

HONG KONG

Capital Markets Q2 2024

11.4B¹
YTD Investment Volume (HKD) **-42.7%**

11,660
Office Capital Value (HKD/sf) **-11.9%**

2.7%
Office Gross Yield **+19bps**

Source: Cushman & Wakefield Research
¹ Data as of 30 Jun 2024

ECONOMIC INDICATORS
Q2 2024

2.7%
GDP growth
(Q1 2024) **▲** **▲**

1.2%
CPI growth²
(May 2024) **▲** **▲**

4.36%
10-year government
bond rate (U.S.)
(June 2024) **▲** **▼**

Source: Hong Kong Census and Statistics Department;
 U.S. Department of Treasury; Moody's Analytics
² Composite CPI, non-seasonally adjusted

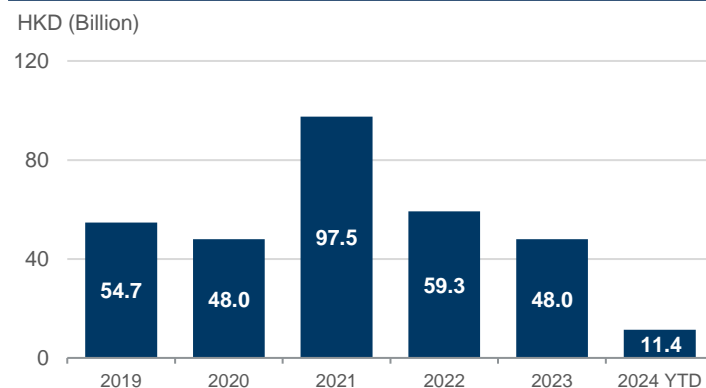
Strata-Titled Office Transactions Relatively Active in the CBD, Investment Sentiment Remains Cautious

The persistent high-rate environment and high borrowing costs continued to dampen overall investment sentiment in Q2 2024. Total large-sized (>HK\$100 million) non-residential investment volume in the quarter recorded HK\$4.6 billion¹, a drop of 32.4% q-o-q and 42.5% y-o-y, respectively. Amid high borrowing rates, landlords continued to offload non-core assets from their portfolios to reduce liabilities and interest payments. Some have been more willing to offer greater discounts on asking prices, or to sell at a loss, leading to price corrections across sectors. The Q2 2024 investment market was dominated by transactions with smaller ticket sizes, with just one out of nineteen deals recorded at above HK\$1 billion.

Among all asset sectors, nine office transactions accounted for 65% of the total investment volume in Q2. During the quarter, Lai Sun Development sold its 10% stake in AIA Central, a prime office tower in Central, to AIA Group for more than HK\$1.4 billion, with the insurance giant now taking full ownership of its headquarters in Hong Kong. Other notable strata-titled office transactions included a full floor at 9 Queen's Road Central sold at HK\$310 million, two full floors at the Bank of America Tower transacted at HK\$260 million and HK\$250 million respectively, and a full floor at Capital Tower sold at HK\$160. KaiLong also disposed of the 58 Wing Lok Street en-bloc office building in Sheung Wan for approximately HK\$200 million. Most of these office properties are located in the core business district of Greater Central, and the corrected property prices have made this sector attractive to end-users and investors looking to bargain-hunt.

In the retail sector, six transactions comprised 18% of total Q2 consideration. Investors have been attracted by the more affordable pricing with stable returns and rental income of retail assets serving community needs. A portfolio of shops at Tsuen Wan Centre Phase II Shopping Centre was sold at HK\$200 million, while a local investor acquired the retail podium of The Austine Place in Jordan for nearly HK\$149 million. On high streets, a store at Haiphong Road in Tsim Sha Tsui was transacted for HK\$130 million.

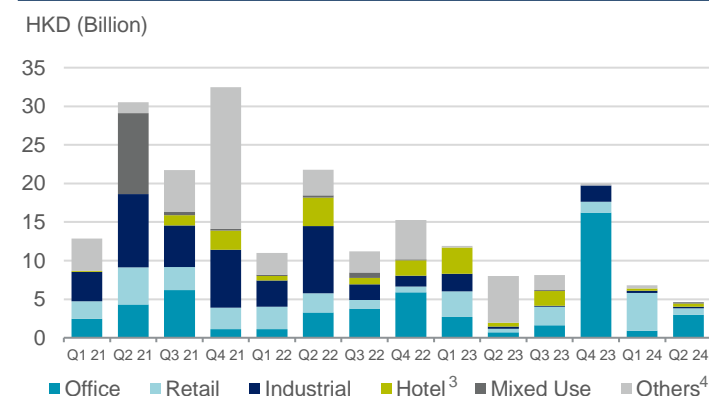
OVERALL INVESTMENT VOLUME



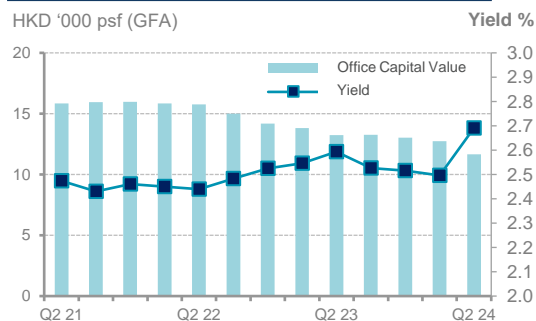
Source: EPRC; Media articles; HKEx; Cushman & Wakefield Research

³ "Hotel" category includes investment for co-living and rental apartments; ⁴ "Others" category covers carparks and private sites for development or conversion purpose.

INVESTMENT VOLUME BY SECTOR



Office Capital Value and Gross Yield



Source: Cushman & Wakefield Research

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Two hotel sector transaction were concluded during the quarter, representing 9% of the Q2 total consideration. The en-bloc Hotel Ease Access • Lai Chi Kok was bought by Crystal Group at HK\$220 million. With the comprehensive refurbishment and renovation of the 119-key hotel completed in 2022, the buyer is expected to be able to commence operations with relatively limited additional renovation costs. An en-bloc serviced apartment, CHI 120 in Sai Ying Pun, was also transacted in Q2, at a price of HK\$188 million, showcasing investors' confidence on the rental housing market.

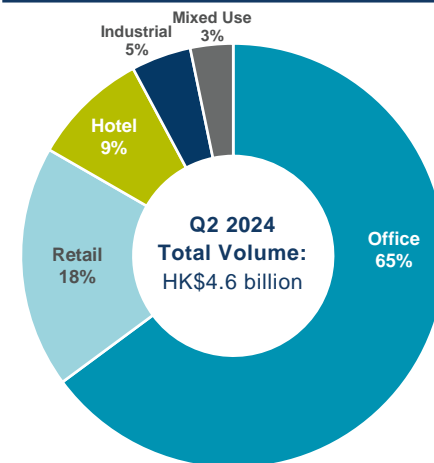
The industrial sector remained relatively quiet in Q2, accounting for 5% of the total investment transaction volume. The sole deal was a whole floor at Gemstar Tower in Hung Hom purchased by a local personal care chain at HK\$210 million, which is expected to serve as the retailer's self-use property.

Mixed-use assets with value-added conversion potential also continued to attract investors' interest. A local investor acquired the en-bloc Yiu Kei Mansion in Tsim Sha Tsui in Q2 for HK\$150 million. In the proximity of MTR stations and local universities, the investor may convert the property into serviced apartment or student housing, grabbing rental housing demand from young professionals working nearby and incoming non-local students.

Financing Costs to Remain High, Distress Sales to Be the Key Theme

As the U.S. Fed recently signaled it will keep interest rates steady and perhaps action just one cut in the remainder of the year, we expect financing costs for investors to remain high in the short-term. As a result, activity from foreign investors such as real estate funds is expected to remain quiet, and we believe the market will continue to be driven by end-users and capital-rich investors. Landlords with capital needs and heavy interest expenses are likely to be realistic and lower selling prices or even sell below cost, enabling end-users to bottom-fish in the rest of the year. With more assets waiting for sale in the market under the current high-rate environment, asset capital values are expected to remain under pressure for the remaining months of 2024.

Q2 2024 TRANSACTIONS BY SECTORS



Source: EPRC; Media articles; HKEx; Cushman & Wakefield Research

Q2 2024 KEY INVESTMENT TRANSACTIONS

| PROPERTY | LOCATION | PURCHASER | VENDOR | SECTOR | PRICE (HKD MN) |
|---|-------------|------------------|----------------------|--------|----------------|
| 10% Stake, AIA Central | Central | AIA | Lai Sun | Office | 1,422 |
| 29/F, 9 Queen's Road Central | Central | Local Investor | Private Investor | Office | 310 |
| 30/F, Bank of America Tower | Admiralty | Sino Group | ITC Properties Group | Office | 260 |
| 23/F, Bank of America Tower | Admiralty | Private Investor | Receivership | Office | 250 |
| Hotel Ease Access • Lai Chi Kok (En-bloc) | Lai Chi Kok | Crystal Group | Local Investor | Hotel | 220 |