

OFFICE SERVICES

Office market shows further signs of stabilisation

The Hong Kong office market showed further signs of stabilisation in August, and rents generally stopped falling across the Island, with only slight declines of 0.25% and 0.28% m-o-m in Central and Hong Kong East, respectively. Other districts are experiencing slight positive growth, averaging 0.74% m-o-m.

Notable transactions for the month include Grant Thornton moving from its 24,000-sf space in Gloucester Tower, leasing about 26,000 sf in Nexus Building, and Mallesons' move from Two IFC into Gloucester Tower. Vacancy rates across the Island rose from 7.09% in July to 7.28 % in August, and are expected to increase as occupiers continue to carry out downsizing and cost-saving activities; this increase in the vacancy rate will help to allay suspicions of a short term rebound in rental levels.

Tsim Sha Tsui's major portfolios are under pressure following the relocation of some sizable tenants to spaces in Kowloon East, thus increasing the district's vacancy rate. MGA is the largest tenant to move, taking up around 60,000 sf in Kowloon East; other sizable tenants making the shift include Atos Origin, Lotus Tour and Kuoni Travel. Landlords in Tsim Sha Tsui are now combating rising vacancy rates by offering lower rentals to attract tenants for renewal or new lettings. Kowloon East is still the most active district in Kowloon's office leasing market, and with the current low rents and high vacancy rate, this does not look set to change in the short term.

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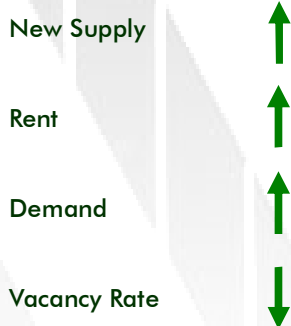
RESIDENTIAL SERVICES

Residential market enjoys robust revival

The residential property market is recovering, with monthly transaction figures showing a steady increase. In August, the ASP for residential units reached 11,250, back to the pre-Lehman collapse level. Economic recovery, combined with expectations that the recession is ending, the relative stability of the job market, the low-interest rate environment, and a lack of alternative high-yield investments provide a favourable foundation for both the residential sales and leasing markets. Prices and transaction volume are forecast to see further upside, driven by huge liquidity in the economy as well as further rebounds in residential rents.

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New Supply



Rent



Demand



Vacancy Rate



RETAIL SERVICES

Limited transactions as occupancy rate recovers

Enquiries from tenants have increased as the economy stabilises, although not many transactions were recorded during the month and there were few new entrants to the market. This was attributed to the recovery of the occupancy rate; areas such as Mongkok's Sai Yeung Choi Street South currently have a 100% occupancy rate. In August, The Body Shop relocated to a larger store on Russell Street with a higher rent, due to limited available space. Also, Sa Sa Cosmetics continues to expand, and has taken up a 25,000-sf flagship store on Granville Road.

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INDUSTRIAL & LOGISTICS SERVICES

Industrial sales rebound in line with other sectors

Enthusiasm in the industrial sales market has flourished, as investors acquire both strata sites and en-bloc buildings. Transaction volumes continued to increase in the past month, with buyers positioning themselves in anticipation of a possible easing of government policy in relation to the conversion of industrial buildings to alternative uses. The main locations that would benefit from the shift would be Kowloon East and Kowloon West.

The leasing market, however, continues to remain subdued as it tracks the real economy more closely. Despite continued reservations from business operators, they are looking to retain existing space and renewal activity is not seeing any further deterioration in rental prices. Nonetheless, there has been little net take-up of space as the small number of new leases has been the result of relocation of business operations, often from less functional areas to more proven areas and particularly if cost savings can also be achieved.

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Price



Demand



INVESTMENT PROPERTIES

Prime serviced apartment blocks in high demand

Investors are finding bargains in the serviced apartment sector, which took a hit in both occupancy and rents in the wake of the global financial crisis. Harvest Capital's sale of Fraser Serviced Apartments to Sino Land for HK\$580 million in August was an example of the enthusiasm in this sector, as was the transaction of Rosedale Hotel for over HK\$800 million. With the recent rise in occupancy, more transactions are likely, as investors continue to seek out good opportunities in this asset class.

The serviced apartment sector has displayed stable growth over the past 10 years. Although the global financial crisis was a setback, investors believe the recent economic recovery and strong performance in the China market will spur demand for Hong Kong serviced apartments. Assets managed by well-known regional operators will particularly be in demand.

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INVESTMENT & PROJECT MARKETING

Shanghai's Xintiandi luxury residences set to benefit from recovered sentiment

As property transactions in Hong Kong and China continued to climb in light of China's stable economic growth, increasing sales and marketing activities reflect stronger investors' confidence in the property market. To capture this recovery, CBRE's IPM team has been appointed by a U.S. institutional investor as the sole sales agent for Residence 21, The Lakeville Regency, in Xintiandi, a luxury residential complex in downtown Shanghai. The Art Deco-style residential project combines elegance and function, offering 24 two- and three- bedroom units between 1,500 and 1,600 sf. The classic homes extend from 2/F to 12/F, with garden homes on the ground floor and penthouses on 13/F boasting magnificent roof terraces. Residence 21 was showcased at the Landmark Mandarin Oriental Hotel on 5 - 6 September.

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