

MarketView Hong Kong Office

Quick Stats

		Y-o-Y change	Q-o-Q change
Central Rental Value	HK\$84.06 psf (net effective)	↓	↓
Avg. Rental Value ^	HK\$45.39 psf (net effective)	↓	↓
Supply ^	None	↓	↔
Take-up ^	-386,845 sf (net)	↓	↓
Vacancy Rate ^	8.9%	↑	↑

^ Data covers major districts including Central, Admiralty, Sheung Wan, Wan Chai, Causeway Bay, North Point, Hong Kong East, Tsim Sha Tsui and Kowloon East

Hot Topics

- Companies continued to downsize and seek lower cost office accommodation over the first quarter in order to cut back on operating costs amid a weak economic environment.
- Central banking and finance tenants' expansion plans frozen, while hedge funds seek to hand back space. Outside Central, tenants on HK Island look to relocate to lower cost office space in Kowloon East.
- Rents in Central dropped 20% over the first quarter, with vacancy rising above 5%. Compared to other office districts, rents held relatively firm in HK East due to low vacancy.
- Low take-up forecast for remainder of the year. More space to be returned to the market as companies cut back on space requirements or cease operations altogether. As vacancy rates rise, average rent is expected to fall further by 20% from current levels.

Downsizing and cost cutting continued to be the main themes of office market activity over the first quarter of 2009. While the first part of the quarter was relatively quiet during the holiday period, activity picked up in the following weeks as relocation plans that had been put on hold were reactivated.

In Central, the banking and finance sectors continued to hold off on any further expansion, with some institutions looking to reduce their current space. Many hedge funds considered sublease and surrender options. Contrary to the prevailing market trend, however, Standard Chartered Bank leased 38,000 sf of expansion space in Two IFC. However it must be repeated that this recent example of new leasing activity is an exception to the norm.

Outside of banking and finance, law firms Proskauer Rose and Winston & Strawn opened new offices in the city. Serviced office providers have also taken the opportunity to expand, given the falling office rents and steady demand from smaller sized firms. For instance, The Executive Centre leased 42,000 sf in Two Exchange Square. Given the uncertain economic conditions going forward, many companies interested in setting up new offices have scaled back their requirements and have decided to lease serviced space for the time being.

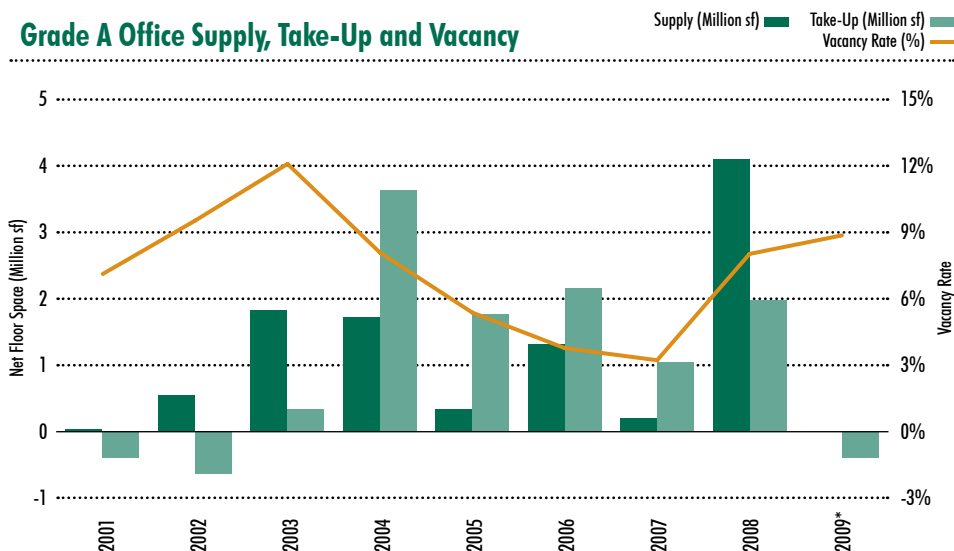
Office tenants outside of Central continued to seek

out lower cost office accommodation, relocating to decentralised locations. Sony will be relocating from Causeway Bay to The Gateway in Tsimshatsui, while Global Sourcing and Chevron, located in Sheung Wan and Wanchai respectively, will both be relocating to Kowloon East.

No new Grade A office projects were completed during the quarter. Vacancy increased slightly in Central to average 5.4% in the first quarter. While tenants are downsizing or relocating out of the district, new companies are coming in to take up the vacated space. While most other districts also recorded mild increases in vacancy rates over the quarter, there were slight declines in both Wan Chai and Hong Kong East, which averaged at 4.8% and 2.9% respectively. In Hong Kong East, Swire has been extremely successful in holding onto long-term tenants as well as attracting new tenants to Taikoo Place.

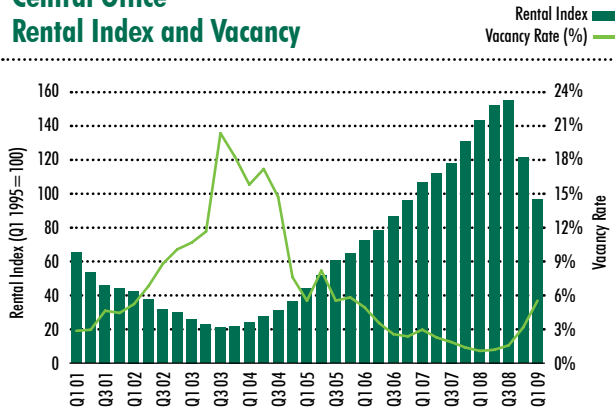
Rents in Central dropped 20.1% over the first quarter to average \$84.06 psf. Marked declines were also witnessed in Sheung Wan and Admiralty, with office rents falling 15.7% and 10.9% respectively over the quarter. Rents in the other main districts continued to fall as well, albeit at slower rates of decline. Rents in Hong Kong East fell the least over the quarter due to high occupancy rates, down only 3.3% during the first quarter to average \$34.93 psf.

Grade A Office Supply, Take-Up and Vacancy

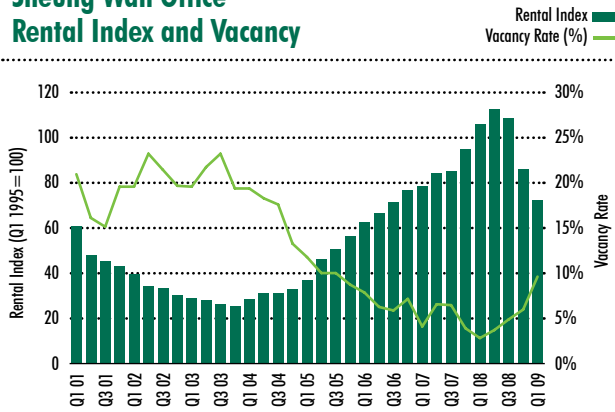


* As of Q1 2009

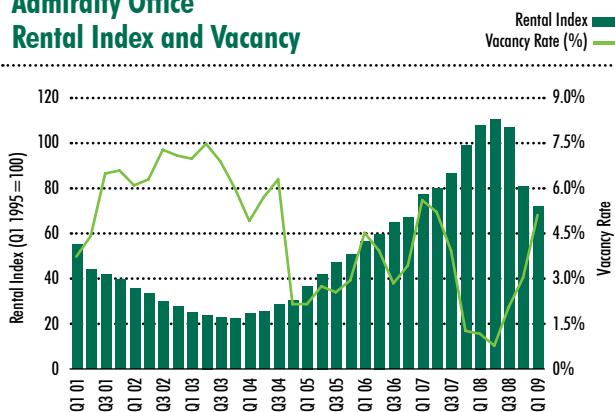
Central Office Rental Index and Vacancy



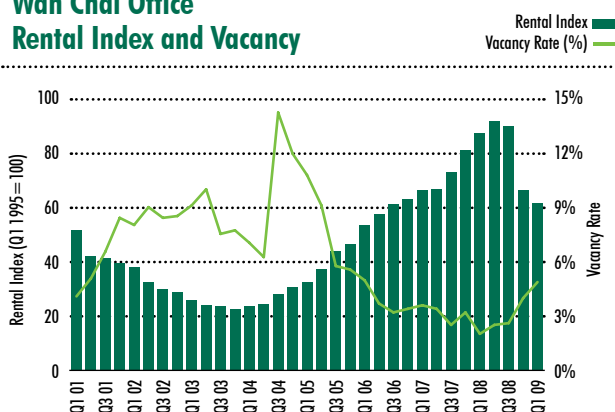
Sheung Wan Office Rental Index and Vacancy



Admiralty Office Rental Index and Vacancy



Wan Chai Office Rental Index and Vacancy



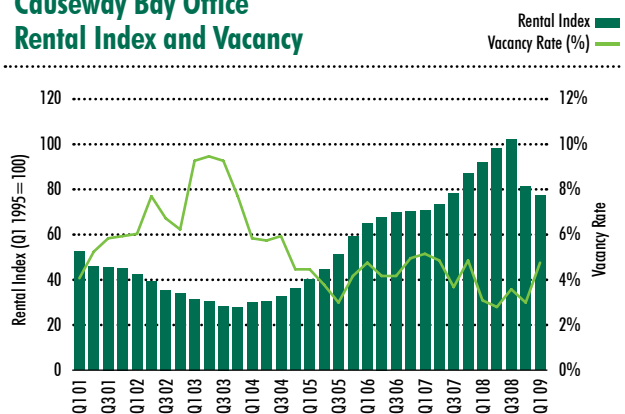
As Hong Kong's centre for banking and finance, the Central office market continued to bear the brunt of downward pressure on rents of prime office space. The rental decline in Central was the most pronounced in the quarter, falling some 20.1% to average \$84.06 psf. While the overall trend of decentralisation and space reduction continued over the first quarter, the Central office market remained active. Vacancy increased from 3% in the fourth quarter of 2008 to 5.4% in the first quarter of 2009.

Vacancy for Sheung Wan offices rose from 5.8% in the fourth quarter of 2008 to 9.5% in the first quarter of 2009. Vacancy increased the most in Vicwood Plaza, rising from 12.1% to 28.9%. Outside of Central, Sheung Wan rents experienced the second strongest decline over the quarter, falling 15.7% to average \$42.66 psf. Rents fell the most in The Center, dropping some 28% over the past three months.

Vacancy rates in Admiralty averaged higher at 5.1% in the first quarter, compared to 3% in the fourth quarter of 2008. Several whole floors became available in Citic Tower with the vacancy rate jumping from 4.1% to 16.8% over the quarter. Mild decreases were witnessed in a few buildings such as Admiralty Centre Tower 1, Lippo Centre Tower 2 and Far East Finance Centre, which may reflect take-up by tenants looking to reduce occupancy costs while at the same time trying not to relocate too far from Central. Rents dropped 10.9% over the quarter to average \$55.59 psf.

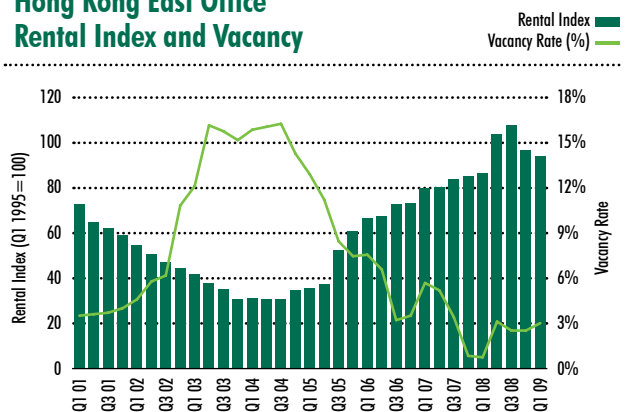
Rents in Wan Chai fell 7.5% over the first quarter to average \$36.88 psf. The strongest decline was witnessed in China Resources Building, while double-digit percentage decreases were also witnessed in buildings such as China Online Centre, BEA Harbourview, and Tai Yau Building, amongst others. Vacancy increased the most in China Resources Building over the quarter, which likely helped push rents down 18% q-o-q. However the occupancy rate actually improved in buildings such as Convention Plaza, Allied Kajima and Shui On Centre. The overall vacancy rate in Wan Chai increased to 4.8% in the first quarter.

Causeway Bay Office Rental Index and Vacancy



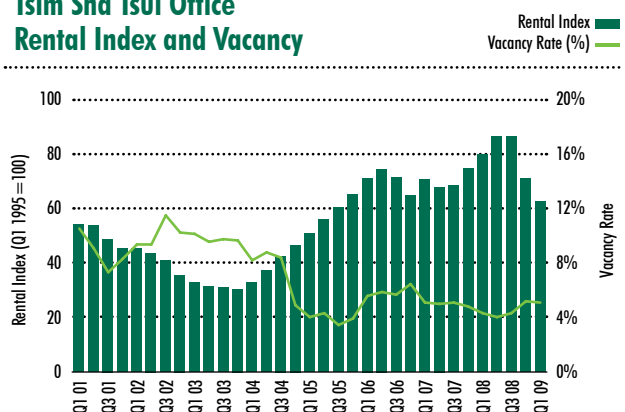
Grade A office rents in Causeway Bay fell 5% over the first quarter to average \$40.37 psf. Rents fell the most in Soundwill Plaza, dropping 18%. Meanwhile, the overall vacancy rate continued to increase in the district, rising from 2.9% to 4.7%. Vacancy rates increased the most in buildings such as Soundwill Plaza, AIA Plaza and Sino Plaza.

Hong Kong East Office Rental Index and Vacancy



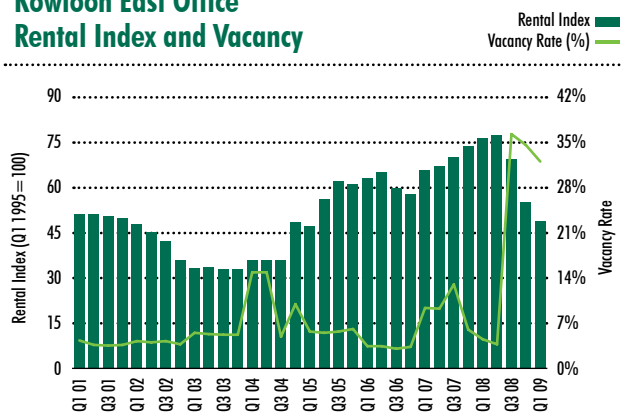
Apart from a few floors in One Island East, the vacancy rate for the Swire portfolio in the first quarter was essentially zero. With full occupancy, the developer was under little pressure to decrease rents. The overall vacancy rate of the district increased 50 basis points to average 2.9%. Rents softened 3% over the first quarter to average \$34.9 psf. Rents in Prosperity Millennia Plaza fell some 13% over the quarter, reflecting the relatively stronger rise in vacancy in the building.

Tsim Sha Tsui Office Rental Index and Vacancy



Grade A office rents in Tsim Sha Tsui fell 12.1% over the first quarter to average \$30.09 psf. Landlords became more flexible in providing rental incentives such as longer rent free and license periods in order to retain and attract tenants to their portfolios. Some landlords appear to be having some success, as occupancy rates improved mildly in buildings such as Lippo Sun Plaza and Silvercord. Overall, however, the vacancy rate for Tsim Sha Tsui offices increased over the quarter to average 5%.

Kowloon East Office Rental Index and Vacancy



Vacancy in Kowloon East came down slightly over the quarter to average 32.1%, reflecting the continued trend of companies decentralising their operations and taking up space in lower cost areas. However, with the continued oversupply of new offices in the area combined with slower take-up amidst the weak economic outlook, rents continued on a downtrend over the quarter. Overall rents for Kowloon East fell 11.1% during the first quarter to average \$15.43 psf.

Office New Supply, Total Stock and Vacancy in January - March 2009

District	Supply (Net sf)	Total Stock # (Net sf)	Vacancy Rate
Central	0	13,374,213	5.4%
Sheung Wan	0	3,212,326	9.5%
Admiralty	0	4,037,762	5.1%
Wan Chai	0	6,403,840	4.8%
Causeway Bay	0	3,243,255	4.7%
North Point	0	1,664,137	5.6%
Hong Kong East	0	5,373,777	2.9%
Tsim Sha Tsui	0	10,423,623	5.0%
Kowloon East	0	7,583,951	32.1%
Overall Total	0	55,316,884	8.9%

* Total stock as per CBRE Research database.

Major Office Districts in Hong Kong



Central
As the banking, legal and financial centre of Hong Kong, the CBD boasts the highest office rentals, and consists of approximately 13.2 million sf of Grade A office space. It alone accounts for 23.9% of Hong Kong’s overall Grade A office stock.

Sheung Wan
As the peripheral Central location extending from Central’s west, Sheung Wan accommodates many medium-sized securities and legal firms. It consists of about 3.2 million sf, or 5.8% of Hong Kong’s overall Grade A office stock.

Admiralty
This area, adjoining Central’s east, is highly preferred by many legal and accounting firms. The 4.0 million sf of office space in Admiralty accounts for about 7.3% of Hong Kong’s overall Grade A office stock.

Wan Chai
The area has a comprehensive mix of office stock with affordable rentals in high- to medium-quality buildings close to Central. Wan Chai provides 6.4 million sf, or 11.6% of Hong Kong’s total Grade A office stock.

Causeway Bay
Causeway Bay has a number of good quality office buildings at rentals similar to Wan Chai. The area is well received by conglomerates, insurance and advertising occupiers. The area consists of 3.2 million sf, or 5.9% of Hong Kong’s total Grade A office stock.

Hong Kong East
A former industrial precinct successfully transformed into a decentralised office node on Hong Kong Island, the area’s Grade A office space of 5.4 million sf, or 9.7% of Hong Kong’s overall stock, is well perceived by users in advertising, insurance, telecommunications and banking.

Tsim Sha Tsui
Tsim Sha Tsui’s Grade A office buildings are mainly concentrated along Canton Road and Nathan Road, except ICC, located in West Kowloon. A broad range of occupiers from logistics companies and trading firms to insurance companies occupy the 10.4 million sf of Grade A office stock, or 18.9% of Hong Kong’s total.

Kowloon East
Another former industrial turned office precinct, Kowloon East accommodates clothing & apparel, logistics and trading companies as well as bank back offices. The area now consists of about 7.6 million sf, or 13.8% of Hong Kong’s total Grade A office stock.



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TERMINOLOGY

Grade A:
Modern facility with high quality finishes; flexible layout; large floor plates; spacious lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; good management and parking facilities are normally available.

New Supply:
The number and/or square footage of buildings completed (including redevelopment) in a period.

Take-Up:
The net absorption of office space let, or sold to the acquirer for occupation.

Vacancy Rate:
The amount of vacant space divided by the total stock.

Rent:
Monthly rents are presented in HKS on a net effective basis, unless otherwise specified.

Capital Value:
Capital values are presented in HKS on a gross basis, unless otherwise specified.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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