

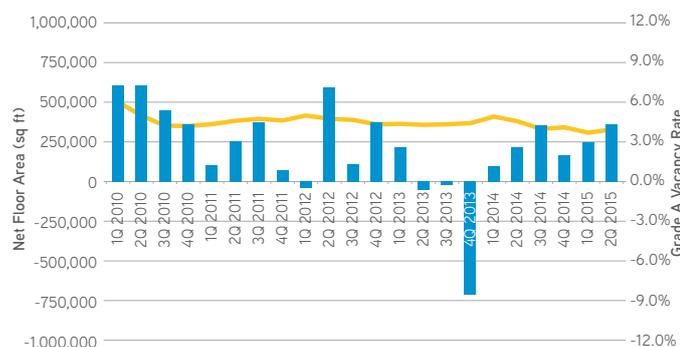
Positive Net Take-up Across the Board

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The leasing market on Hong Kong Island continued to grow in 2Q 2015. In a pattern similar to that of 1Q 2015, a wide range of occupiers, especially those from the banking and finance sector, opted for expansion. Large occupiers in Central looked for suitable premises within the district due to limited availability of sizeable units in other locations on the Island. For instance, BlackRock committed to leasing two floors, or approximately 68,500 sq ft, in Citibank Plaza in Central for expansion. The company is occupying approximately 41,000 sq ft in Cheung Kong Centre in the same district.

Net take-up across Hong Kong as a whole increased 46% quarter-on-quarter (QoQ) to about 361,000 sq ft. Central and Kowloon East took the lead, with net take-up totalling 102,500 sq ft and 163,500 sq ft respectively. Overall vacancy levels across the major Grade A office sub-markets increased to 3.9% in 2Q 2015 from 3.7% in the last quarter due to completions of new buildings in Kowloon East.

Grade A Office Net Take-up



Source: Colliers

Colliers View

Low vacancy rates and limited new supply continue to make life challenging for occupiers in decentralised locations on Hong Kong Island. Lease renewal activities dominated the office leasing market in Wan Chai, Causeway Bay and Island East. Meanwhile, the tenants in Warwick House of Island East are searching for property alternatives because of the coming redevelopment of the building. In Central, the change in demand for space is the major factor governing intra-district relocation activity. Nevertheless, individual Mainland

District

District	Current	2015F
Overall Grade A Rents	\$66.1	4.5%
Central / Admiralty	\$95.9	7.0%
Wan Chai / Causeway Bay	\$63.6	4.8%
Island East	\$46.1	4.9%
Sheung Wan	\$63.0	5.6%
Tsim Sha Tsui	\$54.3	5.0%
Kowloon East	\$35.6	1.8%

All units are expressed as HK\$ per sq ft per month on a net effective basis
Source: Colliers

Chinese enterprises, especially those from the financial services industry, inquired about alternatives in Tsim Sha Tsui in light of the limited options available in Central.

Increasing Rents

Office rents increased in 2Q 2015 on the back of growing demand for office space and low vacancy rates. Overall Grade A office rents increased 2.0% QoQ to HK\$66.1 per sq ft per month in 2Q 2015. Rental growth in Central/Admiralty and Tsim Sha Tsui outperformed other districts, increasing 2.7% QoQ and 4.2% QoQ respectively.

Colliers View

The increase in demand for space coupled with limited new supply and low vacancies on Hong Kong Island and in Tsim Sha Tsui will support further rental increases. In view of growing demand from mainland Chinese financial firms for office premises in Central, we anticipate rental growth in Central will continue to outperform other districts for the remainder of 2015. Being the major source of Grade A office supply in the city in the next few years, we anticipate rental growth in Kowloon East will lag behind other districts.

2% ↑

OVERALL RENTAL GROWTH QoQ

Cost-sensitive Tenants Looking for Alternatives

A group of cost-sensitive shipping and sourcing companies are looking for property options that are able to provide substantial rental savings of over 20% when compared with lease renewals. For instance, Damco, a leading freight forwarding and supply chain management service provider, will relocate from One Kowloon to Skyline Tower in Kowloon East while downsizing its footprint from about 23,000 sq ft to about 18,000 sq ft.

Colliers View

Both primary and secondary markets in Kowloon East will serve as the major source of office supply in the city in medium term, providing a wide range of property options to tenants and owner-occupiers. It is likely that Kowloon East will remain a favourable location for those tenants seeking premises with competitive rental offerings.

Strata-titled Sales Activity Increased

During the three-month period ended May 2015, the total value of transactions for properties priced above HK\$30 million increased 6% QoQ to HK\$4.9 billion. Investment activity increased, with investors accounting for over 60% of strata-titled transactions. A notable transaction was the sale of a whole floor unit in 9 Queen's Road Central to a mainland investor for a total of HK\$480 million, or an average price of HK\$34,861 per sq ft — a new record high for Grade A office property in Hong Kong. Due to a mismatch in price expectations between prospective buyers and vendors as well as limited stock available for sale, Ovest in Sheung Wan was the only en bloc office transaction recorded in 2Q 2015. Meanwhile, the result of the disposal of a commercial site by the Government through public tender reflected developers' confidence in office properties in decentralised areas. In May 2015, a joint consortium of Billion Development, Sino Land and CSI Properties outbid 12 other contenders and won a commercial plot in Kowloon Bay for HK\$3.04 billion, or an accommodation value of HK\$6,199 per sq ft, which was the second plot in Kowloon East sold with accommodation value above HK\$6,000 per sq ft.

Colliers View

Individual vendors became more open to pricing negotiations, which helped boost the office sales transaction volume in 2Q 2015. Some investors are looking for strata-titled premises with initial yields of 3% per annum or above, while owner-occupiers would acquire strata-titled premises with initial yields as low as 2.6% per annum if the premises matched their real estate needs.

On the en bloc market front, most prospective buyers are seeking properties that can provide higher opportunistic returns through refurbishment and tenant repositioning. Nevertheless, in view of limited stock availability for sale and vendors staying firm on asking prices, we anticipate en bloc sales transaction volumes to remain at low levels in the near term.



The information contained in this report is a summarised version of our observations on the market in the past quarter. A more in-depth overview on specific sectors are available upon request.

FOR MORE INFORMATION

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