

# MarketView Hong Kong Office

## Quick Stats

		Y-o-Y change	Q-o-Q change
Central Rental Value	HK\$78.9 psf (net effective)	↓	↑
Avg. Rental Value ^	HK\$40.4 psf (net effective)	↓	↔
Supply ^	0 sf (net)	↔	↓
Take-up ^	622,000 sf (net)	↑	↑
Vacancy Rate ^	8.4%	↔	↓

^ 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

- Grade A office rents increased 1.8% q-o-q to average \$40.4 psf.
- Vacancy rate down 1.4 percentage points over Q4 to average 8.4%.
- Some landlords holding firm on rents due to good take-up.
- High vacancy in Causeway Bay exerting downward pressure on rents.
- Positive take-up in Kowloon East given low rents and abundant supply.
- Office demand to remain healthy in 2010, with rental growth expected to strengthen in second half.

Demand for grade A office space remained positive over the fourth quarter amid improved sentiment and a more optimistic economic outlook. Vacancy rates appear to have reached a plateau as a result, with the overall vacancy rate averaging 8.4% in Q4, 1.4 percentage points lower than Q3. Rental growth was mixed over the quarter however, with rents in some districts rising due to good demand for space while rents in other districts remained under downward pressure due to high vacancy.

In Central, some landlords of prime new buildings increased asking rents and took a stronger stance in rental negotiations due to healthy demand for space in their portfolios. Rents for Grade A offices in Central increased 3.6% over the fourth quarter to average \$78.9 psf. Despite the increase, Central rents averaged 24.9% lower compared to the same period last year. Rents in some other districts continued to soften due to relatively high vacancy. Causeway Bay rents remained under pressure, falling some 9.7% over the quarter to average \$33.4 psf, while the average vacancy rate in the district remained high at 9.6%.

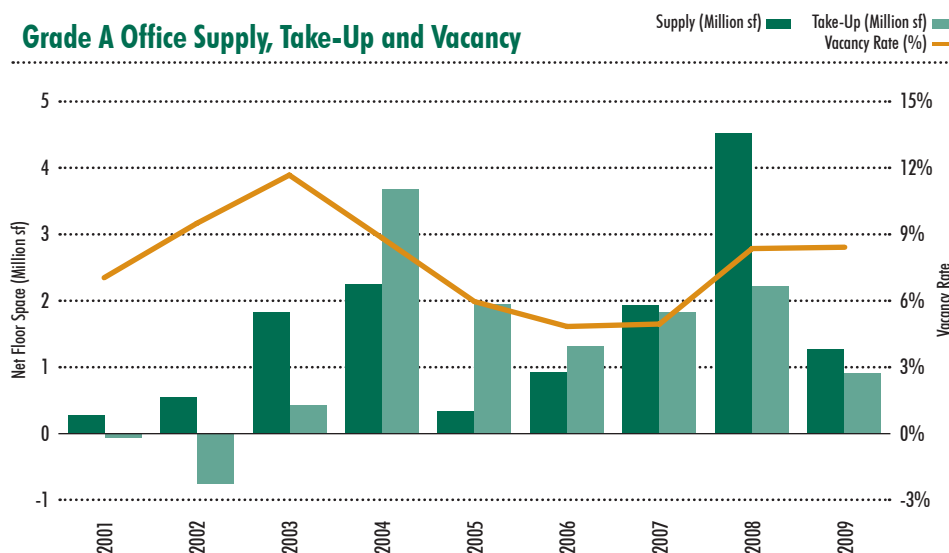
Vacancy rates on Hong Kong Island have risen from an average of 1.9% in July 2008 to 5.6% at the end of the fourth quarter. With no new office supply completed on Hong Kong Island this past year, the rise in vacancy has been a result of companies

vacating space due to corporate downsizing, or relocating operations to decentralized locations, such as Kowloon East. Many tenants remain attracted to areas like Kowloon Bay and Kwun Tong given the abundance of new supply in those districts and rents averaging \$16 psf. Steady take-up of space in the area resulted in vacancy rates falling 4.5 percentage points lower over the fourth quarter in Kowloon East to average 18.5%.

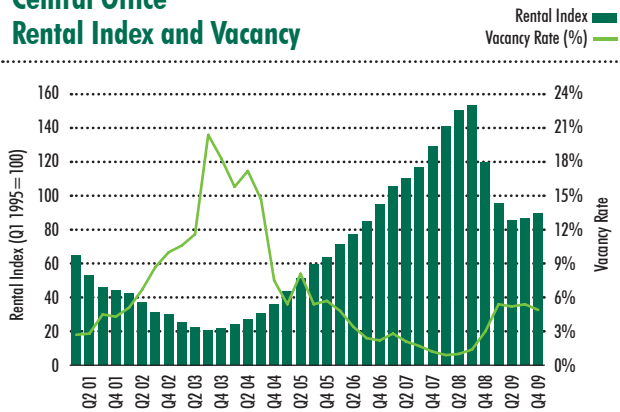
New Grade A office supply is forecast to fall to 1.2 million sf net in 2010, compared to a total of 1.6 million sf net completed in 2009. New projects in the pipeline include International Commerce Centre Phase 3 in West Kowloon, 7 Shing Yip Street in Kwun Tong, as well as 863-865 King's Road in North Point.

Healthy demand for office space is expected in 2010 on the back of improving economic conditions. Rental growth will likely be muted in the first half of the year however, with areas such as Central and Causeway Bay to be affected by large pockets of vacancy as tenants relocate out of district, while areas like Tsimshatsui and Hong Kong East will be under pressure due to competition from new offices in Kowloon East. Rents are expected to remain somewhat flat over the first half of the year, with greater potential for growth in the second half.

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

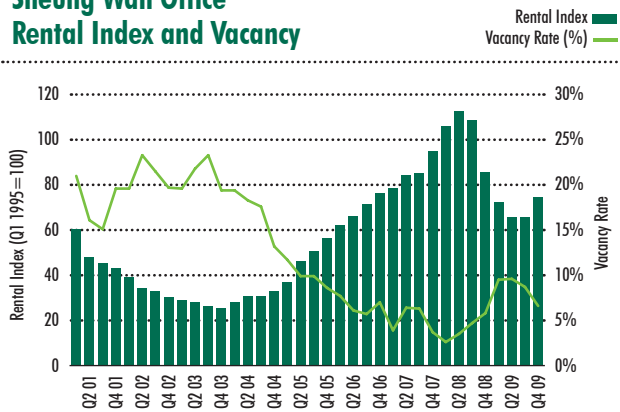


### Central Office Rental Index and Vacancy



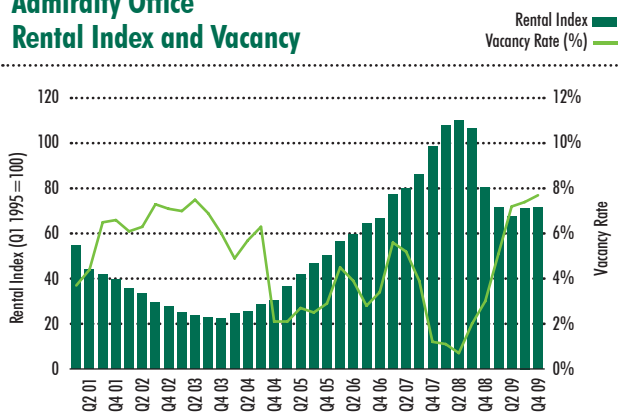
Rental growth in Q4 picked up pace, rising some 3.6% to average \$78.9 psf, compared to a quarterly increase of 1.1% in the third quarter. While rents appear to be coming off the trough, rents remained some 25% lower y-o-y. The rise in secondary space appeared to have levelled off, with vacancy averaging 4.9% in Q4, compared to 5.5% in Q3. However more large pockets of space are expected to come onto the market in 2010 due to tenant relocations. For instance, Barclays leased 107,000 sf in Cheung Kong Center and will relocate from its offices in Citibank Plaza.

### Sheung Wan Office Rental Index and Vacancy



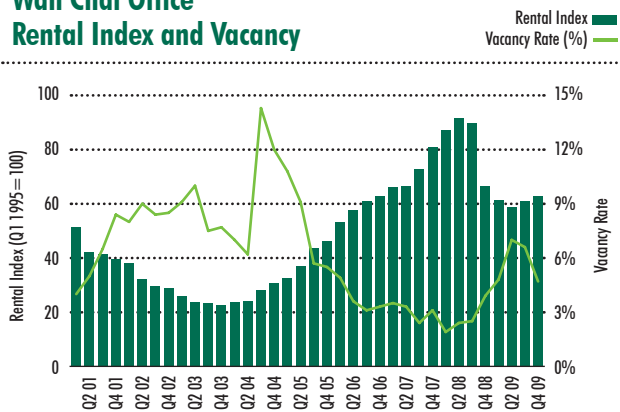
The vacancy rate averaged 6.6% in Q4, down from 8.7% in Q3. Vacancy was noted to decline in buildings such as Cosco Tower, and to a lesser extent Shun Tak Centre and Vicwood Plaza. Rents meanwhile jumped 13.8% over Q4 to average \$44.1 psf, the strongest quarterly increase in rents throughout all the main office districts. It also represents a significant turnaround compared to the 0.5% decline in average rents recorded in Q3.

### Admiralty Office Rental Index and Vacancy



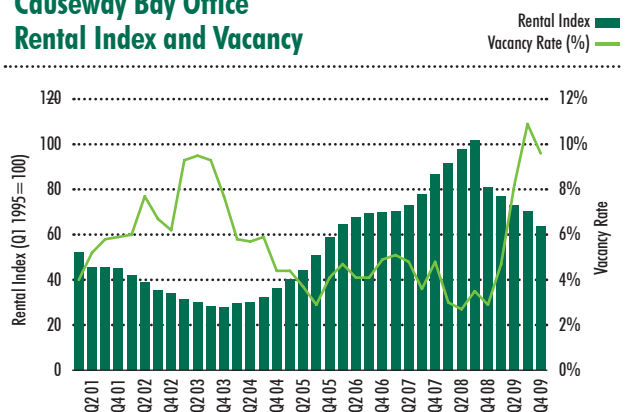
Somewhat milder rental growth was noted over Q4, with rents up 0.5% to average \$55.6 psf, compared to 5.8% quarterly growth in Q3. The average vacancy rate meanwhile climbed 22 basis points to 7.7% in Q4. The increase in vacancy in buildings such as Admiralty Centre II and Far East Finance Centre may have helped to cap rental growth in the district over the quarter.

### Wan Chai Office Rental Index and Vacancy



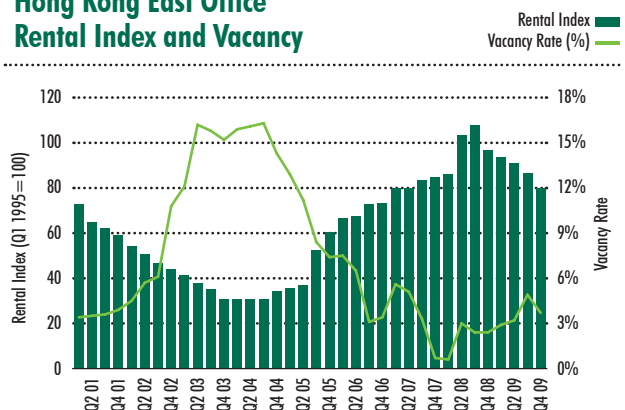
The average vacancy rate fell 1.9 percentage points over Q4 to average 4.7%, largely due to take-up in buildings such as Dah Sing Financial Centre, Harcourt House and China Resources Building. Better take-up of space in the area helped support rental growth of 2.6% over Q4, with rents averaging \$37.7 psf.

### Causeway Bay Office Rental Index and Vacancy



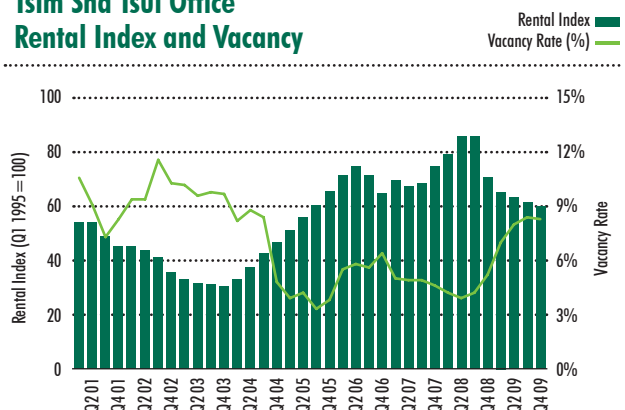
Rents in Causeway Bay fell some 9.7% over Q4 to average \$33.4 psf. This follows on a 3.3% decline recorded in Q3. Vacancy averaged 9.6% in Q4, down 1.3 percentage points from Q3. Vacant space remained high in buildings such as New York Life Insurance Tower and Manulife Plaza, totalling 157,000 sf net combined. Relatively high vacancy in the district, coupled with tenants seeking out lower cost offices in Kowloon, continued to place downward pressure on rents.

### Hong Kong East Office Rental Index and Vacancy



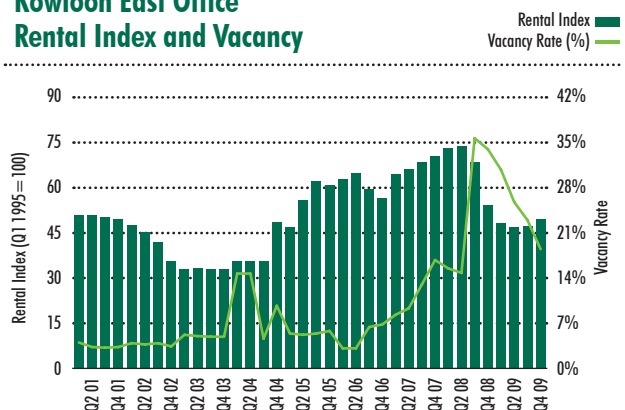
Vacancy rates averaged 3.7% in Q4, down 1.2 percentage points from Q3. Despite the drop in vacancy and evidence of some positive take-up in the district, rents fell 7.8% over the quarter to average \$29.8 psf. However it was noted that rents in Hong Kong East increased 0.2% in December, largely due to a rise in rents for Prosperity Millennium Plaza.

### Tsim Sha Tsui Office Rental Index and Vacancy



Rents remained on a downtrend, falling some 2.3% over Q4 to average \$28.8 psf. Rents have been falling on a quarterly basis since Q4 2008. Vacancy rates meanwhile remained high, averaging 8.3% over Q4. Continued high vacancy, particularly for grade A offices on Canton Road, has continued to exert downward pressure on rents in the district. Similar to some districts on Hong Kong Island, tenants in Tsimshatsui have been noted to relocate out of district to lower cost offices in Kowloon East.

### Kowloon East Office Rental Index and Vacancy



Tenants continued to relocate to the district over the quarter, attracted by low rents averaging \$15.7 psf in Q4, and an abundance of good quality new office space. Vacancy rates averaged 18.5% over the quarter, down some 4.5 percentage points compared to Q3. Although vacancy rates remained high, rental growth of around 5% was recorded over the quarter due to positive take-up of space in newly completed buildings, as well as landlords in the district taking a more positive view on the outlook of the grade A office market going forward.

Office New Supply, Total Stock and Vacancy in October - December 2009

District	Supply (Net sf in Millions)	Total Stock # (Net sf in Millions)	Vacancy Rate
Central	0	13.374	4.9%
Sheung Wan	0	3.212	6.6%
Admiralty	0	4.037	7.7%
Wan Chai	0	6.404	4.7%
Causeway Bay	0	3.148	9.6%
North Point	0	1.924	5.6%
Hong Kong East	0	5.374	3.7%
Tsim Sha Tsui	0	10.833	8.3%
Kowloon East	0	8.442	18.5%
Others	0	6.308	12.1%
<b>Overall Total</b>	<b>0</b>	<b>63.058</b>	<b>8.4%</b>

\* 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 consists of about 8.4 million sf, or 13.4% 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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