HONG KONG
PROPERTY NEWS AND VIEWS – JANUARY 09

New Supply ↔
Rent ↓
Demand ↓
Vacancy Rate ↑

OFFICE SERVICES

The influence of the economic downturn reveals

Office leasing activities have picked up since the beginning of the year, and there were a few transactions recorded in prime Central buildings after the CNY holidays. Evidently, rents in Central have fallen to a level which some tenants find attractive. The recent transactions also showed that quality office space is still in demand even though both the banking and financial sectors are continuing to shrink.

Other commercial districts like Wanchai and Causeway Bay have been feeling the pinch as more tenants are considering moving to Kowloon East, where the newly completed Grade A office buildings can offer rents 50%-70% lower than their existing locations. The trend of occupiers relocating and upgrading to the more cost effective area persisted, as demonstrated by the recent relocation of DHL and Hempel-Hai Hong (China) Ltd to Kowloon East.

On the far side of Hong Kong Island, the Island East sub-market featuring state of art commercial buildings by Swire Properties has apparently has been holding out relatively well so far, despite the crisis. At the moment only One Island East has a relatively high vacancy rate at around 5.8%; the rentals in Swire's portfolio have dipped only mildly.

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New Supply ↑
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RESIDENTIAL SERVICES

Market sentiment has improved though challenges are still ahead

After the sales volume of luxury residential property in Hong Kong rose to its highest level since the global economic meltdown began in the last month, the number of transaction retreated this month but is in relative high level comparing to the trough on November 2008. Spikes such as these are not unusual in the wake of the sharp drops in the fourth quarter of 2008. Strong demand from end-users and the limited supply of luxury residential properties have stimulated the increased activity. In both the mass residential market and the luxury market, some developers have promptly offered price discounts for quick sale. With the rising unemployment rate and plummeting exports, some worry that further price drops are just around the corner.

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New Supply ↔
Rent ↓
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RETAIL SERVICES

Low vacancies keep some prime locations rents stand still

Although instances of rent cuts were recorded, there were also some rental increases for retail space on first-tier streets. For example, a video retailer leased a Mongkok shop at a 10% increase from the previous rental, whereas Belle's new lease at Des Voeux Road Central reflected a 30% rent decrease and the 7-11 at Causeway Bay obtained a 25% decrease. Although the tension between landlords and tenants has heightened as the economic outlook remains uncertain, vacancies in prime locations have generally been digested by the market. This was due in part to the solid performance of the general retail market during the peak season.

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INDUSTRIAL & LOGISTICS SERVICES

New Supply	↔
Rent	↓
Demand	↓
Vacancy	↔

The leasing and sales activities are still slow

January was a slow month for both leasing and sales activities. Although partly because of seasonal factors, the diminished activity also indicated that users have became more cautious regarding their space requirements or have delayed their decision to take up new space. Nonetheless, some end users were still prepared to make investments; for example, Luk Yeung Restaurant Ltd's acquired a new facility in Tai Po Industrial Estate for HK$39.8 million during the month.

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INVESTMENT PROPERTIES

Price	↓
Demand	↔

Correction in office sale prices

The 6/F of No. 9 Queen's Road Central, owned by an Australian hedge fund, was transferred for around HK$123 million – representing a unit price of about HK$9,000 per sf (gross). The 30/F of United Centre in Admiralty was sold for about HK$106 million – a unit price close to HK$5,600 per sf (gross). These transactions show that office sale prices are undergoing significant corrections in line with declining rents, as investors factor the expected rental falls into their pricing. Transaction activity of strata-titled office floors will likely slow, given the gloomy rental forecasts in the next few months.

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INVESTMENT & PROJECT MARKETING

Price	↓
Demand	↔

CBRE markets investment opportunity in London

After a cooling-off period during the onset of the economic turmoil, seasoned investors are now taking advantage of the credit crisis to purchase quality properties in Hong Kong at bargain prices. Tiffan Tower, located at No. 199 Wan Chai Road, was purchased by an established low-profile family for $208 million. This property offers an attractive 5.9% return for its buyer with a total area of 49,600 sf.

Among destinations for overseas investment around the globe, London remains one of the most attractive real estate markets with robust long-term prospects. Prices have gone down 20% in Central London, and due to favourable exchange rate 40% in HKD terms. Parkside Wandsworth SW18 is a striking 23-storey landmark residential tower offering unrivalled views over King George's Park, with local amenities, transport and a convenient location; concierge services and complete fixtures and fitting are available. A rare opportunity, furniture pack, management fees and service charges will be paid for two years by its developer, Baratt Homes.

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