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MarketView

Hong Kong Office

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Third Quarter 2009

Quick Stats

		Y-o-Y change	Q-o-Q change
Central Rental Value	HK$76.2 psf (net effective)	↓	↔
Avg. Rental Value ^	HK$39.7 psf (net effective)	↓	↔
Supply ^	459,082 sf (net)	↓	↑
Take-up ^	419,858 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

- Overall sentiment has improved and businesses are less pessimistic about the economic environment.
- The rise in vacancy rates slowed over the quarter, with less secondary space being released onto the market.
- The decline in rents moderated, with some landlords adjusting rents upwards in recent months due to better leasing activity.
- While it appears that rents may be bottoming out, there is still some concern surrounding the office market outlook next year.

The decline in office rents slowed further in the third quarter amidst better leasing market conditions and a less pessimistic economic environment. Grade A office rents for Hong Kong overall were largely unchanged over the quarter to average $39.7, up 0.4% from the second quarter. This is a significant improvement compared to the 14.7% and 6.8% q-o-q declines recorded during the first and second quarters of the year.

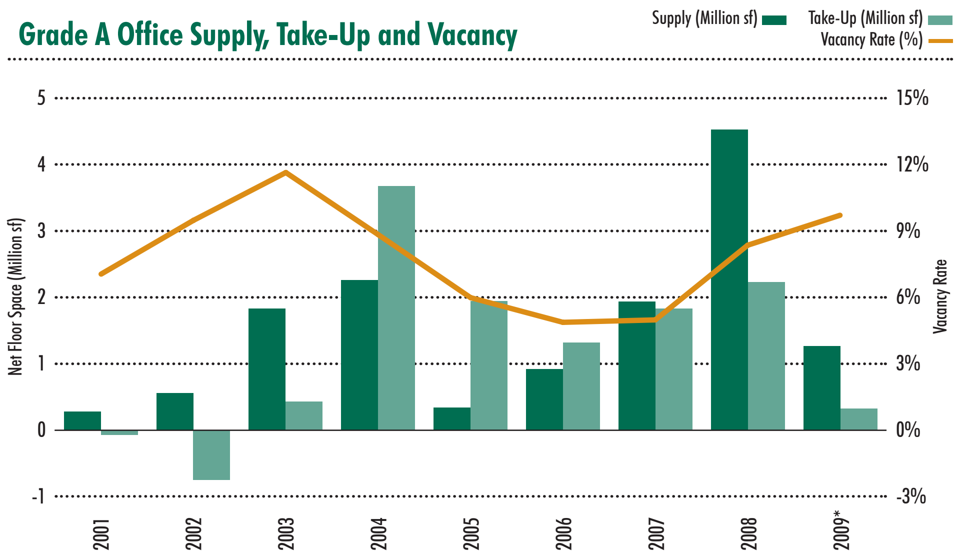
Grade A office rents in Central averaged 1.1% higher in September q-o-q to average $76.2 psf. Quarterly increases in rents were also recorded in Admiralty and Wan Chai, while rents in Kowloon East were largely unchanged. However, rents in areas such as Causeway Bay, Hong Kong East and Tsim Sha Tsui remained under downward pressure with rents falling 2% to 4% over the third quarter.

Some notable movement on Hong Kong Island in recent months reflects the economizing trend in real estate expenditure witnessed since the second half of last year. Grant Thornton relocated from Gloucester Tower to take up around 26,000 sf in Nexxus Building, while Mallesons moved from Two IFC to Gloucester Tower. The Tsim Sha Tsui office market remained under pressure following the relocation of some sizable tenants to Kowloon East. MGA Entertainment was the largest tenant to move, taking up around 23,000 sf in Kowloon East. Other sizable tenants relocating across Kowloon include Atos Origin, Lotus Tour and Kuoni Travel. The rising vacancy within some major landlord portfolios in Tsim Sha Tsui will likely continue to exert downward pressure on rents in the area in order to remain competitive with rents for properties in Kowloon East.

Vacancy rates for Hong Kong overall ended the quarter to average 9.7%, unchanged from June. Vacancy rates have been edging downwards in recent months with the rise in leasing activity amidst a more positive economic outlook and lack of major new supply. However vacancy averaged 1.9% higher compared to the same period in 2008. The increase in vacancy has provided options for occupiers looking to relocate, and in a few instances enabled tenants to upgrade their offices, given the 39% average drop in rents since mid-2008.

While it appears that rents may be nearing the bottom, there are some concerns surrounding the impact of significant secondary space that may be entering the market in 2010, as well as the strength of office demand next year. However, business sentiment is up, and the outlook of the Hong Kong office leasing market has improved considerably compared to the beginning of the year.

Grade A Office Supply, Take-Up and Vacancy



* As of Q3 2009

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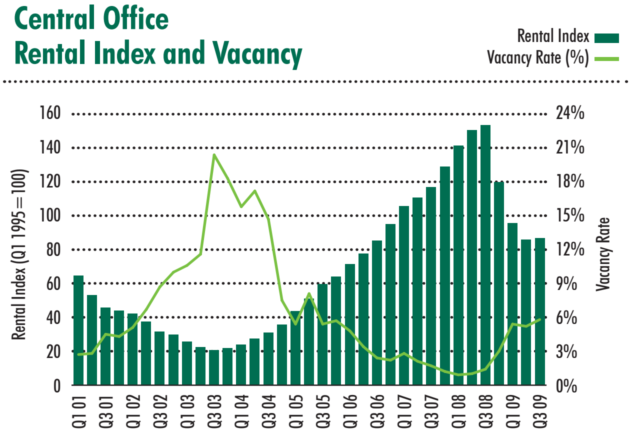
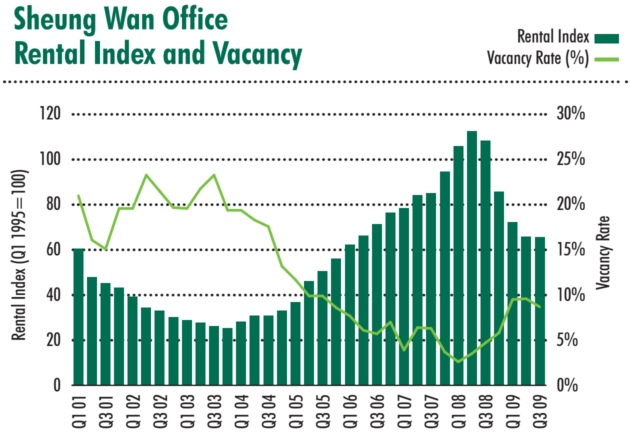
Central Office
Rental Index and Vacancy



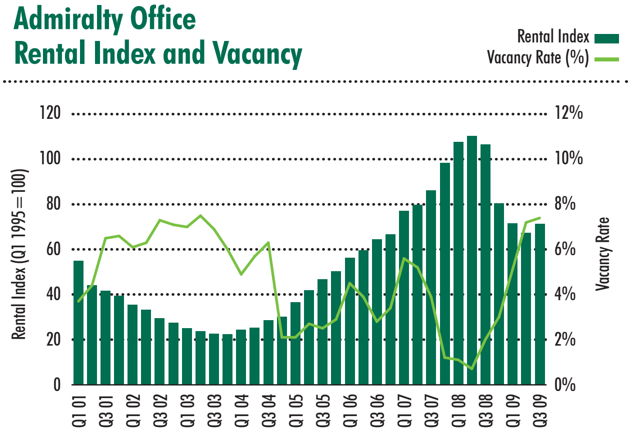
Monthly declines in average rent of around 1% were recorded in July and August, however rents increased 3.1% in September m-o-m. Rents increased 1.1% over the quarter to average $76.2 psf in September. The rise in vacancy rates moderated over the quarter, rising 57 basis points over the third quarter to 5.8%. There was a slowdown in the amount of secondary space being released onto the market amidst an active leasing market.

Sheung Wan Office
Rental Index and Vacancy



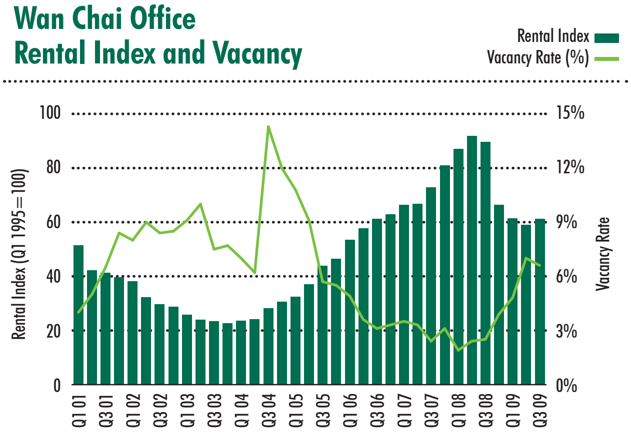
The average vacancy rate for grade A offices in Sheung Wan fell 90 basis points over the quarter to average 8.7%. Vacancy was noted to decline in buildings such as 181 Queen's Road, Li Po Chun Chambers and Shun Tak Centre. Rents meanwhile fell 50 basis points lower over the quarter to average $38.7 psf.

Admiralty Office
Rental Index and Vacancy



Admiralty office rents increased 5.8% over the quarter to average $55.3 psf, compared to a 6% decline recorded in the second quarter. While rents in most districts appeared to be bottoming out, rents in Admiralty witnessed the strongest quarterly increase in rents. This may be attributed to the fact that some landlords of strata-title property in the district are signing new leases at higher rents in light of improved market conditions. The average vacancy rate increased a marginal 20 basis points over the quarter to average 7.4%.

Wan Chai Office
Rental Index and Vacancy



Average vacancy in Wanchai fell 46 basis points from June to September to average 6.6%. Vacancy was noted to have declined in buildings such as Central Plaza, China Resources Building and Harcourt House. Rents meanwhile increased 3.7% over the quarter to average $36.7 psf. After Admiralty, this was the second strongest quarterly increase in rents noted on Hong Kong Island over the third quarter.

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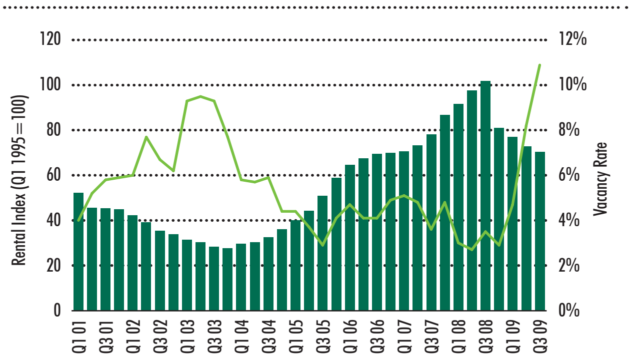
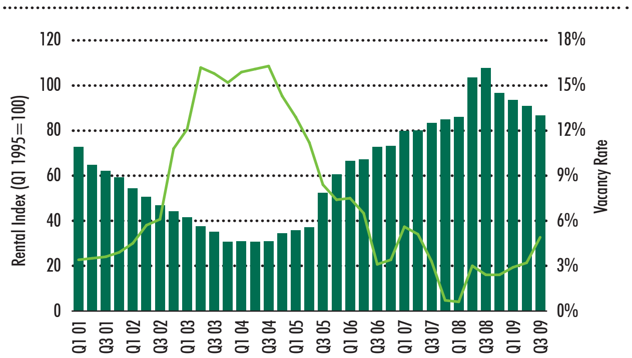
Causeway Bay Office Rental Index and Vacancy



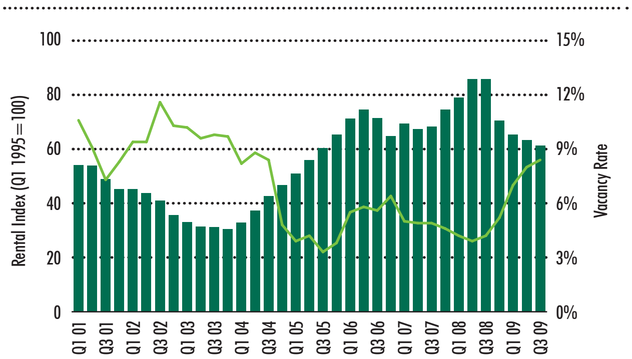
Rents in Causeway Bay remained under downward pressure over the third quarter, falling some 3.3% to average $37 psf. A substantial jump in vacancy was noted in Manulife Plaza, Lee Gardens, which helped push the overall vacancy rate for the district up from 8.2% in June to 10.9% in September. The substantial rise in vacancy over the period was a result of Manulife downsizing in Lee Gardens, and relocating a major portion of its operations to Manulife Financial Centre in Kowloon East.

Hong Kong East Office Rental Index and Vacancy



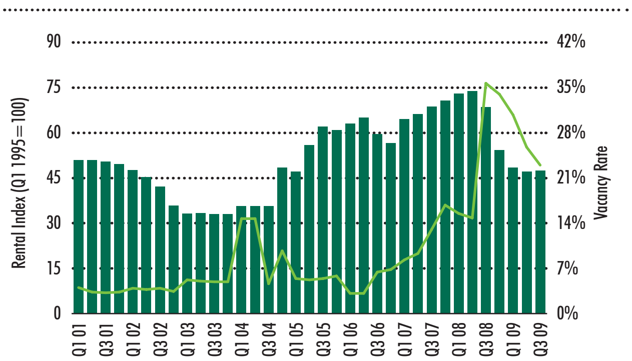
Similar to Causeway Bay, Hong Kong East rents remained under pressure over the quarter, falling some 4.6% to average $32.3 psf. This is an even stronger decline in rents compared to the 2.9% quarterly decline recorded in the second quarter. The vacancy rate meanwhile increased from 3.2% to 4.9% over the quarter, largely due to a jump in available space in Dorset House.

Tsim Sha Tsui Office Rental Index and Vacancy



Vacancy in the district increased 39 basis points over the quarter to average 8.4%. Increases in vacancy were notable in buildings such as China Hong Kong City and New World Centre, as well as the office blocks at Harbour City along Canton Road. There has also been a trend of office tenants relocating away from prime offices in Tsim Sha Tsui to newly completed projects in Kowloon East. This helped push rents down 2.9% over the quarter to average $29.5 psf.

Kowloon East Office Rental Index and Vacancy



Vacancy remained the highest out of all major office submarkets at 23.0% in September. However positive take-up of space in the district as tenants moved into the district helped push the average vacancy rate down 2.8% over the quarter. Active leasing activity in the district also provided a support to rents, which were largely unchanged over the quarter to average 67 basis points higher at $14.9 psf.

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Office New Supply, Total Stock and Vacancy in July - September 2009

District	Supply (Net sf in Millions)	Total Stock # (Net sf in Millions)	Vacancy Rate
Central	0	13.374	5.8%
Sheung Wan	0	3.212	8.7%
Admiralty	0	4.037	7.4%
Wan Chai	0	6.403	6.6%
Causeway Bay	0	3.148	10.9%
North Point	0	1.664	6.4%
Hong Kong East	0	5.373	4.9%
Tsim Sha Tsui	0	11.111	8.4%
Kowloon East	459,082	8.442	23.0%
Others	0	6.307	12.2%
Overall Total	**459,082**	**63.076**	**9.7%**

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 21.4% 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.

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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