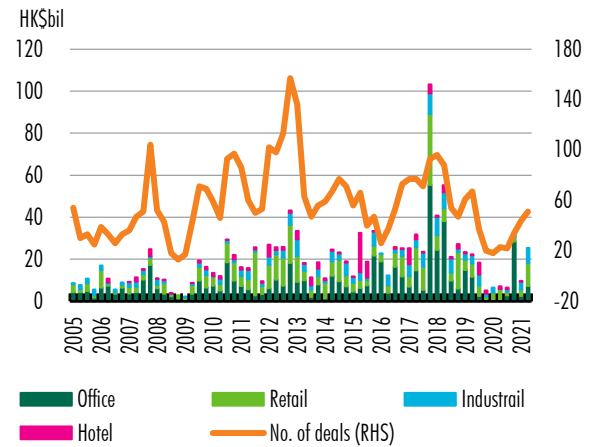
Elsewhere, deep price discounts encouraged end-users to strike deals. These included the University of Hong Kong, which bought the 5/F of 888 Lai Chi Kok Road in Cheung Sha Wan for HK\$293 million (HK\$12,186 per sq. ft.) for self use. HK\$7.2 billion worth of office assets were transacted in Q2 2021, bringing the half-yearly total to HK\$9.8 billion.

Local investors retained a strong appetite for neighbourhood malls, as illustrated by the bundled sale of On Yam Shopping Centre, Shek Wai Kok Commercial Centre and car parking spaces to a local consortium for HK\$1.3 billion (HK\$7,519 per sq. ft. saleable area). The market for street shops also heated up, with a G/F-shop in Pearl City Mansion in Causeway Bay sold to Hengli Group for HK\$1.1 billion (HK\$48,565 per sq. ft.). Retail investment volume totalled HK\$10.8 billion in Q2 2021, an increase of 260% q-o-q.

HK\$7.2 billion worth of industrial assets were sold in Q2 2021, almost double that recorded in the previous quarter, bringing the half-yearly total to HK\$10.9 billion. Property funds remained the most active buyers, with notable deals including a multi-floor purchase in Wharf Cable Tower and One Midtown in Tsuen Wan by Schroder Pamflet and BentallGreenOak for HK\$2.6 billion (HK\$4,576 per sq. ft.). Elsewhere, ESR spent HK\$1.9 billion (HK\$6,398 per sq. ft.) to acquire Brilliant Cold Storage Tower 2 in Kwai Chung for potential data centre conversion, while Blackstone paid HK\$508 million (HK\$5,676 per sq. ft.) for New Media Tower in Kwun Tong.

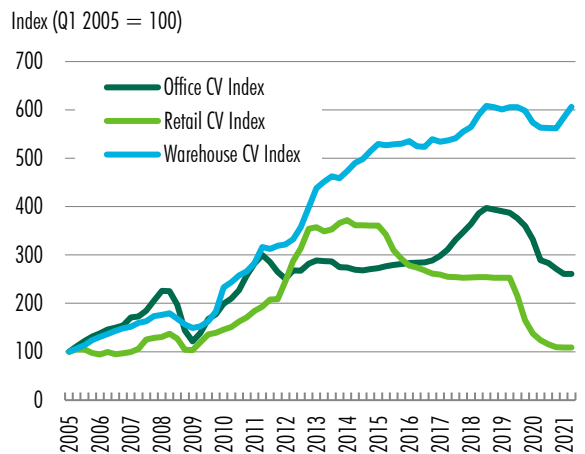
Capital values were stable, with no discernable change in office and retail prices. Strong investment demand pushed up industrial capital values by 3.7% q-o-q.

Figure 1: Total Investment Turnover



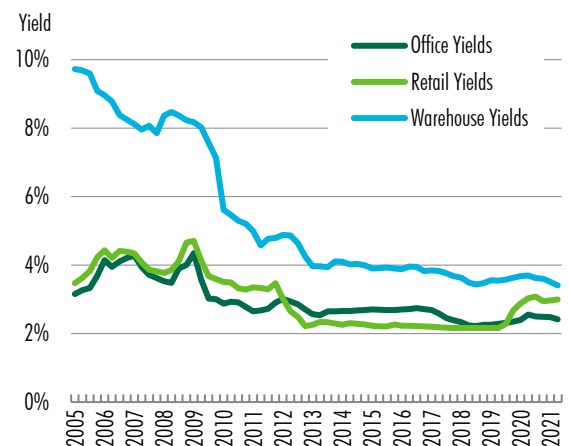
Source: CBRE Research, Q2 2021

Figure 2: Capital Values



Source: CBRE Research, Q2 2021

Figure 3: Yields



Source: CBRE Research, Q2 2021

Outlook

Hong Kong’s economic recovery, improved prospects of a border reopening with mainland China, and low financing costs will ensure the investment market remains upbeat in H2 2021. The resumption of cross-border people flows will support a recovery in demand from mainland Chinese investors, who accounted for circa 20% of investment volume prior to the recession.

Investors are expected to remain positive in H2 2021 and will display a stronger willingness to buy. While vendors may raise price expectations, investors who are confident in Hong Kong’s recovery will be keen to lock in purchases now before capital value growth accelerates. Property funds are expected to remain on the lookout for value-add investment opportunities in both the industrial and retail sectors as they possess ample dry powder. As business confidence strengthens, end-users are expected to drive demand for strata-titled properties, particularly offices.

Institutional investors will likely remain cautious towards office acquisitions. With high vacancy set to ensure office rents stay low for longer, buildings with higher uncertainty in occupancy will struggle to attract buyers. However, long-term investors will still consider office purchases should any core-grade assets become available.

In contrast, appetite for retail assets is set to strengthen further as investors eye potential yield gains upon rental reversion. While small cap deals have been the focus so far this year, improving investment momentum will likely trigger more activity in other segments of the retail property market in H2 2021. Neighbourhood assets will likely be prioritised for the time being but demand for core retail assets will pick up provided cross-border travel resumes.

Purchases for conversion/redevelopment will continue to drive industrial transactions. Assets providing stable income streams, particularly those with sale leaseback agreements, will be keenly sought after. While demand for industrial properties is expected to remain robust, stock availability will be a challenge.

Yield expansion is unlikely to be witnessed in H2 2021 given the gradual improvement in leasing momentum and peak vacancy across all property sectors. Office capital values are expected to hold flat as the rental decline slows. In the retail sector, the brighter rental outlook will ensure a moderate rise in shop prices. Amid strong interest in industrial properties, factory and warehouse capital values will continue to outperform other segments of the market.

Figure 4: Selected investment transactions in Q2 2021

Building Name	Sector	Transaction Type	Consideration (HK\$)	GFA (sq. ft.)	Unit Price (HK\$/sq. ft.)	Location
En-bloc, KITEC	Office/Retail	En-bloc	10,500,000,000	1,775,000	5,915	Kowloon Bay
4/F-12/F, 21/F & 40/F & 122CPs, Wharf Cable Tower & One Midtown	Industrial	Strata-title	2,600,000,000	568,200	4,576	Tsuen Wan
En-bloc, Brilliant Cold Storage Tower 2	Industrial	En-bloc	1,880,000,000	293,850	6,398	Kwai Chung
On Yam Shopping Ctr/355 CPs & Shek Wai Kok Commercial Ctr/ 578 CPs	Retail	En-bloc	1,300,000,000	172,889*	7,519	Kwai Chung; Tsuen Wan
Unit 1, 2 on G/F & basement, Pearl City Mansion	Retail	Strata-title	1,100,000,000	22,650	48,565	Causeway Bay
Entire 38/F, The Center	Office	Strata-title	871,000,000	25,412	34,275	Sheung Wan
En-bloc, New Media Tower	Industrial	En-bloc	508,000,000	89,500	5,676	Kwun Tong

Source: CBRE Research, Q2 2021

*Salesable area

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