

# INVESTMENT



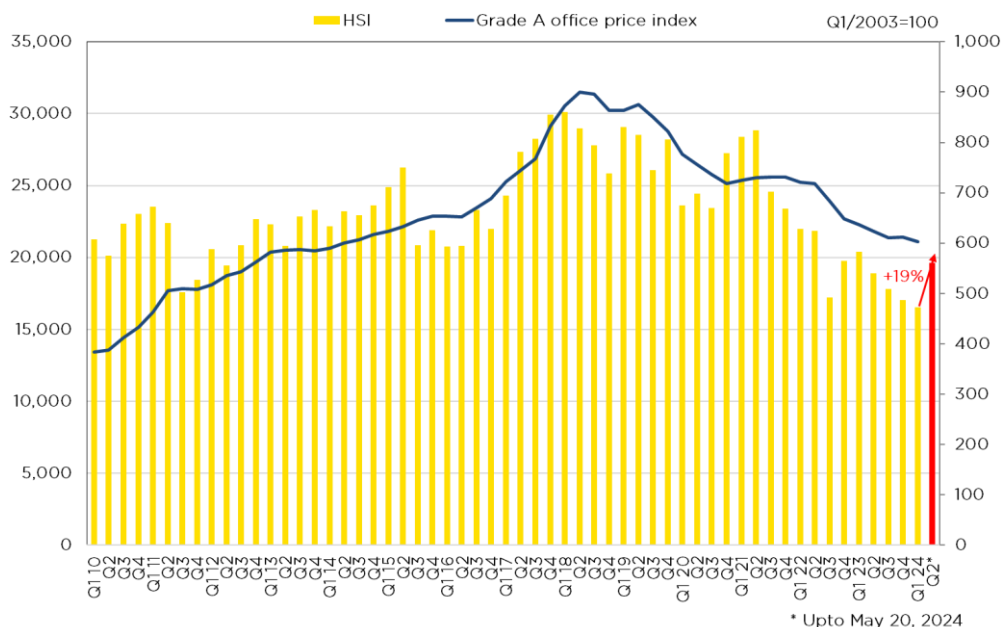
**“The recent stock market rally has reinvigorated investment market sentiment, with both end users and even investors keen to look for discounted stock in the stratified sector. The en-bloc segment was still facing some headwinds with only end users and SOEs still in the pipeline, though.”**

JACK TONG, SAVILLS RESEARCH & CONSULTANCY

The recent stock market rally, which saw Hang Seng Index rebounded by more than 3,000 points (or 19%) in the space of 1 month, has completely turned market sentiment around, with buoyant investment sentiment pushing many cash rich end users as well as investors into the property sector for bargain hunting. The stratified office sector, which saw a number of vendors (or their receivers) willing to align with market reality and adjusted their asking prices, registered an increasing number of transactions as a result, with 166 commercial transactions recorded in April 2024 (+43% QoQ and +5% YoY).

Recent noteworthy transactions in the investment sector include the sale of two floors (23/F and 30/F) of Bank of America Tower for HK\$250 million and HK\$260 million respectively, both of which included car parking spaces. These deals achieved an average price of HK\$18,000 per square foot, reflecting a significant decline of over 30% compared to the HK\$31,000 per square foot transaction price of a small unit on the 35/F a year ago and aligning with prices seen almost 14 years ago.

GRAPH 1: Hang Seng Index and Grade A Office Price Index, Q1/2010 – Q2/2024\*



Source HKMA, Savills Research & Consultancy

With a high historical correlation of 0.67 between HSI and Grade A office price movements over the past 14 years, the near 20% rebound in the stock market may warrant a short-term rebound in office prices over the next 3 months, but the sustainability of the recent stock market rally would dictate office price movements over the rest of the year.

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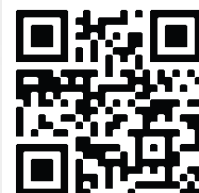
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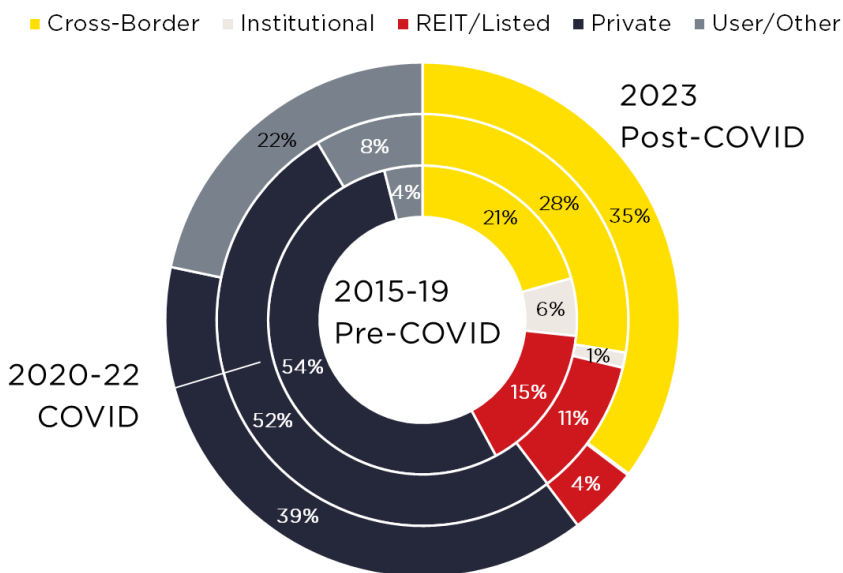
By applying world research data and trends to local and global settings, we're able to empower our clients with insights from the forefront of the industry – bringing their aspirations to life through innovative, tailor-made solutions.

Whether we are working with a global corporate looking to expand, an investor seeking to sustainably optimise their portfolio, or a family trying to find a new home, we help our clients make better property decisions.



Nevertheless, the en-bloc investment market was still facing some headwinds over the first few months of 2024. The total value of major property transactions stood at HK\$8.4 billion in Q1/2024, representing a significant decline of 59% compared to the previous quarter (Q4/2023) and a year-on-year decrease of 57%. Notably, the most noteworthy major transaction during this period was the sale of D. Park, a 630,000-square foot shopping center in Tsuen Wan, which was acquired by Chinachem from New World for HK\$4.02 billion. The deal was primarily driven by the reported yield of 6%. Several other investment deals with similar yields were also completed, some of which involved substantial discounts. For instance, 88WL, a newly developed commercial property in Sheung Wan, originally acquired and developed by Kai Long / Goldman Sachs for a reported amount of HK\$1.6 billion (backed by a loan of approximately HK\$800 to HK\$850 million), was subsequently sold to a local investor for only HK\$700 million. Both the vendors and banks involved in the transaction incurred significant losses to facilitate the deal.

GRAPH 2: Major Commercial Investment by Type of Investor



Source MSCI Real Capital Analytics, Savills Research & Consultancy

With private investors and investment funds being too adventurous over the past few years in acquiring en-bloc commercial assets, both were in divesting modes of late, meaning end users and SOEs are the two remaining active buyer groups in the en-bloc commercial market in late 2023 / early 2024.

Looking ahead, the investment market would still be affected by multiple factors: while cost of funding may remain high in the near term due to the declining probability of rate cuts in the US over the rest of the year, the continuous stock market rally, to be supported by global stock market rally, upbeat local corporate earnings and further China policy support on both China’s and Hong Kong’s economies, would inevitably support further rebound in transaction volume, while pricing may remain subdued due to bargain-hunting nature of most potential buyers.

**WEAK OCCUPIER MARKET STILL COURSE OF CONCERN**

While recent market sentiment has been buoyant by local and global stock market rally (Dow Jones Industrial Average surged over 40,000 for the first time in history), the weak occupier market, in particular for the office sector, posts some course of concern. With lack of IPOs and other meaningful financing activities, many investment banks ended up shedding staff in Q1; coupled with very cautious pace of expansion of most Chinese corporates, office vacancy rates climbed further to 14.3% in April 2024, representing 10 million sq ft net of vacant office space. Office rents continued to drift by 2.4% in Q1 as a result, and were 38% below their peak back in Q2/2019. Though net take-up ‘rebounded’ to 500,000 sq ft net in 2023, with yet another 7.5 million sq ft net of office space coming on stream upto 2027, office rents look set to decline further, which would suppress any sort of yield reversions in the short to medium term.

| Savills Price Forecast in Rest of 2024 |             |
|--|-------------|
| Grade A Office                         | -5% to -10% |
| Prime street shop                      | -5%         |