

RHL International

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MARKET EXPRESS

房地產市場快訊

中環海濱摩天輪

HONG KONG
OBSERVATION WHEEL



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HONG KONG PROPERTY

香港物業市場透視

CHINA PROPERTY

中國物業市場透視

GROUP INTRODUCTION

RHL International is one of the pioneering professional valuation and real estate consultants in Asia. Established since 1972, our group offers high quality professional services on Corporate Valuation & Advisory and Real Estate Solution & Surveying Practice. As an active participant in exchanging ideas and experience with regulators, government institutions and corporations, our group maintains vigilant to the dynamic changes in the market. Leveraging our extensive track record, technical resources and market intelligence, we are dedicated to provide tailored services to meet with the unique needs of our clients.

PROFESSIONAL TEAM

Our team comprises of professionals who have finance and/or real estate related academic background and internationally recognized qualifications, such as CPA, FRM, registered professional surveyors, and with diverse experience and up-to-date knowledge of the current market environment. We committed to provide our clients with high standard services.

The Group is committed to provide high standard of professional services in compliance with international standard and Government Statutory requirements.

CORPORATE & VALUATION ADVISORY

Our experience in operating businesses in the mainland China and cooperating with overseas parties has become our competitive advantage in offering comprehensive client solution to overseas as well as mainland clients. We cover real estate as well as other industries such as natural resources, green energy and finance area.

- Valuation (including Real Estate, Business Valuation, Plant & Machinery)
- Real Estate Solutions and Surveying Practice
- Industry Market Research & Analysis
- Project Feasibility Study and Advisory
- Financial Analysis
- Investment Advisory
- Due Diligence
- Portfolio, Asset and Facilities Management

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HONG KONG PROPERTY

**Opportunity Comes to
those Well-Prepared**

HONG KONG PROPERTY -MARKET WATCH

Opportunity Comes to those Well-Prepared

Only about a month time, the Novel Coronavirus, now officially named as “COVID-19”, outbreak, severely affects almost all businesses particularly those located in Hong Kong, Macau and mainland China. Indeed, the epidemic has further spread significantly in South Korea, Japan and Italy in the last two weeks. In Hong Kong, there are special measures such as work from home as far as possible and cross-boundary special transport arrangement to minimize cross-boundary peoples flow, in order to reduce social contacts and the risk of spreading in the community. Local enterprises, retail, tourism and trade sectors in particularly, after being battered by months of social unrest and now are further hard hit, if not terminated, by the virus outbreak. According to the February statistics, the employment situation of the consumption- and tourism-related sectors is already difficult. The unemployment rate of these sectors combined stayed at 5.2%, and the unemployment rate of the construction sector increased further to 5.7%. Obviously, figures for overall unemployment rate are expected to only worsen.

Unemployment, as we have repeatedly mentioned, would be the force to push down the housing price. When alerted investors eager to grip the still remaining profit and the mortgagors commence to give pressure to their unemployed mortgagees, supply may increase with a soften asking price.

At the same time, under the unemployment and uncertainty prospect, the number of willing and able potential buyers will reduce undoubtedly.

Recently, the finance market has moved their focus from the likely disruption of world supply chain to the spreading of epidemic worldwide which may reduce the economic activities and pose the spread of unemployment symptom and downside risk for the regional and world economy in consequences.

"Strategic Investment Advisory & Agency"

- *Provide Market Research and Analysis*
 - *As a Matching Platform to Source Opportunities*
- 

Currently, the residential property market is not under a panic situation like the SARS period. Major local lenders, such as HSBC, Standard Chartered Hong Kong and Bank of China (Hong Kong), have immediately introduced a principal moratorium policy for mortgage loans and other types of personal and small and medium-sized enterprises lending, of which shall help to defer the collapse of property price and force sales situation, i.e. to minimize the outbreak of bad debt and unemployment.

Indeed, the strict lending policy implemented in the past years do provide buffer of price drop. Even so, private developers may manage to reduce the supply to tailor with the market demand.

Referring to the Statistics on Private Housing Supply in Primary Market as at December 31 in 2019, while the number of private residential units commenced construction appears stable (18,500 for the year 2019 vs 18,400 for the year 2018), number of private residential units completed was dropped from 21,000 in 2018 to 13,600 in 2019. In fact, the Government has been facing the shortage of developable land and incapable to meet the supply target for the demand as estimated under the Long term Housing Strategy. Furthermore, to support the countercyclical measures to stabilize employment and support economy, aiming at dealing with the impact of the outbreak of COVID-19 as well as the social unrest in the past months, Hong Kong is seeing its highest ever budget deficit in the coming fiscal year, reaching HK\$139.1 billion, as announced on February 26 by Financial Secretary Paul Chan Mo Po.

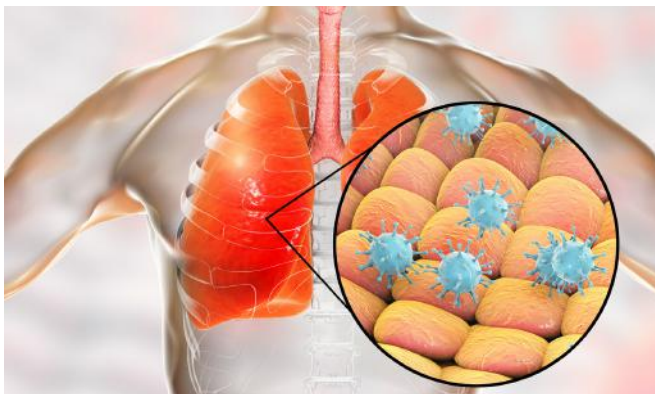
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- *Negotiation between Transaction Parties*
- *Provide Transaction Advisory Services*

Nevertheless, bargain sales are expected and opportunity goes to those who are well-prepared and have cash in hands. How deep should the property price be adjusted and whether it can be bounced back to the current level someday involves the analysis and foresight of the Hong Kong strategic position, which we may discuss in the coming Market Express.

In the coming weeks, investors must closely monitor whether the spread of COVID-19 slows down or indeed further spread to overseas countries.

Wishing that the epidemic will soon fade away and all people can live and work in peace.



Source of Picture: Online Pictures

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- *Negotiation between Transaction Parties*
- *Provide Transaction Advisory Services*

HONG KONG SNAPSHOTS

Yau Ma Tei 3-star Hotel Closes in March

Being affected by the political unrest and the recent outbreak of Coronavirus, number of visitors plumped. A 3-star hotel locating at Nos. 483-485 Nathan Road, Yau Ma Tei opts out from renewing its tenancy and closing its business in March. The hotel opened in 2013 is subject to the current tenancy with the monthly rental at about HK\$1.68 million for the 5/F to 16/F which provide 87 hotel rooms. The owner is now asking for the monthly rental at HK\$950,000, which is about 40% lower than the current tenancy, sources.



A 3-star hotel locating at Nos.483-485 Nathan Road, Yau Ma Tei is closing its business in March.
(Source: RHL Photo Base)

"Professional Practice in Land and Planning Matter"

- *Lease Modification / Land Exchange*
- *Premium Assessment*
- *Temporary Waiver Application*

HONG KONG SNAPSHOTS

Rental Cuts in Shopping Malls to Help Tenants

Due to the outbreak of Coronavirus, the flow of shoppers had dropped in many of the shopping arcades and deteriorated the businesses of tenants. Numerous landlords hence had announced a range of rent relieving measures to the tenants. The landlord of Harbour City in Tsim Sha Tsui had decided to reduce half of the rental in February. On the other hand, some other major developers have introduced the rent relieving measures to their malls' tenants by a range of 20% to 60% off of the base rent in February while some are considering relevant necessary actions to ease the operational pressures of their tenants.



Due to the outbreak of Coronavirus, numerous landlords had announced rent relieving measures to their tenants.

(Online Photos, edited by RHL)

First Decline of Private Residential Rateable Rent in Decade

According to the newly-issued information by the Rating and Valuation Department, 1% decrease of rateable rent of private residential has been recorded in the fiscal year of 2020/21, first appearance since year 2010/2011. Six major blue-chip estates out of ten has been recorded to have a decrease in rateable rent. The most significant decrease happened in The Metro City, Tseung Kwan O, with 4% dropped by year. The bigger the units, the greater the decrease rate has been noted. Rateable rent with the unit size of or above 1,076 sq. ft. (Class D & E) decreased by 1.5%, size of 753 sq.ft. to 1,075 sq.ft. (Class C) units fell by 1.3%, and units smaller than 752 sq.ft. (Class A & B) dropped by 0.8%.

All Around 18 Districts: Central & Western District

Territory covers : Mainly the Central, western and Mid-Levels areas. Central includes Admiralty, Central and Sheung Wan; Western includes Sai Ying Pun, Shek Tong Tsui, Kennedy Town, Mount Davis, Green Island and Little Green Island; Mid-Levels include the Peak and northern Pok Fu Lam around the University of Hong Kong.



Area : 1,255 hectares.

Population : about 241,500^, accounting for 3.3% of the territorial population.

Median Monthly Household Income : HK\$53,000^.

District in Evolution: The Central & Western District, one of the earliest developed areas in the territory, is a commercial, financial, legal and political centre of Hong Kong. Lots of famous buildings are situated in the district, including the old Supreme Court building, the Government House which was previously the residence of former Governors but is currently used as an official place to receive honourable guests, the former French Mission Building and the Central Government Offices in Tamar.

*Source: Central & Western District Council

^Results of the Population and Household Statistics analysed by District Council District 2017



Hot Pick of the District: The Belcher's

No.89 Pok Fu Lam Road,
former site of non-departmental quarters,
completed by 2 phases in 2000-2001.

Number of Blocks: 6
Number of Units: about 2,214

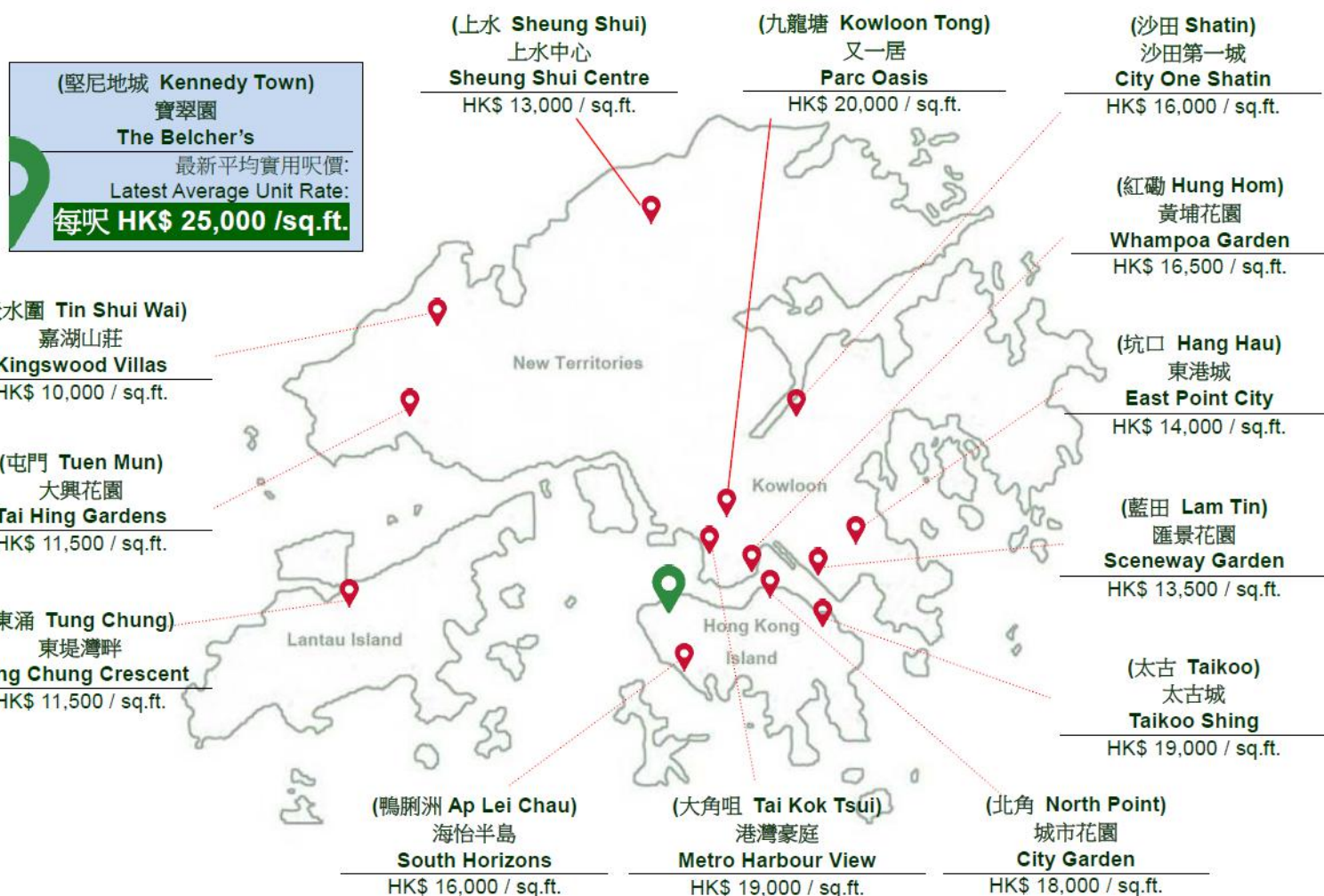
Facilities:
Residents' Club House
Other Facilities:
Shopping mall, car park,
kindergarten.



Source of Picture: Online Pictures

HONG KONG

TRANSACTIONS OVERVIEW



* Average saleable unit rate of standard units
以上為各標準單位平均實用呎價



CHINA PROPERTY

**Biggest Decline in
Average Rent
of Commercial Office in
China Since 2009,
Investors to
Apply Wait-and-See
Strategy**

CHINA PROPERTY - MARKET WATCH

Biggest Decline in Average Rent of Commercial Office in China Since 2009, Investors to Apply Wait-and-See Strategy

According to relevant research data, the commercial office market in mainland China has witnessed a significant regression in 2019. On one hand, vacancy rates of the overall office market in both first-tier cities and second-tier cities have climbed to highest point in the last decade, representing 10.0% and 28.0% respectively. On the other hand, the average rent of commercial office in major cities has also recorded the biggest decennial decline.

1. Vacancy rates of commercial office in major cities were hovering at a high level

Taking Beijing as an example, in 2019, the commercial real estate market has entered into an unusual hard time. The annual net absorption of Grade-A office has decreased by 32.0% y-o-y; along with an increasing vacancy rate jumped from 6.0% to 11.3%, the highest level since 2010. Hot on the heels of Beijing, the twin city – Tianjin, has also experienced an oversupply market and suffered from a doubled vacancy rate compared to 2018.

According to the data report of Q3 2019, there was no new project delivery in Guangzhou Grade-A office market. The overall vacancy rate was 8%, dropping by 1% m-o-m. In contrast, the supply of office monument has increased dramatically in Shenzhen. The overall vacancy rate of Grade-A office was 21.3% in Q3 and rose to 22.04% in Q4. The vacancy rates in the Bao'an Central Area and Qianhai Cooperation Area reached 40% and 70% respectively.

CHINA PROPERTY - MARKET WATCH

2. Commercial office rents decreased significantly in first-and second- tier cities.

Rising vacancy rates have also put sustained downward pressure on rents for first-and second-tier commercial properties. According to relevant data, in Q4 2019, regarding to the commercial office properties in the CBD of first-tier cities, the rents of 25% of the properties increased m-o-m and the rents of 75% of properties decrease m-o-m; as for the commercial office properties in the CBD of second-tier cities, 50% rents increased m-o-m, 40.9% rents decrease m-o-m and 9.1% rents remain stable. Among them, the Grade-A office rent in Beijing has fell by 4.0% y-o-y, recorded the biggest decennial decline since 2009; the rent in Qingdao also has dropped by 4.8%, also recorded the biggest drop since 2010.

3. Imbalance between supply and demand of commercial properties in short-term, profit will be made by holding properties in long-term.

The adjustment of the economic structure and the change of industries have caused the rising vacancy rate of office. On the one hand, China continues to implement supply-side reforms and standardize core industries such as finance and real estate, the speed of corporate mergers and acquisitions and personnel adjustments has accelerated and firms have start to control costs more strictly, which have dent office leasing demand.

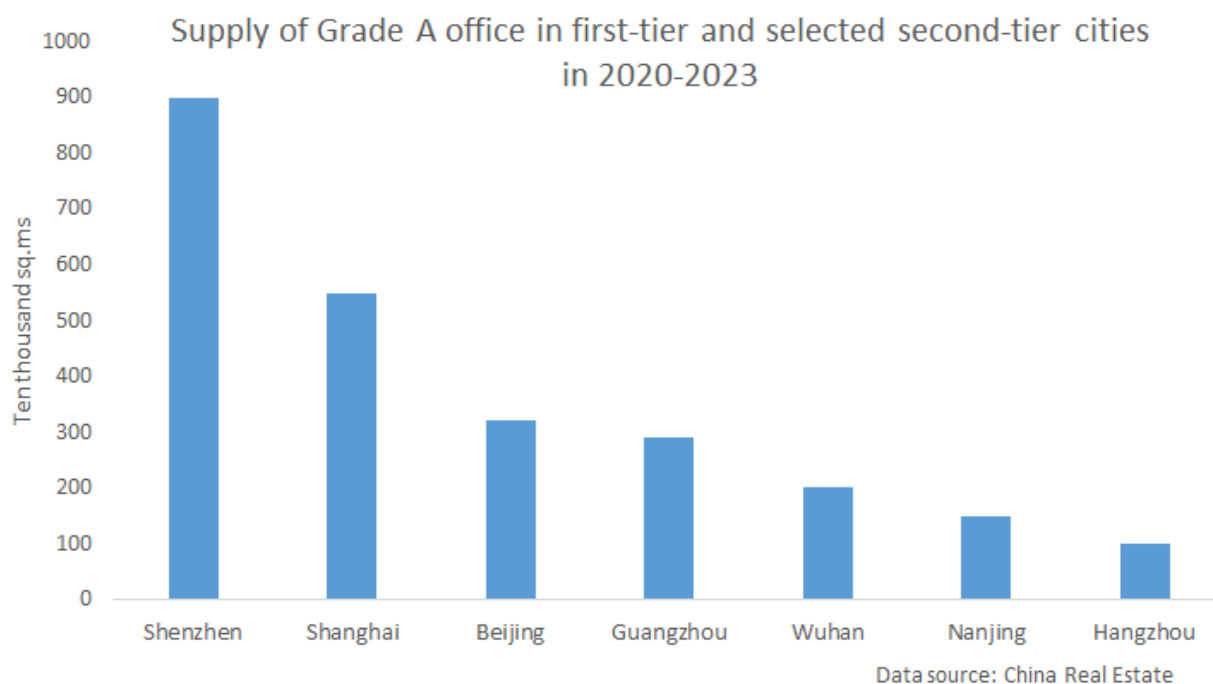


Source of Picture: Online Pictures

CHINA PROPERTY - MARKET WATCH

On the other hand, core high-tech industries such as the Internet, medicine and electronics are likely to make greater use of co-working space, self-building industrial parks, rather than commit to long-term fixed lease in Grade-A office market. Thus, uncertainty is set to affect office demand in short-term.

In terms of the supply, since 2019, the growth rate of office development investment in mainland China has changed from negative to positive and the construction area has also continued to increase. New economies will drive the formation of the future supply pattern of Grade-A office in mainland China.




Source of Picture: Online Pictures

CHINA PROPERTY - MARKET WATCH

The supply in Shenzhen is the largest in the world, and there will be a large number of Grade-A office supply in China's other three first-tier cities. Meanwhile, the major second-tier cities such as Wuhan, Nanjing and Hangzhou all have large supply in future. According to relevant data, Shenzhen will enter to oversupply period. The new supply of office monument in Shenzhen will reach a historical peak in 3 years, with a total supply of about 9 million sq.ms Following by Shanghai, the office market will usher in a peak supply with 5 million sq.ms of Grade A office supply. It is expected that the vacancy rate will rise to 25.6%. There are also nearly 3 million sq.ms supply in Beijing and Guangzhou.

The continuously increasing supply has increased the vacancy rate. Due to the imbalance between supply and demand, the office market is expected to remain oversupply and needed to be adjusted. Nevertheless, offices in core areas will maintain the value, with the industrial upgrading, releasing new demand and allowing to convert offices into apartments or hotels uses, which could stimulate investor to hold the properties in long-term.



This month's CAAD Property Indices are suspended due to the Coronavirus outbreak in the Mainland. We apologize for any inconvenience caused.

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