

MarketView Hong Kong Office

Quick Stats

		Y-o-Y change	Q-o-Q change
Central Rental Value	HK\$105.18 psf (net effective)	↓	↓
Avg. Rental Value ^	HK\$52.96 psf (net effective)	↓	↓
Supply ^	0 sf (net)	↔	↓
Take-up ^	-360,258 sf (net)	↓	↓
Vacancy Rate ^	8.03%	↑	↑

^ Data covers major districts including Central, Admiralty, Sheung Wan, Wan Chai, Causeway Bay, North Point, Hong Kong East, Tsim Sha Tsui and Kowloon East

Hot Topics

- The overall Hong Kong rental dropped sharply this quarter, reversing the previous gains of the first nine months, closing the year with a loss.
- Properties on Island East are performing ahead of the market in terms of rental and vacancy, and have been least affected by the current crisis. Most buildings in Taikoo Place still have zero vacancy and rents have not dropped a single dollar.
- Landlords' attitudes began to change significantly as they became more aggressive in cutting rents.
- Relocations to Kowloon from less location-conscious but price sensitive occupiers will continue given high quality space available at low rents.

The collapse of Lehman Brothers in late September increased the intensity of the global economic crisis. All indicators showed that US spending and imports were decreasing, and as the crisis extended to other markets, it became clear that Hong Kong could not remain unaffected.

Since August, a number of the major banks have indefinitely postponed what were aggressive growth plans for Hong Kong and have instead commenced "right-sizing" initiatives. The lay-offs so far have not been drastic but have been sufficient to leave pockets of unused space within Central in particular, and an increasing number of banks are now seeking to off-load their surplus space via sub-let or surrender. It is fair to assume that this trend will continue into 2009.

Space available from tenants will for the foreseeable future compete with space available directly from landlords, causing a decline in face rents and an increase in tenant incentives such as rent free periods.

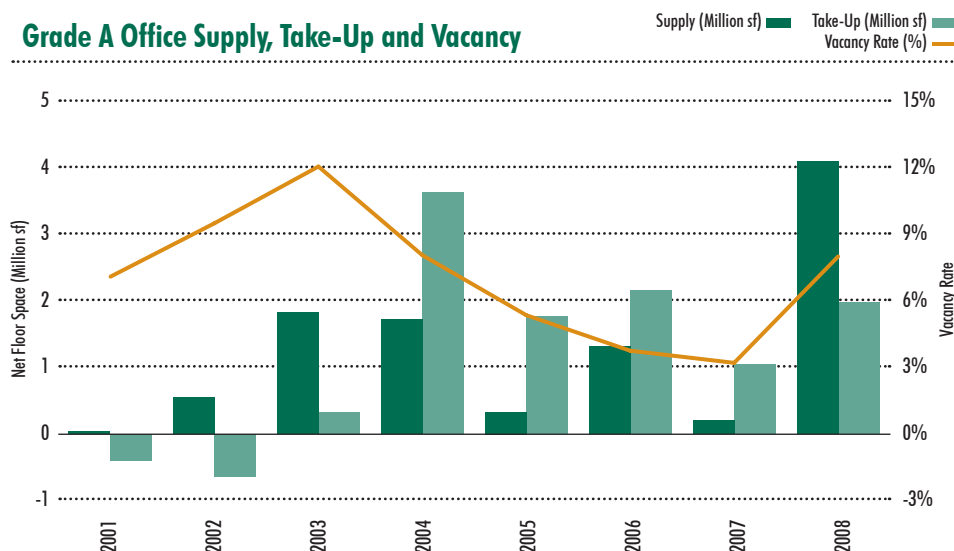
That said, it should be noted that with vacancy rates still low, and very limited new supply in the pipeline for the next three years, landlords on Hong Kong Island are not under a huge amount of pressure to reduce rents dramatically. It is also important to reflect on the speed with which rents increased in 2007 and early 2008: a decline of around 30% from current

levels would only take rents back to 2006 rates, so those who are comparing the current situation with the SARS period in 2003 - when rents in Two IFC fell as low as \$15 psf - are wide of the mark.

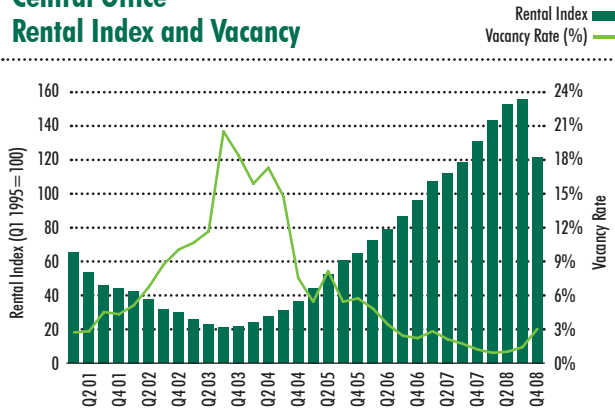
In summary, Hong Kong's demand for office space weakened considerably in the final quarter of 2008 and landlords have become more flexible as a result. Rents in the traditional financial districts of Central, Sheung Wan and Admiralty declined by 21.9%, 21.0%, 24.5% respectively, with vacancy rates in those districts up slightly. In contrast, rents in Hong Kong East declined by only 10.3% q-o-q, essentially due to the very low vacancy in Swire's portfolio and their virtual monopoly of the Grade A market in Quarry Bay and Taikoo Shing. The average rent on Hong Kong Island dropped 21.6% from September to December, reversing the gains of the first nine months, closing the year with a loss of -10.2%.

In the current economic environment, tenants' cost reduction strategies drove many to relocate from Hong Kong Island to Kowloon. With four new high quality office buildings, Kwun Tong 223, Landmark East, Manhattan Place and Exchange Tower, Kowloon East provided competitive rents, and also attracted occupiers in the area looking to upgrade their office premises at a similar cost. These developments helped Kowloon East strengthen its transition from an industrial region into a business hub.

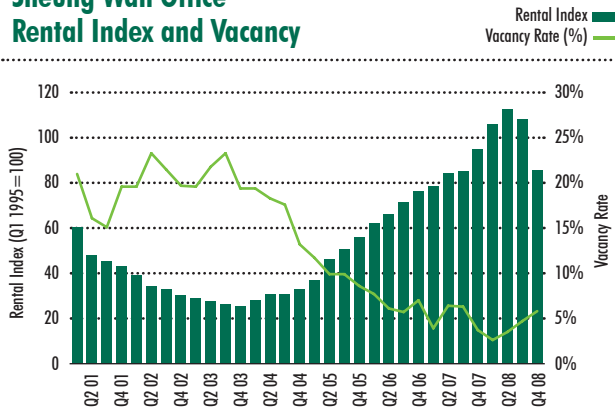
Grade A Office Supply, Take-Up and Vacancy



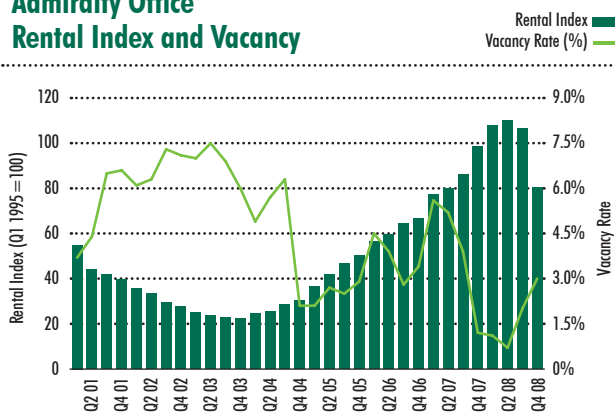
Central Office Rental Index and Vacancy



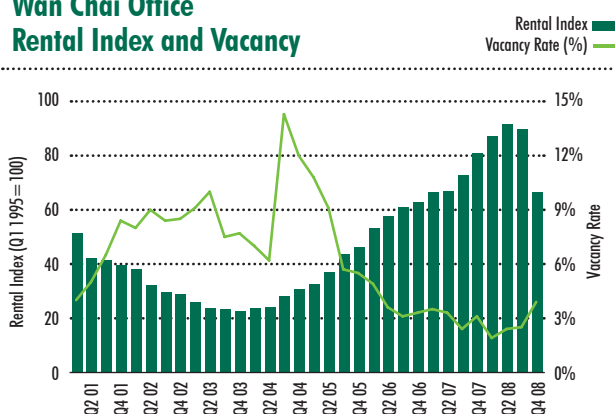
Sheung Wan Office Rental Index and Vacancy



Admiralty Office Rental Index and Vacancy



Wan Chai Office Rental Index and Vacancy



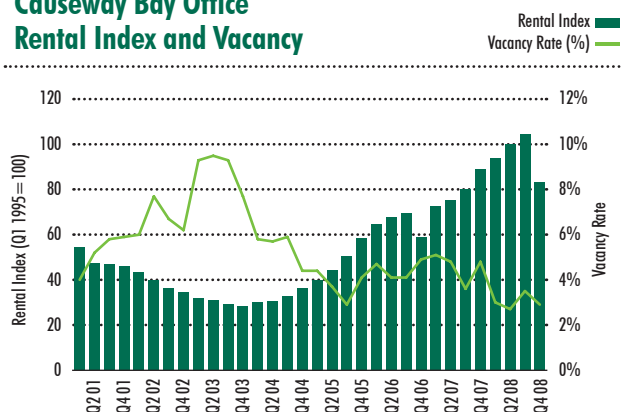
Most international banks are located in Central, hence the district saw a very swift decline in transaction volume over the last three months of 2008, whilst the vacancy rate more than doubled q-o-q to 3.04%. Some Central landlords were quick to relax their rental expectations once the severity of the credit crisis became quite obvious in September. Others were less keen to cut rents aggressively for fear of adversely affecting their negotiation position on a few very significant rent reviews which were scheduled to be settled at the end of December. Rents declined by 21.9% q-o-q to an average net effective rent of \$105.18.

The strata-title nature of a number of Sheung Wan office buildings intensifies the level of competition between landlords. In addition, the district has a number of vacant spaces of 10,000 sf or larger available, which are more difficult to lease, hence vacancy rates historically stand at least one to two percentage points higher than other core and secondary business districts on Hong Kong Island, irrespective of market conditions. Rents in Sheung Wan declined quickly from September onwards, with the average net effective rent dropping by 21.0% to \$50.62 psf, while the vacancy rate increased to 5.83%, the highest on Hong Kong Island.

Admiralty is dominated by strata-title ownership buildings, the exception being Pacific Place, which is owned entirely by Swire Properties. Strata-title owners are usually the first to react to a declining market and aggressively compete for tenants, often simply to secure a contribution towards the monthly mortgage repayment. This resulted in a decline in average net effective rent of 12.8% in December alone, resulting in a total quarterly decline of 24.5% to \$62.41 psf. The vacancy rate was 2.99%, roughly the same level as Central district.

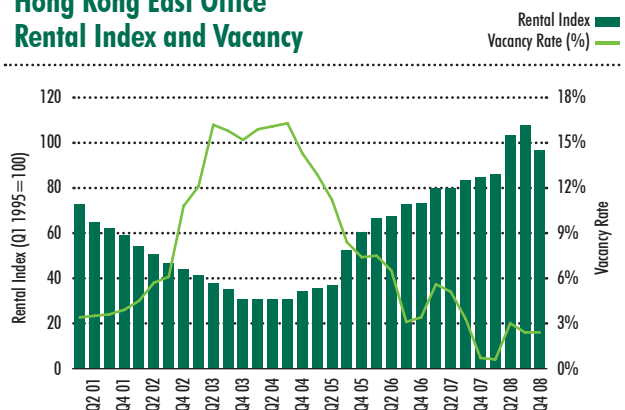
Wan Chai occupiers are quite diverse, including many from the professional services and insurance sectors, which have not to date been as badly affected by the financial crisis. However, as a number of large occupiers hold leases expiring in 2009, many of whom can consider the far cheaper Kowloon East district as a relocation option, rents are facing downward pressure. The average net effective rent fell by 25.9% q-o-q to \$39.88 while vacancy rose to 3.89% within the same period.

Causeway Bay Office Rental Index and Vacancy



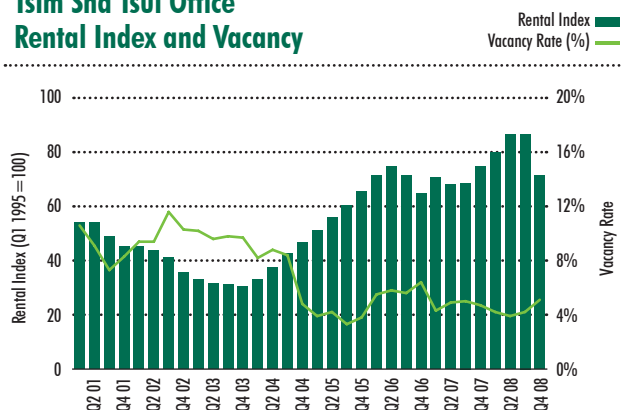
Benefiting from the relocation of tenants from the core business districts reluctant to move across the harbour, the vacancy rate in Causeway Bay fell slightly in the fourth quarter to 2.88%, in contrast with the increasing vacancy rates of most other districts. The average net effective rent in Causeway Bay was \$42.50 psf, down by 20.4% q-o-q, which was slightly lower than the average drop on Hong Kong Island.

Hong Kong East Office Rental Index and Vacancy



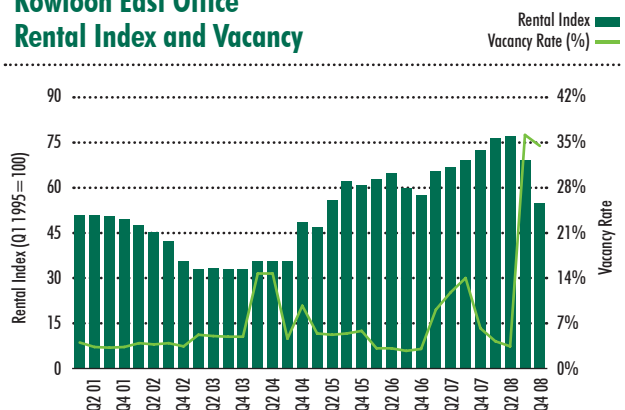
Swire has successfully secured a number of large tenants to long leases to overcome the threat of a mass exodus to far cheaper space in Kowloon East. As a result, rents have not faced the same pressure as other districts on Hong Kong Island, helped by a fourth quarter vacancy rate of just 2.39%, nudging down only slightly by 0.04 of a percentage point. The average net effective rent dropped the least among the major office districts, falling only -10.27% to \$36.02 psf.

Tsim Sha Tsui Office Rental Index and Vacancy



Due to aggressive competition for tenants between the large number of strata-title owners in Tsim Sha Tsui East, the average net effective rent fell by 17.8% q-o-q to \$34.24 psf in the fourth quarter, closing the year down by 4.8%. However, the vacancy rate only edged up mildly by 0.91 of a percentage point to 5.12%.

Kowloon East Office Rental Index and Vacancy



The vacancy rate remained high at 34.5% in Kowloon East, as the market will need time to digest the massive supply brought by the four new Grade A office buildings in 2008. Landlords were pressured to offer competitive rents in order to attract tenants. Encouragingly, the district recorded the largest quarterly take-up of all districts in the quarter, and the total take-up in Kowloon East amounted to 6.1 times the take-up of the next highest district. This came at the expense of rents, which plummeted by 20.8% q-o-q to \$17.34 psf.

Office New Supply, Total Stock and Vacancy in October - December 2008

District	Supply (Net sf)	Total Stock # (Net sf)	Vacancy Rate
Central	0	13,206,405	3.04%
Sheung Wan	0	3,212,326	5.83%
Admiralty	0	4,037,762	2.99%
Wan Chai	0	6,403,840	3.89%
Causeway Bay	0	3,243,255	2.88%
North Point	0	1,664,137	5.13%
Hong Kong East	0	5,373,777	2.39%
Tsim Sha Tsui	0	10,423,623	5.12%
Kowloon East	0	7,630,143	34.53%
Overall Total	0	55,195,269	8.03%

Total stock as per CBRE Research database.

Major Office Districts in Hong Kong



— Kwun Tong Line — Tsuen Wan Line — Island Line
— Airport Express — Tseung Kwan O Line

Central
 As the banking, legal and financial centre of Hong Kong, the CBD boasts the highest office rentals, and consists of approximately 13.2 million sf of Grade A office space. It alone accounts for 23.9% of Hong Kong's overall Grade A office stock.

Sheung Wan
 As the peripheral Central location extending from Central's west, Sheung Wan accommodates many medium size securities and legal firms. It consists of about 3.2 million sf, or 5.8% of Hong Kong's overall Grade A office stock.

Admiralty
 This area, adjoining Central's east, is highly preferred by many legal and accounting firms. The 4.0 million sf of office space in Admiralty accounts for about 7.3% of Hong Kong's overall Grade A office stock.

Wan Chai
 The area has a comprehensive mix of office stock with affordable rentals in high- to medium-quality buildings close to Central. Wan Chai provides 6.4 million sf, or 11.6% of Hong Kong's total Grade A office stock.

Causeway Bay
 Causeway Bay has a number of good quality office buildings at rentals similar to Wan Chai. The area is well received by conglomerates, insurance and advertising occupiers. The area consists of 3.2 million sf, or 5.9% of Hong Kong's total Grade A office stock.

Hong Kong East
 A former industrial precinct successfully transformed into a decentralised office node on Hong Kong Island, the area's Grade A office space of 5.4 million sf, or 9.7% of Hong Kong's overall stock, is well perceived by users in advertising, insurance, telecommunications and banking.

Tsim Sha Tsui
 Tsim Sha Tsui's Grade A office buildings are mainly concentrated along Canton Road and Nathan Road, except ICC, located in West Kowloon. A broad range of occupiers from logistics companies, trading firms to insurance companies, occupy the 10.4 million sf of Grade A office stock, or 18.9% of Hong Kong's total.

Kowloon East
 Another former industrial turned office precinct, Kowloon East accommodates clothing & apparel, logistics and trading companies as well as bank back offices. The area now consists of about 7.6 million sf, or 13.8% of Hong Kong's total 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:
 Monthly rents are presented in HKS on a net effective basis, unless otherwise specified.

Capital Value:
 Capital values are presented in HKS on a gross basis, unless otherwise specified.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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