Greater Bay Area in New Development Context

Targeting new property investment opportunities from the surge of South China's Greater Bay Area
The Guangdong-Hong Kong-Macao Greater Bay Area (GBA) development will create faster economic growth and new wealth. New development hotspots will emerge along strategic infrastructure routes. With China's rising influence, Hong Kong has the chance to become a top global city. More Chinese companies will set up international operations in Hong Kong and nouveau-riche individuals will use Hong Kong as their wealth management centre. Hong Kong has thrived to date despite its high costs. To maintain its premium over neighbouring cities, Hong Kong needs to redefine its edge.

**Executive Summary**

Although the GBA plan is still under discussion at different levels of government, the subject has captured the general public's attention since Premier Li Keqiang first mentioned it in March 2017.

Regional integration within the Pearl River Delta region has been mentioned before, but its implementation has produced limited results. What makes the GBA different from past attempts? We believe the future GBA plan will achieve national significance because China has been pushing for its global expansion plan through the Belt and Road Initiative, the export of Chinese capital, and the internationalisation of the renminbi.

The GBA not only represents China's most advanced regional economy, but is also China's most international region. Hong Kong is a world financial centre and Macau has been developed into a global leisure destination. Strong hi-tech manufacturing and innovation capability have made the GBA a key player in the new economy on a global scale. Putting different elements together, the GBA will showcase China's new economic power to the world and is an ideal platform to further international collaboration, especially along the Belt and Road trade and transportation routes.

The polycentric nature of the GBA, with Hong Kong, Shenzhen, Guangzhou and Macau each acts as a key economic development engine, yet complementing one another, will maximise future growth potential.

We anticipate the GBA's economic growth will be on par with the other greater bay areas in the world. In line with its expansion, huge sums of personal wealth should be generated through a vibrant private sector economy. As a result, new property investment opportunities will proliferate in different sectors. For example, the office sector in Futian District, Shenzhen will benefit from the opening of High Speed Rail service to Hong Kong, and its future rent levels should be comparable to Tsim Sha Tsui since it will only be 15 minutes away by train. Supplies of quality warehouse will increase in Guangzhou as the city further consolidates its role as the logistics hub for South China. There will also be other development hotspots along key infrastructure and communications routes with strong potential, especially for Zhongshan and Zuhai on West PRD.

For Hong Kong, the GBA provides a golden opportunity to rise to the top and achieve the same status as New York and London as a truly global city. Hong Kong will continue to attract new PRC investments and more Chinese companies will set up operations there. The local property market, especially the office and residential sectors, should benefit as Hong Kong becomes the headquarters for PRC international enterprises and a wealth management centre for newly rich individuals.

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1 The Guangdong-Hong Kong-Macao Greater Bay Area covers 11 cities including Hong Kong, Macau, Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zuhai, being planned to promote closer cooperation between the mainland and Hong Kong and Macao.
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Rebranding the Pearl River Delta as “The Greater Bay Area” signals a shift of China’s position in a new global context. The project to integrate the economies of Hong Kong and Macau more closely with the Pearl River Delta (PRD) is not new, having been raised in the National Development & Reform Committee (NDRC) in 2008, and further refined in 2011.

However, as China’s global status has been rising fast, a new development context and agenda are required, particularly in the light of the Belt and Road Initiative and the moving-up of the Chinese economy within the global value chain. The GBA has always been at the forefront of China’s internationalisation process and will play a pivot role as China emerges as the new leader behind globalisation. We anticipate the GBA will serve as a critical base for China to project its influence along the Belt and Road trade and transportation routes and beyond.

Greater Bay Area in Numbers

The Greater Bay Area (GBA) comprises 11 cities: Hong Kong, Macau and nine cities in Guangdong Province adjacent to the Pearl River Delta. The total land area of GBA is about 57,000 sq km with a population of 68 million and a total GDP of USD1.3 trillion in 2016. Although GBA accounts for 5% of the entire population, it contributes to 12% of China’s GDP. Together with Yangtze River Delta and Bohai Bay, Greater Bay Area is one of China’s most developed regions. In terms of competitiveness, Shenzhen, Hong Kong, Guangzhou, Foshan are among the top 10 most competitive cities in China.

In the global arena, GBA is well known for its economic dynamics in the past and its transformation into the world’s biggest manufacturing hub. Measured independently, GBA has the 5th largest economy in Asia by GDP and the highest total container throughputs globally.
Key Infrastructure Connecting GBA

West PRD has been lagging behind the East PRD due to a lack of direct infrastructure connections. Things are going to change with the development of three key infrastructures projects which will greatly improve the accessibility of West PRD cities.

> **Hong Kong-Zhuhai-Macau Bridge** is a 50 km link consisting of a series of bridges and tunnels crossing the Lingdingyang channel that will connect Hong Kong, Macau and Zhuhai. It will considerably reduce the travelling time between Hong Kong and Macau/Zhuhai from 50 minutes by ferry to 40 minutes. It is scheduled to be completed by year-end 2017.

> The Express Rail Link (XRL Hong Kong section), due to open in the third quarter of 2018, will connect Hong Kong to China’s vast national high speed railway system. Travelling time between Hong Kong-Shenzhen and Hong Kong - Guangzhou will only be 14 minutes and 48 minutes, respectively.

> **Shenzhen-Zhongshan Corridor**, a 24 km long eight-lane highway, will connect Shenzhen with Zhongshan and Jiangmen in West PRD. It is located about 40 km north of the Hong Kong-Zhuhai-Macau Bridge, and will reduce travelling time between the both sides to 30 minutes after its completion in 2024.

Greater Bay Cities in Tiers

Like many other regions, cities in the GBA have been growing at multiple speeds. Based on economic development, international connections, population, and overall GDP, GBA cities fall into three tiers:

> **Tier 1**: Strong international connections, global influences, centres of excellence, corporate headquarters, world standard infrastructure, and education and cultural centres

> **Tier 2**: Robust and competitive economic basis, cluster of manufacturing activities, large Foreign Directive Investment (FDI) recipients, growing population basis

> **Tier 3**: Smaller economies, lower GDP per capita, traditional manufacturing basis, sub-standard infrastructure

Based on the above definition, we have divided the 11 cities into their respective tiers (Figure 1). We classify Macau and Zhuhai as Tier 1.5 on the ground that together they have developed a strong leisure and tourism economy with global exposure although the size of their economy is still comparatively small.

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**Source:** Statistical Yearbooks, World Shipping Council, Hong Kong Stock Exchange, Fortune Co., China Social Science Academy
GBA - A Polycentric Economic Region

Comparisons have been made between GBA and other leading “bay areas”, such as Tokyo, San Francisco, and New York. GBA in terms of GDP and total land area is already the largest among the four regions. However, in terms of GDP per capita, there is still plenty of room to grow.

More importantly, the other bay areas' development tends to be dominated by one single city, except for San Francisco Bay Area where San Jose & Silicon Valley play an important role. GBA, on the contrary, is a polycentric region led by three Tier 1 cities each with an annual GDP around USD300 billion in 2016. Together with Macau as a global leisure destination, they have already established their own unique advantages. Further collaboration, such as Hong Kong plus Shenzhen in finance and technology, will produce additional spill over benefits for all parties within the GBA framework. We believe this polycentric structure results in a higher growth potential for GBA when compared to other bay areas.

Benchmarking GBA Growth Potential

The following four leading cities, each with distinct and mutually complementary characteristics offer the greatest advantages for GBA’s future development.

- Hong Kong: a global financial centre
- Shenzhen: China’s Silicon Valley
- Guangzhou: heavy industry and logistics hub
- Macau: Asia’s leisure capital
- Other cities in GBA have built a strong manufacturing base for high-tech products

More effectively integrated resources within the GBA framework will permit the region as a whole to ascend swiftly on the global value chain.

To assess GBA's growth potential, we have benchmarked leading global cities as growth targets for individual GBA cities and regions (Figure 3).

Assuming GBA cities will catch up with their respective target cities’ GDP per capita in the future, the total GDP for GBA will rise from USD1.3 trillion in 2016 to USD3.6 trillion.

The tripling of total GDP will be a significant achievement as a large sum of new wealth will be created which will increase investment demand in the real estate market, an important investment category for Chinese.
GBA property investment opportunities

In this session, we have examined different property sectors’ past performance, future supply, and opportunities in order to evaluate different city potentials for property investors interested in GBA.

Office: oversupply and rising capital cost could reduce investment return in the short term

Hong Kong, Shenzhen and Guangzhou have the largest Grade A office stock in GBA. Given the fast growth of the finance, professional services and IT sectors, Grade A office demand has been increasing steadily. In general, Grade A office prices have been growing faster than rent resulting in a depressing yield.

Table 1 Office Rent, Capital Value and Yield

<table>
<thead>
<tr>
<th>City</th>
<th>Effective Rent (Per sq m per month)</th>
<th>Capital Value (Per sq m)</th>
<th>Gross Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>USD103.3</td>
<td>USD48,210</td>
<td>2.7%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>USD33.5</td>
<td>USD9,410</td>
<td>4.1%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>USD21.6</td>
<td>USD5,400</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

Source: Colliers

Among business districts at each city, we expect Futian District in Shenzhen to have the greatest potential as rent will increase more rapidly due to the opening of the new high-speed railway, reducing the travelling time to Hong Kong to 15 minutes. Rent of Island East in Hong Kong and Pazhou in Guangzhou will also increase faster than their respective market averages in the next 5 years.

Table 2 Fast Growing Business Districts in GBA

<table>
<thead>
<tr>
<th>Business District</th>
<th>Effective Rent (Per sq m per month)</th>
<th>5 Year Target (Per sq m per month)</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Futian, SZ</td>
<td>USD40</td>
<td>USD60-70</td>
<td>50-75%</td>
</tr>
<tr>
<td>Island East, HK</td>
<td>USD73</td>
<td>USD84</td>
<td>15%</td>
</tr>
<tr>
<td>Pazhou, GZ</td>
<td>USD16</td>
<td>USD22</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Colliers

Looking forward, we anticipate an increasing supply of Grade A office stock, particularly in Shenzhen, which will double total office space by adding more than 5 million sq m of new supply, which will significantly increase the vacancy rate. In contrast, new supply in Guangzhou will be more manageable and Hong Kong’s office market will remain tight due to a historically low vacancy rate.

From an investment perspective, the gross office yield spread has been squeezed due to rising capital cost since H2 2016. Shenzhen office investment may be heading into a negative spread if the current interest rate rise cycle continues into 2018. Among the three cities, Guangzhou office market continues to have a healthier yield spread compared to the other two cities.

Source: Colliers
Retail: growing disposable income and spreading of e-commerce are changing the retail landscape

The prospect of retail properties in GBA will be determined by two major factors:

- Increasing disposable household income
- Spreading of e-retailing

During the past five years, Guangzhou and Shenzhen have recorded the highest total retail sales; while Hong Kong’s total retail sales have dropped with the reduced tourist arrivals. Macau’s retail sales have also been soft with lower tourist numbers. For Tier 2 and 3 cities, total retail sales have been increasing household disposable income which has supported the increasing retail space.

Figure 7 2012-16 Retail Sales Growth by City (%)

The penetration of e-commerce at leading cities has started to threaten the operation of many shopping malls. According to a recent Alibaba research, Tier 1 cities in GBA have the highest e-commerce development index in China while there is a significant fall in Tier 2 and Tier 3 cities.

A BCG and McKinsey report states that future e-retail will focus on semi-necessities or discretionary items. Upper middle and affluent classes are leading the increase of online-retail sales. The study also shows millennials to be the main force behind online-retail.

Overall, we expect shopping centres in Tier 1 cities to face the strongest competition from online retails. However, with a growing population and income, shopping centre operators can reposition and readjust their tenant mix to retain a healthy return.

Retail in Tier 2 cities has faced less competition from e-retail while the disposable income is not far behind Tier 1 cities. With an influx of new population from Tier 1 cities to new communities in Tier 2 cities, additional demand for new retail space will emerge.

For Tier 3 cities, shopping of daily necessities and basic items is mostly met by existing supermarkets which have limited choices, therefore representing an easy target for replacement by e-retailing. Due to lower income and competition from large shopping malls in Tier 1 and 2 cities, prospect for the retail market will be limited.

Table 3 Retail Development Prospects at Different Cities

<table>
<thead>
<tr>
<th>Tiers</th>
<th>Popular Shopping Category</th>
<th>Characteristics</th>
<th>Retail Landscape</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>• Luxury • Electronics • Skincare • Leisure, F&amp;B, Sports</td>
<td>Higher income, sophisticated taste, preference for international products</td>
<td>Shopping malls need to reposition &amp; optimise tenant mix and adopt phygital strategy</td>
</tr>
<tr>
<td>2</td>
<td>• Skincare • Food • Clothing • Bags &amp; Accessories</td>
<td>Rising disposable income with lower housing price, lesser e-commerce penetration</td>
<td>New residential communities near Tier 1 city border will create new demand for retail space</td>
</tr>
<tr>
<td>3</td>
<td>• Fresh produces • Housewares • Clothing • White Appliances</td>
<td>Ageing generation with least penetration of e-commerce</td>
<td>Supermarkets with limited choices can be easily replaced by e-commerce</td>
</tr>
</tbody>
</table>
Warehouses: Guangzhou’s role as logistic hub to be further solidified

Guangzhou has long been considered as the gateway city for South China. In 2016, the total amount of cargo throughput in 2016 amounted to 540 million tonnes, an increase of 4.3% over 2015. Both Shenzhen and Hong Kong have experienced a decline in total trade values and throughputs in 2015 and 2016.

With the recovery of global trade environment in 2017, the logistics industry of Hong Kong and Shenzhen has regained momentum. However, shortage of land and high land cost in both cities will restrain the further development of new warehouse facilities.

In contrast, we anticipate that supply of high quality warehouses in Guangzhou will increase substantially between 2017-2021, especially in Conghua, Zengcheng and Huadu areas. The new supply is expected to be absorbed gradually by the market.

While land supply is limited in Tier 1 cities, the situation is different for Tier 2 cities. Foshan, Dongguan, and Huizhou in particular are recording increasing warehouse developments. Within Tier 1 cities, relocation and redevelopment of older warehouses will further reduce the total supply of low quality warehouse and drive up average rent.

Historically, warehouse rents in Tier 1 cities have been growing steadily at 5% p.a. with an achievable yield of 5-6%. For international operators interested in establishing new facilities in Tier 1 cities, they will have to accept a lower yield return with rising land prices and competition from local operators.

The greater penetration of e-commerce has also increased demand for quality warehouses by major e-commerce platforms. However, we believe the first round of site identification and land grabbing by leading e-commerce operators, such as JD.com and CaiNiao, in GBA has already finished.

Table 4 Expected Rent and Yield at New Warehouses

<table>
<thead>
<tr>
<th>City</th>
<th>Districts</th>
<th>Target Rent RMB/sqm/month</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou</td>
<td>Conghua, Zengcheng</td>
<td>RMB32-35</td>
<td>6-7%</td>
</tr>
<tr>
<td></td>
<td>Huadu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier -2 Cities</td>
<td>Dongguan</td>
<td>RMB30-33</td>
<td>6-7%</td>
</tr>
<tr>
<td></td>
<td>Foshan</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Huizhou</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Colliers
Residential: Tier 2 cities to see faster growth

Among all cities in GBA, Shenzhen housing market has become the least affordable. Dongguan and Huizhou are the least affordable among Tier 2 and Tier 3 cities respectively because of their proximity to Shenzhen.

Growth in Tier 1 cities will be moderate. Housing price in Shenzhen will face more downward pressure while Guangzhou's housing prices will gradually increase. There will be a moderate adjustment for Hong Kong property price when real interest rates move back to the positive territory by the end of 2018. Overall, we are optimistic about the long-term prospect of housing market in Tier 1 cities.

For the next five years, Tier 2 cities will steal the spotlight. Prices in Dongguan and Huizhou will continue to outperform other cities, particularly for areas right outside of Shenzhen. The average housing price of Dongguan and Huizhou currently amount to RMB14,300 and RMB11,300 per square meter respectively, more than RMB40,000 lower than the average price in Shenzhen. With improving connections through new highways or new metro lines, new communities along the city borders of Shenzhen have emerged as good alternatives.

On West PRD, Zhuhai and Zhongshan will benefit from the completion of new connections with Hong Kong and Shenzhen via Hong Kong-Zhuhai-Macau Bridge and Shenzhen-Zhongshan Corridor.
Hong Kong's chance to rise to the top

Hong Kong’s future role will be greatly shaped by the successful implementation of the Belt and Road Initiative and the further integration of GBA. Leveraging on its historical strength as an international business hub, Hong Kong can expand its footprint along the Belt and Road geography to become a global financial centre. China’s global expansion plan, if successfully implemented, will put Hong Kong on par with New York and London as the world’s top global city.

By definition, a global city possesses strong influence in terms of decision making powers, domination in finance, trade, innovation and soft power in education, culture, and diversity. According to Globalisation and World Cities Research Network (GaWC) 2016 Study, out of 306 cities examined, only London and New York were considered as Alpha ++ cities indicating that they are vastly more integrated with the global economy than all other cities. In the same survey, Hong Kong was ranked as one of the seven Alpha + cities which have developed advanced service niches for the global economy.

Table 5 Global City Ranking

<table>
<thead>
<tr>
<th>Categories</th>
<th>Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha ++</td>
<td>New York, London</td>
</tr>
<tr>
<td>Alpha +</td>
<td>Singapore, Hong Kong, Paris, Beijing, Tokyo, Dubai, Shanghai</td>
</tr>
<tr>
<td>Alpha -</td>
<td>Guangzhou, Melbourne, San Francisco, Barcelona, …</td>
</tr>
<tr>
<td>Beta</td>
<td>Shenzhen, Geneva, Berlin, Abu Dhabi, Hanoi…</td>
</tr>
</tbody>
</table>

Source: Globalisation and World Cities Research Network Study

To move up in the ranking, Hong Kong will need to establish much stronger connections with Belt and Road countries, which account for 50% and 40% of the world’s population and GDP respectively. Emerging markets have seen faster GDP growth and will become important trading partners for Hong Kong. Excluding trade values with China, the share of emerging countries of total import and export values have increased by 10% over the last ten years and accounts for 40% of total trade values. ASEAN countries and India, both are part of the Belt and Road region, which both have seen the fastest growth in trade value with Hong Kong.

Enhance Hong Kong’s Status through GBA

Collaboration with other GBA cities will give Hong Kong a better chance to achieve the global city status. Hong Kong can create powerful new synergies by linking Hong Kong’s international financial centre, Shenzhen’s strong base of hi-tech industry and Guangdong’s advanced manufacturing capability more closely.

Hong Kong’s pillar industries will look for new opportunities in GBA:

> Finance & professional services sector

The finance and professional services sector had been the key for advising on foreign capital investments into China. In the next phase of global expansion of Chinese capital, Hong Kong’s common law system and expertise in international dispute settlement and mediation services will become even more critical for Chinese companies investing overseas. Companies within GBA region will have an advantage over other Chinese companies by working closely with Hong Kong when implementing their global expansion plans.

> Logistics and transportation industry

The heydays of Hong Kong’s container port operation are gone as ports in Guangzhou and Shenzhen are taking larger market shares due to competitive pricing. By working together with GBA cities, Hong Kong can evolve into a leading Asian centre for the provision of high end maritime services, such as ship finance, management and insurance services.

> Tourism

Along with closer transportation links to the mainland and the potential easing of entrance restrictions on mainland GBA residents, visitor numbers GBA cities, with a total population of 58.7 million, are expected to surge. Hong Kong will need to create new cultural, leisure and retail facilities in locations that are easily accessible to accommodate new wave of visitors.

> ITC industry

The lack of progress in local ITC industry development is considered as the weakest link for Hong Kong. Integration in the GBA offers new access for Hong Kong’s local high-tech companies to a huge mainland market. With world class education institutes, Hong Kong should position itself as the ideal location for more R&D centres and start-up companies. Freedom of information, reputable education institutions, cultural diversity, and superior international connectivity will make Hong Kong attractive to global talent looking for opportunities in Asia.
A Wealth Management Centre for China

The Chinese population has accumulated a huge sum of private wealth as the result of fast economic growth since the economic reform first started almost 40 years ago. According to the latest Chinese Wealth Report, prepared by Merchant Bank and Bain Co, China's private wealth has surged to RMB165 trillion (USD24.26 trillion) by end of 2016. Between 2008 and 2016, the total individual investable assets in China have been growing at an annual rate of 20%. China has become one of the largest breeding ground of new millionaires and billionaires globally.

Guangdong Province has always had the largest number of millionaires and billionaires in China, accounts for 17-18% of total High Net Worth Individuals (HNWIs), people with at least RMB 10 million worth of asset, as reported in a recent Hurun report. First generation entrepreneurs continue to make up a large percentage of the new rich class in China, followed by professional managers. This is particularly true in Guangdong with the country’s most dynamic private sector economy and privately owned companies produce 85% of total industrial outputs in 2015.

Looking forward, the hi-tech industry will generate a large number of newly rich. A report published by the Ministry of Technology has indicated that 12% of the identified “Unicorn” companies in China are based in GBA. Shenzhen has been the headquarters for many leading hi-tech companies in China. The integration of GBA cities will certainly improve the innovation ecosystem by combining Hong Kong’s world class education institutes with Shenzhen’s innovation capabilities. We anticipate more "unicorn" companies will be based in GBA in the future.

With the growing of personal wealth comes the need for overseas investment in an attempt to diversify risks. As reported in the CMB-Bain report, the percentage of Chinese HNWIs and Ultra-HNWIs with overseas assets has increased to 37% and 57% respectively in 2015. Among these individuals, Thanks to Hong Kong’s favourable tax policy, geographical location and open economic environment, it retains the primary destination for overseas investments in financial products, such as stocks and funds for China’s HNWIs.

We anticipate Hong Kong’s status as China’s primary asset management centre will further solidify as more Chinese banks will set up branches in Hong Kong to serve Chinese HNWIs. With more personal wealth to be generated in GBA, the need for Hong Kong’s financial and professional services will continue to grow to serve the newly rich class.

Figure 13 Total Individual Investable Asset (2008-2016)

Source: China Merchant Bank - Bain Co.

Figure 14 Distribution of "Unicorn" Companies

Source: Ministry of Technology

Figure 15 Chinese HNWIs’ Preference for Overseas Investments in 2015

Source: China Merchant Bank - Bain Co.
Implications for Hong Kong’s Property Market

The above analysis has demonstrated how Hong Kong can benefit from the development of the Belt and Road Initiative and the implementation of GBA Plan. Hong Kong’s property market will also gain from GBA as increasing collaboration and integration will generate new demand for physical space across the board.

In this session, we share our views on different property sectors that will benefit from the GBA Plan.

Office: Redevelopment Opportunities in Central

Hong Kong’s office rent has been growing at the same pace as the high value-added service industry, both at 5% per annum for the last decade. Demand for Grade A office space in the core-CBD area by Chinese financial services and large conglomerates will continue to surge, and Chinese companies’ share of total space in Central will increase further.

MNCs and professional firms will continue their shift to other business districts for optimisation of operation cost, especially to Island East and Kowloon East the CBD2. Although the current value of Kowloon East has been depressed due to large supply, the long-term prospect is still positive.

Rents in Central will increase steadily with stronger demand and a lack of new supply. However, office stocks in Central are ageing with 40% of total Grade A space developed 30 years ago. With a rising rent gap between old and new office buildings, we expect more office redevelopments in Central to take place. While large portfolio landlords will undergo refurbishments or redevelopments by themselves, investors or Chinese companies who want to have a presence in Central should seek redevelopment potentials either through acquisition or partnering with existing building owners.

Hong Kong needs to start planning for a new CBD3 to accommodate increasing demand. The Government’s 2030+ Vision Plan has mentioned a new CBD3, the East Lantau Metropolis (ELM), as a new business district for Hong Kong.

From our own perspective, the existing container terminal site in Kwai Tsing is a much better option for CBD3 as no land reclamation is required: it is more accessible by current highways and the MTR system; and there are existing amenities in surrounding areas. These factors give Kwai Tsing more advantages over ELM.

With a decreasing port cargo throughput in Hong Kong, the Government should study the possibility of releasing port land for other uses to avoid waste of resources at strategic locations.
> Warehouses: e-commerce & Air Logistics to Drive Future Demand

Since 1996, the share of total trade value by vessels has been declining continuously, from 48.4% in 1996 to 16.3% in 2016. Although the container throughput has not declined as significantly, it does demonstrate the diminishing role of container ports in Hong Kong’s economy. With closer collaboration across GBA, more new cargo will go through South China ports.

The share of trade value by air has doubled between 1996 and 2016. The total air cargo handled by Hong Kong International Airport has increased from 1.56 million tonnes to 4.52 million tonnes in the last 20 years. As warehouse facilities handling air cargo in South China are still not yet that developed, Hong Kong continues to play a critical role in air logistics industry.

Another factor will be the penetration of e-commerce in Hong Kong which has been picking up and will require more warehouses space. The integration of GBA will encourage more cross-border e-commerce in Hong Kong and increase demand for warehouse space.

With regard to locations, we expect logistics facilities along the highway connecting the airport and the border with Shenzhen, i.e. North Lantau, Tuen Mun, and Hung Shui Kiu areas will be popular among logistics operators.

Rent for new facilities will increase faster as logistics operators are looking for higher operation efficiency. Small warehouses in traditional areas will face more competition as large tenants are looking elsewhere for better and more modern facilities.

> Hotels: mid-range hotel is expected to outperform other hotel classes

A growing presence of GBA companies in Hong Kong will see the number of their employees stationed in or travelling to the city for short or extended assignment likewise grow rapidly. Consequently, demand for mid-market hotels, guest houses, serviced apartment and furnished flats for lease as well as millennial targeted co-living facilities will increase.

Across different hotel categories, medium tariff hotels have the strongest correlation with the growth of Chinese tourists. After years of decline in RevPAR, it has started to pick up again since H2 2016 as Chinese tourist arrivals started to recover.

We expect mid-range hotels to offer better investment returns. In the H1 2017, we have seen nine mid-range hotel investment transactions for a total amount of HKD11 billion (USD1.4 billion) which indicates a strong interest in the hotel market by local investors.
Residential: buyers from GBA will keep the market tight

As mentioned in the previous session, Guangdong Province has been leading China in terms of the number of newly rich class, due to its dynamic private sector economy. While the manufacturing sector has helped create plenty of successful entrepreneurs in the last 30 years, we expect most of the new rich will come from the hi-tech and innovation sectors in the future.

With an improved start-up ecosystem, the size of the novel rich class from the high-tech and innovative industry will grow quickly within GBA. Historically, the number of HNWIs in Guangdong Province has been increasing at 10% per annum in the last decade. We anticipate this trend to continue, consequently leading to the emergence of another one million HNWIs by 2030.

Although the US, Canada and Australia have been more popular for overseas real estate investment by Chinese, Hong Kong’s residential market has also attracted many property buyers from the GBA region as they have strong family and business connections in Hong Kong.

We foresee that many of these future HNWIs from GBA will invest in Hong Kong properties. If half of the 24% of HNWIs who expressed interest in overseas properties in the CMB-Bain Co report, decides to acquire Hong Kong properties, an additional demand of 120,000 units in the next 13 years will be generated. This will further stretch the local housing market as the estimated average annual supply will only be around 20,000 units per year.

Large property development in urban core area with convenient access to MTR stations and better facilities will be popular among GBA buyers. We expect Kai Tak and West Kowloon area to attract strong interest following the completion of the Express Rail Link.

Unless Hong Kong can increase its new supply pipeline quickly, property price will keep rising with additional interest from other GBA cities. In the long term, Hong Kong could see housing prices growing at 10% p.a.
396 offices in 68 countries on 6 continents

United States: 153
Canada: 29
Latin America: 24
Asia Pacific: 79
EMEA: 111

$2.6 billion in annual revenue

2 billion square feet under management

15,000 professionals and staff

About Colliers International Group Inc.

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