

April 2011

**CORPORATE  
LOCATIONS**

# The Office

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**Market Review - Hong Kong**

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## RENTALS

# Closing in on peak levels of 2008

The Hong Kong office market has strengthened considerably over the past 12 months, bouncing back rapidly from the financial crisis of 2009. The combination of fresh impetus in demand coupled with rapidly dwindling supply resulted in a rental uplift of some 40% in Central last year.

### Two IFC the most expensive building in Hong Kong at \$190 per sq ft

The average top rentals in Central are now around \$125 per sq ft with Citibank Plaza, Bank of China Tower, Jardine House and Central Tower all fitting into this category and are not far off the peak levels of \$130 per sq ft reached in 2008. The top premium buildings like Cheung Kong Center, One/Two Exchange Square and Gloucester Tower are between \$150 and \$175 psf. There should be no surprise that the most expensive building in Hong Kong is the iconic Two IFC, standing at a remarkable \$190 psf.

Elsewhere in Central there is limited choice of space between \$90 and \$110, but new schemes such as 50 Connaught Road Central and LHT Tower fall within this range. In the mid-range sector (\$60-\$75) choice is still restricted but include buildings such as The Center and 9 Queen's Road Central.

In Admiralty most buildings range from \$35 to \$45 per sq ft except Citic Tower at \$85 psf and of course the premium location of Pacific Place at \$110 psf. In Wan Chai most buildings now range from \$25 to \$45 psf, although many of the established buildings on Gloucester Road are around \$50-\$55 per sq ft. The exception here is Central Plaza at \$65-\$75 psf.

### In Wan Chai most buildings range from \$25 - \$45 per sq ft

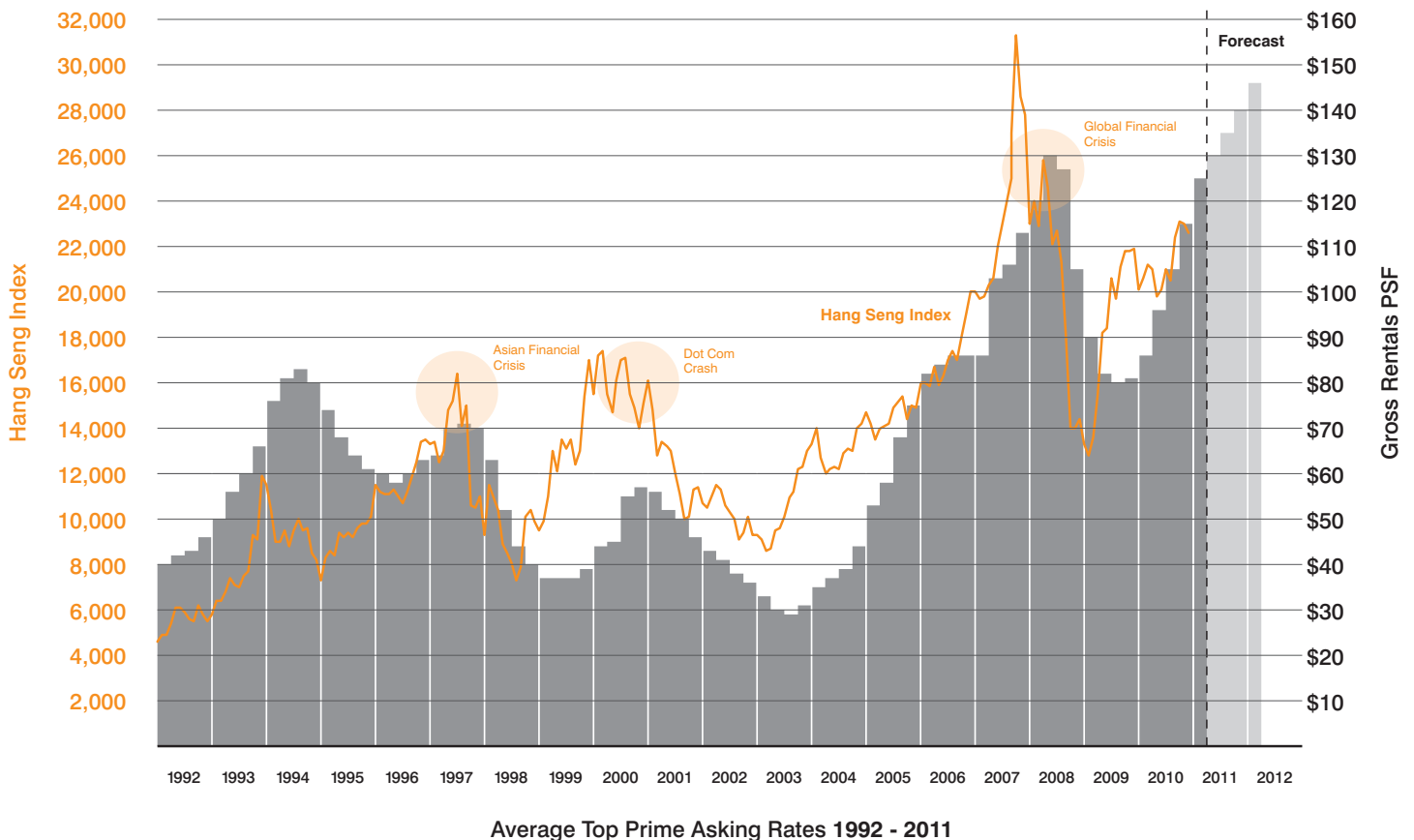
Causeway Bay has always remained strong and generally rates are very similar to Wan Chai. Rents range from \$30 to \$40 per sq ft for most buildings except Times Square (\$48-\$57) and The Lee Gardens - Manulife Plaza (\$60).

North Point / Fortress Hill offers some of the most competitive opportunities, generally ranging from \$20 to \$30 per sq ft, perhaps because the area is less fashionable and most of the buildings are a little older than their larger neighbours at Quarry Bay. The Eastern part of Quarry Bay has similar rates as Fortress Hill, but central Taikoo Place and new buildings range between \$35 and \$40 per sq ft.

### In Tsim Sha Tsui generally rates are around \$30 - \$40 per sq ft

In Kowloon, there has been mixed reactions to the major moves from Hong Kong Island to Kowloon East. Many of the buildings in Kowloon East have seen a healthy take up causing rates to firm to around \$20 - \$25 per sq ft, which means the gap between there and Tsim Sha Tsui has narrowed. Generally rates in Tsim Sha Tsui are around \$30 - \$40 per sq ft. International Commerce Centre remains one of the very best office schemes in Hong Kong and at \$70 - \$78 per sq ft it is still fair value considering it is just one stop on the MTR line from Central.

## A History of Hong Kong Office Rental Rates



## Forecast

# Chronic restrictions in supply

With the chronic restrictions in supply and pent up demand persisting, solid rental growth is expected over the next 2 years. It is anticipated that rates will firm by a further 17%-20% in the next 12-15 months depending on size, location and the current rental level.

When a market rises this fast, one would expect resistance from tenants to start surfacing and for tenants to start looking for more competitive options. However, this is an unusual situation because the rental hike of last year was preceded by a period of plummeting rates in 2009. Therefore those on 3 year leases from 2008 (the previous peak) will have witnessed a complete property cycle in just the length of one lease term, and the renewal rates this year may not be that much different from their current rate.

What could have changed is a company's space requirement and this is where the market may become fragmented with tenants having to take additional space in buildings close by, because their current building may be full. Some companies could be caught in the wrong part of the cycle e.g. those who took advantage of the lull in rates in 2009 may have to re-evaluate their options in 2012 if they took 3 year leases, as many will face substantial rental increases. This could also apply to those companies that took 6 year leases in 2005, not far off the bottom of 2003/4.

### A complete property cycle in the length of one standard lease term

Most of the new schemes in Central should lease out swiftly as they are not large floor plates (5,000-7,000 sq ft), which will suit many small/medium sized companies and options are very limited. Naturally, when rents rise this quickly, tenants take time to get accustomed to the latest leasing environment.

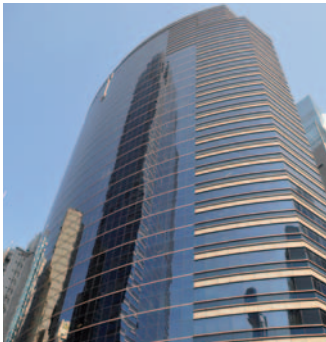
Locations across the board will see vacancy rates fall to unprecedented levels and rentals continuing to firm as a result. Tenants may need to be more flexible in terms of location or building age to satisfy their office space needs.

### Rentals about to enter uncharted territory

Rentals are already close to the record peak achieved in 2008 and will soon be surpassed, so we will be entering into uncharted territory. It remains to be seen how far rents will actually reach, especially if the financial institutions continue to expand. The next 3 years will be very challenging for all office space users and normality may only be resumed once substantial new supply comes on stream.

## Some Recommended Leasing Options

### Central West / Sheung Wan



\$39 psf

**181 Queen's Road Central**  
Grand Millennium Plaza  
Units from 1,400 - 15,000 sq ft



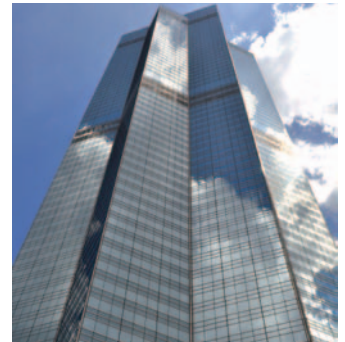
\$44 - \$52 psf

**Infinitus Plaza**  
199 Des Voeux Road Central  
Units from 2,000 - 22,000 sq ft



\$50 psf

**Li Po Chun Chambers**  
189 Des Voeux Road Central  
Units from 3,200 - 8,200 sq ft



\$52 - \$70 psf

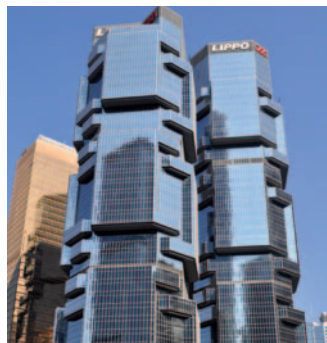
**The Center**  
99 Queen's Road Central  
Units from 1,600 - 25,500 sq ft

### Central East / Admiralty



\$40 psf

**Admiralty Centre Tower 1 & 2**  
18 Hardcourt Road  
Units from 1,340 - 15,120 sq ft



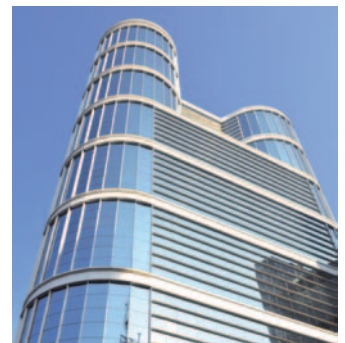
\$40 - \$48 psf

**Lippo Centre Towers 1 & 2**  
89 Queensway  
Units from 1,000 - 15,000 sq ft



\$100 psf

**Three Pacific Place**  
80 Queensway  
Units from 7,000 - 25,000 sq ft



\$85 psf

**Citic Tower**  
1 Tim Mei Avenue  
Units from 6,710 - 18,071 sq ft

## Some Recommended Leasing Options

### Central - Mid Range



\$40 psf

#### The Centrium

60 Wyndham Street

Units from 1,000 - 11,000 sq ft



\$74 - \$96 psf

#### Man Yee Building

71 Queen's Road Central

Units from 2,225 - 9,091 sq ft



\$58 - \$70 psf

#### 9 Queen's Road Central

Units from 3,000 - 13,700 sq ft



\$38 - \$40 psf

#### Kinwick Centre

32 Hollywood Road, Central

Units from 6,000 - 12,000 sq ft

### Central - Upper Mid / Premium



\$85 - \$108 psf

#### LHT Tower

31 Queen's Road Central

Units from 5,000 - 10,000 sq ft



\$115 - \$130 psf

#### Citibank Tower

3 Garden Road

Units from 1,700 - 32,500 sq ft



\$140 - \$175 psf

#### One & Two Exchange Square

8 Connaught Place

Units from 1,300 - 14,000 sq ft



\$110 - \$130 psf

#### Bank Of China Tower

1 Garden Road

Units from 2,400 - 6,400 sq ft



\$90 - \$120 psf

#### 50 Connaught Road Central

Units from 5,500 - 17,000 sq ft



\$150 psf

#### Cheung Kong Center

2 Queen's Road Central

Units from 1,500 - 60,000 sq ft

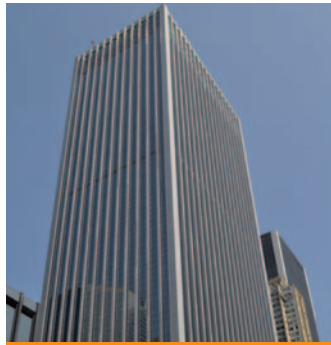
## Some Recommended Leasing Options

### Wan Chai



\$51 - \$56 psf

**Convention Plaza Office Tower**  
1 Harbour Road  
Units from 1,247 - 16,518 sq ft



\$37 - \$48 psf

**China Resources Building**  
26 Harbour Road  
Units from 3,718 - 13,000 sq ft



\$30 psf

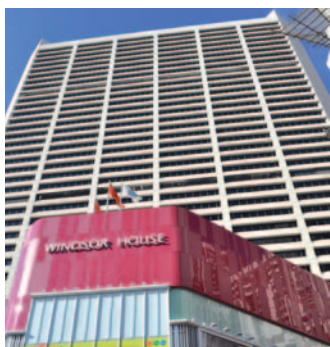
**Wu Chung House**  
213 Queen's Road East  
Units from 7,000 - 28,000 sq ft



\$65 - \$75 psf

**Central Plaza**  
18 Harbour Road  
Units from 1,300 - 17,000 sq ft

### Causeway Bay / North Point / Quarry Bay



\$35 - \$48 psf

**Windsor House - NYL Tower**  
311 Gloucester Road  
Units from 1,226 - 20,900 sq ft



\$45 - \$50 psf

**Times Square**  
1 Matheson Street  
Units from 1,621 - 19,500 sq ft



\$40 - \$43 psf

**Sino Plaza**  
256-257 Gloucester Road  
Units from 1,551 - 5,528 sq ft



\$22 psf

**Prosperity Millennia Plaza**  
663 King's Road  
Units from 1,338 - 6,333 sq ft



\$30 psf

**AIA Tower**  
183 Electric Road  
Units from 1,595 - 12,491 sq ft



\$35 - \$40 psf

**Kerry Centre**  
683 King's Road  
Units from 5,000 - 34,000 sq ft



\$33 psf

**169 Electric Road (Manulife Twr)**  
Units from 1,200 - 10,532 sq ft

## Lack of Supply Stifles Market

This is one of the most challenging markets to find the right office space and it is only going to get tougher over the next 24 months.

There is plenty of demand for space out there, but choices are becoming so limited that many companies have had to make do with finding additional space in other buildings close by or simply reconfigure their current space as a short term solution.

### Only 500,000 sq ft of office space is scheduled for completion in Central in 2011

Only around 500,000 sq ft of office space is scheduled for completion in Central in 2011 and this is made up by just 3 schemes, namely LHT Tower (178,000 sq ft), 50 Connaught Road Central (172,000 sq ft) and 39 Queen's Road Central (140,000 sq ft). The first two schemes have already been actively securing tenants

whilst 39 Queen's Road Central is waiting closer to their completion date (August 2011) to benefit from further anticipated rental uplift.

### 2012 will see further restricted supply - to just one scheme in Central

New supply in 2012 will be restricted to just one scheme in Central, that being the redevelopment of the ex-Ritz Carlton Hotel (225,000 sq ft) and even part of this scheme will be retained for owner occupation by joint developer China Construction Bank. In Causeway Bay, Hsyan Place will provide around 400,000 sq ft of office space. In 2013 most of the new space will be in Kowloon East and Kowloon Commerce Centre Phase 2.

The Government plans to move some of their prime offices to decentralize locations, freeing up some 850,000 sq ft of space is definitely a step in the right direction, but the lead in period before completion is several years. The release

of sites in Wan Chai North and West Wing of Central Government offices will not benefit the market for another 5-6 years.

The Government has also proposed to include 16 commercial sites on its 'List of Sites For Sale by Application' for 2011-12 which could provide 6 million sq ft but these could take 3-4 years to complete. Therefore the tight supply is expected to be with us for at least the next 2-3 years.

### The key will be to know where to look for hidden space

With so little supply around, the key to sourcing the best space may be to know where to look for hidden space. There will be such opportunities available but they will be harder to spot. In this type of market, the space of a tenant relocating is often snapped up before it ever comes to the open market. In-depth knowledge of market movements in real time will be essential.

## New Developments 2011 - 2014 and Beyond

Building Name	Address	Size sq ft	Expected Completion Date
<b>2011</b>			
18 Kowloon East	Kowloon Bay	262,000	January
50 Connaught Road Central	Central	172,000	January
One Island South, 2 Heung Road	Repulse Bay	578,000	January
LHT Tower, 31 Queen's Road	Central	178,000	June
39 Queen's Road Central	Central	140,000	August
414 Kwun Tong Road	Kwun Tong	200,000	December
133 Hoi Bun Road	Kwun Tong	423,000	December
<b>2012</b>			
Hsyan Place, 500 Hennessy Road	Causeway Bay	400,000	March
3 Connaught Road (ex Ritz Carlton)	Central	225,000	September
<b>2013</b>			
Kowloon Commerce Centre – Phase 2	Kwai Chung	520,000	June
Tai Sing Comm'l Bldg, 28 Hennessy Rd	Wan Chai	145,000	September
20-24 Hung To Road	Kwun Tong	200,000	TBC
31-37 Des Voeux Road	Central	180,000	TBC
<b>2014 and Beyond</b>			
10 Harcourt Road (Hutchison House)	Central	420,000	Planning
979 King's Road, Taikoo Place (Warwick, Somerset & Cornwall House)	Taikoo Place	1,712,000	Planning
7 Kai Hing Road	Kowloon Bay	437,000	Planning
How Ming Street	Kwun Tong	1,150,000	Planning
181 Hoi Bun Road	Kwun Tong	262,650	Planning
52-56 Tsun Yip Street	Kwun Tong	306,000	Planning
West Wing Government Offices	Central	TBC	Planning
Asian House	Wan Chai	315,000	TBC
New World Centre	Tsim Sha Tsui	362,000	TBC

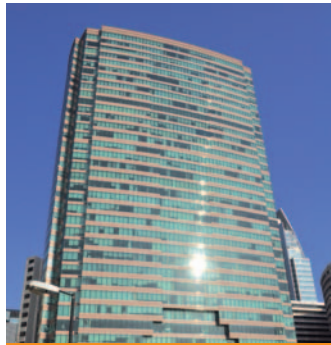
## Some Recommended Leasing Options

### Tsim Sha Tsui / Kowloon West / Mongkok



\$34 - \$38 psf

**The Gateway - Tower 1**  
25 Canton Road  
Units from 1,111 - 28,663 sq ft



\$37 - \$54 psf

**The Gateway II - Tower 6**  
9 Canton Road  
Units from 1,287 - 11,553 sq ft



\$40 - \$42 psf

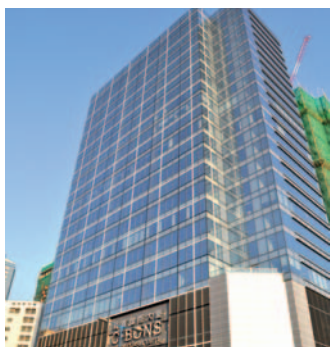
**Langham Place**  
8 Argyle Street  
Units from 1,376 - 8,694 sq ft



\$75 - \$78 psf

**International Commerce Centre**  
1 Austin Avenue  
Units from 5,000 - 35,000 sq ft

### Kowloon East



\$20 psf

**C-Bons International Centre**  
108 Wai Yip Street, Kwun Tong  
Units from 2,500 - 17,300 sq ft



\$15 - \$20 psf

**Millennium City Tower 3**  
370 Kwun Tong Road, Kwun Tong  
Units from 2,000 - 16,000 sq ft



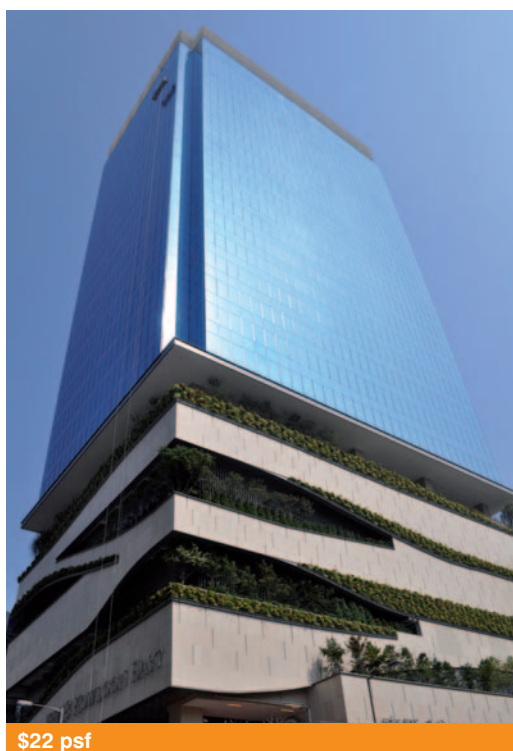
\$18 - \$28 psf

**Two Landmark East**  
102 How Ming Street, Kwun Tong  
Units from 4,500 - 28,000 sq ft



\$19 - \$25 psf

**Manulife Financial Centre**  
223 Wai Yip Street  
Units from 5,000 - 33,000 sq ft



\$22 psf

**18 Kowloon East**  
18 Wang Qiu Road, Kowloon Bay  
Units from 5,000 - 23,000 sq ft



\$13 - \$18 psf

**OKTA Tower**  
8 Lam Chak Street, Kowloon Bay  
Units from 3,000 - 46,000 sq ft