CB RICHARD ELLIS

# MarketView
# Hong Kong Office

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Second Quarter 2010

## Quick Stats

| | | Y-o-Y change | Q-o-Q change |
|---|---|---|---|
| Central Rental Value | HK$93.1 psf (net effective) | ↑ | ↑ |
| Avg. Rental Value ^ | HK$45.2 psf (net effective) | ↑ | ↑ |
| Supply ^ | 465,000 sf (net) | ↑ | ↑ |
| Take-up ^ | 1,200,000 sf (net) | ↑ | ↑ |
| Vacancy Rate ^ | 6.9% | ↓ | ↓ |

^ 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

- The leasing market remained active in the second quarter, witnessing more small-scale transactions as well as lease renewals and restructures.
- The quarter saw positive take-up of 1.2 million sf across Hong Kong, up 61% q-o-q.
- Almost 900,000 sf of take-up occurred in Kowloon, with more than half in Kowloon East alone.
- Hong Kong's overall vacancy rate fell 1.2 percentage points over the quarter, to average 6.9%. The last time Hong Kong's grade A office vacancy rate was below 7% was in the third quarter of 2008.
- The average rent in Kowloon East increased 11.2% q-o-q to $18.8 psf, while rents in Central rose 8.4% q-o-q to average $93.1 psf. Central A1 rents increased 13.2% over the quarter to average $125 psf.

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The office leasing sector maintained positive momentum over the second quarter, with significant take-up helping to support a continued uptick in rental growth. The market remained active with mostly smaller scale transactions, as well as tenants restructuring or renewing their leases. Of the more notable transactions, CITIC Ka Wah Bank leased 70,000 sf in International Commerce Centre (ICC), while Manulife took another 31,000 sf in Kwun Tong. CB Richard Ellis leased 20,400 sf in Three Exchange Square in Central to relocate its Hong Kong and Asia Pacific operations from Central Plaza, Wanchai.

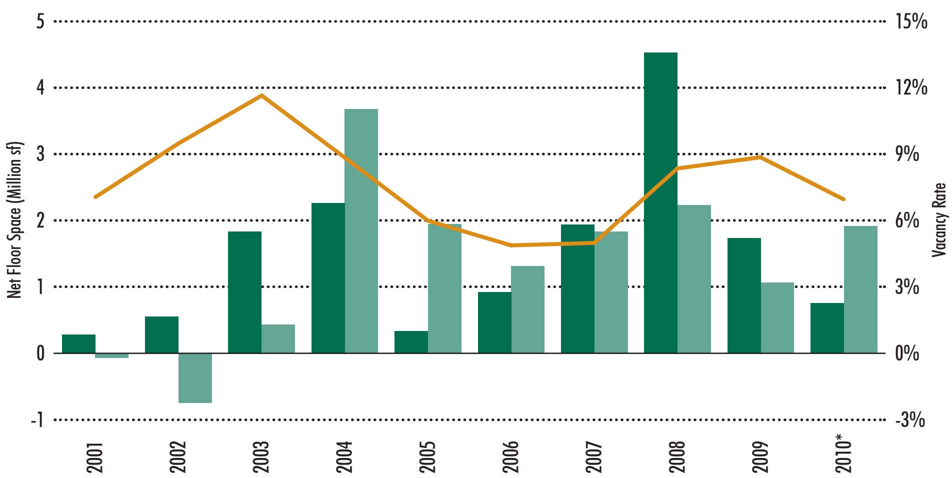
Positive take-up of 1.2 million sf was recorded in the second quarter across Hong Kong, 61% higher than in the first quarter. The increase in take-up is likely due to tenants moving into offices that were leased in earlier quarters rather than an increase in transaction volume. Almost 500,000 sf of positive take-up was recorded in Kowloon East, while take-up of 371,000 sf was recorded in Tsim Sha Tsui.

The overall vacancy rate averaged 6.9% in the second quarter, down 1.2 percentage points compared to the first quarter, and a decline of 3.3 percentage points y-o-y. On Hong Kong Island, the vacancy rate fell 76 basis points to average 4.3%, while the vacancy rate in Kowloon fell 1.8 percentage points over the period to average 10.6%. In Kowloon East, the average vacancy rate fell 5.5 percentage points over the quarter to 15.2%, the strongest decline in vacancy out of all the main office districts across Hong Kong.

Grade A office rents in Hong Kong averaged $45.2 psf, rising 6% over the quarter. Rental growth on Hong Kong Island was strongest in Central, rising 8.4% over the quarter to average $93.1 psf. Rental growth in the Central A1 buildings increased at an even faster pace, rising 13.2% over the quarter to average $125.3 psf.

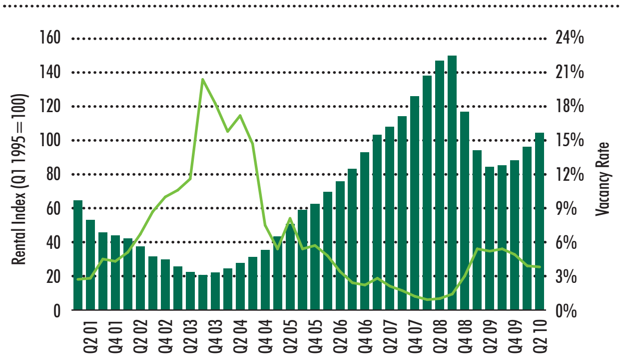
The third and final phase of International Commerce Centre (ICC) was completed, adding 465,000 sf (net) to the Tsim Sha Tsui office market over the quarter. Despite the additional new supply, the vacancy rate increased a marginal 52 basis points as most of the space in ICC was preleased prior to completion. Aside from ICC, no other new supply was completed over the quarter. Take-up will likely remain positive for the remainder of the year, however the volume of activity may moderate due to declining vacancy levels, as well as uncertainty surrounding the health of economic growth overseas. Rents are expected to see further growth, particularly in light of limited new supply in the second half of the year. Some districts may see a rise in secondary space, however, which would limit appreciation in rental values.

### Grade A Office Supply, Take-Up and Vacancy



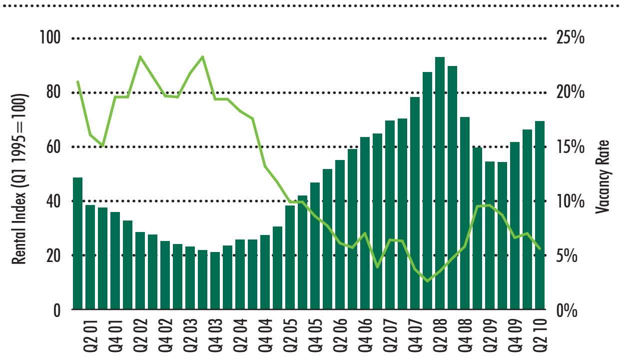

* As of Q2 2010

## Central Office
## Rental Index and Vacancy



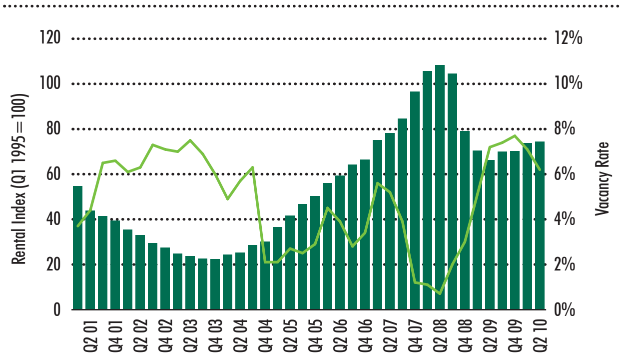

Rents in Central increased 8.4% to average $93.1 psf over the quarter, and averaged 18% higher compared to the end of 2009. Rents in A1 buildings increased at an even faster rate of 27% year to date to average $125 psf. The average vacancy rate for Central buildings overall fell 16 basis points over the quarter to 3.7%, and down 1.1 percentage points compared to December last year. Vacancy in the A1 buildings remained low at below 1%.

## Sheung Wan Office
## Rental Index and Vacancy



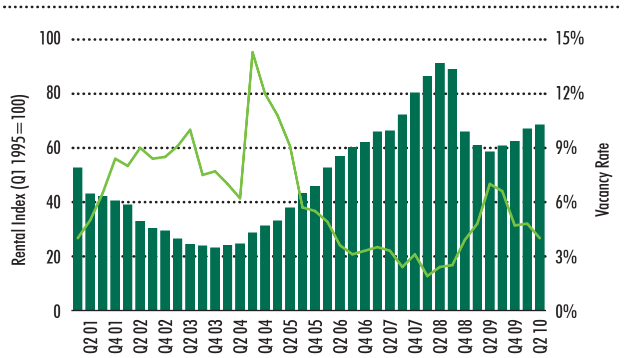

The vacancy rate in Sheung Wan fell 1.4 percentage points over the quarter to average 5.6%, but 1 percentage point lower than December 2009, as vacancy rose during the first quarter of the year. Meanwhile, rents increased 4.7% over the quarter to average $49.6 psf. Year to date, rents have increased 12.4% in the district.

## Admiralty Office
## Rental Index and Vacancy




Rents in the Admiralty district increased a relatively mild 1.0% over the quarter to average $58.8 psf. Compared to the end of 2009, rents in the area have increased 5.9%. The average vacancy rate for offices in Admiralty fell 94 basis points over the quarter to 6.2%, 1.5% percentage points lower than at the end of last year.

## Wan Chai Office
## Rental Index and Vacancy




The average vacancy rate for Wanchai offices fell 78 basis points over the quarter to 4.0%. The vacancy rate is only 72 basis points lower than that of December 2009 because there was an increase in vacant stock during the first quarter of the year. Meanwhile rents in the Wanchai district increased 2.2% over the quarter to average $41.4 psf. Wanchai office rents have increased almost 10% year to date.

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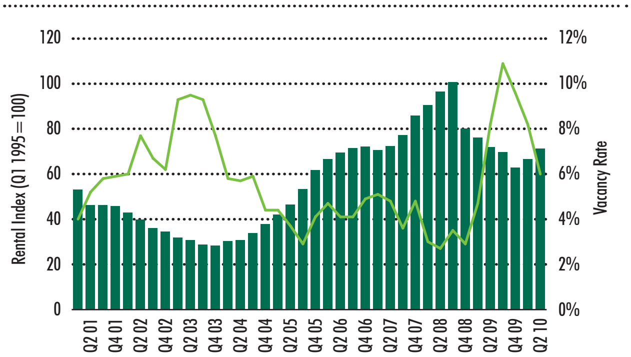
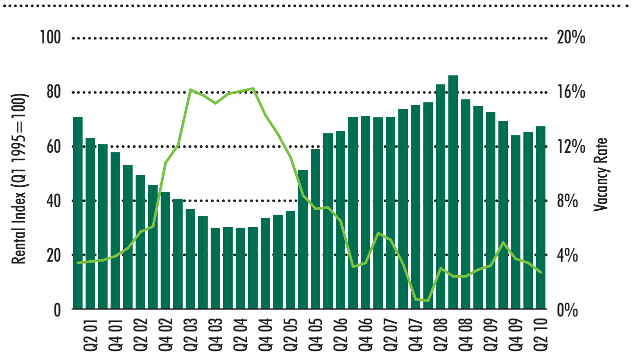
## Causeway Bay Office Rental Index and Vacancy



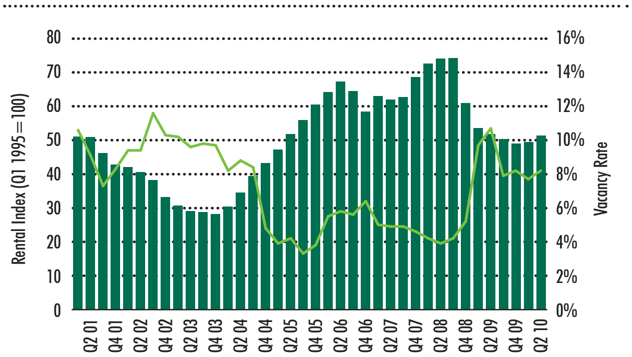

Causeway Bay office rents rose 6.9% over the quarter to average $37.8 psf. Rents in the district have increased 13.4% since December 2009. The vacancy rate for Causeway Bay offices fell 2.2 percentage points to average 6.0%, the strongest decline in vacancy recorded on Hong Kong Island over the quarter. Take-up of office space in Causeway Bay remained positive for the third consecutive quarter, and totalled almost 70,000 sf, the highest take-up amongst the main office districts on Hong Kong Island. The vacancy rate has fallen 3.6 percentage points compared to year-end 2009.

## Hong Kong East Office Rental Index and Vacancy



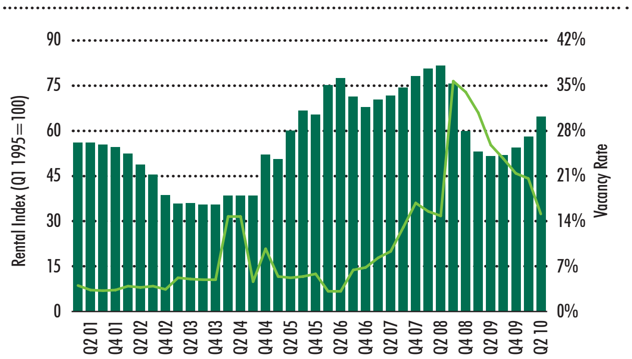

The vacancy rate for Hong Kong East offices fell 70 basis points over the quarter to average 2.7%, which is 1 percentage point lower than at the end of last year. Rents in Hong Kong East increased 3.1% over the quarter to average $31.4 psf. Compared to the end of 2009 Hong Kong East rents averaged 5.2% higher.

## Tsim Sha Tsui Office Rental Index and Vacancy




Rents in the Tsim Sha Tsui district increased 3.9% over the quarter to average $31.3 psf. Compared to the end of last year rents in the district averaged 4.8% higher. Vacancy was noted to have increased 52 basis points over the quarter to average 8.2%, as ICC phase three was completed and as more vacant space came onto the market over the period.

## Kowloon East Office Rental Index and Vacancy




The vacancy rate for Kowloon East offices fell 5.5 percentage points over the quarter to average 15.2%. The vacancy rate has fallen 6.3 percentage points since December 2009. Meanwhile, the average rent in Kowloon East increased 11.2% over the quarter to $18.8 psf, and up 18.8% compared to the end of 2009. Quarterly rental growth in Kowloon East was the strongest out of all the main office districts tracked in Hong Kong. This is also the strongest quarterly increase in rents recorded in the district since rents bottomed out in the third quarter of 2009.

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## Office New Supply, Total Stock and Vacancy in April - June 2010

| District | Supply (Net sf in Millions) | Total Stock # (Net sf in Millions) | Vacancy Rate |
|---|---|---|---|
| Central | 0 | 13.374 | 3.8% |
| Sheung Wan | 0 | 3.212 | 5.6% |
| Admiralty | 0 | 4.037 | 6.2% |
| Wan Chai | 0 | 6.403 | 4.0% |
| Causeway Bay | 0 | 3.148 | 6.0% |
| North Point | 0 | 1.924 | 5.4% |
| Hong Kong East | 0 | 5.373 | 2.7% |
| Tsim Sha Tsui | 0.465 | 11.358 | 8.2% |
| Kowloon East | 0 | 9.100 | 15.2% |
| Others | 0 | 6.105 | 8.5% |
| **Overall Total** | **0.465** | **64.038** | **6.9%** |

# Total stock as per CBRE Research database.

## Major Office Districts in Hong Kong


MTR System

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 21.2% 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 6.4% 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 8.5% 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 10.8 million sf of Grade A office stock, or 17.2% 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 offers about 9.1 million sf of Grade A office space, or 14.2% of Hong Kong's total Grade A office stock. Note: C'Bons International Centre and Legend Tower were added to the basket of properties tracked in the district over the quarter.

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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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