MARKET IN MINUTES
Savills Research

Office and Retail Investment

En-bloc deals dominate in final quarter

The market found more momentum in the fourth quarter in both the office and suburban retail segments.

- There was a significant increase in en-bloc / site sales in 2H/2020 (a 76% increase in volume and 353% increase in value compared with 1H/2020), despite a volatile virus situation and an uncertain economic outlook, though the market has not returned to its peak of 2017/18.
- Strata-title sentiment was again subdued with the Employment Support Scheme (ESS) ending in November and the outbreak of the fourth wave of COVID cases shortly after jeopardizing SMEs' business prospects, but the cancellation of Double Stamp Duty (DSD) turned sentiment around in December, especially at the lower price band below HK$10 million which saw a significant rebound in volume.
- Attitudes of Grade A office landlords continued to soften, and more motivated sellers were successful in offloading holdings, with end users and bargain hunters again dominating the otherwise quiet office segment.
- Suburban retail prevailed with the relatively unscathed supermarket / wet market segments attracting investment interest. While the retail sales decline moderated the holding power of most core retail landlords meant that substantial pricing gaps have persisted with very little happening in core retail areas as a result.
- A reopening of the border will be crucial to facilitate both visitor and capital flows to the benefit of both the retail and office investment markets. With the macro environment in the region, and China in particular, expected to improve swiftly in 2021, Hong Kong stands to benefit if the virus is successfully brought under control.

"Volumes continued to rebound at the top end with funds beginning their return to the market. Full-blown recovery will be dependent on the reopening of borders which are crucial for both visitor and capital flows into the territory."

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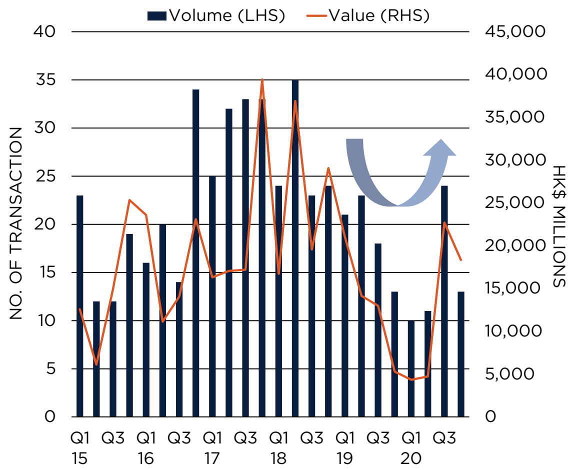
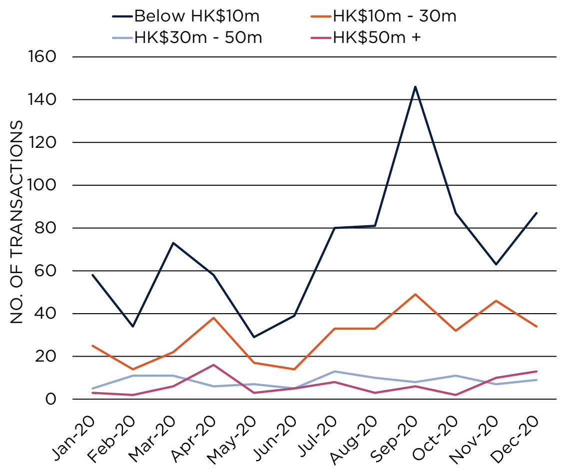
GRAPH 1: En-bloc And Site Transaction Volumes And Values*, Q1/2015 to Q4/2020



Source EPRC, Savills Research & Consultancy
* Includes en-bloc buildings of all asset classes, sites and retail podiums

GRAPH 2: Commercial Transaction Volumes By Price Range (Office & Retail), January to December 2020



Source Rating and Valuation Department, Savills Research & Consultancy

REVIVAL OF EN-BLOC INVESTMENT NOTABLE

There was a significant increase in en-bloc / site sales in 2H/2020 (a 76% increase in volume and 353% increase in value compared to 1H/2020), despite a volatile virus situation and an uncertain economic outlook, though the market has not returned to its peak of 2017/18. The largest investment deal of the quarter was the sale of the Cityplaza One office tower for HK$9.845 billion to a GAW Capital-led consortium (which also includes Schroders Pamfleet, Manulife and BOC Life), at an average price of HK$15,600 per sq ft.

In other significant deals in Q4, CIFI Group (a mainland developer) and Wang On Properties (a local developer) jointly acquired a site at 101 & 111 King's Road for HK$1.88 billion, eyeing redevelopment. The revitalized SML Tower was also reportedly sold to a Mainland investor for HK$1.442 billion towards the end of last year. In addition, First Group, Grand Ming and Farzon Group (a Singaporean investor) all made moves in the local en-bloc market last year. We believe the diverse backgrounds of buyers (investment funds, developers, local investors, Mainland buyers) in 2020 reflects a broad-based confidence in future market prospects.

STRATIFIED COMMERCIAL VOLUMES SUBDUED WITH GOVERNMENT SUPPORT ENDING AND A FOURTH VIRUS WAVE

Strata-title sentiment was again subdued with the Employment Support Scheme (ESS) ending in November and the outbreak of the fourth wave of COVID cases shortly after jeopardizing SMEs' business prospects, but the cancellation of Double Stamp Duty (DSD) turned sentiment around in December, especially at the lower price bracket, which saw a significant rebound in volume. Stratified office and retail volumes declined by 37% to reach 132 deals in October from a recent high of 209 transactions in September and remained stable in November to register 126 transactions over the month, before rebounding to 143 transactions in December following the cancellation of DSD inducing more buyer interests in the below HK$10 million bracket.

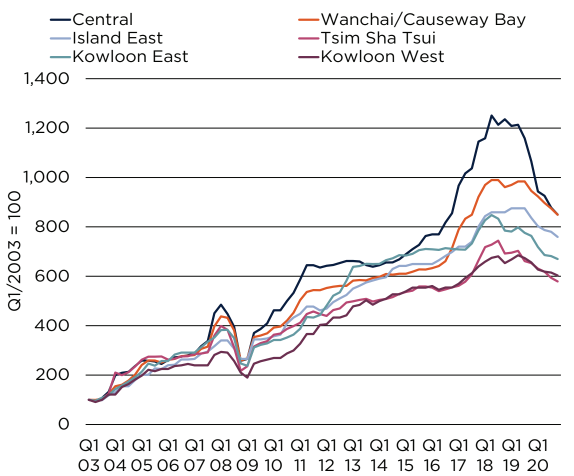
LANDLORD ATTITUDES SOFTEN WITH MORE DEALS RECORDED IN CORE AREAS

The attitudes of Grade A office landlords continued to soften and more keen sellers were successful in offloading their holdings, with end users and bargain hunters again dominating the office segment. Notably office volumes rebounded strongly in December by 25% MoM, while offices priced at HK$10 million or below registered 49 transactions, a 69% increase when compared to November.

More deals were recorded in core areas at both ends of the price spectrum: five units on 19/F of Bank of America Tower (around 6,000 sq ft) were sold for HK$142 million (average price of around HK$23,800 per sq ft) by the American Chamber of Commerce, while 4/F of Far East Finance Centre (10,800 sq ft) was sold for HK$237.6 million (average price of HK$22,000 per sq ft) by a Japanese company. Both average prices were recent lows for their respective buildings.

At the other end of the spectrum, 48/F of The Center (25,695 sq ft) was sold to mainland developer Hopson for HK$980 million (average price of HK$38,139 per sq ft) via share transfer. The average price represented a recent high, though was still some 12% below the average price paid for the office premises on 49/F of the same building two years ago. Another small unit on 18/F of Shun Tak Centre West Tower, which enjoys an unobstructed sea view, was also sold at a recent high of HK$33,000 per sq ft. These diversities in pricing reflected diverging views among office landlords and purchasers.

GRAPH 3: Grade A Office Price Indices By District, Q1/2003 to Q4/2020



Source Savills Research & Consultancy

TABLE 1: Grade A Office Price Movements, Q1-Q4/2020, 2020 And 2019

DISTRICT	2020 (%QOQ)				2020 (%YOY)	2019 (%YOY)
	Q4	Q3	Q2	Q1		
Central	-3.2	-5.1	-1.9	-11.5	-20.2	-13.8
Wanchai/ Causeway Bay	-2.9	-2.5	-2.9	-2.4	-10.2	-1.6
Island East	-2.7	-0.9	-1.9	-4.0	-9.2	-2.6
Tsim Sha Tsui	-2.5	-4.0	-2.0	-3.4	-11.4	-5.6
Kowloon East	-1.7	-0.6	-4.5	-5.9	-12.3	-2.7
Kowloon West	-1.9	-0.6	-1.4	-4.4	-8.1	+0.5
Overall	-2.5	-2.5	-2.8	-5.4	-12.6	-4.8

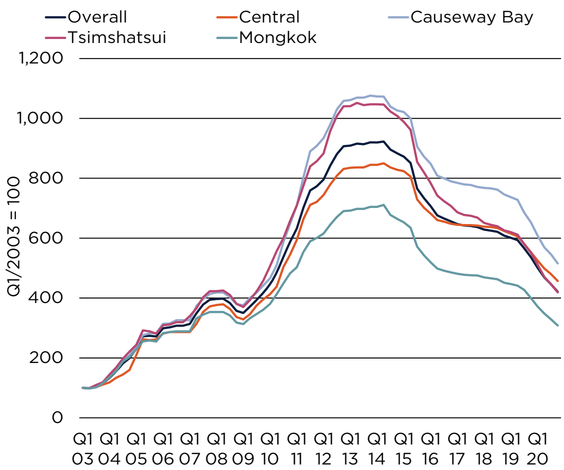
Source Savills Research & Consultancy

TABLE 2: Major Suburban Retail Transactions, October to December 2020

DATE	DISTRICT	PROPERTY	UNIT	CONSIDERATION (HK$)	GROSS AREA (SQ FT)	GROSS UNIT PRICE (HK$ PSF)	VENDOR	PURCHASER
Oct	To Kwa Wan	Downtown 38	Retail podium	$300,000,000	20,921	$14,340	Sun Hung Kai	TBC
Dec	Kowloon City	Billionaire Avant, 58 Nga Tsin Long Road	Shop A on G/F	$130,000,000	4,321	$30,086	Kai Bo Food Supermarket	TBC
Dec	Shatin	Kings Wing Plaza 1, 3 On Kwan Street	Shops G15-17 on G/F	$128,000,000	3,938	$32,504	Kai Bo Food Supermarket	TBC
Dec	Tsuen Wan	6-8 Tsuen Wan Market Street	G/F & C/F	$127,000,000	3,400	$37,353	TBC	A Macanese investor
Nov	Sheung Wan	Princeton Tower, 88 Des Voeux Road West	Shop 1 on G/F	$108,000,000	5,257	$20,544	Ku's Inv Co Ltd	Dignity Enterprises Ltd

Source Land Registry, newspaper, Savills Research & Consultancy

GRAPH 4: Prime Street Shop Price Indices By District, Q1/2003 to Q4/2020



Source Savills Research & Consultancy

TABLE 3: Prime Street Shop Price Movements, Q1-Q4/2020, 2020 And 2019

DISTRICT	2020 (%QOQ) Q4	Q3	Q2	Q1	2020 (%YOY)	2019 (%YOY)
Central	-4.8	-3.7	-5.0	-5.1	-17.4	-11.4
Causeway Bay	-5.6	-4.1	-6.5	-6.7	-21.0	-12.5
Tsim Sha Tsui	-6.0	-5.3	-8.0	-7.2	-24.0	-11.9
Mong Kok	-6.3	-5.5	-6.3	-7.0	-22.8	-11.4
Overall	-5.7	-4.7	-6.5	-6.5	-21.5	-11.8

Source Savills Research & Consultancy

The Kowloon office market was dominated by the primary launch of 888 Lai Chi Kok Road, a new Grade A office project under development by New World, in early December. The 30 units launched were snapped up in an hour with some HK$600 million in sales achieved, at an average price of around HK$13,000 per sq ft. Purchasers were predominately end-users with doctors and other professional service providers eyeing the repositioning of Cheung Sha Wan as a strategic business node connecting the GBA and Hong Kong over the next few years, with around 2 million sq ft of new Grade A offices to be completed (inclusive of 888 Lai Chi Kok Road).

RETAIL ACTIVITY PERSISTS AS FOURTH WAVE HITS

The positive impact of the cancellation of DSD was offset by the more stringent social distancing measures from December onwards amidst the fourth wave of virus outbreak, with bars, restaurants, beauty salons, gyms and other entertainment service providers particularly hard hit. Suburban retail again prevailed with the relatively unscathed supermarket / wet market segments attracting investment interest. Kai Bo Food Supermarket offloaded two of its ground floor shops in Kowloon City and Shatin for HK$130 million and HK$128 million respectively, both with sale and leaseback agreements at around 4% passing yields. Another shop in Sheung Wan, which was leased to Park'n Shop, was sold for HK$108 million representing a 3% passing yield. Two street shops close to the Tsuen Wan market were sold to a Macanese investor for HK$127 million with a passing yield of 3.3%.

With suburban retail still in demand developers were keen to offload their non-core holdings. It was reported that Sun Hung Kai sold the retail podium of Downtown 38 for HK$300 million, or an average price of HK$14,340 per sq ft. Elsewhere, while the retail sales decline moderated to -4.0% in November last year, the holding power of most core retail landlords meant pricing gaps between them and prospective purchasers were still substantial, with very little happening in core retail areas as a result.

MARKET OUTLOOK

While the overall investment outlook is still clouded by business and retail prospects over the next few months, we have already seen some money targeting the top end of the market, in particular the en-bloc segment. Meanwhile, some developers / landlords are keen to offload their non-core assets for capital recycling, and over the past six years Swire, Link REIT, Wheelock, Henderson, Nan Fung and New World combined have sold over HK$120 billion worth of assets. Looking into the first quarter of 2021, any further successful disposals of such en-bloc / site assets should indicate a full recovery of this niche investment segment ahead of the occupier market.

Nevertheless, any full-blown recovery in the commercial market is still dependent on the containment of the virus locally, where a reopening of the border will be crucial for both visitor and capital flows into the territory. With the macro environment in the region, and China in particular, expected to rebound swiftly in 2021 (GDP growth is forecast to rebound by 8.1% according to FocusEconomics), Hong Kong stands to benefit if the virus situation is brought under control locally.

Assuming the virus situation improves in the first half of 2021 and borders are gradually reopened in the second half of the year, we forecast that both Grade A office and prime street shop prices will decline more moderately by 5% to 10% over the first six months of the year before stabilizing from Q3 onwards, with volumes likely to continue their upward trend in the first half of the year.