



OFFICE SERVICES

Discounts may reward early action

Rentals across Hong Kong Island have continued their predicted gradual decline, following the sharp declines seen at the beginning of the year. The average rental across Hong Kong Island was down 1.5% for the month with Causeway Bay and Hong Kong East taking the biggest hits (-2.7% and -2.6% respectively). However, with global financial sentiment seemingly improving, as seen by recent rallies in global stock markets, many companies have become less bearish about their long term prospects and are seeing the current discounts as a good opportunity to investigate new space or to renegotiate leases that were completed in the boom period of 2007 to 2008.

In Kowloon there has been some stability in rents in the decentralised areas as vacancy rates are slowly starting to decrease due to the influx of tenants from more centralised locations. Low rents, combined with new Grade A building stock, are still on offer in these areas, which continue to attract tenants from Tsim Sha Tsui and Hong Kong Island. This in turn has led to landlords in the more centralised areas lowering rents to compete, resulting in a 2.3% decrease in rents in Tsim Sha Tsui.

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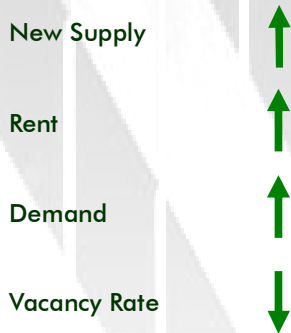
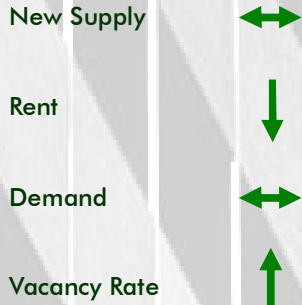
RESIDENTIAL SERVICES

Luxury residential properties outperform the market

Driven by the sooner-than-expected recovery of the global economy, ample inflow of liquidity, and the low cost of financing, the luxury residential property market has experienced a significant rise in sales activity, with certain prominent properties witnessing new highs in transaction prices. Recently, a high floor unit of “The Mayfair” in the Mid-levels sold for HK\$70 million, over HK\$24,000 per sf, breaking the highest record of this building since 1997. The overall property market is predicted to stage further growth in the near term.

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New Supply



Rent



Demand



Vacancy Rate



RETAIL SERVICES

Renewal preferred over relocation due to cost savings

The tug of war between landlords and tenants continued in July as tenants attempted to renew their existing leases within only a 15-20% rental increase, while landlords pushed for higher. Overall, there were more cases of lease renewals than new leases in July, as tenants were averse to relocation expenses and preferred to maintain good locations. I.T. Group renewed its shop at Lockhart Rd, Causeway Bay, while Koi Kei Bakery (Macau) opened its first Hong Kong store at Lee Garden Rd, Causeway Bay with around 500 sf of space. Tsimshatsui was the only prime retail area where vacancy increased, although there may be a rise in relocations upon the openings of two new shopping malls, i-square and K-11, in the fourth quarter.

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INDUSTRIAL & LOGISTICS SERVICES

Industrial market set to pick up

With the solid GDP numbers from China and an uptick in cargo volumes, there is some room for optimism in the market for industrialists. This hope is unlikely to translate into significant net leasing demand for another six months, which will maintain downward pressure on rentals albeit at a much slower rate of decline. Occupiers looking to renew leases or to relocate would be well served to consider locking in longer leases within this period of demand lag to catch the market close to the bottom. Of recent activity, a logistics operator has moved to Shatin from Kwun Tong to take around 30,000 sf, and Goodman has relocated VST Computers from Global Gateway to Dynamic Cargo Centre, also within its portfolio. On the sales front, the past couple of months have seen significant increases in activity with transactions up around 20-30%, and the price stabilizing if not slightly rising in the smaller secondary market. There were 16 industrial sale transactions in the New Territories of properties over 5,000 sf.

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New Supply



Rent



Demand



Vacancy



Price



Demand



INVESTMENT PROPERTIES

Retail shops trade below 3%

Together with the Investment & Project Marketing team, the CB Richard Ellis Investment Properties team concluded the sale of the ground floor property at 42 Granville Road, Tsimshatsui, at a gross transacted amount of HK\$115 million with an initial return of 2.7% per annum. The prime shop was leased to an Australian garment retailer for three years. Investors believe the opening of The One and I-square projects will spur pedestrian flow in the area and enhance rental growth. We expect more transactions will be recorded in the area to exploit the potential of the street shops there.

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