

# Briefing Office and retail investment

May 2018

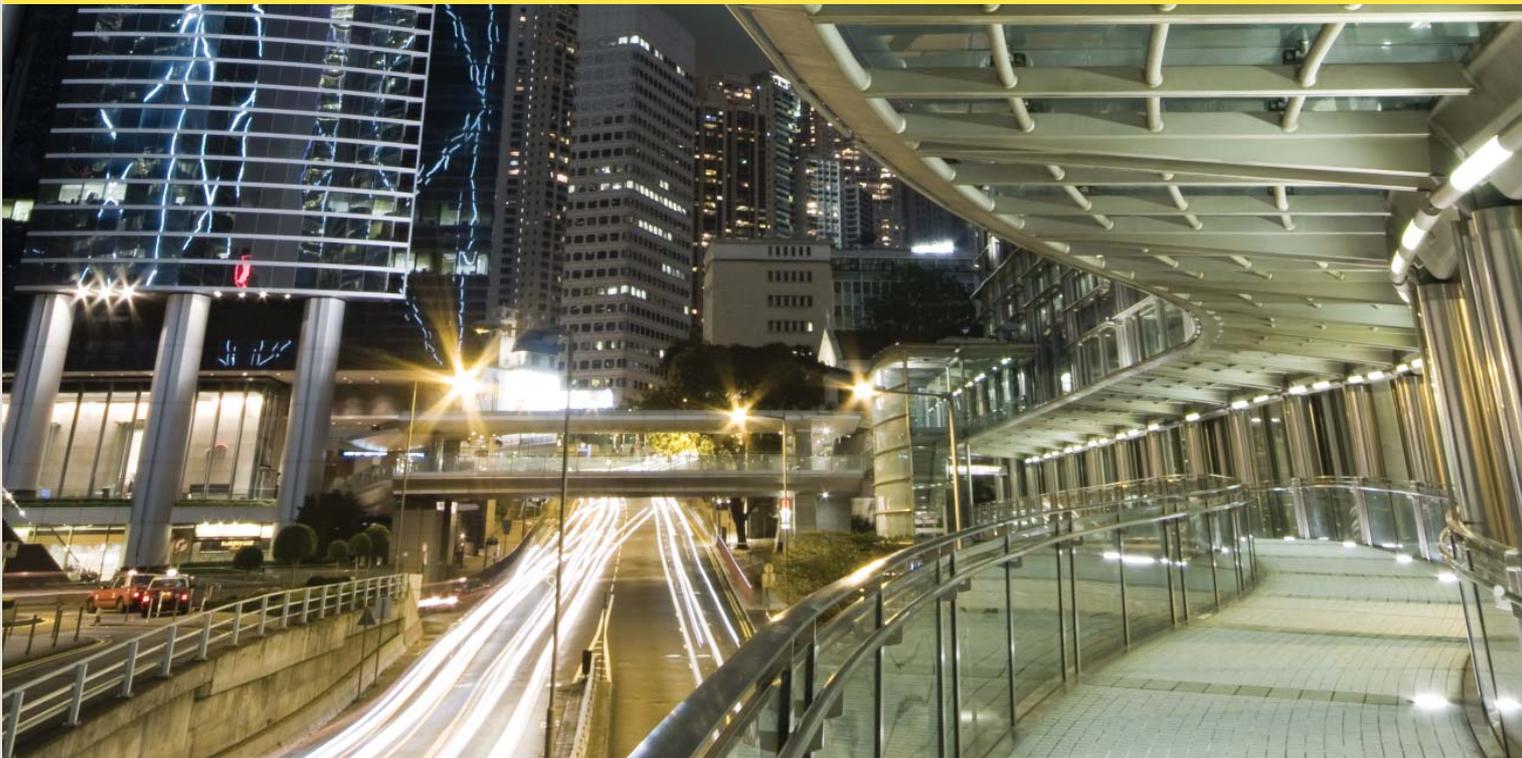


Image: Central

## SUMMARY

We saw some record-breaking deals in the first quarter as investors ignored low yields, preferring to focus on further capital appreciation.

- The office sales and investment market remained active over the first quarter with values headed firmly up.
- After the initial bulk sale, the potential strata sale of The Center may be delayed with the possibility of a footbridge linkage to Central Market enhancing its value.
- Over in Kowloon East the market is moving at a brisk pace driven more by investors than owner-occupiers.
- The investment focus of the retail market over the first three months of 2018 also shifted to suburban retail.
- Looking ahead, both office and retail values should continue to rise given limited stock and strong local and PRC appetite.

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 "Limited supply in core office areas has shifted attention to decentralized markets with rents and prices in both segments firming up. Suburban retail also saw higher activity levels due to a lack of available stock in traditional districts."  
 Simon Smith, Savills Research  
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## → Office sector continued to be active

The office sales and investment market remained active over the first quarter with values headed firmly up. Notable deals were concluded in Worldwide House (HK\$44,200 per sq ft), Far East Finance Centre (HK\$61,000 per sq ft) and 9 Queen's Road Central (HK\$61,800 per sq ft). Sellers were mostly local investors taking profit after long term holds but one took home a 23% gain after only 8 months. Buyers included one local investor and two Mainlanders, both individuals rather than corporates.

Skinny yields of around 2% were not the focus of the deals which were capital gains-focused. With investment stock extremely limited in Central, buyers are paying a premium but with such low vacancy levels and rising rents, some have expectations of pricing nearer HK\$80,000 per sq ft in three years' time.

One of the biggest deals to ever take place in Central will complete at the end of April. Seventy-five percent of The Center was bought for HK\$40.2 billion in November 2017 and the market is keenly awaiting the outcome of the deal. With six owners in total some space will be owner-occupied, some held for longer term investment and some sold. Current pricing would be around HK\$40,000 per sq ft. With the possibility of a footbridge link into Central Market tying the building much more closely into core Central, a majority of investors are likely to refrain from selling their floors for now.

TABLE 1  
Grade A office price growth, Q1/2018 and 2017

	Q1/2018 (% QoQ)	2017 (% YoY)
Central	+1.2	+34.0
Wanchai/Causeway Bay	+5.2	+29.0
Island East	+5.2	+14.7
Tsim Sha Tsui	+8.1	+19.7
Kowloon East	+5.2	+10.5
Kowloon West	+3.0	+15.3

Source: Savills Research & Consultancy

Over in Kowloon East the market is also moving at a brisk pace driven more by investors than owner-occupiers. The chronic lack of office space on Hong Kong Island combined with a greater willingness by multinationals to decentralize has bolstered the prospects for CBD2. Landlords in the district are showing no inclination to cut rents which have remained firmly above HK\$30 per sq ft.

The recently launched 38 Wai Yip Street in Kwun Tong received a strong response from the market, with six whole floors pre-sold so far, the top three floors of which were sold to a foreign family fund for around HK\$14,000 per sq ft, with the other three floors all sold to local

investors. Other significant investor deals included the sale of 41/F of Monterey Plaza in the same district for HK\$16,000 per sq ft with six car parking spaces, and the sales of 13/F of KCC Tower B with eight car parks for HK\$13,000 per sq ft.

## The rise and rise of suburban retail

Inspired by the massive sale of 17 suburban retail premises by Link REIT over the last quarter of 2017, the investment focus of the retail market over the first three months of 2018 shifted to suburban retail, with one investor spending around HK\$1.18 billion to snap up 20 retail properties for long-term investment, most of them located in non-core areas.

TABLE 2  
Major strata-title office transactions (over HK\$100 million), Q1/2018

Date	Property	District	GFA (sq ft)	Consideration (HK\$ million)	Average price (HK\$ per sq ft)	Purchaser
Jan 2018	Units 1-3, 5-8 on 33/F, Enterprise Square Three	Kowloon Bay	16,100	\$220	\$13,650	Huabang Financial Inv Ltd.
Jan 2018	6/F, South Seas Centre Block 1	Tsim Sha Tsui East	14,424	\$208	\$14,417	Dream International Ltd.
Feb 2018	Units A22-23, A25-28, B12, B15-20 on 26/F, Southmark	Wong Chuk Hang	13,443	\$155	\$11,500	Grand Dynasty Development Ltd.
Mar 2018	Units 2610-11, Lippo Centre Tower 2	Admiralty	3,341	\$130	\$39,000	Crediva Ltd.
Mar 2018	Units 1&13 on 30/F, COSCO Tower	Sheung Wan	3,079	\$125	\$40,598	Bluemark Industries Co Ltd.
Feb 2018	Units A5-6, A21-23, A25-27 on 10/F, Southmark	Wong Chuk Hang	TBC	\$110	TBC	Estate Lion Ltd.

Source: Land Registry, Savills Research & Consultancy

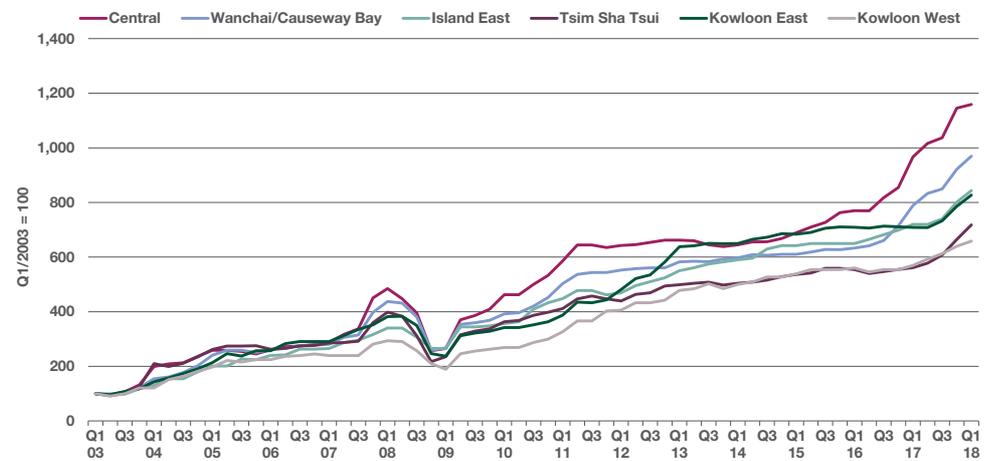
→ In one of the quarter's larger deals, the retail podium of Hsin Kuang Centre in Wong Tai Sin was sold for HK\$906 million to the existing tenant, Fulum Group for owner occupation. Prime street shops saw fewer transactions this quarter despite a strong rebound in luxury retail sales (jewellery, watches and clocks and electrical goods saw retail sales by value rebounding by over 20% yoy over the first two months of 2018), but this was more down to landlords standing firm on asking prices.

**Market outlook**

With rents remaining firm in the area we expect little room for office prices to fall in Kowloon East over this year or next. Coupled with strong investment interest in core office assets but extremely limited supply, we expect Grade A office prices to continue to rise by a further 10% to 15% over the next six to nine months.

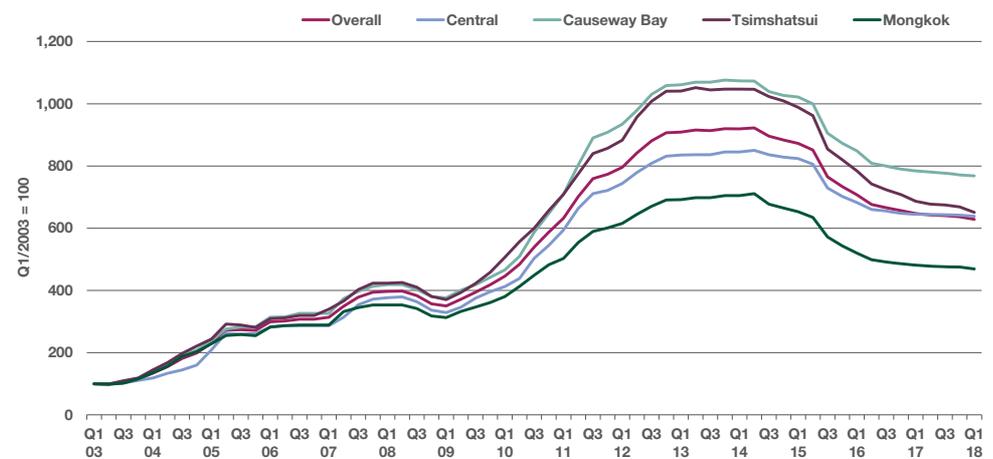
The suburban retail market has picked up where it left off last quarter with a number of significant deals closed, and we expect this trend to continue with investors looking for hidden gems in this subsector. The market should be encouraged by core retail landlords who are expected to start raising rents in response to rebounding luxury retail sales over the next few months. ■

**GRAPH 1** Grade A office price indices by district, Q1/2003–Q1/2018



Source: Savills Research & Consultancy

**GRAPH 2** Prime street shop price indices by district, Q1/2003–Q1/2018



Source: Savills Research & Consultancy

**TABLE 3** Major retail transactions in core retail areas, (over HK\$100 million), Q1/2018

Date	Property	District	GFA (sq ft)	Consideration (HK\$ million)	Average price (HK\$ per sq ft)	Purchaser
Jan 2018	Retail podium, Hsin Kuang Centre, 120 Lung Cheung Road	Wong Tai Sin	95,350	\$906	\$9,503	Fulum Group
Jan 2018	1-2/F, Florence Plaza, 23 Cheung Wah Street	Cheung Sha Wan	21,000	\$240	\$11,429	The Association of Evangelical Free Churches of HK
Feb 2018	Whole block, 178 Aberdeen Main Road	Aberdeen	7,340	\$160	\$21,798	Local investor
Feb 2018	Shop A & B on G/F, Shui San Building, 13-19 Chung On Street	Tsuen Wan	2,072	\$142	\$68,533	Local investor

Source: Land Registry, Savills Research & Consultancy

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