Hong Kong Property Market Edges toward the Peak

- *Office prices higher on the back of record sales of commercial sites*
- *New Office Districts Benefiting from Decentralisation*
- *Newer Retail Brands Taking Over First Tier Locations in Prime Shopping Areas*

Hong Kong, 12 July, 2017 – Colliers International (NASDAQ and TSX: CIGI) releases today its mid-year review of the Hong Kong property market. Hong Kong property prices have been increasing rapidly in the H1 2017 on the back of stronger than expected economic growth. Record commercial and residential land sale prices have fuelled the current streak of consecutive monthly price increases. For H2 2017, with ample monetary liquidity, negative real interest rates, a chronic supply shortage and active investment demand, Colliers believes prices will continue to grow but at a slower pace as potential buyers and sellers are searching for a new market equilibrium.

Office property prices have increased with YTD growth of 5.7%, 6.6% up on Hong Kong Island and 4.2% up in Kowloon. The new record price for Murray Road Car Park (HKD23.28 billion) and Kai Tak Area 1F Site 2 (HKD24.6 billion) in May 2017 have demonstrated local developers' confidence in the office market in the long run. We expect the new hike in office property prices to encourage landlords to put up more large office blocks for sale.

While PRC developers and investors have become more prudent since Q3 2016 after the introduction of capital outflow restrictions by the Chinese authorities, PRC developers' interest in residential sites remains strong. "Unless there is a change of course on capital outflow restrictions, it is unlikely that we will see large trophy building transactions involving Chinese corporates. On the other hand, Chinese developers' appetite for residential sites is growing further, and they have taken all five residential sites on the public tender list so far in 2017 for a total amount of HKD40.2 billion." Antonio Wu, Deputy Managing Director of Capital Markets and Investment Services said.

The focus of office leasing activities has shifted to emerging office districts as Central rents have exceeded their previous peak due to extremely low vacancy and strong demand from the PRC companies. "Compared to 2016, Wong Chuk Hang and Kowloon East have seen substantial net take-up, increased from 152,000 sq ft in 2016 to 253,000 sq ft in H1 2017 in Wong Chuk Hang, and another huge jump from -5,000 sq ft to 145,000 sq ft in Kowloon East. Moving forward, the completion of major office redevelopment in Quarry Bay will see pre-leasing activities picking up for the Island East market in H2 2017," Fiona Ngan, Head of Office Services claimed.

Tourist arrivals increased by 3.2% YOY during the first five months of 2017 while retail sales are stabilising. "New brands have taken advantage of lower rents at prime street shops by moving into Tier One locations which used to be occupied by traditional luxury brands. We noticed landlords are acting smart by accepting offers from lifestyle and novel brands that are in expansion mode," Cynthia Ng, Director of Retail Services said.

"Looking forward, we expect the overall H2 rental market will remain positive except for the retail sector. Strata-title office, retail podium and community shopping malls, and hotels will be more attractive to investors. Investment in completed buildings will be dominated by local investors as PRC investors are still subject to capital outflow restrictions," Daniel Shih, Director of Research said.

While the property market edges toward the peak, we do not anticipate a significant correction in prices under the current economic context. A mild price adjustment in the residential market is possible, but it should not change the direction of the current market.

2017 H1 Market Update & Whole Year Outlook

Rents			Capital Values		
	H1 2017	Whole Year		H1 2017	Whole Year
Office (HK Island)	+1.8%	+4%	Office (HK Island)	+6.6%	+10%
Office (Kowloon)	-0.7%	-5%	Office (Kowloon)	+4.2%	+5%
Retail (Prime street)	-2.9%	-5%	Retail (Prime street)	-10.0%	-15%
Industrial (Warehouse)	+1.3%	+5%	Industrial (Warehouse)	+4.0%	+6%
Industrial (Factory)	+3.5%	+5%	Industrial (Factory)	+4.6%	+6%
Residential (Mass)	+4.3	+7%	Residential (Mass)	+8.5%	+10%
Residential (Luxury)	+1.1	+2%	Residential (Luxury)	+3.2%	+5%

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