



Q2 2018: Hong Kong Commercial Property Monitor

Continued expansion in retail sentiment supports momentum

Q2 of 2018 brought a pickup in positive momentum in Hong Kong's commercial property market. This was underpinned by the continued recovery of the retail segment, with official data showing robust consumer spending thus far in 2018. Meanwhile, sentiment surrounding offices and industrial properties remained elevated, while fluctuations in HIBOR and concerns over valuations have not appeared to be significant headwinds as yet.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) rose to +23 in Q2 from +14 in Q1 (Chart 1), indicating an increase in occupier market momentum.
- Occupier demand rose across all market segments (office, industrial, retail) in Q2, led by demand for office space. What's more, Q2 was the first quarter in which respondents reported an increase in occupier demand for retail space since Q2 of 2013.
- Meanwhile, the supply of office and retail properties available to rent increased at a more modest pace in Q2, while that for industrial space has been flat since Q1. Landlord incentives remained unchanged for office and retail properties, but increased for retail space, with rent free periods the most popular type of inducement offered.
- Against this backdrop, respondents expect the biggest increase in rents (in net balance terms) since Q3 of 2011. This was largely driven by increased bullish sentiment surrounding retail and industrial properties.
- The outlook for rents over the next year was similarly bullish. As shown in Chart 6, headline rents are seen rising 4.4% over the next year after respondents forecast a 2.2% increase one quarter ago. Prime retail rents are seen rising 4.1% over this period, after respondents said they expected these to be unchanged in Q1.

Investment Market

- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) rose marginally to +23 in Q2 from +19 in Q1 (Chart 1), indicating sustained positive momentum in the investment market.
- The growth in headline investor demand picked up in Q2 compared Q1. Demand for office and industrial properties continued to increase at a robust pace, while contributors noted that demand for retail properties rose for the first time since Q4 of 2012.
- However, this was broadly driven by domestic investors, as foreign demand for retail assets was little changed from Q1, while foreign investment interest in Hong Kong office space increased for the eighth consecutive quarter.
- Headline supply increased only modestly in Q2, and was mostly attributable to a moderate increase in the supply of office properties available on the market. New development starts exhibited a similar trend, while an increase in retail starts was reported for the first time since Q2 of 2015.
- Respondents see capital values increasing over the next three and twelve months across all segments of the market. As shown by Chart 5, forecasts for prime office and industrial values over the next year were little changed from Q1, though both prime and secondary retail space saw significant upward revisions in Q2 (as did secondary industrial assets).
- Chart 4 indicates that valuations remain skewed towards being seen as expensive, with 66% of respondents saying valuations were above fair value and 41% saying that they were 'very expensive'. Perhaps unsurprisingly, 58% of respondents said that the market was at its peak in Q2, the second consecutive quarter this share exceeded 50%.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

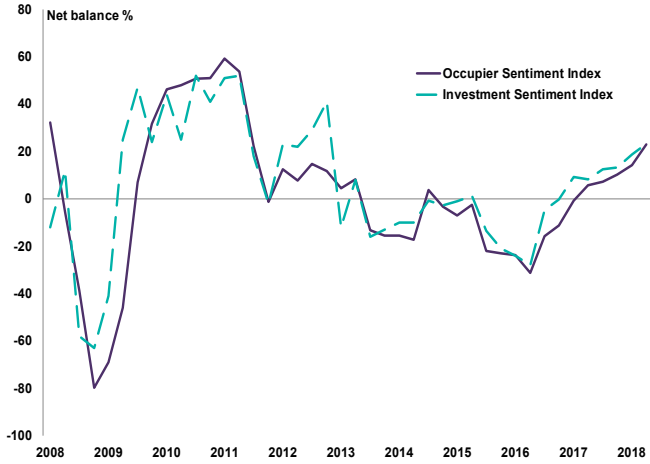


Chart 2: 3-month Rents, Capital Values

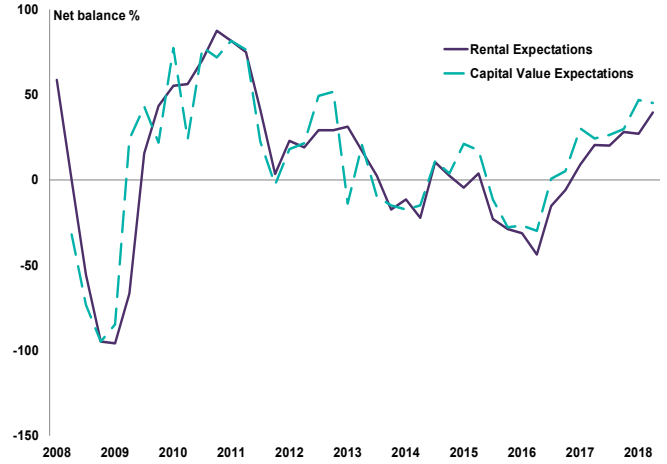


Chart 3: Credit Conditions

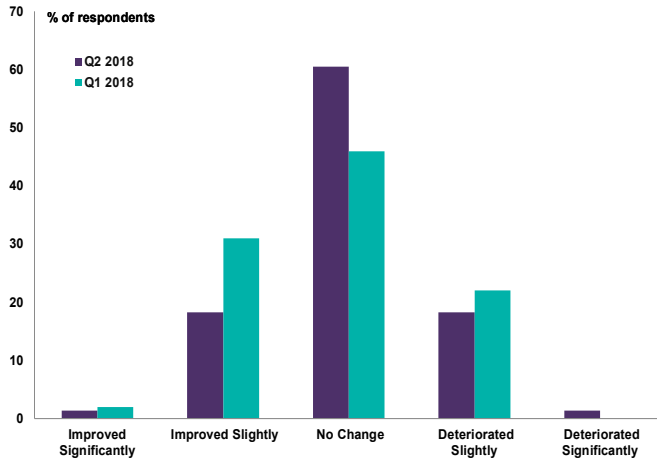


Chart 4: Valuations

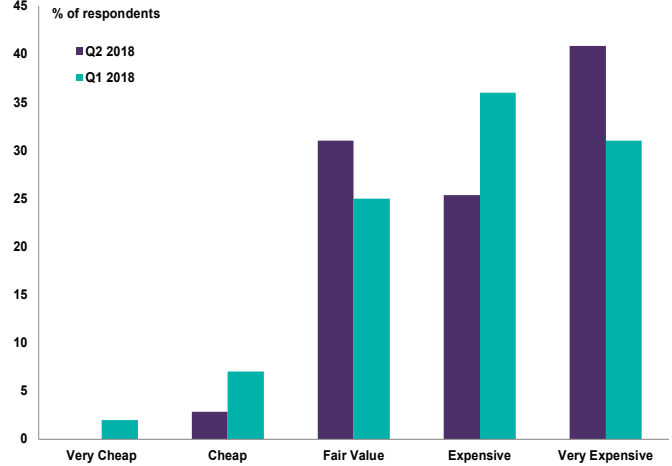


Chart 5: 12-month Capital Values Forecast

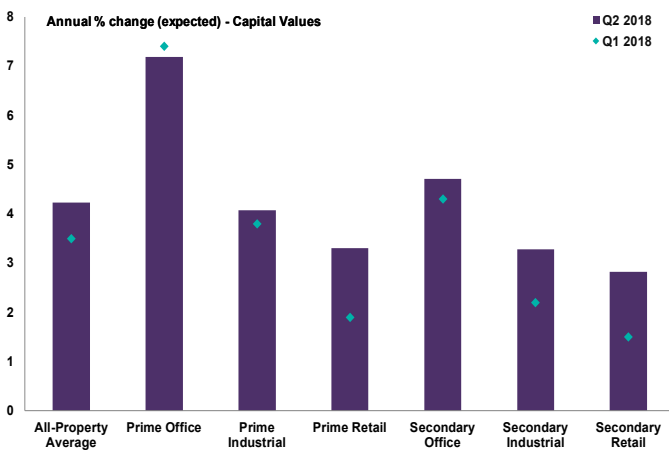
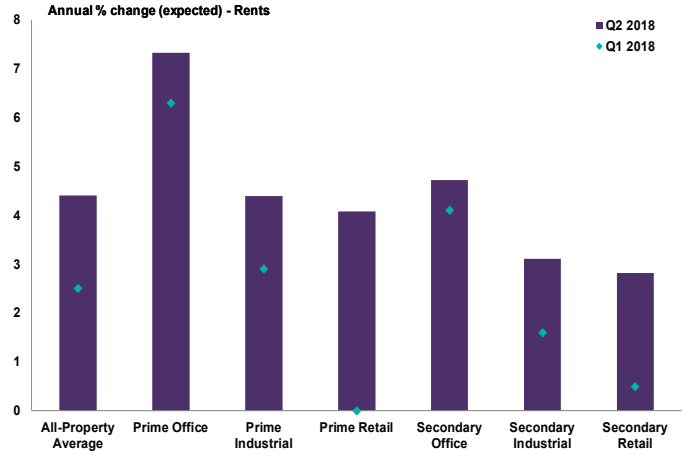


Chart 6: 12-month Rent Forecast



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 14 March 2018 with responses received until 11 April 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1748 company responses were received, with 385 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

Disclaimer

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot

accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0)20 7695 1675

kzehra@rics.org



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

f +971 4 427 2498

ricsmenea@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia

t +61 2 9216 2333

f +61 2 9232 5591

oceania@rics.org

North Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

ASEAN

10 Anson Road,
#27-16 International Plaza,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org

