

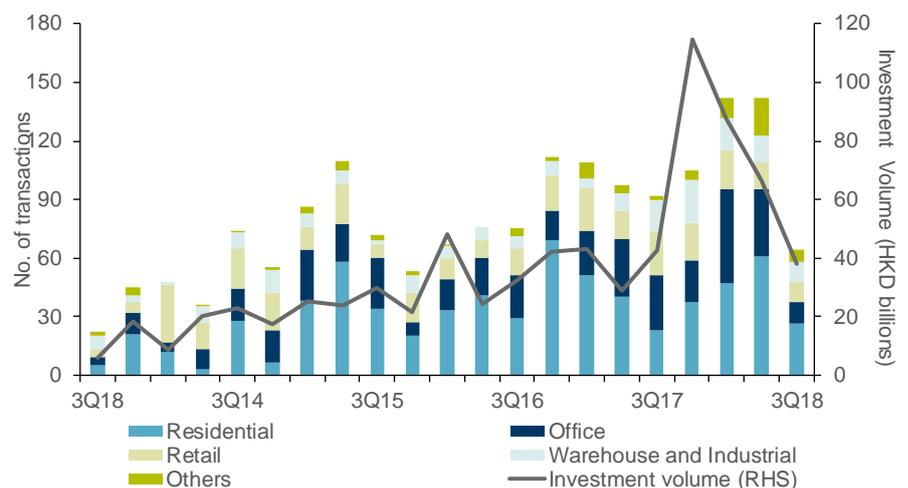


Market Highlights

- A lack of sizable en-bloc office transactions valued at above HKD100 million each this quarter dampened consideration in Hong Kong's investment market. Growing uncertainties arising from rising interest rates and ongoing U.S.-China trade tensions triggered a wait-and-see approach from some investors.
- The office sector recorded HKD6.03 billion of investment in Q3, roughly one fifth of the previous quarter.
- The weakened investment sentiment was also reflected in the demand for luxury residential properties, which recorded a total transaction volume of HKD 5.90 billion in 3Q, down 45% q-o-q.
- Despite U.S.-China trade tensions, investment activity in the industrial market surged in Q3, outpacing the five-year historical quarterly average by 89%.
- It is believed that the ongoing trade tensions will push more investors to the sidelines amid rising uncertainties. As long as the tensions do not worsen any further through the end of the year, transaction volume and consideration for the whole year are expected to reach, if not surpass, the record of 2017.

Figure 1

Number of Transactions Over HKD 100 million by Sector and Total Investment Volume (HKD billion)



Source: Cushman & Wakefield Research

Economic Overview

The economy maintained positive at 2.9% in Q3 2018 and unemployment rate remained low at 2.8%. However, the market is likely to be negatively impacted as a result of the US-China trade tension, which led to uncertainties in both the occupier and investment markets.

Office Market

The office sector recorded HKD6.03 billion of investment in Q3, roughly one fifth of the previous quarter. Office assets accounted for only 37% of volume, down from a 76% share in Q2. Notable en-bloc transactions included the sale of a Grade A office building at 8 Observatory Road in Greater Tsimshatsui. In the strata-titled office market, activity was relatively limited and concentrated in core areas. Greater Central accounted for 73% of strata-titled transaction consideration.

Industrial Market

A wave of transactions pushed up investment volume in the sector to HKD6.71 billion, outpacing the five-year historical quarterly average by 89%. Decreasing inventory and the potential reactivation of the government's industrial revitalization scheme contributed to investors' maintaining their interest in en-bloc industrial buildings, which accounted for 87% of total industrial investment this quarter. Most notably, Mee Wah Factory Building in San Po Kong was sold to a local real estate fund for HKD1.25 billion by Hanison Construction Holdings, which was able to book a 47% profit over a holding period of less than a month to a new buyer looking to redevelop the property. Domestic investors continued to make up the lion's share of investment, accounting for approximately 66% of consideration in the quarter.

Residential Market

The weakened investment sentiment was also reflected in the demand for luxury residential properties, which recorded a total transaction volume of HKD 5.90 billion in 3Q, down 45% q-o-q. Of this total, around 37% came from the sale of a handful of properties at Twelve Peaks on the Peak and Ultima in Homantin. The two transacted houses at Twelve Peaks fetched a combined consideration of HKD 1.23 billion, while Sun Hung Kai Properties sold four

units at Ultima for a combined consideration of almost HKD 1 billion.

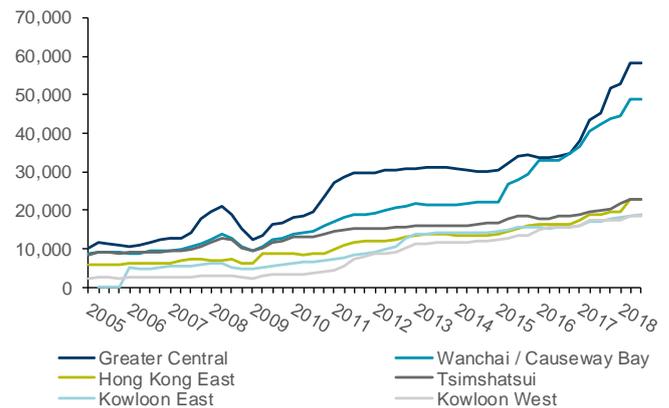
Table 1

STATS ON THE GO			
Economic Indicators			
	Q2 18	Q3 18	12-Month Forecast
GDP Growth	3.5%	2.9%*	▼
CPI Growth	2.4%	2.7%	▼
Unemployment Rate	2.8%	2.8%*	▲

Source: Census and Statistics Department **preliminary figure*

Figure 2

Grade A Office Capital Value (HKD/sf, NFA)



Source: Cushman & Wakefield Research

Figure 3

Residential Investment Volume (HKD million) and Number of Transactions above HKD 100 million



Source: Cushman & Wakefield Research

Outlook

It is believed that the ongoing trade tensions will push more investors to the sidelines amid rising uncertainties. As long as the tensions do not worsen any further through the end of the year, transaction volume and consideration for the whole year are expected to reach, if not surpass, the record of 2017. In the office sector, it is expected that Mainland Chinese investors and owner-occupiers to remain on the lookout for suitable properties in the city. It is understood at least one PRC corporate is in negotiations to purchase a recently completed Grade-A office building in Kowloon East. Industrial market remains optimistic in the near-term against limited availability, strong government policy support as well as the opening of the Hong Kong-Zhuhai-Macau Bridge. In the luxury residential sector, it is expected to see a price correction in 2019 if the current trade tensions escalate into a full-blown trade, given the strong economic ties between Hong Kong and Mainland. The slowdown in the Mainland economy will further dampen purchase sentiment and weigh on the home prices.

Table 2

Significant Investment Transactions, Q3 2018

PROPERTY	PURCHASER	VENDOR	SECTOR	PRICE(HK\$ BILLION)
8 Observatory Road	Treasure Ascend Global Limited	Lai Sun Development (50%) / Henderson Land (50%)	En-bloc Office	4.1
Mee Wah Factory Building	SPK MW Ltd	Hanison Construction Holdings Ltd	Industrial	1.3
Kwong Loong Tai Building	First Group Holdings	Others/Unknown	Industrial	1.3
Levertech Centre	Local Investor	Local Clothing Manufacturing Company	Industrial	1.2
1A, 1B, 1C and 2nd Floor, Lap Tak Building, 205-217 Lockhart Road, Wanchai, G/F, 1A and 2nd Floor, Wai Tak Building, 414-430 Causeway Bay	Local Investor (Tang Shing Bor)	Others/Unknown	Retail	0.9
Nob Hill Square	Winland Group	Others/Unknown	Retail	0.9

About Cushman & Wakefield

Cushman & Wakefield is a global leader in commercial real estate services, helping clients transform the way people work, shop and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms with revenues of \$5 billion across core services of agency leasing, asset services, capital markets, facility services (branded C&W Services), global occupier services, investment & asset management (branded DTZ Investors), tenant representation and valuation & advisory. To learn more, please visit www.cushmanwakefield.com or follow @Cushwake on Twitter.

Disclaimer

This report has been produced by Cushman & Wakefield for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield shall not be liable to any reader of this report or any third party in any way whatsoever. Cushman & Wakefield shall not be held responsible for and shall be released and held harmless from any decision made together with any risks associated with such decision in reliance upon any expression of opinion in the report. Our prior written consent is required before this report can be reproduced in whole or in part.