

## Interest Rate Cycle in the US Implications to Hong Kong's Real Estate Market

17 December 2015

Largely in line with market expectations, the 25-basis point interest rate rise that was just announced in the US was relatively mild. Taking a forward-looking perspective, the question of what impact the final decision on the interest rate issue will have varies from one person to the other, and by the different type of market players in Hong Kong, on the assumption that the rate rise is to happen faster than expectations in 2016. We spoke to several clients who are investors and the following are some of the highlights.

A Hong Kong-based private equity fund felt that the impact of the rate hike should not be severe as investors are already well prepared for it, but rather, the pace of increase is a more important factor to be considered.

A local REIT manager is of the opinion that the impact of the interest rate hike to their leasing portfolio is immaterial since their tenants are essentially engaged in non-interest rate sensitive business e.g. F&B and government and related organisations. However, if there are more dramatic rate hikes in the future, the manager shared that he would be more cautious in taking on sizeable tenants as far as concentration risk is concerned.

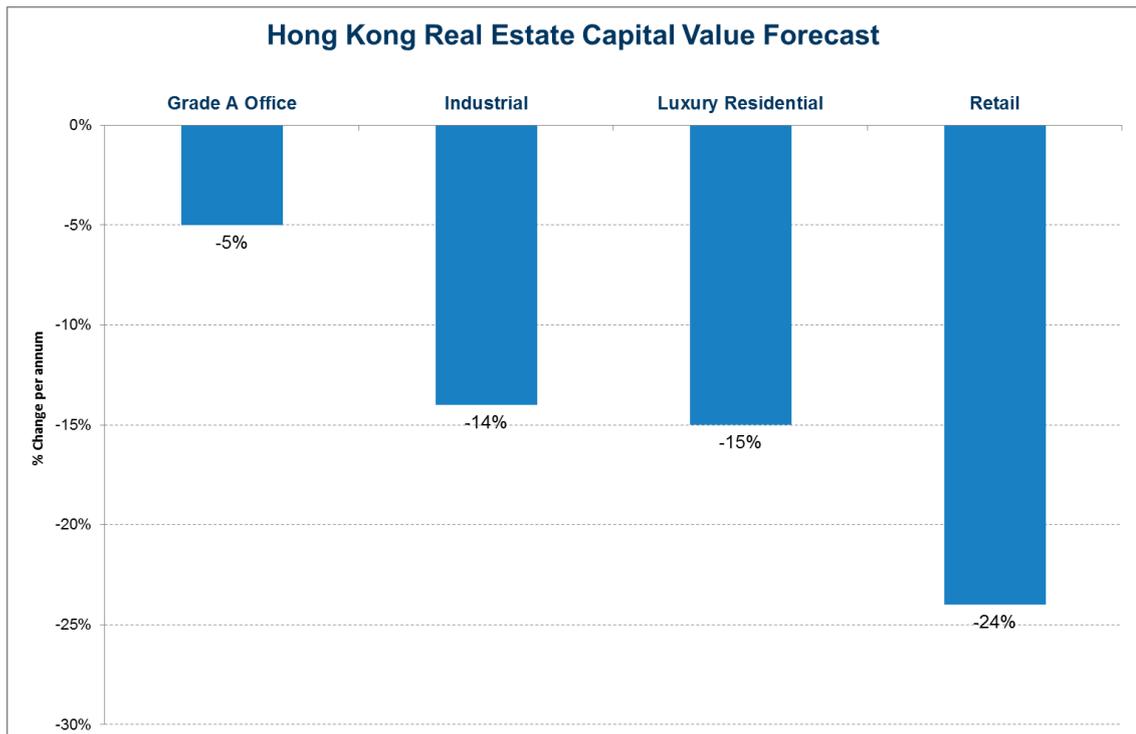
A real estate investment management services provider mentioned the impact of a 25-basis point interest rate increase would be marginal because borrowings were mostly on a fixed rate basis. However, they were more concerned on the market sentiment due to fear on further interest rate hikes and expectation of a prospective market downturn in 2016.

The above sentiments from our clients have all revealed that the immediate impact on investor sentiment toward real estate from the 25-basis point interest rate hike should not be that severe. Rather, the pace of increase in 2016 is a more important factor that will likely influence the market and their business strategy.

### Colliers' Views:

- Colliers anticipates no dramatic rate hike scenario in 2016 and we re-iterate our house view on the 100-basis point rate rise throughout 2016.
- Due to prospective rate rise and slowing inflation, real estate prices in Hong Kong will be turning south since the negative interest rate environment over the past six years will end in 2016.

- In response to rising borrowing costs, real estate yields will stage moderate rise of 30 to 70 bps.
- Office prices will be the most resilient due to sustained demand from owner-occupiers. Overall, due to the removal of one of the key overhangs, the prevailing bid-ask spread will narrow. Colliers anticipates a higher volume of sales transactions in 2016.
- Our recent “Global Investor Outlook 2016” survey suggests Hong Kong is in the top three most-preferred destinations for real estate investment in Asia Pacific in the next 12 months.



Source: Colliers

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