End-user acquisitions and student hostel conversions underpin investment volume

▼ 1.4% q-o-q	▶ Flat q-o-q	▼ 3.7% q-o-q	HK$12.3bn (▼ 43% q-o-q)
Office Capital Values (Stratified)	Retail Capital Values (High St. Shops)	Industrial Capital Values (Warehouses)	Investment Volume*

(*) Investment volume includes commercial property transactions worth more than USD 10 million (HK$ 77 million) and excludes government land sales, equity deals and internal transactions.

Executive Summary

- Commercial real estate investment volume (including commercial real estate transactions over HK$77 million) increased 105% y-o-y to HK$12.3 billion in Q1 2026. While this figure was slightly higher than the quarterly average of HK$11.5 billion recorded in 2025, volume fell 43% q-o-q from the previous quarter's high base.
- This quarter saw a total of 29 transactions, a drop of 26% q-o-q but an increase of 26% y-o-y. 14 of these deals involved financially stressed assets amounting to HK$8.7 billion.
- End-users remained the most dominant source of demand, accounting for 43% of overall investment volume. Notable end-user deals included the University of Hong Kong acquiring an under-construction office building at 92-103A Connaught Road West in Sai Ying Pun for HK$3.8 billion, and Dah Sing Bank purchasing 10 office floors and a ground-floor unit of Viva Place in Wong Chuk Hang for about HK$839 million.
- Hotel investment gained traction over the quarter as institutional investors targeted student hostel conversions. Notable transactions for student hostel conversions included Centaline Investment buying Regal Oriental Hotel in Kowloon City for HK$1.5 billion, and CR Longdation obtaining Hotel COZi · Oasis in Kwai Chung for HK$954 million.

The Backdrop

- The U.S. federal funds rate remained steady throughout Q1 2026, with a reduced likelihood of rate cuts over the remainder of the year due to persistent inflation and geopolitical volatility.
- The benchmark 1M-HIBOR dropped from 3.08% on December 31, 2025, to 2.24% on March 31, 2026. This helped improve the negative carry position of some commercial properties in Hong Kong, although many remained in negative territory.
- Professional investors increased their investment this quarter, outpacing end-users for the first time since Q1 2025. Property funds were especially active in the living sector.
- Improved purchasing demand has led to a continual increase in developers' investment appetite. During the quarter, the government sold three residential sites in Jordan Valley, Ngau Tau Kok, and Shau Kei Wan for a total land premium of HK$4.8 billion.
- In March 2025, Range Intelligent Computing Technology Group, a mainland Chinese data centre company, won a tender for a data facility cluster site in Sandy Ridge through a two-envelope approach. The land premium was HK$581 million. The developer plans to invest an estimated total of HK$23.8 billion in development and operations in the first three years.

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Investment Trends

Commercial real estate investment volume increased 105% y-o-y to HK$12.3 billion in Q1 2026. While this figure was slightly higher than the quarterly average of HK$11.5 billion recorded in 2025, volume fell 43% q-o-q from the previous quarter's high base. This quarter saw a total of 29 transactions, a drop of 26% q-o-q but a rise of 26% y-o-y.

Many transactions continued to involve financially stressed assets. Of the 29 deals in Q1 2026, 14 with a total value of HK$8.7 billion were sold to help owners meet loan obligations.

Office assets were the most traded of any sector in Q1 2026, representing 53% of total investment volume, as activity was underpinned by sustained end-user demand. Notable end-user deals included the University of Hong Kong acquiring an under-construction office building at 92-103A Connaught Road West in Sai Ying Pun for HK$3.8 billion, and Dah Sing Bank purchasing 10 office floors and a ground-floor unit of Viva Place in Wong Chuk Hang for about HK$839 million. Office investment totalled HK$6.5 billion, falling 62% q-o-q from the previous quarter's high base despite rising 411% y-o-y.

Hotel investment gained traction over the quarter as institutional investors targeted student hostel conversions to meet growing demand driven by the influx of non-local students. Investment in the sector totalled HK$3.5 billion in Q1 2026, an increase of 24% y-o-y and marking the highest volume since Q4 2022. Major transactions included Centaline Investment's purchase of Regal Oriental Hotel in Kowloon City for HK$1.5 billion.

In addition to hotels, investors displayed solid interest in single-owned residential properties, also for student hostel conversions. Noteworthy transactions in this space included Gate3 Asset Management's purchase of 60 West in Sai Ying Pun for HK$431 million.

The retail and industrial investment markets remained in the doldrums with only a handful of small transactions (over the USD 10 million threshold) signed. Investment in the retail sector totalled just HK$669 million, a decline of 57% q-o-q and marking the lowest quarterly level since 2005. Capital spent on industrial properties totalled HK$422 million, a decline of 76% q-o-q.

FIGURE 1: Selected Investment Transactions

Property Name	Sector	Price (HK$ mil)	Area (sq. ft.)	Unit Price (HK$/sq. ft.)	Buyer
En-bloc, 92-103A Connaught Road West	Office	3,800	389,090	9,766	The University of Hong Kong
En-bloc, Regal Oriental Hotel	Hotel	1,518	229,067	6,627	Centaline Investment
En-bloc, Hotel COZi · Oasis	Hotel	954	292,961	3,255	CR Longdation
G/F & 6/F-18/F, Viva Place	Office	839	117,672	7,128	Dah Sing Bank
En-bloc, 299 QRC	Office	611	94,417	6,476	Private Investor
En-bloc, 60 West	Residential	431	57,356	7,514	Gate3 Asset Management
En-bloc, 250 Hennessy	Office	410	55,678	7,364	Private Investor
En-bloc, BeLiving Youth Hub	Hotel	360	55,238	6,517	Dash Living
En-bloc, Place 18	Office	327	52,516	6,223	Private Investor
38/F, Lippo Centre Tower 1	Office	251	18,085	13,879	Great Eagle

Source: CBRE Research, Q1 2026.

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Sources of Demand

Professional investors, including both local and non-local investors, property funds, and REITs, collectively invested HK$5.9 billion in investment properties in Hong Kong this quarter. This represented 48% of total investment volume, surpassing the 43% contributed by end-users, and marked a reversal of the trend observed in the previous three quarters.

Among end-users, education institutions continued to be a major source of demand. Relevant transactions included the acquisition of 5 Lok Yi Street in Tuen Mun for HK$122 million, and the Hong Kong College of Technology's purchase of a floor in Metropole Square in Shek Mun for HK$95 million.

Significant discounts and a gradual recovery in leasing demand have led local investors and developers to target financially stressed office assets. These buyers purchased various office buildings during the quarter, including 299 QRC, Connaught Harbourfront House, both in Sheung Wan, and Place 18 in Yau Ma Tei.

Property funds and non-local investors displayed a strong preference for hotel and living sector assets, with a strong focus on properties with student hostel conversion potential. Transactions included CR Longdation acquiring Hotel COZi · Oasis in Kwai Chung for HK$954 million, and the sale of Ovolo Southside in Wong Chuk Hang for HK$500 million.

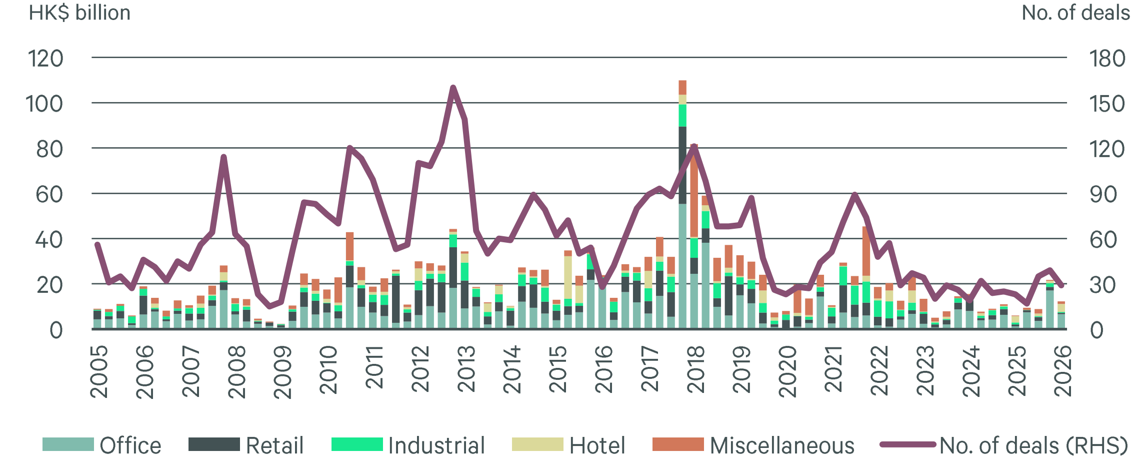
Asset Performance

Market activity continued to be driven by price discounts. Grade A office capital values fell 1.4% q-o-q in Q1 2026, marking the 17th consecutive quarterly drop. This brought the decline from the peak achieved in Q3 2018 to 62.0%. Yields expanded modestly to 3.3%.

In contrast to the office sector, where some signs of recovery in leasing demand are apparent, investors remained cautious about investing in industrial properties due to global trade uncertainty. Warehouse capital values dropped a further 3.7% q-o-q, bringing the total fall to 26.4% since the commencement of the current downward cycle.

Steady leasing demand saw high-street shop capital values remain stable this quarter.

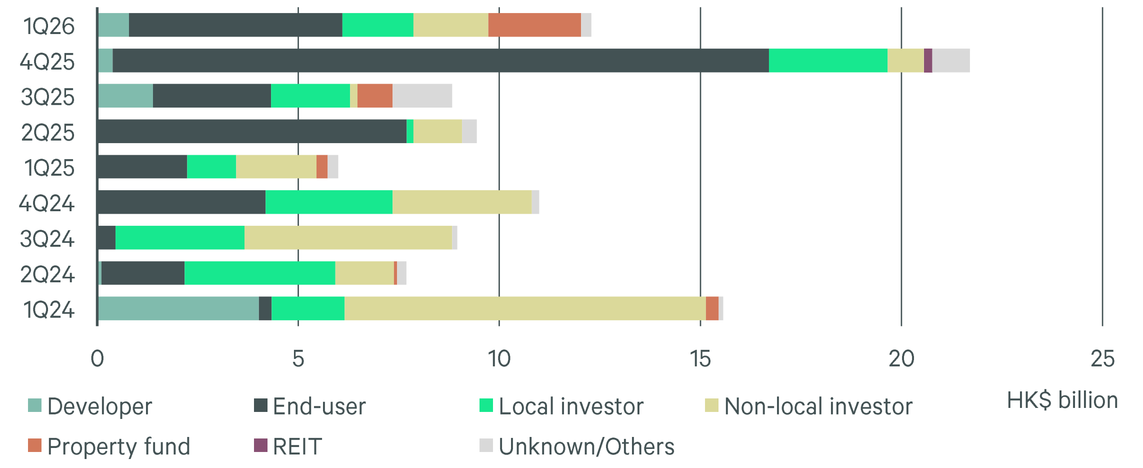
FIGURE 2: Total Investment Turnover



Miscellaneous – car park, mixed, school campus, bare site, property for redevelopment, etc

Source: CBRE Research, Q1 2026.

FIGURE 3: Buyer Profile



Source: CBRE Research, Q1 2026.

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Outlook

Although there is less certainty about further cuts to the Federal Funds Rate due to ongoing inflation and geopolitical volatility, HIBOR movement will be influenced by capital flows into Hong Kong and may remain low if global investors seek safe havens for their investments and wealth management.

A lower HIBOR would enhance affordability for vendors and increase investment demand. However, banks are expected to remain selective in their risk appetite until their non-performing loan ratios improve. Cash-rich long-term investors and end-users will continue to have a significant advantage for the foreseeable future.

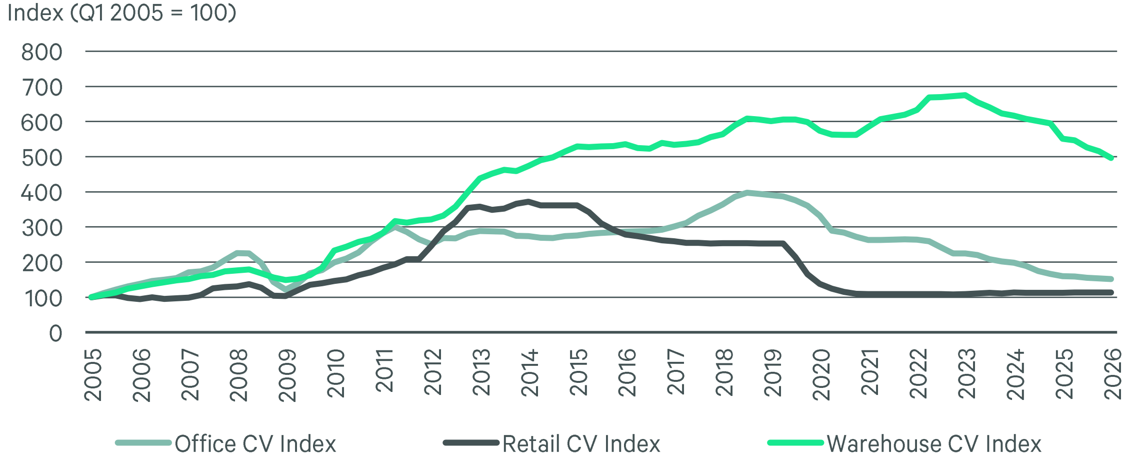
With prime office rents in the Central CBD rapidly recovering, financial sector end-users may be motivated to explore office acquisitions as a way to hedge against rising long-term rental expenses. Although this practice is not typically common among global banks and financial institutions, local and mainland Chinese financial companies may become more proactive in searching for deeply discounted properties to establish their headquarters in Hong Kong.

While strengthening demand from end-users will boost activity in the office investment market, high vacancy rates, especially in decentralised office submarkets, will hinder a recovery in capital values. Additionally, professional investors will seek higher yields to compensate for the significant occupancy risks associated with this sector. Overall, capital values for Grade A offices are projected to trend down by up to another 5% in 2026.

Despite brisk investment in recent quarters, demand for educational facilities is expected to continue. The sector will benefit from a steady influx of non-local tertiary students, which will increase the need for additional tutoring spaces and student accommodation. The children of new immigrant families will drive demand for various educational services, which can be catered to by different types of commercial properties.

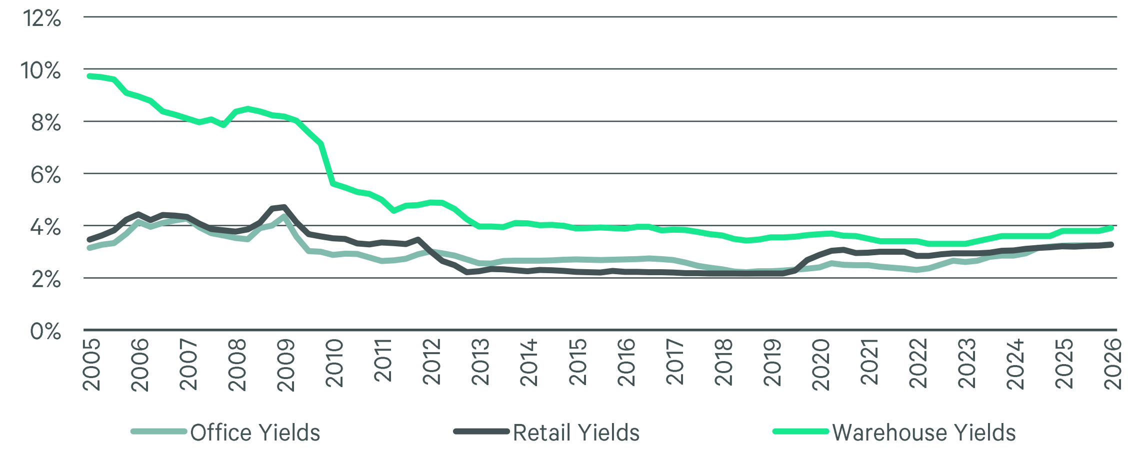
Underpinned by steady leasing demand and moderate rental growth, capital values of high street shops are forecast to experience low single-digit growth this year. However, increasing trade uncertainty and vacancy pressure are expected to lead to a decline in warehouse capital values, which could fall by 5% to 10%.

FIGURE 4: Capital Values



Source: CBRE Research, Q1 2026.

FIGURE 5: Market Yields



Source: CBRE Research, Q1 2026.

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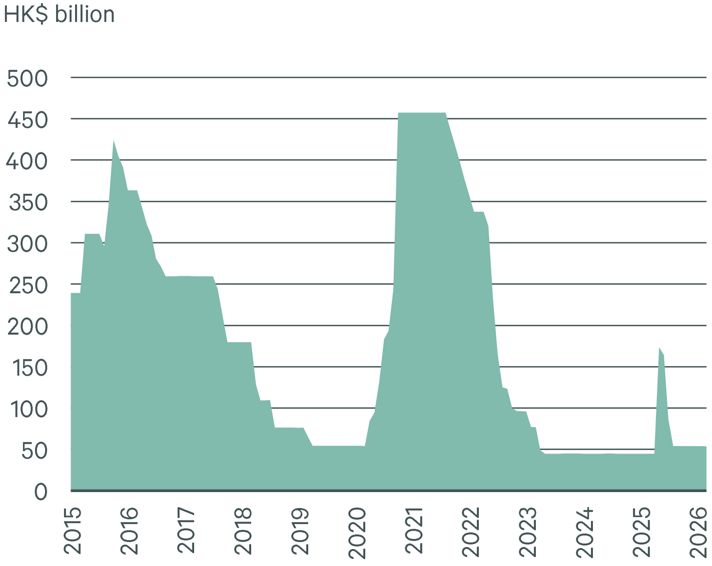
Appendix

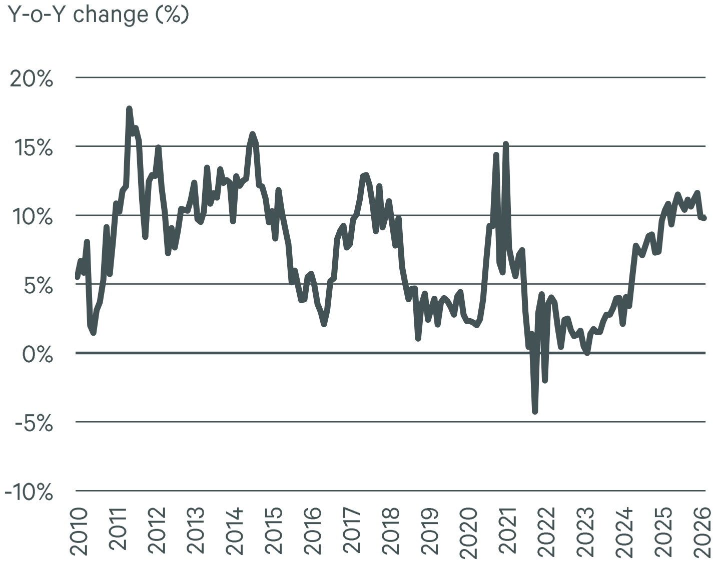
FIGURE 6: Hong Kong Interbank Aggregate Balance



Source: Hong Kong Monetary Authority, Q1 2026.

	March 2026
Hong Kong Interbank Aggregate Balance (HK$ billion)	54
Hong Kong Interbank Aggregate Balance (Q-o-Q)	-0.3%
Hong Kong Interbank Aggregate Balance (Y-o-Y)	+20.5%
Hong Kong Interbank Aggregate Balance (Y-t-D)	-0.3%

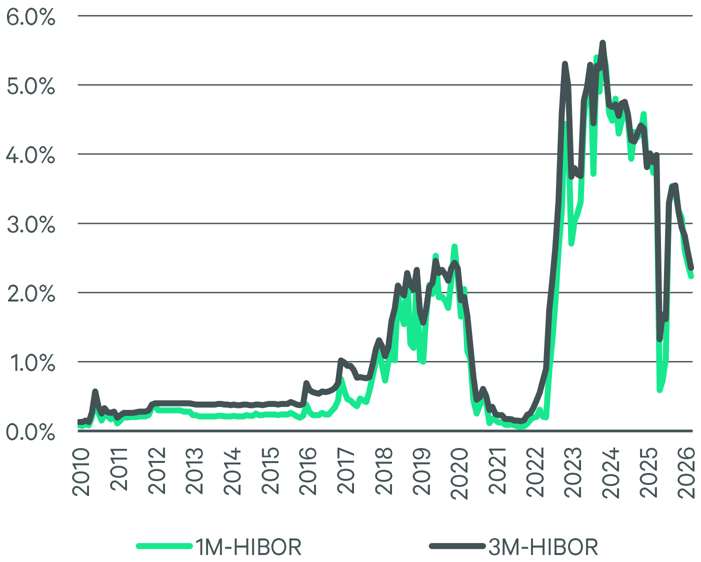
FIGURE 7: M2 Money Supply



Source: Hong Kong Monetary Authority, Q1 2026.

	February 2026
Hong Kong M2 Money Supply (HK$ billion)	20,776
Hong Kong M2 Money Supply (Y-o-Y)	+9.8%
Hong Kong M2 Money Supply (Y-t-D)	+0.8%

FIGURE 8: Interest Rates



Source: Hong Kong Monetary Authority, Q1 2026.

	June 2025	September 2025	December 2025	March 2026
1M-HIBOR	0.73%	3.54%	3.08%	2.24%
3M-HIBOR	1.68%	3.53%	2.93%	2.36%

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Appendix

Loan-to-value ratio (LTV) cap

	Residential, commercial and industrial properties and standalone car parking spaces
DSR-based lending	70%
Net worth-based lending	

Debt servicing ratio (DSR) limit

	Residential, commercial and industrial properties and standalone car parking spaces
DSR limit	50%

Source: Hong Kong Monetary Authority, October 2024.

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