

# MarketView Hong Kong Office

## Quick Stats

		Y-o-Y change	Q-o-Q change
Central Rental Value	\$134.70 psf (net effective)	↑	↑
Avg. Rental Value ^	\$68.86 psf (net effective)	↑	↓
Supply ^	928,925 sf (net)	↑	↓
Take-up * ^	-7,235 sf (net)	↓	↓
Vacancy Rate ^	4.24%	↓	↑

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., take-up could be negative, but still represent a positive trend over a specified period.)

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

## Hot Topics

- Some occupiers that are committed to long leases could sublease and/or surrender space as they did in the dot.com bubble burst.
- Historically low vacancy rates and new supply constraints on Hong Kong Island will limit the impact from weakening demand; rental softening is envisaged nevertheless.
- Hong Kong Island vacancy should rise in 2009, partly as tenants surrender space or relocate to Kowloon.
- Abundant Kowloon East supply will exert pressure on rents in the area.
- Relocations to Kowloon from less location-conscious but price sensitive occupiers will continue given high quality space available at low rents.

Hong Kong's Grade A office leasing market came under strain in the third quarter from the impact of the global economic slowdown and diminishing credit markets. This has dented business confidence, which in turn is likely to contain the pace of business expansion. Demand from the financial sector – the dominant driving force for rental growth over the past five years – fell as investment banks postponed or cancelled expansionary plans, leading to negative absorption across much of the market. There were, however, a number of new entries by legal firms and hedge funds in the quarter, with one of the latter taking up a 2,000-sf space in Two IFC at \$195 psf per month (lettable, exclusive of management and service charge).

The third quarter recorded an aggregate negative net absorption of about 7,235 sf across all major office districts within Hong Kong, pushing up the overall vacancy rate to 4.2%. Central's vacancy rate edged up 0.4 of a percentage point, q-o-q, to around 1.4% by the end of September. Being the core office district with the leanest space availability, and benefitting from sustained long-term market confidence in Hong Kong's position as a gateway to China, drastic rent reductions in Central are unlikely within the near-term.

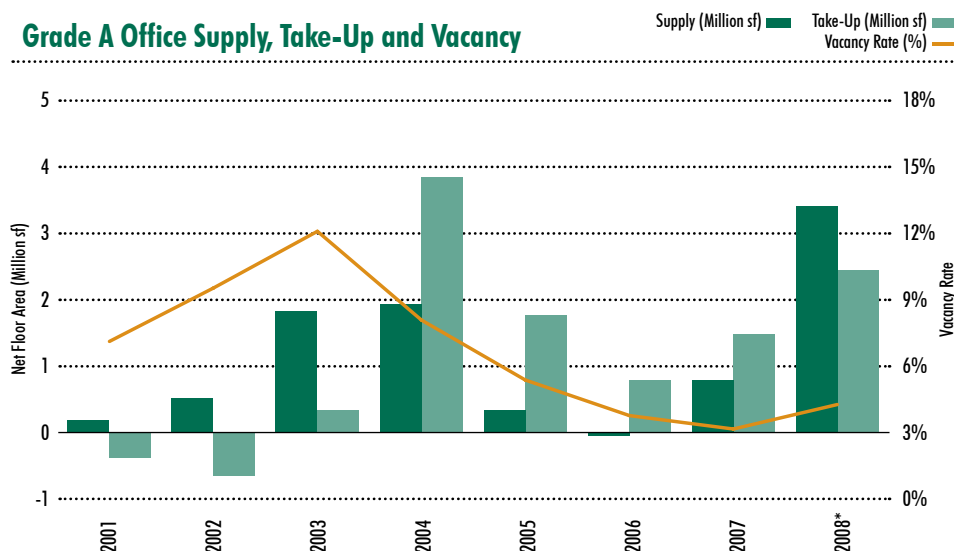
Rentals plateaued in the third quarter after slow q-o-q growth since the beginning of the year. Net effective

rents in Central rose 2% q-o-q to \$134.70 psf, while Causeway Bay surged 4.2% q-o-q to \$53.37 psf and Hong Kong East ending September with an average of \$35.82 psf registered, an increase of 2.6% q-o-q.

The average office vacancy rate of about 2.3% on Hong Kong Island continued to limit options for large occupiers in the short-term, prompting many of them to consider new developments in Kowloon East. The flight-to-savings activity of occupiers on Hong Kong Island has shifted some demand to these new developments. These landlords are now very willing to offer attractive packages to sizable tenants.

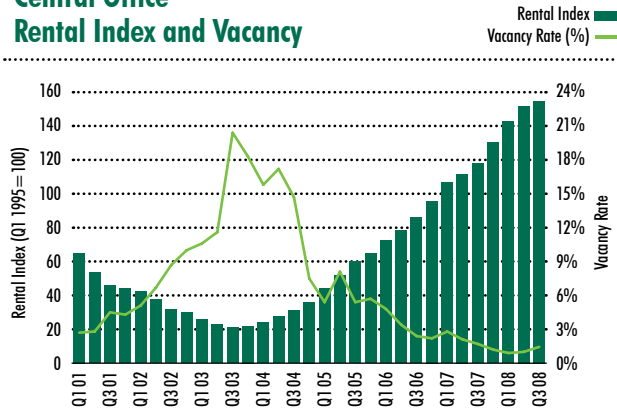
Ongoing fears about the health of global finance will impact office market activity in Hong Kong's core financial districts but the impact is more likely to be a slip rather than a slide. So far, no major banks have announced substantial redundancies specifically for Hong Kong. Unlike previous major office market downturns in 1998, 2000/2001 and 2003 which resulted from a combination of economic problems and major new supply waves, new supply is currently focused on Kowloon East. No major new quality Grade A premises will be available on Hong Kong Island until post-2010 at the earliest. As a result, we see reason for cautious optimism over Hong Kong Island's office market while the other submarkets are expected to embark on a diverging path.

## Grade A Office Supply, Take-Up and Vacancy



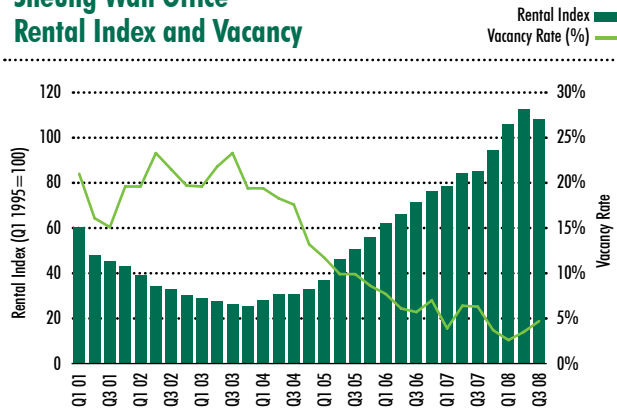
\* As of Q3 2008

### Central Office Rental Index and Vacancy



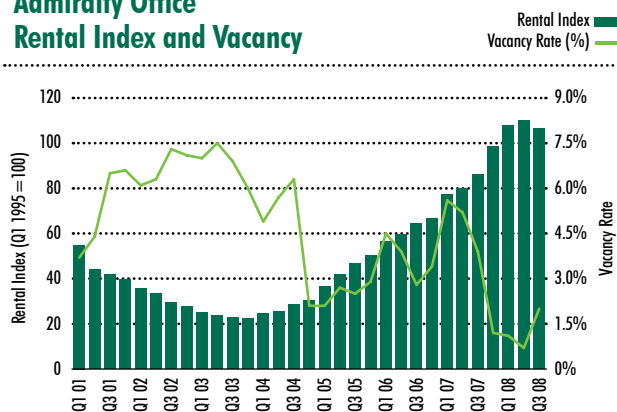
Space absorption in Central has levelled off, as corporate occupiers scaled back their expansion plans in the face of weakening business conditions. Despite vacancy edging up mildly to 1.4%, average net effective rents for Grade A office premises increased 2% q-o-q to hit a record high of \$134.70 psf per month in the third quarter. That said, a number of highly leveraged landlords of office towers in the area were less aggressive on rentals as they attempted to lock in future rental income.

### Sheung Wan Office Rental Index and Vacancy



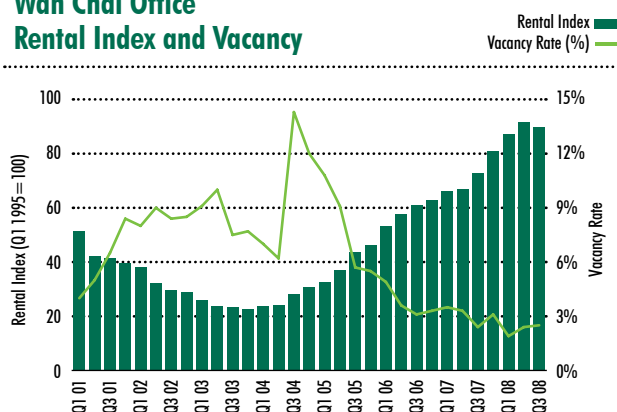
The spill-over from Central which buoyed market activity in Sheung Wan earlier this year faded in the third quarter. The area's strata-title office owners in properties like Shun Tak Centre and China Merchants Tower became more compromising on rents on the back of the current market climate. This led to a net effective rental compression of 3.6% q-o-q to \$64.06 psf, while vacancy continued to trek north to reach 4.7% in the review period.

### Admiralty Office Rental Index and Vacancy



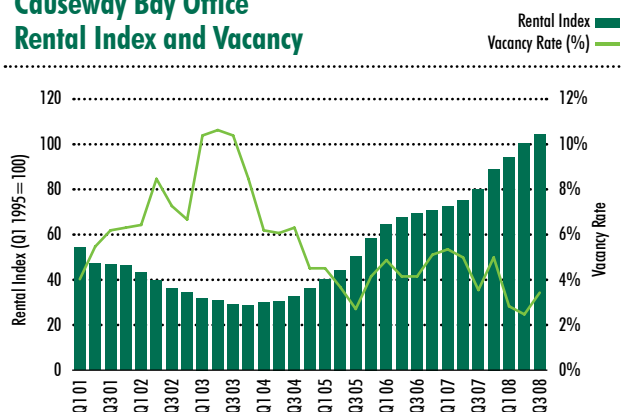
Similar to Sheung Wan, Admiralty's average rental value was subject to strong downward pressure from strata-title office owners keen to secure rental income. Certain financial occupiers with less demanding building specification needs prefer Admiralty over other locations. This source of demand kept vacancy under 2% and limiting the quarterly net effective rental slip to 3.3% at \$82.64 psf.

### Wan Chai Office Rental Index and Vacancy



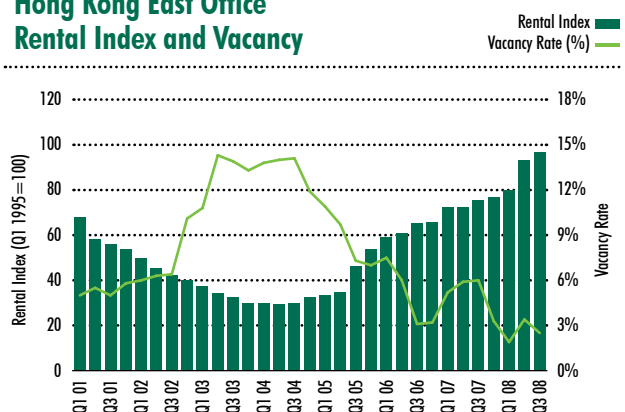
Wan Chai's office market exhibited relative stability within the third quarter. Occupiers in the district, popular with professional services, insurance and cost-conscious financial institutions, adopted a "wait-and-see" stance in the wake of the substantial flux seen in the global economy over the recent term. Average net effective rents were registered at \$53.83 while vacancy edged up mildly to 2.5% within the review period.

### Causeway Bay Office Rental Index and Vacancy



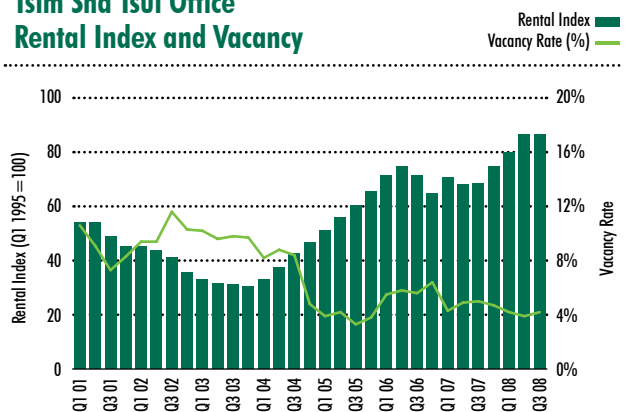
The savings in rentals by relocating from Central to Causeway Bay provided a strong incentive to those relatively more established users who have a stronger preference to stay on Hong Kong Island to make the move. The third quarter saw average rent in the area increase by 4.2% q-o-q to \$53.37 psf, with vacancy rising to 3.5%. Rents are expected to experience downward pressure from early 2009, given a number of key leases expire in 2009, involving many significant space users who can consider relocation to Kowloon East.

### Hong Kong East Office Rental Index and Vacancy



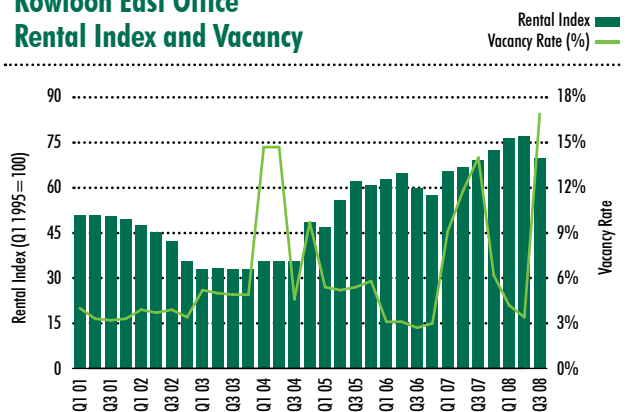
Hong Kong East was the only major office district to register relatively robust performance in terms of rental increment and falling vacancy during the review period. Transaction activity levels were high, helping to push rents up to \$38.09 psf (net effective) and vacancy down to 2.5% by the end of September. A key factor of this buoyancy was the performance of One Island East, which has secured many reputable tenants since its launch earlier in the year.

### Tsim Sha Tsui Office Rental Index and Vacancy



The impressive success of ICC continues to attract traditional Hong Kong Island tenants to leading Grade A office premises in Tsim Sha Tsui, highlighting the positive impact that ICC has had on existing office stock in the area. The latest example saw Mitsubishi UFJ Trust & Banking Corp lease around 11,300 sf in The Gateway. The area's average monthly rents held steady at \$41.66 psf (net effective) in the review period, still \$93 off Central's average, while vacancy edged up mildly to 4.2%.

### Kowloon East Office Rental Index and Vacancy



Market focus remained on Kowloon East where four of Hong Kong's newest Grade A office buildings are being marketed, namely Kwun Tong 223, Landmark East, Manhattan Place and Exchange Tower. Together they will add some 2.7 million sf net to the market, thus driving space availability to beyond 16% by the end of September. The supply spike increased competition among landlords for tenants, pushing the average rent downward 9.8%, q-o-q, to \$22.04 psf.

Office Supply, Take Up and Vacancy in July-September 2008

District	Supply (Net sf)	Total Stock # (Net sf)	Vacancy Rate
Central	0	13,206,405	1.42%
Sheung Wan	-19,162	3,212,326	4.68%
Admiralty	0	4,037,762	1.95%
Wan Chai	32,859	6,403,840	2.54%
Causeway Bay	0	3,243,255	3.46%
Hong Kong East	10,821	7,037,914	2.51%
Tsim Sha Tsui	0	10,423,623	4.21%
Kowloon East	904,407	5,622,024	16.89%
<b>Overall Total</b>	<b>928,925</b>	<b>53,187,150</b>	<b>4.24%</b>

\* Total stock as per CBRE Research database.

Major Office Districts in Hong Kong



— Kwon 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 20% 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 2.5 million sf, or 4% 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 million sf of office space in Admiralty accounts for about 6% 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 10% 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% 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 6.5 million sf, or 10% 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 9 million sf of Grade A office stock, or 14% 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 6.8 million sf, or 11% of Hong Kong’s total Grade A office stock.

**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.

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