

PRICE EXPECTATION GAP HOLDS BACK INVESTMENT TRANSACTIONS

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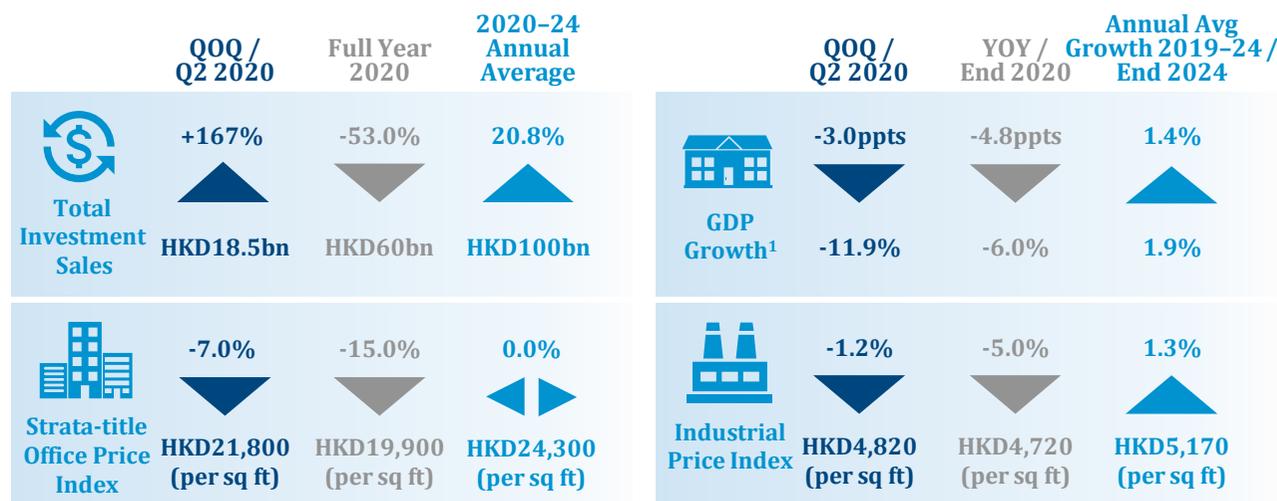
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Insights/recommendations

- > We expect transaction volume to remain relatively low in H2, although a rise from the low-base of H1 is a possibility. A large bid-ask spread is likely to remain a key hurdle, but we expect the gap to narrow towards the end of 2020.
- > We recommend investors to explore acquisition opportunities in neighborhood malls and hospitality assets, given the possibility of more attractive pricing.

Q2 2020 highlights

- > Hong Kong investment sales picked up from the low base of last quarter to HKD18.5bn (USD2.4bn) yet remained 68% lower than the same quarter last year.
- > Local investors were relatively active in looking for potential assets, especially those offered with substantial price discounts from asking price.



Property yields² (As of April 2020)



Grade A Office
3.1%



Industrial
2.9%

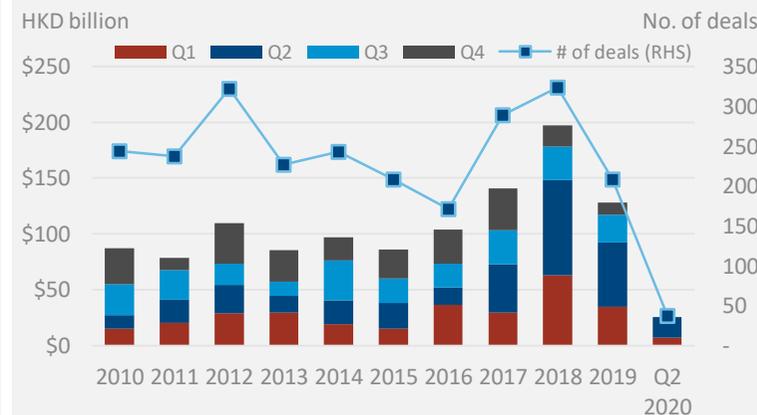


Retail
2.6%



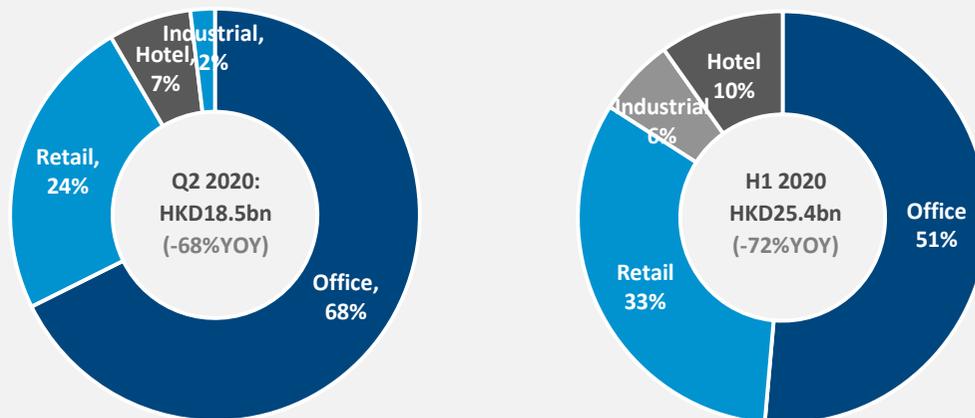
Residential (Class A)
2.4%

Property investment transactions above HKD100 mil (2010 – Q2 2020)



Source: Colliers International, RCA. This report covers the Hong Kong Special Administrative Region of the People's Republic of China. ¹ Source: Oxford Economics. ² Hong Kong Rating & Valuation Department. Note: 1 sq metre = 10.76 sq feet. USD1 = HKD7.8. Investment transactions in this report include completed deals in the office, retail, industrial and hotel sectors with deal size of HKD100 million and above.

Investment transactions by sector – Q2 2020 and H1 2020



Source: Colliers International, RCA

Investment volume by sector

	Q2 2020 (HKD mil)	% Change QOQ	% Change YOY
Office	12,521	2,193%	-69%
Retail	4,415	14%	-16%
Hotel	1,210	246%	-65%
Industrial	358	-83%	-95%
Total	18,504	167%	-68%

Source: Colliers International, RCA

Price expectation mismatch between buyers and sellers is a key factor holding back transactions



Outlook

- > Although the bid-ask pricing gap may narrow as the year progresses, we expect it to remain in place for rest of the year. We expect investors to conduct more stringent due-diligence, and for banks to be more conservative on lending. Both factors may contribute to longer negotiation periods. Overall, sellers have strong holding power, while buyers are looking for distressed assets with discounts. Given the low number of transactions recorded in H1, we expect to see some increases in H2 alongside a partial restoration of stability in the market.
- > The current market presents investors with an opportunity to explore retail and hospitality assets at more attractive pricing levels, given that tourist arrivals were largely muted during the last few months during the city lockdown, suppressing retail sales. Meanwhile, owners with aging properties may consider renovation or repositioning of their assets for value-added purposes.



Q2 2020

Investment activity was led by local-based investors and developers

- > Despite the ongoing travel restrictions and a weakening economy, investment sentiment improved slightly from the more sluggish first quarter. Total investment transaction volume increased by 167% QOQ to HKD18.5bn (USD2.4bn), although it is still 68% down compared to the same quarter last year.
- > While local investors remained key players in the investment market, some developers opted to dispose of their assets in Q2 to recycle their capital into other upcoming developments. Examples include the sale of two non-core assets by New World¹, as well as the disposal of a 30% stake in the office space atop the XRL² site by Sun Hung Kai and the Kwok family³.

¹ Source: <https://www.nwd.com.hk/content/new-world-group-hits-hk10-billion-non-core-asset-disposals> ² XRL stands for Express Rail Link

³ Source: <https://www.shkp.com/en-US/media/press-releases/ping-an-life-to-become-the-second-long-term-strategic-investor-in-shkps>

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