

New Supply



Rent



Demand



Vacancy Rate



New Supply



Rent



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Vacancy Rate



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OFFICE SERVICES

Landlords reduce rents more aggressively to retain tenants

Transaction activity increased slightly after the Lunar New Year holiday, but volume remains far less than the corresponding period last year. Aggressive effective rent reductions began late last year in strata-title buildings in fringe Central, particularly Admiralty and Sheung Wan, and have since spread to almost all major office districts. Landlords are now more cautious about increasing vacancy given the declining number of potential tenants in the market and are adopting a more aggressive approach to retain existing tenants and attract new ones. Evidently, rents in Central have fallen to a level that some tenants find attractive and a handful of recent transactions prove that demand still exists as long as the pricing is competitive.

The relocation trend from HK Island to Kowloon East remains strong with Global Sourcing and Chevron the latest to announce plans to move to new, well priced, high specification space across the harbour. However, we anticipate that landlords on the Hong Kong Island will start bidding more aggressively to retain tenants. The one district least affected by downward rental pressure is Island East, where rents have dipped only slightly due to a combination of low vacancy rate and Swire's dominant position in the district.

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RESIDENTIAL SERVICES

Residential market shows signs of recovery

Residential prices in the Hong Kong property market have been falling continuously due to the global economic recession, but as prices drop, transactions are picking up. Favourable factors such as affordability, low interest rates, bank credit policies, and tight supply of luxury properties should benefit the market. In the past few weeks, The Cullinan, Sun Hung Kai Properties' newly launched project at Kowloon Station, has already sold 300 units and generated over \$6.0 billion in revenue. Positive receptions such as this indicates that the market is stabilizing and recovering.

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RETAIL SERVICES

Retailers become increasingly cost conscious

The expansion of chain retailers sparked a temporary recovery in the property market in February, although rents have generally been dropping except in prime locations. Overall, the number of transactions was limited, as most retailers were grappling with the post-holiday slump in business after the Lunar New Year holiday came to a close. Bonjour Cosmetics and Wankee Sports took up their new shops in Mongkok, while the relocation of Yu Yan Sang to Causeway Bay was an example of retailers moving in order to lower their rental costs.

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INDUSTRIAL & LOGISTICS SERVICES

Bad trade figures heighten concerns in industrial sector

The rapid slowdown in both sea and cargo freight movements is causing ripples throughout the local warehouse sector. Tenants are looking to downsize and save costs, which is pushing up the vacancy rate; asking rentals are being reduced in response. There has been a pick-up in general leasing enquiries as tenants are eager to save costs, whether through sub-letting/surrender, renegotiation of lease terms, or relocation/consolidation to smaller, cheaper premises. Goodman was able to secure a new lease for 24,000 sq ft in East Asia Building, Tuen Mun, which is notably the cheapest rental building in their portfolio. Mortgages in repossession sales are on the increase in the strata-title market, but large en-bloc transactions have again been non-existent during the period under review, as the expectation gap between buyers and sellers remains substantial.

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INVESTMENT PROPERTIES

Users find bargains outside of Central

The 18/F and 20/F of Kodak House II in North Point were sold by Sunevision to Rotus Ltd at a sum of HK\$300 million. The subject property has a gross floor area of 68,000 sq ft, representing a price of HK\$4,411 per sq ft gross. The floors enjoy harbour views with accessibility to the North Point Station of the MTR. The purchaser intends to relocate its office from Central to North Point for cost saving purposes. The current rental differential and low interest rate environment will continue driving strong tenants out of the Central district, seeking acquisition opportunities for long term investment.

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INVESTMENT & PROJECT MARKETING

Singapore launches measures to increase flexibility of the real estate sector

Singapore real estate developers have recently been given a boost to help them respond to the current downturn. The Singapore government has put into place various measures to give the sector increased flexibility, including extensions of the project completion period for existing residential projects, giving developers up to four years to dispose of all private residential units, and allowing them to rent out unsold private residential units for a maximum of four years.

The Investment & Project Marketing team held a property exhibition for Park Natura Singapore, a freehold low-rise development next to Upper Bukit Timah. Park Natura sits on extensive grounds with only four blocks of 192 residences, offering spacious 2- to 5-bedroom units and penthouses. The park is located between Bukit Batok and the Bukit Timah Nature Reserves, surrounded by greenery.

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