Investment appetite remains positive despite the local market turbulence
Most Hong Kong*-based investors demonstrate a positive investment appetite, despite the challenges in the local investment market. We expect the next 12 months will be a buyers’ market as investors look for discounted prices amid likely longer negotiations to close a deal. 71% and 89% of the investors are looking to deploy capital within and outside of Hong Kong, respectively, over the next 12 months. Within the Greater Bay Area (GBA), Shenzhen, which has been promoted by the Chinese government as a model city, captured the most investment interest (57%), while London, Shanghai and Singapore are the most popular markets for investments further afield.

Investors have exhibited more caution with 73% indicating that they are “unlikely” or “not at all likely” to take on more risk. However, most (57%) are still seeking opportunities with higher returns through a value-add strategy while yields remain low across different sectors in Hong Kong.

We recommend CBD strata-titled offices, which will likely see discount prices in 2020 yet carry a high upside potential. Investors can also ride on the resumed Revitalisation 2.0 scheme to pinpoint industrial asset enhancement opportunities.

After experiencing years of strong rental and capital value growth, the Hong Kong property market should be prepared to see these values decline in light of the economic slowdown and recent continuing demonstrations. While investors’ appetite remains positive towards purchasing real estate in 2020, investors have exhibited caution in general and are unlikely to take on more risks.

Investors are still keen to purchase real estate in Hong Kong. However, it is becoming harder to source decent deals locally whilst prices remain high amid the current low yield investment environment. Meanwhile, investors are more open for outbound investment opportunities, including Tier-1 cities in mainland China and other global gateway markets with higher yield returns or upside potential.

Whilst office properties remain the most preferred asset type for investment, investors have shown increasing interest in development projects, possibly to leverage on the current downcycle in Hong Kong to replenish their landbank with a relatively cheaper acquisition cost, in order to capture the potential price growth in next market rebound.

**Summary & Recommendations**

<table>
<thead>
<tr>
<th>68%</th>
<th>57%</th>
</tr>
</thead>
<tbody>
<tr>
<td>of respondents think political instability is the most important factor influencing Hong Kong’s property outlook in the next 12 months</td>
<td>of respondents indicate that they will focus on value-add investment strategies in 2020</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>89%</th>
<th>49%</th>
</tr>
</thead>
<tbody>
<tr>
<td>of respondents indicate that they will invest outside of Hong Kong in the next 12 months</td>
<td>of respondents expect to increase their GBA investments in the next three years</td>
</tr>
</tbody>
</table>

*Hong Kong Special Administrative Region of the People’s Republic of China
Colliers’ Recommendations

HONG KONG

• On the back of the recent continuing demonstrations and global uncertainties, business sentiment and economic growth have weakened. Whilst the property market is entering a post-peak phase, despite the positive investor appetite, we expect the next 12 months to be a buyers’ market in Hong Kong, with investors looking for assets with discounted prices, which will likely have longer negotiation periods.

• We recommend strata-title offices in the CBD as one of the most attractive investment assets in the next 12 months. While we forecast office prices and rents to decline within the CBD area in 2020, this should provide a windows of opportunity for investors to gain exposure in the strata-title office space with discounted prices compare to previous years. Whilst supply will likely be limited in core locations, CBD office prices should rebound quickly once the market picks up again.

• Industrial properties, on the other hand, are suitable for value-add or opportunistic investment strategies, which are popular among investors as discussed on page 9. Investors should ride the new measures on industrial buildings provided by the Revitalisation 2.0 scheme, to look out for asset enhancement, refurbishment or redevelopment angles.

THE GREATER BAY AREA (GBA)

• Colliers previous report Great Bay Area: A 2030 Outlook, suggested that the office and logistics sectors will be the two key sectors benefiting from the economic growth of the GBA over the next decade.

• Institutional investors with longer investment horizons should explore opportunities to gain exposure to Grade A office spaces and business parks in Shenzhen and Guangzhou, especially those in the emerging submarkets or locations nearby key transportation hubs, which have a higher upside potential over the long term.
% of investors looking to invest in Hong Kong & ex-Hong Kong in the next 12 months

**HONG KONG**
- **YES** 71%
- **NO** 29%

**OUTBOUND**
- **YES** 57%
- **NO** 43%

Key factors which affect the Hong Kong property outlook over the next 12 months

1. Political instability in Hong Kong
2. US-China trade war
3. Capital controls in Mainland China
4. US Presidential Election
5. Brexit

Asset focus in the next 12 months*

1. En-bloc Office
   - 55% of respondents
2. Development
   - 44% of respondents
3. Land
   - 31% of respondents
4. Industrial and Logistics
   - 27% of respondents
5. Neighbourhood Mall
   - 24% of respondents

2020 investment focus in Hong Kong*

- **Value-add** 57%
- **Core-plus** 37%
- **Opportunistic** 37%
- **Core** 27%

Investors’ target sector by GBA location*

- **Guangzhou** 43%, Office (25%)
- **Dongguan** 23%, Logistics (14%)
- **Shenzhen** 57%, Office (35%)
- **Zhuhai** 25%, Residential Land (10%)
- **Macau** 22%, Retail (9%)

**% of investors looking to invest in Hong Kong & ex-Hong Kong in the next 12 months**

**Asset focus in the next 12 months**

**Investors’ target sector by GBA location**

*Respondents are allowed multiple selections. This is responsible for totals not adding up to 100%.*
We are delighted to share the results of our third Hong Kong Annual Investor Survey Report, which consolidates a forward-looking view on how Hong Kong-based investors see the investment market, how they position themselves, and their portfolio changes and investment strategies in 2020.

Survey responses were accepted from 15 October 2019 to 10 November 2019, which captured the latest investment market sentiment a few months after the continuing demonstrations broke out in June 2019.

This year’s survey received a pool of 79 respondents mainly from developers, REITS, private funds and family offices based in Hong Kong. Most of the responses were received through an online survey. We also had the privilege of conducting one-on-one interviews with key investors for more in-depth conversations to understand their perspectives towards the current market situation.

We would like to take this opportunity to express our gratitude to all participants for their contributions.
LOCAL TENSION

The most important factor to Hong Kong’s investment market in 2020

Investors identified “political instability in Hong Kong” as the most important factor for the Hong Kong investment market in 2020. According to RCA, transactions for commercial assets above HKD100 million (USD12.8 million) fell by 69% from HKD47.2 billion (USD6.1 billion) in Q2 2019 to HKD14.9 billion (USD1.9 billion) in Q3 2019. The decline could be attributed to the widely weakened investment sentiment since the continuing demonstrations started to escalate in June 2019.

“Global economic slowdown” was ranked as the top concern for the global investment market in 2020. In fact, some research institutions, including the IMF\(^1\) and Oxford Economics\(^2\), have adjusted downwards their global GDP forecast for 2020, given the higher downside risks in the key global markets.

Meanwhile, the “US-China trade war” was ranked as the second most important factor affecting both the local and global market in the next 12 months. The prolonged trade tension with no immediate resolution in sight, coupled with the US presidential election in November 2020 have added another layer of uncertainty for investors.

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\(^1\) World Economic Outlook \(^2\) Oxford Economics World Economic Prospects Monthly
LOCAL & OUTBOUND INVESTMENT

Appetite remains positive

Despite the turbulence and uncertainty in the local market, this has not stopped Hong Kong-based investors’ appetites for both local and outbound investments. Our survey results found that, 71% and 89% of respondents indicated that they are looking to deploy capital in Hong Kong and outside of Hong Kong, respectively, over the next 12 months. Meanwhile, 38% of respondents indicated that they are likely to be “net buyer[s]”, compared to only 17% identifying themselves as “net seller[s]”, reflecting most investors lack of urgency to sell. Among different groups of investors, private equity funds (44%) demonstrated the strongest net buying position in 2020. Most private equity funds we interviewed who sit with abundant investment capital are waiting for the right opportunities to deploy their capital.

Colliers expects that investment transaction volumes in 2020 could still hinge on whether the continuing demonstrations will quiet down and whether sellers will be more negotiable on asking prices over the next 12 months. The current relatively low transaction volume and liquidity in the Hong Kong investment market also reflects the existing expectation gap of property prices between buyers and sellers. Sellers are dug-in on their asking prices and buyers are expecting larger concessions.

Percent of respondents indicating their expected net change in property position over the next 12 months

<table>
<thead>
<tr>
<th>Category</th>
<th>Net buyer</th>
<th>Constant</th>
<th>Net seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity Funds</td>
<td>44%</td>
<td>53%</td>
<td>48%</td>
</tr>
<tr>
<td>Property Company (e.g. Listed, Unlisted, REIT, Developer)</td>
<td>39%</td>
<td>8%</td>
<td>19%</td>
</tr>
<tr>
<td>Private Investor / Family Office / Family Trust</td>
<td>28%</td>
<td>28%</td>
<td>33%</td>
</tr>
</tbody>
</table>
DIVERGENT VIEW OF YIELD DIRECTION

Investors have divergent view, displaying more caution to avoid risk

46% of the investors expect investment yields in Hong Kong to increase over the next 12 months, while the other 37% believe yields will further decline, showing that investors have quite a divergent view on the yield direction. Meanwhile, investors have exhibited more caution, as 73% indicate that they are “unlikely” or “not at all likely to take on more risk”.

Among the investors expecting yields to expand, 84% indicated that they are “unlikely” or “not at all likely to take on more risks”, which may also reflect that some investors expect to see a bigger correction in prices than in rents in 2020, and hence adopting more caution in their investment decisions. During our interviews with investors, some sitting with abundant raised capital indicated that they will take advantage of the current market downturn and target distressed properties, which are usually available with a discount from the current market value.

Meanwhile, among the respondents who are “highly likely” or “likely to take on more risk”, 74% of them expect cap rates to either stay flat or compress in the next 12 months. This could possibly reflect that some investors have already priced-in the future rental or price correction in their investment model, in the view that the low interest rate environment will continue for the foreseeable future.

How likely are investors to take on more risks?

<table>
<thead>
<tr>
<th>How likely</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly likely to take on more risk</td>
<td>9%</td>
</tr>
<tr>
<td>Likely to take on more risk</td>
<td>19%</td>
</tr>
<tr>
<td>Unlikely to take on more risk</td>
<td>66%</td>
</tr>
<tr>
<td>Not at all likely to take on more</td>
<td>7%</td>
</tr>
</tbody>
</table>

Of which, 74% of respondents expect cap rates to either stay flat or decline in 2020.
VALUE-ADD

Top investment strategy in 2020

“Value-add” has become the most popular investment strategy among Hong Kong-based investors (57%), while the balance of respondents opted for “core-plus” or “opportunistic”. This reflects investors’ intention to search for properties with higher returns, while property yields across sectors in Hong Kong have been gradually compressing to their current low level since 2001. Investors eyeing these strategies will likely capitalise on it through tenancy or asset enhancement.

Traditionally, core assets used to be highly sought after by investors due to their high liquidity and relatively stable income stream. However, the low-yield return and strong growth of the already-high property prices over the last few years across different sectors in Hong Kong have set a high bar to affording core assets, making it challenging for investors to hunt for trophy assets at the right price.

Meanwhile, investors also demonstrated a solid appetite for “development” opportunities (36%), which usually take longer to see returns, suggesting that investors are still confident of Hong Kong’s long-term prospects despite the continuing demonstrations in recent months.

*Respondents are allowed multiple selections. This is responsible for totals not adding up to 100%.
OFFICES PREFERRED

Development projects and land attract more attention amid the market downturn

In the next 12 months, 55% of respondents intend to focus on “en-bloc office” properties, which are usually regarded as safer assets and popular for investments due to their income-generating ability and high liquidity. However, the sticky asking prices and lack of availability of quality stock may limit the number of transactions of this property type taking place in core submarkets, whereas strata-title office sales are more active. We believe that en-bloc office investment opportunities in decentralised locations, including Island East and Kowloon East, should receive more attention from investors due to the improving connectivity, more options and a greater upside potential.

“Development” projects and “land” have become more attractive to investors, with 44% and 31% of respondents, respectfully, having chosen these asset types to focus on the next 12 months. Whilst the Hong Kong property market is entering a consolidation phase, investors could replenish their landbank and future project pipeline with relatively reasonable acquisition costs compared to the previous peak level, which would allow them to better position themselves to capture the next market upcycle when these projects begin being completed in the next few years. The new relaxed lending policy announced in the government’s latest policy address also helped put a more positive spin on the residential development market. Developers have shown their interest in industrial and logistics properties, which benefit from the strong growth of the demand from e-commerce and data centres.

* Respondents are allowed multiple selections. This is responsible for totals not adding up to 100%.
**SHENZHEN – MOST POPULAR GBA CITY**

Shenzhen remains the most popular GBA city for Hong Kong investors

The GBA* has raised investors interest after the Chinese Central Government released the Outline Development Plan for the GBA in February 2019. A total of 49% of investors indicate their desire to increase their investment in the GBA. Notably, 19% of investors indicate a desire to increase investments in the GBA except Hong Kong.

We are not surprised to see more investment interest going to Shenzhen (57%), as the Central Government indicated its plan to make Shenzhen a “model city” designed to offer outstanding competitiveness, high-quality growth and transformation to a world-influencing hub of innovation, entrepreneurship and creativity by 2035.

Logistics (38%), Residential Land (37%) and Offices (35%) are the three most popular assets in the mainland Chinese cities within the GBA. The GBA hosts three of world’s top 10 ports and handled over 74 million TEUs¹ of annual container throughput in 2018, supporting a strong demand for logistics properties. We expect the increasing flow of people and businesses within the GBA which to drive the demand for office and residential properties going forward.

**Greater Bay Area cities and property sectors by respondents’ interest**

<table>
<thead>
<tr>
<th>District</th>
<th>Top sectors - 1</th>
<th>Top sectors - 2</th>
<th>Top sectors - 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shenzhen</td>
<td>Office (35%)</td>
<td>Residential Land (22%)</td>
<td>Retail (20%)</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Office (25%)</td>
<td>Residential Land (16%)</td>
<td>Retail (16%)</td>
</tr>
<tr>
<td>Zhuhai</td>
<td>Residential Land (10%)</td>
<td>Office (9%)</td>
<td>Retail (6%)</td>
</tr>
<tr>
<td>Dongguan</td>
<td>Logistics (14%)</td>
<td>Retail (5%)</td>
<td>Residential Land (5%)</td>
</tr>
<tr>
<td>Macau</td>
<td>Retail (9%)</td>
<td>Residential Land (8%)</td>
<td>Hospitality (6%)</td>
</tr>
</tbody>
</table>

*Survey options on this page only include choices for mainland cites in the GBA, hence excluding Hong Kong SAR and Macau SAR. ** Respondents are allowed multiple selections. This is responsible for totals not adding up to 100%. ¹ Port of Hong Kong in figures 2019, Marine Department of HKSAR. TEU stands for twenty-foot equivalent unit, which is about 33 cubic metres or 1,120 cubic feet.
2020 GLOBAL INVESTMENT MARKET OUTLOOK

INVESTORS’ VIEW

The outbound investment intention for Hong Kong investors remains strong (89%). Despite the uncertainties due to Brexit, results show that London (40%) is the most attractive destination for outbound investment. Investors remain positive with an eye on the city’s long-term prospects.

Shanghai (37%) and Singapore (37%), being the major gateway cities in Asia, remain the most popular destinations within Asia Pacific. Singapore would serve as an alternative safe haven for investors looking to diversify their investment portfolios amid growing uncertainties in Hong Kong and a slowing economy in China.

China’s proximity makes it one of the most important outbound investment destinations for Hong Kong investors. Shanghai, which has become increasingly important to multinational companies, should remain the most popular Chinese city for investment, while the GBA is increasingly hard to ignore. Investors will most likely put their first bets on Tier-1 cities such as Shenzhen and Guangzhou, while starting to study opportunities lying in Tier-2 cities.

Amid the continuing demonstrations in Hong Kong, some investors may start to consider Singapore and the GBA as alternative cities for parking their money. Half of the investors (49%) expect the investment volume in the GBA to rise in 2020 given the boost of interest stimulated by the government, while transaction volumes in Singapore should be driven up by strong investment interest.

% of respondents indicating each city’s investment volumes movement in 2020

<table>
<thead>
<tr>
<th>City</th>
<th>Increasing</th>
<th>Decreasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>32%</td>
<td>7%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>24%</td>
<td>13%</td>
</tr>
<tr>
<td>Singapore</td>
<td>46%</td>
<td>4%</td>
</tr>
<tr>
<td>GBA (excl.HK)</td>
<td>49%</td>
<td>6%</td>
</tr>
<tr>
<td>Tokyo</td>
<td>34%</td>
<td>0%</td>
</tr>
<tr>
<td>Beijing</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Sydney</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Seoul</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Toronto</td>
<td>9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Top investment destinations:

- London
- Shanghai
- Singapore
- GBA (excl.HK)
- Tokyo
- Beijing
- Melbourne
- Sydney
- Seoul
- Toronto

% of respondents

- Top five investment destinations by percentage of respondents:
  - London 40%
  - Shanghai 37%
  - Singapore 37%
  - GBA 32%
  - Tokyo 31%
  - Beijing 29%
  - Melbourne 24%
  - Sydney 24%
  - Seoul 13%
  - Toronto 5%
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