

### OFFICE SERVICES

#### *Rental differentiations diminish in falling market*

Although the rate of decline began to decelerate, rents continued to fall at a fairly rapid pace across most major office markets in May. Signs are emerging that some tenants see fair value in current levels, as indicated by a number of notable new letting transactions over the past few weeks. One securities firm seeking 11,000 sf to house their expanding trader head-count committed to a whole floor in Exchange Square, and an electronics company in Two IFC has committed to lease an additional whole floor of 23,000 sf in the building. The legal sector remains very active, proving beneficial to Hongkong Land in particular, with a combined total of 3.5 floors in The Landmark amounting to some 40,000 sf, leased in separate transactions to an international law firm and a local Barrister's Chambers.

Certain landlords have been able to hold rents at levels some might deem artificially high as a result of either very low vacancy, market monopoly, or a combination of both. Hence buildings that as recently as last August traded at a \$50 to \$80 per sf discount to the likes of Two IFC now find themselves priced at similar levels. Likewise, buildings in decentralized districts such as Quarry Bay are securing similar rents to the highest grade buildings in Wanchai and Causeway Bay, an abnormal situation to say the very least.

In Kowloon, the most noteworthy transactions all involved insurance companies, with three major international firms committing to a combined total of some 350,000 sf. This could result in similar transactions from within this very cost-conscious business sector, and in turn place rental pressure on some of those Hong Kong Island landlords that have up to now emerged virtually unscathed from the economic downturn.

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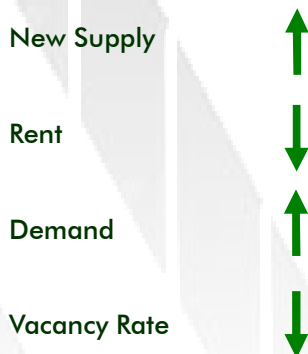
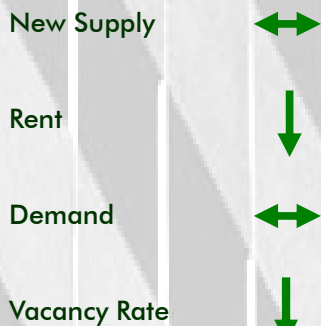
### RESIDENTIAL SERVICES

#### *A wave of foreign money boosts Hong Kong assets*

Foreign cash from Mainland Chinese and international investors propelled Hong Kong property prices up, even as the territory's economic fundamentals remain weak. Prices might still be up to about one third off their 2008 peak, but a massive jump in transactions is being witnessed. The recent strength in the property sector seems to be an adjustment to the earlier over-pessimism. At the same time, banks slashed their savings rate to near zero, increasing the attraction of the 3-4% annual yield of property investments.

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### RETAIL SERVICES

#### *Rental polarisation intensifies*

Vacancy has fallen as space was taken up in the wake of rental declines in certain areas. Polarisation has become severe as many shops on second-tier streets have remained vacant for three months or more, while space on primary streets continued to see steady rental increases. Rental variations up to 20% have been observed. Belle Shoe at Haiphong Road, Milan Station at Sai Yeung Choi Street South, and fashion stores at Lockhart Road all pay higher rents than existing tenants in order to secure their shops, whereas Central's retail market remained quiet.

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### INDUSTRIAL & LOGISTICS SERVICES

#### *Investment activities return to the market*

As the fortunes of Hong Kong's industrial market remain pinned on Mainland China, sentiment picked up in May on the back of more positive news from the Mainland. This looks set to carry forward. We have seen an increase in leasing enquiries, which should translate into greater take-up of space in the third and fourth quarters, thus slowing and potentially reversing the growth trend in industrial space vacancy. Of note was an expansion of 106,000 sf by Italian company Snatt Far East Ltd in Tin's Plaza, Tuen Mun. There are also now indications that after a long period of inactivity investors are re-entering the market, and relatively safer, high yielding industrial properties seem to be primary targets. It has been reported that the Lung Wah International Godown owned by Goodman has been sold to a private investor at a yield of around 7%.

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### INVESTMENT PROPERTIES

#### *Income producing assets increasingly popular*

Lung Wah International Godown, located at 72-76 Wang Lung Street, Tsuen Wan was transacted for over HK \$200 million. With a total gross floor area of around 235,605 sf, the logistics building generates a relatively higher yield than other asset classes. The purchaser is the existing tenant. Given the current low interest rate environment, users have been willing to commit to long-term investments on hard assets. Importantly, the purchase shows logistics users are confident in the logistics business model in the coming years.

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Price



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### INVESTMENT & PROJECT MARKETING

#### *Baccarat Residences in Xintiandi, Shanghai*

Our team is pleased to announce the launch of Baccarat Residences Shanghai. The launch is a CBRE 'by invitation only' event at the Hong Kong Four Seasons Hotel from 13–15 June, marking the auspicious debut of Baccarat Residences in Asia. Baccarat Residences Shanghai radiates the romance and brilliance of French luxury. Experience high living in this fully furnished opulence, equipped with the best from Europe: B&B Italia, Bang & Olufsen and Artimede surround the senses, Poggenpohl kitchens are fitted with Gaggenau and Kuppersbusch appliances and the sumptuous bathrooms feature Dornbracht and Grohe. The response during the pre-opening launch was overwhelming. Nearly 140 units have been sold to date, and 15 units are reserved for public launch in June.

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