

Continued expansionary pressure meant that the supply/demand imbalance in the prime Grade A office market persisted, especially on Hong Kong Island. The pace of rental growth accelerated significantly, prime office rents surging 11.4% q-o-q, to an average of \$65.73 psf per month. Year-on-year rental growth exceeded 30% for the fourth consecutive year, with prime office rents rising 31.7% y-o-y in 2007.

Demand for prestigious office space in Central remained exceptionally strong, with

Grade A1 buildings including One and Two ifc, Cheung Kong Centre, Chater House, AIG Tower and York House all fully occupied. Only pockets of vacancy remained in Central, leading to a further decline in the area's vacancy rate, which tightened to 1.2%.

Record rents continued to be achieved across Central; in Two ifc an investment fund committed to lease 6,000 sf at an effective rent of \$170 psf per month (Lettable), while Exchange Square and Chater House rented out smaller units in the region of \$150-160 psf (Net). The rental surge also saw the average rents of quality Grade A office buildings in Central exceed \$120 psf (Net), surpassing historical highs. Buildings such as The Landmark and Jardine House secured rents exceeding \$100 psf (Net). Landlords of strata-titled buildings including Nine Queen's Road Central and Bank of America Tower also seized the opportunity to raise rents aggressively. The across-the-board expansionary demand pushed

average rents in Central overall up another 10.5% q-o-q, to \$113.4 psf.

As Central's finite supply of quality office space failed to satisfy the robust expansionary demand, interest and take-up increased in nearby districts including Admiralty, Sheung Wan, Wan Chai and Causeway Bay. All these districts registered q-o-q rental growth of over 11% and

vacancy rates averaged 3.2% in the fourth quarter.

Phase 1 of International Commerce Centre

(ICC), opening in the first quarter of 2008, has been pre-committed by the likes of Morgan Stanley and Credit Suisse, the latest traditional core Central occupiers to announce that they will move their entire Hong Kong operations to the development while simultaneously expanding their operations. Meanwhile, DBS and Aedas confirmed commitments in One Island East, Quarry Bay, expected to complete in March 2008.

Indicating the solidity of demand, tenants from Hong Kong Island seeking cost-effective office space without compromising on quality are focusing on premier properties in Kowloon, resulting in significant take-up in recently completed projects. Kowloon East has been especially popular: One Kowloon is fully leased by MNCs including Maersk and Ricoh; only one floor remains uncommitted in Enterprise Square 5 where sizeable tenants include Hang Seng Bank and DHL; and the majority of Millennium City 6 is leased or under offer by the likes of DBS and MTR.

*Exceptionally strong demand for prestigious office space in Central led to fully occupied Grade A1 buildings, resulting in a tightened vacancy rate to 1.2%.*

### QUICK STATS

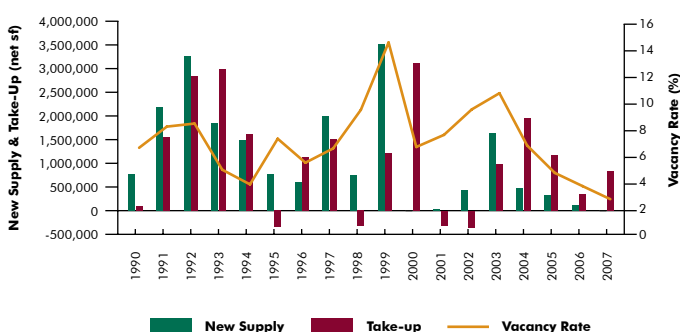
	Change in Q3 07	Change in Q4 07
New Supply	↔	↔
Demand	↑	↑
Vacancy Rate	↓	↓
Prime Rents	↑	↑

**OFFICE NEW SUPPLY, TAKE-UP AND VACANCY IN OCTOBER - DECEMBER 2007**

	New Supply* (Net sf)	Total Stock# (Net sf)	Vacancy Rate
Core Central	–	13,415,177	1.21%
Admiralty	–	4,037,762	1.23%
Sheung Wan	–	3,231,488	3.71%
Wan Chai	–	6,370,981	3.10%
Causeway Bay	–	3,243,255	4.83%
Tsim Sha Tsui	–	9,711,073	4.74%
<b>Overall Prime</b>	<b>0</b>	<b>40,009,736</b>	<b>2.86%</b>
Decentralised Hong Kong	–	5,812,630	3.33%
Decentralised Kowloon	819,051	10,112,794	7.97%
<b>Overall Decentralised</b>	<b>819,051</b>	<b>15,925,424</b>	<b>6.28%</b>
<b>Overall Total</b>	<b>819,051</b>	<b>55,935,160</b>	<b>3.84%</b>

Note: \* : New supply as per Occupation Permit issued by Buildings Department and published in Monthly Digest within the quarter.

# : Total stock as per record contained in database of CBRE Research.

**NEW SUPPLY, TAKE-UP AND VACANCY IN PRIME AREAS**
**Grade A Office Supply, Take-Up and Vacancy**


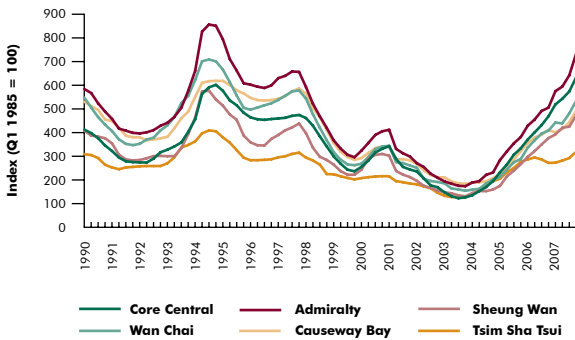
As 2007 came to a close, there was no new supply of Grade A office premises in prime commercial locations of Hong Kong including Central, Admiralty, Sheung Wan, Wan Chai, Causeway Bay and Tsim Sha Tsui. However, demand for office space has persistently been solid throughout the year, from expansion of existing firms and new demand from various sectors, such as private banking, asset management, financial and legal services.

With sustained tight supply and strong demand, take-up of prime office space continued to register healthy performance, achieving 823,628 sf in 2007, an upsurge of additional take-up of 466,872 sf compared with 356,756 sf in 2006. Notable leasing activity in the fourth quarter of 2007 saw Rabobank occupy the lowest three floors of about 25,000 sf in York House in Central. The overall vacancy rate of prime Grade A office districts continued to tighten almost 100 basis points, from 3.84% at the end of 2006 to 2.86% at the end of 2007, the lowest level in over 17 years.

As China remains a preferred business destination for MNCs amid the global financial turmoil resulting from the US sub-prime crisis, activity in the Hong Kong office market is not expected to diminish in the short-term.

## RENTAL TRENDS IN PRIME AREAS

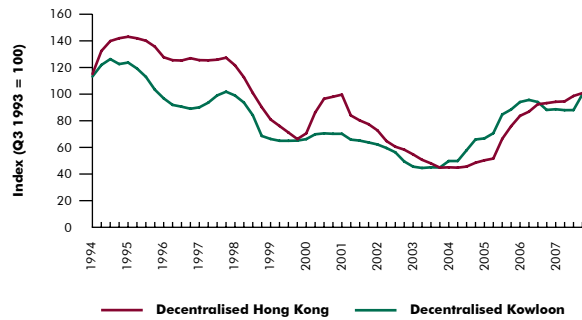
### CB Richard Ellis Grade A Office Rental Indices



The supply/demand imbalance in Central enabled landlords in districts in close proximity to the core CBD to benefit from increased activity, resulting in strong fourth quarter rental surges in Admiralty, Sheung Wan, Wan Chai and Causeway Bay. However, despite the robust performance of these sub-markets, their respective rental gaps with prime core Central continued to widen. Excepting the persistent supply limitations, the underlying reason for Central's rental supremacy is the general inelasticity of its tenants, many of whom rank location above all other factors, unlike tenants in other prime commercial districts across Hong Kong. While the pace of rental growth in core Central was slower than that in other sub-markets on Hong Kong Island in the fourth quarter, Central's 35.3% rental growth over 2007 trailed only Admiralty, where rents rose 45.2%, and Central remains Hong Kong's pre-eminent commercial district.

## RENTAL TRENDS IN DECENTRALISED AREAS

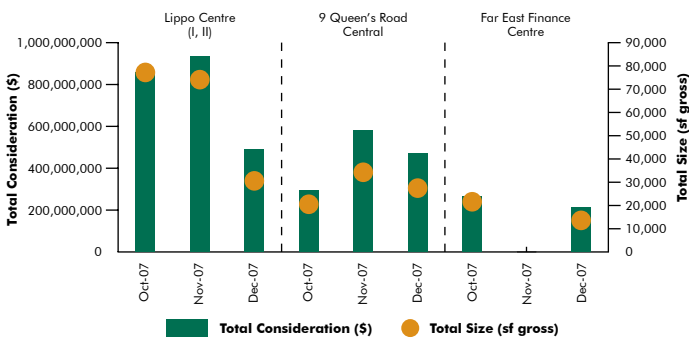
### CB Richard Ellis Decentralised Grade A Office Rental Indices



The comparatively cost-effective Hong Kong East Grade A office cluster continued to be seen as a good vehicle to ride the MNCs' expansionary trend. The area enjoyed its lowest vacancy rate since 2000, reaching 3.33% at the end of 2007. Leasing activity in Kowloon has been strong during 2007. ICC succeeded in changing the perceptions of some traditional core Central Hong Kong Island occupiers, such as Morgan Stanley and Credit Suisse. The majority of ICC tenants are expected to be Central occupiers seeking premium quality office space to accommodate their expansion and upgrading requirements. Strong leasing activity has also been witnessed in new Kowloon East projects like One Kowloon and Enterprise Square 5 where sizable major MNCs have taken up space. The majority of Millennium City 6 is leased with the remaining portion under offer. Although the supply of new decentralised developments in Kowloon will be plentiful in 2008 and may bring some downward rental pressure in decentralised districts, buoyant demand and strong take-up should limit serious slippage.

## CAPITAL VALUE TRENDS IN PRIME AREAS

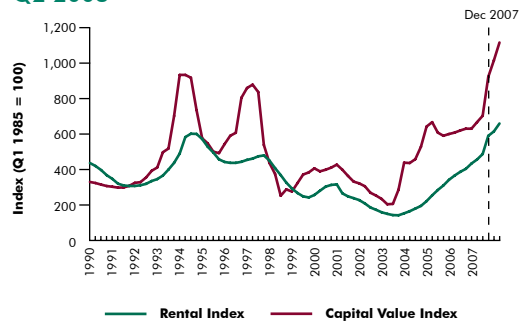
### Major Transactions in Q4 2007



Comparing with the rental market, office prices saw much stronger growth towards the end of 2007 on the back of increased interest from investors seeking to capitalise on surging office rents and the supply/demand imbalance in the core CBD area. The sales market was almost entirely unchecked in the fourth quarter when average office prices surged 31.3% q-o-q in the Central/Admiralty area, the strongest quarterly growth last witnessed in the first quarter of 2004. Intensified investment activity pushed the unit price of many tradable office floor spaces to levels beyond their previous peak in 1994, compressing the average yield in the last quarter of 2007 down to about 4-4.2% from over 4.5% in the quarter before. Investors are not yet worried about the yield compression, given that market demand remains remarkably strong.

## PROJECTIONS

### Grade A Office Rental and Capital Value Trend Projection to Q2 2008



Continued expansion in the financial sector, on-going IPO interest and PRC companies increasing their Hong Kong footprint are expected to continue to sustain rising demand for office space. Shockwaves arising from the US sub-prime crisis have yet to result in a substantial economic downturn in Asia. Many MNCs see the region as a comparatively safe location to weather the storm and numerous expansion plans remain active. The prevailing supply/demand imbalance is likely to persist, providing firm support for prime rents, particularly those on Hong Kong Island, over the near-term. The key question for 2008 and beyond is how the market will overcome the demand/supply imbalance in Central. With vacancy rates fast approaching 1% and further tightening likely, identifying expansion space in Central is going to be a major problem for both the landlord and tenant communities.



## PRIME OFFICE DISTRICTS IN HONG KONG

### CORE CENTRAL

This is the banking, legal and financial centre of Hong Kong and the district with the highest office rentals. Core Central consists of 13.4 million sf of Grade A office space or 34 per cent of the prime Grade A office stock.

### PERIPHERAL CENTRAL

Peripheral Central is divided into east and west including areas such as Admiralty and Sheung Wan. Over the past decade these areas have grown dramatically, establishing themselves as the extensions of Core Central. Peripheral Central consists of 7.0 million sf of Grade A office space or 18 per cent of the prime Grade A office stock.

### WAN CHAI

Gloucester Road divides Wan Chai into two distinct sectors. The reclaimed area to the north has developed as an area for tenants requiring affordable rentals in good quality buildings, close to Central. Beyond the southern side of Gloucester Road are generally older, smaller buildings of lesser quality. Wan Chai consists of 6.3 million sf of Grade A office space or 16 per cent of the prime Grade A office stock.

### CAUSEWAY BAY

Causeway Bay has a number of good quality office buildings at rental similar to Wan Chai. The area consists of 3.2 million sf of Grade A office space or 8 per cent of the prime Grade A office stock.

### TSIM SHA TSUI

The prime Grade A buildings are mainly concentrated along Canton Road and Nathan Road. The area consists of 9.8 million sf of Grade A office space or 25 per cent of the prime Grade A office stock.

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## TERMINOLOGY

### GRADE A:

Modern facility with high quality finishes; flexible layout; large floor plates; spacious lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; good management and parking facilities are normally available.

### NEW SUPPLY:

The number and/or square footage of buildings completed (including redevelopment) in a period.

### TAKE-UP:

The net absorption of office space let, or sold to the acquirer for occupation.

### VACANCY RATE:

The amount of vacant space divided by the total stock.

### RENT:

Rents are presented in HK\$ on a net basis, unless otherwise specified.

### CAPITAL VALUE:

Capital values are presented in HK\$ on a gross basis, unless otherwise specified.