

MarketView Hong Kong Office

Quick Stats

		Y-o-Y change	Q-o-Q change
Central Rental Value	HK\$75.3 psf (net effective)	↓	↓
Avg. Rental Value ^	HK\$39.5 psf (net effective)	↓	↓
Supply ^	Nil	↓	↓
Take-up ^	41,394 sf (net)	↓	↔
Vacancy Rate ^	9.7%	↑	↔

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

Hot Topics

- Decentralization remained a predominant trend as occupiers looked to reduce real estate overheads. Negative take-up of -345,000 sf was recorded on Hong Kong Island as tenants relocated to newly completed buildings in Kowloon.
- Vacancy for Hong Kong grade A offices overall averaged 9.7% over Q2. Vacancy remained highest in Kowloon East at 25.8% despite positive take-up in the district.
- Rents overall fell 6.8% over the quarter to average \$39.5 psf. Central experienced the largest quarterly decline in district rents at -10.4% to average \$75.3 psf.
- Landlords in the Central district have continued to adjust rents downwards in light of weaker demand for office space, as well as taking into account the rental disparity with other districts.

The fallout from the global economic downturn persisted through the second quarter as companies improved balance sheets by reducing expenses. Occupiers continued to cut back on space requirements and sought out lower cost premises in an attempt to reduce real estate overheads.

While the amount of sublease space in Central continued to increase, some companies were noted to be taking advantage of lower rents and greater space availability to upgrade or expand their operations. For instance, a securities firm leased 11,000 sf in Exchange Square for its expanded trading operations, while an electronics company leased an additional 23,000 sf in Two IFC. The legal sector remained active, with around 40,000 sf leased by various companies within the Hongkong Land portfolio. Outside of the Central district, tenants on Hong Kong Island continued to relocate to areas on Kowloon due to attractive low rents for space in newly completed buildings. In Kowloon, all of the most noteworthy transactions involved insurance companies, with three major international firms committing to a combined total of some 350,000 sf.

No new supply was completed over the quarter. Pipeline supply for the remainder of the year will remain focused in areas such as Kowloon Bay and Kwun Tong, with several new buildings to provide

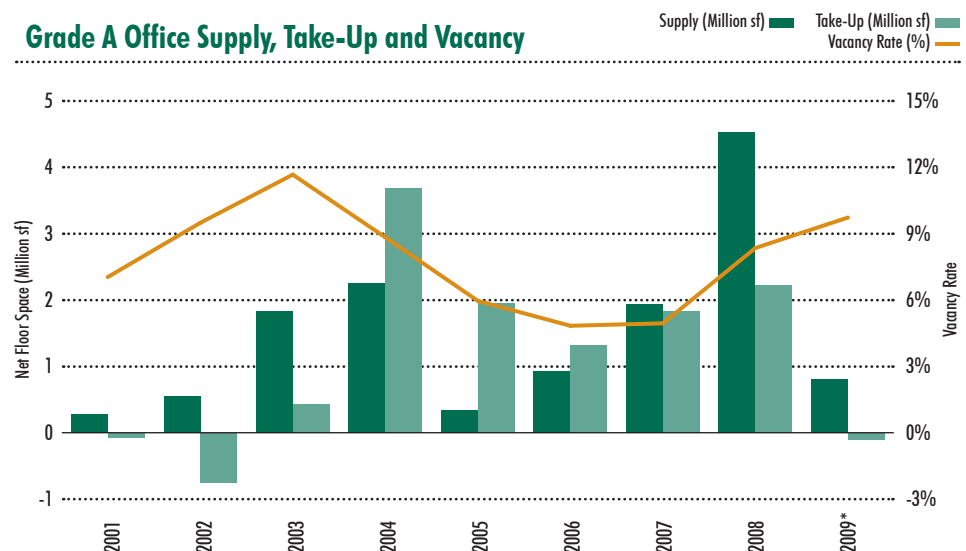
around 700,000 sf combined upon completion before year end.

Negative take-up of -345,000 sf was recorded over the second quarter on Hong Kong Island, largely as a result of companies reducing space requirements, handing back space to landlords, or relocating to lower cost buildings in Kowloon. However, some occupiers were noted to be upgrading from industrial or grade B buildings over the quarter, attracted by low rents for newly completed buildings in Kowloon.

The overall vacancy rate for Grade A offices in Hong Kong averaged 9.7% in the second quarter, down 7 basis points compared to the first quarter. Vacancy increased from 4.0% compared to the same period last year.

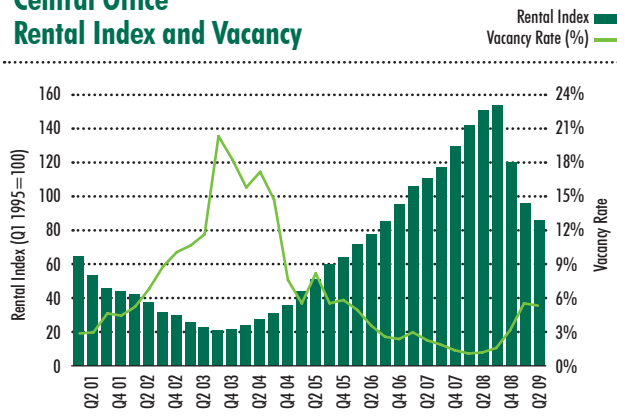
Grade A office rents for Hong Kong overall fell 6.8% over the quarter to average \$39.5 psf. The strongest quarterly rental decline was recorded in Central, with rents falling 10.4% during the quarter to average \$75.3 psf. Rents in Hong Kong East were largely unchanged over the quarter, averaging \$33.9 psf. Similarly, rents in Tsim Sha Tsui and Kowloon East experienced only mild downward pressure, averaging \$30.4 psf and \$14.9 psf respectively. While rents continued on a downtrend, the rate of decline across all districts slowed when compared to the past few quarters.

Grade A Office Supply, Take-Up and Vacancy



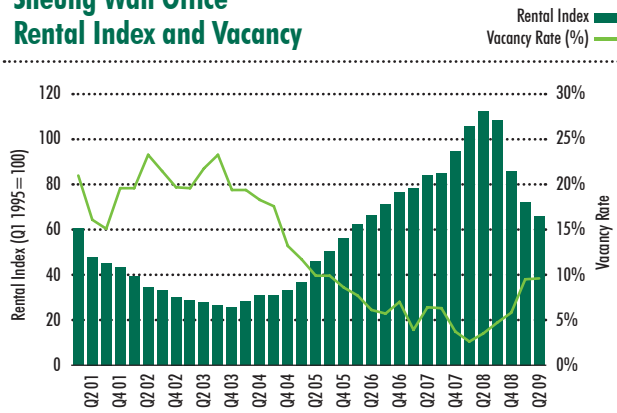
* As of Q2 2009

Central Office Rental Index and Vacancy



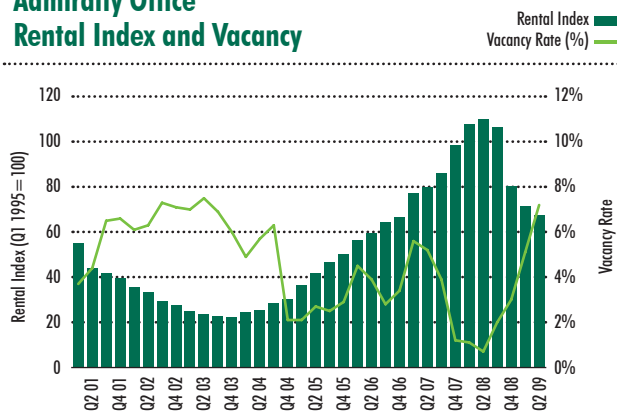
The vacancy rate for Grade A offices in Central averaged 5.2% in the second quarter, down 24 basis points from the first quarter. Vacancy fell slightly over the quarter as there were some instances of positive take-up in the district over the quarter. The decline in Central rents was the most pronounced of all the districts, falling some 10.4% over the quarter to average \$75.3 psf. Rents in Central have on average fallen 43% compared to the same period last year.

Sheung Wan Office Rental Index and Vacancy



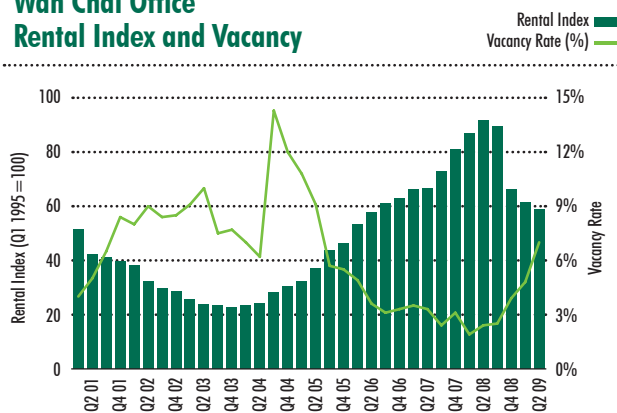
The vacancy rate in Sheung Wan averaged 9.6% in the second quarter, relatively unchanged from Q1. Increases in vacant space were noted in buildings such as Cosco Tower and The Center. The second largest quarterly decline in district rents was recorded in Sheung Wan, with office rents falling 8.7% over the quarter to average \$38.9 psf.

Admiralty Office Rental Index and Vacancy



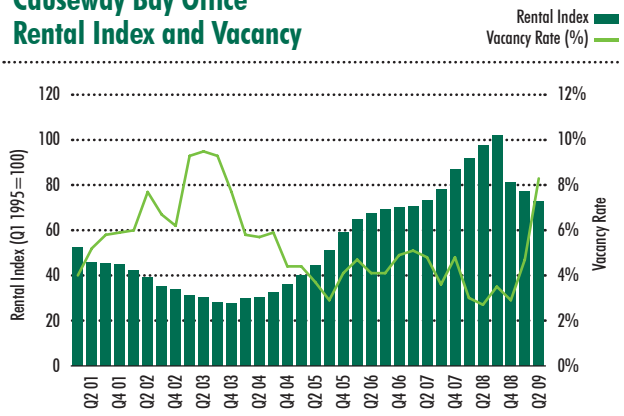
The average rent in Admiralty fell 6.0% over the quarter to \$52.3 psf. Vacancy in Admiralty increased to 7.2% in the second quarter, compared to 5.1% three months earlier. Notable amounts of vacant space became available in buildings such as Admiralty Centre Tower 1 and One Pacific Place.

Wan Chai Office Rental Index and Vacancy



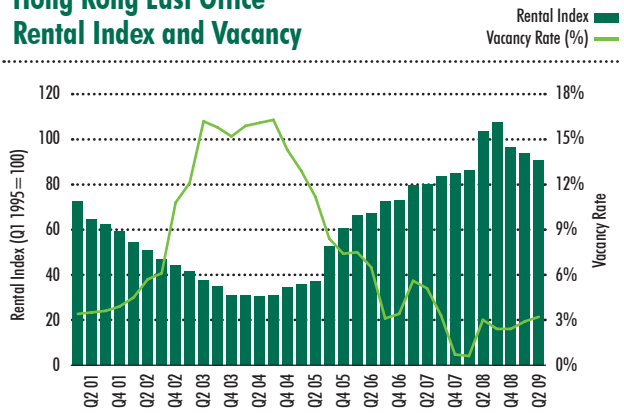
The vacancy rate for Grade A offices in Wan Chai increased from 4.8% in the first quarter to 7.0% in the second quarter. The largest increase in vacancy was noted in China Resources Building, possibly as a result of the property undergoing major renovations. Wan Chai rents fell 3.9% over the quarter to average \$35.4 psf.

Causeway Bay Office Rental Index and Vacancy



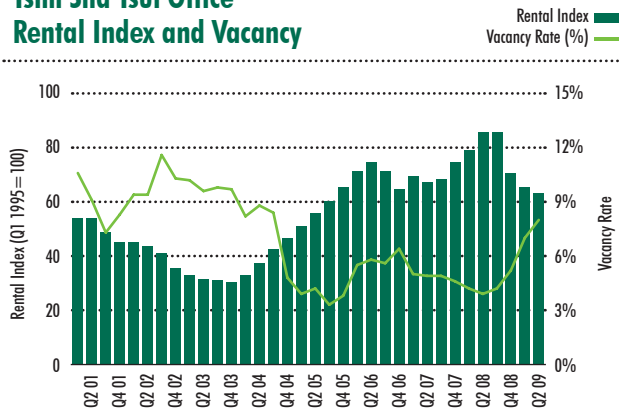
Rents in the district fell 5.4% over the quarter to average \$38.2 psf. The vacancy rate in Causeway Bay increased from 4.7% in the first quarter to 8.3% in the second quarter. Vacancy in the district doubled over the quarter, largely due to a substantial increase in available space in Manulife Plaza, Lee Gardens, as well as in buildings like Times Square and Caroline Centre.

Hong Kong East Office Rental Index and Vacancy



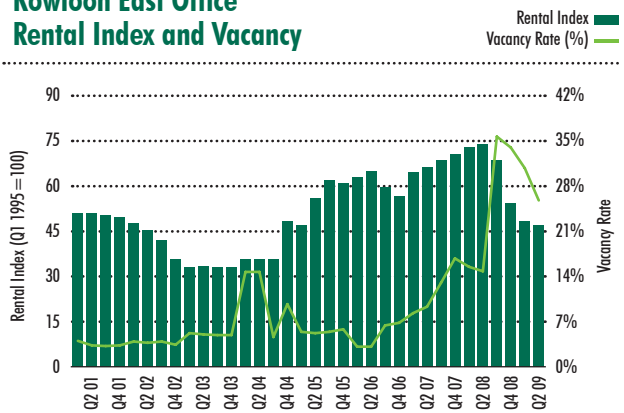
The vacancy rate in Hong Kong East continued to rise, albeit at a much lower rate than the other office districts on Hong Kong Island. Vacancy averaged 3.2% in the second quarter, compared to 2.9% in the first quarter. Vacancy within the Swire Portfolio remained low, while some positive take-up was noted in DCH Commercial Centre. Rents were largely unchanged in Hong Kong East, softening 2.9% over the quarter to average \$33.9 psf. It is interesting to note, however, that rents in June increased 1.2% month-on-month.

Tsim Sha Tsui Office Rental Index and Vacancy



A relatively mild increase in vacancy was noted in Tsimshatsui, with the average vacancy rate rising almost 1% to 8.0%. Tsimshatsui has been one of the districts to benefit from companies looking for lower cost office space amidst the economic downturn. Rents fell 3.1% over the quarter to average \$30.4 psf.

Kowloon East Office Rental Index and Vacancy



The vacancy rate for Grade A offices in Kowloon East averaged 25.8% in the second quarter, compared to 30.8% in the first quarter. Vacancy fell the most in Kowloon East over the quarter, as companies took advantage of low rents and abundant new supply to relocate from areas on Hong Kong Island. Despite the positive take-up, rents continued on a downtrend over the quarter given the abundance of available supply in the district, falling some 2.7% to average \$14.9 psf.

MarketView Hong Kong Office

Office New Supply, Total Stock and Vacancy in April - June 2009

District	Supply (Net sf)	Total Stock # (Net sf)	Vacancy Rate
Central	0	13,374,213	5.2%
Sheung Wan	0	3,212,326	9.6%
Admiralty	0	4,037,762	7.2%
Wan Chai	0	6,403,840	7.0%
Causeway Bay	0	3,110,940	8.3%
North Point	0	1,664,137	6.3%
Hong Kong East	0	5,373,777	3.2%
Tsim Sha Tsui	0	11,111,626	8.0%
Kowloon East	0	7,983,652	25.8%
Others	0	6,307,987	13.73%
Overall Total	0	62,580,260	9.7%

Total stock as per CBRE Research database.

Major Office Districts in Hong Kong



— Kwun Tong Line — Tsuen Wan Line — Island Line
— Airport Express — Tseung Kwan O Line

Central

As the banking, legal and financial centre of Hong Kong, the CBD boasts the highest office rentals, and consists of approximately 13.4 million sf of Grade A office space. It alone accounts for 21.4% 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 5.1% 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 6.5% 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 10.2% 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 3.1 million sf, or 5.0% 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 8.6% 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 11.1 million sf of Grade A office stock, or 17.8% 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 8.0 million sf, or 12.8% 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 HK\$ on a net effective basis, unless otherwise specified.

Capital Value:

Capital values are presented in HK\$ on a gross basis, unless otherwise specified.

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

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