



2023
Hong Kong: Rise and Shine

Roadmap for Changing Times

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CBRE

FEBRUARY 2023



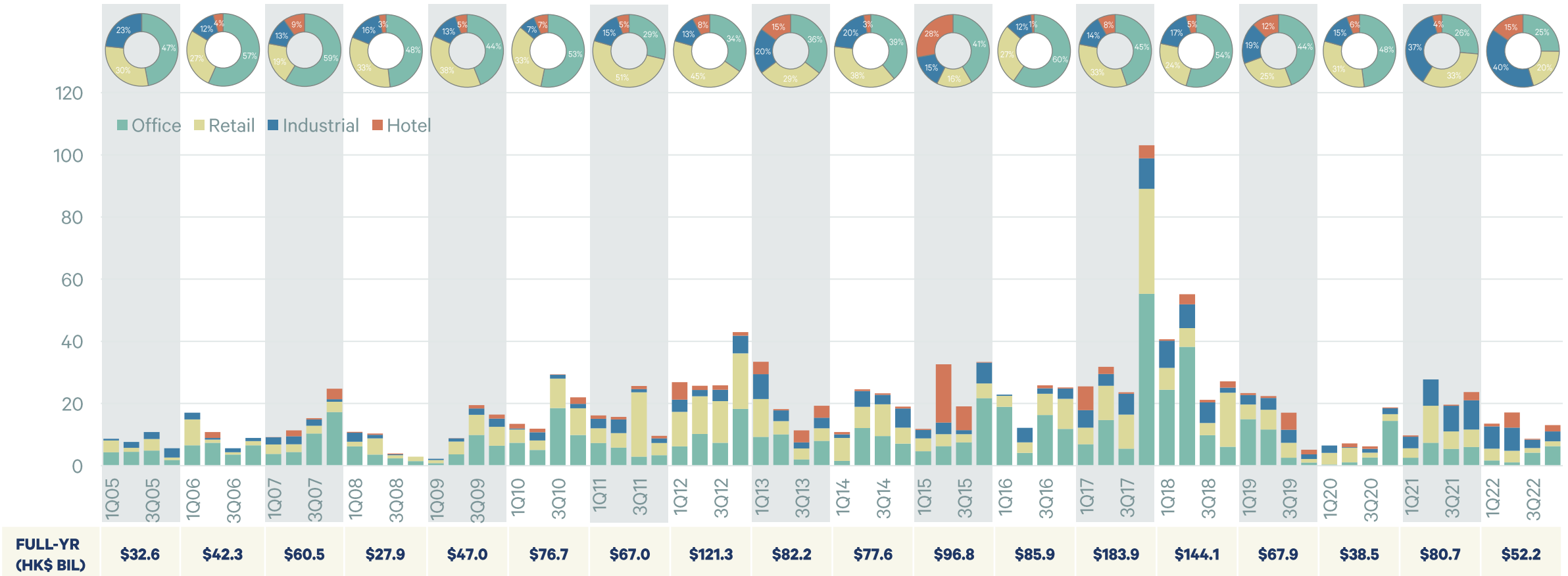
Appetite

1



Industrial shines in a declining market

TOTAL INVESTMENT VOLUME* (HK\$ BIL)

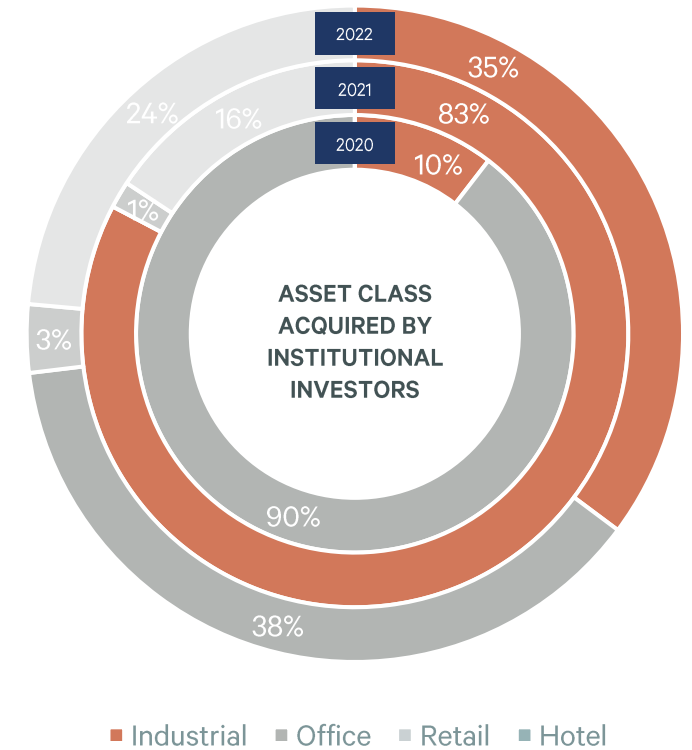
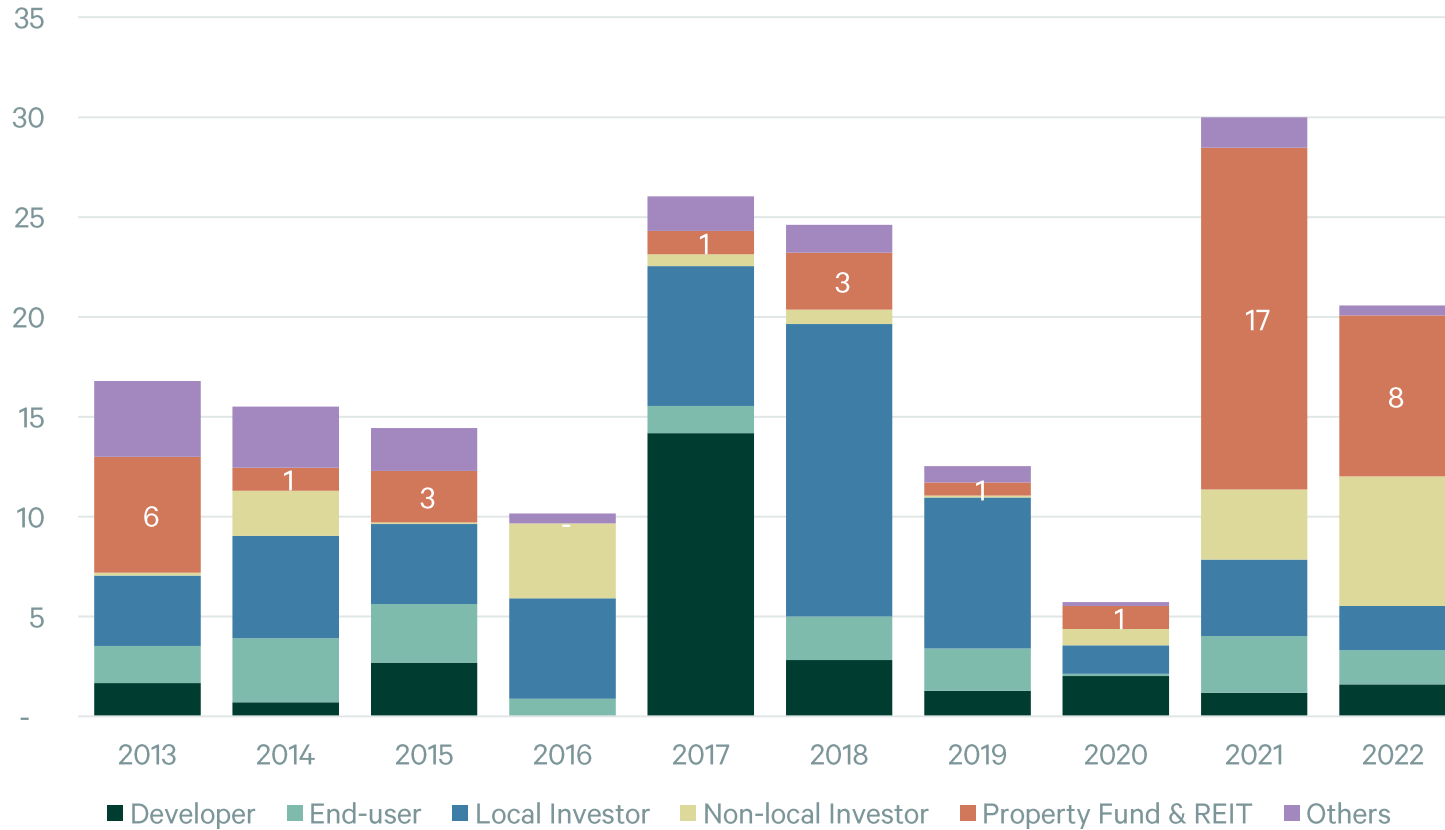


Source: CBRE Research
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* transactions > USD 10m (HK\$78m), excl. govt. land sale

Institutional investors form a major source of demand for industrial buildings

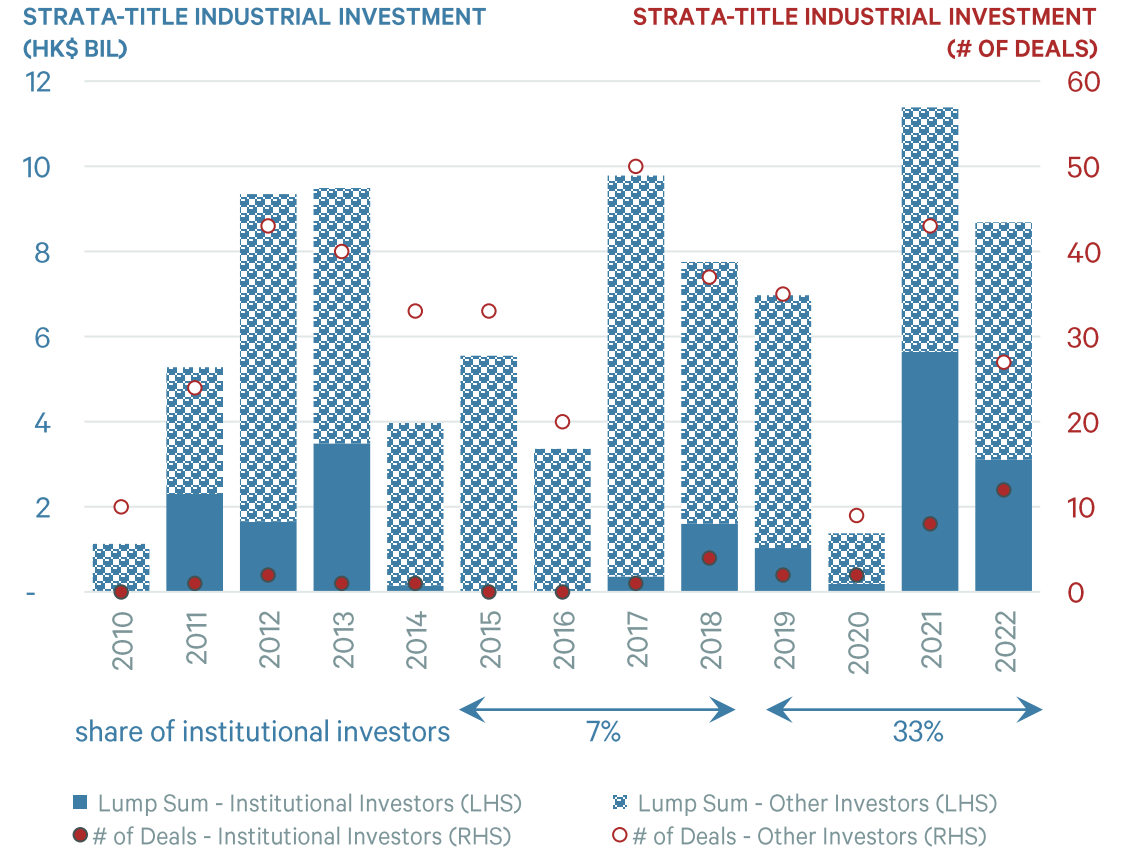
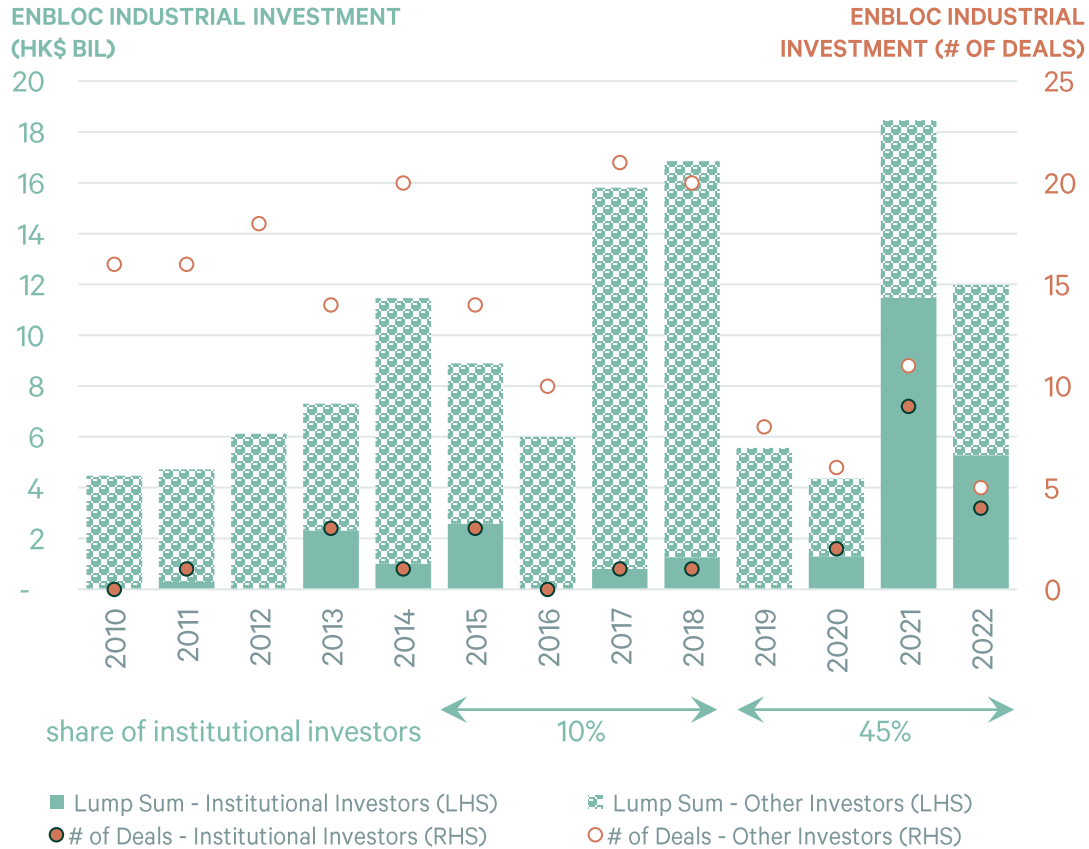
INDUSTRIAL INVESTMENT VOLUME* (BREAKDOWN BY INVESTOR TYPE, HK\$ BIL)



Source: CBRE Research
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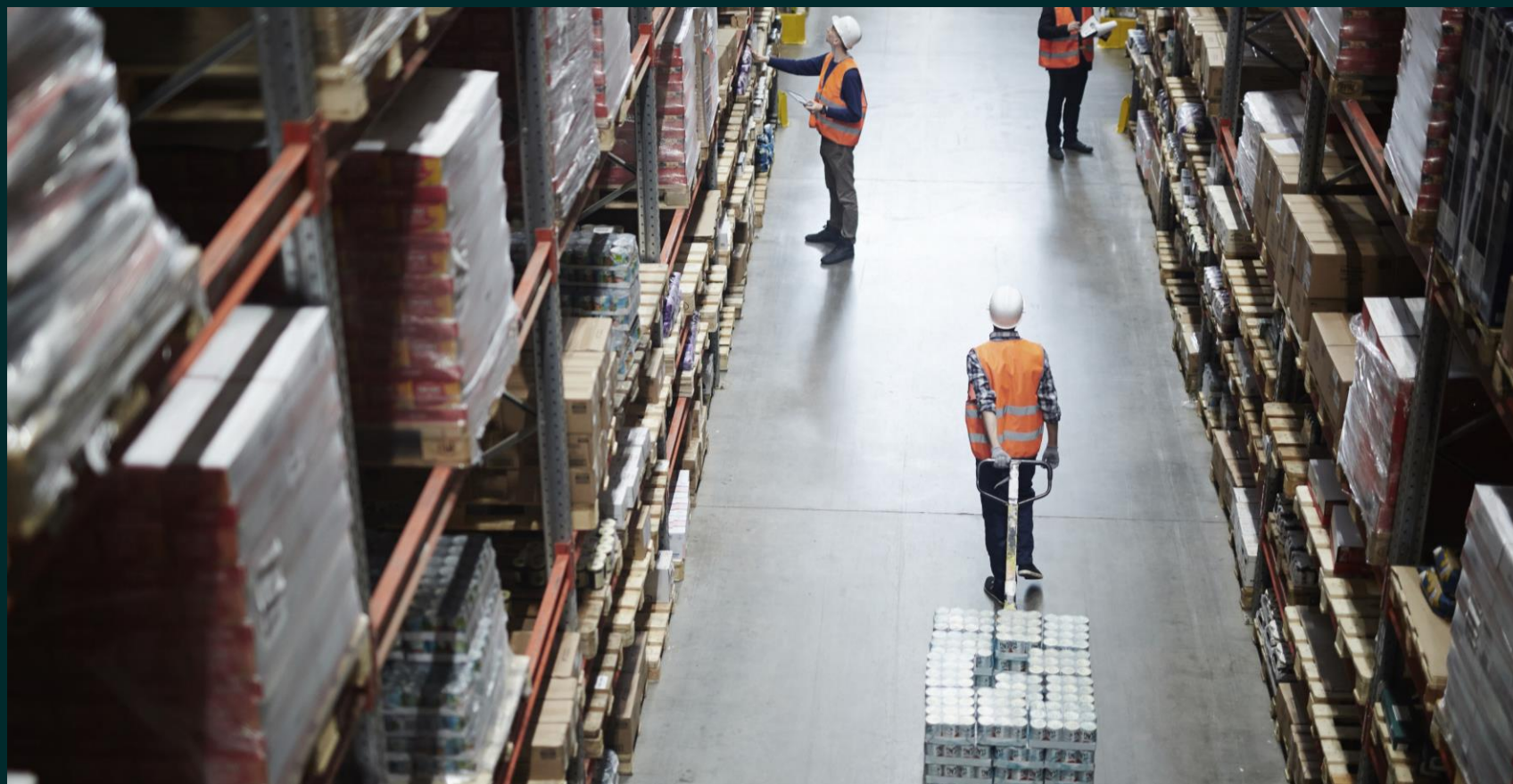
* transactions > USD 10m (HK\$78m), excl. govt. land sale

Appetite for both enbloc and strata-title industrial properties

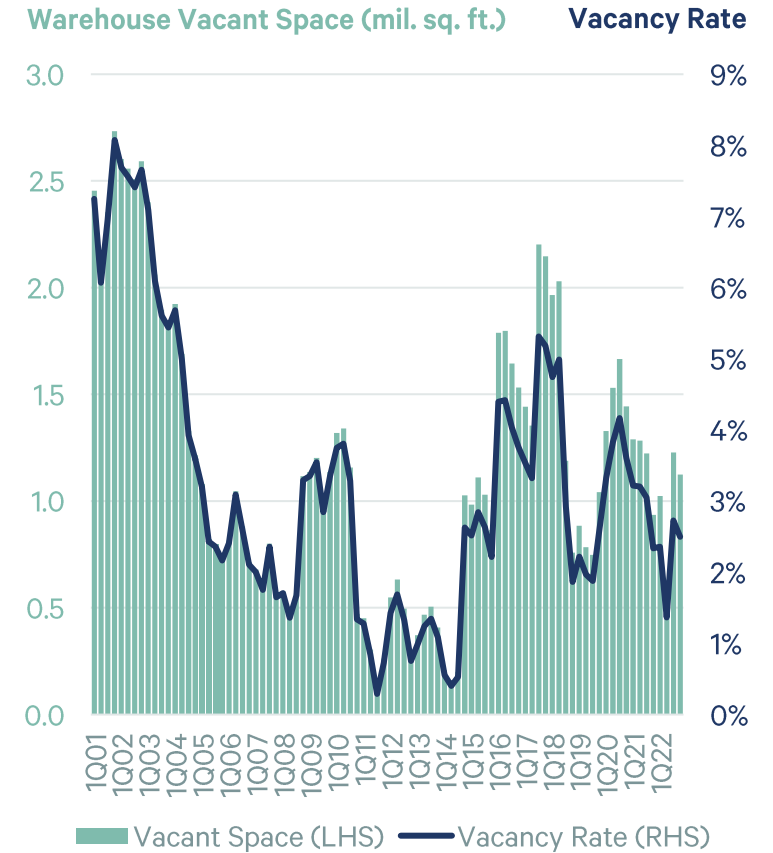
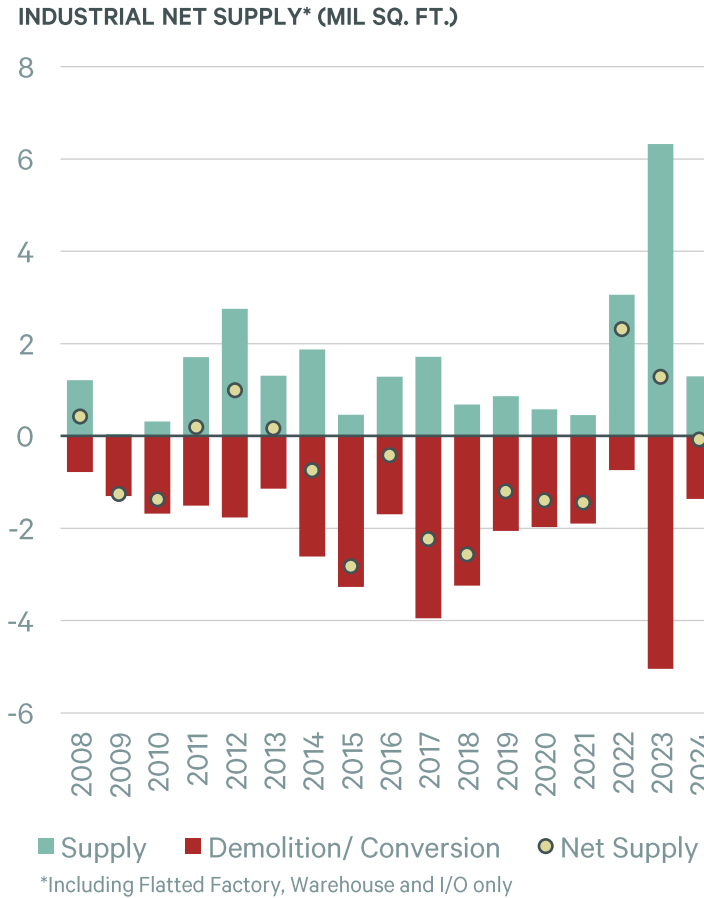
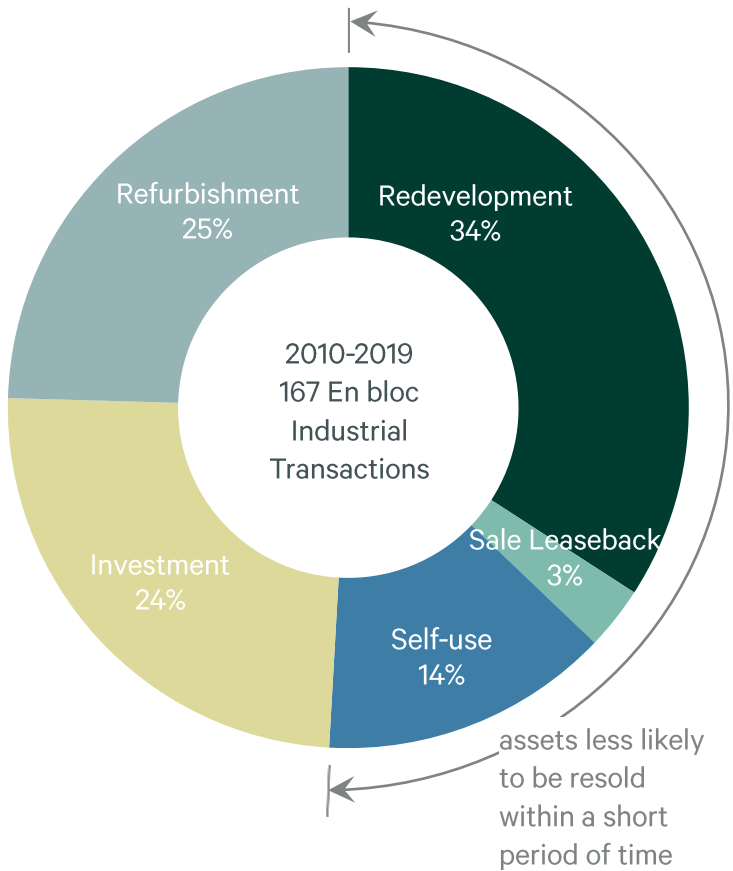


Fundamentals - Industrial

2



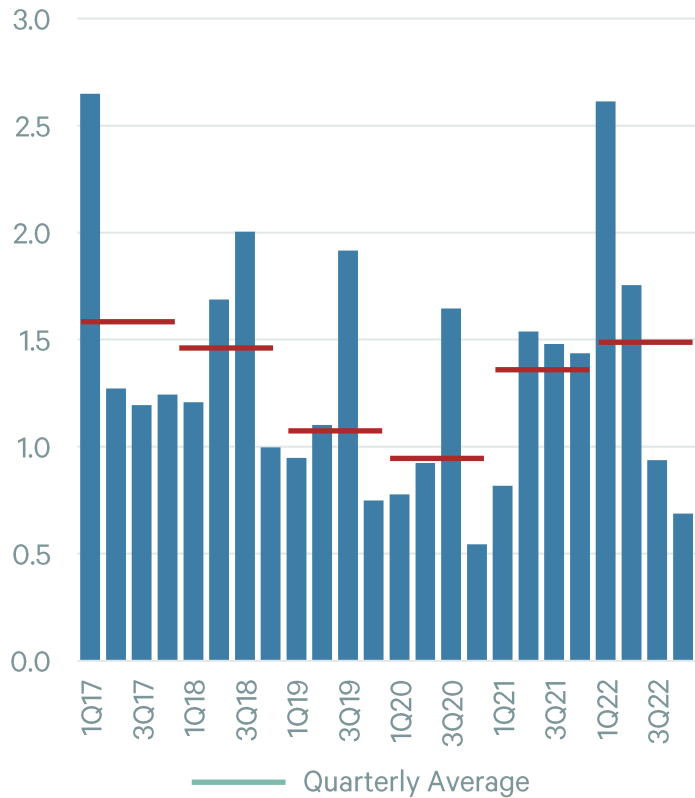
Reason #1: for industrial being a landlord-favored sector



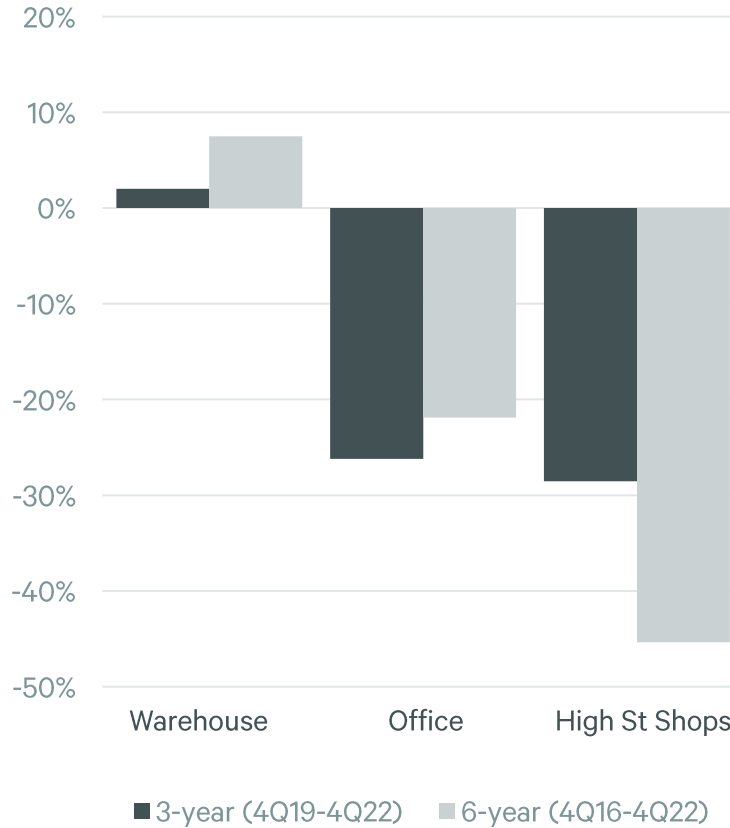
Source: CBRE Research, Rating and Valuation Department, Buildings Department
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Reason #2. for the sector's higher return and resilience

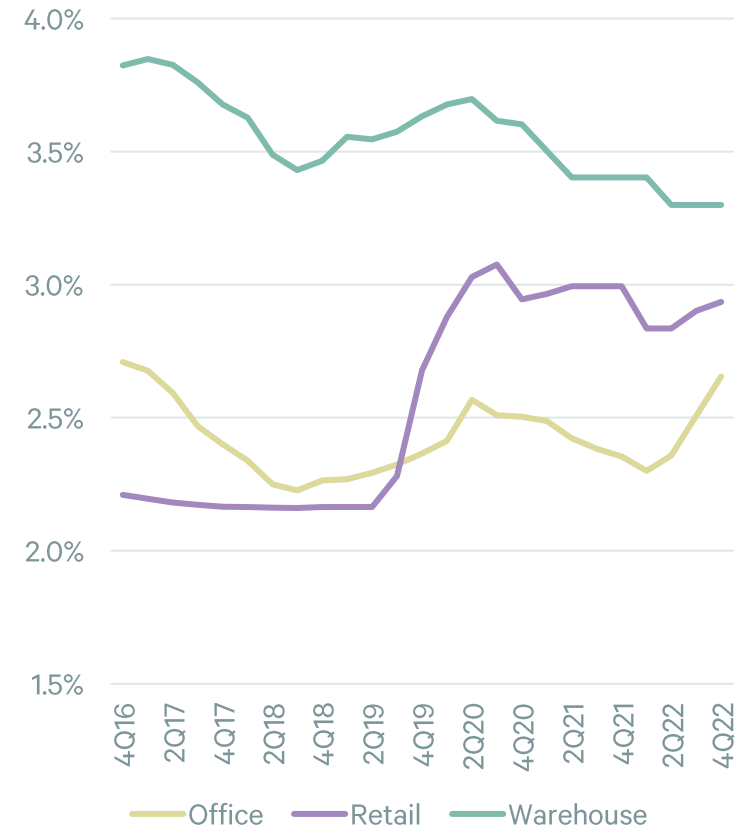
INDUSTRIAL NEW LEASING VOLUME (MIL SQ. FT.)



RENTAL CHANGE



MARKET YIELD

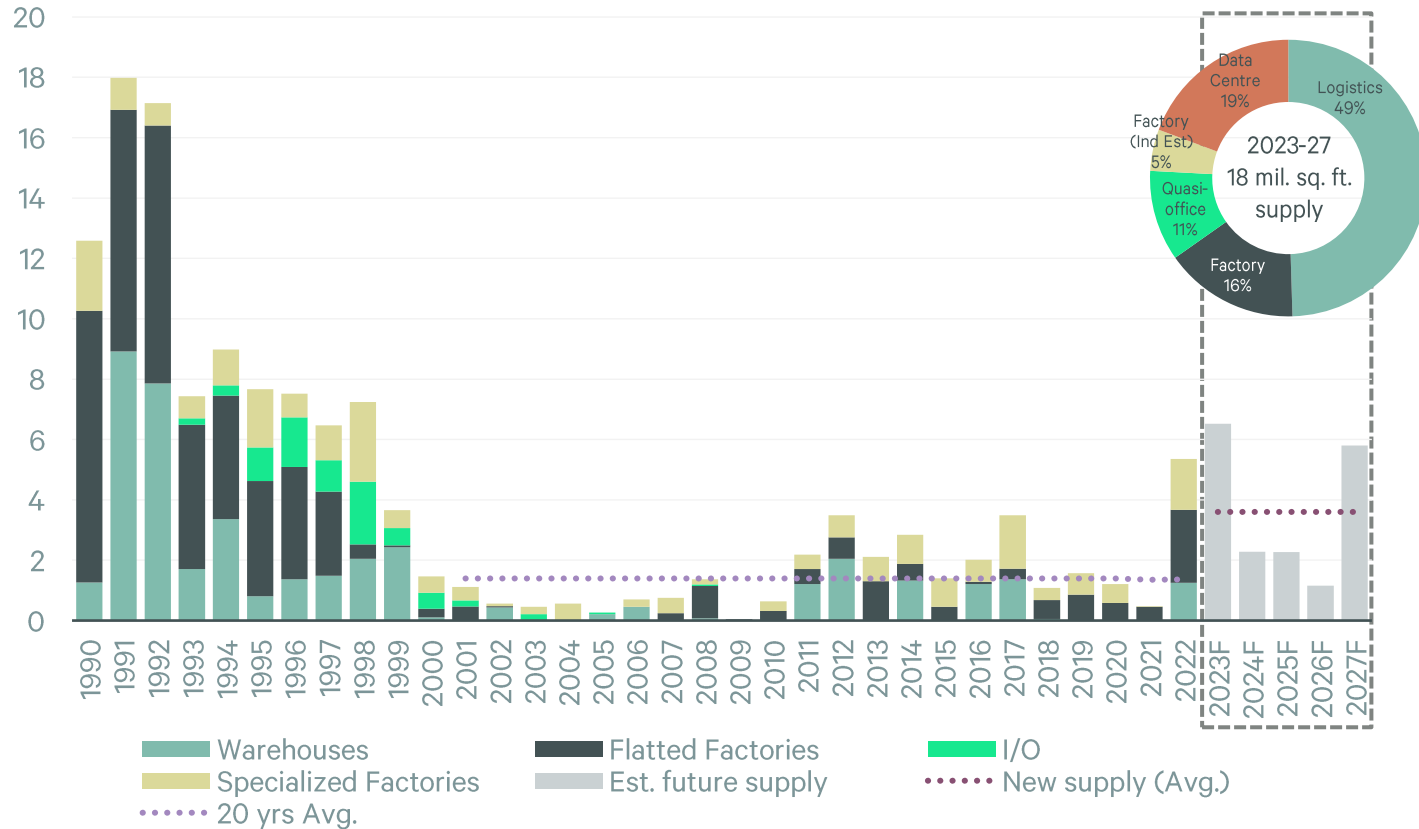


Source: CBRE Research

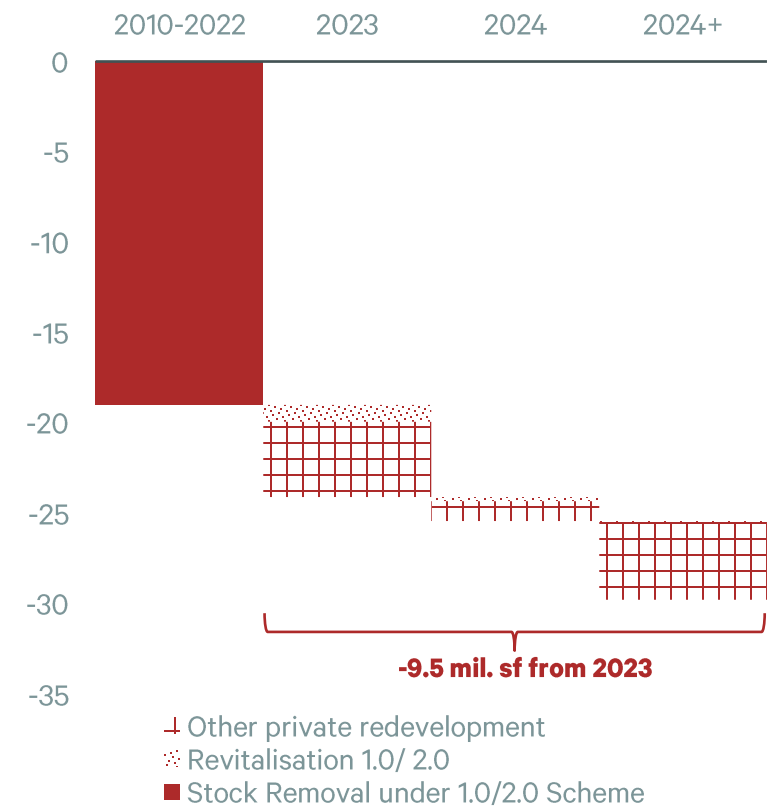
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Space availability will only start to climb from later this decade onwards

INDUSTRIAL SUPPLY (MIL SQ. FT.)



INDUSTRIAL STOCK REMOVAL (MIL SQ. FT.)

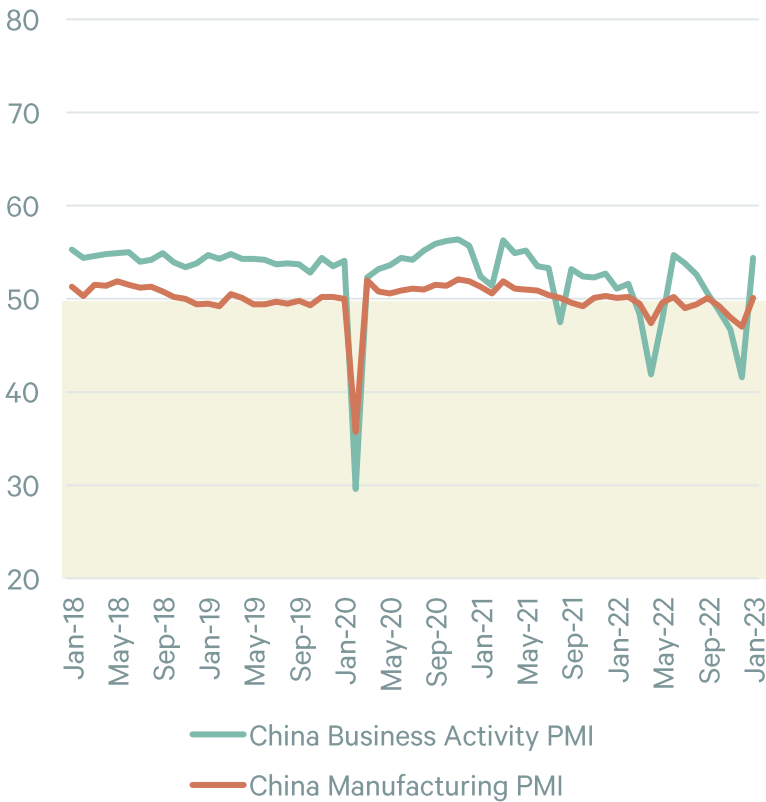


Source: CBRE Research

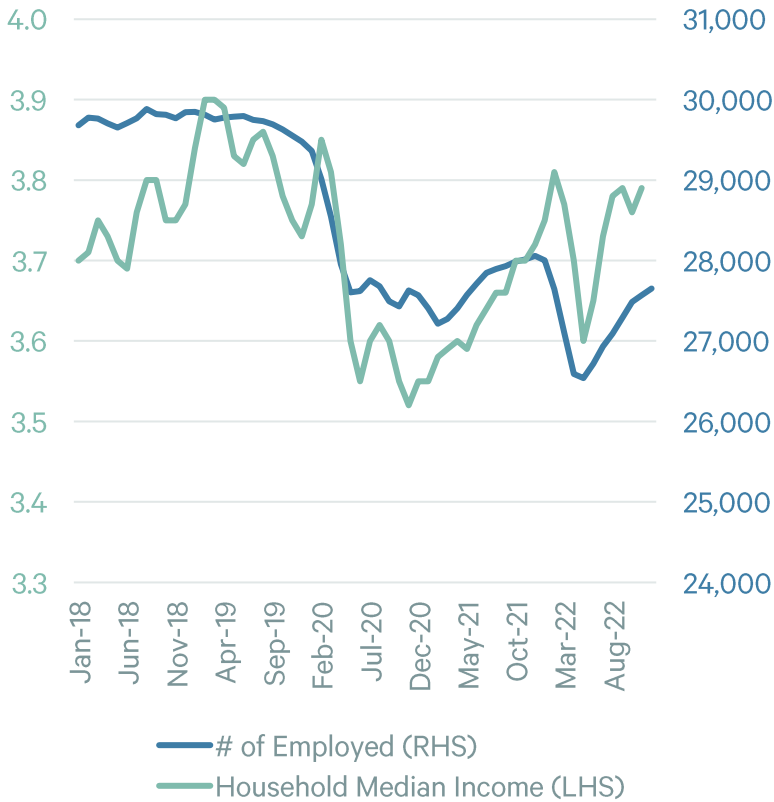
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Demand to be driven by goods, consumption and age growths...

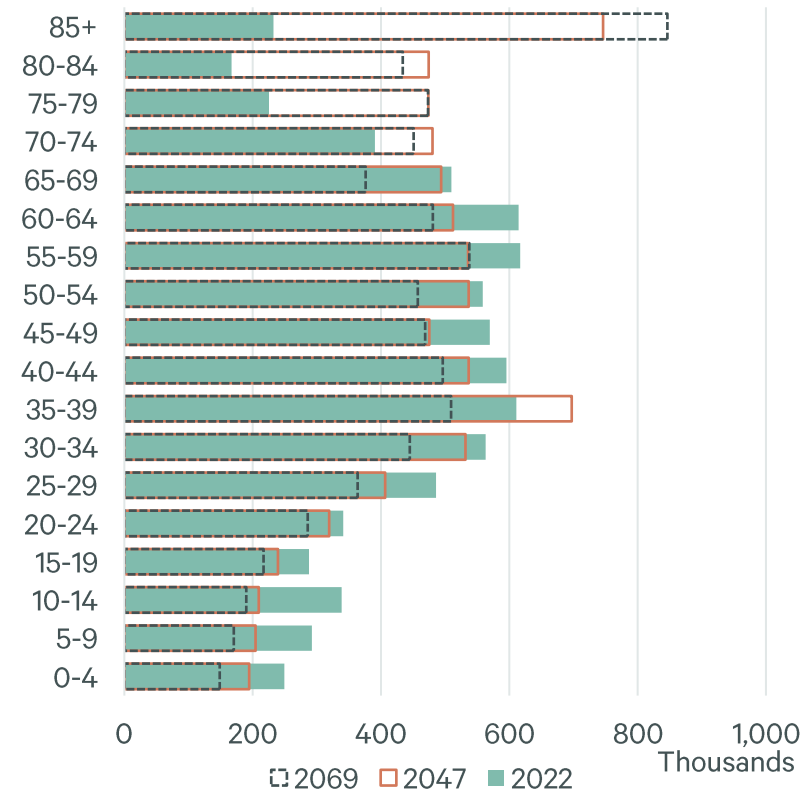
CHINA'S PURCHASING MANAGER INDEX



OF EMPLOYED PERSONS (MIL)



PROJECTED HONG KONG POPULATION PYRAMID



Source: CEIC, Rating and Valuation Department
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... and of course, innovation and technology-related industries as well



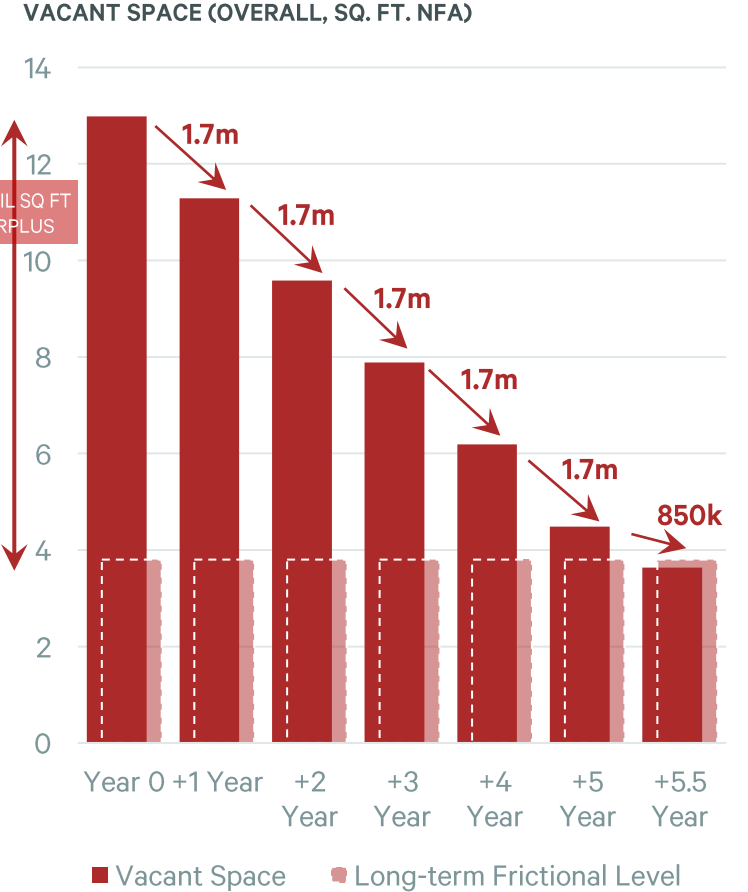
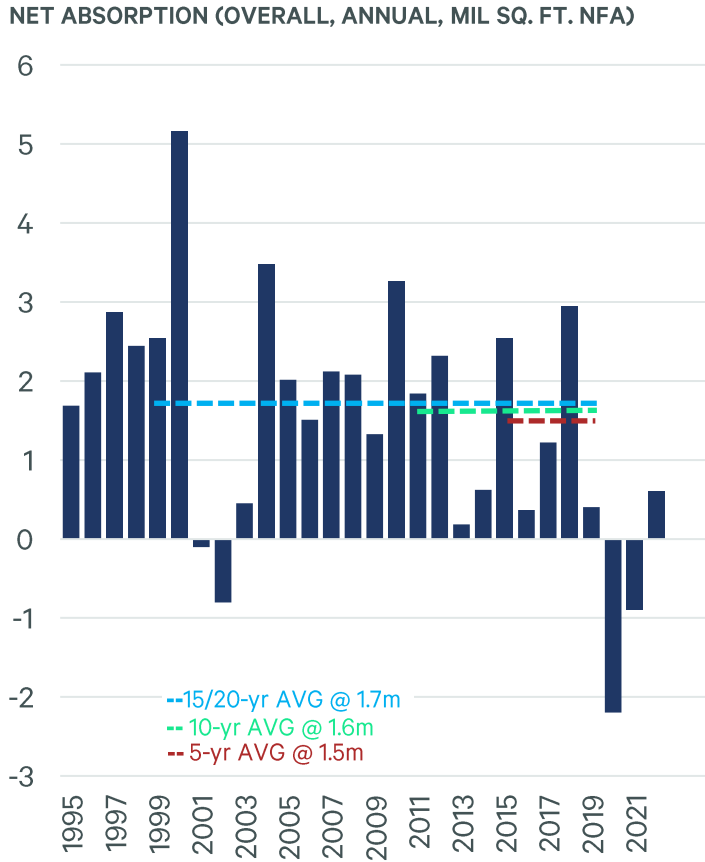
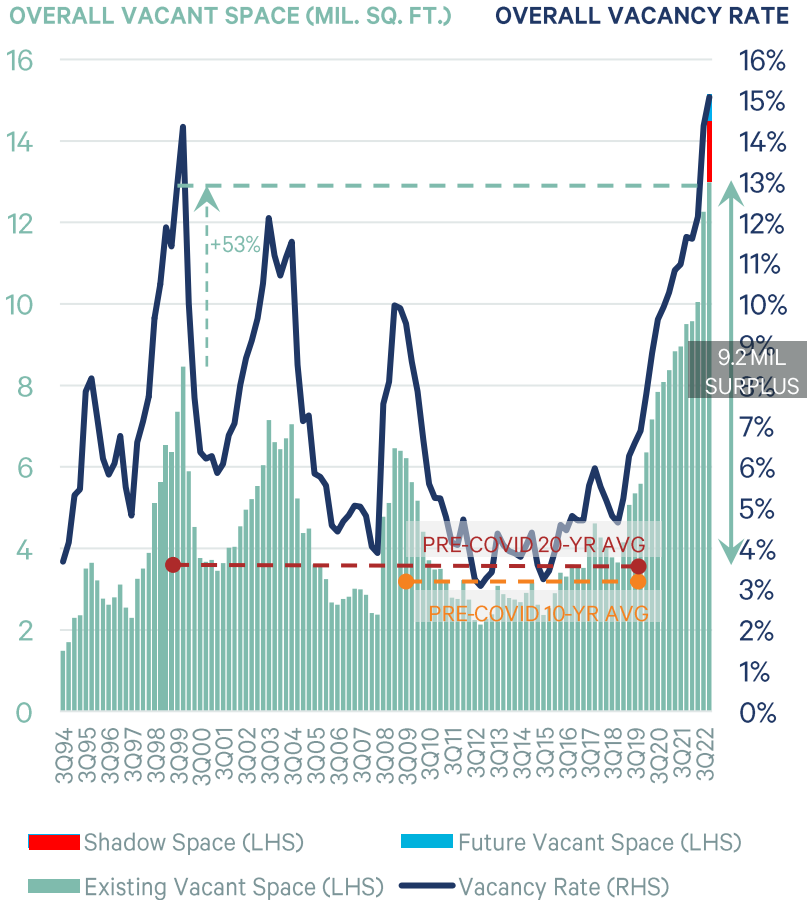
Key Sectors	Major Growth Strategies
<p>Advanced Manufacturing and I&T</p>	<ul style="list-style-type: none"> • Create the post of Commissioner for Industry to steer re-industrialisation and assist manufacturing firms in upgrading and transformation by making use of I&T • Develop a second Advanced Manufacturing Centre at Tai Po InnoPark • Subsidise the setting up of smart production lines under the Re-industrialisation Funding Scheme; quadruple capacity from about 30 lines to over 130 in five years • Strengthen collaboration with the Hong Kong Productivity Council to support enterprises in upgrading to smart production • Target to attract at least 100 high-calibre I&T enterprises in the next five years to generate HK\$10 billion of investment and create thousands of local job opportunities • Revise listing rules to improve fund-raising platforms for advanced technology enterprises, SMEs and start-ups • Enhance strengths in Fintech - Commercial Data Interchange to be launched this year • Expedite the development of San Tin Technopole in the Northern Metropolis • Further open government data to innovative industry applications • Explore data flow from the mainland to Hong Kong for joint development of smart cities in GBA • Earmark HK\$10 billion for start-up cultivation
<p>Logistics and Shipping</p>	<ul style="list-style-type: none"> • Tax concessions for high value-added maritime enterprises • Promote the development of “smart port” by setting up a port community system to facilitate the flow and sharing of data among operators and other stakeholders • Upgrade infrastructure at various land boundary control points • Reinforce intermodal transport by integrating air, sea and land transport to strengthen Hong Kong’s role in the logistics chain of the GBA • Promote the development of high-end and high value-added logistics services, such as the processing of cold chain goods, fresh food and pharmaceuticals

Fundamentals - Office

3



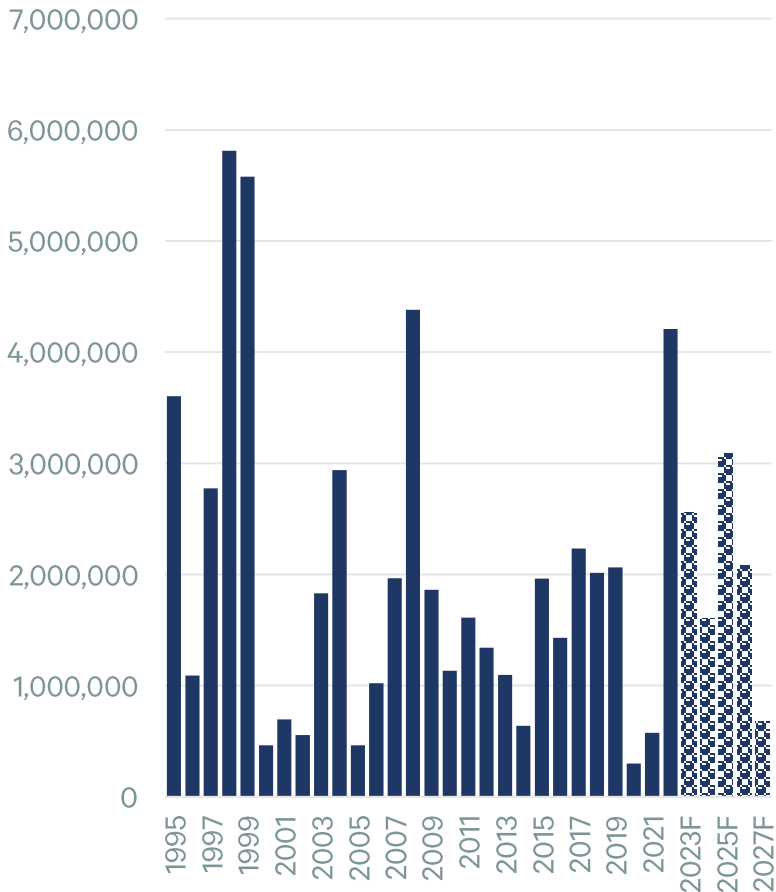
Office supply overhang will stay for another few years, and....



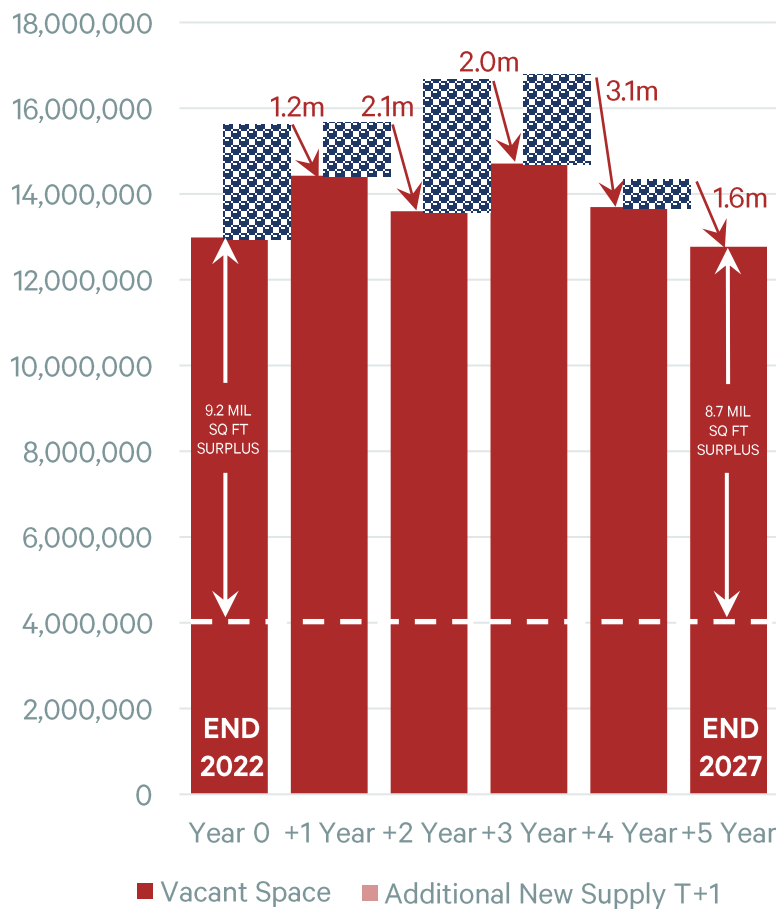
Source: CBRE Research
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... there is more to come in the pipeline

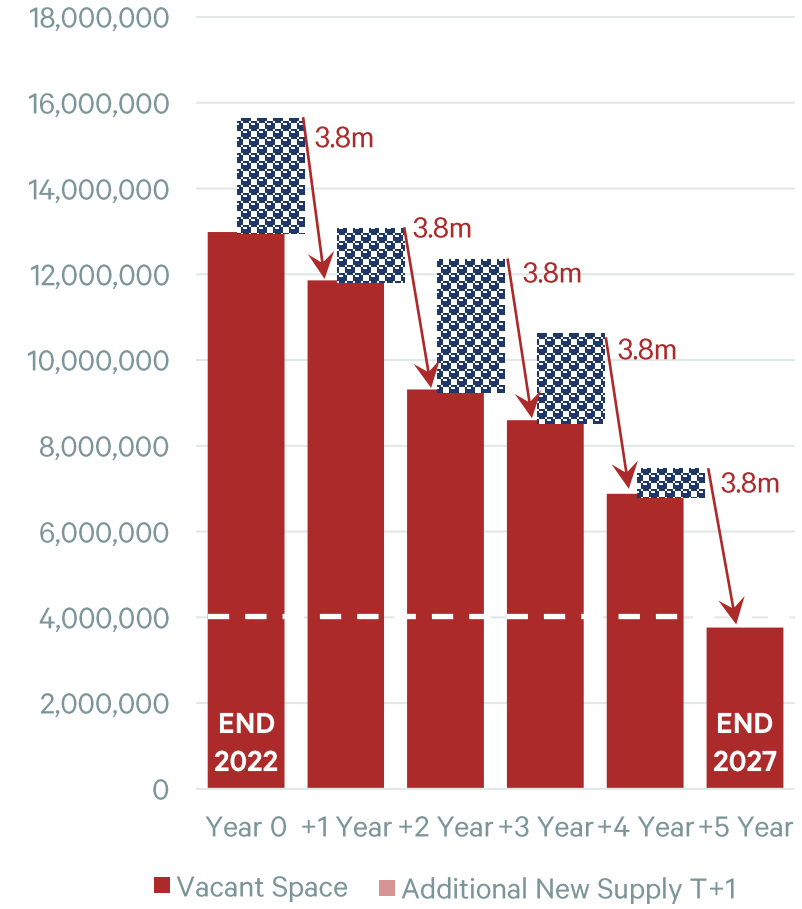
GRADE A OFFICE SUPPLY (OVERALL, SQ. FT. NFA)



VACANT SPACE (OVERALL, SQ. FT. NFA)

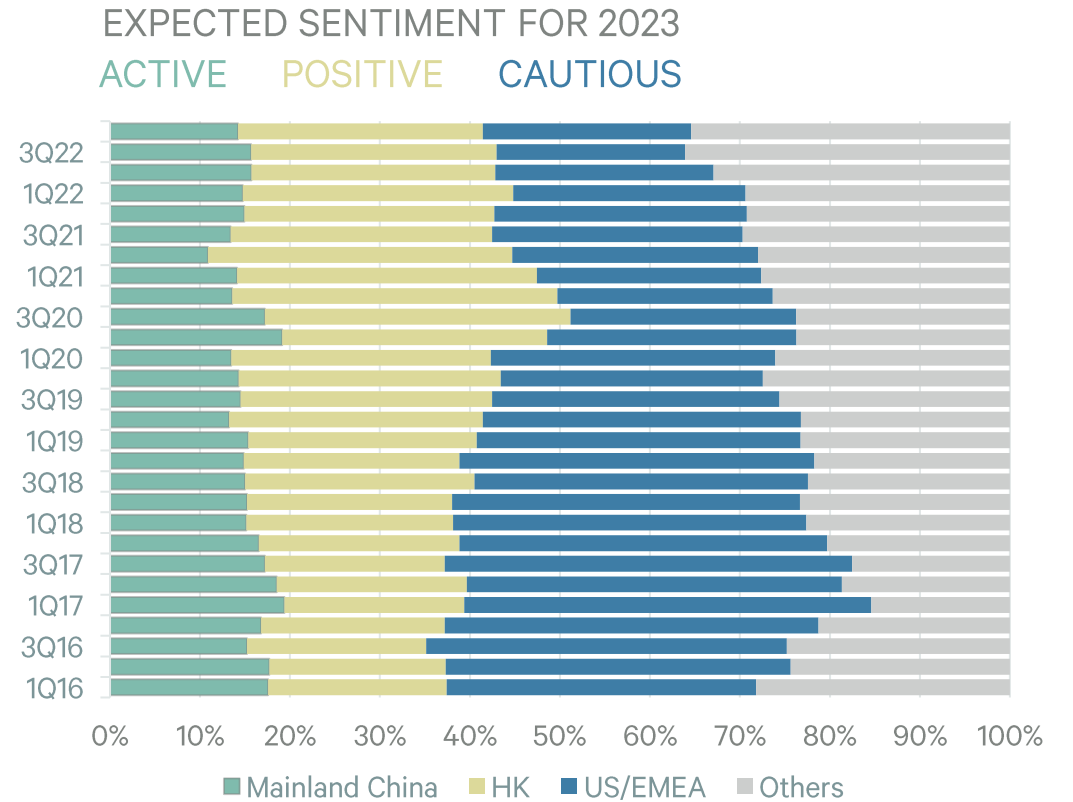
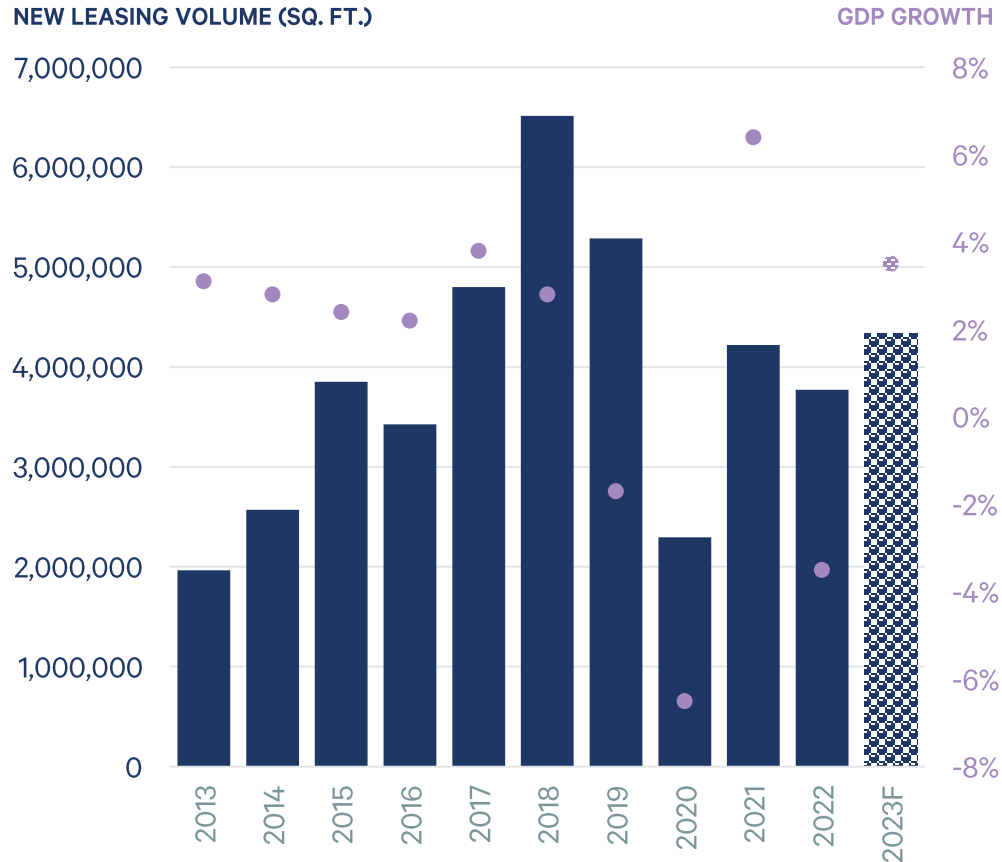


VACANT SPACE (OVERALL, SQ. FT. NFA)



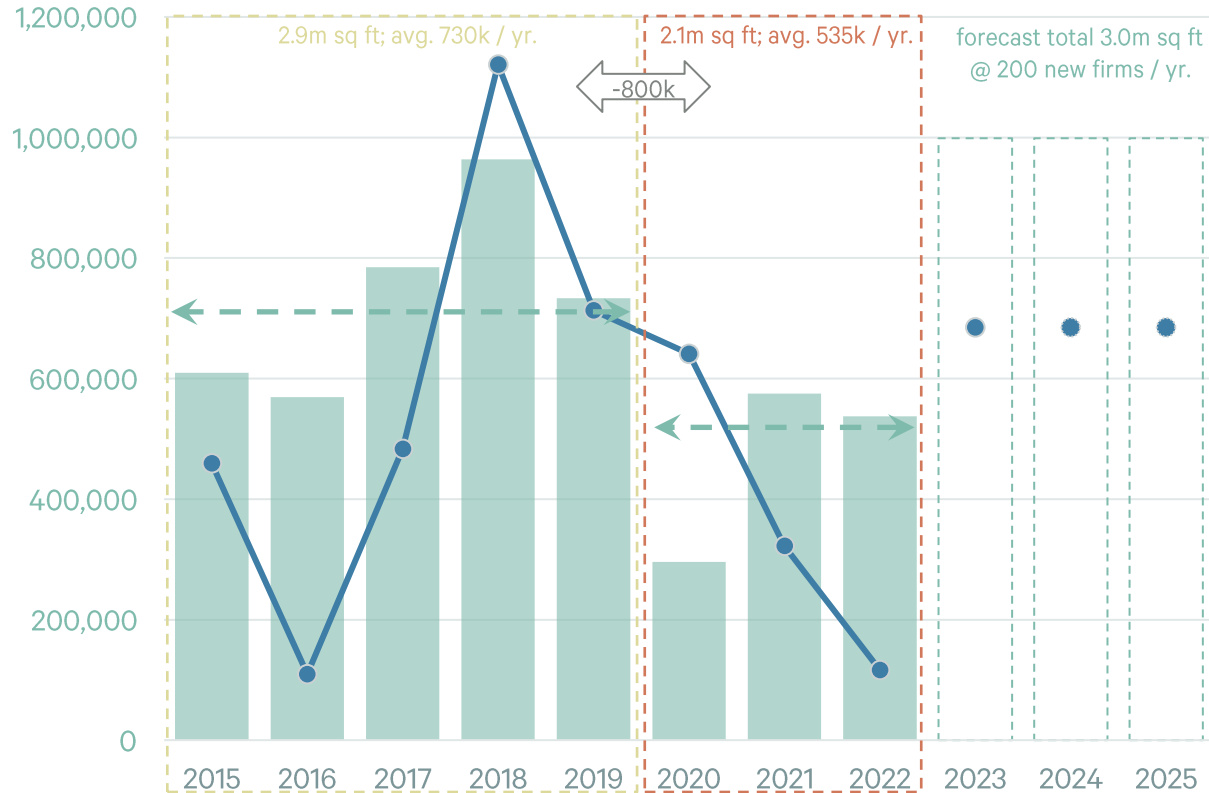
Source: CBRE Research
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Gradual recovery in leasing demand as the economy returns to normality

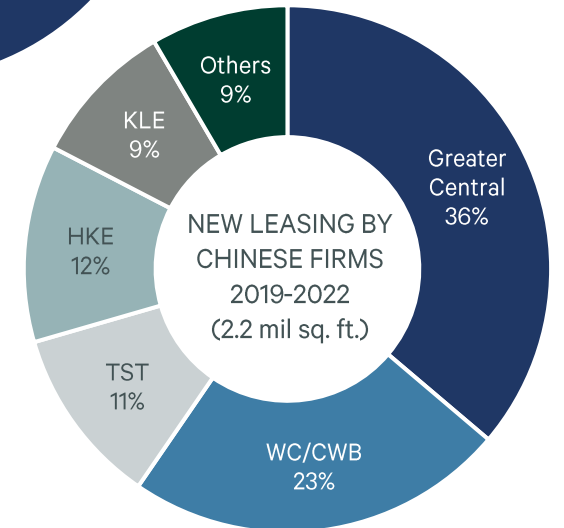
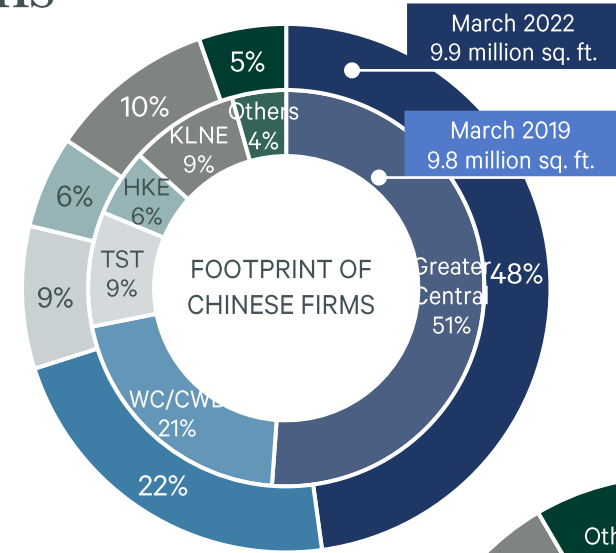


Pent-up leasing demand from Mainland Chinese firms

Leasing volume of Mainland Chinese firms (overall, annual, sq. ft. NFA)

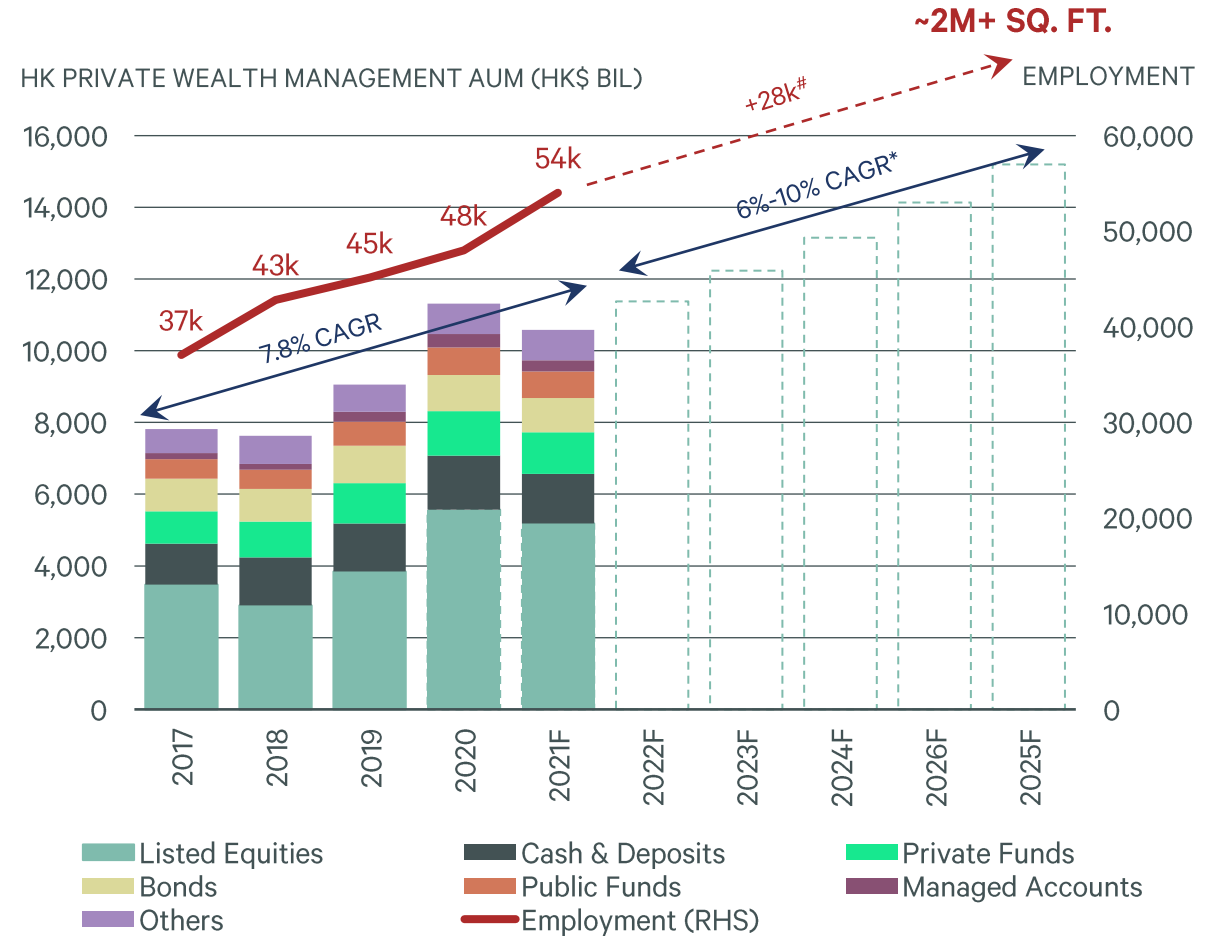
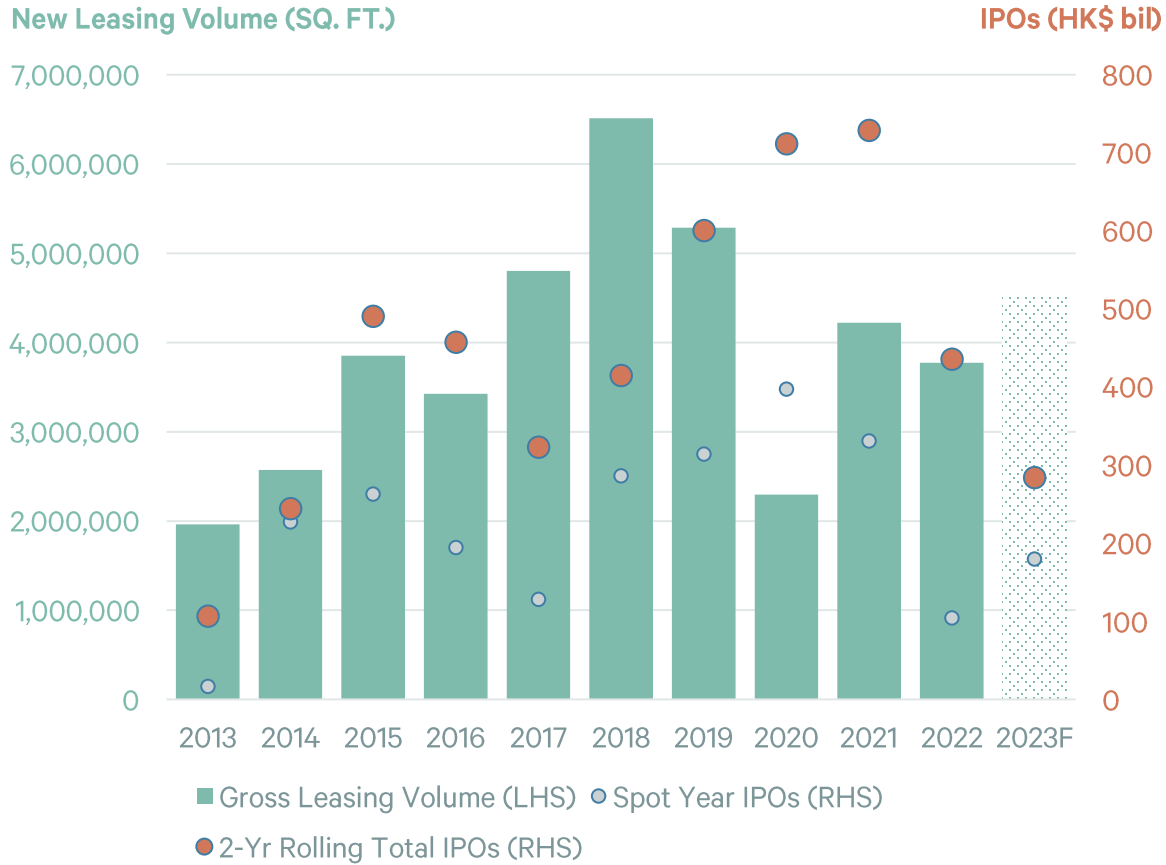


Growth in Total # of Mainland Chinese Firms in HK



Source: CBRE Research
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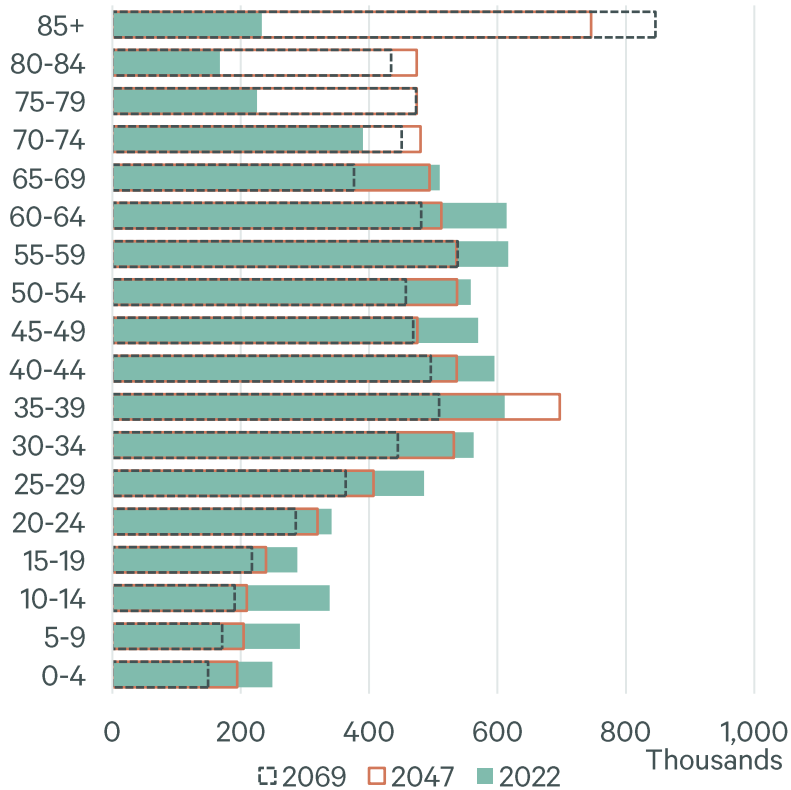
Improving financial sector outlook helps support leasing market momentum



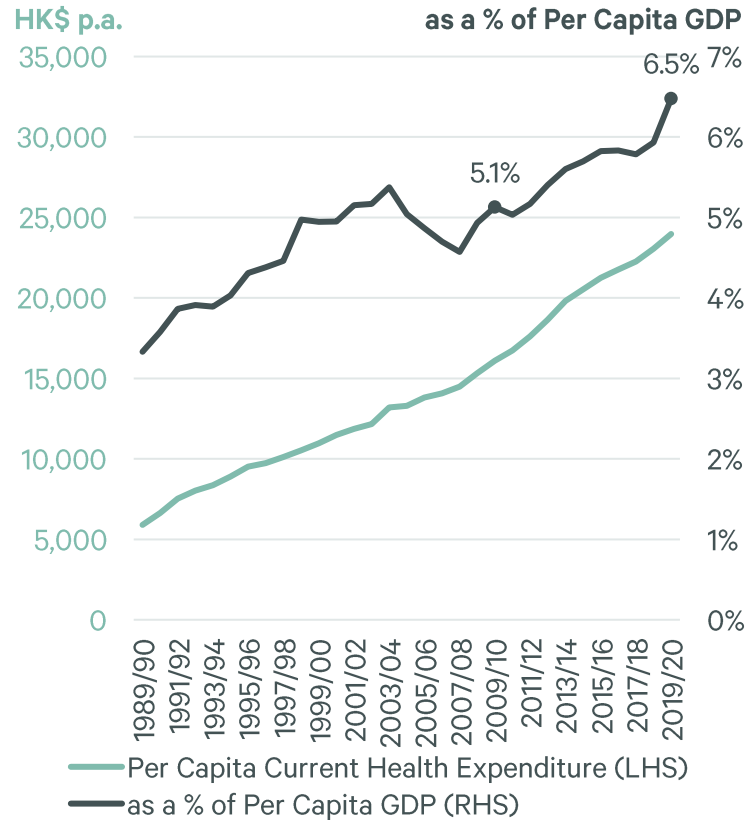
Source: CBRE Research, HKEx (2023 IPOs estimated by PWC and KPMG), Hong Kong Private Wealth Management Report 2022

Growing need for health-related services and insurance coverage

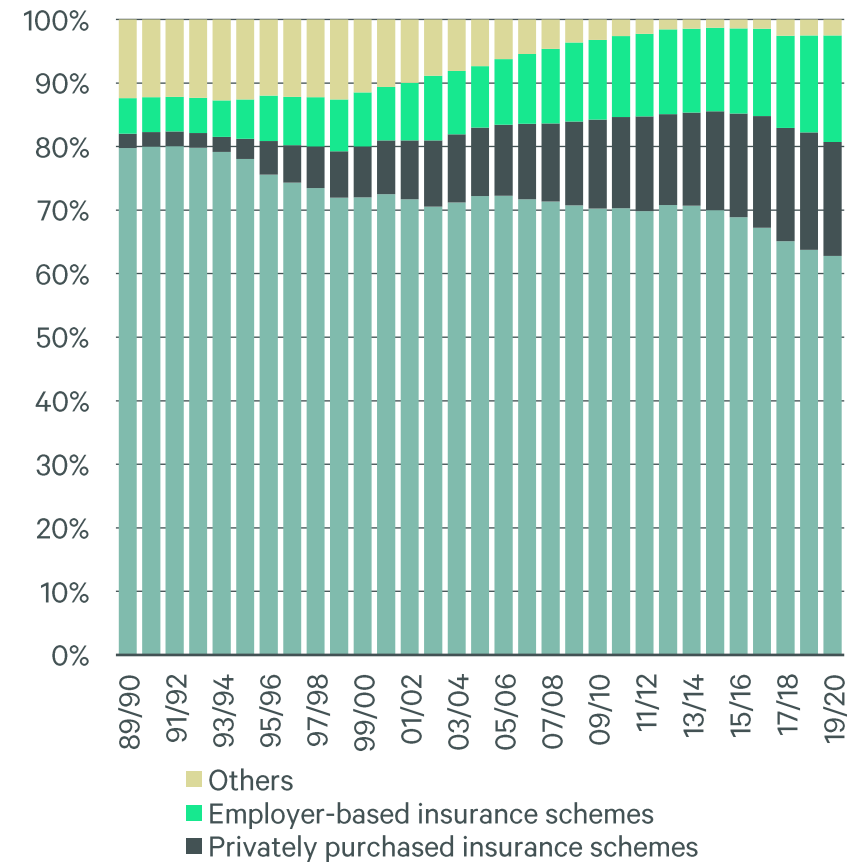
Projected Hong Kong Population Pyramid



Hong Kong's Healthcare Expenditure Per Capita

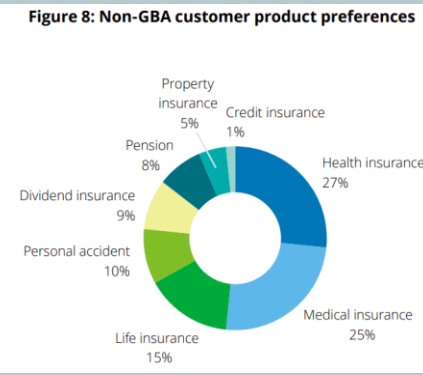
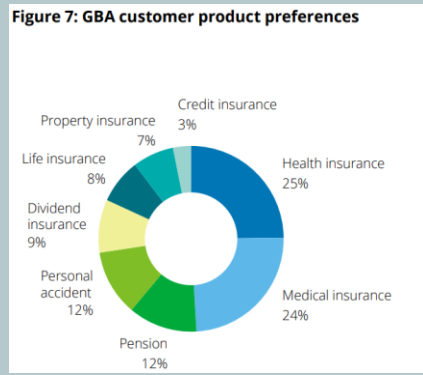
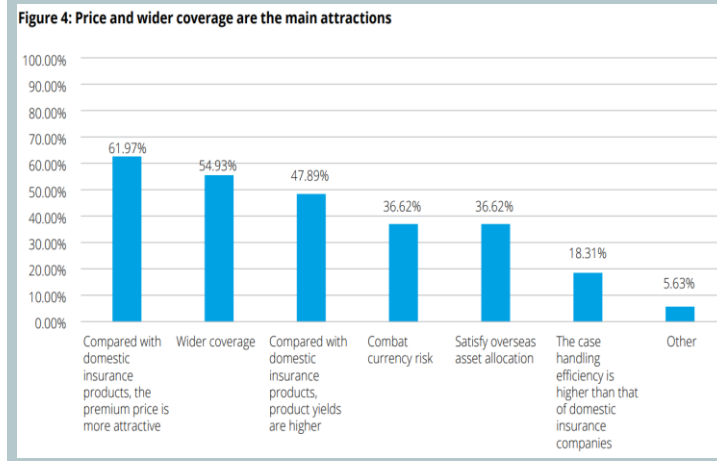
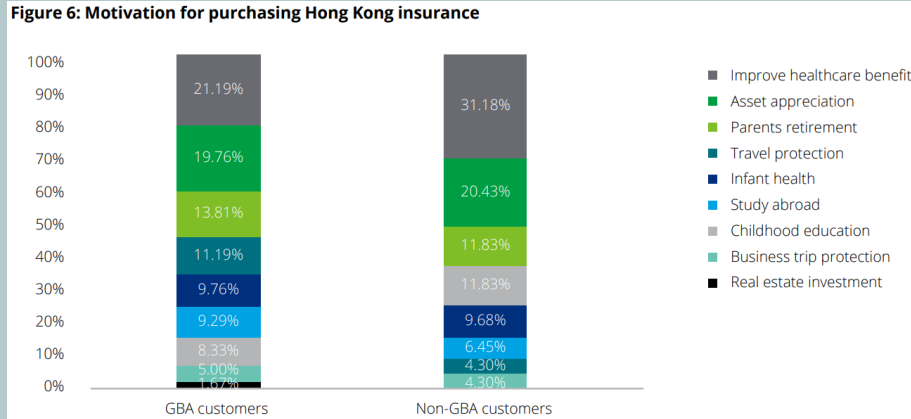
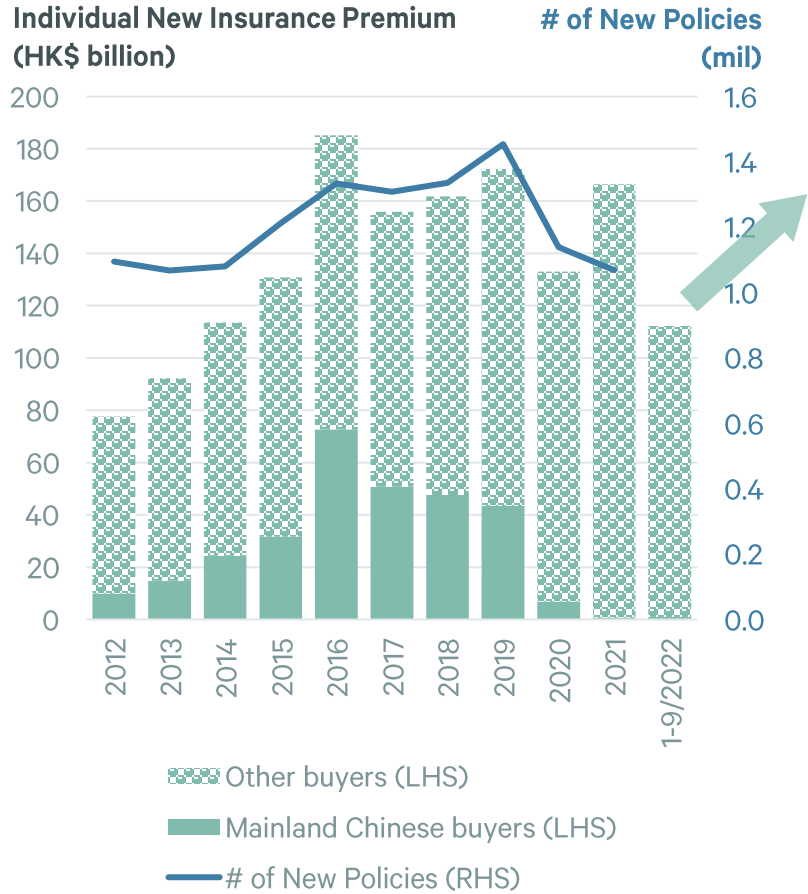


Method of financing for medical services in Hong Kong



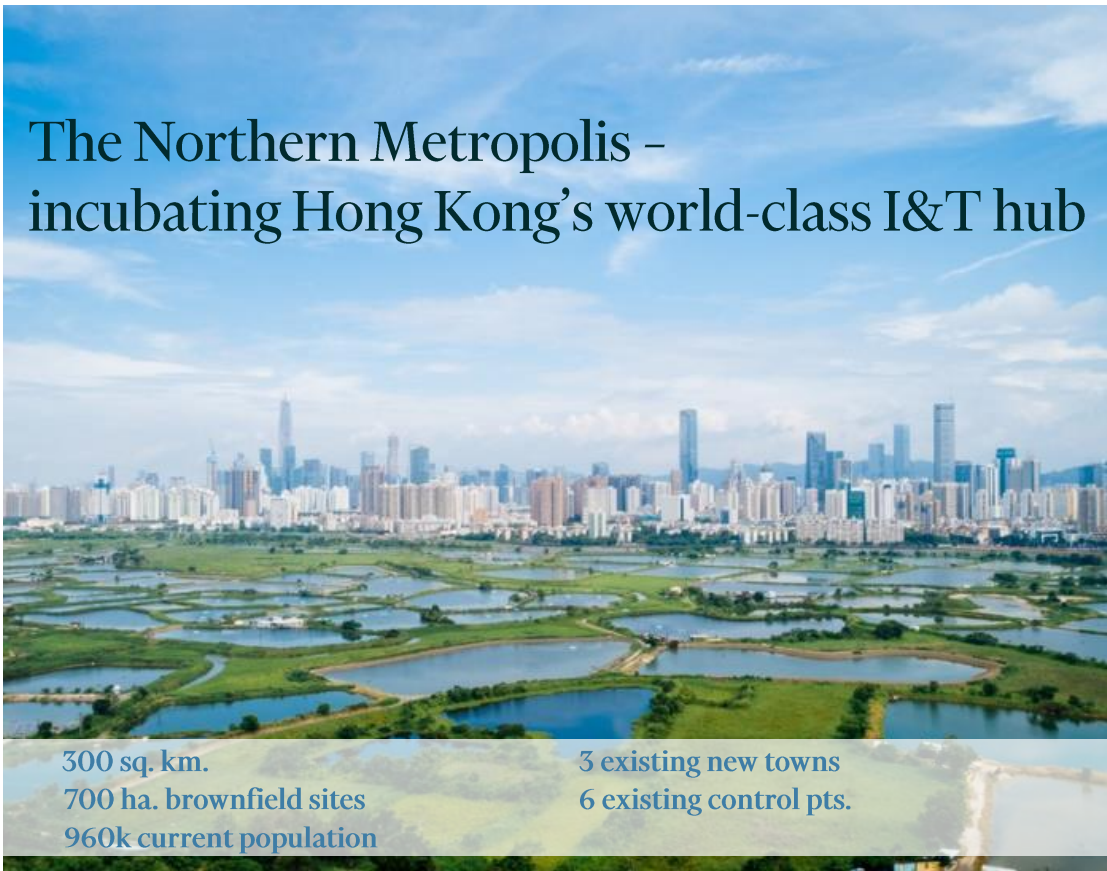
Source: Census and Statistics Department, Hospital Authority, Hong Kong's Domestic Health Accounts

Health and medical as growth areas for Hong Kong insurance firms



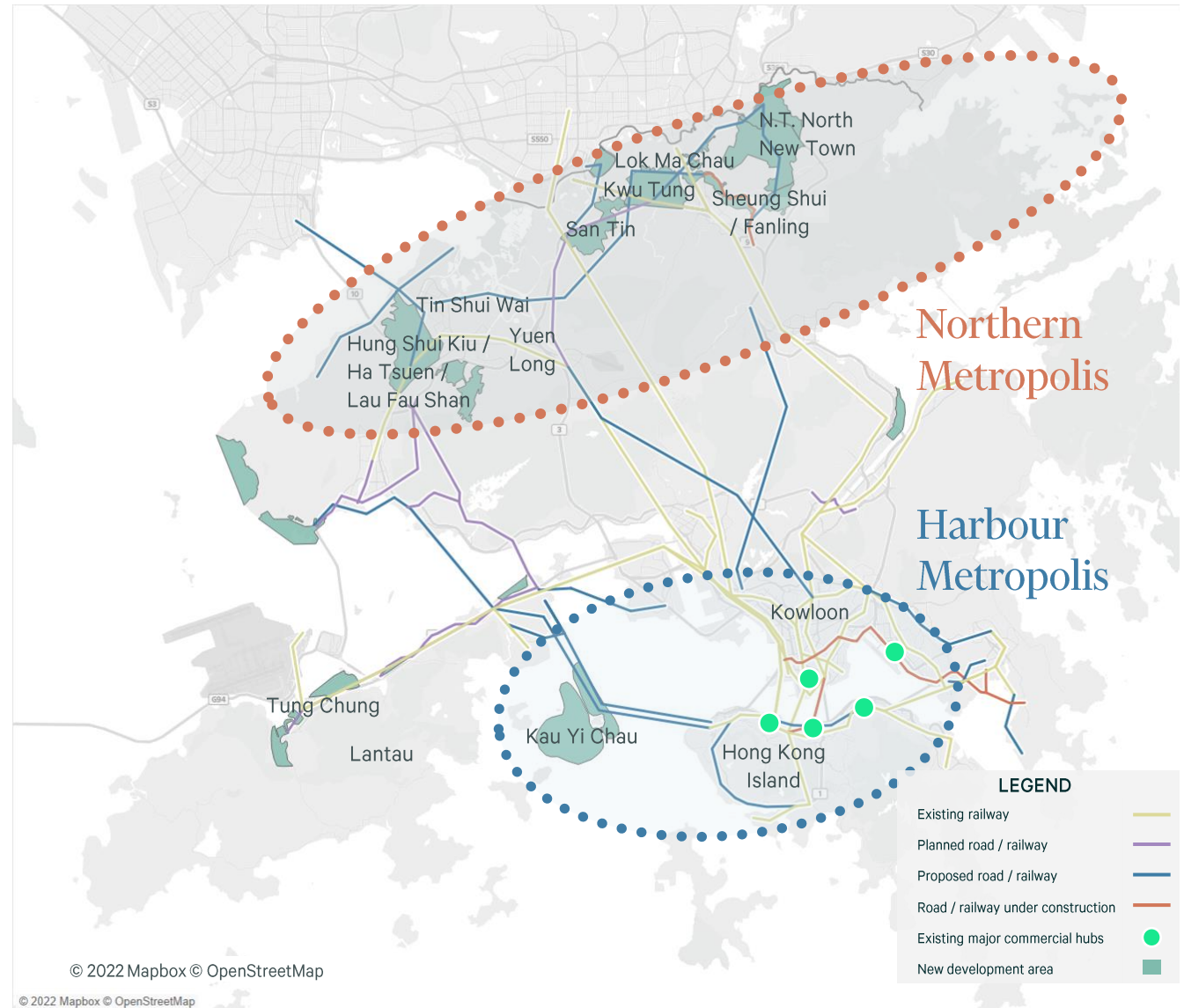
Source: Deloitte BOC Life, GBA Outlook, Opportunities in Insurance. July 2022

Construction-related sectors will stay busy for longer



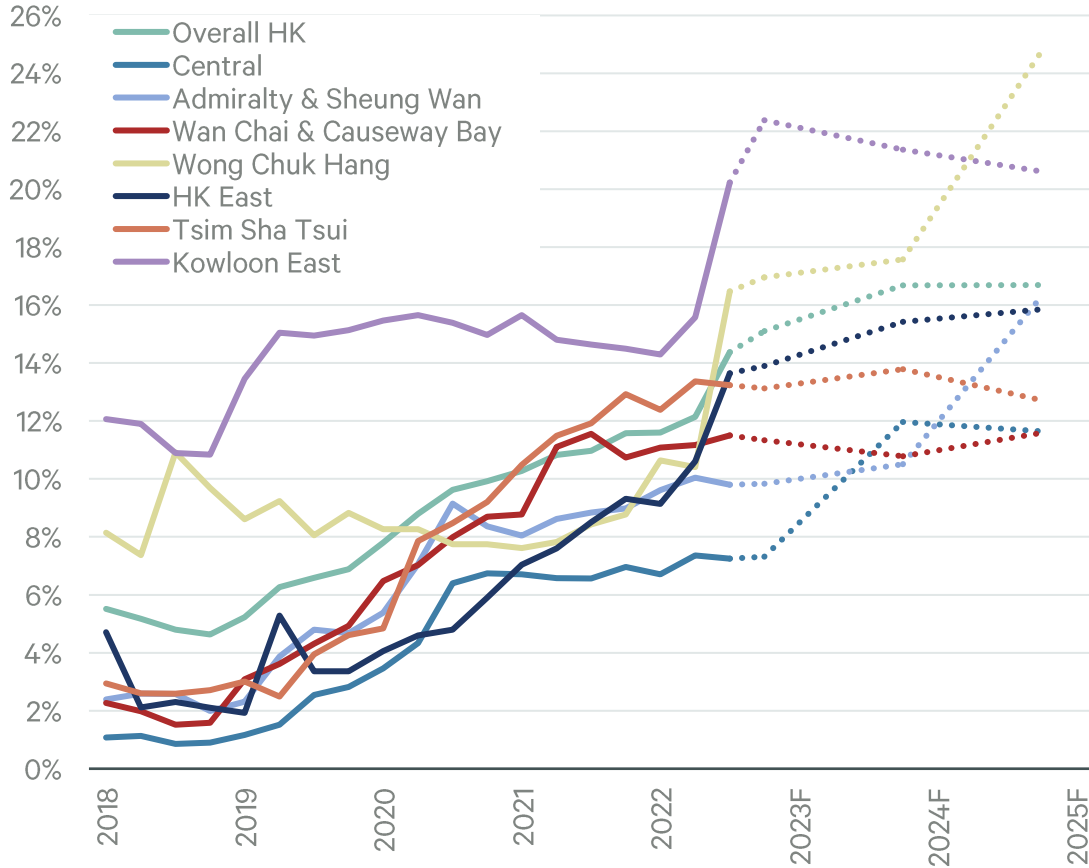
Source: CBRE Research

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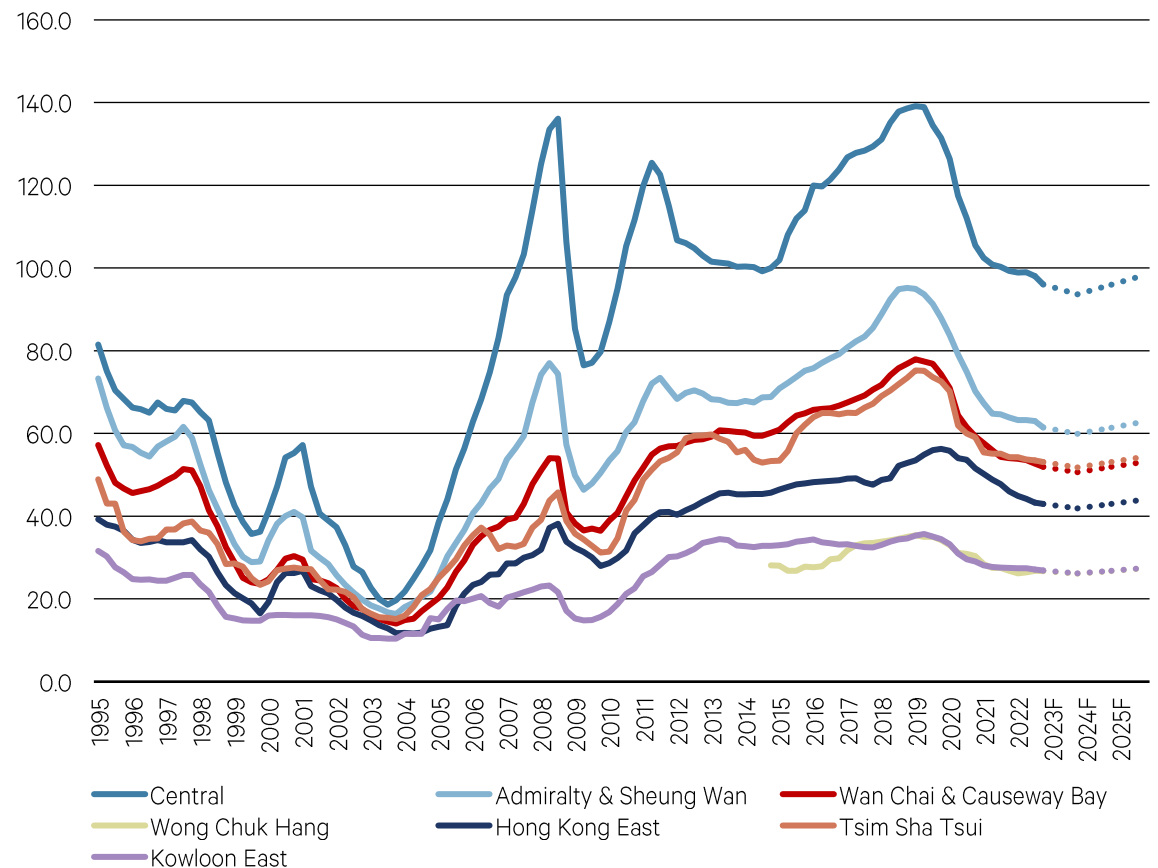


Higher but moderating rental pressure in 2023 as vacancy climbs

Vacancy Rate



Net Effective Rents (HK\$ PSF PM)



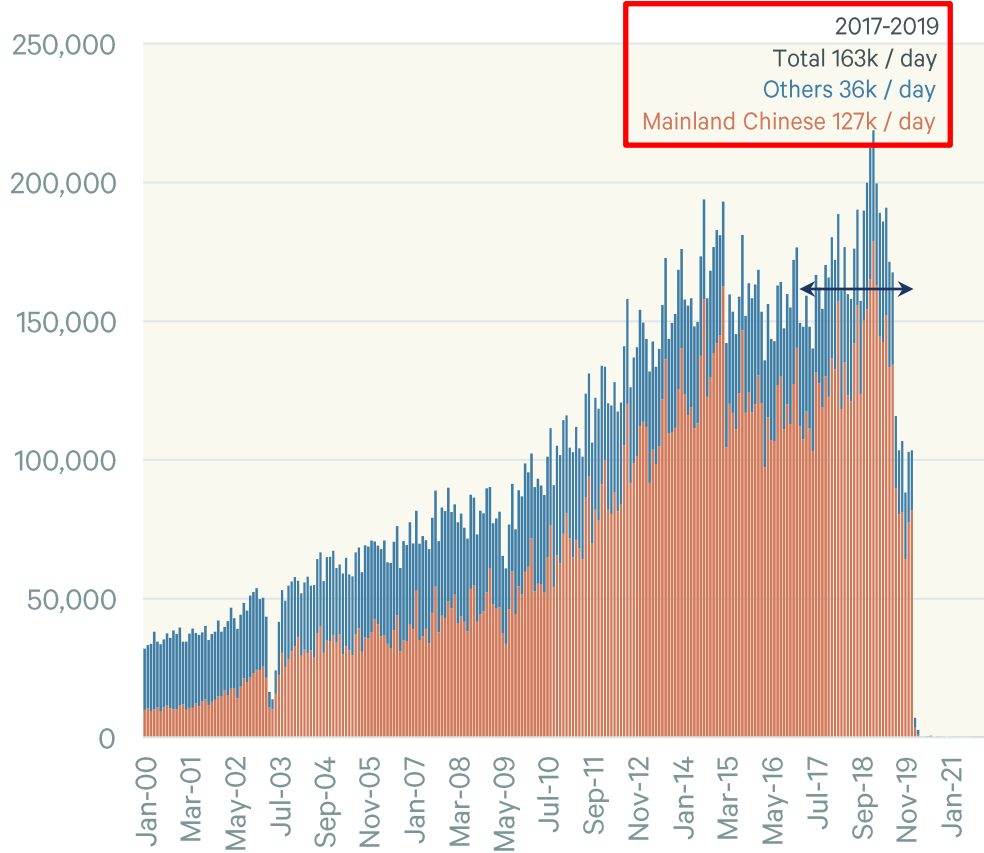
Fundamentals - Retail

4

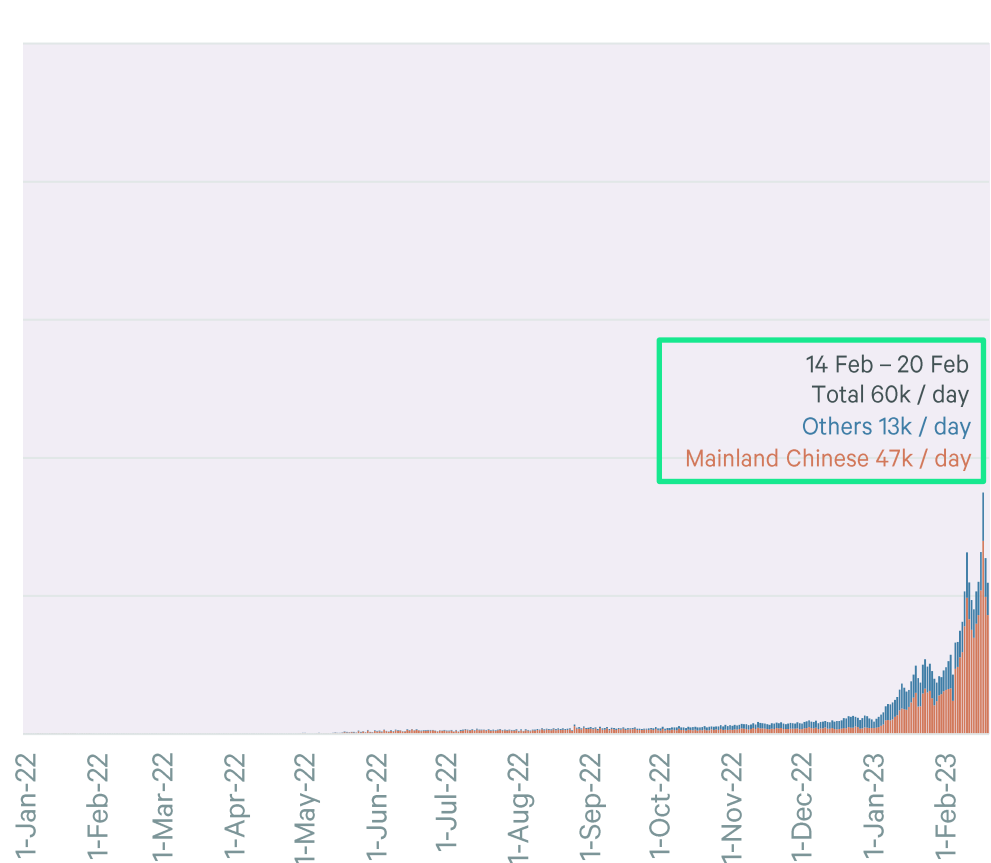


Gradually recovering inbound tourism; big room for growth in the next 12 months

VISITOR ARRIVALS (DAILY AVERAGE / MONTH)



POST-REOPENING VISITOR ARRIVALS (DAILY AVERAGE)

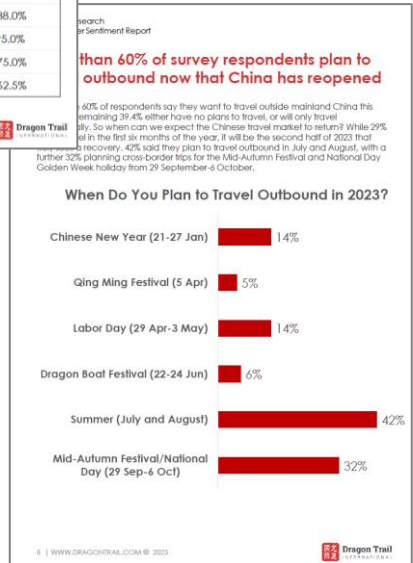
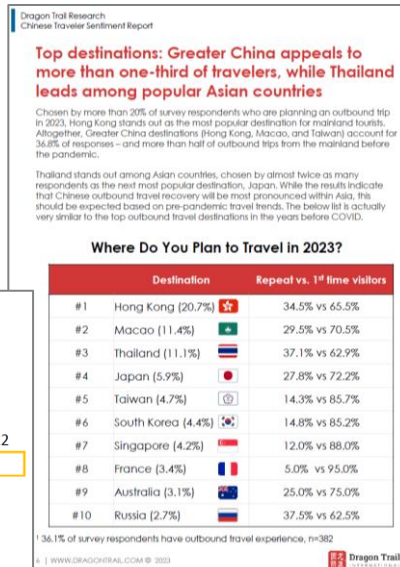
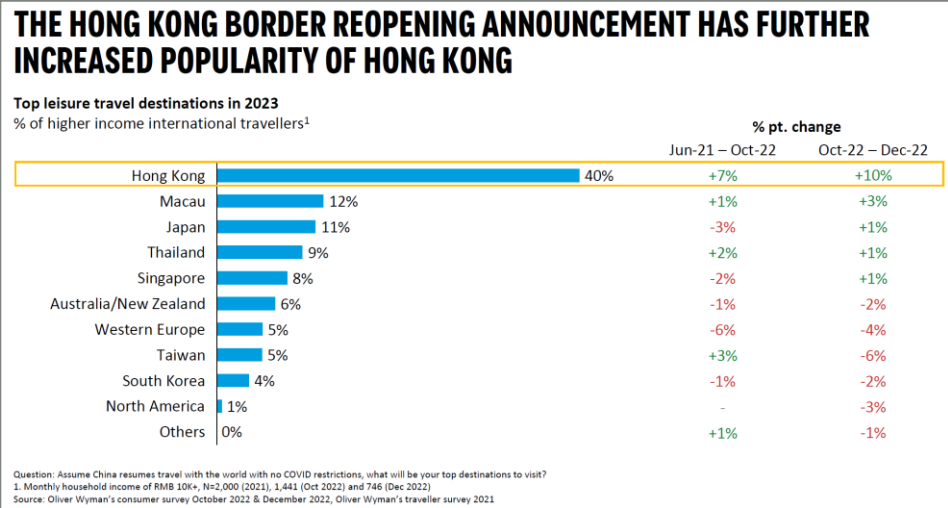


 v.s.
36%
36%
37%

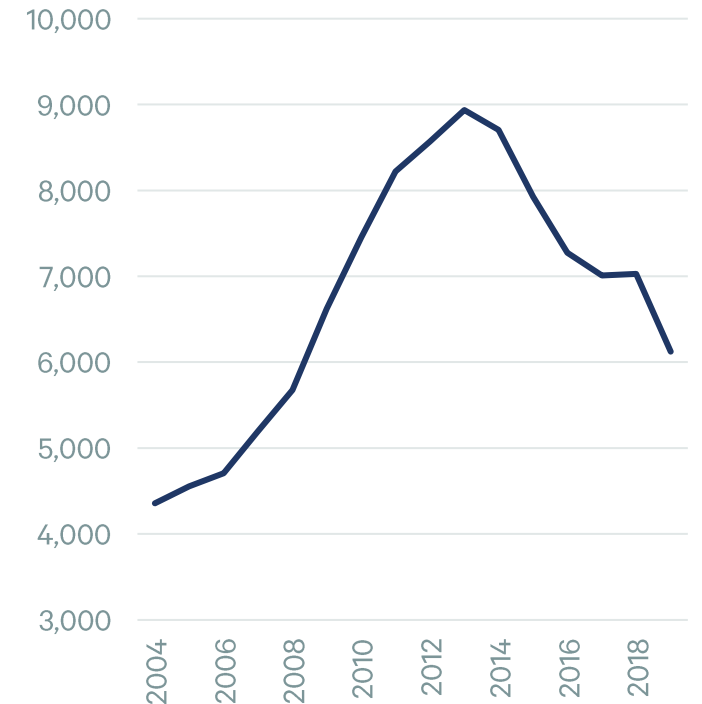
Source: Immigration Department, CEIC

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They will be back... just need a little bit more time

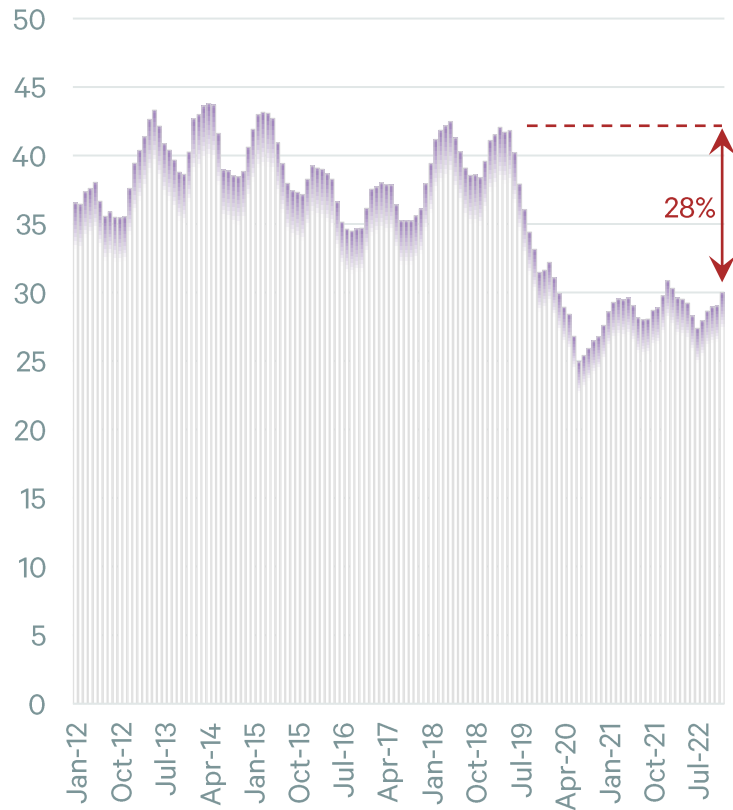


AVERAGE OVERNIGHT MAINLAND CHINESE TOURIST SPENDING (HKD)

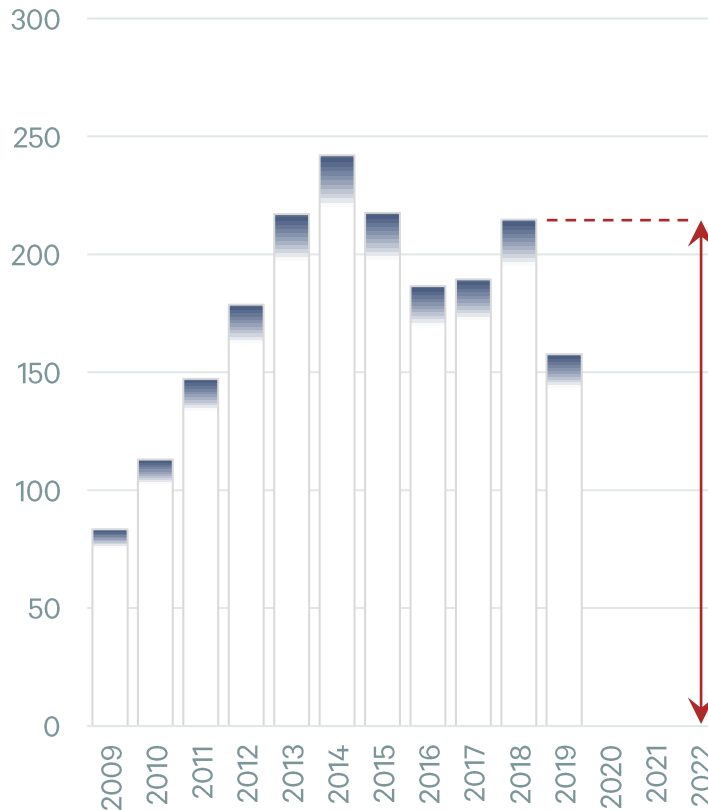


Tourist consumption is key to retail market recovery

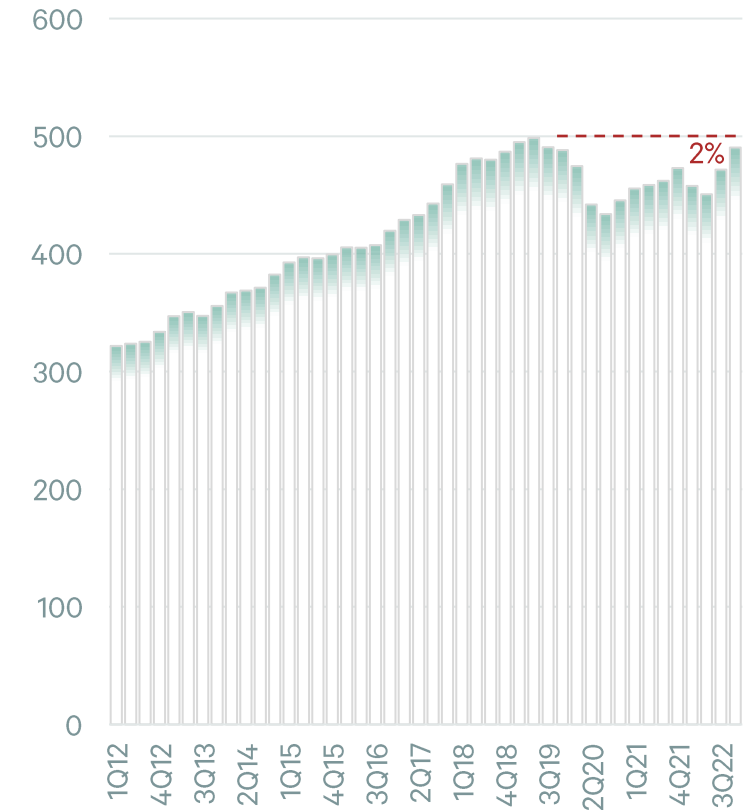
6-MTH MOVING AVG. TOTAL RETAIL SALES (HKD BIL)



TOURIST CONSUMPTION (HKD BIL)



2-QTR MOVING AVG. DOMESTIC CONSUMPTION (HKD BIL)



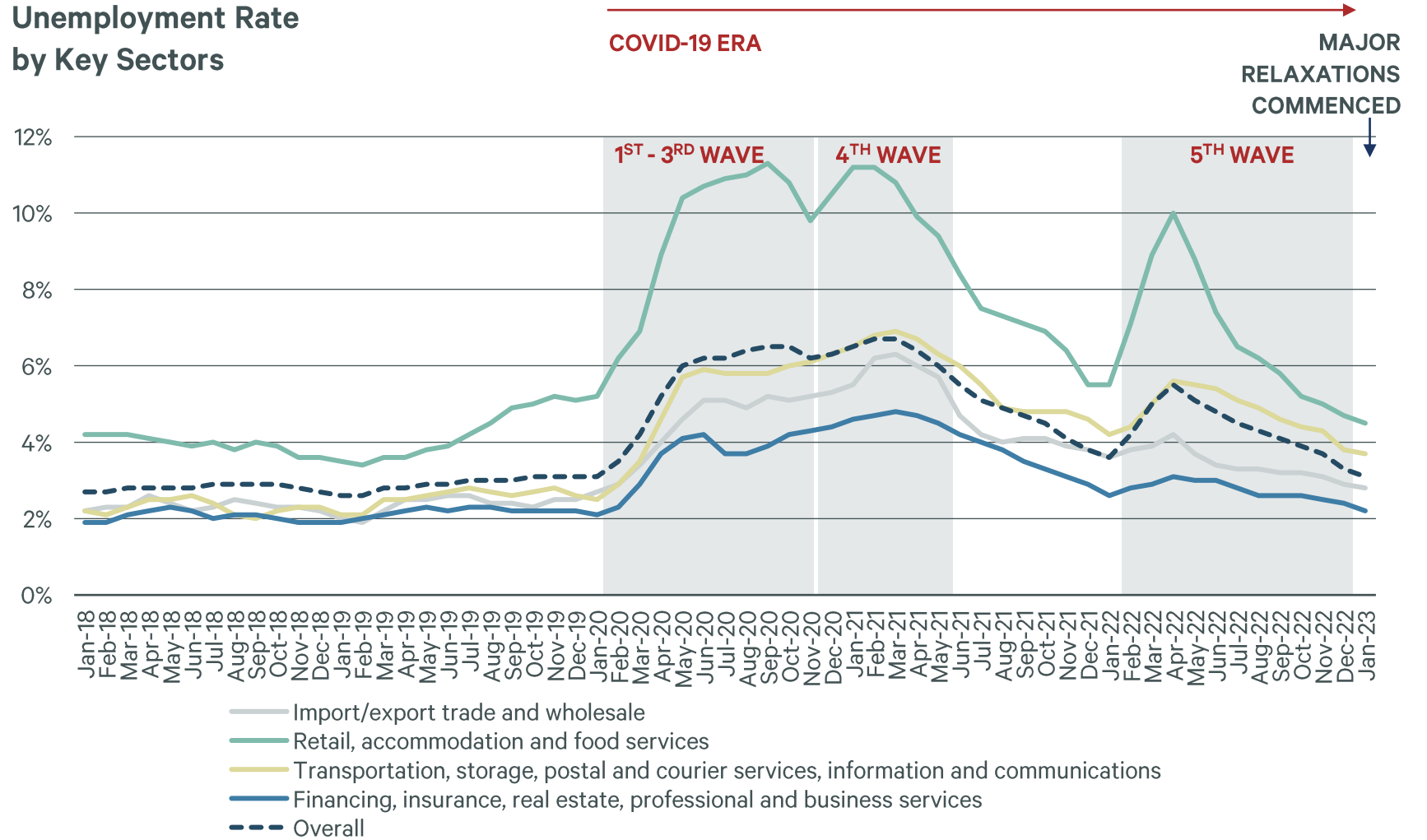
Source: Census and Statistics Department, CBRE Research estimates

Labour market conditions largely restored

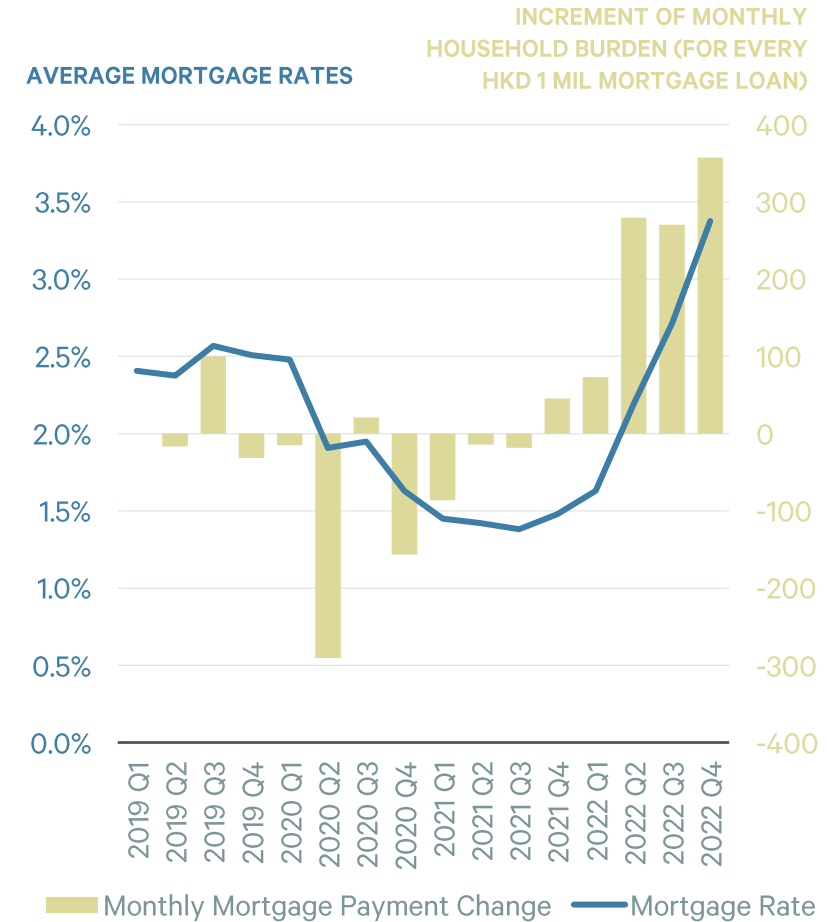
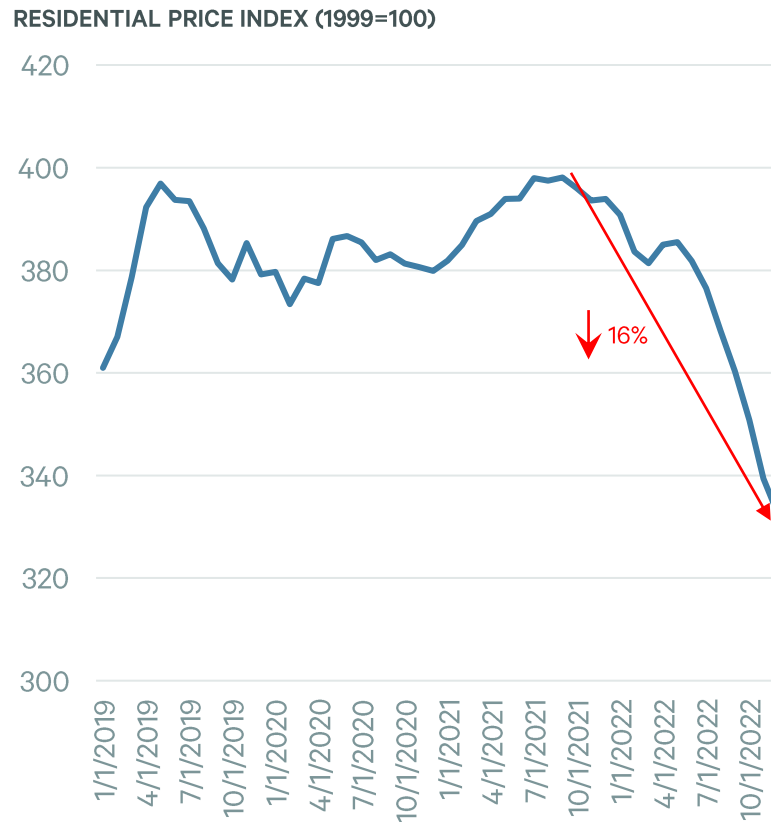
Benchmark levels:

	Dec-19	Jan-23
FIREBS	2.2%	2.2%
RETAIL/ HOSPITALITY	5.1%	4.5%
TRADE	2.5%	2.8%
Overall	3.1%	3.1%

Unemployment Rate by Key Sectors



Diminishing wealth effect might limit the demand for discretionary items

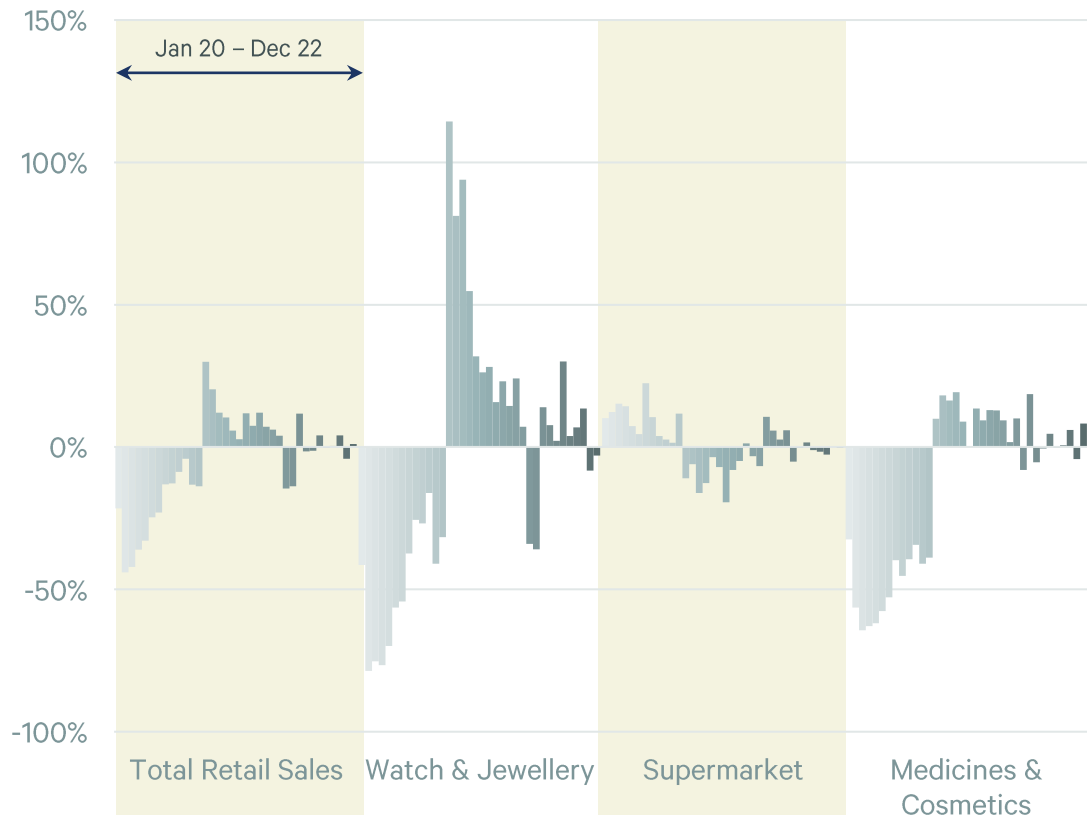


Source: Yahoo Finance, Rating and Valuation Department, Census and Statistics Department, CBRE Research estimates

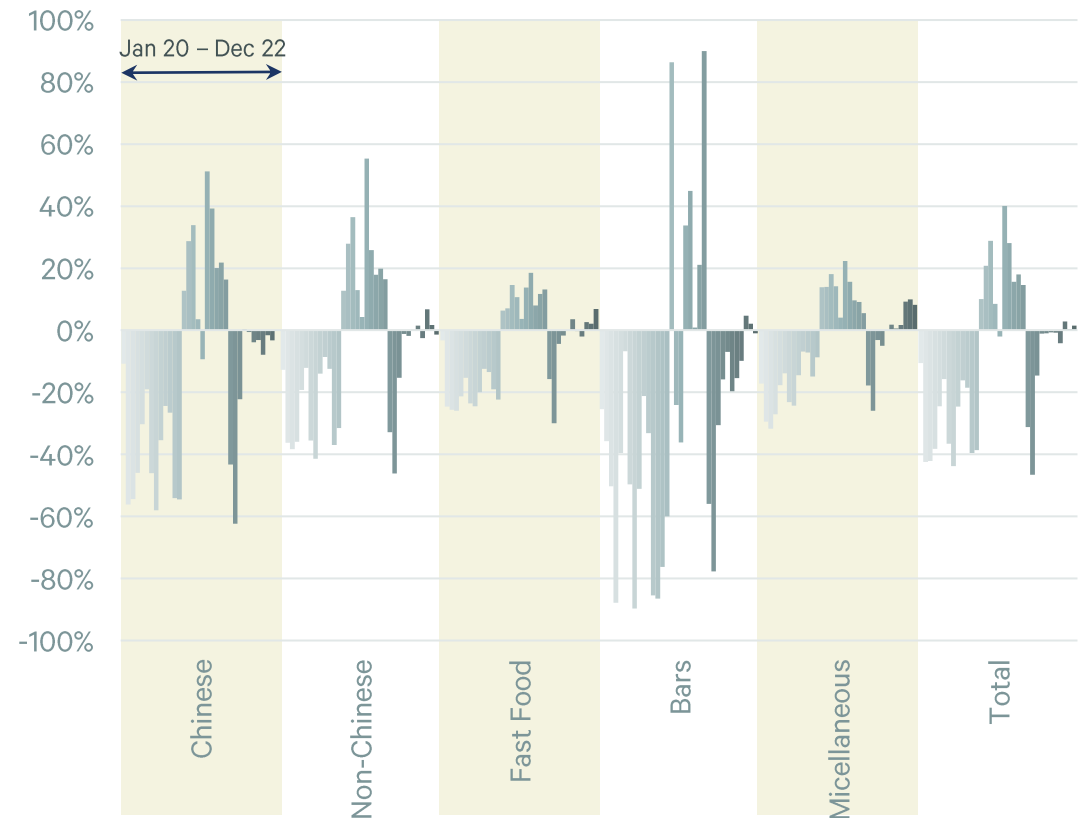
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A prelude to the upcoming spending spree

RETAIL SALES GROWTH (Y-O-Y)



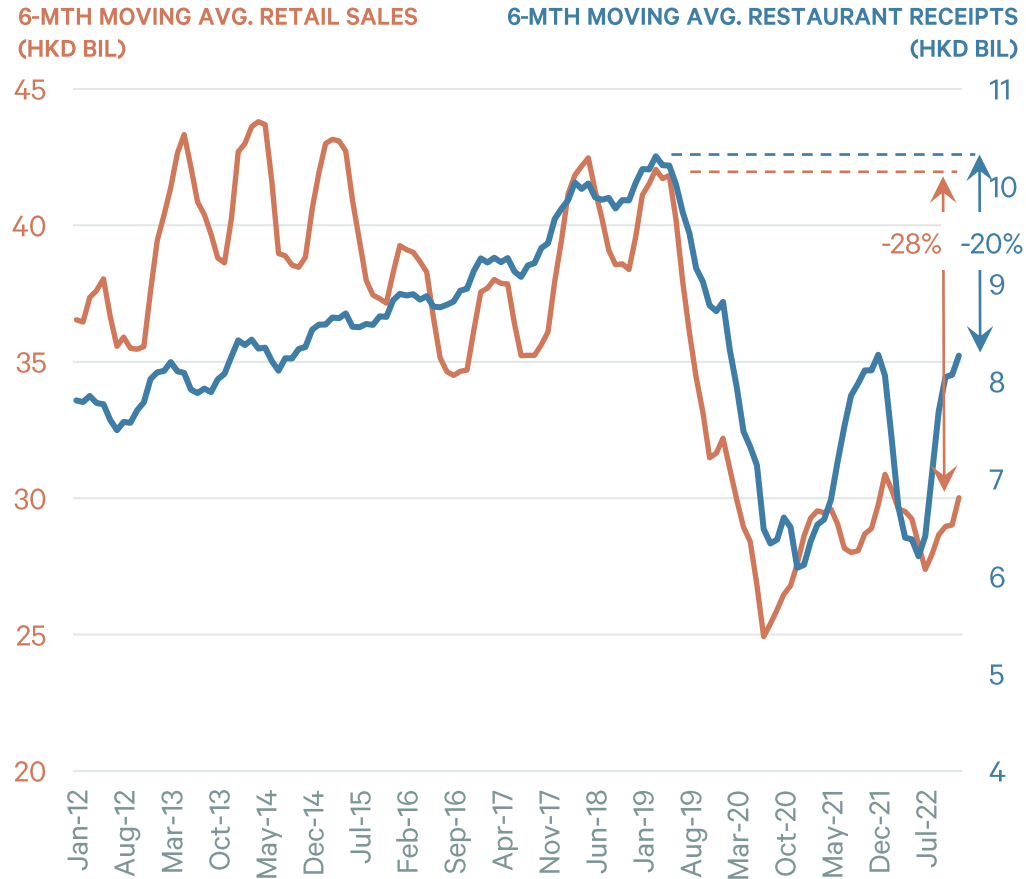
RESTAURANT RECEIPTS GROWTH (Y-O-Y)



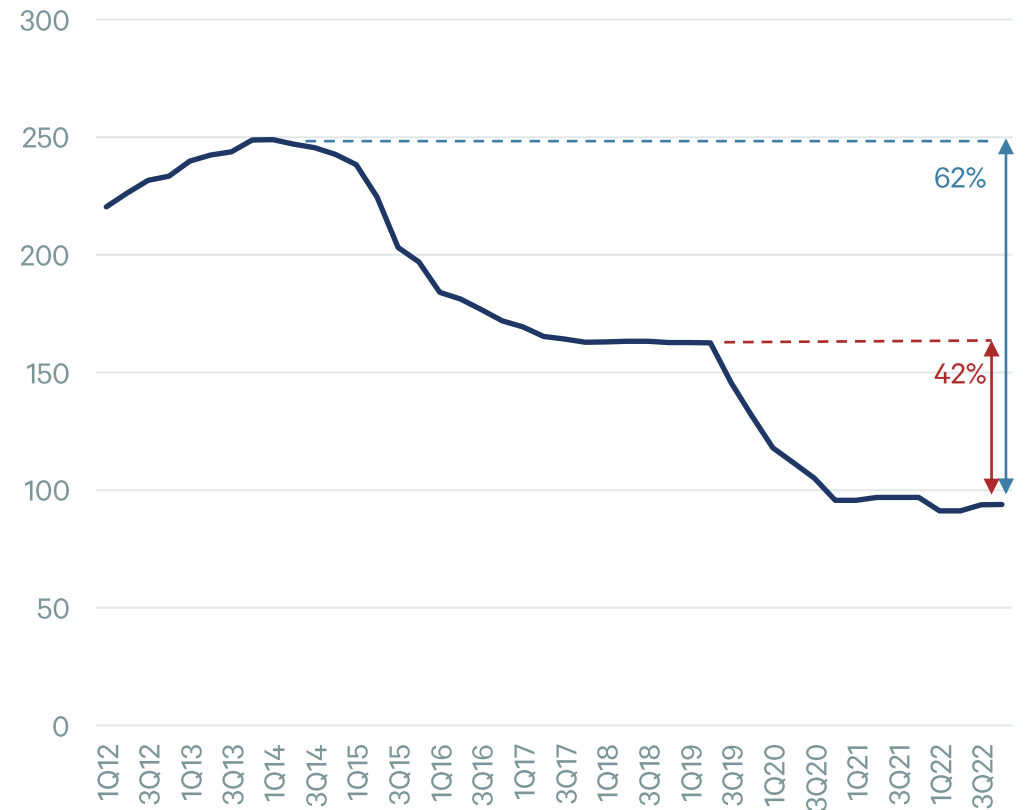
Source: Census and Statistics Department

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Retailer expansion is now cost justifiable



HIGH STREET SHOP RENTS (CORE DISTRICTS, INDEX - 1996 = 100)



Source: Census and Statistics Department, CBRE Research estimates

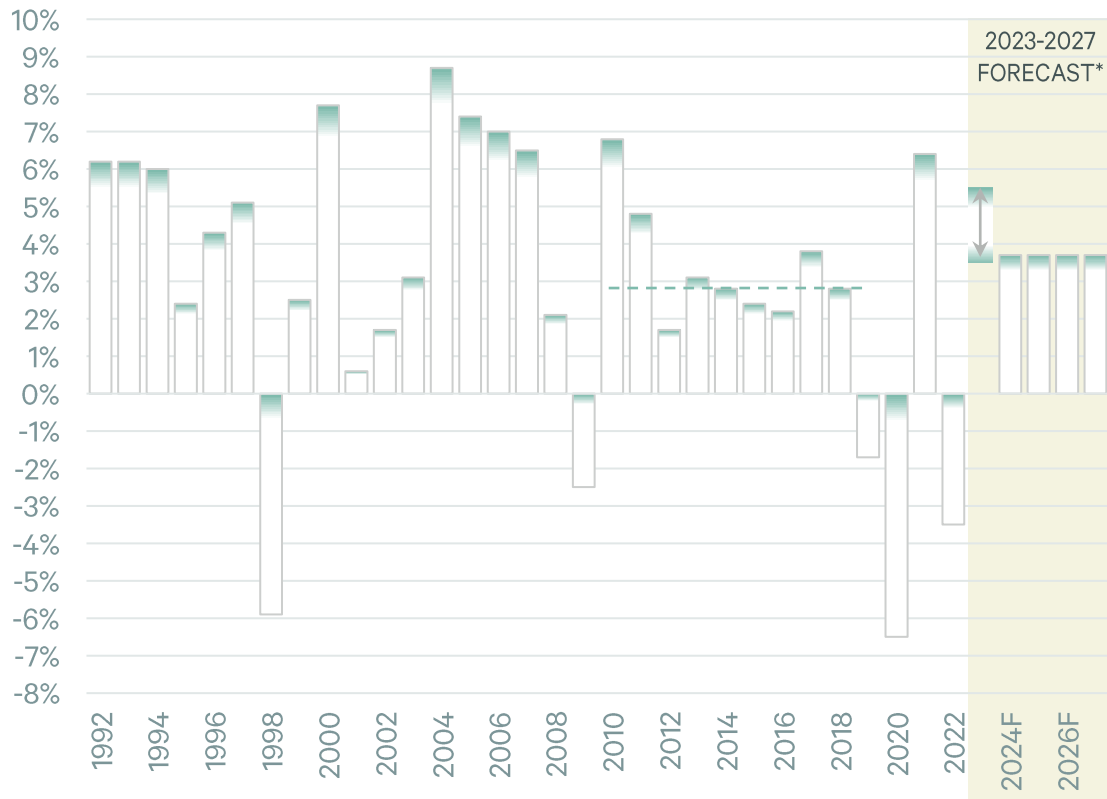
Time to buy

5



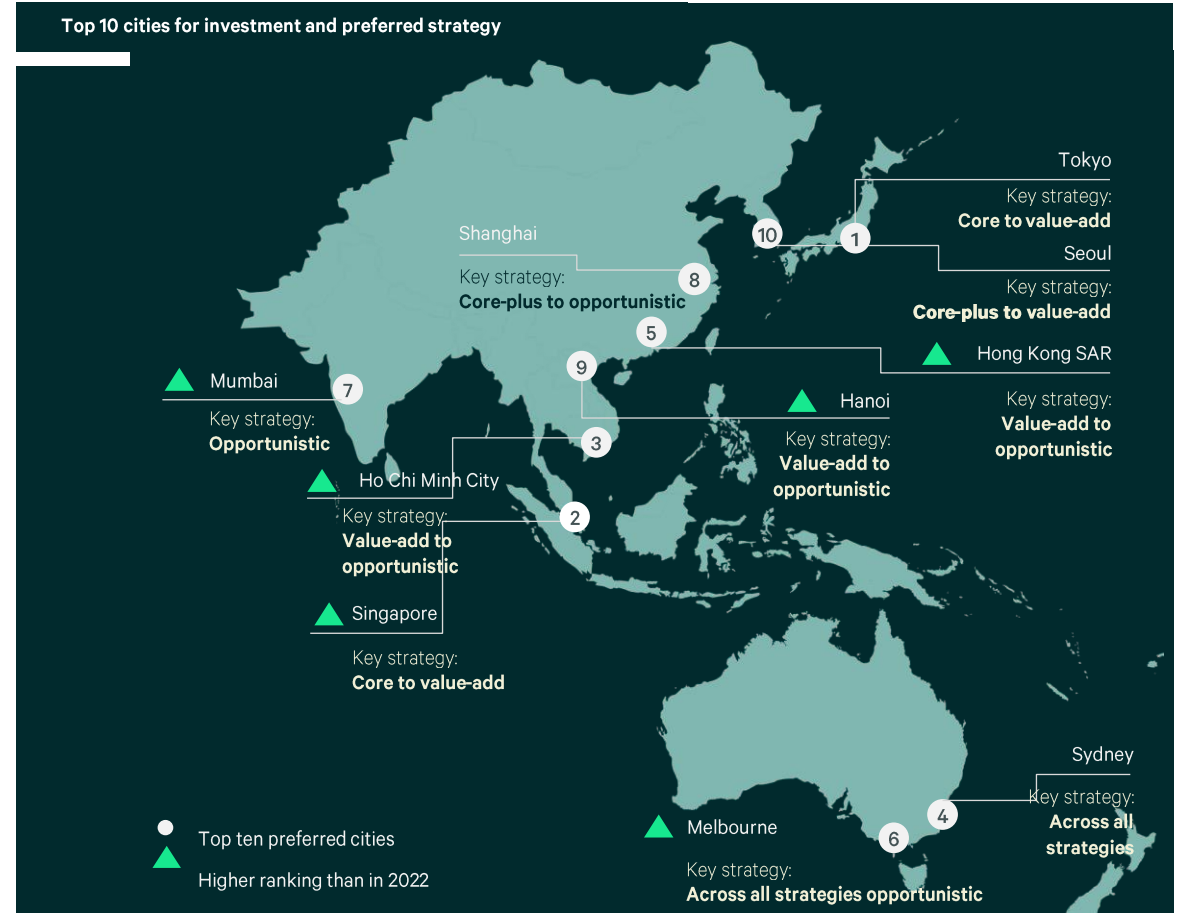
Better days ahead

HK REAL GDP GROWTH



* by Hong Kong SAR Government

Top 10 cities for investment and preferred strategy

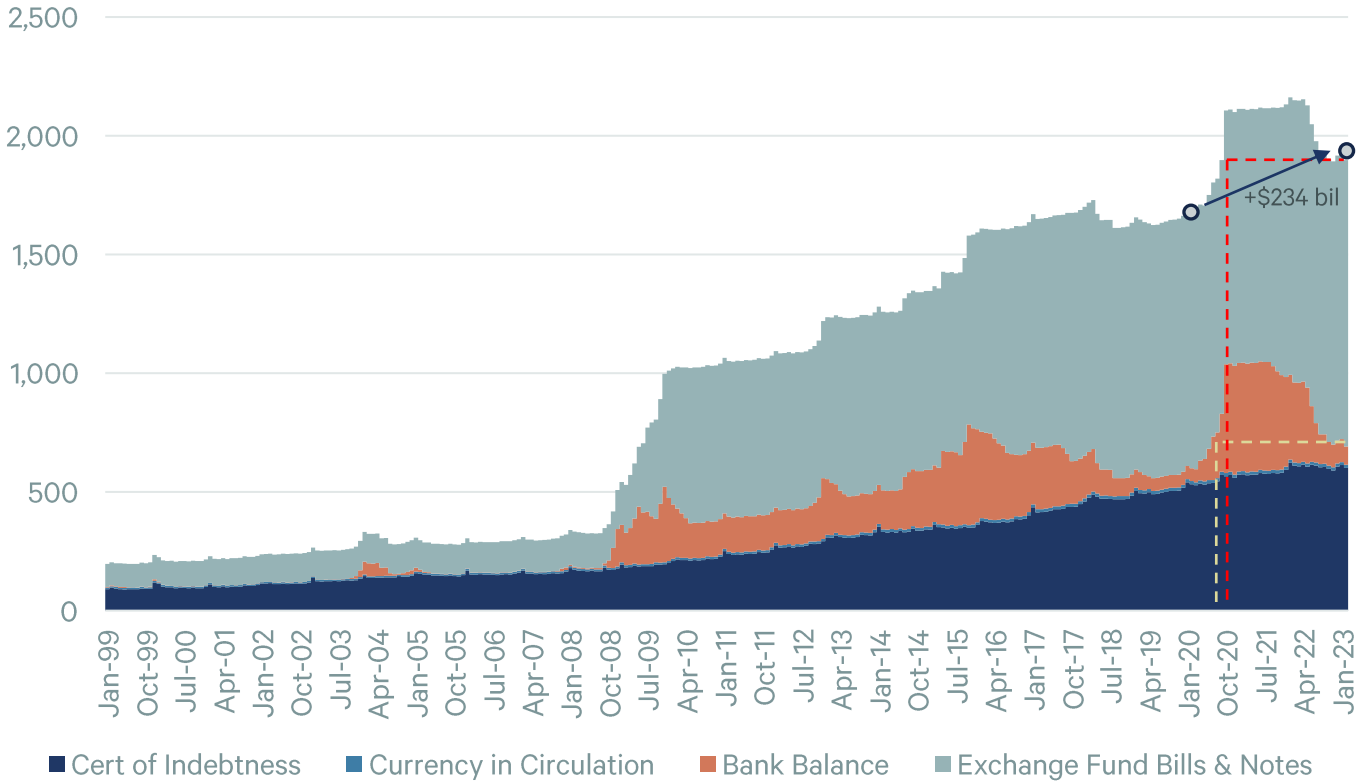


Source: CBRE 2023 Asia Pacific Investor Intentions Survey, Census and Statistics Department, Hong Kong Budget Speech 2023/2024, Oxford Economics

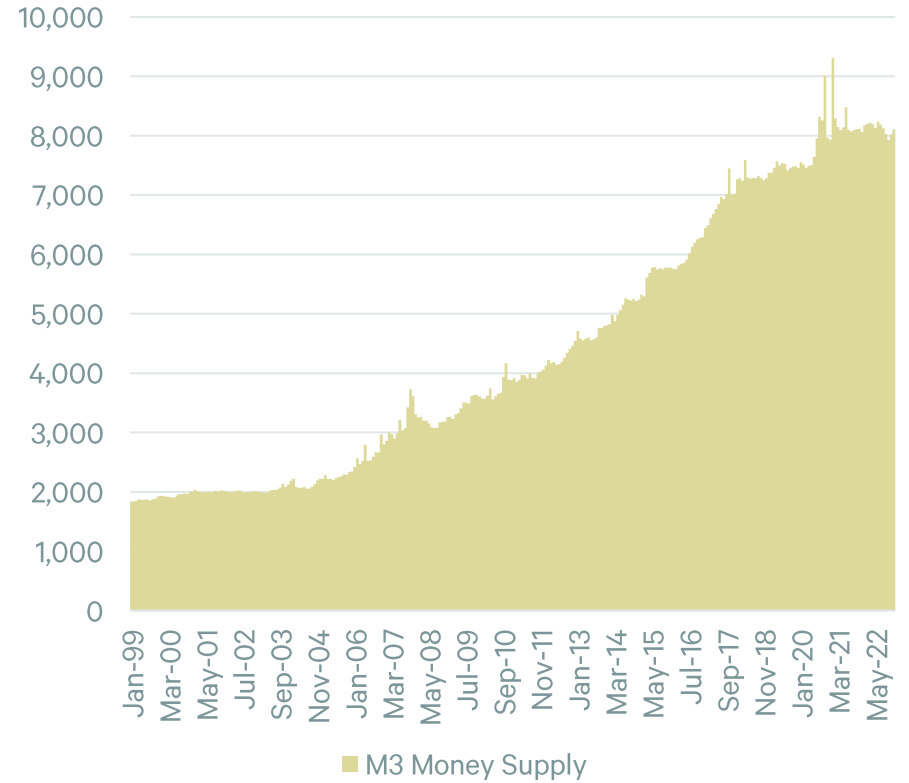
TIME TO BUY

Still lots of cash in the vault...

HK MONETARY BASE (HKD BIL)



HK M3 MONEY SUPPLY (HKD BIL)



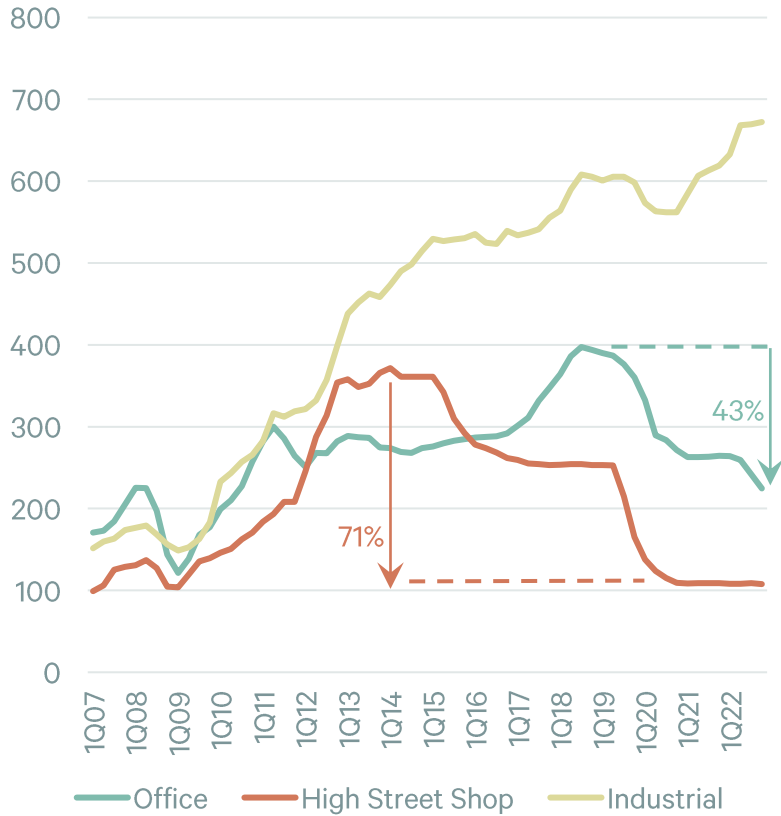
Source: Hong Kong Monetary Authority, Census and Statistics Department, CBRE Research estimates

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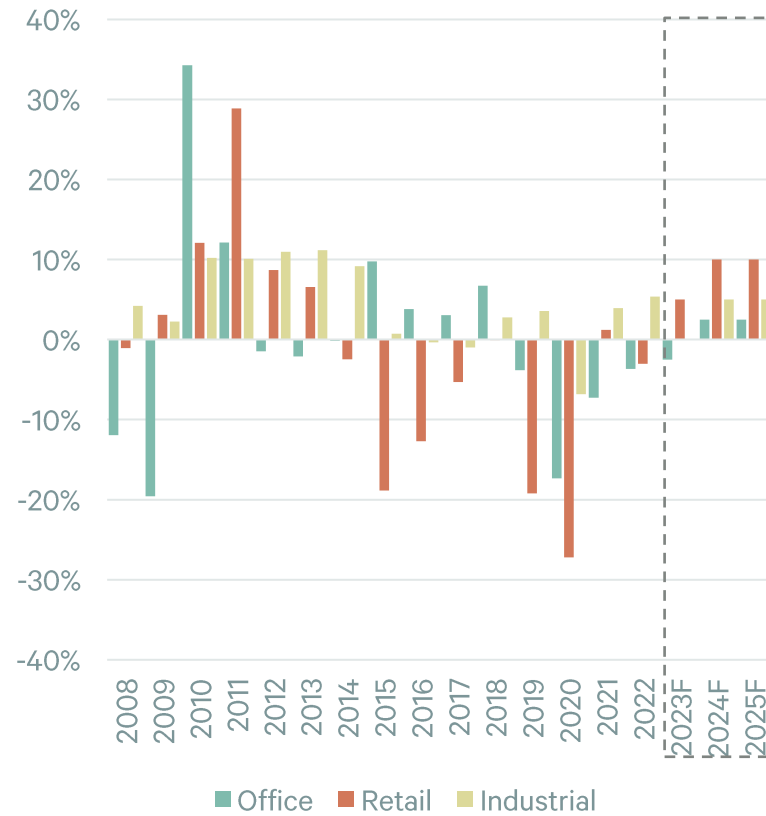
— TIME TO BUY

... for some deeply discounted assets with rents bottoming out

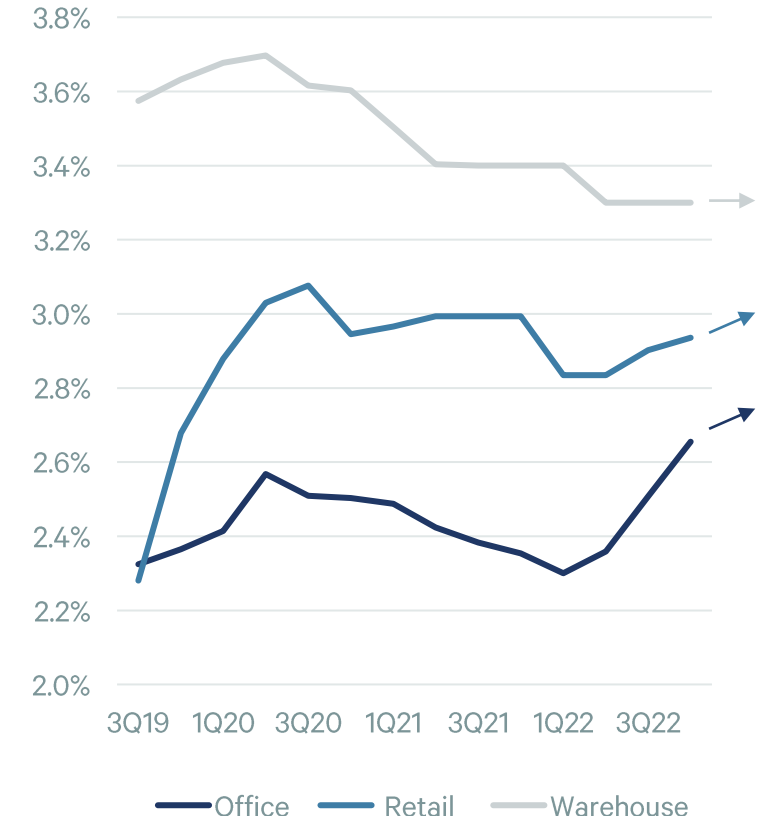
CAPITAL VALUE INDEX (2005 = 100)



RENTAL GROWTH (Y-O-Y)



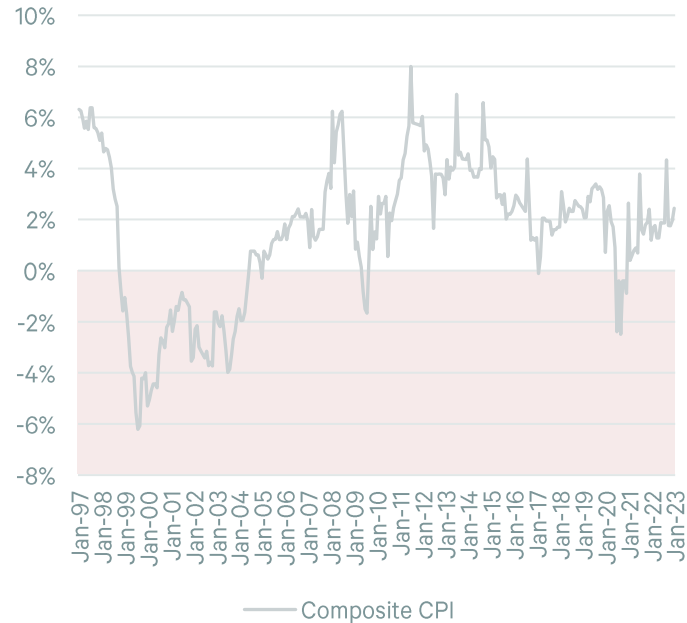
MARKET YIELD



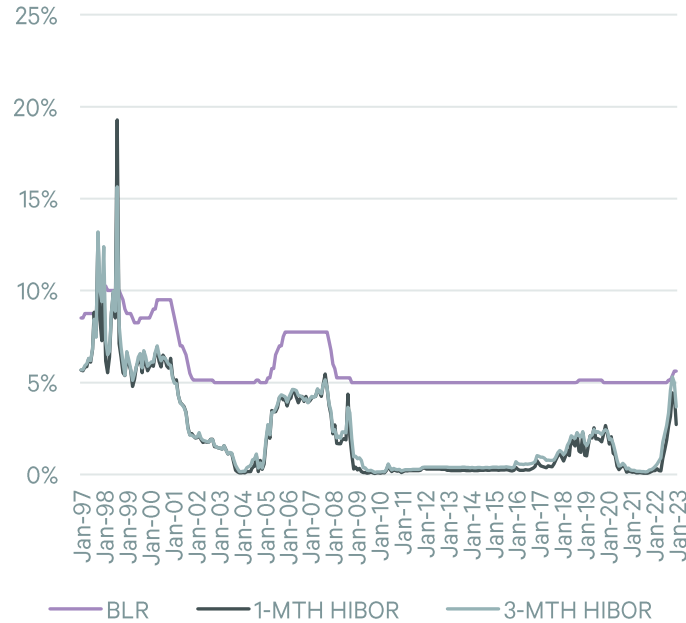
Source: CBRE Research
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Currency peg boosts real rates, despite a low-inflation environment

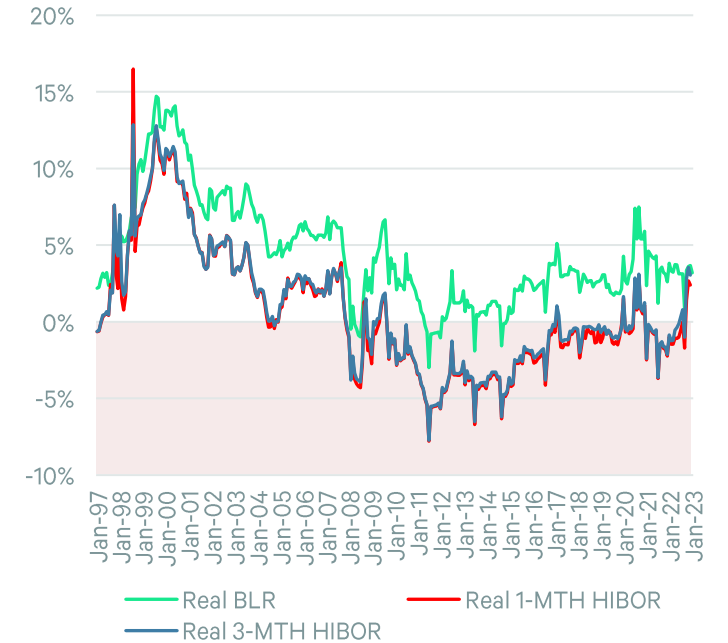
HK INFLATION RATE



HK NOMINAL INTEREST RATES



HK REAL INTEREST RATES



Source: Hong Kong Monetary Authority, Census and Statistics Department, CBRE Research estimates

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Thank you