

Office Market Update

Hong Kong

DEMAND

Overall demand remains fragile

After a slow start to the year, demand in the 2nd and 3rd quarters has picked up, reducing the overall vacancy rate in the Central Business District (Greater Central) to around 4%, which is the lowest recorded figure since 3Q 2008. However, overall demand remains fragile with most established businesses renewing for a further term deferring any growth plans until the economic future becomes clearer. The strength of demand is still being supported by PRC companies especially banks, security firms and funds. Security firms usually chose buildings offering best value for money in good secondary locations, whereas banks and funds opt for prime sites as they have the required budget. Good examples of this include mainland China investment company **China Wah Yung International** which has leased 60 Gloucester Road in Wan Chai en bloc (95,500 sq ft). In the prime sector **VMS Investments** and **Yunfeng Capital** have both leased whole floors in One Exchange Square, with Shanghai based law firm **Fangda** expanding to lease a floor in One Exchange Square (13,000 sq ft). **China Minsheng Bank** has agreed to lease a whole floor at Two IFC (20,000sq ft). Credit-rating agencies such as Standard & Poors, Moody's and **Fitch** are also expanding with the later leasing a whole floor in Man Yee Building (11,500 sq ft).

Demand for top prime offices supported by PRC funds

Other companies are either 'right sizing' or taking advantage of some competitive leasing opportunities. For instance, **Bloomberg** has leased 33,500 sq ft in Citibank Plaza expanding from Cheung Kong Center and asset management company **Black Rock** is doing likewise, expanding significantly from Cheung Kong Center to Citibank Plaza taking up some 67,000 sq ft. The other headline transaction to take place in Citibank Plaza is the leasing of 33,200 sq ft to **Reuters Thomson** who are expanding their central office and will probably relocate from The Landmark.

In Wan Chai, **Mastercard** have expanded in Dah Sing Financial Centre. In Causeway Bay, media company **Akamai Technologies** has leased 11,000 sq ft in Hysan Place and **TMF** has expanded in Times Square. Insurance companies are showing signs of growth. For example **RSA Insurance** has just leased a whole floor at One Island East.

Engineering and design consultants have also been active and those with larger space requirements have often picked Kowloon East or de-centralised locations such as Aberdeen / Wong Chuk Hang. Design firm **Arcadis** leased 22,000 sq ft in AXA Tower, Landmark East in Kwun Tong and engineering consultants **Meinhardt Group** leased a massive 90,000 sq ft in Genesis in Wong Chuk Hang. Elsewhere in Kwun Tong, Pioneer Place secured 2 large tenants namely **Ingram Micro China** leasing 21,000 sq ft and Israeli shipping company **Zim Intergrated Shipping** who leased 45,000 sq ft, relocating from One Island East.



Two IFC



One Exchange Square

A Summary of Some Leasing Transactions over Q2/Q3 2015

COMPANY	MOVING TO	LOCATION	SIZE (SQFT)
Akamai Technologies	Hysan Place	Causeway Bay	11,500
Arcadis	AXA Tower Landmark East	Kwun Tong	22,000
Black Rock Asset Mgmt	Citibank Plaza	Central	67,000
Bloomberg	Citibank Plaza	Central	33,500
China Minsheng Bank	Two IFC	Central	20,000
China Wah Yung Internat'l	60 Gloucester Road	Wan Chia	95,500
Fangda	One Exchange Square	Central	13,000
Fitch	Man Yee Building	Central	11,500
HKSN Healthcare	One Pacific Place	Admiralty	11,700
Ingram Micro China	Pioneer Place	Kwun Tong	21,000
Mastercard	Dah Sing Financial Centre	Wan Chai	10,500
Meinhardt Group	Genesis	Wong Chu Hang	90,000
RSA Insurance	One Island East	Quarry Bay	20,000
Thomson Reuters	Citibank Plaza	Central	33,200
TMF	Times Square	Causeway Bay	35,000
VMS Investment	One Exchange Square	Central	11,500
Yunfeng Capital	One Exchange Square	Central	13,000
Zim Intergrated Shipping	Pioneer Place	Kwun Tong	45,000

SUPPLY

The take-up of some 134,000 sq ft of space in Citibank Plaza has reduced the vacancy rate in this building quite substantially from 17% to just 3.5% and narrows down even further, the options for companies looking for larger space solutions in Central. Space in the more expensive buildings in Central is expected to be freed up as a result of these leasing transactions but supply is still extremely tight. Shadow space has seen healthy take up with 3 floors previously released in 633 King's Road, Quarry Bay now being leased out and the space given up by Manulife in Lee Gardens I is being gradually absorbed.

Estimated Vacancy Rates (Overall)

PRIME CENTRAL	CBD	WAN CHAI / CAUSEWAY BAY	HONG KONG EAST	ISLANDWIDE
2.5%	4.0%	5.25%	4.5%	4.5%

The overall vacancy rate for Grade A office buildings in the CBD is in the region of 4.00%. In prime Central the vacancy rate for Grade buildings is down to around 2.5%, the lowest level since Q3/ 2011. Decentralised locations such as Kowloon East & West have a vacancy rate of approximately 9% whereas Tsim Sha Tsui is around 4.0%.

Prime Central vacancy rate around 2.5%

The only new development in Central is 10-12 Queen's Road Central, the majority of which will be occupied by Shanghai Commercial Bank. There are two new buildings available in Wan Chai and Causeway Bay namely 60 Gloucester Road, Wan Chai (10\10,000 sq ft) and Tower 535 in Causeway Bay (145,000 sq ft) but the former has already been pre-leased to China Wah Yung International Investments. Most to the new developments will be concentrated in the Kowloon East / Hung Hom with several large schemes such as One Harbour Gate Tower potentially for sale en-bloc.



Citibank Plaza

633 King's Road

Summary of Developments Q3 2015 to 2017

DEVELOPMENT	LOCATION	DEVELOPER	SIZE (SQFT)	COMPLETION DATE
2015				
60 Gloucester Road	Wan Chai	Emperor Group	100,000	Q3 2015
Tower 535	Causeway Bay	Phoenix Capital	142,000	Q3 2015
Shanghai Comm Bank Bdg	Central	Shanghai Comm Bank	113,000	Q4 2015
41 Heung Yip Road	Wong Chuk Hang	Cheung Kong	253,000	Q4 2015
One Bay East	Kwun Tong	Wheelock Properties	728,000	Q4 2015
15-17 Chong Yip Street	Kwun Tong	Billion Developments	200,000	Q4 2015
2016				
Goldin Financial Centre	Kowloon Bay	Goldin Financial	680,000	Q1 2016
Enterprise Square T5 Extn	Kowloon Bay	Kerry Properties	208,000	Q2 2016
14-30 King Wah Road	North Point	Henderson Land	276,000	Q4 2016
180 Wai Yip Street (Wong's)	Kwun Tong	Sun Hung Kai / WKK	383,000	Q4 2016
One Harbourfront Extn	Hung Hom	Hutchison	80,000	Q4 2016
One Harbour Gate Towers	Hung Hom	Wheelock Properties	475,000	Q4 2016
2017				
New World Centre	Tsim Sha Tsui	New World Developments	322,000	2017
Asian House	Wan Chai	Chinachem	236,000	2017

RENTAL / FORECASTS

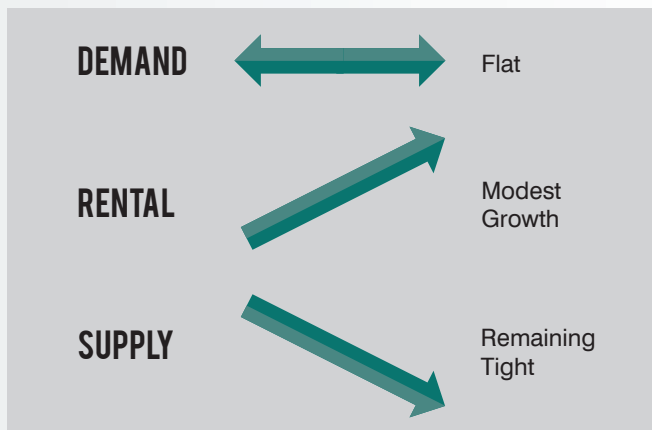
Best value for money still Wan Chai and Quarry Bay

Top Grade A rate average around \$95.00 per sq ft

Average top prime rentals in Central have firmed during the course of the year, with supply dwindling even further and average top Grade A rates are around \$95.00 per sq ft (ranging from \$85.00 to \$120 per sq ft). In Admiralty, there is very little space available below \$50.00 per sq ft (ranges from \$50 - \$70 per sq ft) and in Sheung Wan rates range from \$40.00 to \$65.00 per sq ft. The best value for money on Hong Kong Island is still to be found in the Wan Chai (\$40-\$60psf) and Quarry Bay (\$35-\$45.00psf). There are some super competitive rates to be found (circa \$23.00) in the less fashionable but up & coming areas such as Wong Chuk Hang. Kowloon East averages between \$27.00 and \$35.00 per sq ft whilst Tsim Sha Tsui is holding firm around \$40-\$50 per sq ft.

Kowloon East ranges between \$27.00 to \$35.00 per sq ft

In terms of rental forecast, we anticipate the second phase of Stock Connect will enhance leasing momentum in Central, particularly the high end properties being supported companies in the financial sector expanding from mainland China. The lack of supply in prime central will also influence the rate of rental increases. Away from the prime market it is a very different story. Many of the local businesses are being cautious about the economic future and landlords are recognizing this, deciding to hold their rates in order to be more competitive to secure what local tenants are looking for new space and retain their current tenants.



Forecasts top prime Grade A rate to firm – rest of the market to remain stable

In Kowloon there is ample new supply coming on stream in Kowloon East over the next 2 years and this should keep rentals competitive and opportunities will be plentiful here for large space users with a budget of between \$25.00 and \$40 per sq ft. Tsim Sha Tsui will remain tight and rates will hold firm. We expect the prime market to advance over the next 6-9 months but the secondary market is likely to remain stagnant of this period and the decentralized market to firm.