



### OFFICE SERVICES

#### *Office market improves in line with economy*

In September, the Hong Kong office market showed continued signs of improvement. A number of new large-space leasing transactions have been concluded in prime office buildings, including an entire floor of York House to a Chinese fund. In line with this, there has been a reduction in the vacancy rate across major commercial districts including Central, Sheung Wan, and Wan Chai; a slight positive rental growth has been recorded, led by Central, which posted a 3.1% m-o-m increase. Many of the high quality vacant spaces in Grade A buildings are currently under offer, indicating increased positive sentiment and healthy demand in the market. Optimistic macro-economic signs and an increase in stock stimulated the sales market, and within the last six weeks 16 floors were sold in 181 Queen’s Road Central and a further four whole floors were transacted between Cosco Tower and 9 Queen’s Road Central.

After Manulife confirmed its move to Manulife Financial Centre, the pace of tenants’ relocation from Hong Kong Island to Kowloon East has slowed down. Hong Kong Island landlords are keen to retain anchor tenants within their portfolios and some have been offering more competitive rental packages in order to achieve this. In spite of this, the total occupancy rate of Kowloon East’s new developments continues to rise, particularly through the introduction of occupiers from The Link Management Ltd and the public sector such as Hospital Authority, Census and Statistics Department, who between them have committed to over 100,000 sf in Kowloon East.

Major insurance companies are still active in the Kowloon office leasing market, either looking for cost-effective options or expansion requirements. Tenants such as AXA and Mass Mutual have expanded in Tsim Sha Tsui and Mongkok respectively, whilst AIA is seeking out cost-effective space within Kowloon.

Due to the potential increased vacancy in the near future from tenants moving to more cost-effective options, portfolio landlords in Tsim Sha Tsui are revising their rental packages to remain competitively priced.

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New Supply



Rent



Demand



Vacancy Rate





### RESIDENTIAL SERVICES

#### *Irrational exuberance may fuel luxury property market*

With hot money inflows, banks awash with liquidity, and a stabilising rental market, prices and transactions in the property market have been on the rise, particularly in the high-end residential sector. A new development by New World Development & Urban Renewal Authority located in Tsim Sha Tsui, The Masterpiece, recently sold over 190 units in a very short period of time, and a furnished 816-sf show flat on a high floor sold for HK\$24.50 million – meaning the buyer paid \$30,024 psf for a one-bedroom flat. Some analysts worry that current conditions may fuel irrational exuberance in the market.

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### RETAIL SERVICES

#### *Limited expansion continues under mounting rents*

Although most tenants believe that the worst of the economic downturn has passed, they continue to have doubts about the imbalance between mounting rents in comparison with the recovering economy. Bonjour Cosmetics recently leased a 1,000-sf space on Russell Street, as cosmetics retailers continued to carry out sustained expansion for the past six months despite the weak economy. This trend has been supported by resilient consumption from local and mainland shoppers. Broadway Electronics has taken up Gome’s previous flagship store on Argyle Street, further expanding the company’s market share in Mongkok, though its flagship store at Sai Yeung Choi Street was opened only a few months ago.

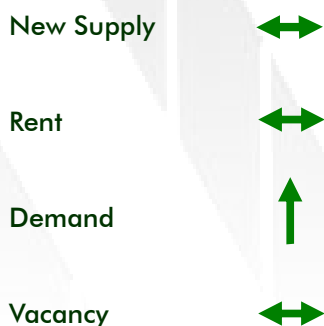
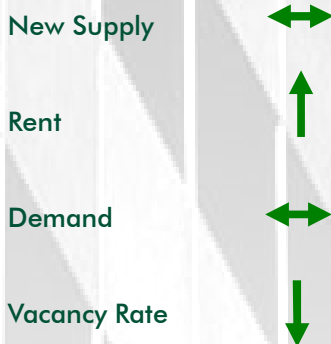
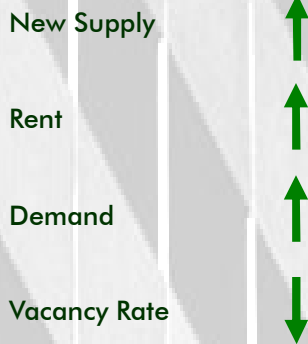
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### INDUSTRIAL & LOGISTICS SERVICES

#### *Logistics market continues to stabilise*

Despite patchy August economic indicators, with China Customs statistics showing that the country’s foreign trade value in the first eight months dropped 22.4% y-o-y and Census and Statistics Department figures indicating Hong Kong’s export value and import value respectively fell 13.9% and 9.8% y-o-y in August, early signs of the stabilisation of the industrial property have continued. After a long period of tenants looking to downsize or consolidate, there are now increasing enquiries for new space, particularly in the retail logistics sector. Of recent deals, discount electronics group DCS leased two floors circa 60,000 sf in the Goodman Tuen Mun Distribution Centre at around HK\$5 psf.





In the en-bloc sales market, Billion is continuing its aggressive push into Kowloon East. The company's confidence is borne out of a string of sales at increasing prices in its Wang Kong Road property, which was the result of an industrial land acquisition and development for strata office sales. Recent en-bloc purchases by Billion include: 10 Shing Yip Street, which is now fully leased by Li & Fung at around HK\$630,000 per month on a consideration of HK\$330 million (HK\$1,375 psf), with a total GFA of approximately 240,000 sf; the Elite Industrial Building located next to the Piazza Industrial Building development site, which is also being developed by Billion; and No.3 Kwong Sang Hong Godown in Kowloon Bay at a consideration of HK\$285 million on a site area of approximately 29,500 sf. There has also been a continued high level of transactions in the strata market, with an example being the whole floor sale of 14,000 sf in the Ching Cheong Industrial Building in Kwai Chung at HK\$670 psf, as well as a floor of 6,416 sf in Pat Tat Industrial Building, San Po Kong at HK\$1,170 psf.

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### INVESTMENT PROPERTIES

#### *Investment sales focus on Causeway Bay retail properties*

A number of investment transactions have been setting record high prices in Causeway Bay recently, including the sale of a shop on East Point Road transacted at a unit price on saleable area of over HK\$300,000 psf. Other transactions include a single block in Kai Chiu Road, which attracted over 15 bidders, as well as a shop in Pak Sha Road that was sold for over HK\$160,000 psf. In the wake of such activity, CBRE's Investment Properties team has been appointed to tender an en bloc building at 514 Lockhart Road. The tender will close on 30 October 2009. The property is located in the heart of the Causeway Bay shopping area, next to the SOGO Department Store and just a one minute walk to the Causeway Bay MTR station. The total site area is 921 sf with a saleable area of around 3,150 sf, and the transaction price is expected to exceed HK\$330 million. The property is a scarce resource, as very limited property with similar value is offered for sale in the area.

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Price



Demand

