

Hong Kong's Grade A office market slowed its pace in the year's final quarter following an upward sprint of office rentals throughout the majority of 2005. Landlords of prime centralised space were observed seeking robust rentals on expectations of further growth in the office leasing market in 2006 due to shrinking vacancy and the expected rise in company headcount in tandem with the SAR's economic upturn.

This resulted in a

plateauing of achieved rentals, as owners were shown willing to leave space vacant until their commercial

expectations were met, while tenants considered their options.

The prevalence of financial services demand in driving Hong Kong's office market, particularly that of Core Central, continued in the fourth quarter. Of note was the search by two major multinational financial services providers for an aggregate of around 80,000 sf of prime space, which highlighted the continued large-tranche expansionary trend exhibited by financial players in the market. Once these tenants secure their requirement, the availability of contiguous prime centralised space will be further compressed, which is expected to lead to the overall office landscape being characterised by an increased decentralising shift. Tsim Sha Tsui and decentralised Kowloon, meanwhile, saw considerable tenant movement in the fourth quarter of 2005, as the market

observed a rise in leasing interest from players operating within the sphere of manufacturing and trading. Looking ahead, with the further widening of the economic relationship between the mainland and Hong Kong under CEPA III, which is slated to come into effect on 1 January 2006, it is forecast that demand for office facilities in these areas will continue to harden.

As expansionary options in prime areas diminish and rentals continue to rise, some occupiers are endeavouring to squeeze greater efficiency from their current take-up.

Adding to the squeeze on Hong Kong's office sector is the tiering of the market that is underlining the increased

differentiation by occupiers between premium facilities in centralised locations and the broader Grade A market. While vacancy in Core Central registered at 5.7% in December, vacancy amongst the top 10 office buildings in Core Central and Admiralty was seen at 3.8% within the same time frame. This phenomenon exhibits the robust nature of demand amongst certain occupiers, particularly finance and finance-related players, for the best quality, centralised facilities.

As expansionary options in prime areas diminish and rentals continue to rise, some occupiers are endeavouring to squeeze greater efficiency from their current take-up. Office design and fit-out companies expect to generate a lot of work in the near term as occupiers, due to a lack of expansionary options and for cost reasons, undertake office renovation moves for the maximisation of their space usage.

QUICK STATS

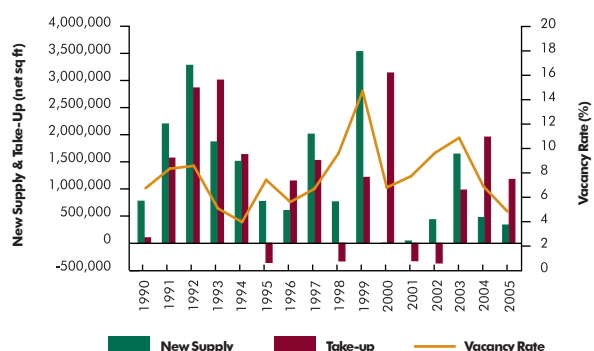
	Change in Q3 05	Change in Q4 05
New Supply	↔	↔
Demand	↑	↓
Vacancy Rate	↓	↑
Prime Rents	↑	↑

OFFICE NEW SUPPLY, STOCK AND VACANCY IN 2005

	New Supply (Net sf)	Total Stock (Net sf)	Vacancy Rate
Core Central	335,896	13,199,794	5.66%
Admiralty	-	4,132,600	2.86%
Sheung Wan	-	3,294,015	8.61%
Wan Chai	-	6,060,460	5.52%
Causeway Bay	-	4,611,255	4.10%
Tsim Sha Tsui	-	10,453,803	3.31%
Overall Prime	335,896	41,751,927	4.83%
Decentralised Hong Kong	-	9,386,080	10.25%
Decentralised Kowloon	-	11,279,137	5.14%
Overall Decentralised	0	20,665,217	7.47%
Overall Total	335,896	62,417,143	5.71%

NEW SUPPLY, TAKE-UP AND VACANCY IN PRIME AREAS

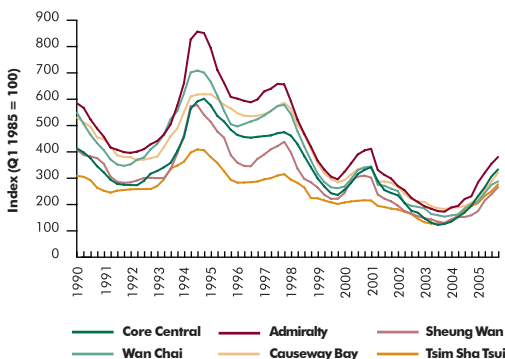
Grade A Office Supply, Take-Up and Vacancy



With no new supply released in the fourth quarter of 2005, the pressure on the market maintained as office leasing options remained narrow. Vacancy in the overall prime market was registered at 4.8% at the end of December, just up on the figure of 4.4% registered in October, the most compressed vacancy figure registered since January 1995. The marginal rise in vacancy seen within the fourth quarter of 2005 is attributed to the fact that landlords were seen as willing to hold space vacant until occupiers met their high rental expectations. Yet the market still saw the best space rapidly absorbed, often in expansionary take-up by in-house tenants. The quarter saw both ABN Amro and Deutsche Bank seeking expansion in Cheung Kong Center while Macquarie committed to the space formerly occupied by Wachovia Bank on the 6/F and 7/F of Citic Tower.

RENTAL TRENDS IN PRIME AREAS

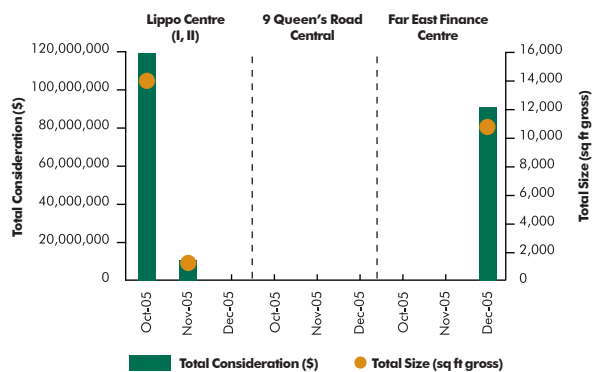
CB Richard Ellis Grade A Office Rental Index



The accelerated pace of rental hardening witnessed previously tempered somewhat in the fourth quarter of 2005 as the office leasing market rolled into the year's typically quiescent period. Elevating the seasonal slowdown were the compounding factors of compressed availability and prohibitive landlord rental expectations that added to the quietened level of activity seen in November and December. The slowdown in transactions was most apparent in Core and fringe CBD locales. Overall, the rise in prime office rents slowed down in the fourth quarter of 2005, yet still registered an increment of 9.3%, q-o-q.

CAPITAL VALUE TRENDS IN PRIME AREAS

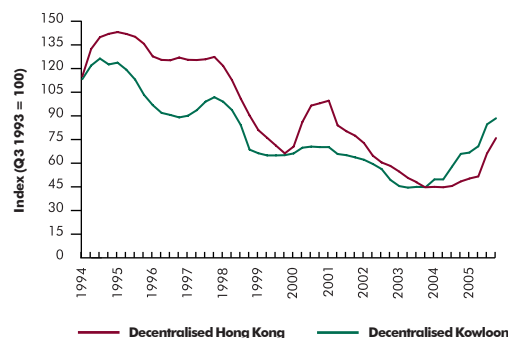
Major Transactions in Q4 2005



Overall capital values continued to correct within the fourth quarter, the year's traditionally quiescent period, following the unbroken gain of 60% they exhibited from August 2004 to June 2005, after which they began to edge downwards. While average prime office prices held steady in October on the previous month, they then fell 3% to end-December. Yet, as in the third quarter, players were nevertheless active in the market on selected opportunities. Within the period under review, the 9/F in Tower 2 of Lippo Centre (14,000 sf) transacted at \$105 million, equivalent to a unit rate of \$7,463 psf, while the 16/F of Bank of America was sold for \$120 million, or a unitary value of \$8,800 psf.

RENTAL TRENDS IN DECENTRALISED AREAS

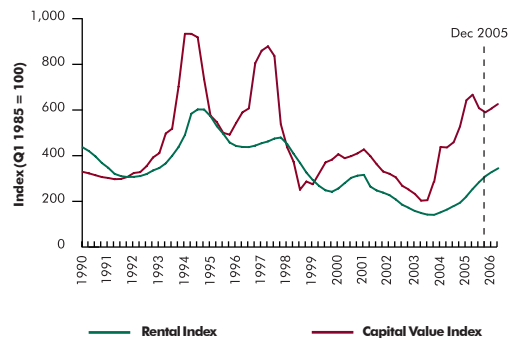
CB Richard Ellis Grade A Office Rental Index



Take-up of decentralised office space continued as a number of market players relocated or took expansion space on a cost driven platform. As the market continues to head north, it is expected that increasing numbers of non-traditional Core Central dwellers will engage in relocation. With landlords more accommodating on break-lease as they witness the market hardening, we forecast decentralisation to continue as this option increasingly draws the attention of cost-conscious occupiers. Overall decentralised rents increased by 9% q-o-q within the period under review.

PROJECTIONS

Grade A Office Rental and Capital Value Projection to Q2 2006



Looking forward it is expected that office rents will continue to trek north in 2006, while the recent correction process witnessed in capital values will cease and prices will again start to rise. The leasing market is increasingly witnessing a two-level tiering of the top-end market, with the best Grade A supply in prime areas commanding a significant premium, while the wider Grade A market is exhibiting a converging trajectory. We see this as supporting the broad-based uptrend in the market. CBRE forecasts rentals and capital values in 2006 to increase by 20% and 10%, respectively. The more rapid appreciation of rentals will fuel investor interest as this trend will support a rise in yields.



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 13.2 million sq ft of Grade A office space or 32 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 7.4 million sq ft 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 6.1 million sq ft of Grade A office space or 15 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 4.6 million sq ft of Grade A office space or 11 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 10.5 million sq ft 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.