Rosanna Tang
Head of Research |
Hong Kong SAR and Southern China
+852 2822 0514
rosanna.tang@colliers.com

Anthony Wong
Assistant Manager | Research |
Hong Kong SAR
+852 2822 0588
anthony.wong@colliers.com

MAINLAND CHINESE DEMAND CREATES OPPORTUNITY FOR HONG KONG SAR REAL ESTATE MARKET

Insights & Recommendations

There are early signs of mainland Chinese demand returning to Hong Kong SAR[1] in recent months, despite the slow market momentum overall.

We believe mainland firms and capital will continue to seek opportunities, becoming the next wave of demand in the Hong Kong leasing and investment markets, supported by China's resilient economy, cross-border financial initiatives in stock and wealth management, Hong Kong's large capital pool for fund-raising, and the longer-term vision of the Greater Bay Area development.

We recommend landlords pay attention to leasing enquiries from mainland firms, especially those in finance, fintech and insurance. We recommend investors watch out for Chinese capital looking for an end-user purchase or residential development.

Out of **1,541 regional headquarters*** in Hong Kong

216

are from China, an **increase of 125%** over the last decade.

6 sites

of **13 tendered** in the government land sale **since July 2019** were awarded to mainland Chinese developers, accounting for almost **60%** of the total.

11%

of Hong Kong **H1 2020 Grade A office leasing deals** were from Chinese firms. **65%** of those were in the **Banking & Finance** sector; while **almost half of deals** were in the **CBD.**

61%

of Hong Kong's **2019 cross-border property deals** were mainland Chinese acquirers, increasing to **98% in H1 2020** as overseas buyers stayed on the sidelines.

*2019. Source: Colliers International, RCA, Land Registry, Census and Statistics Department.

Despite most occupiers and investors staying largely cautious while uncertainties remain in Hong Kong, we see a relative pick-up of demand from Chinese institutions in both the leasing and investment market. China is showing one of the earliest economic recoveries from COVID-19, with its GDP bouncing positive to 3.2% YOY in Q2 2020 whilst other economies are still seeing negative growth. We expect China's economy will continue to improve in H2 2020, with a strong rebound of 7.9% YOY GDP growth in 2021**, supported by improving sentiment, better COVID-19 management and significant fiscal and monetary policy easing. This should provide support and foundation for a continued recovery of Chinese demand, with Hong Kong well positioned to benefit due to the deep economic ties, and tightly integrated industrial and technology supply chains.

[1]This report covers the Hong Kong Special Administrative Region of the People's Republic of China. **Oxford Economics.

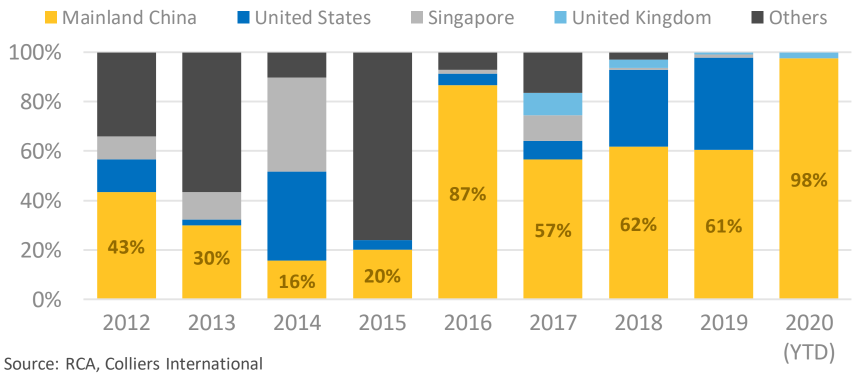
Colliers INTERNATIONAL

THE INVESTMENT MARKET

Mainland investors stay relatively active despite the slower investment market

The recent market uncertainties and rising economic risks have weighed on the sentiment in Hong Kong's investment market, with the transaction volume slowing by almost 70% YOY in H1 2020. However, we have observed increasing activity by mainland investors throughout this period. According to RCA, mainland Chinese investors Ping An Insurance and China Cinda were the top two buyers by total acquisition considerations in the Hong Kong over the last 12 months*. Amongst the cross-border deals into Hong Kong, the proportion from mainland China has increased from the 61% in 2019 to 98% in 2020 YTD* (see Figure 1) while overseas investors stayed largely muted. We recommend investors looking to sell should pay attention to mainland Chinese capital, as we see more enquiries from mainland investors looking for end-user purchase or private residential sites development opportunities.

Figure 1: Cross-border investment transactions into Hong Kong



Source: RCA, Colliers International

Solid land tender appetite from PRC developers

Mainland developers have been more active in acquiring sites in the Hong Kong land sale market over the last year, while some local players' bidding prices become more conservative amid the uncertain market outlook. Despite the local demonstrations in the second half of 2019, of the thirteen government sites awarded in public land sale programme since July 2019, six of the sites (see Figure 2) were awarded to mainland companies (including sites awarded to consortiums that included mainland partners), accounting for almost 60% of the total considerations of sites tendered over the same period. This demonstrates the strong confidence of mainland developers on the longer-term prospects of the city.

Figure 2: Land sales awarded to Chinese developers (Jul 2019 – Jul 2020)

Date	Address	Sector	GFA (mil sq feet)	Land Price (HK$ bil)	Developer
Jul-20	Ma Wo Road, Tai Po	Residential	0.8	3.7	Vanke, Qingjian
Jul-20	Junction of Tsung Tau Ha Road & Kwei Tei Street, Sha Tin	Industrial	0.9	5.6	China Mobile
Jan-20	Castle Peak Bay, Area 48, Tuen Mun	Residential	0.6	3.5	Kaisa Group
Dec-19	135 Tai Hang Road	Residential	0.1	3.2	CITIC Pacific
Nov-19	Kai Tak Area 4A Site 2	Residential	1.2	16.0	China Overseas, K. Wah, Henderson, Wharf
Jul-19	Kai Tak Area 4A Site 1	Residential	1.1	12.7	China Overseas, K. Wah, Wheelock

Source: Colliers International, Land Registry, RCA and the government press releases.

Chinese capital also tapped into business acquisitions

The COVID-19 pandemic has led consumers to rely more on online shopping, and it also brings the Hong Kong retail market to refocus on local consumption. Retail sales in supermarkets demonstrated growth, going up 11% YOY in the first six months of 2020 while the overall market dropped 33%YOY. Against this backdrop, we observed the emergence of Chinese capital tapping into acquiring business in Hong Kong to capture the growth of local spending. For instance, Chinese e-commerce giant JD.com announced in late-July to invest USD$100 million in Li & Fung[2], a Hong Kong-based supply chain management firm. Meanwhile, a mainland conglomerate led by China Resources Capital Management is reportedly close to buying a majority stake in City'super, the high-end Hong Kong supermarket chain. The above acquisitions should support the growth of supermarket and e-commerce trade in Hong Kong, hence providing downstream benefit to logistics demand.

* Data as of 11 August 2020; Source: [2]Li & Fung Press Release [3]Bloomberg

THE LEASING MARKET

Growing number of regional headquarters from China

According to the government's data, the number of regional headquarters[4] in Hong Kong has been rising over the last decade, from 2009's 1,252 to 1,541 in 2019 (see Figure 3). Regional headquarters from China have expanded by 125% to 216 while those from the US slightly dropped by 4% from 289 to 278 over the same period. This demonstrated the ongoing growth of Chinese firms in the city. We believe this trend will remain in the foreseeable future with Hong Kong as a key financial hub for China.

New financial initiatives to simulate Chinese demand

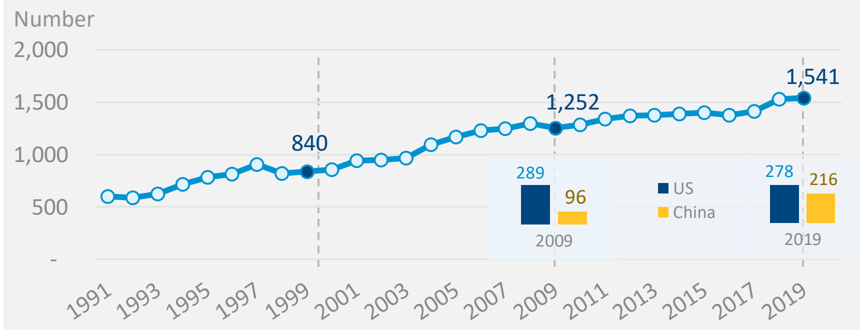
Over the last few years, different cross-boundary financial initiatives were set up between Hong Kong and mainland China under the bigger picture of the Greater Bay Area (GBA) development, including the Stock Connect in 2014[5], Bond Connect in 2017[6], the recently announced Wealth Management Connect[7], and a potential future Insurance Connect. These allow Hong Kong and mainland investors to trade in each other's markets, stimulating business and capital flows. We expect these initiatives to draw more mainland firms to set up or raise funds in Hong Kong, which should support the office demand over the next three years. We recommend landlords pay attention to leasing enquiries from mainland firms, especially those in finance, fintech and the insurance sector, that are benefitting from the abovementioned initiatives .

11% of H1 2020 leasing deals by mainland firms

Despite leasing momentum turning quiet in 2019, there are signs of returning Chinese demand. In H1 2020, we estimate mainland firms accounted for 11% of the Grade A office leasing deals in Hong Kong. Amongst these transactions, 65% were from banking and finance occupiers while almost half of these deals were focused on CBD locations (see Figure 5). Landlords in Central should look for the return of mainland demand, as the CBD area remains a favorable location for Chinese firms, especially SOEs[8]. However, with more Chinese fintech, technology, media, and telecom (TMT) and insurance firms arriving Hong Kong, we believe decentralized locations are also attractive for back office or less pressing client-facing departments.

[4]A regional headquarters is the Hong Kong office of an overseas parent company with managerial control over regional operations. [5] HKEX [6]Bond Connect [7] HKMA [8] SOEs stands for state-owned enterprises.

Figure 3: Number of regional headquarters in Hong Kong

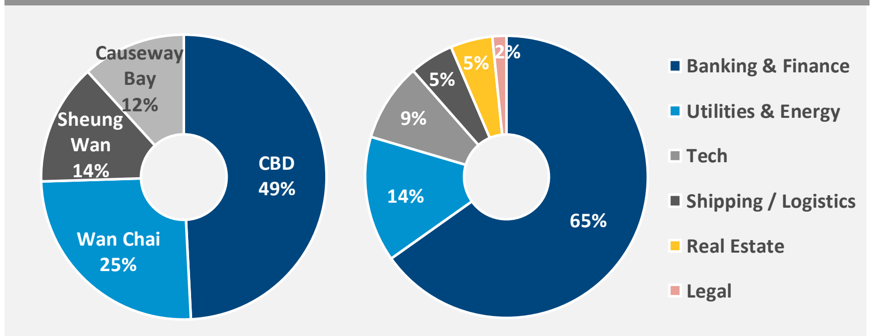


Source: Census and Statistics Department; Note: Figures refer to the first workday of June each year.

Figure 4: New financial initiatives between mainland China & Hong Kong

Source: Colliers International

Figure 5: H1 2020 leasing deals from PRC firms by location and sector



Source: Colliers International

Primary Authors:

Rosanna Tang
Head of Research | Hong Kong SAR and Southern China
+852 2822 0514
rosanna.tang@colliers.com

Anthony Wong
Assistant Manager | Research | Hong Kong SAR
+852 2822 0588
anthony.wong@colliers.com

For further information, please contact:

Nigel Smith
Managing Director | Hong Kong SAR
+852 2822 0508
nigel.smith@colliers.com

Antonio Wu
Deputy Managing Director| Capital Markets | Hong Kong SAR
+852 2822 0733
Antonio.Wu@colliers.com

Fiona Ngan
Head of Office Services | Hong Kong SAR
+852 2822 0751
fiona.ngan@colliers.com

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter or LinkedIn