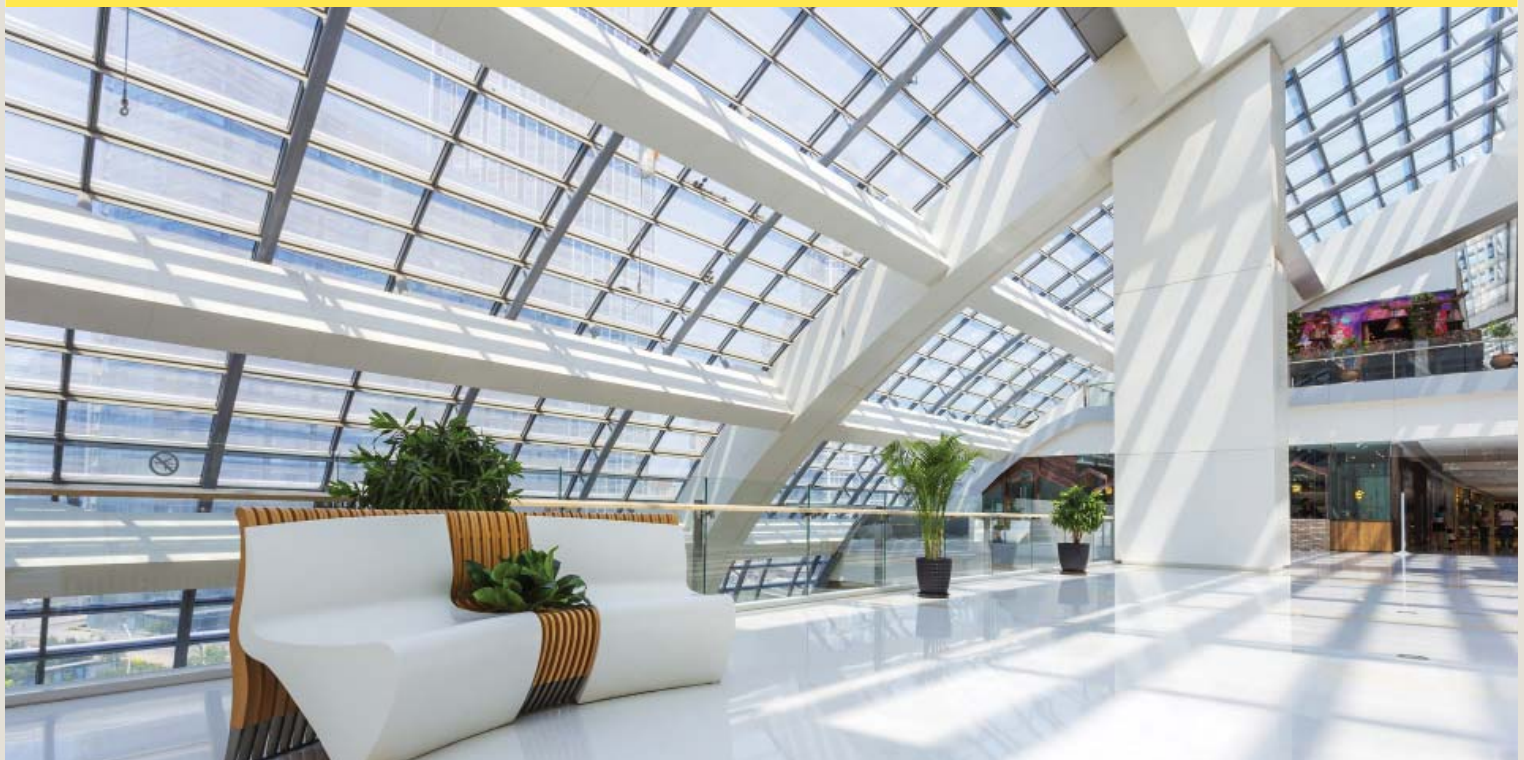


Briefing Office and retail investment

February 2017



SUMMARY

Local investors have returned in the latest spending spree for en-bloc office properties and suburban retail malls.

- Both Swire's Grade A office project in Kowloon Bay and four out of the five shopping centres tendered by the Link REIT were sold to local investors
- Mainland purchasers and developers are turning their attention to the land market, a trend which we expect to continue in 2017
- Grade A office investment sentiment remained buoyant as rents continued to climb
- Early signs of a slowing in the rate of decline in the retail sector have been noted with retail sales falling at a slower pace towards the end of last year
- Veteran retail investors will soon be looking at the prime street shop sector for bargains with prime street shop rents likely to bottom out towards the end of this year

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 "The investment market was surprisingly buoyant in the last quarter of 2016 given continuing rental growth in the office market and plenty of local liquidity." Simon Smith, Savills Research

→ Key market trends

The investment market was surprisingly buoyant in the last quarter of 2016 with a number of significant transactions concluded; while Mainland purchasers have tended to dominate headlines in recent months, it was local investors who prevailed in the latest spending spree for en-bloc properties: Swire's Grade A office building under construction in Kowloon Bay was sold to a locally listed company for HK\$6.5 billion, while all five shopping centres tendered for sale by the Link REIT were disposed of successfully for a combined HK\$3.6 billion, four of which were bought by local investors (the fifth was picked up by a mainland group).

Mainland purchasers and developers have been more focused on the land market of late, evident by the HNA Group picking up three residential land plots in Kai Tak for a total consideration of HK\$19.8 billion, and a Goldin / Huarong consortium winning the Ho Man Tin Station tender for a total investment of HK\$13 billion, after their counterparts bought en-bloc offices in Hong Kong earlier last year. While further restrictions on capital outflows from China may dissuade wealthy individuals from investing overseas this year, Mainland developers and corporate investors are expected to continue

to invest in the local property market (both completed buildings and land sites), given their more diversified sources of financing, as well as their more legitimate channels of capital for such investments. We are also seeing an increasing tendency for non-banking Mainland institutions, such as insurance companies, asset management firms and developers to make their mark on the local market and this looks set to continue in 2017.

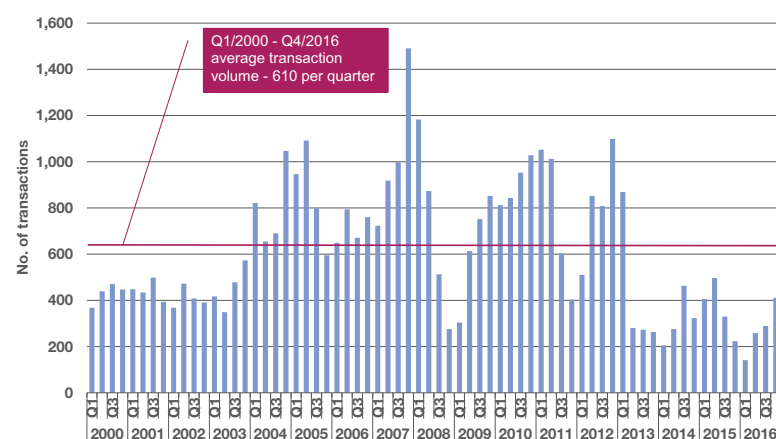
Local investors were more focused on prime office and suburban retail assets in 2016 to ride on rising office rents as well as resilient local retail

spending, with prime retail falling out of favour due to shrinking tourist spending and receding rents and prices.

Office market snapshot

The pickup in investment sentiment in the office sector continued in Q4/2016 with 411 transactions registered over the quarter, a marked 84% y-o-y and 42% q-o-q increase respectively. The investment focus was again on the Central / Admiralty / Sheung Wan area with nine transactions of over HK\$100 million recorded in the area during Q4/2016.

GRAPH 1 Office transaction volumes, Q1/2000–Q4/2016



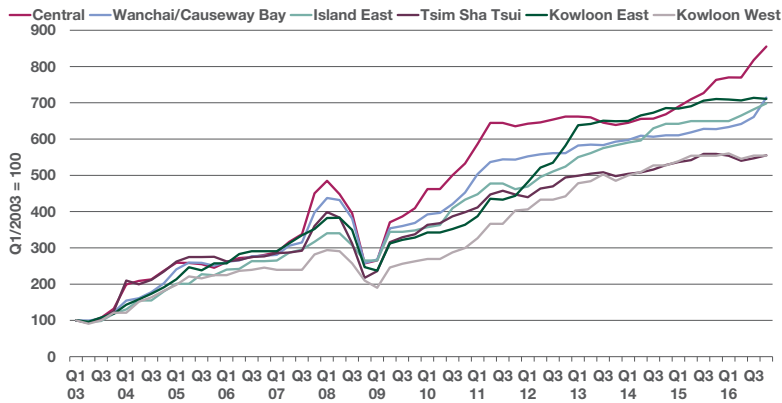
Source: Rating and Valuation Department, Savills Research & Consultancy

TABLE 1 Major strata-titled office transactions (over HK\$200 million), Q4/2016

Date	Property	District	GFA (sq ft)	Consideration (HK\$ million)	Average price (HK\$ psf)	Purchaser
Nov 2016	30/F, United Centre	Admiralty	20,489	\$512.2	\$25,000	TBC
Dec 2016	32/F, Wu Chung House	Wanchai	28,198	\$423.0	\$15,001	Gale Well
Dec 2016	16/F (with 2 cps), COSCO Tower	Sheung Wan	15,451	\$309.0	\$19,999	TBC
Dec 2016	13/F, Shui On Centre	Wanchai	13,652	\$306.9	\$22,480	Win Wealth Pacific Ltd
Oct 2016	17/F, Chevalier Commercial Centre	Kowloon Bay	TBC	\$285.0	TBC	FSE Engineering Holdings Ltd
Oct 2016	Units 1906-09, Lippo Centre Tower 2	Admiralty	10,335	\$248.1	\$24,004	Ultra Glory Investments Ltd
Nov 2016	5/F, Lippo Centre Tower 1	Admiralty	10,500	\$226.8	\$21,600	TBC

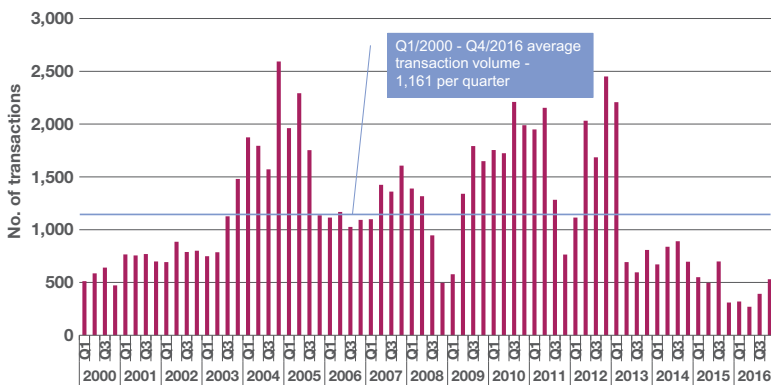
Source: Land Registry, Savills Research & Consultancy

GRAPH 2
Grade A office price indices by district, Q1/2003–Q4/2016



Source: Savills Research & Consultancy

GRAPH 3
Retail transaction volumes, Q1/2000 –Q4/2016



Source: Rating and Valuation Department, Savills Research & Consultancy

Wanchai also attracted the attention of investors and end users with six premises changing hands, with many Grade B offices selling above the HK\$20,000 per sq ft-mark, reflecting buyers’ confidence in securing medium to long-term rental and capital returns. Grade A office prices in Central and Wanchai / Causeway Bay increased by 4.6% and 8.1% in Q4 respectively.

While the largest deal of the quarter (the Swire project) was completed in Kowloon Bay, only three stratified transactions of over HK\$100 million were recorded in the Kowloon East area, with declining rents and a wave of upcoming supply from 2017 onwards clouding the short-term prospects for offices in the area. Kowloon East office prices registered a slight 0.4% decline as a result.

Retail market snapshot

The retail investment market also saw improved sales volumes in the four quarter compared with the first three quarters of 2016, with 530 transactions recorded, a 71% y-o-y and 35% q-o-q increase respectively.

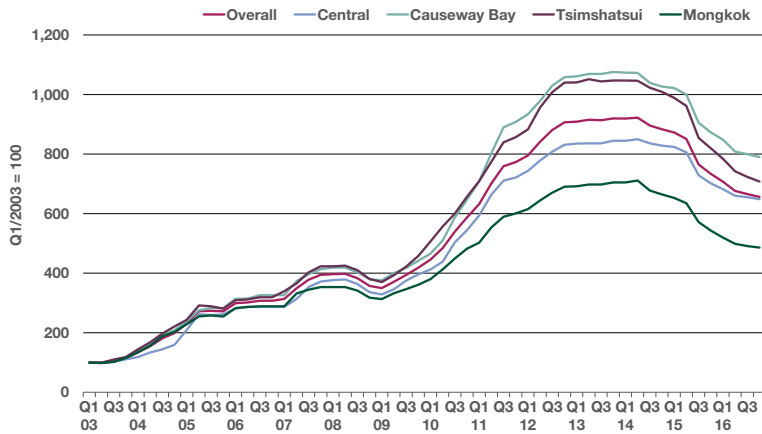
Early signs of a slowing in the rate of decline in the retail sector have been noted with retail sales falling at a

TABLE 2
Major retail transactions (over HK\$300 million), Q4/2016

Date	Property	District	GFA (sq ft)	Consideration (HK\$ million)	Average price (HK\$ psf)	Purchaser
Dec 2016	Retail portion (with 709 cps), Cheung Hong Shopping Centre*	Tsing Yi	133,256	\$1,150.0	\$8,630	TBC
Dec 2016	Retail portion (with 578 cps), Shek Wai Kok Shopping Centre*	Tsuen Wan	129,855	\$733.0	\$5,645	TBC
Dec 2016	Retail portion (with 980 cps), Sui Wo Court Shopping Centre*	Sha Tin	61,204	\$728.0	\$11,895	TBC
Dec 2016	Retail portion (with 355 cps), On Yam Shopping Centre*	Kwai Chung	40,781	\$562.8	\$13,801	TBC
Dec 2016	G-2/F, 294-296A Prince Edward Road West	Prince Edward	TBC	\$516.0	TBC	Top Gear Investment Ltd
Dec 2016	Retail portion (with 320 cps), Sun Tin Wai Shopping Centre*	Tai Wai	55,099	\$461.0	\$8,367	TBC
Dec 2016	Shops A&C on G/F, B/F and 1/F, Railway Plaza	Tsim Sha Tsui	23,804	\$400.0	\$16,804	TBC
Dec 2016	G-1/F, Harbour View Garden Tower 3	Western	10,900	\$355.2	\$32,587	Fortune Joy Properties Ltd
Oct 2016	Whole block, 37C-D Jordan Road	Jordan	10,080	\$300.0	\$29,762	TBC

Source: Land Registry, Savills Research & Consultancy
*The Link REIT portfolio

GRAPH 4
Prime street shop price indices by district, Q1/2003–Q4/2016



Source: Savills Research & Consultancy

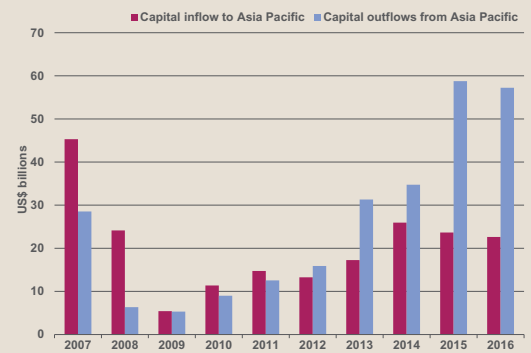
slower pace towards the end of last year. A rebalancing of the trade mix on prime streets is likely to continue in 2017 with more luxury brands retreating, but this trend may now be close to completion with rents likely to bottom out in the second half of the year. Veteran retail investors will soon be looking at the prime street shop sector for bargains and we may see an upturn in the fortunes of

the street shop investment market as early as the second half of 2017 if a few more prominent deals can be concluded. ■

Hong Kong in the region

Net flows of real estate capital are now firmly outbound from Asia Pacific. During 2016 around US\$57 billion left the region, fully two thirds of it heading for the Americas while the rest found its way to EMEA. Mainland and Hong Kong capital accounted for over half (US\$29.4 billion) of the US\$57 billion as Chinese firms continued to source business opportunities overseas, looking for the benefits of portfolio diversification and respite from a weakening RMB.

GRAPH 5
Real estate capital inflows/outflows from Asia Pacific, 2007–2016



Source: RCA, Savills Research & Consultancy

Please contact us for further information

Savills Investment



Raymond Lee
 CEO
 Greater China
 +852 2842 4518
 rlee@savills.com.hk



Peter Yuen
 Managing Director
 Head of Investment & Sales
 +852 2842 4436
 pyuen@savills.com.hk



Simon Smith
 Senior Director
 Asia Pacific
 +852 2842 4573
 ssmith@savills.com.hk



Jack Tong
 Director
 +852 2842 4213
 jtong@savills.com.hk

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