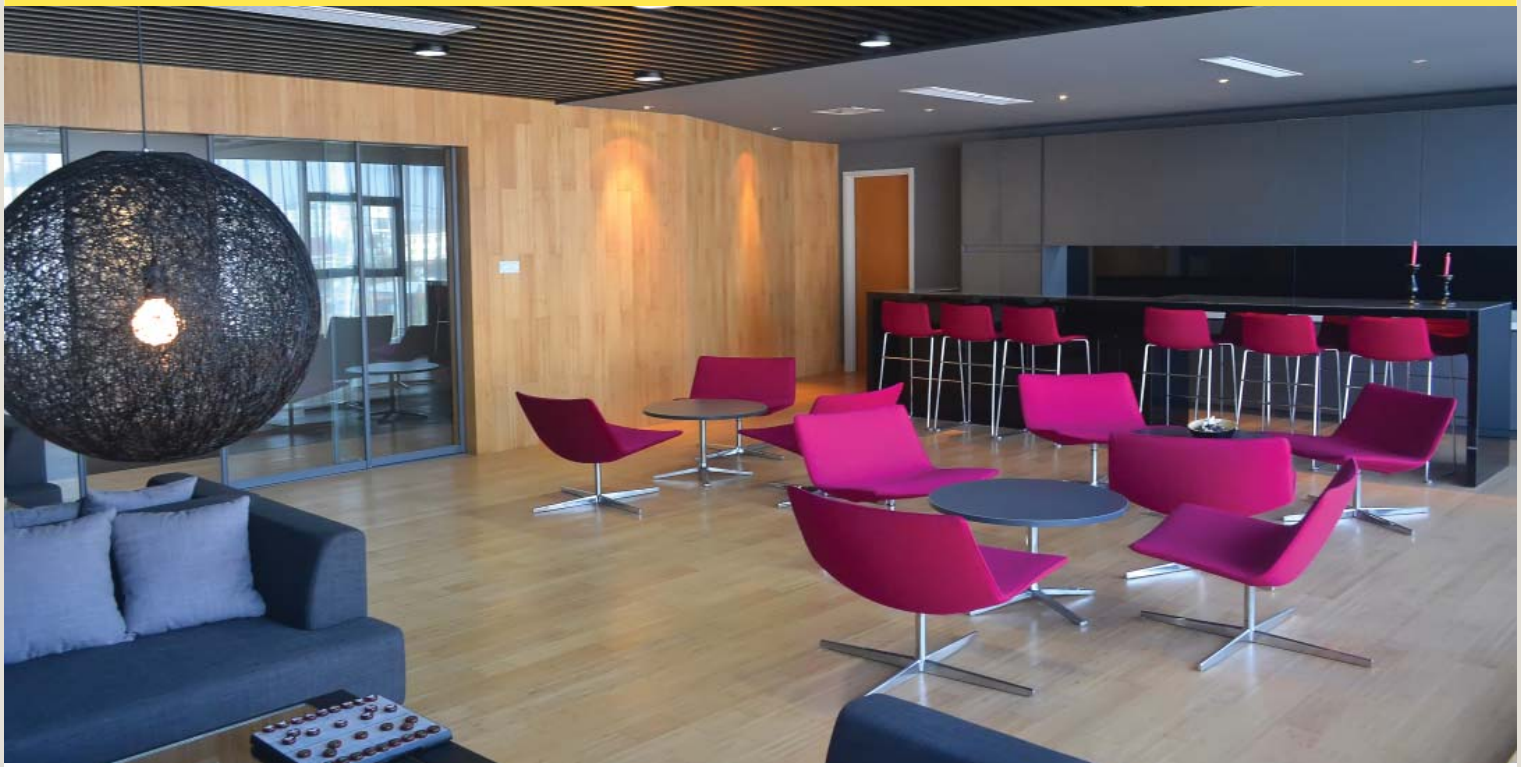
Savills World Research
Hong Kong

Briefing
Office and retail investment

March 2018



SUMMARY

Long-term investors and local buyers dominated the commercial investment market towards the end of last year and early this year.

- The commercial investment market was characterised by large scale transactions in Q4/2017 with the sale of a 17-retail property portfolio by Link REIT the most eye-catching
- Several en-bloc commercial buildings were also sold to long-term investors and end users
- The re-emergence of investment funds in the office sector, in particular in decentralized areas, indicates returning confidence to a market which has been dogged by concerns over new supply
- The steady recovery in retail sales is finally translating into major transactions in the retail sector
- Upcoming government tenders and provision of commercial sites may alleviate the supply shortage in both office and retail sectors in core areas in the medium term
- While Grade A office prices look set to increase further this year, retail prices are likely to bottom out and record a modest increase over the same period

"Activity in the commercial investment market ratcheted up late last year and into 2018 with the sale of a large retail portfolio and various en-bloc commercial premises grabbing headlines." Simon Smith, Savills Research

Major transactions fetching headlines in both retail and office sectors

A number of large scale transactions (over or close to HK$1 billion) were recorded over the last two months of 2017 and the first two months of 2018, but the most eye-catching was the sale of the 17-Link REIT shopping centres to GAW Capital and its consortium partners (including Goldman Sachs) for HK$23 billion last November. The deal was subsequently completed in February this year. The GAW Capital-led consortium aims to refresh the malls into 'modern community hubs for local residents', in a move which reflects long term confidence in the prospects for the Hong Kong retail market, particularly the segment supported by local spending.

The popularity of neighbourhood retail was further evident with the sale of Provident Square, the shopping arcade of Provident Centre in North Point, by Fortune REIT for HK$2 billion to a local buyer towards the end of last year. While the steady income on offer was the main reason behind the transaction, improving local transport infrastructure (the Central-Wanchai By-pass) and a number of high quality residential and commercial developments (Harbour Glory by Cheung Kong, Victoria Harbour and Hotel Vic by Sun Hung Kai) mean plenty of potential upside for the area.

Riding on a similar story of district transformation, the new Grade A office at 18 King Wah Road, developed by Henderson Land was sold to a China Create Capital / China Taiping for HK$9.95 billion (HK$30,000 per sq ft), the largest consideration and highest average price for an office transaction in Island East. The deal is further proof that mainland interest has not entirely receded over recent months.

TABLE 1

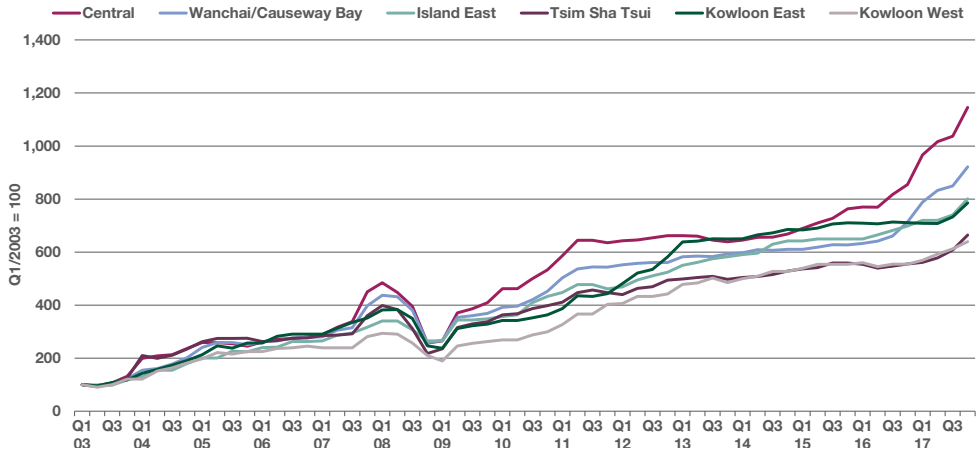
Grade A office price growth, Q4/2017 and 2017

	Q4/2017 (% QoQ)	2017 (% YoY)
Central	+10.5	+34.0
Wanchai/Causeway Bay	+8.5	+29.0
Island East	+8.3	+14.7
Tsim Sha Tsui	+9.3	+19.7
Kowloon East	+7.2	+10.5
Kowloon West	+4.4	+15.3

Source: Savills Research & Consultancy

GRAPH 1

Grade A office price indices by district, Q1/2003–Q4/2017



Source: Savills Research & Consultancy

Office market snapshot

In the office market, we have noted a return of investment funds since the turn of the year, in particular in decentralized areas with Angelo, Gordon & Co., a local family fund, acquiring nine floors in C-Bons International Center in Kwun Tong for HK$2.04 billion (HK$13,000 per sq ft), while PAG bought a 50% share of Peak Castle in Cheung Sha Wan for HK$800 million. The re-emergence of investment funds heralds returning confidence, especially in the decentralized office market where leasing prospects have been subdued because of oversupply concerns.

Nevertheless, although there will be ten new Grade A office projects coming on stream in decentralized areas over 2018 and 2019 (5 in Kowloon East, 2 in Island East, 1 in Western Corridor, 1 in Wong Chuk Hang and 1 in Shek Mun), with a total floor area of 4.3 million sq ft net, only three projects are earmarked for stratified sales (around 890,000 sq ft), indicating a limited choice for investors who opt for strata-title commitment. Of the 3.4 million sq ft which is not stratified, we estimate that around 440,000 sq ft has been pre-committed.

Back on Hong Kong Island, office transactions were more driven by end user demand with vendors benchmarking their asking prices close to the HK$50,000 per sq ft achieved by the Murray Road site last year. While a few of the transactions in Central did reach close to this level (33/F of Far East Finance Centre is one example), depending on location, views and general condition, many units ended up trading in the HK$30,000 to HK$40,000 per sq ft range. Such a jump in transaction prices led to a 10.5% increase in Grade A office prices in Central over Q4/2017, and

TABLE 2

Major strata-title office transactions (over HK$100 million), Q4/2017

Date	Property	District	GFA (sq ft)	Consideration (HK$ million)	Average price (HK$ per sq ft)	Purchaser
Nov 2017	9/F, The Center	Central	19,741	$594	$30,100	Delta Consultancy Group Co Ltd.
Nov 2017	33/F, Far East Finance Centre	Admiralty	10,800	$540	$50,000	TBC
Nov 2017	Units 1501-02 & 10-12, Shun Tak Centre, West Tower	Sheung Wan	10,011	$320	$32,000	Force China Ltd & Best Success Inv
Nov 2017	Units 1201-03A, Lippo Centre Tower II	Admiralty	5,727	$180	$31,430	Yuntinic (HK) Resources Co Ltd
Dec 2017	13/F, The Sun's Group Centre	Wanchai	5,060	$157	$31,100	Rise Team Ltd
Dec 2017	Unit 2102, Worldwide House	Central	4,020	$143	$35,500	TBC
Dec 2017	Units 501-02, Bank of America Tower	Admiralty	2,908	$116	$39,890	TBC
Nov 2017	Unit 01 on mid floor, Convention Plaza	Wanchai	2,794	$106	$37,938	TBC

Source: Land Registry, Savills Research & Consultancy

TABLE 3

Major retail transactions in core retail areas, (over HK$50 million), Q4/2017

Date	Property	District	GFA (sq ft)	Consideration (HK$ million)	Average price (HK$ per sq ft)	Purchaser
Oct 2017	Shop A on G/F & 1/F, 11 Hau Fok Street	Tsim Sha Tsui	1,850	$65	$35,135	TBC
Dec 2017	Shop B on G/F, Yue On Building	Wanchai	450	$63	$140,000	Preeminent Hong Kong Ltd
Nov 2017	Shop E on G/F, 68-70A Hollywood Road	Central	1,000	$60	$60,000	TBC
Dec 2017	Shop on G/F, 107-123 Fa Yuen Street	Mong Kok	1,800	$56	$31,167	A supermarket chain
Nov 2017	Shop 1 on G/F, Fasteem Mansion	Wanchai	1,500	$55	$36,667	Lucky Mark Ltd

Source: Land Registry, Savills Research & Consultancy

a staggering 34% growth over 2017 as a whole, the highest among all the major business districts.

Retail market snapshot

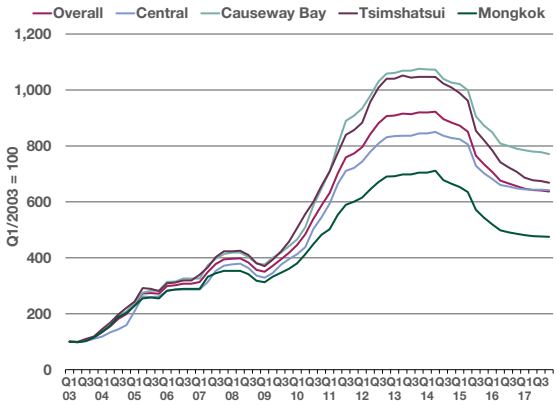
While en-bloc transactions were focused in the suburban retail segment over the last quarter of 2017, we noted a surge in the number of prime street shops being transacted in core retail areas for HK$50 to HK$100 million in the wake of returning Mainland visitors, which saw sales of their favorite shopping items, such as Jewellery, Watches and Clocks as well as Medicine and Cosmetics, rebounding by 5.3% and 5.5% respectively in 2017. The ex-Hermes shop (shops 6-9 on G/F and B/F at The Galleria, 9 Queen's Road Central) was sold for HK$670 million (HK$63,610 per sq ft), while the street shop at 66 Percival Street was sold for HK$250 million (HK$250,000 per sq ft), and G4 & G7 of Sung Hing Building, 603 Nathan Road was sold for HK$186 million (HK$144,186). Despite the pick-up in activity and after 10 consecutive months of rising retail sales, prime street shop prices were down marg inally in Q4/2017.

Commercial land supply update

Four commercial sites will be provided in the 2018/2019 Land Sales Programme, including the much anticipated commercial development above the West Kowloon Terminal, which has an estimated GFA of around 3.16 million sq ft. The other three sites are all commercial / hotel sites in the Kai Tak New Development Area.

GRAPH 2

Prime street shop price indices by district, Q1/2003–Q4/2017



Source: Savills Research & Consultancy

TABLE 4

Prime street shop price growth, Q4/2017 and 2017

	Q4/2017 (% QoQ)	2017 (% YoY)
Central	-0.3	-1.0
Causeway Bay	-0.8	-2.4
Tsim Sha Tsui	-0.9	-5.6
Mong Kok	-0.2	-2.2

Source: Savills Research & Consultancy

TABLE 5

Commercial land supply in the 2018/2019 Land Sales Programme

Lot no	Address	Use	Site area (sq ft)	Estimated GFA (sq ft)
KIL 11262	Junction of Lin Cheung Road and Austin Road West	Commercial	632,917	3.16 million
NKIL 6588	Kai Tak Area 1M Site 1 and Area 1M Site 2	Commercial / Hotel	336,910	1.52 million
NKIL 6546	Kai Tak Area 4C Site 4	Commercial / Hotel	115,109	863,000
NKIL 6547	Kai Tak Area 4C Site 5	Commercial / Hotel	102,063	612,000

Source: Savills Research & Consultancy

According to the 2018 Budget, besides these four sites, other sites for sale over the next few years include commercial sites at the new Central Harbourfront, Caroline Hill Road, Queensway Plaza and Sai Yee Street, which could provide 6 million sq ft of commercial floor area when fully developed. Another 6 million sq ft of commercial / office floor area will be released through relocating government departments and demolishing existing government facilities in the two action areas of Kwun Tong and Kowloon Bay.

OUTLOOK

The prospects for the market

The Grade A office market appears to be well supported by the reemergence of investment funds in a welcome sign of investors' confidence in the medium term prospects of the market. As such, Grade A office prices look set to increase further this year, in the order of 5% to 8%.

The sustained rebound in retail sales, in particular luxury items, suggests that the worst is now firmly behind the retail market. With investor interest in both core and suburban retail premises picking up, retail prices are likely to bottom out and a record mild increase in 2018.

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