Hong Kong Commercial Real Estate

VALUATION & ADVISORY SERVICES
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Snapshot

- The looming local spread of COVID-19 infection cases weighed heavily on the commercial real estate market and investor sentiment during the first two months of the year. The retail market and F&B sector hit the hardest as the government imposed several stringent epidemic-control measures and restrictions to combat the current COVID-19 situation, including the suspension of operation on certain premises and cessation of mass events.

- Amid the fifth wave of the epidemic, the government revealed four commercial sites are earmarked for tender in the next financial year, involving over 3.2 million sq. ft. of commercial GFA, less than last year's 5.1 million sq. ft. of developable GFA. However, the current high vacancy and a new supply boom may inhibit developers' demand for commercial sites in the short term.

- The tender for an industrial site (FSSTL245) at On Kui Street, Fanling was awarded to Chevalier International for HK$297.4 million, and the A.V. of HK$3,387 per sq. ft. was 3% below the lower end of the market pre-tender valuations. This plot only attracted three tenderers which marked the fewest tenderers in industrial land sales since 2011. It also marked 10% lower in terms of the A.V. per square footage compared with an industrial site (FSSTL 268) sold by the government in the same locality for HK$813 million (AV HK$3,750 per sq ft) to Mapletree Investments in January 2021.

- Meanwhile, the tender for an industrial site at the junction of Tsing Yi Road and Tsing Yi Hong Wan Road, Tsing Yi for logistics services purposes was cancelled by the government in February as it is now constructed as community isolation and treatment facilities.

Cap Rates

Office

Cap Rate: 2.5% – 3.5%^

Retail

Cap Rate: 2.8% – 4.0%^

Logistics

Cap Rate: 3.0% – 3.5%^

- Investors continued to seek opportunities in the industrial property sector as it remained the top-performing commercial real estate in short to medium term.

- Cap rate ranges for Grade-A office buildings and shopping malls remained largely stable, while cap rates for industrial assets with redevelopment potential may tender further compression.

- Sale and leaseback opportunities continued to emerge as corporations considered sale and leaseback deals to unlock cash flow.

^The indicative cap rate ranges are best estimates provided by CBRE valuers based on recent market evidence and trades. Cap rates within each subtype will vary, occasionally falling outside the stated ranges, based on asset location, quality and property specific opportunities for NOI enhancement. The office cap rate refers to Grade A office buildings; the retail cap rate refers to shopping malls and the logistics cap rate refers to institutional grade logistics/warehouse assets.

Land Sale

Among the two unsuccessful tender amounts submitted for the industrial site at On Kiu Street, Fanling, the highest bid was revealed at HK$119 million (A.V. HK$ 1,355 per sq. ft.), indicating a 60% difference from the winning bid at HK$297.4 million (A.V. HK$3,387 per sq. ft.).

Sales Market

For the first two months of 2022, the total commercial property sale transactions fell by 11.8% y-o-y to 2,722 registrations. While the total consideration of commercial property sale transactions dwindled by 55.1% y-o-y to HK$43.4 billion during the same review period.

Industrial Revitalisation

Under Section 16 Application, the Town Planning Board approved six redevelopment projects during the review period, including two sites in Kwun Tong; two sites in Kwai Chung; one in Tsuen Wan and one in Cheung Sha Wan, all with proposed minor relaxation of plot ratio.

Policy Update

The government proposed a new law to prohibit landlords from terminating the tenancy of or not providing services to tenants of specific sectors for failing to settle rents on schedule, or taking legal actions against them. The relief will be valid for a three-month period.

Source: Rating & Valuation Department, Land Registry, Lands Department, Development Bureau

Outlook

Valuation Perspectives

Under the current evolving market condition, the government's fifth round of anti-epidemic relief measures will only serve as a lifesaver for some retail operators in the short-term future. The prolonged stringent pandemic-control measures will materially derail commercial real estate recovery, particularly the retail market and F&B sector.

The uncertainties stemming from the fifth wave of the COVID-19 outbreak, geopolitical tensions, and deteriorating economic condition will likely weigh on investor sentiment in the short term. However, capital value for the en-bloc industrial property will likely remain relatively stable compared to office and retail assets, backed by the revitalization policy, alternative use, and redevelopment potential.

Despite the expectations of interest rate hikes in 2022, sustained investment interest from local and global investors will prevent a spike in investment yields.

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